

# VITAL KSK HOLDINGS ANNUAL REPORT 2015



## Compliance Policy Guide

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Under the slogan; “Towards realization of healthy and prosperous society,” VITAL KSK Group set up a compliance policy guide constructed by the 5 main points below. The guide aims to establish enduring trust with our stakeholders and the society. This policy will be communicated to all group employees on a continuous basis to ensure strict observance.

- 1. Contribution to the society (community)**
- 2. Fair and appropriate trade and service**
- 3. Timely disclosure and protection of personal information**
- 4. Establishment of a sound workplace**
- 5. Refusal of relations with antisocial forces**



## Message from CEO

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### **Towards realization of healthy and prosperous society**

VITAL KSK HOLDINGS, INC. was established as the joint holding company of VITAL-NET Inc. and KSK Co. Ltd. on April 2009.

Against the rapid change of the situation and environment surrounding the health care industry, we have strengthened the communication among our group companies to improve synergy and strengthen the foundation of business based on the corporate credo “Towards realization of healthy and prosperous society.” We will establish organizations that are efficient and with good governance both in the holding company and the group companies to implement dynamic strategy and to expand the market.

As the healthcare sector evolves, increasing number and variety of medicines and medical products that require higher level of management would come to the market. We will tackle with improvement in the logistics technology to achieve safe distribution of medical products and the service level that goes beyond expectations.

We strive towards realization of healthy and prosperous society.



Ken Suzuki  
Chairman

A handwritten signature in black ink, reading "Ken Suzuki".



Taisuke Murai  
President & CEO

A handwritten signature in black ink, reading "Taisuke Murai".

## Analysis of Operating Results

The Japanese economy during the fiscal year ended March 31, 2015 remained on a moderate recovery trend, led by the government's economic and financial policies and other factors. However, due mainly to a slowdown in consumer spending resulting from the impact of the government's implementation of consumption tax hike and impacts of the depreciation of the yen, etc., the future outlook is uncertain.

In the pharmaceutical wholesale industry, our Group's primary business segment, Japan's medical expense curbing policy led to drug price revision in April 2014, which lowered drug price standards by 2.65% (5.64% excluding the increase corresponding to consumption tax hike). When it comes to pharmaceutical distribution during the fiscal year ended March 31, 2015, following the increased demand in advance of the government's implementation of consumption tax hike in April 2014, the pharmaceutical market shrank slightly as a result of the reaction to such increased demand, the trend of restraining medical examinations after the government's implementation of consumption tax hike, the impact of rapid category changes, particularly the shifting from long-listed drugs to generic products, etc.

Under these circumstances, the Group worked for the second year of its three-year second medium-term management plan, which started in April 2013. Led by the two medium-term visions, "Building a Win-Win relationship with customers in the pharmaceutical wholesale business" and "Investing in business related to comprehensive community care system and contributing to building regional healthcare infrastructure," our goal is to fulfill the Health Care Coordinator role in the region.

In January 2014, the Group company INOUE SEISHO DOU CO., LTD. (head office: Takaoka City, Toyama Prefecture) and FINESE Co. Ltd. ("FINESE"), a company in the same industry with its head office located in Kanazawa City, Ishikawa Prefecture, were merged and FINESE became an equity method affiliate of the Company in order to strengthen our core pharmaceutical wholesale business. On April 25, 2014, FINESE issued new shares through a third-party allotment to the Company (capital contribution ratio: 33.4%) to further strengthen our relationships. The capital and business alliance agreement concluded between the Company and FINESE is expected to further increase earning power and expand business opportunities by creating a contiguous span encompassing the Tohoku, Niigata and Kinki areas, the Group's main business areas, with the Hokuriku area, where the newly merged company's business infrastructure has been reinforced.

In July 2014, as part of the Group's healthcare coordination business, two residences for elderly people with supportive service were opened, one in Aoba-ku, Sendai City (named Bell Heart West Park) and one in Toyooka City, Hyogo Prefecture (named Shiki-no-Sato Toyooka). Not only will this promise strengthen our relationship with nearby medical institutions, but also it is expected to provide new revenue for the Group in its residential and nursing care businesses. Also in the same month, VITAL-NET Inc. (head office: Sendai City, Miyagi Prefecture), a business subsidiary of the Company, made OHNO Co., LTD., which operates over 50 dispensing pharmacies in the area spanning Tokyo and five prefectures mainly in Miyagi Prefecture, its wholly owned subsidiary. Taking advantage of this opportunity, the Group aims to further promote its healthcare coordination business so that it will be able to further enhance its earning power.

