

# Consolidated Financial Statements for the First Quarter of the Fiscal Year Ending March 31, 2022 [Japanese GAAP]



August 3, 2021

Company name: **VITAL KSK HOLDINGS, INC.**

Stock exchange listing: Tokyo Stock Exchange

Code number: 3151

URL: <https://www.vitalksk.co.jp/>

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Scheduled date of filing quarterly report: August 10, 2021

Scheduled date of commencing dividend payments: —

Preparation of supplementary explanatory materials: None

Quarterly financial results meeting: None

(Amounts of less than one million yen are rounded down.)

## 1. Consolidated Results for the First Quarter of the Fiscal Year Ending March 31, 2022

(April 1, 2021 – June 30, 2021)

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

	Net sales		Operating profit (loss)		Ordinary profit		Profit attributable to owners of parent	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%
Three months ended								
June 30, 2021	142,916	5.8	377	-	1,067	-	644	-
June 30, 2020	135,075	(5.3)	(932)	-	(225)	-	(257)	-

(Note) Comprehensive income: Three months ended June 30, 2021: ¥2,228 million [(35.1)%]

Three months ended June 30, 2020: ¥3,434 million [-%]

	Basic earnings per share		Diluted earnings per share	
	Yen		Yen	
Three months ended				
June 30, 2021	11.67		-	
June 30, 2020	(4.69)		-	

(2) Consolidated Financial Position

	Total assets	Net assets	Equity ratio
	Million yen	Million yen	%
As of June 30, 2021	333,676	106,090	31.5
As of March 31, 2021	311,401	103,916	33.1

(Reference) Equity: As of June 30, 2021: ¥105,090 million

As of March 31, 2021: ¥102,943 million

## 2. Cash Dividends

	Annual dividends				
	1st quarter-end	2nd quarter-end	3rd quarter-end	Year-end	Total
	Yen	Yen	Yen	Yen	Yen
Year ended March 31, 2021	-	12.00	-	0.00	12.00
Year ending March 31, 2022	-				
Year ending March 31, 2022 (Forecast)		12.00	-	12.00	24.00

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

**3. Forecast of Consolidated Results for the Fiscal Year Ending March 31, 2022**  
**(April 1, 2021 - March 31, 2022)**

(% indicates changes from the previous corresponding period.)

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent		Basic earnings per share
	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Yen
Second quarter (cumulative)	270,900	1.6	600	-	1,900	334.9	1,200	173.5	21.73
Full year	542,200	1.0	1,600	-	4,200	505.7	4,000	241.4	72.42

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

**\* Notes:**

(1) Changes in significant subsidiaries during the period under review: None

(2) Accounting policies adopted specially for the preparation of quarterly consolidated financial statements: Yes  
 \* For details, please see “(3) Notes to Quarterly Consolidated Financial Statements (Accounting policies adopted specially for the preparation of quarterly consolidated financial statements)” on page 8 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):

June 30, 2021: 61,224,796 shares

March 31, 2021: 61,224,796 shares

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

June 30, 2021: 6,059,619 shares

March 31, 2021: 5,990,796 shares

3) Average number of shares during the period:

Three months ended June 30, 2021: 55,227,622 shares

Three months ended June 30, 2020: 54,957,263 shares

\* These quarterly financial results are outside the scope of quarterly 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.

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## 1. Qualitative Information on Quarterly Financial Results

### Explanation of Operating Results

The Japanese economy during the three months ended June 30, 2021 was faced with a national crisis as a state of emergency was declared or focused anti-infection measures were adopted across Japan in response to the spread of COVID-19 which still continued.

In the pharmaceutical wholesale industry, our Group's primary business segment, Japan's medical expense curbing policy led to drug price revision every year since 2018, and the scope of off-year drug price revisions in April 2021 was far beyond the original expectation. It was the negative revision of medical costs (approximately ¥430 billion down) based on the budget for fiscal year 2021.

Under these circumstances, the Group reached the final year of its fourth medium-term management plan for the three-year period from the year ending March 31, 2020 to the year ending March 31, 2022. In the fourth medium-term management plan, the Company continues to work on its long-term vision toward 2025 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 fourth medium-term management plan, the Company defined the vision of "To Become the Corporate Group of Choice" with practical tasks to "1. Construct a prescription pharmaceutical wholesale business system to create profits continuously even in the low-growth environment," "2. Increase earnings through growth and expansion of emerging business (Note)," and "3. Strengthen the Group management system." Additionally, to realize this medium-term vision, the Company is working toward the four basic principles of "Demonstrating the comprehensive strength of the Group by implementing effective and efficient Group management," "Expanding and establishing provision functions and focus on growing domains," "Coordinating regional healthcare and providing support and solutions," and "Developing new earnings strategies and businesses that use our strengths and resources."

