

Consolidated Financial Statements for the Second Quarter of the Fiscal Year Ending March 31, 2025 [Japanese GAAP]



November 1, 2024

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 filing semi-annual report: November 8, 2024
 Scheduled date of commencing dividend payments: December 3, 2024
 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 Second Quarter of the Fiscal Year Ending March 31, 2025 (April 1, 2024 - September 30, 2024)

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

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%
Six months ended September 30, 2024	297,079	1.0	2,876	0.3	3,637	4.6	2,420	3.1
September 30, 2023	294,213	-	2,868	-	3,478	-	2,347	-

(Note) Comprehensive income: Six months ended September 30, 2024: ¥6,361 million [28.5%]

Six months ended September 30, 2023: ¥4,951 million [-%]

	Basic earnings per share	Diluted earnings per share
	Yen	Yen
Six months ended September 30, 2024	48.75	-
September 30, 2023	45.78	-

(2) Consolidated Financial Position

	Total assets	Net assets	Equity ratio
	Million yen	Million yen	%
As of September 30, 2024	317,568	109,626	34.1
March 31, 2024	317,258	105,940	33.0

(Reference) Equity: As of September 30, 2024: ¥108,285 million

As of March 31, 2024: ¥104,664 million

(Note) Changes from the previous corresponding period for the first six months of the fiscal year ended March 31, 2024 are not shown due to a change in presentation method from the first quarter of the fiscal year ended March 31, 2024.

2. Cash Dividends

	Cash dividends per share				
	1st quarter-end	2nd quarter-end	3rd quarter-end	Year-end	Total
	Yen	Yen	Yen	Yen	Yen
Year ended March 31, 2024	-	19.00	-	23.00	42.00
Year ending March 31, 2025	-	21.00			
Year ending March 31, 2025 (Forecast)			-	22.00	43.00

(Note) 1. Revision to the forecast for dividends announced most recently: None

3. Forecast of Consolidated Results for the Fiscal Year Ending March 31, 2025 (April 1, 2024 - March 31, 2025)

(% indicates changes from the previous corresponding period.)

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent	Basic earnings per share
Full year	Million yen	%	Million yen	%	Million yen	%	Million yen	Yen
	590,000	0.4	5,500	(1.0)	6,400	(2.4)	6,000	122.51

(Note) Revision to forecast of consolidated results announced most recently: None

* Notes:

(1) Major changes in the scope of consolidation during the period under review: None

(2) Accounting policies adopted specially for the preparation of semi-annual consolidated financial statements: Yes

* For details, please see “(4) Notes to Semi-annual Consolidated Financial Statements (Accounting policies adopted specially for the preparation of semi-annual consolidated financial statements)” on page 10 of the attached materials.

(3) 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

(4) Total number of outstanding shares (common shares)

1) Total number of outstanding shares at the end of the period (including treasury stocks):

September 30, 2024: 51,902,976 shares

March 31, 2024: 51,902,976 shares

2) Total number of treasury stocks at the end of the period:

September 30, 2024: 2,928,832 shares

March 31, 2024: 1,706,337 shares

3) Average number of shares during the period:

Six months ended September 30, 2024: 49,661,749 shares

Six months ended September 30, 2023: 51,269,318 shares

* These semi-annual financial results are outside the scope of review 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.
- The Company plans to hold a financial results briefing for institutional investors and analysts on November 11, 2024. The presentation materials to be used at the briefing will be posted on the Company's website immediately after the briefing.

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1. Qualitative Information on Semi-annual Financial Results

Explanation of Operating Results

During the six months ended September 30, 2024, the Japanese economy gradually recovered and social and economic activities increased amid improvement in the employment and income situation, despite the downside risks posed to the economy by the depreciation of the yen and rising prices. However, there is still a high degree of uncertainty in the outlook, with global instability, supply-side constraints and financial and capital market volatility.

