



VITAL KSK HOLDINGS

ANNUAL REPORT 2017

About VITAL KSK HOLDINGS, INC.

Company Name	: VITAL KSK HOLDINGS, INC.
Capital	: 5,000,000,000 JPY
Head Office	: 1-9-12, Nihonbashi Muromachi Chuoku, Tokyo
Telephone	: +81 3 3275 3303
Website	: http://www.vitalksk.co.jp
Founded	: April 1, 2009
Stock Exchange Listings	: First Section of the Tokyo Stock Exchange (stock code 3151)

Compliance Policy Guide

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

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.

In the rapidly changing environment surrounding the healthcare industry and the social landscape, under our corporate slogan “Towards realization of healthy and prosperous society,” we are strengthening our business foundation to enhance alignment across the group and exploit operating synergy.

Under our 10-year vision “To become an indispensable presence in regional and community healthcare systems by strategically providing products and services to support medical care and nursing,” we are developing and implementing our Third Medium-Term Management Plan.

With this Management Plan, which will be focusing on area based marketing aligned to the mindset of the Ministry of Health, Labor, and Welfare’s “Area Comprehensive Care System”; and promoting business with deep understanding of each region, we will strive to become a solution company in the medical and nursing sectors.

For the above reason, we are training our sales representatives to have expertise in the fields of cancer, at-home nursing, and dementia, who will be strategically stationed to each region to better accommodate the needs requiring expertise in the above fields, ultimately contributing to improving healthcare in each region.

Furthermore, we will continue business operations built upon our deep relationship with each region, and strengthen our healthcare by providing a foundation to further create growth opportunities.

At VITAL KSK HOLDINGS, INC., we will contribute to a healthy and prosperous society by continually adapting to the rapidly changing environments.

We sincerely appreciate our shareholder’s continued support and guidance.



Ken Suzuki
Chairman

Ken Suzuki



Taisuke Murai
President & CEO

Taisuke Murai



Analysis of Operating Results

The Japanese economy during the year ended March 31, 2017 continued to be on a moderate recovery trend, led by the government's economic and financial policies and other factors. However, factors such as the effects of the UK leaving the EU and the launch of a new administration in the US have created an uncertain outlook.

In the pharmaceutical wholesale industry (our Group's primary business segment), Japan's medical expense curbing policy led to drug price revision in April 2016, which lowered drug price standards by 7.8%. The government is likely to continue with its policy to limit medical costs in the future.

For the year ended March 31, 2017, net sales were ¥581,079 million (93.6% of that of the same period of the previous year), operating income was ¥3,207 million (46.5% of that of the same period of the previous year), ordinary income was ¥6,987 million (66.0% of that of the same period of the previous year) and net income attributable to owners of parent was ¥4,778 million (72.9% 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, sales of long-listed drugs continued its previous decline due to category changes. In the medical payment revisions in April 2016 as well, further measures for promoting use of generic drugs were proposed, and declines in sales of long-listed drugs are persistent during the year ended March 31, 2017. Under such circumstances, 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. However, factors such as a market scale contraction for hepatitis C medication, which demonstrated explosive sales during the previous fiscal year, and impact of the products whose drug prices were significantly lowered due to market expansion re-pricing, etc., of the drug price revision in April 2016 resulted in the entire market shrinking, which had an effect on the Group greatly. 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 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. However, the effects of the shrinking market were significant, and as a result, net sales were ¥552,283 million (93.3% of that of the same period of the previous year), and segment income (operating income) was ¥3,034 million (46.5% of that of the same period of the previous year).

2) Other Businesses

In other businesses, as a result of a slump in business performance in the dispensing pharmacy business owing to factors such as the medical payment revision, despite positive movements in the veterinary drug wholesale business, net sales were ¥28,796 million (98.7% of that of the same period of the previous year), and segment income was ¥93 million (33.3% of that of the same period of the previous year).

