May 17, 2023

VITAL KSK HOLDINGS, INC.

Financial Results for the Fiscal Year Ended March 31, 2023 (the 14th term)

President & CEO
Taisuke Murai

I am Taisuke Murai, President & CEO of VITAL KSK HOLDINGS, INC.

I would like to present to you a summary of the financial results for the fiscal year ended March 31, 2023.

Today's Topics

1. Financial Highlights for the Fiscal Year Ended March 31, 2023

2. Establishment of "Long-term Vision 2035"

3. Efforts Toward Corporate Value Enhancement

4. Full-year Earnings Forecasts for the Fiscal Year Ending March 31, 2024

I will begin with an explanation with respect to financial highlights for the fiscal year ended March 31, 2023.
After that, I will discuss our recently established "Long-Term Vision 2035."
I will then report on the state of progress of "Efforts Toward Corporate Value Enhancement" announced on October 28, 2022, and finally, I will explain our earnings forecasts for the fiscal year ending March 31, 2024.

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1. Financial Highlights for the Fiscal Year Ended March 31, 2023

Financial Highlights for the Fiscal Year Ended March 31, 2023

Summary of Income for the Fiscal Year Ended March 31, 2023

(Million yen, %)

	Previous year's results		Results forecast Announced November 8, 2022		FY2023 Results			
	Amount	Ratio to net sales	Amount	Ratio to net sales	Amount	Ratio to net sales	Achievement rate	YoY
Net sales	577,249	-	567,300	-	579,772	-	102.2	100.4
Operating profit	2,945	0.51	1,940	0.34	2,470	0.43	127.3	83.9
Ordinary profit	5,834	1.01	4,900	0.86	5,960	1.03	121.6	102.2
Profit attributable to owners of parent	4,770	0.83	4,400	0.78	4,831	0.83	109.8	101.3

* The forecast was revised upward on April 21, 2023; however, the achievement rate is rate of achievement of forecast announced on November 8, 2022.

Net sales for the period under review were ¥579,772 million, 100.4% of the level a year earlier.

Operating profit was expected to exceed the level a year earlier due to increased sales of COVID-19-related medical equipment and clinical test reagents, etc., as well as higher-than-expected revenue from COVID-19 vaccine delivery commissioned by national and local governments, in addition to thorough price negotiations with an awareness of transaction costs and sales of vaccines.
However, on October 28, 2022, some of customers 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 in the second quarter. Although the Company subsequently reversed the allowance for doubtful accounts in the fourth quarter on expectations that a portion of the receivables is recoverable, the Company was unable to fully absorb the initial losses and operating profit amounted to ¥2,470 million, down from the level a year earlier.

Ordinary profit stood at ¥5,960 million, 102.2% of the level a year earlier, due to the recording of non-operating income of around ¥3,600 million, reflecting a much greater-than-anticipated gain on investments in investment partnerships, in addition to administrative service fee income from pharmaceutical companies and dividend income.

Then, profit attributable to owners of parent was ¥4,831 million, 101.3% of the level a year earlier, due to the recording of a gain on sale of investment securities of ¥4,142 million under extraordinary income and the recording of a loss on goodwill impairment of ¥1,713 million under extraordinary losses, as announced on April 19, 2023.

Profit by Segment

Prescription drugs	99.4%
Reagents and medical devices	113.2%
OTC drugs	107.0%

(Million yen, %)

	Pharmaceutical Wholesale Business*1			Pharmacy Business*2		Veterinary Drug Wholesale Business*3		Other Businesses*4	
	Results	Ratio to net sales	YoY	Results	YoY	Results	YoY	Results	YoY
Net sales	546,058	-	100.3	18,361	99.8	10,879	104.6	4,473	106.5
Gross profit	37,154	6.80	102.8	4,780	98.6	1,661	102.2	3,922	102.1
Selling, general and administrative expense	35,101	6.43	104.1	4,673	100.6	1,322	105.4	4,127	103.8
Operating profit	2,053	0.38	84.0	106	51.7	339	91.4	-204	-

*1: VITAL KSK HOLDINGS, INC. VITAL-NET, INC., KSK Co., Ltd.
*2: OHNO CO. LTD., Goodneighbor Inc., Kenkodo Pharmacy Co., Ltd.
*3: AGRO-JAPAN, Inc.
*4: Agricultural chemicals wholesale business, nursing care business etc.
*5: The sum total of the SG&A expenses and operating profit of each segment may not match the total amounts shown in the previous section as intersegment adjustments of SG&A expenses are omitted.