However, as a result of the impact of the aforementioned market shrinkage in the pharmaceutical wholesale business, our Group's primary business segment, for the fiscal year ended March 31, 2015, consolidated net sales were ¥548,012 million (97.1% of that of the same period of the previous year), consolidated operating income was ¥1,812 million (56.7% of that of the same period of the previous year), consolidated ordinary income was ¥6,125 million (92.4% of that of the same period of the previous year) and consolidated net income was ¥4,527 million (106.9% of that of the same period of the previous year).

Performance results by business segment are as follows.

## 1) Pharmaceutical Wholesale Business

In the pharmaceutical wholesale business, the Group focused on the sale of new products (original drugs) and products covered by the premium pricing scheme for the promotion of new drug creation and resolution of unapproved drugs/off-label use, amid rapid category changes, and worked to maintain sales total. In terms of profits, the Group worked with several manufacturers to secure profits through joint purchasing, as well as focused on negotiations for delivery prices by single unit and single price in order to respond accurately to category changes. The Group's main business subsidiaries (VITAL-NET Inc. and KSK Co. Ltd.) used the "VK Marketing" sales strategy system, which went into full-fledged operation from April 2012, to implement sales strategies based on sales profit and loss conditions by client, continuing to focus on maintaining and improving earning power while also engaging in negotiations to improve business dealings with unprofitable clients.

In March 2015, VITAL-NET Inc. the Group's business subsidiary, commenced full-fledged operation of the Miyagi Logistics Center, which is equipped with the industry's top-level functions, in Taiwa-cho, Kurokawa-gun, Miyagi prefecture. This has realized logistics of even higher quality and efficiency than before and allowed the Group to enhance its disaster-response capabilities. At the same time, the Group launched the "Aoba Customer Center" as the second call center within the Miyagi Logistics Center premises, which covers Miyagi prefecture and the three northern prefectures in the Tohoku region. With this launch, the Group will promote the consolidation of branch functions and reinforce sales support.

However, the impact of the market shrinkage as mentioned above could not be offset. As a result, net sales were ¥524,039 million (95.3% of that of the same period of the previous year), and segment income (operating income) was ¥1,503 million (54.2% of that of the same period of the previous year).

## 2) Other Businesses

In other businesses, although net sales substantially increased because of making OHNO Co., LTD. a consolidated subsidiary, the impact of the reaction to the increased demand in advance of the government's implementation of consumption tax hike primarily in the wholesale business of agricultural chemicals was huge. Consequently, net sales were ¥23,973 million (161.8% of that of the same period of the previous year), and segment income (operating income) was ¥223 million (65.7% of that of the same period of the previous year).

### (Outlook for the year ending March 31, 2016)

In terms of outlook for the year ending March 31, 2016, despite the ongoing government policy to reduce medical costs, the Group expects that the rapid category changes currently taking place will come to an end and the pharmaceutical wholesale industry will witness moderate growth in the wake of increasing sales of new drugs and growing demand as a result of the rising elderly population.

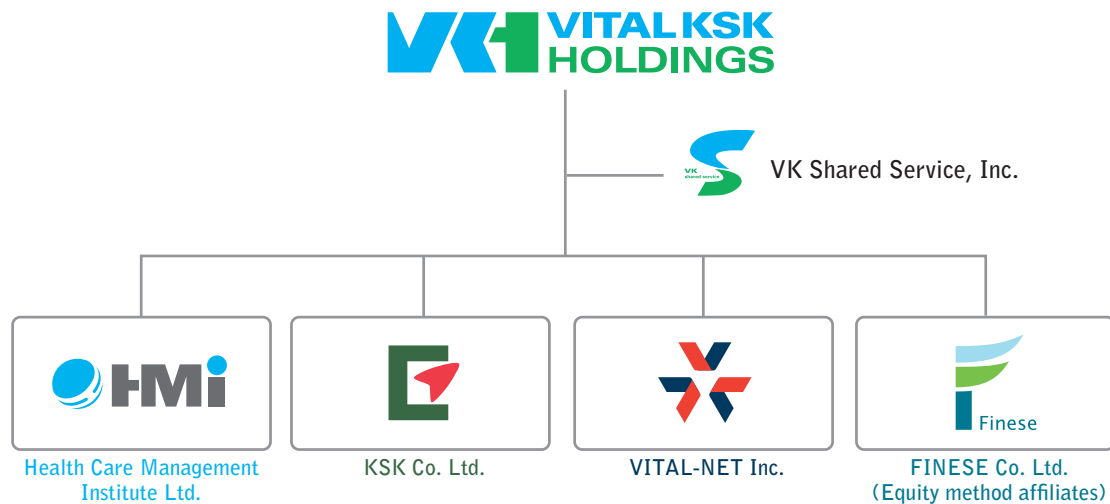
Under such circumstances, the Group will enter the final year of its second medium-term management plan. The Group intends to expand its new healthcare coordination business and strive to improve profitability. Additionally, in the pharmaceutical wholesale business, its core business, the Group intends to reinforce its policy of sales at fair prices for each product unit, while at the same time ensuring operating profit through the improvement of its less profitable business dealings using the "VK Marketing" sales strategy system, the promotion of enhanced business efficiency on a Group-wide basis, and cost reductions through the appropriate allocation of human resources.

