

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



November 10, 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: November 14, 2022

Scheduled date of commencing dividend payments: December 5, 2022

Preparation of supplementary explanatory materials: Yes

Quarterly financial results meeting: No

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

1. Consolidated Results for the Second Quarter of the Fiscal Year Ending March 31, 2023

(April 1, 2022 – September 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	%
Six months ended September 30, 2022	289,376	1.5	730	(21.8)	2,423	2.8	1,437	1.9
Six months ended September 30, 2021	285,229	7.0	934	-	2,355	439.2	1,411	221.6

(Note) Comprehensive income: Six months ended September 30, 2022: ¥5,328 million [123.4%]

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

	Basic earnings per share	Diluted earnings per share
	Yen	Yen
Six months ended September 30, 2022	27.42	-
Six months ended September 30, 2021	25.67	-

(2) Consolidated Financial Position

	Total assets	Net assets	Equity ratio
	Million yen	Million yen	%
As of September 30, 2022	316,432	103,628	32.4
As of March 31, 2022	313,033	100,041	31.6

(Reference) Equity: As of September 30, 2022: ¥102,502 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	-	12.00			
Year ending March 31, 2023 (Forecast)			-	27.00	39.00

(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
Full year	567,300	(1.7)	1,940	(34.1)	4,900	(16.0)	4,400	(7.8)	84.42

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

*** Notes:**

- (1) Changes in significant subsidiaries during the period under review: None
- (2) Accounting policies adopted specially for the preparation of quarterly consolidated financial statements: Yes
 * For details, please see “(4) Notes to Quarterly Consolidated Financial Statements (Accounting policies adopted specially for the preparation of quarterly consolidated financial statements)” on page 10 of the attached materials.
- (3) Changes in accounting policies, changes in accounting estimates and retrospective restatement
 - 1) Changes in accounting policies due to the revision of accounting standards: Yes
 - 2) Changes in accounting policies other than 1) above: None
 - 3) Changes in accounting estimates: None
 - 4) Retrospective restatement: None
- (4) Total number of outstanding shares (common shares)
 - 1) Total number of outstanding shares at the end of the period (including treasury stocks):
 September 30, 2022: 61,224,796 shares
 March 31, 2022: 61,224,796 shares
 - 2) Total number of treasury stocks at the end of the period:
 September 30, 2022: 9,438,637 shares
 March 31, 2022: 7,987,331 shares
 - 3) Average number of shares during the period:
 Six months ended September 30, 2022: 52,451,916 shares
 Six months ended September 30, 2021: 54,968,265 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

(1) Explanation of Operating Results

The Japanese economy during the six months ended September 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 six months ended September 30, 2022, net sales were ¥289,376 million (101.5% of that of the same period of the previous year), operating profit was ¥730 million (78.2% of that of the same period of the previous year), ordinary profit was ¥2,423 million (102.8% of that of the same period of the previous year), and profit attributable to owners of parent was ¥1,437 million (101.9% of that of the same period of the previous year).

Performance results by business segment are as follows.

1) Pharmaceutical Wholesale Business

In the six months ended September 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, in addition to focusing on sales of various vaccines, mainly price maintenance premium drugs and influenza vaccines, sales of COVID-19-related medical devices, clinical test reagents, etc. have remained steady. As a result, sales increased from the same period of the previous year.

Operating profit was estimated to significantly exceed the previous year’s results due to thorough price negotiations with an awareness of transaction costs and, to repeat, increased sales of vaccines, especially influenza vaccines, and COVID-19-related medical equipment and clinical test reagents, etc., as well as higher-than-expected revenue from COVID-19 vaccine delivery continued to be commissioned by national and local governments since the previous fiscal year, even after absorbing 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 that occurred in the first quarter of the fiscal year under review.

However, on October 28, 2022, some of the Group’s customer filed for voluntary bankruptcy with the Tokyo District Court. The Group judged that its receivables may become uncollectible and recorded an allowance for doubtful accounts, thus operating profit fell below the previous year’s results.

As a result, net sales were ¥273,045 million (101.4% of that of the same period of the previous year), and segment profit (operating profit) was ¥607 million (82.2% of that of the same period of the previous year).

2) Pharmacy Business

In the pharmacy business, aiming to become a family pharmacy required by the government, we worked to calculate the related dispensing fees, but net sales were ¥9,009 million (99.6% of that of the same period of the previous year) and segment profit (operating profit) was ¥32 million (39.6% of that of the same period of the previous year) due to the impact of drug price revisions.