In the pharmaceutical wholesale business sector, which is the Group's main business, the drug price revisions in April 2024 cut approximately ¥120 billion from national healthcare costs and, going forward, discussions aimed at radically reforming policies and systems related to people's lives and health such as the social security system and the drug pricing system are likely to increase and the policy of curbing drug costs is likely to be maintained. Under these circumstances, during the fiscal year under review, which is the final fiscal year under the Group's fifth Medium-term Management Plan, the Group aims to complete a number of practical tasks and achieve its profit plan, while at the same time working together on initiatives for realization of its Long-term Vision 2035, which is "Beyond medicine, beyond barriers. Innovating the future of medical care by being a "connector"."

The following three highlights occurred in the first six months of the consolidated fiscal year under review.

The first point to be highlighted is the success of sales strategies that only we, as a group rooted deeply in local communities, can implement. VITAL-NET, INC. (headquartered in Sendai-shi), one of the Company's major operating subsidiaries, significantly contribution to sales growth by concluding partnership agreements concerning health promotion with Morioka-shi, Iwate Prefecture, Yamagata-shi, Yamagata Prefecture and others in its mainstay regions and holding public lectures for residents in collaboration with these local governments, medical associations, etc. to emphasize the importance of the cervical cancer vaccine.

Another operating subsidiary, KSK Co., Ltd. (headquartered in Osaka-shi), established the Women's Healthcare Solutions (WHS) Department, a sales organization consisting mainly of women to respond to diseases and health problems that are specific to women and have come to light with the social advancement of women. The department began operating in July 2024. They promote sales activities targeting obstetric and gynecological departments utilizing their specialized expertise, and the effects of their activities began to be apparent at an early stage, such as the establishment of strong customer touchpoints because they are professionals, in addition to their contribution to the expansion of sales, including sales of the cervical cancer vaccine.

The second point is the relevant authorities' August 2024 approval of the beginning of the construction of the Isehara Logistic Center (tentative name) in Isehara-shi, Kanagawa Prefecture. Scheduled to begin operating in FY2026, it will be the fifth base for the 3PL business with pharmaceutical manufacturers, the Group's new main field of business.

The third is AGRO-JAPAN, Inc.'s acquisition of 90% stake in Arrowmedical Inc. (headquartered in Yokohama-shi, Kanagawa Prefecture). This acquisition, also in August 2024, made Arrowmedical Inc. its consolidated subsidiary. AGRO-JAPAN, Inc. is a consolidated subsidiary of the Company engaging in veterinary drug wholesale business, the same industry that Arrowmedical Inc. is involved in. The acquisition enables AGRO-JAPAN, Inc. to reach the customers of Arrowmedical Inc. all at once at approximately 600 veterinarian hospitals in the metropolitan area. However, its effect on business results in the current fiscal year will be minor.

As announced in the Notice Regarding On-Site Inspection by the Fair Trade Commission of AGRO-JAPAN, Inc., A Consolidated Subsidiary (Second-Tier Subsidiary) on October 8, 2024, the Fair Trade Commission conducted an on-site inspection of AGRO-JAPAN, Inc. due to a suspected antitrust violation in relation to bidding processes for the sale of veterinary medical products to the Yamagata Prefectural Government and others. The Company, along with AGRO-JAPAN, Inc., will take this situation very seriously and sincerely and provide full cooperation in the inspection by the Fair Trade Commission.

For the six months ended September 30, 2024, net sales were ¥297,079 million (101.0% of that of the same

period of the previous year), operating profit was ¥2,876 million (100.3% of that of the same period of the previous year), ordinary profit was ¥3,637 million (104.6% of that of the same period of the previous year), and profit attributable to owners of parent was ¥2,420 million (103.1% of that of the same period of the previous year).

Performance results by business segment are as follows.

1) Pharmaceutical Wholesale Business

In the six months ended September 30, 2024, the net sales of the pharmaceutical wholesale business increased slightly, reflecting sales of products eligible for the price maintenance premium, such as anticancer drugs, original drugs, the cervical cancer vaccine and the COVID-19 vaccine that will begin to be given to patients in October, which offset the loss of revenue due to the impact of the NHI drug price revision and the negative impact of matters in other areas such as the year-on-year decline in sales of COVID-19-related products (sales of drugs, test kits, etc. for the treatment of COVID-19 and sales from the government-commissioned delivery of COVID-19 vaccines). Profit grew year on year, mainly due to the effect of this sales growth.