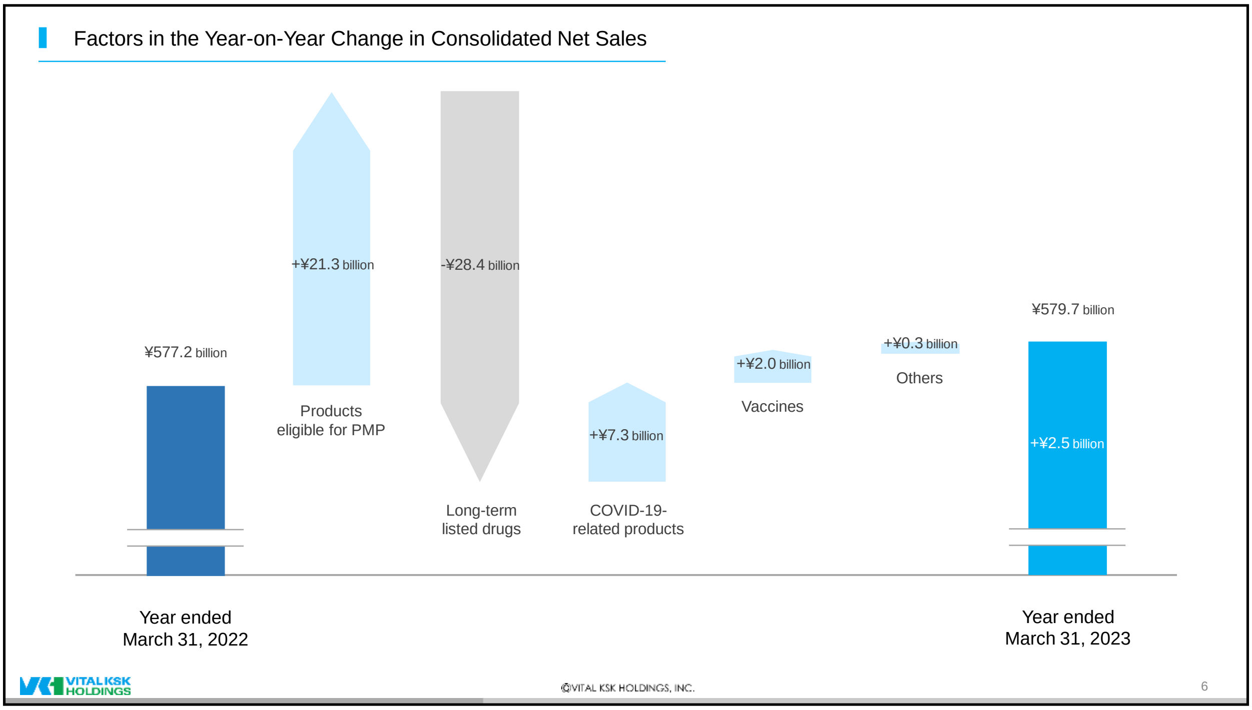
I would now like to explain income by segment.

Starting with the Pharmaceutical Wholesale Business, the Company focused on sales of products eligible for the price maintenance premium (PMP) and various vaccines; however, the lifting of the suspension of competitors' eligibility from participating in tenders due to collusion had a considerable impact on the sales of affected facilities mainly in the Kinki District and the growth rate of prescription pharmaceuticals was 99.4%. Meanwhile, the growth rate of reagents and medical devices was 113.2% due to increased sales of mainly COVID-19-related supplies. As a result, net sales in this segment came to ¥546,058 million, which is 100.3% of the level a year earlier. Gross profit amounted to ¥37,154 million, which is 102.8% of the level a year earlier. SG&A expenses came to ¥35,101 million, which is 104.1% of the level a year earlier, due to the recording of an allowance for doubtful accounts mentioned in the previous section. As a result, operating profit amounted to 2,053 million yen, 84% of the level a year earlier.

Next, I will discuss the Pharmacy Business. Aiming to realize the family pharmacies sought by the Japanese government, we endeavored to determine relevant dispensing fees but were negatively impacted by the NHI drug price revisions, and net sales in the segment amounted to ¥18,361 million, which is 99.8% of the level a year earlier, and gross profit was ¥4,780 million, which is 98.6% of the level a year earlier. SG&A expenses were ¥4,673 million, which is 100.6% of the level a year earlier, mainly due to increased hiring of pharmacists. As a result, operating profit totaled ¥106 million.

Next, I will explain the results of the Veterinary Drug Wholesale Business. Net sales amounted to ¥10,879 million, which is 104.6% of the level a year earlier, mainly due to increased sales of pet-related products. Gross profit was ¥1,661 million, which was 102.2% of the level a year earlier. SG&A expenses came to ¥1,322 million, which is 105.4% of the level a year earlier, due to the recording of an allowance for doubtful accounts. As a result, operating profit amounted to ¥339 million, which is 91.4% of the level a year earlier.

Turning finally to the Other Businesses segment, sales in the agricultural chemicals wholesale business were strong; however, other operations such as the nursing care business and the sports facility management business were lackluster due to the COVID-19 pandemic and, the segment recorded an operating loss of ¥204 million.



I would now like to explain in more detail the main factors for change in net sales.

Firstly, we have been focusing for some time on sales of products eligible for the price maintenance premium, which allows products to maintain higher prices for longer. These efforts have paid off, and our sales in this category increased by ¥21,300 million year on year. However, sales of long-listed products were significantly affected by NHI drug revisions and fell by as much as ¥28,400 million year on year.

Sales of COVID-related products such as COVID treatments and test kits and masks increased by ¥7,300 million, sales of various vaccines such as cervical cancer vaccine and zoster (shingles) vaccine rose by ¥2,000 million, and total sales of other businesses climbed by ¥300 million. Our final net sales result was ¥579,700 million, an increase of ¥2,500 million year on year.

Balance Sheet

(Million yen)

	March 31, 2022	March 31, 2023	Increase/ decrease	Main factors for increase/decrease
Current assets	198,532	188,502	-10,030	
Cash and deposits	26,971	19,029	-7,942	Payment of trade payables and capital expenditure, etc.
Notes and accounts receivable - trade	119,533	118,386	-1,147	
Inventories	31,788	30,846	-942	
Non-current assets	114,501	108,813	-5,688	
Property, plant and equipment and intangible assets	50,797	52,402	1,605	Acquisition of land associated with the integration of Amagasaki Branch and Amagasaki Higashi Branch
Investments and other assets	63,703	56,411	-7,292	Return of manufacturers' deposits, sale of investment securities
Total assets	313,033	297,316	-15,717	
Current liabilities	190,092	178,659	-11,433	
Notes and accounts payable - trade	176,685	164,571	-12,114	Shortening of grace period before payments and payment before holidays
Short-term borrowings (including current portion of long-term borrowings)	1,960	1,960	-	
Other current liabilities	11,447	12,127	680	
Non-current liabilities	22,898	18,491	-4,407	Establishment of retirement benefit trust, decrease in deferred tax liabilities
Total liabilities	212,991	197,150	-15,841	
Net assets	100,041	100,165	124	
Shareholders' equity	75,631	78,099	2,468	Recording of net profit, payment of dividends, and acquisition of own shares
Accumulated other comprehensive income	23,329	20,886	-2,443	Sales of investment securities
Total liabilities and net assets	313,033	297,316	-15,717	

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I would like to explain the balance sheet.