As for the forecast of results for the year ending March 31, 2016, the Company expects consolidated net sales of ¥573,600 million, consolidated operating income of ¥1,850 million, consolidated ordinary income of ¥5,340 million and consolidated net income of ¥3,420 million.

## About VITAL KSK

VITAL KSK is a jointly owned holding company, established upon the integration of management between VITAL-NET Inc. and KSK Co. Ltd. Its business operation consists of wholesale of pharmaceutical products through VITAL-NET (Tohoku 6 prefectures, Niigata prefecture, Tochigi prefecture, Saitama prefecture and Tokyo metropolis) and KSK (Kinki region 6 prefectures); wholesale of veterinary medication (Hokkaido and East Japan) by utilizing their distribution channels; ethical pharmacy business (OHNO); and nursing care and related business (VITAL-CARE) utilizing their relations with medical institutions. Through these business operations, VITAL KSK is committed to establishing a trusted healthcare network throughout Japan.

### Organization Chart



### List of Group Companies

Health Care Management Institute Ltd.	Medical management consulting
VK Shared Service, Inc.	Trustee of headquarters management operating business of group companies

#### [VITAL-NET Inc.]

Vital Green Co., Ltd.	Wholesaler of agricultural chemicals, and agricultural materials, etc.
AGRO-JAPAN Co., Ltd.	Wholesaler of veterinary drugs
Vital Express Co., Ltd.	Transportation business
VITAL-CARE, Inc.	Nursing care business
Vital Agency Co., Ltd.	Insurance agent, Real estate management, Parking business
OHNO Co., LTD	Dispensing pharmacy
Health Mart, Co., Ltd.	Dispensing pharmacy
Health Mart Niigata, Co., Ltd.	Dispensing pharmacy
KSR Co., Ltd.	Dispensing pharmacy, Mail-order business of health-related products
Shiogama Safurantou Co., Ltd.	OTC drug manufacturer, Mail-order business of health-related products

#### [KSK Co. Ltd.]

Daishin Tsushou Co., LTD.	Transportation business
Tanpopo Co., LTD.	Nursing care business

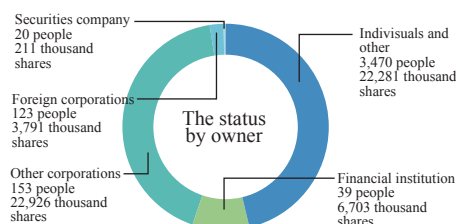
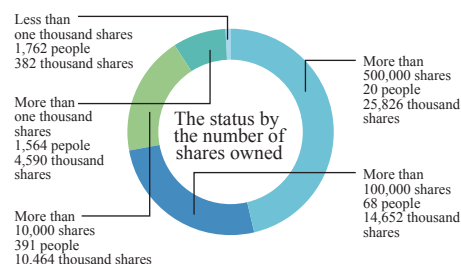
## Shareholder Information

### Status of the Stock 2015/3/31

- (1) The number of shares available for issuance 230,000,000 shares
- (2) The total number of issued shares 61,224,000 shares
- (3) The number of shareholders 3,806 people
- (4) Major shareholders Top 10

Name or designation	Number of shares owned (thousand shares)	Percentage of total shares issued (%)
Suzuhiko Co., Ltd.	4,892	8.7
Mitsubishi Tanabe Pharma Corporation	2,655	4.7
Mizuho Trust & Banking Co., Ltd Employee pension trust (DAIICHI SANKYO COMPANY, LIMITED)	2,214	3.9
Employee Stock Ownership Association of KSK Co. Ltd.	1,731	3.1
DAIICHI SANKYO COMPANY, LIMITED	1,477	2.6
Dainippon Sumitomo Pharma Co., Ltd.	1,449	2.5
Ken Suzuki	1,225	2.1
Kueko Co., LTD	1,187	2.1
Takeda Pharmaceutical Company Limited.	1,163	2
Kouichirou Suzuki	1,020	1.8

