

Consolidated Financial Statements for the Fiscal Year Ended March 31, 2022 [Japanese GAAP]



May 12, 2022

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

Stock exchange listing: Tokyo Stock Exchange

Code number: 3151

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

Representative: Mr. Taisuke Murai, President & CEO

Contact: Mr. Kiharu Takahashi, Executive Officer and General Manager of Accounting & Finance

Phone: +81-3-3275-3303

Scheduled date of annual meeting of shareholders: June 28, 2022

Scheduled date of commencing dividend payments: June 7, 2022

Scheduled date of filing securities report: June 29, 2022

Preparation of supplementary explanatory materials: Yes

Financial results briefing: Yes (for institutional investors and analysts)

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

1. Consolidated Results for the Fiscal Year Ended March 31, 2022

(April 1, 2021 – March 31, 2022)

(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	%
Year ended								
March 31, 2022	577,249	7.5	2,945	-	5,834	741.4	4,770	307.1
March 31, 2021	537,030	(4.5)	(2,260)	-	693	(89.2)	1,171	(74.8)

(Note) Comprehensive income: Year ended March 31, 2022: ¥(1,663) million [-%]

Year ended March 31, 2021: ¥7,672 million [139.6%]

	Basic earnings per share	Diluted earnings per share	Return on equity	Ratio of ordinary profit to total assets	Ratio of operating profit to net sales
Year ended	Yen	Yen	%	%	%
March 31, 2022	87.88	-	4.7	1.9	0.5
March 31, 2021	21.26	-	1.2	0.2	(0.4)

(Note) Share of profit (loss) of entities accounted for using equity method: Year ended March 31, 2022: ¥87 million

Year ended March 31, 2021: ¥86 million

(2) Consolidated Financial Position

	Total assets	Net assets	Equity ratio	Net assets per share
	Million yen	Million yen	%	Yen
As of March 31, 2022	313,033	100,041	31.6	1,858.86
As of March 31, 2021	311,401	103,916	33.1	1,863.77

(Reference) Equity: As of March 31, 2022: ¥98,961 million

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

(3) Consolidated Cash Flows

	Cash flows from operating activities	Cash flows from investing activities	Cash flows from financing activities	Cash and cash equivalents at year-end
Year ended	Million yen	Million yen	Million yen	Million yen
March 31, 2022	7,487	(2,013)	(8,486)	23,239
March 31, 2021	(1,389)	549	(2,516)	26,252

2. Cash Dividends

	Annual dividends					Total dividends (annual)	Payout ratio (consolidated)	Ratio of dividends to net assets (consolidated)
	1st quarter-end	2nd quarter-end	3rd quarter-end	Year-end	Total			
Year ended	Yen	Yen	Yen	Yen	Yen	Million yen	%	%
March 31, 2021	-	12.00	-	0.00	12.00	664	56.4	0.6
March 31, 2022	-	12.00	-	14.00	26.00	1,400	29.6	1.4
Year ending March 31, 2023 (Forecast)	-	12.00	-	12.00	24.00		28.4	

(Note) Breakdown of year-end dividend for the fiscal year ended March 31, 2022: Special dividend of 2.00 yen

3. Forecast of Consolidated Results for the Fiscal Year Ending March 31, 2023 (April 1, 2022 - March 31, 2023)

(% 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)	284,000	(0.4)	1,200	28.4	2,500	6.1	1,700	20.5	31.93
Full year	563,300	(2.4)	2,300	(21.9)	4,900	(16.0)	4,500	(5.7)	84.53

*For performance forecast, please see “1. Overview of Operating Results, etc.; (4) Future Outlook” on page 5.

*** Notes:**

(1) Changes in significant subsidiaries during the period under review (changes in specified subsidiaries resulting in changes in scope of consolidation): None

(2) 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

(3) Total number of outstanding shares (common shares)

1) Total number of outstanding shares at the end of the period (including treasury stocks):

March 31, 2022: 61,224,796 shares

March 31, 2021: 61,224,796 shares

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

March 31, 2022: 7,987,331 shares

March 31, 2021: 5,990,796 shares

3) Average number of shares during the period:

Year ended March 31, 2022: 54,280,124 shares

Year ended March 31, 2021: 55,107,703 shares

(Reference) Summary of Non-consolidated Results

1. Non-consolidated Results for the Fiscal Year Ended March 31, 2022

(April 1, 2021 - March 31, 2022)

(1) Non-consolidated Operating Results (% indicates changes from the previous corresponding period.)

	Net sales		Operating profit		Ordinary profit		Profit	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%
Year ended March 31, 2022	4,901	93.1	4,118	118.6	4,085	118.3	4,073	121.9
Year ended March 31, 2021	2,538	(11.7)	1,883	(13.0)	1,871	(14.6)	1,835	(11.9)

	Basic earnings per share	Diluted earnings per share
	Yen	Yen
Year ended March 31, 2022	75.04	-
Year ended March 31, 2021	33.31	-

(2) Non-consolidated Financial Position

	Total assets	Net assets	Equity ratio	Net assets per share
	Million yen	Million yen	%	Yen
As of March 31, 2022	69,162	46,251	66.9	868.78
As of March 31, 2021	66,592	44,385	66.7	803.59

(Reference) Equity: As of March 31, 2022: ¥46,251 million

As of March 31, 2021: ¥44,385 million

* These financial results are outside the scope of audit procedures 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. For cautionary notes on assumptions that form the basis of the performance forecast and the use of performance forecast, please see "Overview of Operating Results, etc." on page 2 of the attached materials.