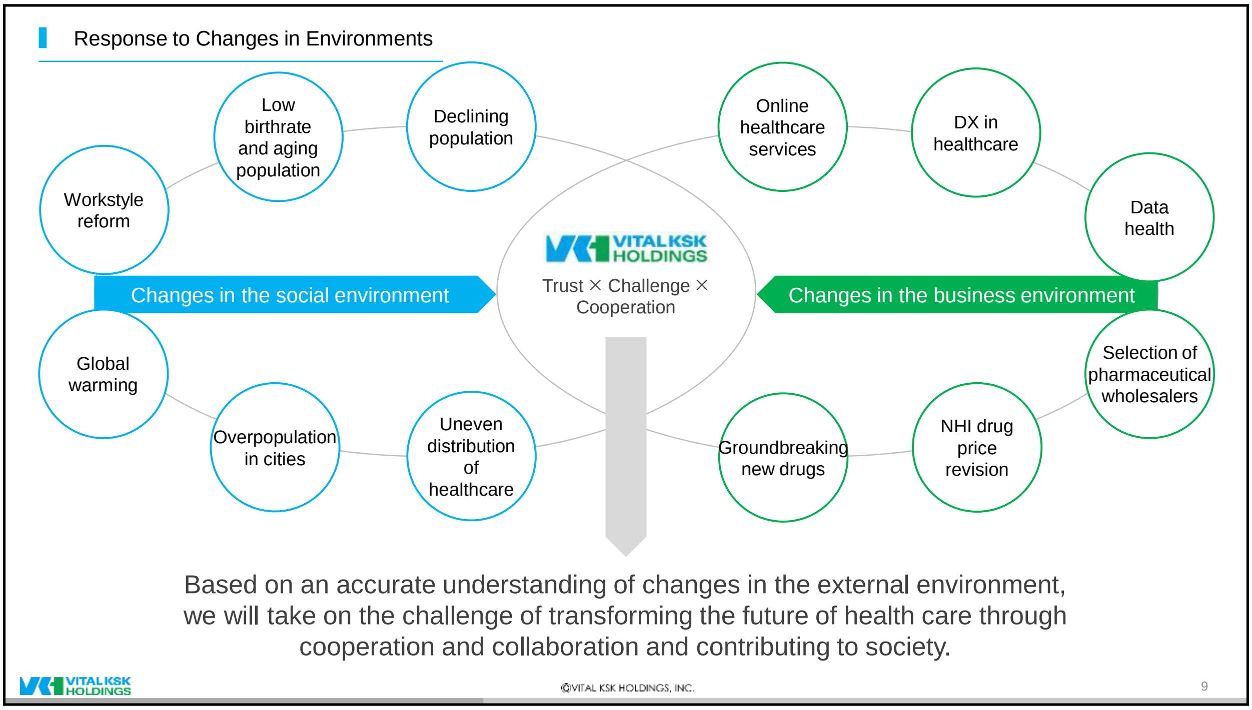
Firstly, total assets as of the end of the fiscal year under review amounted to ¥297,316 million, a decrease of ¥15,717 million from the end of the previous consolidated fiscal year. This reflects a decrease of ¥7,942 million in cash and deposits due mainly to the payment of trade payables and capital expenditure, and a decrease of ¥7,292 million in investments and other assets as a result of the return of manufacturers' deposits and the sale of cross-shareholdings, which offset an increase of ¥1,605 million in property, plant and equipment and intangible assets due to capital expenditure such as the acquisition of land associated with the integration of Amagasaki Branch and Amagasaki Higashi Branch.

Next, liabilities amounted to ¥197,150 million, a decrease of ¥15,841 million from the end of the previous consolidated fiscal year. This mainly reflects a decrease of ¥12,114 million in trade payables due to the shortening of the grace period before payments and payment before holidays and a decrease of ¥4,407 million in non-current liabilities due to the establishment of a retirement benefit trust and a decrease in deferred tax liabilities.

Finally, net assets amounted to ¥100,165 million, a slight increase of ¥124 million from the end of the previous consolidated fiscal year. This reflects the reporting of net profit of ¥4,831 million, offset by the payment of dividends, the acquisition of our own shares to improve shareholder returns, and greater progress on the sale of cross-shareholdings than in the previous year.

2. Formulation of “Long-Term Vision 2035”

I would now like to discuss our newly established ”Long-Term Vision 2035.”



Let me start by explaining the changes in our environment and the action we are taking in response.

Looking at changes in the social environment first.

As you know, Japan has the world's most rapidly declining population. The decline in the working-age population due to the low birthrate is having a particularly significant impact on the industrial structure itself. Employment of the elderly to combat labor shortages will become more commonplace and the development of a working environment in which women can feel more at ease is also an important responsibility placed on companies.

Alongside the decline in population, there is an overconcentration of resources in urban areas and the gap between urban and rural grows ever wider. This also applies to healthcare provision and the geographical imbalances in the distribution of doctors and other healthcare professionals are becoming a major social issue.

Furthermore, companies that are responsible for the social infrastructure also have to take appropriate action in response to the torrential rain and other natural disasters caused by global warming which are becoming an annual occurrence.

I will now move on to the changes in our business environment.

Due to the COVID-19 pandemic, online medical treatment and online drug administration guidance through the use of ICT have gradually become more widespread. With developments such as electronic prescriptions and the integration of health insurance and My Number cards, more data will be managed in an integrated fashion online in the future and new services using this data are expected to emerge. In addition, new diagnostic and therapeutic techniques that use cutting-edge technology are bringing forth substantial innovations. While these changes will drive market growth in the future, they also pose problems for distribution. Moreover, DX in the healthcare domain will advance rapidly in the future. This will no doubt help improve the efficiency and sophistication of healthcare provision and also drastically transform all businesses involved in the healthcare domain. This will also lead to the selection of pharmaceutical wholesalers by pharmaceutical manufacturers (limited distribution, for example).