As a result, net sales were ¥279,541 million (100.8% of that of the same period of the previous year), and segment profit (operating profit) was ¥2,724 million (103.2% of that of the same period of the previous year).

2) Pharmacy Business

The pharmacy business achieved sales growth, mainly due to efforts to expand income from dispensing technical fees and income from pharmaceutical management fees, despite a decrease in the the number of prescriptions received. However, profit fell, mainly due to the impact of NHI drug price revisions and longer duration prescriptions. As a result, net sales were ¥9,725 million (103.6% of that of the same period of the previous year), and segment profit (operating profit) was ¥96 million (83.7% of that of the same period of the previous year).

3) Veterinary Drug Wholesale Business

The veterinary drug wholesale business recorded net sales of ¥5,647 million (101.0% of that for the same period of the previous year), partly due to the conversion of Arrowmedical Inc. into a consolidated subsidiary, which offset the sometimes negative impact of a changeover in products after certain products started being sold directly by their manufacturers. Segment profit (operating profit) was ¥144 million (78.6% of that for the same period of the previous year), reflecting the impact of higher purchase prices.

4) Other Businesses

Other businesses reported a smaller segment loss, mainly due to the recovery of sales in each business. As a result, net sales were ¥2,165 million (106.4% of the level for the same period of the previous year), and segment loss (operating loss) was ¥88 million (compared to operating loss of ¥108 million for the same period of the previous year).

2. Semi-annual Consolidated Financial Statements and Primary Notes

(1) Semi-annual Consolidated Balance Sheets

(Million yen)

	As of March 31, 2024	As of September 30, 2024
Assets		
Current assets		
Cash and deposits	34,712	19,659
Notes and accounts receivable - trade	117,993	123,552
Inventories	31,421	35,667
Accounts receivable - other	16,337	16,098
Other	2,890	3,451
Allowance for doubtful accounts	(51)	(53)
Total current assets	203,303	198,376
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	19,174	18,640
Land	25,244	25,275
Other, net	5,285	5,533
Total property, plant and equipment	49,704	49,449
Intangible assets		
Goodwill	682	680
Other	3,231	3,615
Total intangible assets	3,913	4,295
Investments and other assets		
Investment securities	46,956	51,891
Other	14,033	14,184
Allowance for doubtful accounts	(653)	(629)
Total investments and other assets	60,336	65,446
Total non-current assets	113,954	119,192
Total assets	317,258	317,568

(Million yen)

	As of March 31, 2024	As of September 30, 2024
Liabilities		
Current liabilities		
Notes and accounts payable - trade	179,174	177,308
Short-term borrowings	890	890
Current portion of long-term borrowings	970	970
Income taxes payable	1,561	1,393
Provision for bonuses	1,687	1,553
Other	9,122	7,267
Total current liabilities	193,407	189,383
Non-current liabilities		
Long-term borrowings	5,820	5,335
Other provisions	366	299
Retirement benefit liability	60	15
Other	11,663	12,908
Total non-current liabilities	17,910	18,558
Total liabilities	211,317	207,942
Net assets		
Shareholders' equity		
Share capital	5,000	5,000
Capital surplus	5,272	5,272
Retained earnings	71,339	72,603
Treasury shares	(1,653)	(3,193)
Total shareholders' equity	79,958	79,682
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	22,749	26,857
Remeasurements of defined benefit plans	1,956	1,745
Total accumulated other comprehensive income	24,705	28,602
Non-controlling interests	1,276	1,341
Total net assets	105,940	109,626
Total liabilities and net assets	317,258	317,568

(2) Semi-annual Consolidated Statements of Income and Comprehensive Income
Semi-annual Consolidated Statements of Income

(Million yen)

