

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



November 9, 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: November 12, 2021

Scheduled date of commencing dividend payments: December 6, 2021

Preparation of supplementary explanatory materials: Yes

Quarterly financial results meeting: 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, 2022

(April 1, 2021 – September 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	%
Six months ended								
September 30, 2021	285,229	7.0	934	-	2,355	439.2	1,411	221.6
September 30, 2020	266,670	(6.6)	(1,111)	-	436	(85.5)	438	(82.2)

(Note) Comprehensive income: Six months ended September 30, 2021: ¥2,385 million [(64.3)%]

Six months ended September 30, 2020: ¥6,686 million [-%]

	Basic earnings per share	Diluted earnings per share
	Yen	Yen
Six months ended		
September 30, 2021	25.67	-
September 30, 2020	7.98	-

(2) Consolidated Financial Position

	Total assets	Net assets	Equity ratio
	Million yen	Million yen	%
As of September 30, 2021	327,259	105,590	32.0
As of March 31, 2021	311,401	103,916	33.1

(Reference) Equity: As of September 30, 2021: ¥104,564 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	-	12.00			
Year ending March 31, 2022 (Forecast)			-	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
Full year	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Yen
	542,200	1.0	1,600	-	4,200	505.7	4,000	241.4	73.64

(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 “(4) Notes to Quarterly Consolidated Financial Statements (Accounting policies adopted specially for the preparation of quarterly 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, 2021: 61,224,796 shares
 March 31, 2021: 61,224,796 shares
 - 2) Total number of treasury stocks at the end of the period:
 September 30, 2021: 6,907,698 shares
 March 31, 2021: 5,990,796 shares
 - 3) Average number of shares during the period:
 Six months ended September 30, 2021: 54,968,265 shares
 Six months ended September 30, 2020: 54,982,095 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.
- The Company plans to hold a financial results briefing on the Internet for institutional investors and analysts on November 10, 2021.

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1. Qualitative Information on Quarterly Financial Results

Explanation of Operating Results

The Japanese economy during the six months ended September 30, 2021 remained unpredictable with the ongoing COVID-19 pandemic, while vaccination rates increased.

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 six months ended September 30, 2021, net sales were ¥285,229 million (107.0% of that of the same period of the previous year), operating profit was ¥934 million (operating loss of ¥1,111 million in the same period of the previous year), ordinary profit was ¥2,355 million (539.2% of that of the same period of the previous year), and profit attributable to owners of parent was ¥1,411 million (321.6% of that of the same period of the previous year).

While the application of the Accounting Standard for Revenue Recognition (ASBJ Statement No. 29, March 31, 2020) and other standards reduced net sales by ¥618 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 recovering faster than anticipated for the six months ended September 30, 2021 even though it did not reach pre-COVID levels. COVID-19 related product sales and rentals also performed well.

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 six months ended September 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. Meanwhile, to fulfill our social mission of helping to put COVID-19 to an end, we have also focused on COVID-19 vaccine-related work commissioned by the national and local governments, which involves vaccine delivery, operation of primary vaccination clinics with deep freezers, and repackaging in smaller units.

As a result, net sales were ¥269,146 million (106.9% of that of the same period of the previous year), and segment profit (operating profit) was ¥739 million (¥1,152 million of segment loss in the same period of the previous year).

The application of the Accounting Standard for Revenue Recognition and other standards reduced net sales by 619 million, while it did not affect the segment profit.

2) Pharmacy Business

In the pharmacy business, net sales were ¥9,045 million (109.8% 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 ¥83 million (segment loss of ¥44 million in the same period of the previous year).

The application of the Accounting Standard for Revenue Recognition and other standards did not affect net sales and the segment income.

3) Veterinary Drug Wholesale Business

In the veterinary drug wholesale business, net sales were ¥5,128 million (105.3% of that of the same period of the previous year), and segment income (operating profit) was ¥189 million (103.6% 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 and other standards increased net sales by ¥0 million, while it did not affect the segment profit.

4) Other Businesses

In other businesses, the nursing care business improved its earnings, whereas the sports facility management business performed insufficiently. As a result, net sales were ¥1,909 million (108.4% of that of the same period of the previous year), and segment loss (operating loss) was ¥97 million (segment loss of ¥110 million in the same period of the previous year).

The application of the Accounting Standard for Revenue Recognition and other standards did not affect net sales and the segment income.