Moreover, the annual NHI drug price revisions aimed at reducing social security expenditure are not only an issue in terms of adjusting shipments of pharmaceuticals due to the drug shortage but also a major factor undermining the sustainability of the pharmaceutical distribution system.

Our operating environment has thus changed dramatically and become more challenging. It will be difficult for us to overcome these challenges if we continue to adopt same ways of doing and approaching things. We need to change the way we operate flexibly and boldly.

At the same time, there are also things we must not change. And those are the core values we have developed since our founding. We have always attached importance to the three values of "Trust, Challenge and Cooperation" in our business activities. Our operating companies have experienced and overcome two major earthquakes, the Great Hanshin Earthquake and the Great East Japan Earthquake. We have strong relationships of trust with medical institutions and local governments developed through these experiences. We also have a corporate culture of taking on new challenges such as high performance logistics and drone research. What is more, through the management integration and close cooperation of entities that share the same values, we have generated a great deal of synergy.

Based on the three values of "Trust, Challenge and Cooperation," we will gain an accurate understanding of changes in the external environment, take on the challenge of transforming the future of health care through cooperation and collaboration with various companies and local governments, and continue contributing to society.

Long-Term Vision 2035

To transform the future of medical care
by going beyond the boundaries of mere pharmaceutical treatment
and acting as a bridge to other beneficial devices and support

Develop a sustainable distribution structure for drugs and medical products through independence and cooperation

Expand healthcare-related businesses with the aim of contributing to the resolution of social issues and the extension of healthy life expectancy

We recently established our ”Long-term Vision 2035” as follows.

To transform the future of medical care by transcending boundaries and ”acting as a bridge” to cutting-edge medicines

Based on this vision, the Group will work together to expand healthcare-related businesses with the aim of developing a sustainable distribution structure for drugs and medical products through independence and collaboration and contributing to the resolution of social issues and the extension of healthy life expectancy.

I will now explain the eight key domains for activities.

The first is "sophistication of logistics functions". Given the increase in drugs that required sophisticated temperature control, we will also work to strengthen our supply chain, aiming to be the pharmaceutical wholesaler that is chosen by pharmaceutical manufacturers. We will also expand the 3PL business nationwide, transcending regional boundaries.

Next is "overhaul of pharmaceutical wholesale business." With urban areas becoming overpopulated, we will intensively invest resources to expand our share of large markets, focusing on the Tokyo Metropolitan area and the Kyoto-Osaka-Kobe region. Meanwhile, in rural areas, we will develop an efficient distribution structure through low cost operations, to support the stable supply of pharmaceuticals.

Moving onto "Expansion of medical product sales." We identified "enhancement of sales structure for hospital market" as an important issue under our Fifth Medium-Term Management Plan. In particular, to tap into the continually growing therapeutic device market, we created MAPS- professional sales staff who are experts in hospital treatments, drugs, devices, diagnostics, etc. By looking not only at drugs but also at the areas surrounding them, we will step up initiatives to enable us to deepen our involvement in health care.

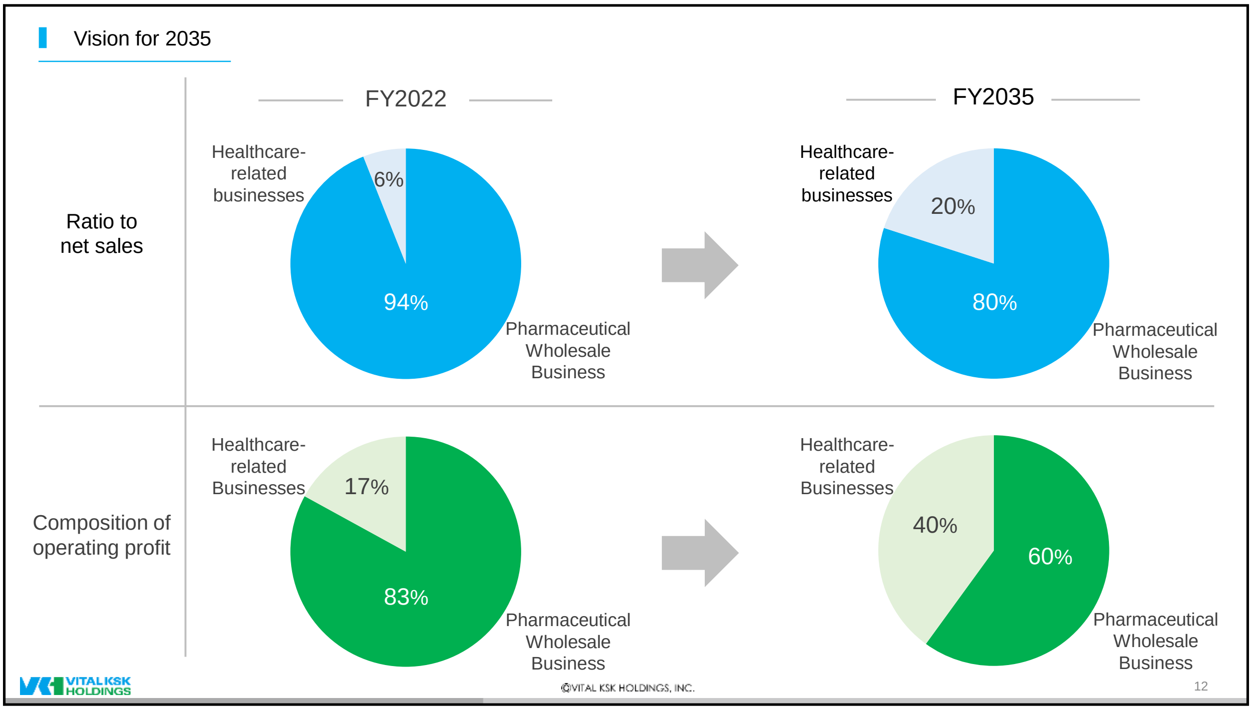
Next, we have ”expansion of life support business.” Given the increase in employment of the elderly and the empowerment of women, there is a need to develop a working environment in which every individual can enjoy good health and fully demonstrate their skills. As a corporate group involved in health-related business, in addition to our own internal initiatives, we will provide various services to other companies in the regions we operate to help individuals lead healthy, full lives.