3) Future Outlook

In terms of the future outlook in the pharmaceutical wholesale industry, a drug price revision in April 2016 lowered drug price standards by 7.8%. Additionally, sales are projected to decrease further for hepatitis C medications, and growth in the pharmaceutical market is likely to remain flat.

Under such circumstances, the Group started its third medium-term management plan for the three-year period from the fiscal year ended March 31, 2017 to the fiscal year ending March 31, 2019.

First, ahead of the third medium-term management plan, the Company defined its long-term vision with a 10-year goal of "Becoming an indispensable presence in regional and community healthcare by strategically providing products and services to support medicine and nursing." Furthermore, under this long-term vision, as its medium-term vision during the third medium-term management plan, the Company defined the two visions of "1. Even in the Generic Medicine 80% era, construct a system to create profits," and "2. Move deeper into regional healthcare by establishing a business foundation for a medicine-nursing cooperative business." Additionally, to realize this medium-term vision, the Company has been working toward the four basic principles of "1. Demonstrating the comprehensive strength of the Group by implementing effective and efficient Group management," "2. Promoting and further deepening area marketing that always emphasizes the viewpoint of the local people," "3. Fostering and retaining healthcare coordinators," and "4. Becoming a solutions company for the medical and nursing sectors."

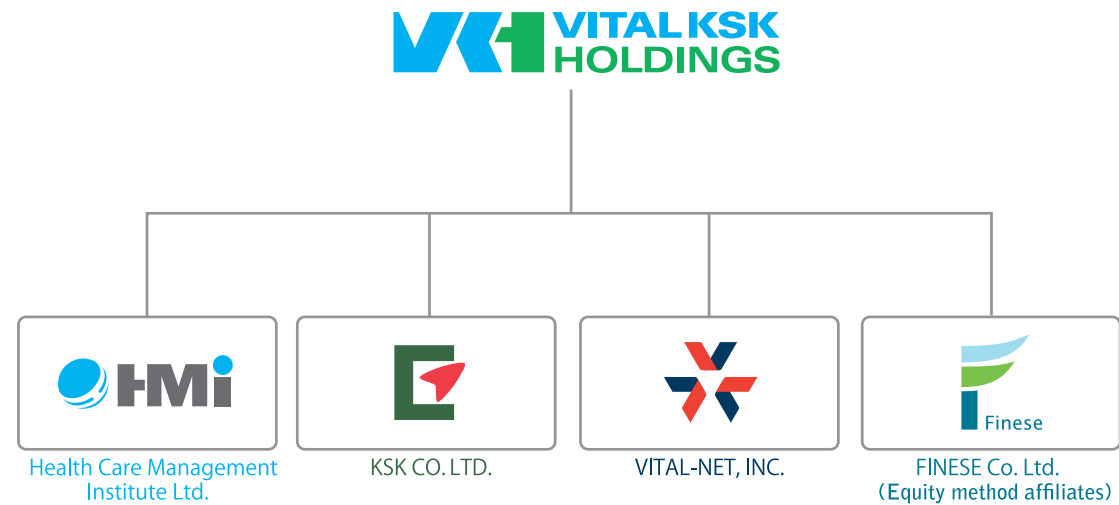
Additionally, the Company absorbed wholly-owned consolidated subsidiary VK Shared Service, Inc. in April 2017, and the Information Systems Department of VK Shared Service, Inc. was transferred to the Information Systems Department Office of the ICT Strategy Department of the Company. Moving forward, the Company will work to strengthen the Group's IT control system, and promote increased system efficiency.

As for the forecast of results for the year ending March 31, 2018, the Company expects net sales of ¥578,000 million, operating income of ¥2,100 million, ordinary income of ¥5,800 million and net income attributable to owners of parent of ¥4,070 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
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[VITAL-NET, INC.]

