February 7, 2024

VITAL KSK HOLDINGS, INC.

Financial Results for the First Nine Months of the Fiscal Year Ending March 31, 2024 (the 15th term)

This material is supplemental material for the financial results for the first nine months (April-December) of the fiscal year ending March 31, 2024 (the 15th term) of Vital KSK Holdings, Inc.

Please read this material together with the Consolidated Financial Statements for the First Nine Months of the Fiscal Year Ending March 31, 2024 released on February 7, 2024.

First of all, I will provide an explanation with respect to financial highlights for the first nine months of the fiscal year ending March 31, 2024.

Summary of Income

(Million yen, %)

	FY2022 Apr.-Dec. 2022 Results		FY2023 Apr.-Dec. 2023 Results			
	Amount	Ratio to net sales	Amount	Ratio to net sales	YoY (Note 1)	Achievement rate (Note 2)
Net sales	444,384	–	448,909	–	–	76.9
Operating profit	3,061	0.69	5,658	1.26	–	108.8
Ordinary profit	4,302	0.97	6,506	1.45	151.2	103.3
Profit attributable to owners of parent	2,433	0.55	5,054	1.13	207.7	91.9

(Note 1) The Group previously recognized income from the provision of sales information to manufacturers as administrative service fee income under non-operating income but changed to the method of including this income in net sales from the fiscal year under review. As a result of this change, year-on-year comparisons are omitted.

(Note 2) The progress (%) is calculated by dividing the actual result by the revised full-year forecast announced on February 7, 2024.

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During the first nine months of the fiscal year under review, net sales rose ¥4,500 million from the year-ago level to ¥448,900 million, attributable to favorable sales of anti-cancer drug, anti-coronavirus gents, and flu treatment in the mainstay pharmaceutical wholesaling business, in addition to growth of the overall market for prescription pharmaceuticals.

Operating profit increased ¥2,600 million, to ¥5,600 million, chiefly due to the increase in net sales, price negotiations in consideration of transaction costs with each customer, and the absence of an allowance for doubtful accounts for certain major customers posted in the same period of the previous fiscal year.

Ordinary profit climbed ¥2,200 million, to ¥6,500 million, reflecting the rise in operating profit.

Finally, profit attributable to owners of parent rose ¥2,600 million, to ¥5,000 million, due to the increase in ordinary profit and the disposal of cross-shareholdings recorded in extraordinary income.

Profit by Segment

Prescription drugs 101.5%
Reagents and medical devices 94.3%
OTC drugs 87.4%

(Million yen, %)

	Pharmaceutical Wholesale Business*1			Pharmacy Business*2		Veterinary Drug Wholesale Business*3		Other Businesses*4	
	Results	Ratio to net sales	Results for the same period a year earlier	Results	Results for the same period a year earlier	Results	Results for the same period a year earlier	Results	Results for the same period a year earlier
Net sales	423,218	–	419,449	14,295	13,769	8,472	8,164	2,922	3,000
Gross profit	30,548	7.22	29,267	3,592	3,571	1,247	1,272	2,961	2,825
Selling, general and administrative expense	25,337	5.99	26,457	3,333	3,494	958	988	3,124	3,061
Operating profit	5,211	1.23	2,810	259	77	288	283	-162	-236

*1: VITAL KSK HOLDINGS, INC. VITAL-NET, INC., KSK Co., Ltd.
*2: OHNO CO. LTD., Goodneighbor Inc., Kenkodo Pharmacy Co., Ltd., etc.
*3: AGRO-JAPAN, Inc.
*4: Agricultural chemicals wholesale business, nursing care business etc.
*5: The sum total of the SG&A expenses and operating profit of each segment may not match the total amounts shown in the previous section as intersegment adjustments of SG&A expenses are omitted.

