

Consolidated Financial Statements for the First Quarter of the Fiscal Year Ending March 31, 2023 [Japanese GAAP]



August 2, 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 Corporate Planning
 Phone: +81-3-3275-3303
 Scheduled date of filing quarterly report: August 9, 2022
 Scheduled date of commencing dividend payments: —
 Preparation of supplementary explanatory materials: Yes
 Quarterly financial results meeting: None

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

1. Consolidated Results for the First Quarter of the Fiscal Year Ending March 31, 2023 (April 1, 2022 – June 30, 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	%
Three months ended								
June 30, 2022	143,521	0.4	452	19.8	1,198	12.3	640	(0.6)
June 30, 2021	142,916	5.8	377	-	1,067	-	644	-

(Note) Comprehensive income: Three months ended June 30, 2022: ¥3,068 million [37.7%]

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

	Basic earnings per share	Diluted earnings per share
	Yen	Yen
Three months ended		
June 30, 2022	12.05	-
June 30, 2021	11.67	-

(2) Consolidated Financial Position

	Total assets	Net assets	Equity ratio
	Million yen	Million yen	%
As of June 30, 2022	314,221	101,361	31.9
As of March 31, 2022	313,033	100,041	31.6

(Reference) Equity: As of June 30, 2022: ¥100,249 million

As of March 31, 2022: ¥98,961 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, 2022	-	12.00	-	14.00	26.00
Year ending March 31, 2023	-				
Year ending March 31, 2023 (Forecast)		12.00	-	12.00	24.00

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

3. Forecast of Consolidated Results for the Fiscal Year Ending March 31, 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

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

*** Notes:**

- (1) Changes in significant subsidiaries during the period under review: None
- (2) Accounting policies adopted specially for the preparation of quarterly consolidated financial statements: Yes
 * For details, please see “(3) Notes to Quarterly Consolidated Financial Statements (Accounting policies adopted specially for the preparation of quarterly consolidated financial statements)” on page 8 of the attached materials.
- (3) Changes in accounting policies, changes in accounting estimates and retrospective restatement
 - 1) Changes in accounting policies due to the revision of accounting standards: Yes
 - 2) Changes in accounting policies other than 1) above: None
 - 3) Changes in accounting estimates: None
 - 4) Retrospective restatement: None
- (4) Total number of outstanding shares (common shares)
 - 1) Total number of outstanding shares at the end of the period (including treasury stocks):
 June 30, 2022: 61,224,796 shares
 March 31, 2022: 61,224,796 shares
 - 2) Total number of treasury stocks at the end of the period:
 June 30, 2022: 9,442,031 shares
 March 31, 2022: 7,987,331 shares
 - 3) Average number of shares during the period:
 Three months ended June 30, 2022: 53,125,895 shares
 Three months ended June 30, 2021: 55,227,622 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.

Table of Contents

1. Qualitative Information on Quarterly Financial Results	2
Explanation of Operating Results	2
2. Quarterly Consolidated Financial Statements and Primary Notes	4
(1) Quarterly Consolidated Balance Sheets	4
(2) Quarterly Consolidated Statements of Income and Comprehensive Income	6
(3) Notes to Quarterly Consolidated Financial Statements	8
(Notes on going concern assumption)	8
(Notes in the case of significant changes in amount of shareholders' equity).....	8
(Accounting policies adopted specially for the preparation of quarterly consolidated financial statements)	8
(Changes in accounting policies)	8
(Segment information)	8

1. Qualitative Information on Quarterly Financial Results

Explanation of Operating Results

The Japanese economy during the three months ended June 30, 2022 remained unpredictable with the ongoing COVID-19 pandemic, while vaccination rates increased.

Under these circumstances, the Group started 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. In the fifth medium-term management plan, the Company will continue 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.” In addition, under its medium-term vision “to drive business model innovation for the next generation,” the Company has set out practical tasks to “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,” and “3. Promote the Group management that meets Prime Market requirements.” By steadily solving these issues, we will aim to further evolve as a company indispensable for local healthcare.

For the three months ended June 30, 2022, net sales were ¥143,521 million (100.4% of that of the same period of the previous year), operating profit was ¥452 million (119.8% of that of the same period of the previous year), ordinary profit was ¥1,198 million (112.3% of that of the same period of the previous year), and profit attributable to owners of parent was ¥640 million (99.4% of that of the same period of the previous year).

