

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



February 3, 2022

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: February 10, 2022

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 Third Quarter of the Fiscal Year Ending March 31, 2022

(April 1, 2021 – December 31, 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	%
Nine months ended								
December 31, 2021	439,329	7.5	2,086	-	4,220	665.7	2,448	629.2
December 31, 2020	408,829	(5.5)	(1,682)	-	551	(89.8)	335	(92.8)

(Note) Comprehensive income: Nine months ended December 31, 2021: ¥(554) million [-%]

Nine months ended December 31, 2020: ¥5,311 million [(24.8)%]

	Basic earnings per share		Diluted earnings per share	
	Yen		Yen	
Nine months ended				
December 31, 2021	44.84		-	
December 31, 2020	6.10		-	

(2) Consolidated Financial Position

	Total assets	Net assets	Equity ratio
	Million yen	Million yen	%
As of December 31, 2021	346,897	101,341	28.9
As of March 31, 2021	311,401	103,916	33.1

(Reference) Equity: As of December 31, 2021: ¥100,282 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				
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 “(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):
 December 31, 2021: 61,224,796 shares
 March 31, 2021: 61,224,796 shares
 - 2) Total number of treasury stocks at the end of the period:
 December 31, 2021: 7,742,171 shares
 March 31, 2021: 5,990,796 shares
 - 3) Average number of shares during the period:
 Nine months ended December 31, 2021: 54,604,495 shares
 Nine months ended December 31, 2020: 55,066,375 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 nine months ended December 31, 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 ended 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 nine months ended December 31, 2021, net sales were ¥439,329 million (107.5% of that of the same period of the previous year), operating profit was ¥2,086 million (operating loss of ¥1,682 million in the same period of the previous year), ordinary profit was ¥4,220 million (765.7% of that of the same period of the previous year), and profit attributable to owners of parent was ¥2,448 million (729.2% 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 ¥1,097 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 nine months ended December 31, 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 nine months ended December 31, 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 ¥414,895 million (107.4% of that of the same period of the previous year), and segment profit (operating profit) was ¥1,688 million (segment loss of ¥1,878 million in the same period of the previous year).

The application of the Accounting Standard for Revenue Recognition and other standards reduced net sales by ¥1,097 million, while it did not affect the segment profit.

2) Pharmacy Business

In the pharmacy business, net sales were ¥13,791 million (110.4% 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 profit (operating profit) was ¥162 million (segment loss of ¥37 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 segment profit.

3) Veterinary Drug Wholesale Business

In the veterinary drug wholesale business, net sales were ¥7,850 million (104.9% of that of the same period of the previous year), and segment profit (operating profit) was ¥318 million (97.3% of that of the same period of the previous year), due to the increase in distribution outsourcing costs.

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 ¥2,791 million (106.2% of that of the same period of the previous year), and segment loss (operating loss) was ¥119 million (segment loss of ¥127 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 segment profit.

2. Quarterly Consolidated Financial Statements and Primary Notes

(1) Quarterly Consolidated Balance Sheets

(Million yen)

	As of March 31, 2021	As of December 31, 2021
Assets		
Current assets		
Cash and deposits	29,784	39,310
Notes and accounts receivable - trade	114,599	134,747
Inventories	29,318	33,779
Accounts receivable - other	15,367	16,401
Other	1,632	3,525
Allowance for doubtful accounts	(67)	(69)
Total current assets	190,634	227,694
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	19,108	19,086
Land	20,670	20,952
Other, net	4,907	6,327
Total property, plant and equipment	44,686	46,366
Intangible assets		
Goodwill	3,111	2,960
Other	1,480	1,933
Total intangible assets	4,591	4,894
Investments and other assets		
Investment securities	55,186	51,541
Other	16,876	16,973
Allowance for doubtful accounts	(574)	(572)
Total investments and other assets	71,488	67,942
Total non-current assets	120,766	119,202
Total assets	311,401	346,897

(Million yen)