### (5) Percentage of stock owner



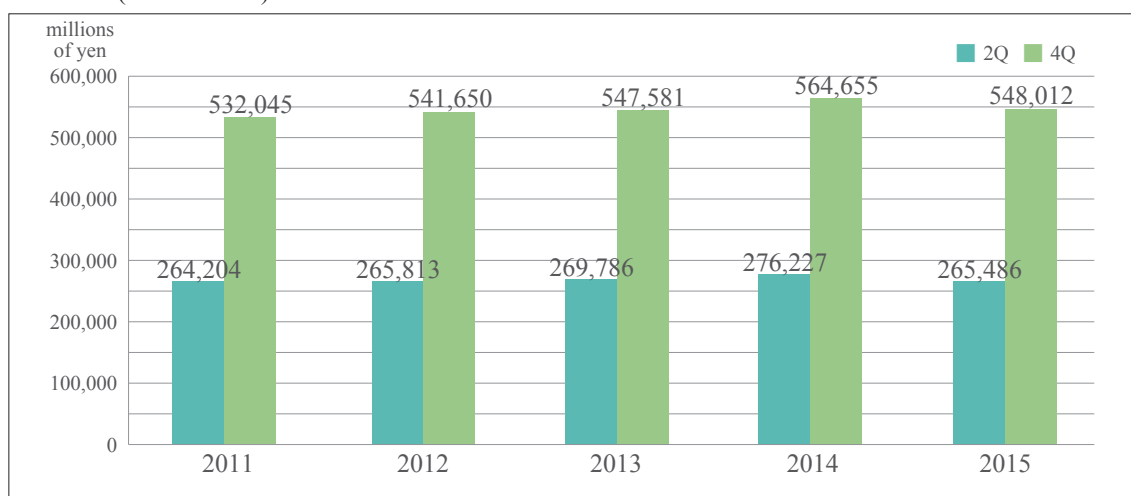
\*The percentage has been calculated, by self-shareholding, excluding one from number of stockholders and own treasury stock (3,080 thousand shares) from the total number of issued shares.

### Memo

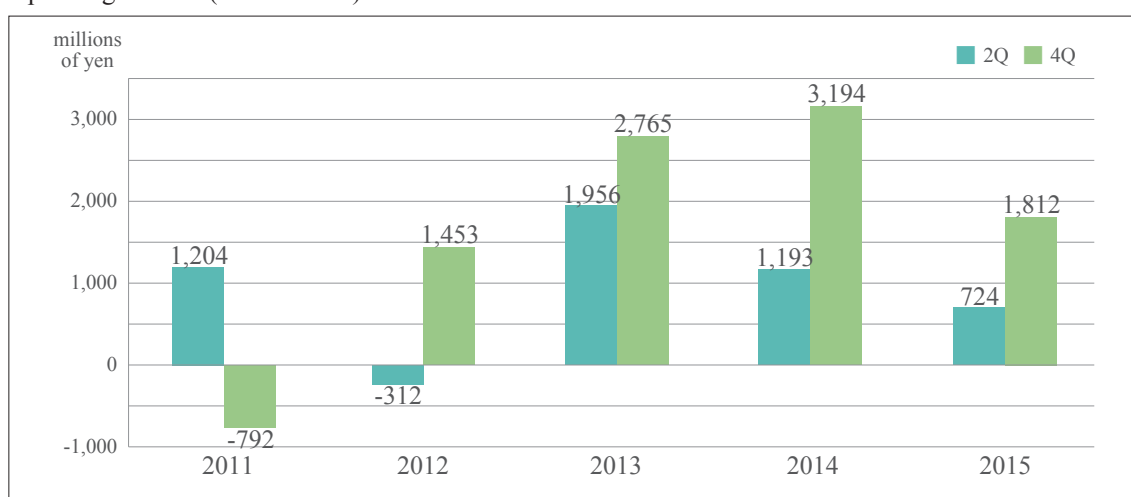
Fiscal year	Until March 31 of the following year from April 1 every year	
Annual meeting of shareholders	Held in June every year	
Reference date	Annual meeting of shareholders	March 31 every year
	Year-end dividend	March 31 every year
	Interim dividend	September 30 every year
	If it is necessary, the day on which it was determined in prior public notice	
Shareholder registry administrator and Special account management institution	1-4-1, Marunouchi, Chiyoda-ku, Tokyo Sumitomo Mitsui Trust Bank, Limited.	
Shareholder registry administrator	1-4-1, Marunouchi, Chiyoda-ku, Tokyo Sumitomo Mitsui Trust Bank, Limited.	
Mailing address	2-8-4, Izumi, Suginami-ku, Tokyo 168-0063 Sumitomo Mitsui Trust Bank, Ltd Stock Transfer Agency Department	
Telephone referrals	0120-782-031	
URL	<a href="http://www.smtb.jp/personal/agency/index.html">http://www.smtb.jp/personal/agency/index.html</a>	
Way of public notice	Electronic public notice <a href="http://www.vitalksk.co.jp/ir/koukoku.html">http://www.vitalksk.co.jp/ir/koukoku.html</a> However, it is not possible due to electronic public notice, if unavoidable circumstances occurs, it is published in the Nihon Keizai Shimbun.	