- The Company plans to hold a financial results briefing on the Internet for institutional investors and analysts on May 12, 2022. The presentation materials to be used at the briefing will be posted on the Company's website immediately after the briefing.

Table of Contents

1. Overview of Operating Results, etc.	2
(1) Overview of Operating Results for the Fiscal Year Under Review	2
(2) Overview of Financial Position for the Fiscal Year Under Review	3
(3) Overview of Cash Flows for the Fiscal Year Under Review	4
(4) Future Outlook	5
(5) Important Events Related to Going Concern Assumption	6
(6) Dividend Policy and Payments for This Period and Next Period.....	6
2. Overview of the Corporate Group	7
3. Management Policy	8
(1) Basic Management Policies	8
(2) Target Management Indicators.....	8
(3) Medium- and Long-term Business Strategies	8
(4) Issues to be Addressed	9
(5) Other Important Management Matters	9
4. Basic Idea for Selection of Accounting Standards	10
5. Consolidated Financial Statements and Primary Notes	11
(1) Consolidated Balance Sheets.....	11
(2) Consolidated Statements of Income and Comprehensive Income	13
(3) Consolidated Statements of Changes in Equity	15
(4) Consolidated Statements of Cash Flows	17
(5) Notes to Consolidated Financial Statements	19
(Notes on going concern assumption)	19
(Changes in accounting policies)	19
(Segment information)	19
(Per share information).....	23
(Significant subsequent events).....	23

1. Overview of Operating Results, etc.

(1) Overview of Operating Results for the Fiscal Year Under Review

(Operating results for the fiscal year under review)

The Japanese economy during the year ended March 31, 2022 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 has 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 ended March 31, 2022. In the fourth medium-term management plan, the Company continued 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" as set forth in its third medium-term management plan. 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 1)," and "3. Strengthen the Group management system." Additionally, to realize this medium-term vision, the Company worked 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 year ended March 31, 2022, net sales were ¥577,249 million (107.5% of that of the same period of the previous year), operating profit was ¥2,945 million (¥2,260 million of operating loss in the same period of the previous year), ordinary profit was ¥5,834 million (841.4% of that of the same period of the previous year), and profit attributable to owners of parent was ¥4,770 million (407.1% 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 ¥1,106 million, it did not affect operating profit, ordinary profit, and profit attributable to owners of parent.

(Note 1) 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, demand for pharmaceuticals declined significantly in the previous fiscal year due to restrictions on medical examinations and the postponement of operations and other medical treatments, stemming from the spread of COVID-19. However, the demand recovered faster than anticipated for the year ended March 31, 2022. 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. During the year ended March 31, 2022, we made 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 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 ¥544,249 million (107.5% of that of the same period of the previous year), and segment profit (operating profit) was ¥2,443 million (segment loss of ¥2,542 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 ¥1,107 million, while it did not affect the segment profit.

2) Pharmacy Business

In the pharmacy business, net sales were ¥18,397 million (109.7% 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 ¥205 million (segment loss of ¥19 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 ¥10,399 million (106.0% of that of the same period of the previous year), and segment profit (operating profit) was ¥371 million (92.5% of that of the same period of the previous year), due to the increase in distribution 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 ¥4,201 million (103.6% of that of the same period of the previous year), and segment loss (operating loss) was ¥131 million (segment loss of ¥156 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) Overview of Financial Position for the Fiscal Year Under Review

Assets as of the end of the year ended March 31, 2022 amounted to ¥313,033 million, an increase of ¥1,632 million from the end of the previous consolidated fiscal year. Assets comprised ¥198,532 million of current assets and ¥114,501 million of non-current assets.

Current assets mainly comprised ¥26,971 million of cash and deposits, ¥119,533 million of notes and accounts receivable - trade, ¥31,788 million of inventories and ¥16,617 million of accounts receivable - other. Current assets increased ¥7,897 million from the end of the previous consolidated fiscal year, due primarily to an increase of ¥4,993 million of notes and accounts receivable - trade and an increase of ¥2,469 million of inventories.

Non-current assets comprised ¥45,761 million of property, plant and equipment, ¥5,036 million of intangible assets and ¥63,703 million of investments and other assets. Non-current assets decreased ¥6,265 million from the end of the previous consolidated fiscal year, due primarily to a ¥7,678 million decrease in investment securities.

Liabilities amounted to ¥212,991 million, an increase of ¥5,506 million from the end of the previous consolidated fiscal year. Liabilities comprised ¥190,092 million of current liabilities and ¥22,898 million of non-current liabilities.

Current liabilities mainly comprised ¥176,685 million of notes and accounts payable - trade and ¥2,399 million of income taxes payable. Although there was a decrease of ¥4,400 million in current portion of long-term borrowings, current liabilities increased ¥11,666 million from the end of the previous consolidated fiscal year, due primarily to a ¥9,711 million increase in notes and accounts payable - trade and an increase of ¥2,174 million in income taxes payable.

Non-current liabilities mainly comprised ¥7,760 million of long-term borrowings, ¥9,744 million of deferred tax liabilities and ¥2,629 million of retirement benefit liability. Non-current liabilities decreased ¥6,159 million from the end of the previous consolidated fiscal year, due primarily to a decrease of ¥3,285 million in retirement benefit liability and a decrease of ¥2,554 million in deferred tax liabilities.

Net assets amounted to ¥100,041 million, a decrease of ¥3,874 million from the end of the previous consolidated fiscal year, due primarily to the reporting of profit attributable to owners of parent of ¥4,770 million, a decrease of ¥1,555 million due to an increase in treasury shares and a ¥6,006 million decrease in valuation difference on available-for-sale securities.