VITAL-GREEN, INC.	Wholesaler of agricultural chemicals, and agricultural materials, etc.
AGRO-JAPAN, INC.	Wholesaler of veterinary drugs
VITAL-EXPRESS, INC.	Transportation business
VITAL-CARE, INC.	Nursing care business
PLEARC, INC.	Insurance agent, Real estate management, Parking business
OHNO CO. LTD.	Dispensing pharmacy
HEALTH MART, INC.	Dispensing pharmacy
HEALTH MART NIIGATA, INC.	Dispensing pharmacy
KSR, INC.	Dispensing pharmacy, Mail-order business of health-related products
SHIOGAMA SAFURANTOU, INC.	OTC drug manufacturer, Mail-order business of health-related products
MIYAGI TOME WIDE-AREA CARE SERVICES, INC.	Nursing care business

[KSK CO. LTD.]

Daishin Tsushou CO. LTD.	Transportation business
Tanpopo CO. LTD.	Nursing care business

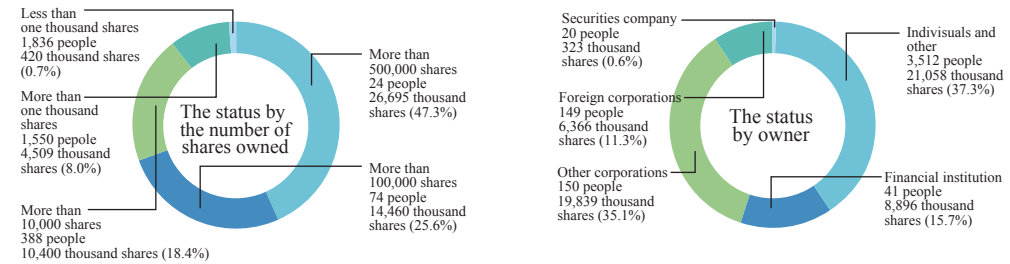
Shareholder Information

Status of the Stock 2017/3/31

- (1) The number of shares available for issuance 230,000,000shares
- (2) The total number of issued shares 61,224,000 shares
- (3) The number of shareholders 3,873 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	8.6
Mizuho Trust & Banking Co., Ltd Employee pension trust(DAIICHI SANKYO COMPANY, LIMITED)	2,214	3.9
Employee Stock Ownership Association of KSK CO. LTD.	1,614	2.8
Mitsubishi Tanabe Pharma Corporation	1,455	2.5
Ken Suzuki	1,329	2.3
Dainippon Sumitomo Pharma Co., Ltd.	1,199	2.1
Cueco Co., LTD	1,187	2.1
Takeda Pharmaceutical Company Limited.	1,163	2.0
Japan Trustee Services Bank, Ltd.	1,114	1.9
Japan Master Trust Bank, Ltd.	1,025	1.8

(5) Percentage of stock owner



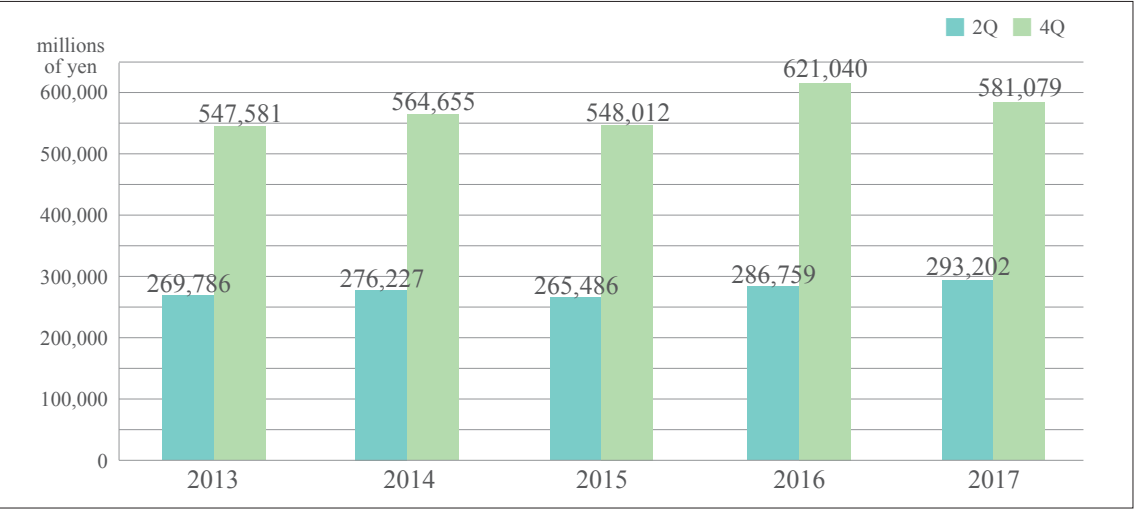
*The percentage has been calculated, by self-shareholding, excluding one from number of stockholders and own treasury stock (4,740thousand shares) from the total number of issued shares.