Another business we are currently putting effort into is the rental business. We will actively take on products that are different from those we have handled in the past such as welfare equipment, home appliances and power generators and make these products available as part of the management support we offer to customers. Recently, there is also growing rental demand among local governments and companies as well as medical institutions, We see this as a huge opportunity and will work to continue strengthening the rental business in the future.

Next, we have ”expansion of the pharmacy business.” Even in outpatient settings, therapeutic drugs that require specialist pharmaceutical management have increased. Moreover, with online medication guidance and drug delivery services becoming more widespread, the way in which pharmacies and pharmacists interact with patients has also changed. We will enhance specialist services to ensure patients take drugs safely and continue operating a network of pharmacies that provide convenient services to meet the diverse needs of local residents.

Meanwhile, the relationships of trust we had built up with local governments in the past came in very useful for COVID-19 vaccine delivery services and the operation of large-scale vaccination centers. To make these relationships of trust even stronger, we will strengthen ”cooperation with central and local governments” and actively participate in business which will help extend local residents’ healthy life expectancy.

Finally, we come to ”business expansion in the companion animal and agritech fields.” In addition to the core business of selling pharmaceuticals for human use, the Group includes a company involved in the wholesale of veterinary pharmaceuticals and a company involved in the wholesale of agrochemicals. The veterinary drug wholesaler sells drugs to livestock farmers and veterinary hospitals mainly in Hokkaido, Tohoku and Niigata and at the same time has also taken advantage of the recent pet boom and developed sales channels and product sales in the companion animal field. Aiming for further growth in the future, it is now planning to enter the Kanto market (around Tokyo) and is also in the process of developing new business. Meanwhile, the agrochemical wholesaler, which operates in Niigata Prefecture, has contributed to the development of smart agriculture through initiatives such as the early adoption of drones to combat labor shortages in the agricultural sector. Going forward, we will continue contributing to DX in the agricultural sector, supporting the ”food” that is the source of health.



I would now like to explain our target sales and operating profit breakdown for 2035.

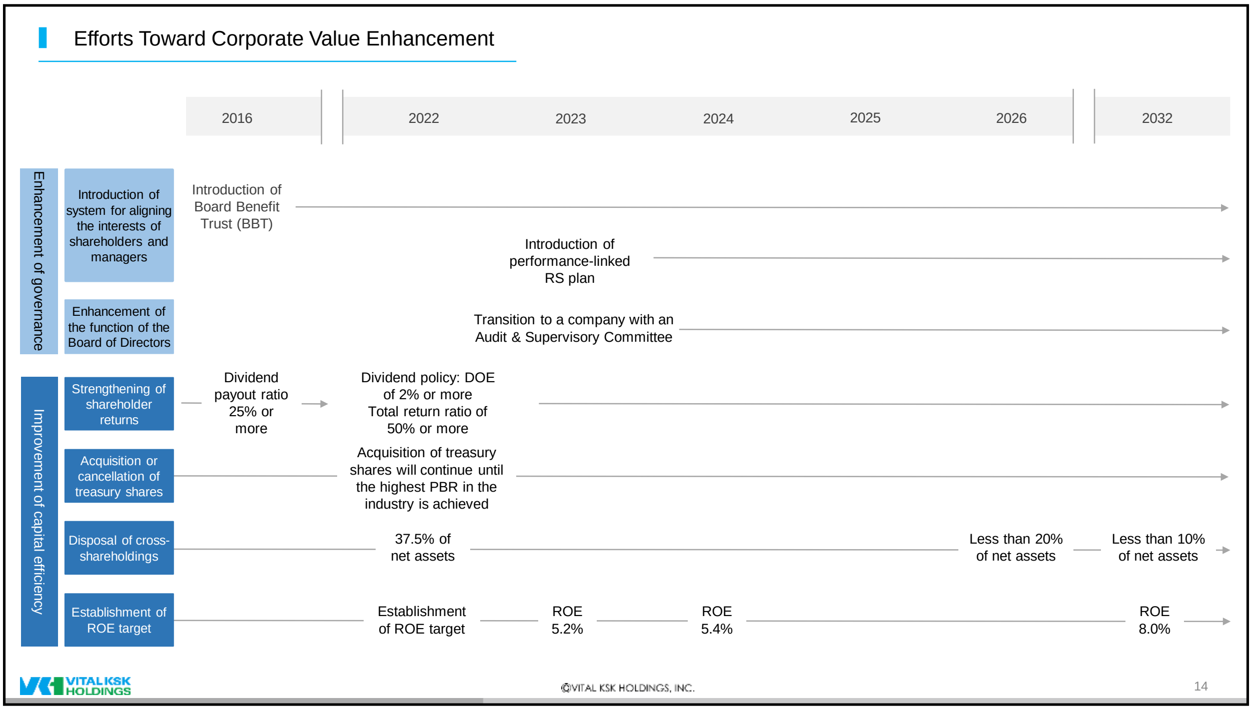
Currently, the Pharmaceutical Wholesale Business accounts for 94% of our sales, 83% of our operating profit. However, as things stand, with annual NHI drug price revisions and so forth, this business is a low growth business.

Therefore, under the Fourth medium-Term Management Plan, which started from FY2019, we defined businesses other than the Pharmaceutical Wholesale Business as emerging businesses and have been working to expand them. Our current Fifth Medium-term Management Plan maintained this approach but there is still a long way to go.

When formulating our new "Long-Term Vision 2035," we once again committed to moving away from a business model which is over-reliant on the Pharmaceutical Wholesale Business. By pushing ahead with the initiatives explained earlier, our target sales breakdown for FY2035 is Pharmaceutical Wholesale Business 80% and Healthcare-related businesses 20%. We hope to increase the operating profit contribution of Healthcare-related businesses to 40% and will also aim for further improvement in ROE.