(3) Overview of Cash Flows for the Fiscal Year Under Review

Cash and cash equivalents (collectively, “Cash”) as of the end of the year ended March 31, 2022 amounted to ¥23,239 million (compared to ¥26,252 million at the end of the previous consolidated fiscal year).

a) Cash Flows from Operating Activities

Cash provided by operating activities during the year ended March 31, 2022 was ¥7,487 million (¥1,389 million used for the previous consolidated fiscal year). This is attributable mainly to increasing factors such as an increase in profit before income taxes of ¥7,648 million (¥2,432 million for the previous consolidated fiscal year), increase in trade payables of ¥9,624 million (¥1,632 million decrease for the previous consolidated fiscal year) and depreciation of ¥2,780 million (¥2,876 million for the previous consolidated fiscal year) despite decreasing factors such as an increase in trade receivables of ¥4,933 million (¥716 million increase for the previous consolidated fiscal year) and a decrease in retirement benefit liability of ¥3,323 million (¥1,772 million decrease for the previous consolidated fiscal year).

b) Cash Flows from Investing Activities

Cash used in investing activities during the year ended March 31, 2022 was ¥2,013 million (¥549 million provided for the previous consolidated fiscal year). This is attributable mainly to decreasing factors such as purchase of property, plant and equipment of ¥3,415 million (¥3,312 million for the previous consolidated fiscal year) and purchase of investment securities of ¥885 million (¥38 million for the previous consolidated fiscal year) despite increasing factors such as proceeds from sale of investment securities of ¥2,588 million (¥3,935 million for the previous consolidated fiscal year).

c) Cash Flows from Financing Activities

Cash used in financing activities during the year ended March 31, 2022 was ¥8,486 million (¥2,516 million used for the previous consolidated fiscal year). This is attributable to decreasing factors such as repayments of long-term borrowings of ¥5,370 million (¥400 million for the previous consolidated fiscal year)

and purchase of treasury shares of ¥1,559 million (¥0 million for the previous consolidated fiscal year).

(4) Future Outlook

With the year 2025 just around the corner, when the baby boomers will be late-stage elderly, the restrictions on social security payments and revisions to the system in anticipation of social structural changes that have been implemented are considered to continue in the future. Similarly, although demand is strong in the market for the pharmaceutical wholesale business, the core business of the Group, the overall growth is expected to be restrained. In particular, even if the volume of off-patent (long-listed and generic drug) products increases significantly, the unit price of these products is projected to fall at a faster rate than before due to the review of the drug price system and annual revisions to drug prices, resulting in a rapid decline in profits. Therefore, it is necessary to realize further efficiency in distribution channels in order to ensure a stable supply.

On the other hand, in the patented products market, high-priced drug products (mostly so-called specialty medicines) tailored to unmet medical needs (Note 3), such as diverse drug modalities (Note 2) including anticancer drugs and rare disease drugs, will be the key for market growth. Although applications of these drugs are limited to a few specialized medical institutions, new drug distribution needs to also arise according to the field of expertise, such as providing more advanced information, and therefore the challenge is to find a way to deal with it.

In the field of medical care, new diagnostic and therapeutic techniques that use cutting-edge technology is about to bring forth substantial innovations. In addition to regenerative medicine, new diagnostic drugs, medical devices, robots, and other new means of diagnosis and medical treatment will drive future market growth, while also posing new distribution challenges. Furthermore, in the health care domain centering on medical care, the advancement of DX is expected to contribute to improving efficiency for regional healthcare providers and bring significant changes to every business involved in the domain.

In light of these changes in the market structure and business environment, the Group has formulated its fifth medium-term management plan for the three-year period from the fiscal year ending March 31, 2023 to the fiscal year ending March 31, 2025.

In the fifth medium-term management plan, the Group will continue to achieve its long-term vision for 2025 to "become an indispensable presence in regional and community healthcare by strategically providing products and services to support medicine and nursing," which was set out in the third medium-term management plan, and implement its medium-term vision "business model innovation for the next generation."

[Medium-term vision]

“To Drive Business Model Innovation for the Next Generation”

1. Explore a pharmaceutical distribution model to adopt changes in the market structure and meet market characteristics
2. Evolve distribution and marketing models tailored to the advancement of DX in the field of medical care
3. Promote the Group management that meets Prime Market requirements

As for the forecast of results for the year ending March 31, 2023, the Company expects net sales of ¥563,300 million (97.6% of that of the same period of the previous year), operating profit of ¥2,300 million (78.1% of that of the same period of the previous year), ordinary profit of ¥4,900 million (84.0% of that of the same period of the previous year), and profit attributable to owners of parent of ¥4,500 million (94.3% of that of the same period of the previous year).

(Note 2) Modalities refer to methods and means of basic drug discovery technology to research and develop not only small molecule drugs but also antibody drugs, nucleic acid drugs, and gene therapeutic

drugs.

(Note 3) Unmet medical needs refers to medical needs for diseases for treatments that are not yet available.

(5) Important Events Related to Going Concern Assumption

Not applicable.

(6) Dividend Policy and Payments for This Period and Next Period

The Group recognizes the return of profits to shareholders as a management task of paramount importance. To fulfill this task, it will make efforts to maintain stable and continuous dividend payment and to enhance internal reserves from the long-term perspective of maximizing corporate value.

For the year ended March 31, 2022, the Group has decided to pay the interim dividend of ¥12 per share, as previously paid, and a year-end dividend of ¥14 per share, comprising an ordinary dividend of ¥12 per share, plus a special dividend of ¥2 per share, due to business performance exceeding our forecast, for a total annual dividend of ¥26 per share.