## Financial highlights

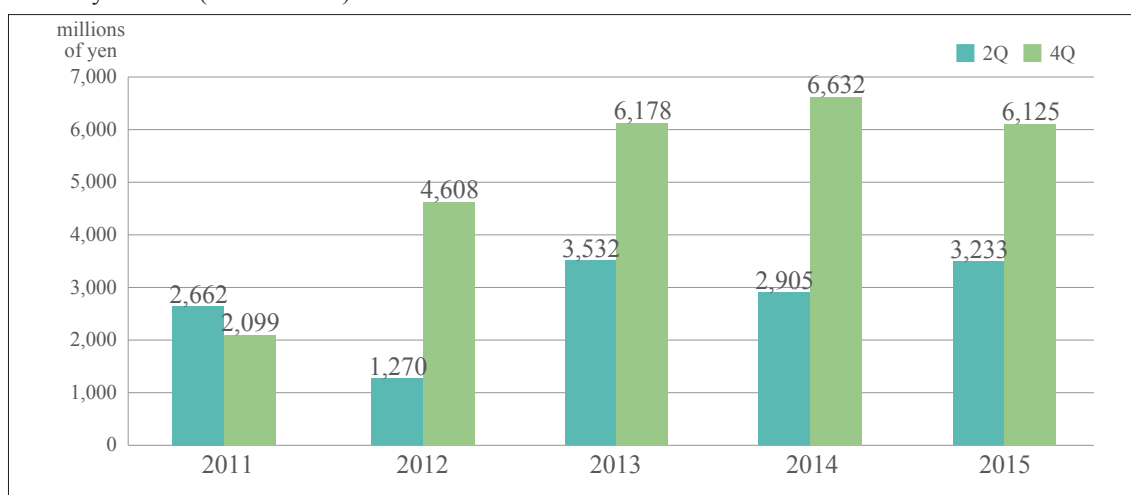
### Net Sales (consolidated)