2. Quarterly Consolidated Financial Statements and Primary Notes

(1) Quarterly Consolidated Balance Sheets

(Million yen)

	As of March 31, 2021	As of September 30, 2021
Assets		
Current assets		
Cash and deposits	29,784	31,120
Notes and accounts receivable - trade	114,599	121,188
Inventories	29,318	31,426
Accounts receivable - other	15,367	15,656
Other	1,632	3,347
Allowance for doubtful accounts	(67)	(58)
Total current assets	190,634	202,682
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	19,108	19,130
Land	20,670	20,924
Other, net	4,907	6,274
Total property, plant and equipment	44,686	46,330
Intangible assets		
Goodwill	3,111	3,046
Other	1,480	1,873
Total intangible assets	4,591	4,919
Investments and other assets		
Investment securities	55,186	56,978
Other	16,876	16,912
Allowance for doubtful accounts	(574)	(564)
Total investments and other assets	71,488	73,327
Total non-current assets	120,766	124,576
Total assets	311,401	327,259

(Million yen)

	As of March 31, 2021	As of September 30, 2021
Liabilities		
Current liabilities		
Notes and accounts payable - trade	166,973	177,391
Short-term borrowings	1,200	1,070
Current portion of long-term borrowings	5,370	5,370
Income taxes payable	224	927
Provision for bonuses	1,431	1,350
Other provisions	146	—
Other	3,079	6,184
Total current liabilities	178,426	192,294
Non-current liabilities		
Long-term borrowings	8,730	8,245
Other provisions	229	225
Retirement benefit liability	5,915	5,770
Other	14,184	15,133
Total non-current liabilities	29,058	29,374
Total liabilities	207,485	221,668
Net assets		
Shareholders' equity		
Share capital	5,000	5,000
Capital surplus	12,810	12,810
Retained earnings	60,285	61,696
Treasury shares	(5,025)	(5,734)
Total shareholders' equity	73,070	73,772
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	27,652	28,765
Remeasurements of defined benefit plans	2,220	2,026
Total accumulated other comprehensive income	29,873	30,792
Non-controlling interests	972	1,025
Total net assets	103,916	105,590
Total liabilities and net assets	311,401	327,259

(2) Quarterly Consolidated Statements of Income and Comprehensive Income

Quarterly Consolidated Statements of Income

Six Months Ended September 30, 2020 and 2021

(Million yen)

	For the six months ended September 30, 2020	For the six months ended September 30, 2021
Net sales	266,670	285,229
Cost of sales	247,603	264,276
Gross profit	19,066	20,953
Reversal of provision for sales returns	174	—
Provision for sales returns	158	—
Gross profit - net	19,082	20,953
Selling, general and administrative expenses	20,194	20,018
Operating profit (loss)	(1,111)	934
Non-operating income		
Interest income	29	24
Dividend income	433	409
Share of profit of entities accounted for using equity method	59	14
Administrative service fee income	725	765
Other	403	319
Total non-operating income	1,651	1,533
Non-operating expenses		
Interest expenses	35	48
Rental expenses	43	43
Other	22	20
Total non-operating expenses	102	112
Ordinary profit	436	2,355
Extraordinary income		
Gain on sale of non-current assets	33	11
Gain on sale of investment securities	468	—
Other	4	0
Total extraordinary income	506	11
Extraordinary losses		
Loss on sale of non-current assets	16	19
Impairment losses	16	47
Other	81	19
Total extraordinary losses	114	87
Profit before income taxes	828	2,280
Income taxes	337	814
Profit	491	1,466
Profit attributable to non-controlling interests	52	55
Profit attributable to owners of parent	438	1,411

Quarterly Consolidated Statements of Comprehensive Income
Six Months Ended September 30, 2020 and 2021

(Million yen)

	For the six months ended September 30, 2020	For the six months ended September 30, 2021
Profit	491	1,466
Other comprehensive income		
Valuation difference on available-for-sale securities	6,133	1,051
Remeasurements of defined benefit plans, net of tax	(148)	(194)
Share of other comprehensive income of entities accounted for using equity method	210	61
Total other comprehensive income	6,195	919
Comprehensive income	6,686	2,385
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	6,634	2,330
Comprehensive income attributable to non-controlling interests	52	55

(3) Quarterly Consolidated Statements of Cash Flows

(Million yen)