For the year ending March 31, 2023, the Group expects to pay an annual dividend of ¥24 per share consisting of the interim dividend of ¥12 per share and the year-end dividend of ¥12 per share.

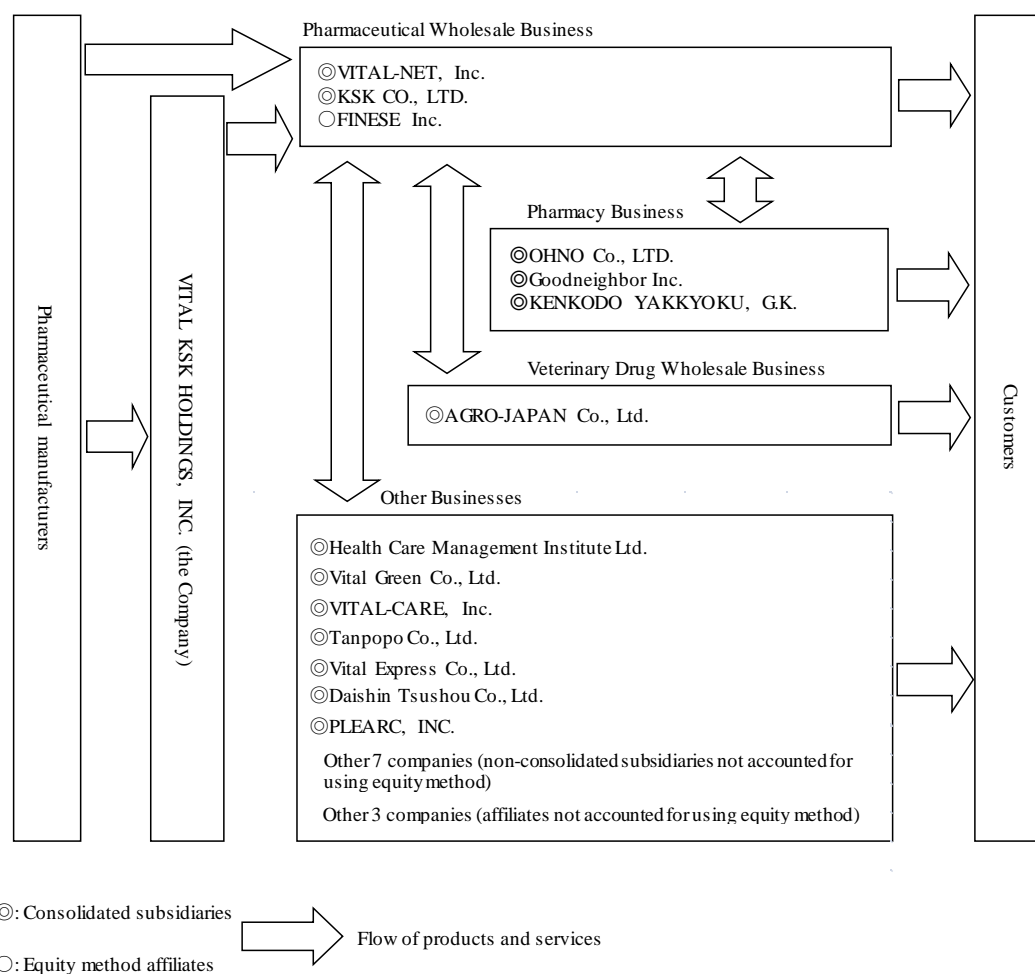
2. Overview of the Corporate Group

The Group (the Company and the associated companies of the Company) comprises the Company, its 20 subsidiaries and four affiliates. The Group is mainly engaged in businesses associated with the four businesses of the pharmaceutical wholesale business, the pharmacy business, the veterinary drug wholesale business, and other businesses. Other businesses include the retail of pharmaceuticals, the wholesale of agricultural chemicals, the transportation business, the nursing care service business, the consulting services for medical institutions, the non-life insurance agency business, the real estate brokerage business and the operation of parking lots.

Business	Associated companies
Pharmaceutical Wholesale Business	VITAL KSK HOLDINGS, INC. (the Company), VITAL-NET, Inc., KSK CO., LTD., FINESE Inc.
Pharmacy Business	OHNO Co., LTD., Goodneighbor Inc., KENKODO YAKKYOKU, G.K.
Veterinary Drug Wholesale Business	AGRO-JAPAN Co., Ltd.
Other Businesses	Health Care Management Institute Ltd., Vital Green Co., Ltd., VITAL-CARE, Inc., Tanpopo Co., LTD., Vital Express Co., Ltd., Daishin Tsushou Co., LTD., PLEARC, INC., other 10 companies

The following figure illustrates the Company's business structure.

〈Company's Business〉



3. Management Policy

(1) Basic Management Policies

On April 1, 2009, the VITAL KSK Group was launched upon the establishment of VITAL KSK HOLDINGS, INC., a joint holding company, through the share transfer of VITAL-NET, Inc. and KSK CO., LTD. and 13 years have passed since then.

The VITAL KSK Group, based on its corporate slogan, “Towards realization of healthy and prosperous society,” has been focused on “the acceleration of business management and the reinforcement of market development,” “the effective utilization of IT and the fusion/evolution of pharmaceutical distribution techniques accumulated over the years” and “the improvement of profitability through the demonstration of synergy” in an effort to realize its long-term vision, “raising its presence within the industry and pursuing the distribution of innovative pharmaceuticals.”