Memo

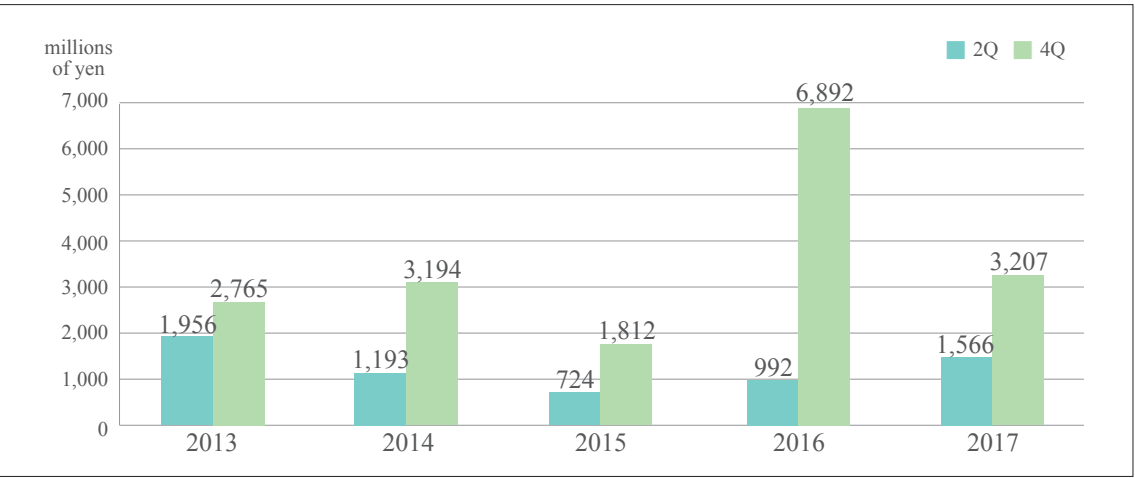
Fiscal year	Until March 31 of the following year from April 1 every year	
Annual meeting of shareholders	Held in June every year	
Reference date	Annual meeting of shareholders	March 31 every year
	Year-end dividend	March 31 every year
	Interim dividend	September 30 every year
	If it is necessary, the 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 Simitomo Mitsui Trust Bank, Ltd Stock Transfer Agency Department	
Telephone referrals	0120-782-031	
URL	http://www.smtb.jp/personal/agency/index.html	
Way of public notice	Electronic public notice http://www.vitalksk.co.jp/ir/koukoku.html However, it is not possible due to electronic public notice, if unavoidable circumstances occurs, it is published in the Nihon Keizai Shimbun.	