3) Veterinary Drug Wholesale Business

In the veterinary drug wholesale business, net sales were ¥5,309 million (103.5% of that of the same period of the previous year) due to the increase in sales of high-profit margin products, while due to an increase in distribution costs, segment profit (operating profit) was ¥178 million (94.1% of that of the same period of the previous year).

4) Other Businesses

In other businesses, sales were strong for the agricultural chemicals wholesale business, whereas due to impacts of COVID-19, the nursing care business and the sports facility management business performed insufficiently. As a result, net sales were ¥2,011 million (105.4% of that of the same period of the previous year), and segment loss (operating loss) was ¥146 million (segment loss of ¥97 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 September 30, 2022
Assets		
Current assets		
Cash and deposits	26,971	27,374
Notes and accounts receivable - trade	119,533	123,569
Inventories	31,788	31,444
Accounts receivable - other	16,617	15,909
Other	3,672	3,453
Allowance for doubtful accounts	(50)	(830)
Total current assets	198,532	200,920
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	19,303	20,917
Land	20,735	20,654
Other, net	5,722	3,947
Total property, plant and equipment	45,761	45,519
Intangible assets		
Goodwill	2,874	2,702
Other	2,162	2,047
Total intangible assets	5,036	4,750
Investments and other assets		
Investment securities	47,508	53,263
Other	16,771	12,434
Allowance for doubtful accounts	(576)	(456)
Total investments and other assets	63,703	65,241
Total non-current assets	114,501	115,511
Total assets	313,033	316,432

(Million yen)

	As of March 31, 2022	As of September 30, 2022
Liabilities		
Current liabilities		
Notes and accounts payable - trade	176,685	179,248
Short-term borrowings	990	990
Current portion of long-term borrowings	970	970
Income taxes payable	2,399	1,067
Provision for bonuses	1,542	1,482
Other	7,505	7,471
Total current liabilities	190,092	191,230
Non-current liabilities		
Long-term borrowings	7,760	7,275
Other provisions	244	238
Retirement benefit liability	2,629	590
Other	12,265	13,468
Total non-current liabilities	22,898	21,573
Total liabilities	212,991	212,803
Net assets		
Shareholders' equity		
Share capital	5,000	5,000
Capital surplus	12,810	12,810
Retained earnings	64,402	65,096
Treasury shares	(6,581)	(7,575)
Total shareholders' equity	75,631	75,332
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	21,645	25,666
Remeasurements of defined benefit plans	1,683	1,504
Total accumulated other comprehensive income	23,329	27,170
Non-controlling interests	1,080	1,126
Total net assets	100,041	103,628
Total liabilities and net assets	313,033	316,432

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

(Million yen)

	For the six months ended September 30, 2021	For the six months ended September 30, 2022
Net sales	285,229	289,376
Cost of sales	264,276	267,227
Gross profit	20,953	22,149
Gross profit - net	20,953	22,149
Selling, general and administrative expenses	20,018	21,418
Operating profit	934	730
Non-operating income		
Interest income	24	35
Dividend income	409	384
Share of profit of entities accounted for using equity method	14	27
Administrative service fee income	765	790
Other	319	556
Total non-operating income	1,533	1,794
Non-operating expenses		
Interest expenses	48	51
Rental expenses	43	41
Other	20	9
Total non-operating expenses	112	102
Ordinary profit	2,355	2,423
Extraordinary income		
Gain on sale of non-current assets	11	13
Gain on sale of investment securities	—	59
Other	0	—
Total extraordinary income	11	72
Extraordinary losses		
Loss on sale of non-current assets	19	0
Impairment losses	47	22
Loss on valuation of investment securities	8	55
Soil removal expenses	—	62
Other	11	5
Total extraordinary losses	87	145
Profit before income taxes	2,280	2,350
Income taxes	814	862
Profit	1,466	1,487
Profit attributable to non-controlling interests	55	49
Profit attributable to owners of parent	1,411	1,437

Quarterly Consolidated Statements of Comprehensive Income
Six Months Ended September 30, 2021 and 2022

(Million yen)