For the three months ended June 30, 2021, net sales were ¥142,916 million (105.8% of that of the same period of the previous year), operating profit was ¥377 million (operating loss of ¥932 million in the same period of the previous year), ordinary profit was ¥1,067 million (ordinary loss of ¥225 million in the same period of the previous year), and profit attributable to owners of parent was ¥644 million (loss attributable to owners of parent of ¥257 million in the same period of the previous year).

While the application of the Accounting Standard for Revenue Recognition (ASBJ Statement No. 29, March 31, 2020) reduced net sales by ¥356 million, it did not affect operating profit, ordinary profit, and profit attributable to owners of parent.

(Note) Emerging business refers to businesses other than the prescription pharmaceutical wholesale business

Performance results by business segment are as follows.

#### 1) Pharmaceutical Wholesale Business

In the pharmaceutical wholesale business, in the previous year, demand for pharmaceuticals declined significantly due to restrictions on medical examinations and the postponement of surgeries and other medical treatments stemming from the spread of COVID-19. However, the demand has been gradually recovering for the three months ended June 30, 2021. Also, in the previous year, we couldn't have enough time for price negotiation with customers due to the impact of COVID-19 pandemic as well as the intensified competition in the market. As a result, we couldn't promote the negotiation for unit price-based contract which is one of the approaches for improvement of commercial transaction practices of ethical drugs which we had worked on for a long time. For the three months ended June 30, 2021, we are making our utmost efforts towards promotion of the negotiation for unit price-based contract, and the deal with optimized price in consideration of the value of

pharmaceutical products, in line with the purpose of Guidelines for the Improvement of Commercial Transaction Practices of Ethical Drugs, to maintain the structure to provide a stable supply of pharmaceutical products. In addition, we have focused on the cost reduction by reviewing operational processes.

As a result, net sales were ¥134,777 million (105.7% of that of the same period of the previous year), and segment profit (operating profit) was ¥290 million (¥896 million of segment loss in the same period of the previous year).

The application of the Accounting Standard for Revenue Recognition reduced net sales by ¥357 million, while it did not affect the segment profit (operating profit).

## 2) Pharmacy Business

In the pharmacy business, net sales were ¥4,437 million (108.9% of that of the same period of the previous year) due to the increase of one consolidated company in the dispensing pharmacy business and the growth in the number of prescriptions received, and segment income (operating profit) was ¥39 million (segment loss of ¥70 million in the same period of the previous year).

Additionally, from the three months ended June 30, 2021, the “Pharmacy Business,” which was previously included in the “Others,” has been classified as a reportable segment as a result of the review of the classification method for business segments.

## 3) Veterinary Drug Wholesale Business

In the veterinary drug wholesale business, net sales were ¥2,581 million (104.5% of that of the same period of the previous year), and segment income (operating profit) was ¥106 million (130.1% of that of the same period of the previous year) following the recovery in the market.

The application of the Accounting Standard for Revenue Recognition increased net sales by ¥0 million, while it did not affect the segment profit (operating profit).

## 4) Other Businesses

In other businesses, net sales were ¥1,119 million (109.8% of that of the same period of the previous year), and segment loss (operating loss) was ¥45 million (segment loss of ¥44 million in the same period of the previous year).

## 2. Quarterly Consolidated Financial Statements and Primary Notes

### (1) Quarterly Consolidated Balance Sheets

(Million yen)

	As of March 31, 2021	As of June 30, 2021
<b>Assets</b>		
Current assets		
Cash and deposits	29,784	35,258
Notes and accounts receivable - trade	114,599	126,250
Inventories	29,318	29,268
Accounts receivable - other	15,367	14,758
Other	1,632	4,505
Allowance for doubtful accounts	(67)	(67)
Total current assets	190,634	209,973
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	19,108	19,264
Land	20,670	20,526
Other, net	4,907	5,309
Total property, plant and equipment	44,686	45,101
Intangible assets		
Goodwill	3,111	3,132
Other	1,480	1,409
Total intangible assets	4,591	4,541
Investments and other assets		
Investment securities	55,186	57,781
Other	16,876	16,837
Allowance for doubtful accounts	(574)	(559)
Total investments and other assets	71,488	74,059
Total non-current assets	120,766	123,702
Total assets	311,401	333,676