### Operating Income (consolidated)

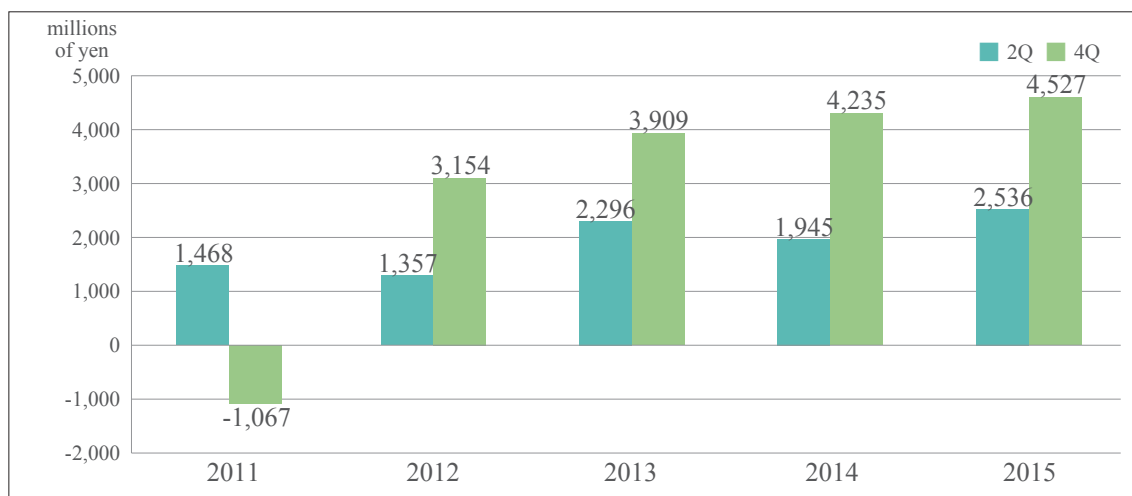


### Ordinary Income (consolidated)

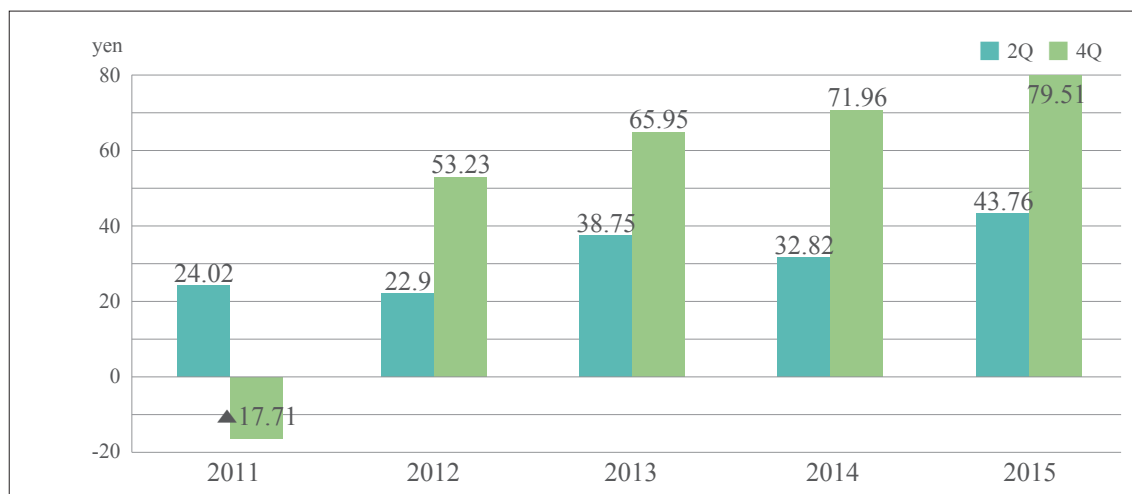




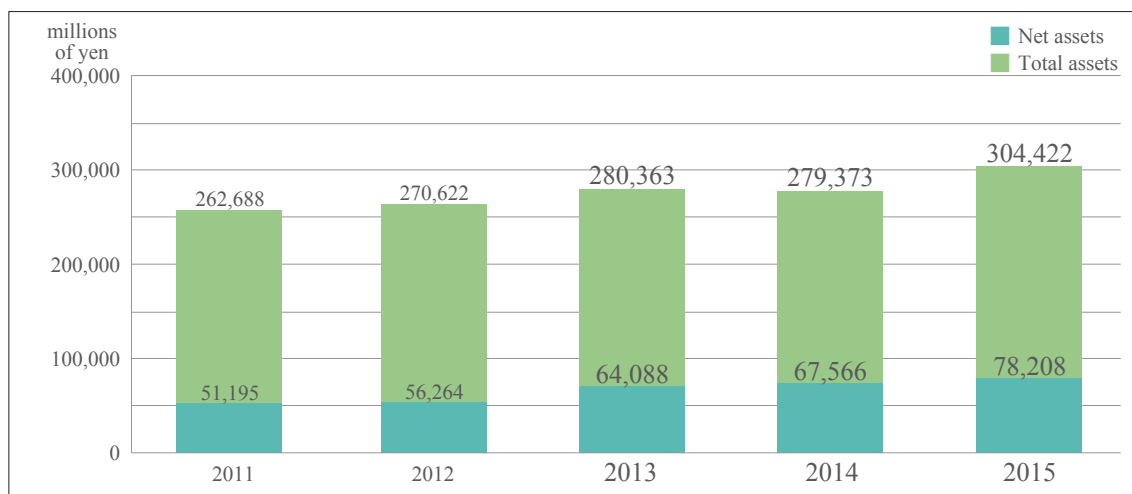
### Net Income



### Net Income per share



### Net assets and Total assets



## Consolidated Balance Sheets

(Million yen)