Financial Highlights

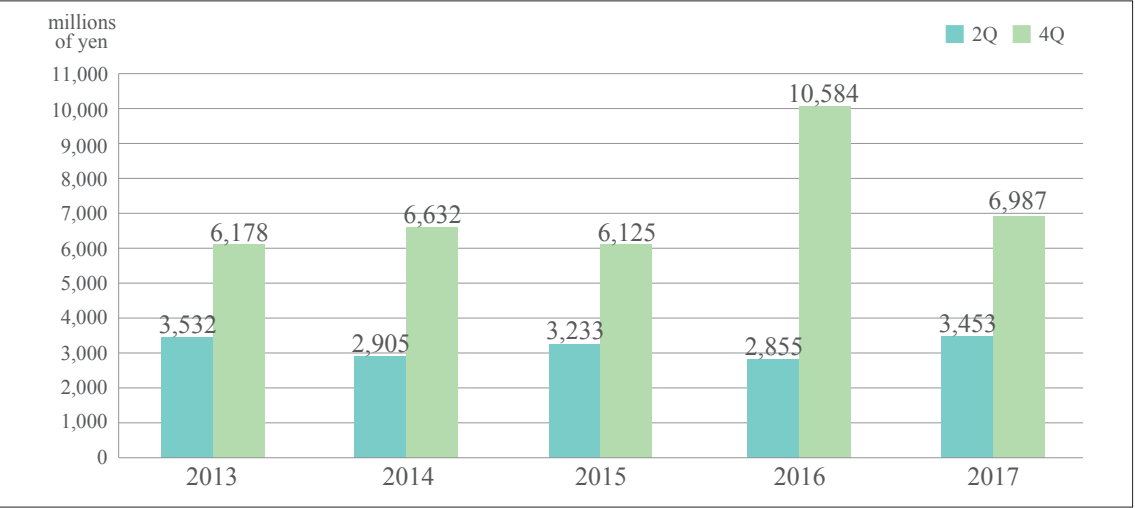
Net Sales



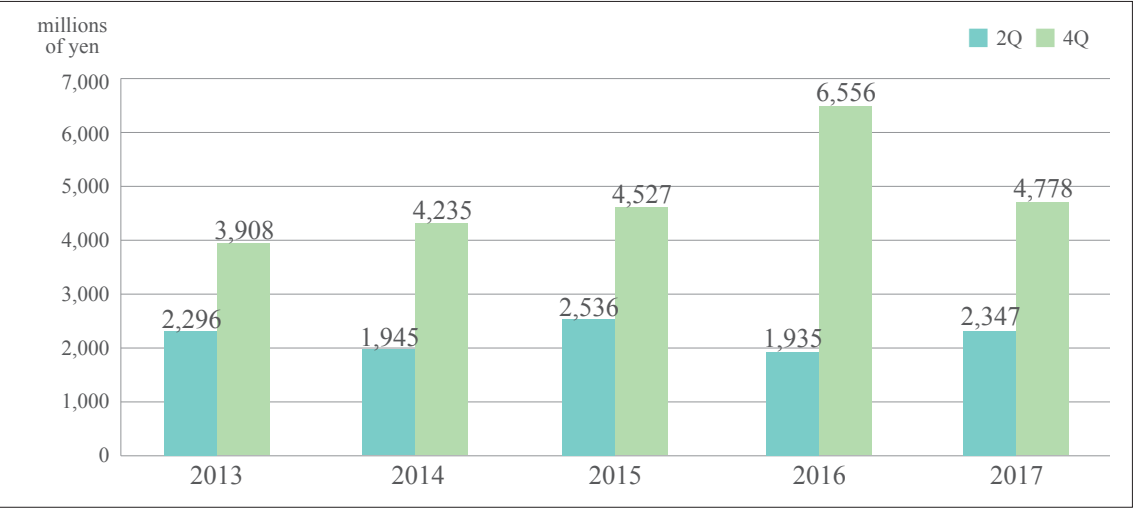
Operating Income



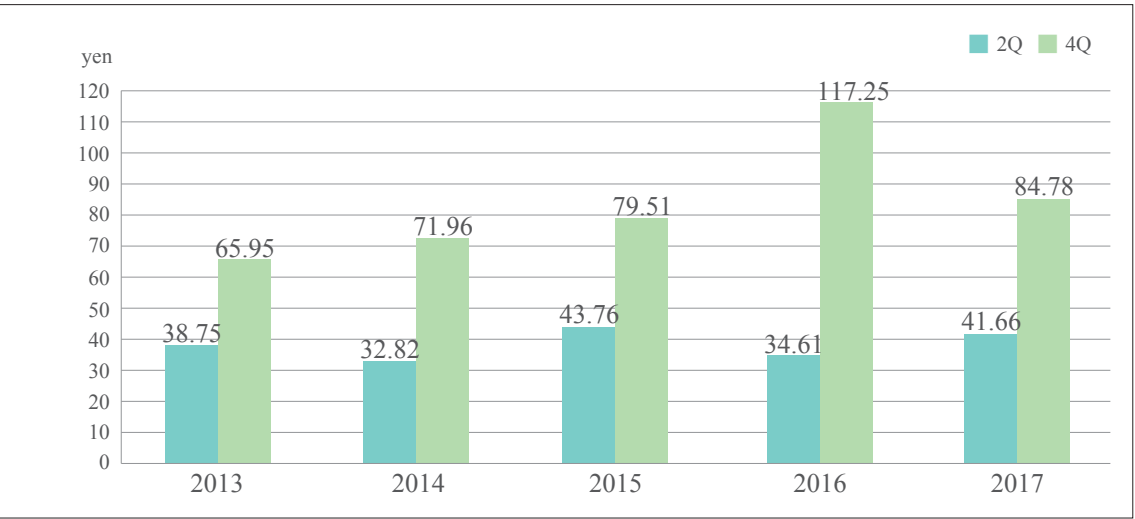
Ordinary Income