Performance results by business segment are as follows.

1) Pharmaceutical Wholesale Business

In the three months ended June 30, 2022, the pharmaceutical wholesale business, our Group’s primary business segment, has been gradually recovering from the impact of restrictions on medical examinations due to the COVID-19 pandemic, although negatively affected by 6.69% based on medical costs due to drug price revisions. Amid this trend, sales of prescription pharmaceuticals (mainly price maintenance premium drugs) to the hospital market have primarily increased, and sales of COVID-19-related medical devices, clinical test reagents, etc. have remained steady. As a result, sales slightly increased from the same period of the previous year.

Profit increased from the same period of the previous year, however as the impact of negative accounting treatment for old and new settlement prices of inventories as of the end of the previous year associated with drug price revisions has extended to the three months ended June 30, 2022, the progress rate of operating profit against the forecast for the cumulative second quarter (April through September) was lower than the reference rate (50%).

As a result, net sales were ¥135,193 million (100.3% of that of the same period of the previous year), and segment profit (operating profit) was ¥389 million (133.7% of that of the same period of the previous year).

However during the second quarter (from July to September) the aforementioned inventories as of the end of the previous year will be eliminated and the negative accounting treatment will be resolved, while we will focus on selling various vaccines of which demand is expected to increase this summer. Through these efforts, the forecast for each consolidated profit for the cumulative second quarter (from April to September) is expected to be achieved (for details, please refer to supplementary explanatory materials released on August 2, 2022).

2) Pharmacy Business

In the pharmacy business, net sales were ¥4,481 million (101.0% of that of the same period of the previous year) as a result of strengthening pharmacy functions with the goal of becoming a regional family pharmacy, however segment profit (operating profit) was ¥14 million (36.5% of that of the same period of the previous year) due to the impact of negative drug price revisions.

3) Veterinary Drug Wholesale Business

In the veterinary drug wholesale business, net sales were ¥2,657 million (102.9% of that of the same period of the previous year), and segment profit (operating profit) was ¥118 million (110.7% of that of the same period of the previous year), due to the increase in sales of high-profit margin products.

4) Other Businesses

In other businesses, sales were strong for the agricultural chemicals wholesale business, whereas the sports facility management business performed insufficiently. As a result, net sales were ¥1,189 million (106.2% of that of the same period of the previous year), and segment loss (operating loss) was ¥69 million (segment loss of ¥45 million in the same period of the previous year).

2. Quarterly Consolidated Financial Statements and Primary Notes

(1) Quarterly Consolidated Balance Sheets

(Million yen)

	As of March 31, 2022	As of June 30, 2022
Assets		
Current assets		
Cash and deposits	26,971	27,950
Notes and accounts receivable - trade	119,533	124,065
Inventories	31,788	30,139
Accounts receivable - other	16,617	14,736
Other	3,672	3,727
Allowance for doubtful accounts	(50)	(50)
Total current assets	198,532	200,569
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	19,303	21,185
Land	20,735	20,735
Other, net	5,722	3,995
Total property, plant and equipment	45,761	45,916
Intangible assets		
Goodwill	2,874	2,788
Other	2,162	2,021
Total intangible assets	5,036	4,809
Investments and other assets		
Investment securities	47,508	51,011
Other	16,771	12,336
Allowance for doubtful accounts	(576)	(422)
Total investments and other assets	63,703	62,925
Total non-current assets	114,501	113,651
Total assets	313,033	314,221

(Million yen)

	As of March 31, 2022	As of June 30, 2022
Liabilities		
Current liabilities		
Notes and accounts payable - trade	176,685	177,235
Short-term borrowings	990	990
Current portion of long-term borrowings	970	970
Income taxes payable	2,399	482
Provision for bonuses	1,542	2,391
Other	7,505	9,457
Total current liabilities	190,092	191,527
Non-current liabilities		
Long-term borrowings	7,760	7,517
Other provisions	244	243
Retirement benefit liability	2,629	516
Other	12,265	13,054
Total non-current liabilities	22,898	21,332
Total liabilities	212,991	212,859
Net assets		
Shareholders' equity		
Share capital	5,000	5,000
Capital surplus	12,810	12,810
Retained earnings	64,402	64,296
Treasury shares	(6,581)	(7,578)
Total shareholders' equity	75,631	74,527
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	21,645	24,127
Remeasurements of defined benefit plans	1,683	1,593
Total accumulated other comprehensive income	23,329	25,721
Non-controlling interests	1,080	1,112
Total net assets	100,041	101,361
Total liabilities and net assets	313,033	314,221