	As of March 31, 2014	As of March 31, 2015
<b>Assets</b>		
Current assets		
Cash and deposits	30,263	35,368
Notes and accounts receivable - trade	126,361	123,659
Inventories	28,210	27,811
Deferred tax assets	1,019	1,003
Accounts receivable - other	13,738	14,159
Other	1,441	731
Allowance for doubtful accounts	(438)	(380)
Total current assets	200,597	202,355
Non-current assets		
Property, plant and equipment		
Buildings and structures	33,677	40,152
Accumulated depreciation	(22,091)	(23,312)
Buildings and structures, net	11,586	16,839
Machinery, equipment and vehicles	1,189	1,219
Accumulated depreciation	(908)	(958)
Machinery, equipment and vehicles, net	281	261
Land	17,145	16,852
Leased assets	3,605	4,987
Accumulated depreciation	(1,980)	(2,773)
Leased assets, net	1,624	2,214
Construction in progress	3,185	255
Other	2,615	3,087
Accumulated depreciation	(2,204)	(2,525)
Other, net	410	562
Total property, plant and equipment	34,234	36,987
Intangible assets		
Goodwill	17	4817
Other	1,967	2,349
Total intangible assets	1,984	7,167
Investments and other assets		
Investment securities	32,601	46,697
Long-term loans receivable	418	497
Net defined benefit asset	2,734	3,767
Deferred tax assets	130	149
Other	8,079	8,099
Allowance for doubtful accounts	(1,408)	(1,299)
Total investments and other assets	42,556	57,912
Total non-current assets	78,776	102,066
Total assets	279,373	304,422

(Million yen)

	As of March 31, 2014	As of March 31, 2015
<b>Liabilities</b>		
Current liabilities		
Notes and accounts payable - trade	180,669	181,483
Short-term loans payable	1,050	1,050
Current portion of long-term loans payable	900	1,064
Income taxes payable	785	869
Provision for sales returns	173	178
Provision for bonuses	1,844	1,804
Other	3,480	3,811
Total current liabilities	188,903	190,260
Non-current liabilities		
Convertible bond-type bonds with subscription rights to shares	—	10,045
Long-term loans payable	3,000	3,280
Lease obligations	1,114	1,699
Deferred tax liabilities	6,420	9,403
Provision for directors' retirement benefits	229	212
Net defined benefit liability	8,176	8,321
Negative goodwill	3,683	2,947
Other	278	461
Total non-current liabilities	22,903	36,372
Total liabilities	211,806	226,633
Net assets		
Shareholders' equity		
Capital stock	5,000	5,000
Capital surplus	12,675	12,675
Retained earnings	38,427	40,863
Treasury shares	(1,986)	(4,060)
Total shareholders' equity	54,116	54,478
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	12,642	21,005
Remeasurements of defined benefit plans	413	1,867
Total accumulated other comprehensive income	13,055	22,873
Minority interests	394	437
Total net assets	67,566	77,789
Total liabilities and net assets	279,373	304,422

## Consolidated Statements of Income and Comprehensive Income

### Consolidated Statements of Income

(Million yen)

	For the fiscal year ended March 31, 2014	For the fiscal year ended March 31, 2015
Net sales	564,655	548,012
Cost of sales	522,936	506,453
Gross profit	41,719	41,559
Reversal of provision for sales returns	167	173
Provision for sales returns	177	178
Gross profit - net	41,709	41,554
Selling, general and administrative expenses	38,510	39,742
Operating income	3,199	1,812
Non-operating income		
Interest income	156	150
Dividend income	634	876
Share of profit of entities accounted for using equity method	76	836
Rent income	60	115
Office work fee	1,525	1,430
Amortization of negative goodwill	736	736
Other	311	369
Total non-operating income	3,502	4,515
Non-operating expenses		
Interest expenses	42	46
Bond issuance cost	—	42
Rent expenses	5	89
Other	21	24
Total non-operating expenses	70	202
Ordinary income	6,632	6,125
Extraordinary income		
Gain on sales of non-current assets	67	1
Gain on sales of investment securities	62	506
Insurance income	—	162
Compensation income	127	93
Other	603	119
Total extraordinary income	860	881
Extraordinary losses		
Loss on sales of non-current assets	8	0
Impairment loss	167	579
Loss on valuation of investment securities	189	—
Dismantlement expense	69	—
Other	127	37
Total extraordinary losses	562	616
Income before income taxes and minority interests	6,929	6,390
Income taxes - current	1,492	1,617
Income taxes - deferred	1,153	200
Total income taxes	2,645	1,817
Income before minority interests	4,283	4,572
Minority interests in income	48	45
Net income	4,235	4,527

## Consolidated Statements of Comprehensive Income

(Million yen)

	For the fiscal year ended March 31, 2014	For the fiscal year ended March 31, 2015
Income before minority interests	4,283	4,572
Other comprehensive income		
Valuation difference on available-for-sale securities	521	7,904
Share of other comprehensive income of entities accounted for using equity method	(3)	(457)
Remeasurements of defined benefit plans, net of tax	—	1,454
Total other comprehensive income	517	9,817
Comprehensive income	4,801	14,390
Comprehensive income attributable to:		
Comprehensive income attributable to owners of parent	4,752	14,345
Comprehensive income attributable to minority interests	48	45

## VITAL-NET Inc.

### ■ Opening of “Miyagi Distribution Center”

VITAL-NET Inc. opened the Miyagi Distribution Center for full-scale operation for distribution of pharmaceutical products in the East region of Japan, in January 2015.