(2) Target Management Indicators

The Group formulated its fifth medium-term management plan for the three-year period from the year ending March 31, 2023 to the year ending March 31, 2025.

Targets

	Year ending March 31, 2023			Year ending March 31, 2024			Year ending March 31, 2025		
	Plan (Million yen)	Sales ratio (%)	YoY (%)	Plan (Million yen)	Sales ratio (%)	YoY (%)	Plan (Million yen)	Sales ratio (%)	YoY (%)
Net sales	563,300		97.6	568,000		100.9	566,000		99.6
Operating profit	2,300	0.41	78.1	3,200	0.56	139.1	3,700	0.65	115.6
Ordinary profit	4,900	0.87	84.0	5,800	1.02	116.0	6,200	1.10	106.9
Profit attributable to owners of parent	4,500	0.80	94.3	5,100	0.90	110.9	5,400	0.95	105.9

(3) Medium- and Long-term Business Strategies

As stated above, the Group started its fifth medium-term management plan in April 2022. We will continue to achieve its long-term vision for 2025 to “become an indispensable presence in regional and community healthcare by strategically providing products and services to support medicine and nursing,” as defined in the third medium-term management plan. Additionally, in its fifth medium-term management plan, in order to achieve its medium-term vision “To Drive Business Model Innovation for the Next Generation,” the Group is working through the three basic policies, “Exploring a pharmaceutical distribution model to adopt changes in the market structure and meet market characteristics,” “Evolving distribution and marketing models tailored to the advancement of DX in the field of medical care,” and “Promoting the Group management that meets Prime Market requirements.”

[Major Practical Issues]

<Pharmaceutical Wholesale Business>

1. Establishing a system that accommodates changes in the market structure
 - (1) Realizing low-cost operations with improved and optimized processes
 - (2) Conducting efficient and effective marketing activities to prescribers
 - (3) Expanding MS functions (to replace MR functions)
2. Strengthening efforts for “hospitals,” the core regional health care providers, and reorganizing sales structures

3. Promoting DX for dispensing pharmacies

4. Sustainably improving supply chain management capabilities

- (1) Expanding the scope of packaged product delivery using inventory management systems
- (2) Developing a third-party logistics (3PL) business
- (3) Implementing a supply chain concept utilizing dispensing centers
- (4) Sustainably increasing logistics quality and efficiency

<Group management strategy>

1. Financial strategy

- (1) Achieving ROE of 5% or more
- (2) Implementing appropriate shareholder return policies, dividend payout ratio of 25% or more
- (3) Reducing cross-shareholdings

2. Reviewing and developing corporate governance at a higher level

3. Further enhancing corporate communication (CC)

- (1) Conducting appropriate CC activities in light of the Internet age and the financial strategy
- (2) Enhancing disclosure in English (including the Company's website, notices of convocation of general meetings of shareholders)
- (3) Conducting CC activities that address task force on climate-related financial disclosures (TCFD) in addition to environmental, social, and governance (ESG) activities

(4) Issues to be Addressed

Regarding prescription pharmaceuticals, drug prices were revised four times in October 2019, April 2020, April 2021, and April 2022 over two and a half years. Drug price revisions are planned to take place every year and the government is likely to continue with its policy to limit medical costs in the future.

Under such circumstances, the Group started its fifth medium-term management plan in April 2022. In the pharmaceutical wholesale business, not only did the Group construct a business system to continue to create profits even under low growth in the prescription pharmaceutical market, but based on a foundation of the Group's strengths in moving deeper into regional healthcare through its network with local governments, nursing professionals and other regional healthcare providers, in addition to its network of medical institutions developed through the prescription pharmaceutical wholesale business, the Group has made efforts to "become the corporate group of choice" for manufacturers, public administration, customers, and the community by providing support and solutions through a wide range of products and services as it steadily progresses into growth sectors. In particular, we will focus our efforts to adopt the digital transformation in the field of medical care, which is expected to advance rapidly in the future.

(5) Other Important Management Matters

Not applicable.

4. Basic Idea for Selection of Accounting Standards

In order to ensure comparability between companies over time, the Group prepares its consolidated financial statements in accordance with the Ordinance on Terminology, Forms, and Preparation Methods of Consolidated Financial Statements (excluding Chapters 7 and 8) (Ordinance of the Ministry of Finance No. 28 of 1976). The Group will appropriately apply international accounting standards, while taking domestic and overseas situations into account.

5. Consolidated Financial Statements and Primary Notes

(1) Consolidated Balance Sheets

(Million yen)

	As of March 31, 2021	As of March 31, 2022
Assets		
Current assets		
Cash and deposits	29,784	26,971
Notes and accounts receivable - trade	114,599	119,533
Inventories	29,318	31,788
Accounts receivable - other	15,367	16,617
Other	1,632	3,672
Allowance for doubtful accounts	(67)	(50)
Total current assets	190,634	198,532
Non-current assets		
Property, plant and equipment		
Buildings and structures	46,811	47,987
Accumulated depreciation	(27,703)	(28,684)
Buildings and structures, net	19,108	19,303
Machinery, equipment and vehicles	1,939	1,951
Accumulated depreciation	(1,233)	(1,355)
Machinery, equipment and vehicles, net	705	595
Land	20,670	20,735
Leased assets	6,137	6,814
Accumulated depreciation	(3,561)	(3,929)
Leased assets, net	2,575	2,885
Construction in progress	950	1,629
Other	3,557	3,739
Accumulated depreciation	(2,881)	(3,126)
Other, net	676	612
Total property, plant and equipment	44,686	45,761
Intangible assets		
Goodwill	3,111	2,874
Software	890	1,356
Other	589	805
Total intangible assets	4,591	5,036
Investments and other assets		
Investment securities	55,186	47,508
Long-term loans receivable	1,633	1,588
Retirement benefit asset	7,653	7,684
Deferred tax assets	373	383
Other	7,216	7,115
Allowance for doubtful accounts	(574)	(576)
Total investments and other assets	71,488	63,703
Total non-current assets	120,766	114,501
Total assets	311,401	313,033