(Million yen)

	As of March 31, 2021	As of June 30, 2021
<b>Liabilities</b>		
Current liabilities		
Notes and accounts payable - trade	166,973	179,335
Short-term borrowings	1,200	1,200
Current portion of long-term borrowings	5,370	5,370
Income taxes payable	224	284
Provision for bonuses	1,431	1,944
Other provisions	146	–
Other	3,079	9,808
Total current liabilities	178,426	197,942
Non-current liabilities		
Long-term borrowings	8,730	8,487
Other provisions	229	230
Retirement benefit liability	5,915	5,851
Other	14,184	15,073
Total non-current liabilities	29,058	29,642
<b>Total liabilities</b>	<b>207,485</b>	<b>227,585</b>
<b>Net assets</b>		
Shareholders' equity		
Share capital	5,000	5,000
Capital surplus	12,810	12,810
Retained earnings	60,285	60,930
Treasury shares	(5,025)	(5,077)
Total shareholders' equity	73,070	73,663
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	27,652	29,303
Remeasurements of defined benefit plans	2,220	2,123
Total accumulated other comprehensive income	29,873	31,426
Non-controlling interests	972	1,000
<b>Total net assets</b>	<b>103,916</b>	<b>106,090</b>
<b>Total liabilities and net assets</b>	<b>311,401</b>	<b>333,676</b>

(2) Quarterly Consolidated Statements of Income and Comprehensive Income  
Quarterly Consolidated Statements of Income  
Three Months Ended June 30, 2020 and 2021

(Million yen)

	For the three months ended June 30, 2020	For the three months ended June 30, 2021
Net sales	135,075	142,916
Cost of sales	125,908	132,694
Gross profit	9,166	10,221
Reversal of provision for sales returns	174	–
Provision for sales returns	151	–
Gross profit - net	9,189	10,221
Selling, general and administrative expenses	10,121	9,843
Operating profit (loss)	(932)	377
Non-operating income		
Interest income	16	11
Dividend income	204	178
Share of profit of entities accounted for using equity method	22	3
Administrative service fee income	371	390
Other	131	158
Total non-operating income	746	742
Non-operating expenses		
Interest expenses	17	24
Rental expenses	21	21
Other	0	7
Total non-operating expenses	39	53
Ordinary profit (loss)	(225)	1,067
Extraordinary income		
Gain on sales of non-current assets	–	11
Other	0	0
Total extraordinary income	0	11
Extraordinary losses		
Loss on sale of non-current assets	–	19
Other	37	1
Total extraordinary losses	37	21
Profit (loss) before income taxes	(262)	1,057
Income taxes	(28)	383
Profit (loss)	(234)	674
Profit attributable to non-controlling interests	22	29
Profit (loss) attributable to owners of parent	(257)	644



Quarterly Consolidated Statements of Comprehensive Income

Three Months Ended June 30, 2020 and 2021

(Million yen)

	For the three months ended June 30, 2020	For the three months ended June 30, 2021
Profit (loss)	(234)	674
Other comprehensive income		
Valuation difference on available-for-sale securities	3,476	1,625
Remeasurements of defined benefit plans, net of tax	(73)	(97)
Share of other comprehensive income of entities accounted for using equity method	266	25
Total other comprehensive income	3,669	1,553
Comprehensive income	3,434	2,228
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	3,411	2,198
Comprehensive income attributable to non-controlling interests	22	29

### (3) Notes to Quarterly Consolidated Financial Statements

(Notes on going concern assumption)

For the three months ended June 30, 2021 (from April 1, 2021 to June 30, 2021)

Not applicable.

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

For the three months ended June 30, 2021 (from April 1, 2021 to June 30, 2021)

Not applicable.

(Accounting policies adopted specially for the preparation of quarterly 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)

The Company has applied the Accounting Standard for Revenue Recognition (ASBJ Statement No. 29, March 31, 2020) and other standards from the beginning of the first quarter under review. The Company now recognizes revenue as the amount expected to be received in exchange for promised goods or services when control of said goods or services is transferred to the customer.