With a site area of 48,831 sq. meters, floor area of 31,111 sq. meters, a three story steel frame structure, and a product line consisting of 30,000 different items, it is one of the largest and most advanced distribution site in the industry.

Our mission is to be the “artery for pharmaceutical product distribution”. The distribution center is equipped with emergency electricity generators capable of 72 hours of continuous operation during a power outage, and truck docks on the first and third floor; designed to operate even in the worst case of natural disasters.

Furthermore, we have implemented a versatile automation system: “Gate Assort System” which combines high efficiency and accuracy of machines and human wisdom. As a “Professional of Pharmaceutical Distribution”, the above allows us to flexibly accommodate any circumstances that may arise.



Miyagi Distribution Center



a two-layer structure platform for trucks



an in-house power generator

## KSK Co. Ltd.

### ■ Agreement as a Provider of Clinical Examination Drugs During Natural Disasters

As a member of the Japan Council of Clinical Reagents Wholesalers: Kinki block; KSK Co. Ltd. has entered into the “Agreement as a Provider of Clinical Examination Drugs During Natural Disasters” with the Shiga Prefecture, as the fourth prefecture to join in the country.

The agreement consists of implementation of drug distribution processes, distribution of clinical examination drugs, and information providing during major earthquakes, floods, and storms. KSK Co. Ltd. has taken an active stance to be able to provide necessary services in emergency situations to each of the areas in the Kinki region.



a member of the Japan Council of Clinical Reagents Wholesalers

## VITAL-NET Inc.

### ■ Opening of “Customer Center Aoba”

Following the opening of the customer center in Niigata in July 2013, VITAL-NET Inc. has opened “Customer Center Aoba” within their Miyagi Distribution Center.

“Customer Center Aoba” is responsible for telephone support of customers of our branches in Miyagi, Iwate, Akita, and Aomori Prefectures; striving for both speedy and detailed service.

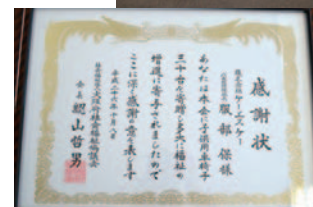


Customer Center Aoba

## KSK Co. Ltd.

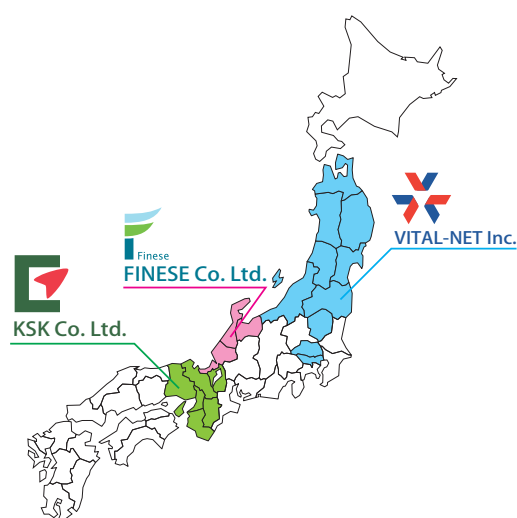
### ■ Celebrating 15 years of operation with wheelchair donations to care homes in the Kinki region.

October of this year marks KSK Co. Ltd.’s 15th anniversary. In order to further contribute to people’s well-being and happiness in the Kansai region, we have decided to make a donation of a total of 250 wheel chairs to care homes spread across 6 prefectures in the Kinki region.



wheelchair donations

## Group sales area





## About VITAL KSK

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<b>Company Name</b>	: VITAL KSK HOLDINGS, INC.
<b>Capital</b>	: 5,000,000,000 JPY
<b>Headquarters</b>	: 1-1-12, Tsurumaki, Setagaya-ku, Tokyo
<b>Founded</b>	: April 1, 2009
<b>Integration Method</b>	: Joint share transfer
<b>Allotted number of shares</b>	: 1 share joint holding company common stock for each share of common stock VITAL-NET Inc. 0.81 share joint holding company common stock for each share of common stock KSK Co. Ltd.
<b>Stock Exchange Listings</b>	: First Section of the Tokyo Stock Exchange (stock code 3151)