(Million yen)

	As of March 31, 2021	As of March 31, 2022
Liabilities		
Current liabilities		
Notes and accounts payable - trade	166,973	176,685
Short-term borrowings	1,200	990
Current portion of long-term borrowings	5,370	970
Income taxes payable	224	2,399
Provision for sales returns	146	—
Provision for bonuses	1,431	1,542
Other	3,079	7,505
Total current liabilities	178,426	190,092
Non-current liabilities		
Long-term borrowings	8,730	7,760
Lease liabilities	1,497	2,129
Deferred tax liabilities	12,299	9,744
Provision for retirement benefits for directors (and other officers)	189	193
Provision for share awards for directors (and other officers)	40	51
Retirement benefit liability	5,915	2,629
Other	387	391
Total non-current liabilities	29,058	22,898
Total liabilities	207,485	212,991
Net assets		
Shareholders' equity		
Share capital	5,000	5,000
Capital surplus	12,810	12,810
Retained earnings	60,285	64,402
Treasury shares	(5,025)	(6,581)
Total shareholders' equity	73,070	75,631
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	27,652	21,645
Remeasurements of defined benefit plans	2,220	1,683
Total accumulated other comprehensive income	29,873	23,329
Non-controlling interests	972	1,080
Total net assets	103,916	100,041
Total liabilities and net assets	311,401	313,033

(2) Consolidated Statements of Income and Comprehensive Income
Consolidated Statements of Income

(Million yen)

	For the fiscal year ended March 31, 2021	For the fiscal year ended March 31, 2022
Net sales	537,030	577,249
Cost of sales	498,839	533,272
Gross profit	38,190	43,976
Reversal of provision for sales returns	174	—
Provision for sales returns	146	—
Gross profit - net	38,218	43,976
Selling, general and administrative expenses	40,478	41,030
Operating profit(loss)	(2,260)	2,945
Non-operating income		
Interest income	54	49
Dividend income	832	804
Share of profit of entities accounted for using equity method	86	87
Rental income	222	240
Administrative service fee income	1,477	1,556
Other	538	362
Total non-operating income	3,210	3,100
Non-operating expenses		
Interest expenses	86	99
Rent expenses	88	85
Other	82	27
Total non-operating expenses	257	212
Ordinary profit	693	5,834
Extraordinary income		
Gain on sale of non-current assets	35	310
Gain on sale of investment securities	2,168	2,545
Other	42	18
Total extraordinary income	2,245	2,873
Extraordinary losses		
Loss on sale of non-current assets	16	19
Impairment losses	229	946
Loss on valuation of investment securities	112	8
Other	147	84
Total extraordinary losses	507	1,059
Profit before income taxes	2,432	7,648
Income taxes - current	598	2,575
Income taxes - deferred	541	191
Total income taxes	1,140	2,767
Profit	1,291	4,880
Profit attributable to non-controlling interests	119	110
Profit attributable to owners of parent	1,171	4,770

Consolidated Statements of Comprehensive Income

(Million yen)

	For the fiscal year ended March 31, 2021	For the fiscal year ended March 31, 2022
Profit	1,291	4,880
Other comprehensive income		
Valuation difference on available-for-sale securities	5,582	(5,819)
Remeasurements of defined benefit plans, net of tax	538	(546)
Share of other comprehensive income of entities accounted for using equity method	259	(178)
Total other comprehensive income	6,380	(6,543)
Comprehensive income	7,672	(1,663)
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	7,552	(1,773)
Comprehensive income attributable to non-controlling interests	119	110

(3) Consolidated Statements of Changes in Equity

Fiscal year ended March 31, 2021 (from April 1, 2020 to March 31, 2021)

(Million yen)

	Shareholders' equity				
	Share capital	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance at beginning of period	5,000	12,739	60,368	(5,256)	72,851
Changes during period					
Dividends of surplus			(1,380)		(1,380)
Profit attributable to owners of parent			1,171		1,171
Purchase of treasury shares				(0)	(0)
Disposal of treasury shares		70		229	300
Disposal of treasury shares by stocks payment trust				2	2
Change in scope of consolidation			125		125
Net changes in items other than shareholders' equity					
Total changes during period	—	70	(83)	231	218
Balance at end of period	5,000	12,810	60,285	(5,025)	73,070

	Accumulated other comprehensive income			Non-controlling interests	Total net assets
	Valuation difference on available-for-sale securities	Remeasurements of defined benefit plans	Total accumulated other comprehensive income		
Balance at beginning of period	21,816	1,676	23,492	854	97,198
Changes during period					
Dividends of surplus					(1,380)
Profit attributable to owners of parent					1,171
Purchase of treasury shares					(0)
Disposal of treasury shares					300
Disposal of treasury shares by stocks payment trust					2
Change in scope of consolidation					125

Net changes in items other than shareholders' equity	5,836	544	6,380	117	6,498
Total changes during period	5,836	544	6,380	117	6,717
Balance at end of period	27,652	2,220	29,873	972	103,916

Fiscal year ended March 31, 2022 (from April 1, 2021 to March 31, 2022)