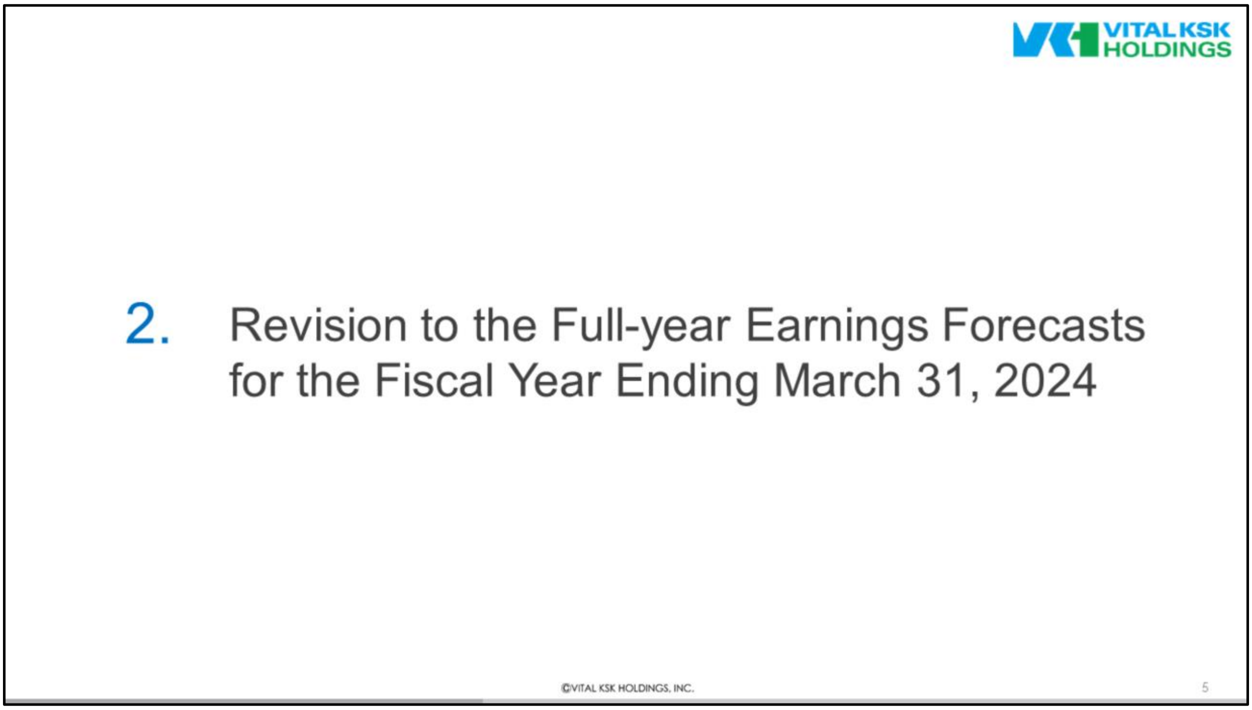
I would now like to explain profit by segment.

First, net sales in the pharmaceutical wholesale business increased ¥3,700 million year on year, to ¥423,200 million, attributable to higher-than-expected growth in sales of anticancer drugs, COVID-19 treatments, flu treatments, etc. as I described earlier, which more than offset the negative impact of a decrease in revenue that mainly reflected drug price revisions in April 2023, the suspension of the handling of certain drugs by certain manufacturers and decreased sales of COVID-related test agents, equipment, etc. Operating profit rose ¥2,400 million from the same period of the previous fiscal year, to ¥5,200 million, due to the increase in net sales, diligent negotiations on prices in consideration of transaction costs with each customer, and the absence of an allowance for doubtful accounts for certain major customers posted in the same period of the previous fiscal year.

Next, the pharmacy business posted net sales of ¥14,200 million, an increase of ¥500 million from the same period of the previous year, due to one extra store as a result of business acquisition in August 2023, as well as efforts to expand income from dispensing technical fees and income from pharmaceutical management fees and an increase in the number of prescriptions received as a result of increased movement of people with the downgrading of COVID-19 to a Class 5 infectious disease under the Infectious Diseases Act. Operating profit increased ¥180 million from the year-earlier level, to ¥250 million, chiefly due to a significant decrease in the amortization of goodwill.