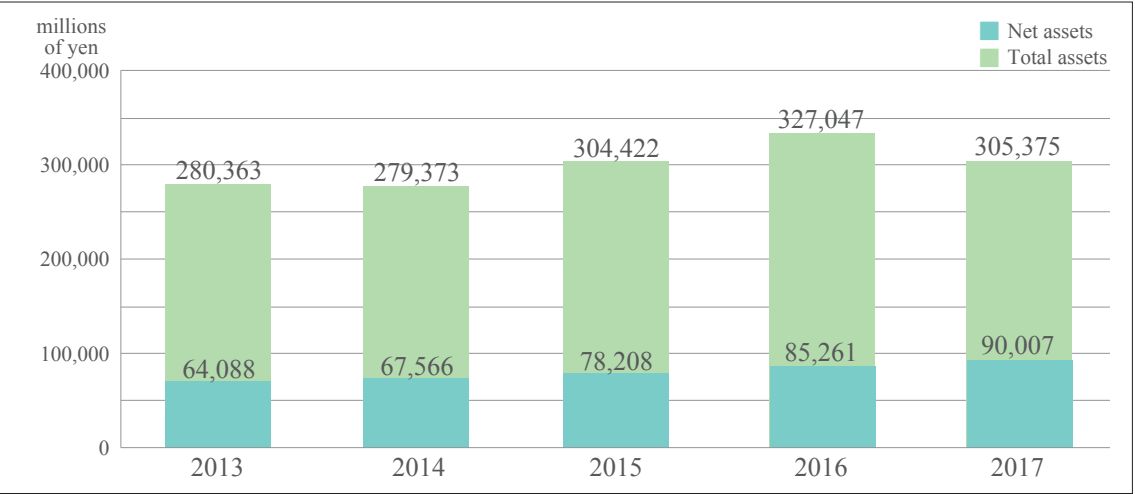
Net profit of current period attributable to shareholders of parent company



Net Income per share



Net assets and Total assets



Consolidated Balance Sheets

(Million yen)