	As of March 31, 2021	As of December 31, 2021
Liabilities		
Current liabilities		
Notes and accounts payable - trade	166,973	205,417
Short-term borrowings	1,200	1,130
Current portion of long-term borrowings	5,370	970
Income taxes payable	224	1,404
Provision for bonuses	1,431	545
Other provisions	146	—
Other	3,079	8,465
Total current liabilities	178,426	217,932
Non-current liabilities		
Long-term borrowings	8,730	8,002
Other provisions	229	226
Retirement benefit liability	5,915	5,714
Other	14,184	13,679
Total non-current liabilities	29,058	27,623
Total liabilities	207,485	245,555
Net assets		
Shareholders' equity		
Share capital	5,000	5,000
Capital surplus	12,810	12,810
Retained earnings	60,285	62,076
Treasury shares	(5,025)	(6,386)
Total shareholders' equity	73,070	73,500
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	27,652	24,852
Remeasurements of defined benefit plans	2,220	1,929
Total accumulated other comprehensive income	29,873	26,782
Non-controlling interests	972	1,059
Total net assets	103,916	101,341
Total liabilities and net assets	311,401	346,897

(2) Quarterly Consolidated Statements of Income and Comprehensive Income
Quarterly Consolidated Statements of Income
Nine Months Ended December 31, 2020 and 2021

(Million yen)

	For the nine months ended December 31, 2020	For the nine months ended December 31, 2021
Net sales	408,829	439,329
Cost of sales	380,218	407,034
Gross profit	28,610	32,295
Reversal of provision for sales returns	174	—
Provision for sales returns	164	—
Gross profit - net	28,621	32,295
Selling, general and administrative expenses	30,303	30,208
Operating profit (loss)	(1,682)	2,086
Non-operating income		
Interest income	41	37
Dividend income	613	578
Share of profit of entities accounted for using equity method	62	49
Administrative service fee income	1,114	1,180
Other	604	453
Total non-operating income	2,436	2,298
Non-operating expenses		
Interest expenses	59	74
Rental expenses	65	64
Other	78	25
Total non-operating expenses	202	164
Ordinary profit	551	4,220
Extraordinary income		
Gain on sale of non-current assets	34	12
Gain on sale of investment securities	468	—
Other	14	5
Total extraordinary income	517	17
Extraordinary losses		
Loss on sale of non-current assets	16	19
Impairment losses	16	47
Loss on valuation of shares of subsidiaries and associates	69	11
Other	112	13
Total extraordinary losses	214	92
Profit before income taxes	854	4,145
Income taxes	427	1,608
Profit	426	2,536
Profit attributable to non-controlling interests	91	88
Profit attributable to owners of parent	335	2,448

Quarterly Consolidated Statements of Comprehensive Income
 Nine Months Ended December 31, 2020 and 2021

(Million yen)

	For the nine months ended December 31, 2020	For the nine months ended December 31, 2021
Profit	426	2,536
Other comprehensive income		
Valuation difference on available-for-sale securities	4,965	(2,629)
Remeasurements of defined benefit plans, net of tax	(220)	(291)
Share of other comprehensive income of entities accounted for using equity method	140	(169)
Total other comprehensive income	4,884	(3,091)
Comprehensive income	5,311	(554)
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	5,220	(642)
Comprehensive income attributable to non-controlling interests	91	88

(3) Notes to Quarterly Consolidated Financial Statements

(Notes on going concern assumption)

For the nine months ended December 31, 2021 (from April 1, 2021 to December 31, 2021)

Not applicable.

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

For the nine months ended December 31, 2021 (from April 1, 2021 to December 31, 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 nine months ended December 31, 2021 declined ¥1,097 million, cost of sales ¥1,074 million, reversal of provision for sales returns ¥0 million, and provision for sales returns ¥23 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 nine months ended December 31, 2021 by ¥1,097 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 nine months ended December 31, 2020 (from April 1, 2020 to December 31, 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	386,224	12,489	7,485	406,199	2,630	408,829	-	408,829
Inter-segment net sales or transfers	5,917	1	0	5,919	1,861	7,780	(7,780)	-
Total	392,142	12,491	7,485	412,118	4,491	416,609	(7,780)	408,829
Segment income (loss)	(1,878)	(37)	327	(1,588)	(127)	(1,716)	34	(1,682)

- (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 ¥34 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 nine months ended December 31, 2021 (from April 1, 2021 to December 31, 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	414,895	13,791	7,850	436,537	2,791	439,329	-	439,329
Inter-segment net sales or transfers	6,611	1	0	6,613	1,859	8,472	(8,472)	-
Total	421,507	13,792	7,850	443,150	4,651	447,801	(8,472)	439,329
Segment income (loss)	1,688	162	318	2,169	(119)	2,050	36	2,086

- (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 ¥36 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.