3. Efforts Toward Corporate Value Enhancement

I will now explain progress on efforts to enhance our corporate value.



This is a summary of our initiatives to date.

As announced on October 28 last year, we have been actively working on enhancing corporate governance and improving capital efficiency as part of efforts to strengthen group management.

I will now explain each initiative in more detail.

Enhancement of Corporate Governance

* Subject to resolution of the 14th Annual General Meeting of Shareholders of the Company to be held in June 2023

(1) Introduction of a performance-linked restricted stock (RS) compensation plan with ROE as performance indicator

- For Directors, Executive Officers, and department/branch manager class employees of the Company and its major operating subsidiaries
- Introducing a restricted stock unit plan for granting stock-based compensation according to the degree of achievement of ROE
- Giving the Company's management and employees the same perspective as shareholders toward the sustained enhancement of corporate value

	Restricted stock (RS) compensation plan
Timing of introduction	From June 2023
Performance indicator	ROE
Eligibility	Directors, Executive Officers, and department/branch manager class employees of the Company and its major operating subsidiaries

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We plan to introduce a performance-linked RS plan with ROE as the performance indicator, subject to a resolution at the 14th Annual General Meeting of Shareholders of the Company to be held this June.

This plan is for Directors, Executive Officers, and department/branch manager class employees of the Company and its major operating subsidiaries and stock compensation with restrictions will be granted to them according to the degree of achievement of ROE.

The key point is that performance is linked to ROE, giving the Company's management and employees the same perspective as shareholders, and the plan is a sign of our commitment to sustainable enhancement of corporate value.

* Subject to resolution of the 14th Annual General Meeting of Shareholders of the Company to be held in June 2023

(2) Transition to a company with an Audit & Supervisory Committee

- Aimed at speeding up management decision-making and further enhancing discussions on management strategies, etc. at meetings of the Board of Directors
- Strengthening of the supervisory function of the Board of Directors through an Audit & Supervisory Committee of which the majority of members are Outside Directors

Audit & Supervisory Committee

Director	Outside Director	Outside Director
Hirofumi Jinen	Seiya Takahashi (Lawyer)	Tsuyoshi Nishitani (Certified public accountant)

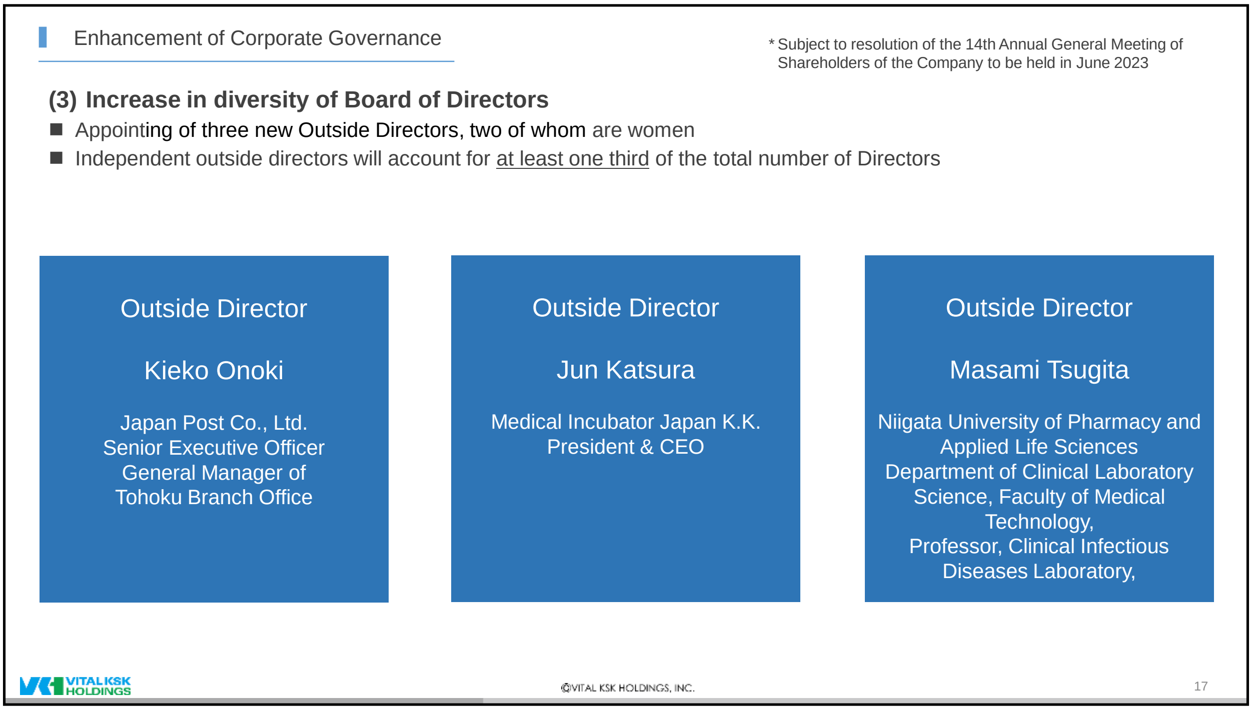
This deals with our transition to a company with an Audit & Supervisory Committee

This initiative is aimed at speeding up management decision-making and strengthening of the supervisory function of the Board of Directors by separating the Company's executive and supervisory functions, in keeping with the Corporate Governance Code.

We plan to have the following three candidates for Director appointed to the Audit & Supervisory Committee at the Ordinary General Meeting of Shareholders this June.

Mr. Hirofumi Jinen as Internal Director,
and Mr. Seiya Takahashi and Mr. Tusyoshi Nishitani as Outside Directors.

By having these three individuals serves as committee members, we will establish a high level of corporate governance befitting a company listed on the Prime Market.