	As of March 31, 2016	As of March 31, 2017
Assets		
Current assets		
Cash and deposits	26,741	23,022
Notes and accounts receivable - trade	148,131	125,788
Inventories	30,338	29,137
Deferred tax assets	1,360	942
Accounts receivable - other	16,715	15,125
Other	986	1,375
Allowance for doubtful accounts	(375)	(293)
Total current assets	223,898	195,098
Non-current assets		
Property, plant and equipment		
Buildings and structures	40,499	40,077
Accumulated depreciation	(24,288)	(24,629)
Buildings and structures, net	16,210	15,447
Machinery, equipment and vehicles	983	1,015
Accumulated depreciation	(696)	(772)
Machinery, equipment and vehicles, net	286	243
Land	17,615	19,880
Leased assets	4,803	4,134
Accumulated depreciation	(3,040)	(2,512)
Leased assets, net	1,762	1,622
Construction in progress	—	1,338
Other	3,118	3,142
Accumulated depreciation	(2,451)	(2,490)
Other, net	667	651
Total property, plant and equipment	36,542	39,183
Intangible assets		
Goodwill	4,538	4,239
Leased assets	98	71
Other	3,502	3,109
Total intangible assets	8,139	7,421
Investments and other assets		
Investment securities	47,423	51,732
Long-term loans receivable	501	1,564
Net defined benefit asset	3,648	3,570
Deferred tax assets	144	149
Other	7,947	7,686
Allowance for doubtful accounts	(1,200)	(1,030)
Total investments and other assets	58,466	63,673
Total non-current assets	103,149	110,277
Total assets	327,047	305,375

(Million yen)

	As of March 31, 2016	As of March 31, 2017
Liabilities		
Current liabilities		
Notes and accounts payable - trade	197,057	170,688
Short-term loans payable	1,350	1,330
Current portion of long-term loans payable	1,044	2,261
Income taxes payable	2,984	370
Provision for sales returns	240	202
Provision for bonuses	1,823	1,723
Other	5,001	3,513
Total current liabilities	209,500	180,089
Non-current liabilities		
Convertible bond-type bonds with subscription rights to shares	10,037	10,029
Long-term loans payable	2,236	4,812
Lease obligations	1,090	1,044
Deferred tax liabilities	9,476	10,311
Provision for directors' retirement benefits	177	182
Net defined benefit liability	6,622	7,058
Negative goodwill	2,210	1,473
Other	433	366
Total non-current liabilities	32,285	35,278
Total liabilities	241,786	215,368
Net assets		
Shareholders' equity		
Capital stock	5,000	5,000
Capital surplus	12,702	12,739
Retained earnings	46,413	49,726
Treasury shares	(3,722)	(3,759)
Total shareholders' equity	60,394	63,706
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	21,939	24,204
Remeasurements of defined benefit plans	2,428	1,503
Total accumulated other comprehensive income	24,367	25,708
Non-controlling interests	499	592
Total net assets	85,261	90,007
Total liabilities and net assets	327,047	305,375

Consolidated Statements of Income and Comprehensive Income

Consolidated Statements of Income

(Million yen)

	For the fiscal year ended March 31,2016	For the fiscal year ended March 31 2017
Net sales	621,040	581,079
Cost of sales	572,031	536,478
Gross profit	49,009	44,601
Reversal of provision for sales returns	178	240
Provision for sales returns	240	202
Gross profit - net	48,947	44,638
Selling, general and administrative expenses	42,054	41,430
Operating income	6,892	3,207
Non-operating income		
Interest income	145	139
Dividend income	835	858
Share of profit of entities accounted for using equity method	144	168
Rent income	154	195
Office work fee	1,512	1,453
Amortization of negative goodwill	736	736
Other	321	345
Total non-operating income	3,849	3,897
Non-operating expenses		
Interest expenses	43	42
Rent expenses	84	63
Other	30	11
Total non-operating expenses	158	118
Ordinary income	10,584	6,987
Extraordinary income		
Gain on sales of non-current assets	5	1
Gain on sales of investment securities	26	84
Reversal of allowance for doubtful accounts	31	27
Compensation income	138	29
Other	0	0
Total extraordinary income	201	142
Extraordinary losses		
Loss on sales of non-current assets	3	13
Loss on valuation of investment securities	443	109
Dismantlement expense	—	83
Other	163	41
Total extraordinary losses	610	249
Income before income taxes	10,174	6,880
Income taxes - current	3,609	1,251
Income taxes - deferred	(56)	756
Total income taxes	3,553	2,007
Net income	6,620	4,872
Net income attributable to non-controlling interests	64	94
Net income attributable to owners of parent	6,556	4,778