	For the six months ended September 30, 2021	For the six months ended September 30, 2022
Profit	1,466	1,487
Other comprehensive income		
Valuation difference on available-for-sale securities	1,051	3,806
Remeasurements of defined benefit plans, net of tax	(194)	(178)
Share of other comprehensive income of entities accounted for using equity method	61	213
Total other comprehensive income	919	3,841
Comprehensive income	2,385	5,328
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	2,330	5,279
Comprehensive income attributable to non-controlling interests	55	49

(3) Quarterly Consolidated Statements of Cash Flows

(Million yen)

	For the six months ended September 30, 2021	For the six months ended September 30, 2022
Cash flows from operating activities		
Profit before income taxes	2,280	2,350
Depreciation	1,335	1,460
Impairment losses	47	22
Amortization of goodwill	171	171
Increase (decrease) in allowance for doubtful accounts	(20)	660
Increase (decrease) in provision for bonuses	(85)	(60)
Increase (decrease) in retirement benefit liability	(293)	(2,093)
Interest and dividend income	(433)	(419)
Rental income	(124)	(113)
Office work fee	(765)	(790)
Interest expenses	48	51
Share of loss (profit) of entities accounted for using equity method	(14)	(27)
Loss (gain) on sale and valuation of investment securities	8	(3)
Loss (gain) on sale and retirement of property, plant and equipment	8	(13)
Decrease (increase) in trade receivables	(6,589)	(4,036)
Decrease (increase) in inventories	(2,089)	344
Decrease (increase) in accounts receivable - other	(132)	713
Decrease (increase) in guarantee deposits	49	4,301
Increase (decrease) in trade payables	10,330	2,563
Other, net	(176)	(794)
Subtotal	3,556	4,285
Interest and dividends received	433	408
Office work fee received	742	784
Interest paid	(49)	(51)
Income taxes paid	(286)	(2,255)
Income taxes refund	1,156	857
Other, net	4	5
Net cash provided by (used in) operating activities	5,557	4,035

	For the six months ended September 30, 2021	For the six months ended September 30, 2022
Cash flows from investing activities		
Net decrease (increase) in time deposits	(200)	(150)
Purchase of property, plant and equipment	(2,328)	(1,108)
Proceeds from sale of property, plant and equipment	199	102
Purchase of intangible assets	(190)	(306)
Purchase of investment securities	(177)	(183)
Proceeds from sale of investment securities	—	265
Loan advances	(10)	(60)
Proceeds from collection of loans receivable	19	25
Proceeds from redemption of investment securities	—	100
Purchase of shares of subsidiaries resulting in change in scope of consolidation	(217)	—
Other, net	133	113
Net cash provided by (used in) investing activities	(2,772)	(1,200)
Cash flows from financing activities		
Net increase (decrease) in short-term borrowings	(130)	—
Repayments of long-term borrowings	(485)	(485)
Repayments of lease liabilities	(321)	(379)
Proceeds from disposal of treasury shares	3	—
Purchase of treasury shares	(712)	(998)
Dividends paid	(0)	(745)
Other, net	(2)	(4)
Net cash provided by (used in) financing activities	(1,648)	(2,611)
Net increase (decrease) in cash and cash equivalents	1,136	223
Cash and cash equivalents at beginning of period	26,252	23,239
Increase (decrease) in cash and cash equivalents resulting from change in scope of consolidation	—	29
Cash and cash equivalents at end of period	27,388	23,492

(4) Notes to Quarterly Consolidated Financial Statements

(Notes on going concern assumption)

For the six months ended September 30, 2022 (from April 1, 2022 to September 30, 2022)

Not applicable.

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

For the six months ended September 30, 2022 (from April 1, 2022 to September 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, 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 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.

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 September 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	269,146	9,045	5,128	283,320	1,909	285,229	-	285,229
Inter-segment net sales or transfers	4,287	1	0	4,289	1,245	5,535	(5,535)	-
Total	273,434	9,047	5,128	287,610	3,154	290,764	(5,535)	285,229
Segment income (loss)	739	83	189	1,012	(97)	915	19	934

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

2. Adjustment of segment income (loss) of ¥19 million refers to elimination of inter-segment transactions.

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

For the fiscal year ending March 31, 2023 (from April 1, 2022 to September 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	273,045	9,009	5,309	287,364	2,011	289,376	-	289,376
Inter-segment net sales or transfers	5,125	3	0	5,128	1,263	6,392	(6,392)	-
Total	278,170	9,013	5,309	292,493	3,274	295,768	(6,392)	289,376
Segment income (loss)	607	32	178	819	(146)	672	58	730

(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 ¥58 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.