This deals with the increase in diversity of our Board of Directors.

We recently decided to propose the following three individuals as candidates for new Outside Directors. Two of the candidates are women.

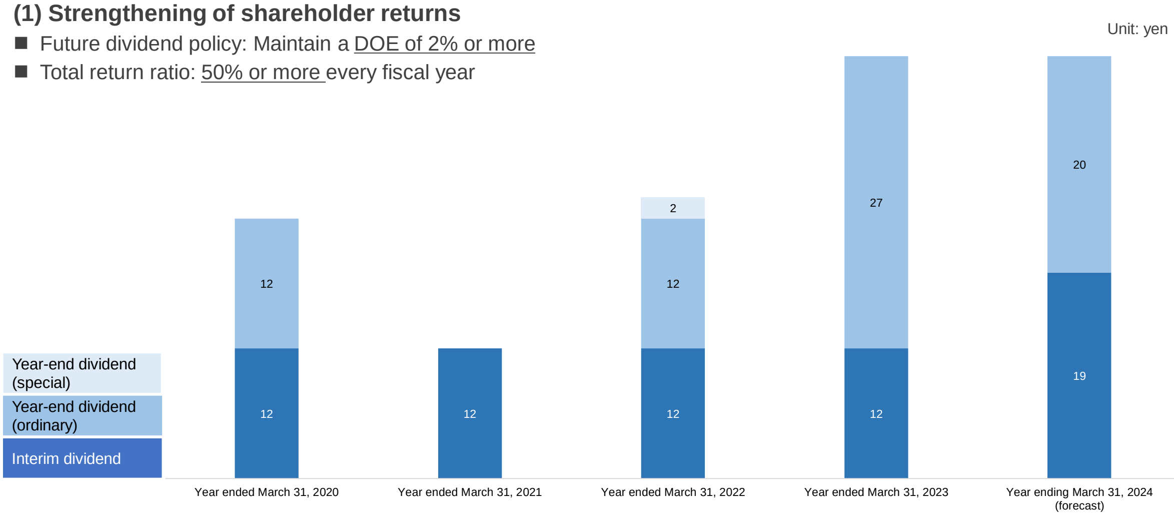
Ms. Kieko Onoki, who is Senior Executive Officer and General Manager of Tohoku Branch Office at Japan Post Co., Ltd.
Mr. Jun Katsura, who is President & CEO of Medical Incubator Japan K.K.
Ms. Masami Tsugita, who is a professor in the Clinical Infectious Diseases Laboratory of the Department of Clinical Laboratory Science in the Faculty of Medical Technology at Niigata University of Pharmacy and Applied Life Sciences.

With their appointment, independent outside directors will account for at least one third of the total number of the Company's Directors.
By having these three experts in their respective fields take on the role of Outside Director, we will seek to further enhance corporate governance.

Improvement of Capital Efficiency

(1) Strengthening of shareholder returns

- Future dividend policy: Maintain a DOE of 2% or more
- Total return ratio: 50% or more every fiscal year



	Year ended March 31, 2020	Year ended March 31, 2021	Year ended March 31, 2022	Year ended March 31, 2023	Year ending March 31, 2024 (forecast)
Total return ratio	**61.0%**	**56.4%**	**62.0%**	**62.5%**	**61.9% (forecast)**

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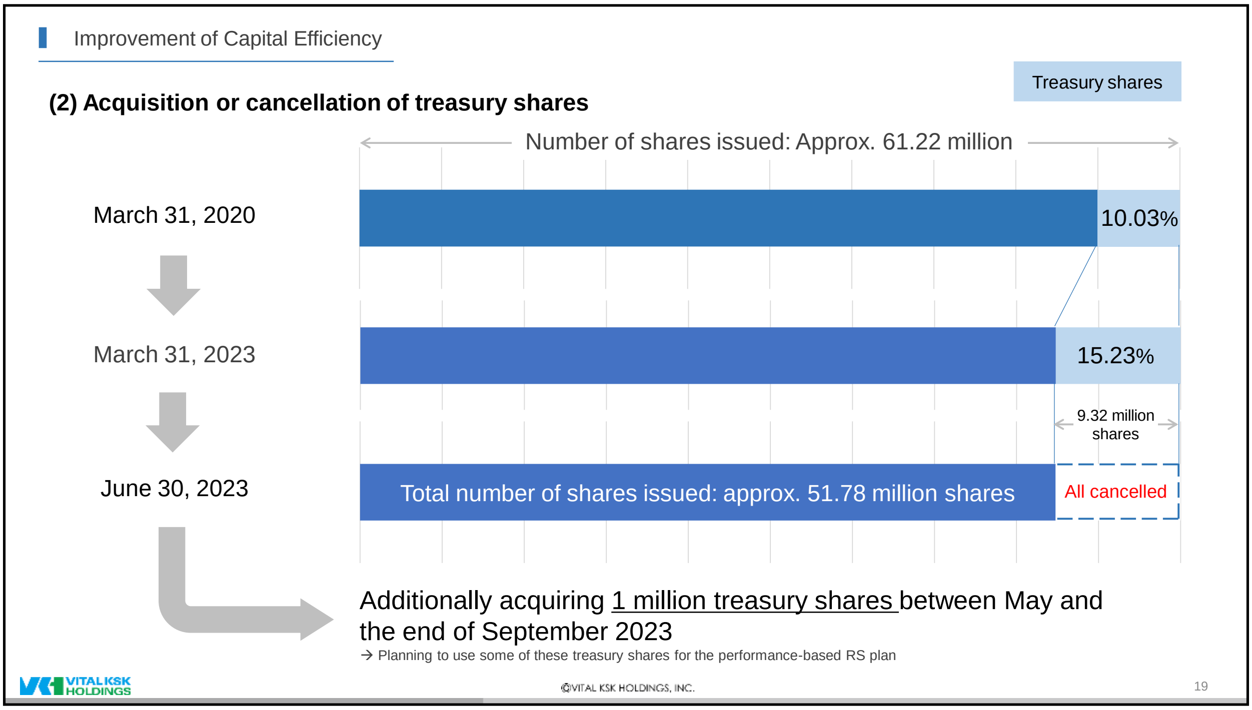
This is about improvement of capital efficiency

In the previous fiscal year, we changed our dividend policy from "dividend payout ratio of 25% or more" to "DOE of 2%," adopting dividend on equity as an index because DOE is relatively immune to changes in single-year business results. In conjunction with this, we also set the dividend forecast for the current fiscal year at a total of 39 yen, consisting of an interim dividend of 19 yen and a year-end dividend of 20 yen.