Next, the veterinary drug wholesale business recorded ¥8,400 million, an increase of ¥300 million, driven by sales growth in companion animal operations. Operating profit stood at ¥280 million, which is roughly the same as the year-earlier level. A decrease in gross profit due to higher purchase prices was offset by a reduction in SG&A expenses (due to a reduction in the allowance for doubtful accounts from the same period from the previous fiscal year).

And finally, we have the other businesses segment. Net sales declined ¥80 million year on year to ¥2,900 million due to the lack of temporary demand in the agricultural chemicals and materials wholesale business in the year-ago period. The operating loss was reduced by ¥70 million from the same period of the previous year to ¥160 million, reflecting increased revenue in the sports facility management and nursing care businesses mainly due to greater movement of people.



Now let me explain a revision to our full-year earnings forecasts for the fiscal year ending March 31, 2024.

Revision to the Full-year Earnings Forecasts for the Fiscal Year Ending March 31, 2024

(Million yen, %)

	FY2023 initial forecasts (Announced on May 12, 2023)		FY2023 revised earnings forecasts (Announced on February 7, 2024)				FY2022 previous year's results	
	Amount	Ratio to net sales	Amount	Ratio to net sales	Change	YoY	Amount	Ratio to net sales
Net sales	576,000	–	584,000	–	8,000	–	581,327	–
Operating profit	4,700	0.82	5,200	0.89	500	–	4,024	0.69
Ordinary profit	6,000	1.04	6,300	1.08	300	105.7	5,960	1.03
Profit attributable to owners of parent	5,200	0.90	5,500	0.94	300	113.8	4,831	0.83

(Note) The Group previously recognized income from the provision of sales information to manufacturers as administrative service fee income under non-operating income but changed the method of presentation and this income is included in net sales from the first quarter of the consolidated fiscal year under review. To reflect this change in presentation methods, the financial statements for the previous fiscal year have been modified.

The Group's mainstay Pharmaceutical Wholesale Business showed steady progress, attributable to higher-than-expected growth in the sales of COVID-19 treatments, flu treatments, etc. which more than offset negative impact of a decrease in revenue that mainly reflected drug price revisions in April 2023, the suspension of handling by certain manufacturers and decreased sales of COVID-related test agents, equipment, etc.

In addition to the effect of these increased sales, as the Company negotiated prices with each of its customers with an awareness of transaction costs, all the forecasts for net sales, operating profit, ordinary profit and profit attributable to owners of parent are expected to surpass the previously announced levels. In light of this situation, the Company decided to review the full-year consolidated earnings forecasts for the fiscal year ending March 31, 2024 announced on May 12, 2023. The Company announced the revised forecasts, which are shown on this slide, on February 7, 2024.

Now let me move on to measures to implement management based on an awareness of cost of capital and stock price.

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

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.

For details, please see the following link.