(2) Quarterly Consolidated Statements of Income and Comprehensive Income
Quarterly Consolidated Statements of Income
Three Months Ended June 30, 2021 and 2022

(Million yen)

	For the three months ended June 30, 2021	For the three months ended June 30, 2022
Net sales	142,916	143,521
Cost of sales	132,694	132,786
Gross profit	10,221	10,735
Gross profit - net	10,221	10,735
Selling, general and administrative expenses	9,843	10,282
Operating profit	377	452
Non-operating income		
Interest income	11	15
Dividend income	178	185
Share of profit of entities accounted for using equity method	3	24
Administrative service fee income	390	397
Other	158	173
Total non-operating income	742	795
Non-operating expenses		
Interest expenses	24	26
Rental expenses	21	20
Other	7	3
Total non-operating expenses	53	49
Ordinary profit	1,067	1,198
Extraordinary income		
Gain on sale of non-current assets	11	3
Other	0	—
Total extraordinary income	11	3
Extraordinary losses		
Loss on sale of non-current assets	19	—
Loss on valuation of investment securities	—	55
Other	1	64
Total extraordinary losses	21	119
Profit before income taxes	1,057	1,081
Income taxes	383	406
Profit	674	675
Profit attributable to non-controlling interests	29	35
Profit attributable to owners of parent	644	640

Quarterly Consolidated Statements of Comprehensive Income

Three Months Ended June 30, 2021 and 2022

(Million yen)

	For the three months ended June 30, 2021	For the three months ended June 30, 2022
Profit	674	675
Other comprehensive income		
Valuation difference on available-for-sale securities	1,625	2,234
Remeasurements of defined benefit plans, net of tax	(97)	(89)
Share of other comprehensive income of entities accounted for using equity method	25	247
Total other comprehensive income	1,553	2,392
Comprehensive income	2,228	3,068
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	2,198	3,032
Comprehensive income attributable to non-controlling interests	29	35

(3) Notes to Quarterly Consolidated Financial Statements

(Notes on going concern assumption)

For the three months ended June 30, 2022 (from April 1, 2022 to June 30, 2022)

Not applicable.

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

For the three months ended June 30, 2022 (from April 1, 2022 to June 30, 2022)

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 "Implementation Guidance on Accounting Standard for Fair Value Measurement" (ASBJ Guidance No. 31, June 17, 2021; hereinafter "Fair Value Measurement Guidance") from the beginning of the first quarter under review, and will prospectively apply the new accounting policies stipulated by the Fair Value Measurement Guidance in accordance with the transitional treatment provided in Paragraph 27-2 of the Fair Value Measurement Guidance. 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.)

As described in the changes in accounting policies, the Company has applied the Accounting Standard for Revenue Recognition from the beginning of the year ending March 31, 2023 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 ending March 31, 2023 by ¥242 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, 2022 (from April 1, 2021 to June 30, 2021)

(Million yen)

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

(Notes) 1. “Others” is the segment which is not included in reportable segments, including such businesses as wholesale of agricultural chemicals, nursing care service business, transportation business, and consulting services for medical institutions.

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

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

For the fiscal year ending March 31, 2023 (from April 1, 2022 to June 30, 2022)

(Million yen)

	Reportable segment				Others (Note 1)	Total	Adjustment (Note 2)	Amount recorded in Consolidated Statements of Income (Note 3)
	Pharmace- utical Wholesale Business	Pharmacy Business	Veterinary Drug Wholesale Business	Total				
Net sales								
Net sales to outside customers	135,193	4,481	2,657	142,332	1,189	143,521	-	143,521
Inter-segment net sales or transfers	2,777	0	0	2,777	626	3,404	(3,404)	-
Total	137,970	4,481	2,657	145,110	1,815	146,925	-	143,521
Segment income (loss)	389	14	118	521	(69)	452	(0)	452

(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 ¥(0) million refers to elimination of inter-segment transactions.

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