Consolidated Statements of Comprehensive Income

(Million yen)

	For the fiscal year ended March 31,2016	For the fiscal year ended March 31,2017
Profit	6,620	4,872
Other comprehensive income		
Valuation difference on available-for-sale securities	782	2,061
Remeasurements of defined benefit plans, net of tax	135	(921)
Share of other comprehensive income of entities accounted for using equity method	157	200
Total other comprehensive income	1,075	1,340
Comprehensive income	7,696	6,212
Comprehensive income attributable to:		
Comprehensive income attributable to owners of parent	7,632	6,118
Comprehensive income attributable to non-controlling interests	64	94

For Fiscal Year 2016, under our corporate philosophy; “Towards realization of healthy and prosperous society” we have engaged in many topics that would help shape the future. Some topics include; Providing information and management support to pharmacies, and construction initiation of a new distribution center.

VITAL-NET, INC.

Meron Seminars in 56 locations.

"Meron Seminars" for partner pharmacies are intended to provide supportive advice and information regarding pharmacy management, and encourage communication among pharmacies across regions. Two different seminars; "Pharmacies and Pharmacists of the Future" and "To Become the Pharmacy of Choice" were held in 56 locations, and had a total of 2800 attendees. We plan to continue to provide support to help pharmacies gain a stronger presence as a healthcare information hub within their communities.



Seminar in session

KSK CO., LTD

Hyogo Distribution Center / Osaka Headquarters Jichinsai Ceremonies

Jichinsai ceremonies (groundbreaking ceremony) for the Hyogo Distribution Center and the Osaka Headquarters were held on Nov 29, 2016 and Dec 2, 2016. The Hyogo Distribution Center will become the main distribution center and will coordinate with the Osaka and Kyoto support-distribution centers to improve service in the Kinki Region. The Osaka Headquarters will be built at the current location of the Osaka branch. The Osaka branch (built in 1962) which was pending renewal is to be integrated with the Osaka Daiichi Branch and Osaka Daini Branch to create the new Osaka Headquarters, which is expected to increase operating efficiency. Expected dates for construction completion: Hyogo Distribution Center - December 2017 Osaka Headquarters - November 2017

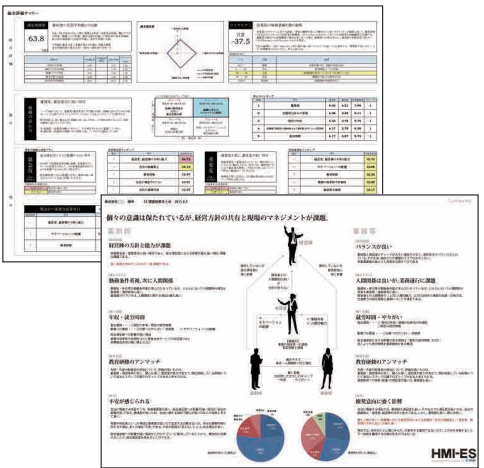


Image of completed Hyogo Distribution Center

Health Care Management Institute LTD

HMI-ES Pharmacy employee satisfaction level research services

HMI-ES was developed by combining research methods of the social pharmacy pioneer, Dr. Mitsuhiro Okazaki (Tokyo University of Pharmacy and Life Science - Visiting Researcher), and Health Care Management Institute LTD's consultation expertise. Staff at pharmacies with high employee satisfaction levels generally have higher motivation to provide better services to patients. To assist pharmacies in improving community contribution, HMI-ES is proactively being utilized in multiple pharmacy-management-companies.



HMI-ES Pharmacy employee satisfaction level research services

VITAL-KSK HOLDINGS, INC. CSR

Through our corporate philosophy; “Towards realization of healthy and prosperous society” we will continue to fulfil our corporate responsibility. Beginning with strict corporate governance and compliance guidelines, we will ensure quality control, stable delivery, and provision of information. Since spring 2017, we have been periodically publishing our “CSR Report” to all shareholders, and the public.



CSR Report 2016