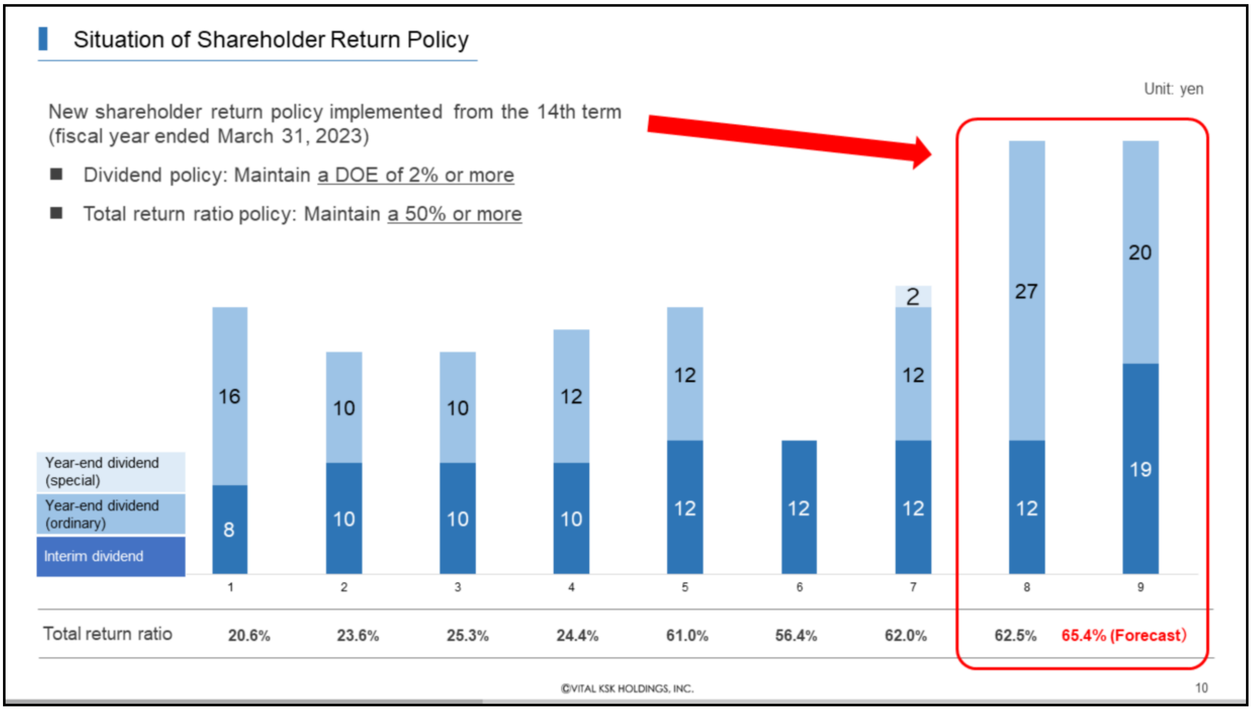
Measures to Implement Management Based on an Awareness of Cost of Capital and Stock Price

Status of Dialogue with Shareholders and Investors in Fiscal Year Ending March 31, 2024

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. We have posted the details on our website.

Please visit our website using the links on the slide.

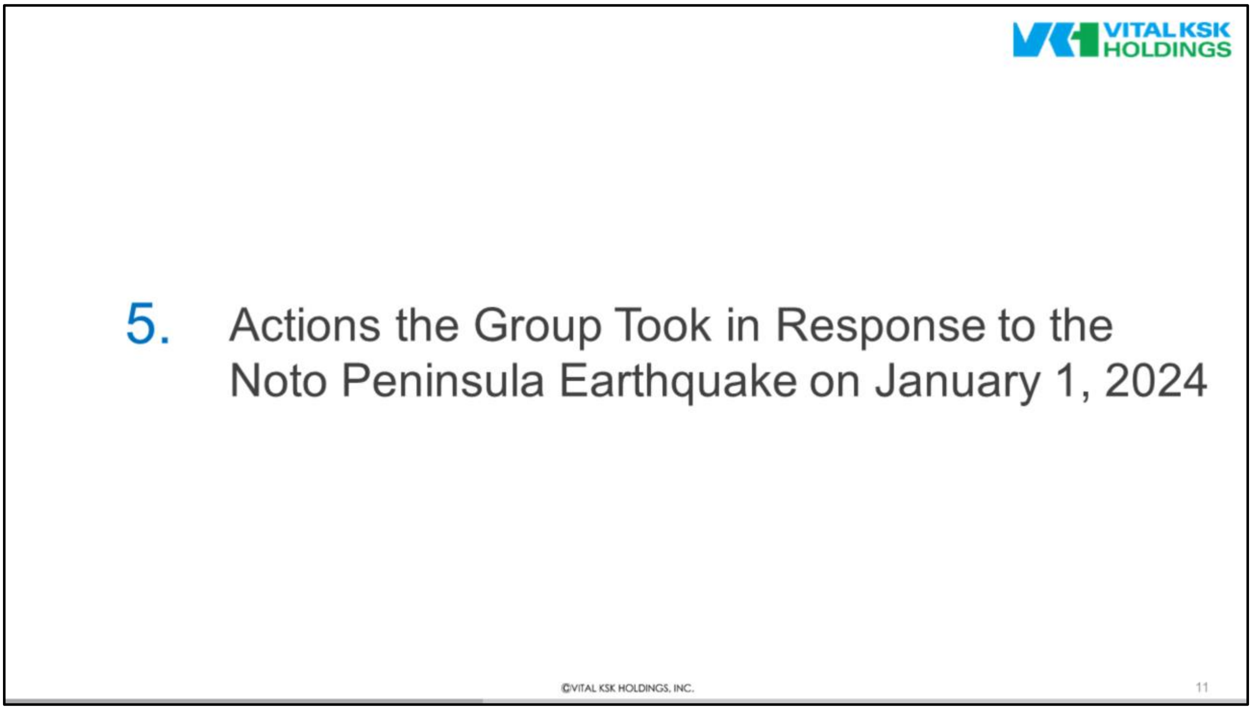
Next, let me explain shareholder returns.