	For the six months ended September 30, 2023	For the six months ended September 30, 2024
Net sales	294,213	297,079
Cost of sales	270,626	273,264
Gross profit	23,587	23,814
Selling, general and administrative expenses	20,719	20,938
Operating profit	2,868	2,876
Non-operating income		
Interest income	33	23
Dividend income	326	361
Share of profit of entities accounted for using equity method	28	42
Rental income	130	130
Gain on redemption of securities	—	239
Other	199	69
Total non-operating income	717	867
Non-operating expenses		
Interest expenses	50	44
Rental expenses	39	25
Other	18	35
Total non-operating expenses	108	105
Ordinary profit	3,478	3,637
Extraordinary income		
Gain on sale of non-current assets	33	1
Gain on sale of investment securities	169	115
Other	24	4
Total extraordinary income	227	120
Extraordinary losses		
Loss on sale of non-current assets	—	28
Impairment losses	49	39
Loss on valuation of investment securities	42	—
Demolition cost	47	0
Other	29	14
Total extraordinary losses	169	83
Profit before income taxes	3,536	3,675
Income taxes	1,139	1,211
Profit	2,397	2,464
Profit attributable to non-controlling interests	50	43
Profit attributable to owners of parent	2,347	2,420

Semi-annual Consolidated Statements of Comprehensive Income

(Million yen)

	For the six months ended September 30, 2023	For the six months ended September 30, 2024
Profit	2,397	2,464
Other comprehensive income		
Valuation difference on available-for-sale securities	2,322	3,545
Remeasurements of defined benefit plans, net of tax	(182)	(210)
Share of other comprehensive income of entities accounted for using equity method	413	562
Total other comprehensive income	2,553	3,897
Comprehensive income	4,951	6,361
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	4,900	6,292
Comprehensive income attributable to non-controlling interests	50	69

(3) Semi-annual Consolidated Statements of Cash Flows

(Million yen)

	For the six months ended September 30, 2023	For the six months ended September 30, 2024
Cash flows from operating activities		
Profit before income taxes	3,536	3,675
Depreciation	1,505	1,865
Impairment losses	49	39
Amortization of goodwill	69	64
Increase (decrease) in allowance for doubtful accounts	39	(22)
Increase (decrease) in provision for bonuses	(3)	(133)
Increase (decrease) in retirement benefit liability	(226)	(291)
Interest and dividend income	(359)	(376)
Rental income	(130)	(130)
Interest expenses	50	44
Share of loss (profit) of entities accounted for using equity method	(28)	(42)
Loss (gain) on sale and valuation of investment securities	(126)	(85)
Loss (gain) on sale and retirement of property, plant and equipment	(31)	32
Decrease (increase) in trade receivables	(9,161)	(5,567)
Decrease (increase) in inventories	(183)	(4,246)
Decrease (increase) in accounts receivable - other	520	248
Decrease (increase) in guarantee deposits	28	(17)
Increase (decrease) in trade payables	22,158	(1,866)
Other, net	(298)	(1,130)
Subtotal	17,407	(7,942)
Interest and dividends received	342	376
Interest paid	(50)	(44)
Income taxes paid	(1,906)	(1,381)
Income taxes refund	897	15
Other, net	76	(64)
Net cash provided by (used in) operating activities	16,767	(9,039)

	For the six months ended September 30, 2023	For the six months ended September 30, 2024
Cash flows from investing activities		
Net decrease (increase) in time deposits	400	12
Purchase of property, plant and equipment	(549)	(1,788)
Proceeds from sale of property, plant and equipment	116	2
Purchase of intangible assets	(1,583)	(1,155)
Purchase of investment securities	(5)	(531)
Proceeds from sale of investment securities	277	728
Proceeds from redemption of investment securities	200	804
Loan advances	(0)	(19)
Proceeds from collection of loans receivable	11	115
Purchase of shares of subsidiaries resulting in change in scope of consolidation	(147)	(353)
Other, net	(268)	120
Net cash provided by (used in) investing activities	(1,549)	(2,066)
Cash flows from financing activities		
Net increase (decrease) in short-term borrowings	(100)	–
Repayments of long-term borrowings	(485)	(485)
Repayments of lease liabilities	(481)	(896)
Proceeds from disposal of treasury shares	0	–
Purchase of treasury shares	(956)	(1,644)
Dividends paid	(1,401)	(1,155)
Other, net	(4)	(4)
Net cash provided by (used in) financing activities	(3,429)	(4,185)
Net increase (decrease) in cash and cash equivalents	11,789	(15,291)
Cash and cash equivalents at beginning of period	15,147	31,125
Increase (decrease) in cash and cash equivalents resulting from change in scope of consolidation	–	250
Cash and cash equivalents at end of period	26,936	16,084

(4) Notes to Semi-annual Consolidated Financial Statements

(Notes on going concern assumption)

For the six months ended September 30, 2024 (from April 1, 2024 to September 30, 2024)

Not applicable.