(Million yen)

	Shareholders' equity				
	Share capital	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance at beginning of period	5,000	12,810	60,285	(5,025)	73,070
Changes during period					
Dividends of surplus			(653)		(653)
Profit attributable to owners of parent			4,770		4,770
Purchase of treasury shares				(1,559)	(1,559)
Disposal of treasury shares by stocks payment trust				3	3
Net changes in items other than shareholders' equity					
Total changes during period	—	—	4,116	(1,555)	2,561
Balance at end of period	5,000	12,810	64,402	(6,581)	75,631

	Accumulated other comprehensive income			Non-controlling interests	Total net assets
	Valuation difference on available-for-sale securities	Remeasurements of defined benefit plans	Total accumulated other comprehensive income		
Balance at beginning of period	27,652	2,220	29,873	972	103,916
Changes during period					
Dividends of surplus					(653)
Profit attributable to owners of parent					4,770
Purchase of treasury shares					(1,559)
Disposal of treasury shares by stocks payment trust					3
Net changes in items other than shareholders' equity	(6,006)	(537)	(6,543)	108	(6,435)
Total changes during period	(6,006)	(537)	(6,543)	108	(3,874)
Balance at end of period	21,645	1,683	23,329	1,080	100,041

(4) Consolidated Statements of Cash Flows

(Million yen)

	For the fiscal year ended March 31, 2021	For the fiscal year ended March 31, 2022
Cash flows from operating activities		
Profit before income taxes	2,432	7,648
Depreciation	2,876	2,780
Impairment losses	229	946
Amortization of goodwill	322	343
Increase (decrease) in allowance for doubtful accounts	(98)	(15)
Increase (decrease) in provision for bonuses	(325)	106
Increase (decrease) in retirement benefit liability	(1,772)	(3,323)
Interest and dividend income	(886)	(853)
Rental income	(222)	(240)
Office work fee	(1,477)	(1,556)
Interest expenses	86	99
Share of loss (profit) of entities accounted for using equity method	(86)	(87)
Loss (gain) on sale and valuation of investment securities	(2,048)	(2,536)
Loss on valuation of shares of subsidiaries and associates	87	11
Loss (gain) on sale and retirement of property, plant and equipment	(12)	(286)
Decrease (increase) in trade receivables	716	(4,933)
Decrease (increase) in inventories	1,652	(2,450)
Decrease (increase) in accounts receivable - other	(222)	(1,109)
Decrease (increase) in guarantee deposits	(77)	13
Increase (decrease) in trade payables	(1,632)	9,624
Other, net	(655)	1,348
Subtotal	(1,113)	5,528
Interest and dividends received	888	852
Office work fee received	1,458	1,548
Interest paid	(88)	(98)
Income taxes paid	(2,863)	(1,512)
Income taxes refund	318	1,156
Other, net	9	10
Net cash provided by (used in) operating activities	(1,389)	7,487

(Million yen)

	For the fiscal year ended March 31, 2021	For the fiscal year ended March 31, 2022
Cash flows from investing activities		
Net decrease (increase) in time deposits	100	(200)
Purchase of property, plant and equipment	(3,312)	(3,415)
Proceeds from sale of property, plant and equipment	43	551
Purchase of intangible assets	(533)	(725)
Purchase of investment securities	(38)	(885)
Proceeds from sale of investment securities	3,935	2,588
Proceeds from repayment of investment securities	13	7
Proceeds from redemption of investment securities	50	—
Loan advances	(32)	(10)
Proceeds from collection of loans receivable	65	40
Purchase of shares of subsidiaries resulting in change in scope of consolidation	—	(217)
Other, net	257	252
Net cash provided by (used in) investing activities	549	(2,013)
Cash flows from financing activities		
Redemption of convertible bond-type bonds with subscription rights to shares	(9,700)	—
Net increase (decrease) in short-term borrowings	—	(210)
Proceeds from long-term borrowings	9,700	—
Repayments of long-term borrowings	(400)	(5,370)
Repayments of lease liabilities	(737)	(694)
Proceeds from disposal of treasury shares	0	—
Purchase of treasury shares	(0)	(1,559)
Dividends paid	(1,377)	(651)
Other, net	(2)	(2)
Net cash provided by (used in) financing activities	(2,516)	(8,486)
Net increase (decrease) in cash and cash equivalents	(3,357)	(3,013)
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	26,252	23,239

(5) Notes to Consolidated Financial Statements

(Notes on going concern assumption)

Not applicable.

(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 year ended March 31, 2022. 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 year ended March 31, 2022 has been added to or subtracted from retained earnings at the beginning of the period, which nevertheless had no impact on the balance at the beginning of the period.

As a result of the above applications, net sales for the year ended March 31, 2022 declined ¥1,106 million, cost of sales ¥1,089 million, reversal of provision for sales returns ¥0 million, and provision for sales returns ¥18 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 year ended March 31, 2022. 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 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.)

From the fiscal year ended 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 year ended March 31, 2022 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 year ended March 31, 2022 by ¥1,107 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.”

Profit in the reportable segments is based on operating profit.

Inter-segment revenues and transfers are calculated at prevailing market prices.