Looking at shareholders returns, we changed our dividend policy to DOE of 2% or more last fiscal year and accordingly our full-year dividend forecast for the fiscal year under review is ¥39 comprising an interim dividend of ¥19 and a year-end dividend of ¥20.

We forecast a total payout ratio of 65.4% for this fiscal year. This calculation takes into account the acquisition of treasury shares implemented this fiscal year and the revised profit attributable to owners of parent forecast announced on February 7, 2024.

We recognize that the return of profit to shareholders is a key management issue and are committed to strengthening shareholder returns.



Lastly, let me describe the situation of the Noto Peninsula after the earthquake hit the area on January 1, 2024, and the actions the Group took in response.

Actions the Group Took in Response to the Noto Peninsula Earthquake That Occurred in January 2024

January 1, 2024 at 16:10	A magnitude 7.6 earthquake hit the Noto Peninsula in Ishikawa prefecture. Finese Co., Ltd. , a pharmaceutical wholesale company and an equity-method affiliate of the Company, has business sites in the area affected by the earthquake.
January 2	On the following day, all of Finese's logistics facilities were restored except for a branch close to the epicenter.
From January 3	Emergency supplies and disaster response vehicles from Group companies were gradually sent to affected areas. Many of Finese's employees have been affected by the earthquake. However, the company has gradually resumed operations and is now supporting regional healthcare.

A warehouse immediately after the earthquake
Many goods have fallen and are scattered on the floor.

Nine tons of water have been sent from KSK Co., Ltd.
The water has been distributed to employees and customers affected.

A disaster response vehicle provided by VITAL-NET, INC. is carrying supplies to affected areas.

On January 1 at 16:10, a magnitude 7.6 earthquake hit the Noto Peninsula in Ishikawa prefecture. Finese Co., Ltd., an equity-method affiliate of the Company, has a number of business sites in Ishikawa prefecture.

Immediately after the earthquake, the executives of Finese began to contact the company's business sites. By the next day, January 2, all of the logistics facilities were restored except for the Nanao branch, which is close to the epicenter.

From January 3, emergency supplies and disaster response vehicles from Group companies gradually arrived at affected areas. Many of Finese's employees have been affected by the earthquake. However, the company has gradually resumed operations and is now delivering pharmaceutical products to many different locations to support regional healthcare with a strong sense of mission.

The Group is carefully assessing the losses caused by the 2024 Noto Peninsula Earthquake. At present, we estimate that the impact on the consolidated results will be minor and insignificant.

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.

Please refer to the note on forward-looking statements shown here.

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I would like to ask you to direct any inquiries your might have about this material to our Corporate Communications Department.