(Notes in the case of significant changes in amount of shareholders' equity)

For the six months ended September 30, 2024 (from April 1, 2024 to September 30, 2024)

Not applicable.

(Accounting policies adopted specially for the preparation of semi-annual consolidated financial statements)

Calculation of tax expenses

Tax expenses are calculated by the method in which the effective tax rate on profit before income taxes for the current consolidated fiscal year after application of tax effect accounting is reasonably estimated, and profit before income taxes was multiplied by the estimated effective tax rate.

(Changes in accounting policies)

(Application of the Accounting Standard for Current Income Taxes, etc.)

The Company has been applying the Accounting Standard for Current Income Taxes (ASBJ Statement No. 27, October 28, 2022; hereinafter the "Revised Accounting Standard 2022") since the beginning of the first six months under review. Regarding revisions to the accounting classification for corporate taxes, etc. (taxation on other comprehensive income), the Company conformed to the specific transitional provisions prescribed in the provisory clause under Paragraph 20-3 of the Revised Accounting Standard 2022 and the specific transitional provisions prescribed in the provisory clause under Paragraph 65-2(2) of the Implementation Guidance on Tax Effect Accounting (ASBJ Guidance No. 28 of October 28, 2022; hereinafter, "Revised Accounting Guidance 2022"). This change in accounting policies has no impact on the semi-annual consolidated financial statements.

In response to the revised guidance on the deferral of gains/losses on the sale of shares in subsidiary between consolidated companies for tax purposes that are recorded in the consolidated financial statements, the Company has been applying the Revised Accounting Guidance 2022 since the beginning of the first six months under review. This change in accounting policy is applied retroactively, and the change is reflected in the semi-annual consolidated financial statements and consolidated financial statements for the previous fiscal year. The change in accounting policy has no impact on the semi-annual consolidated financial statements or consolidated financial statements for the previous fiscal year.

(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, profit (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, profit (loss), assets and other items by reportable segment

For the six months ended September 30, 2023 (from April 1, 2023 to September 30, 2023)

(Million yen)

	Reportable segment				Others (Note 1)	Total	Adjustment (Note 2)	Amount recorded in consolidated financial statements (Note 3)
	Pharma- ceutical Wholesale Business	Pharmacy Business	Veterinary Drug Wholesale Business	Total				
Net sales								
Net sales to outside customers	277,201	9,386	5,589	292,178	2,035	294,213	-	294,213
Inter-segment net sales or transfers	5,276	6	0	5,283	1,300	6,583	(6,583)	-
Total	282,478	9,392	5,589	297,461	3,335	300,797	(6,583)	294,213
Segment profit (loss)	2,640	114	183	2,938	(108)	2,829	39	2,868

(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, and the sports facility management business.

2. Adjustment of segment profit (loss) of ¥39 million refers to elimination of inter-segment transactions.

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

For the six months ended September 30, 2024 (from April 1, 2024 to September 30, 2024)

(Million yen)

	Reportable segment				Others (Note 1)	Total	Adjustment (Note 2)	Amount recorded in consolidated financial statements (Note 3)
	Pharma- ceutical Wholesale Business	Pharmacy Business	Veterinary Drug Wholesale Business	Total				
Net sales								
Net sales to outside customers	279,541	9,725	5,647	294,913	2,165	297,079	-	297,079
Inter-segment net sales or transfers	5,454	6	0	5,460	1,341	6,802	(6,802)	-
Total	284,995	9,731	5,647	300,374	3,507	303,881	(6,802)	297,079
Segment profit (loss)	2,724	96	144	2,964	(88)	2,876	(0)	2,876

(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, and the sports facility management business.

2. Adjustment of segment profit (loss) of ¥(0) million refers to elimination of inter-segment transactions.

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