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 Statements of Income (Note 3)
	Pharmaceu- tical Wholesale Business	Pharmacy Business	Veterinary Drug Wholesale Business	Total				
Net sales								
Net sales to outside customers	506,389	16,772	9,811	532,972	4,057	537,030	-	537,030
Inter-segment net sales or transfers	7,721	2,018	0	7,723	2,483	10,206	(10,206)	-
Total	514,110	16,774	9,811	540,696	6,540	547,236	(10,206)	537,030
Segment income (loss)	(2,542)	(19)	401	(2,160)	(156)	(2,316)	56	(2,260)
Segment assets	293,829	9,763	4,736	308,418	8,685	317,103	(5,701)	311,401
Other items								
Depreciation	2,530	167	9	2,707	168	2,876	-	2,876
Amortization of goodwill	15	306	-	322	-	322	-	322
Increase in property, plant and equipment, and intangible assets	2,223	141	115	2,481	839	3,321	-	3,321

(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 ¥56 million and adjustment of segment assets of ¥(5,701) million refer to elimination of inter-segment transactions.

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

For the fiscal year ended 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 Statements of Income (Note 3)
	Pharmaceu- tical Wholesale Business	Pharmacy Business	Veterinary Drug Wholesale Business	Total				
Net sales								
Net sales to outside customers	544,249	18,397	10,399	573,047	4,201	577,249	-	577,249
Inter-segment net sales or transfers	8,811	3	0	8,815	2,502	11,317	(11,317)	-
Total	553,061	18,401	10,399	581,862	6,704	588,566	(11,317)	577,249
Segment income (loss)	2,443	205	371	3,020	(131)	2,889	56	2,945
Segment assets	295,496	10,610	5,186	311,292	8,780	320,073	(7,039)	313,033
Other items								
Depreciation	2,476	144	14	2,636	144	2,780	-	2,780
Amortization of goodwill	15	327	-	343	-	343	-	343
Increase in property, plant and equipment, and intangible assets	3,218	48	112	3,380	803	4,184	-	4,184

- (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 ¥56 million and adjustment of segment assets of ¥(7,039) million refer to elimination of inter-segment transactions.
3. Adjustments are made to reconcile segment income (loss) to operating loss reported on the consolidated statements of income.

[Related information]

1. Information by product and service

Statement has been omitted as net sales to outside customers in a single product/service category exceed 90% of total net sales in the consolidated statements of income.

2. Information by geographic area

(1) Net sales

Not applicable as there are no net sales to outside customers other than in Japan.

(2) Property, plant and equipment

Not applicable as there are no property, plant or equipment in areas other than in Japan.

3. Information by major customer

Statement has been omitted as no outside customer accounts for 10% or more of total net sales in the consolidated statements of income.

[Information concerning impairment loss on non-current assets by reportable segment]

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

(Million yen)

	Reportable segment				Others	Total	Adjustment	Amount recorded in Consolidated Statements of Income
	Pharmaceutical Wholesale Business	Pharmacy Business	Veterinary Drug Wholesale Business	Total				
Impairment loss	229	-	-	229	-	229	-	229

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

(Million yen)

	Reportable segment				Others	Total	Adjustment	Amount recorded in Consolidated Statements of Income
	Pharmaceutical Wholesale Business	Pharmacy Business	Veterinary Drug Wholesale Business	Total				
Impairment loss	922	23	-	946	-	946	-	946

[Information concerning amortization of goodwill and unamortized balances by reportable segment]

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

(Million yen)

	Reportable segment				Others	Total	Adjustment	Amount recorded in Consolidated Statements of Income
	Pharmaceutical Wholesale Business	Pharmacy Business	Veterinary Drug Wholesale Business	Total				
(Goodwill)								
Amortization expense	15	306	-	322	-	322	-	322
Balance at the end of period	50	3,060	-	3,111	-	3,111	-	3,111

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

(Million yen)

	Reportable segment				Others	Total	Adjustment	Amount recorded in Consolidated Statements of Income
	Pharmaceutical Wholesale Business	Pharmacy Business	Veterinary Drug Wholesale Business	Total				
(Goodwill)								
Amortization expense	15	327	-	343	-	343	-	343
Balance at the end of period	35	2,839	-	2,874	-	2,874	-	2,874

(Per share information)

	For the fiscal year ended March 31, 2021	For the fiscal year ended March 31, 2022
Net assets per share	¥1,863.77	¥1,858.86
Basic earnings per share	¥21.26	¥87.88

(Notes) 1. Diluted earnings per share is not stated as there are no dilutive shares.

2. Basis of calculation of basic earnings per share and diluted earnings per share is as follows:

	For the fiscal year ended March 31, 2021	For the fiscal year ended March 31, 2022
Basic earnings per share		
Profit income attributable to owners of parent (Million yen)	1,171	4,770
Amount not attributable to common stockholders (Million yen)	—	—
Profit attributable to owners of parent relating to common stock (Million yen)	1,171	4,770
Average number of shares of common stock outstanding during the period (Thousand shares)	55,107	54,280

3. Basis for the calculation of net assets per share is as follows:

	For the fiscal year ended March 31, 2021	For the fiscal year ended March 31, 2022
Total net assets (Million yen)	103,916	100,041
Amount deducted from total net assets (Million yen)	972	1,080
(Non-controlling interests) (Million yen)	(972)	(1,080)
Year-end net assets corresponding to common shareholders (Million yen)	102,943	98,961
Number of common stock at the year-end used to calculate net assets per share (Thousand shares)	55,234	53,237

(Note) The Company shares held by the Custody Bank of Japan, Ltd. (Trust Account E) as trust assets for the “Board Benefit Trust (BBT)” are included in treasury stock to be deducted in the calculation of average number of shares during the period for the purpose of calculating basic earnings per share (124 thousand shares for the fiscal year ended March 31, 2021, and 120 thousand shares for the fiscal year ended March 31, 2022).

(Significant subsequent events)

Not applicable.