	For the six months ended September 30, 2020	For the six months ended September 30, 2021
Cash flows from operating activities		
Profit before income taxes	828	2,280
Depreciation	1,453	1,335
Impairment losses	16	47
Amortization of goodwill	158	171
Increase (decrease) in allowance for doubtful accounts	(50)	(20)
Increase (decrease) in provision for bonuses	(395)	(85)
Increase (decrease) in retirement benefit liability	(285)	(293)
Interest and dividend income	(462)	(433)
Rental income	(112)	(124)
Office work fee	(725)	(765)
Interest expenses	35	48
Share of loss (profit) of entities accounted for using equity method	(59)	(14)
Loss (gain) on sale and valuation of investment securities	(468)	8
Loss (gain) on sale and retirement of property, plant and equipment	(13)	8
Decrease (increase) in trade receivables	2,095	(6,589)
Decrease (increase) in inventories	971	(2,089)
Decrease (increase) in accounts receivable - other	(350)	(132)
Decrease (increase) in guarantee deposits	(27)	49
Increase (decrease) in trade payables	(3,636)	10,330
Other, net	(1,771)	(176)
Subtotal	(2,798)	3,556
Interest and dividends received	463	433
Office work fee received	716	742
Interest paid	(36)	(49)
Income taxes paid	(1,368)	(286)
Income taxes refund	317	1,156
Other, net	4	4
Net cash provided by (used in) operating activities	(2,701)	5,557

	For the six months ended September 30, 2020	For the six months ended September 30, 2021
Cash flows from investing activities		
Net decrease (increase) in time deposits	100	(200)
Purchase of property, plant and equipment	(1,756)	(2,328)
Proceeds from sale of property, plant and equipment	41	199
Purchase of intangible assets	(291)	(190)
Purchase of investment securities	(25)	(177)
Proceeds from sale of investment securities	659	—
Loan advances	(23)	(10)
Proceeds from collection of loans receivable	25	19
Purchase of shares of subsidiaries resulting in change in scope of consolidation	—	(217)
Other, net	145	133
Net cash provided by (used in) investing activities	(1,125)	(2,772)
Cash flows from financing activities		
Net increase (decrease) in short-term borrowings	11,700	(130)
Redemption of convertible bond-type bonds with subscription rights to shares	(9,700)	—
Repayments of long-term borrowings	—	(485)
Repayments of lease obligations	(296)	(321)
Purchase of treasury shares	(0)	(712)
Dividends paid	(714)	(0)
Other, net	(2)	1
Net cash provided by (used in) financing activities	986	(1,648)
Net increase (decrease) in cash and cash equivalents	(2,840)	1,136
Cash and cash equivalents at beginning of period	29,442	26,252
Increase (decrease) in cash and cash equivalents resulting from change in scope of consolidation	167	—
Cash and cash equivalents at end of period	26,769	27,388

(4) Notes to Quarterly Consolidated Financial Statements

(Notes on going concern assumption)

For the six months ended September 30, 2021 (from April 1, 2021 to September 30, 2021)

Not applicable.

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

For the six months ended September 30, 2021 (from April 1, 2021 to September 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. 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 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 six months ended September 30, 2021 declined ¥618 million, cost of sales ¥612 million, reversal of provision for sales returns ¥0 million, and provision for sales returns ¥6 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. 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 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 six months ended September 30, 2021 by ¥619 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 six months ended September 30, 2020 (from April 1, 2020 to September 30, 2020)

(Million yen)

	Reportable segment				Others (Note 1)	Total	Adjustment (Note 2)	Amount recorded in Quarterly Consolidated Statements of Income (Note 3)
	Pharmace- utical Wholesale Business	Pharmacy Business	Veterinary Drug Wholesale Business	Total				
Net sales								
Net sales to outside customers	251,796	8,240	4,870	264,908	1,761	266,670	—	266,670
Inter-segment net sales or transfers	4,038	0	0	4,039	1,236	5,276	(5,276)	—
Total	255,835	8,241	4,871	268,947	2,998	271,946	(5,276)	266,670
Segment income (loss)	(1,152)	(44)	182	(1,013)	(110)	(1,124)	12	(1,111)

(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 ¥12 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 six months ended September 30, 2021 (from April 1, 2021 to September 30, 2021)

(Million yen)

	Reportable segment				Others (Note 1)	Total	Adjustment (Note 2)	Amount recorded in Quarterly Consolidated Statements of Income (Note 3)
	Pharmace- utical Wholesale Business	Pharmacy Business	Veterinary Drug Wholesale Business	Total				
Net sales								
Net sales to outside customers	269,146	9,045	5,128	283,320	1,909	285,229	—	285,229
Inter-segment net sales or transfers	4,287	1	0	4,289	1,245	5,535	(5,535)	—
Total	273,434	9,047	5,128	287,610	3,154	290,764	(5,535)	285,229
Segment income (loss)	739	83	189	1,012	(97)	915	19	934

(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 ¥19 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.