Previously, the Company had recorded provision for sales returns based on the amount equivalent to gross profit regarding sales with a right of return. The Company has since changed the recognition method for goods or services that are expected to be returned in accordance with the rule regarding variable consideration, so as not to recognize revenue at the time of sales but recognize refund liabilities at the amount it received or is expected to receive for the said goods or services.

For the application of the revenue recognition accounting standard, the Company has followed the transitional treatment prescribed in the Article 84 proviso of the standard. Accordingly, the cumulative effect of retroactively applying the new accounting policy prior to the beginning of the first quarter under review has been added to or subtracted from retained earnings at the beginning of the quarter, which nevertheless had no impact on the balance at the beginning of the quarter.

As a result of the above applications, net sales for the first quarter under review declined ¥356 million, cost of sales ¥354 million, reversal of provision for sales returns ¥0 million, and provision for sales returns ¥2 million, while gross profit, operating profit, ordinary profit, and profit before income taxes were not affected.

The Company has applied the Accounting Standard for Fair Value Measurement (ASBJ Statement No. 30, July 4, 2019) and other standards from the beginning of the first quarter under review. In accordance with the transitional treatments prescribed in Article 19 of the Accounting Standard for Fair Value Measurement and Article 44-2 of the Accounting Standard for Financial Instruments (ASBJ Statement No. 10, July 4, 2019), the Company plans to apply the new accounting policies stipulated by the Accounting Standard for Fair Value Measurement and other standards through the future. The decision does not affect the quarterly consolidated

financial statements.

(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.

(Notes relating to changes in reportable segments, etc.)

Starting in the fiscal year ended March 31, 2021, the "Veterinary Drug Wholesale Business," which was previously included in the "Others," has been classified as a reportable segment given its increased quantitative importance.

Further, from the fiscal year ending March 31, 2022, the "Pharmacy Business," which was previously included in the "Others," has been classified as a reportable segment as a result of review of the classification method of business segments.

The segment information for the previous consolidated fiscal year has been prepared based on the classification after the change.

As described in the changes in accounting policies, the Company has applied the Accounting Standard for Revenue Recognition from the beginning of the first quarter under review and changed the accounting method regarding revenue recognition, and it has changed the calculation method for profit or loss of business segments accordingly.

The change reduced net sales of the "Pharmaceutical Wholesale Business" in the first quarter under review by ¥357 million, while it did not affect the segment profit (operating profit). It increased net sales of the "Veterinary Drug Wholesale Business" by ¥0 million, while it did not affect the segment profit (operating profit).

## 2. Method of measurement for the amounts of net sales, income (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."

3. Information on net sales, income (loss), assets and other items by reportable segment

For the fiscal year ended March 31, 2021 (from April 1, 2020 to March 31, 2021)

(Million yen)

	Reportable segment				Others (Note 1)	Total	Adjustment (Note 2)	Amount recorded in Consolidated Financial Statements (Note 3)
	Pharmace- utical Wholesale Business	Pharmacy Business	Veterinary Drug Wholesale Business	Total				
Net sales								
Net sales to outside customers	127,510	4,075	2,470	134,055	1,019	135,075	—	135,075
Inter-segment net sales or transfers	2,039	0	—	2,040	616	2,657	(2,657)	—
Total	129,549	4,076	2,470	136,096	1,636	137,732	(2,657)	135,075
Segment income (loss)	(896)	(70)	82	(885)	(44)	(929)	(2)	(932)

(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.

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

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

For the fiscal year ending March 31, 2022 (from April 1, 2021 to March 31, 2022)

(Million yen)

	Reportable segment				Others (Note 1)	Total	Adjustment (Note 2)	Amount recorded in Consolidated Financial Statements (Note 3)
	Pharmace- utical Wholesale Business	Pharmacy Business	Veterinary Drug Wholesale Business	Total				
Net sales								
Net sales to outside customers	134,777	4,437	2,581	141,796	1,119	142,916	—	142,916
Inter-segment net sales or transfers	2,211	1	0	2,212	626	2,839	(2,839)	—
Total	136,988	4,438	2,581	144,008	1,746	145,755	(2,839)	142,916
Segment income (loss)	290	39	106	437	(45)	391	(13)	377

(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.

2. Adjustment of segment income (loss) of ¥(13) million refers to elimination of inter-segment transactions.

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