We are also aiming for a total return ratio of 50% or more every fiscal year. As the shareholders' equity ratio is not at a particularly high level, currently at around 30%, we need to remain financially sound going forward. Nonetheless, we set this total return ratio target to give maximum consideration for shareholders. The total return ratio was 62.5% in FY2022 and is expected to be 61.9% this fiscal year also.



This is about the acquisition and cancellation of treasury shares.

We have been continuously acquiring our own shares for the purpose of improving capital efficiency. Treasury shares accounted for 10.03% of the total number of issued shares at the end of March 2020. By the end of March 2023, treasury shares had increased to around 9.32 million, accounting for 15.23% of issued shares.

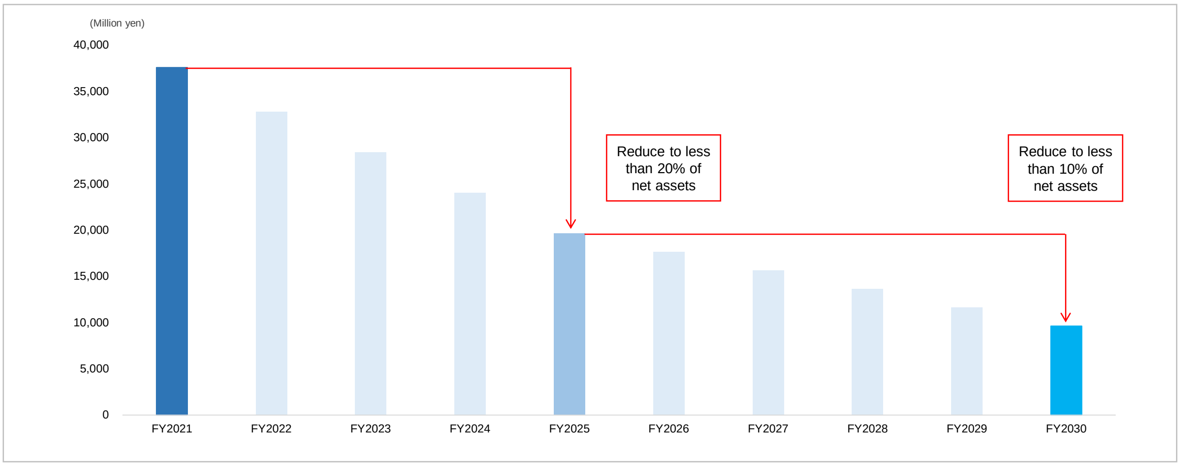
We are now going to cancel all this treasury shares at the end of June and additionally acquire another 1 million treasury shares between May and the end of September. These shares will be used for the performance-based RS plan in the future.

Through these initiatives, a higher PBR can also be expected.

Improvement of Capital Efficiency

(3) Acceleration of disposal of cross-shareholdings

- Funds from sales are used for shareholder returns and invested in business which will help enhance corporate value in the future.



I would like to explain the disposal of cross-shareholdings.

At the end of March 2022, our cross-shareholdings accounted for 41.6% of our net assets. We have actively been disposing of them and as a result, by the end of March 2023, they accounted for 37.5% of our net assets.

We will continue disposing of our cross-shareholdings in line with the Corporate Governance Code and will use the funds obtained from their sale to enhance shareholder returns and for business investments that will help enhance our corporate value in the future.

Improvement of Capital Efficiency

(4) Establishment of ROE target

	FY2021 Results	Fifth Medium-Term Management Plan				
		FY2022 Results	FY2023 Plan	FY2024 Plan	·····	FY2031 Plan
ROE	4.7%	4.9%	5.2%	5.4%	·····	8.0%

Ratio of net income to net sales

Overhaul of management of existing business
Management based on awareness of cost of capital

×

ATO (Asset turnover)

Shortening of payables/receivables cycle
Disposal of idle real estate
Sales of investment securities

×

Financial leverage

Enhancement of shareholder return policy
Acquisition of treasury shares
Stable high returns

This is about the setting of the ROE target.

Our ROE increased from 4.7% in FY2021 to 4.9% in FY2022. To reflect this, we raised our ROE target to 5.2% for FY2023 and to 5.4% for FY2024.

In addition to our existing initiatives of disposing of cross-shareholdings and enhancing our shareholder return policy, we will also improve the net profit margin by overhauling the management of existing business and actively investing in growth. In this way we will continue working towards achievement of our FY2031 ROE target of 8.0%.

For Achievement of ROE Target

Overhaul of management of existing business

Pharmaceutical Wholesale Business

Ensure price negotiations based on awareness of distribution costs

Join the *Open Data Revolution* (benefitting the whole industry or organization through sharing own skills or information.) with the visualization of contributed profit

Develop a more sophisticated supply chain

Expand the 3PL business

Generate profit by strengthening sales of products other than prescription pharmaceuticals

Improve productivity by implementing DX

Reorganize logistics centers and allocate personnel as appropriate

Pharmacy Business

Strengthen determination of dispensing fees by improving pharmacy capabilities
Improve productivity through implementation of DX
Increase business size through M&A and new pharmacy openings

Veterinary Drug Wholesale Business

Expand sales channels focusing on high-priced products
Generate profit by reducing SG&A expenses

Other Businesses

Consider downsizing or withdrawing from unprofitable businesses

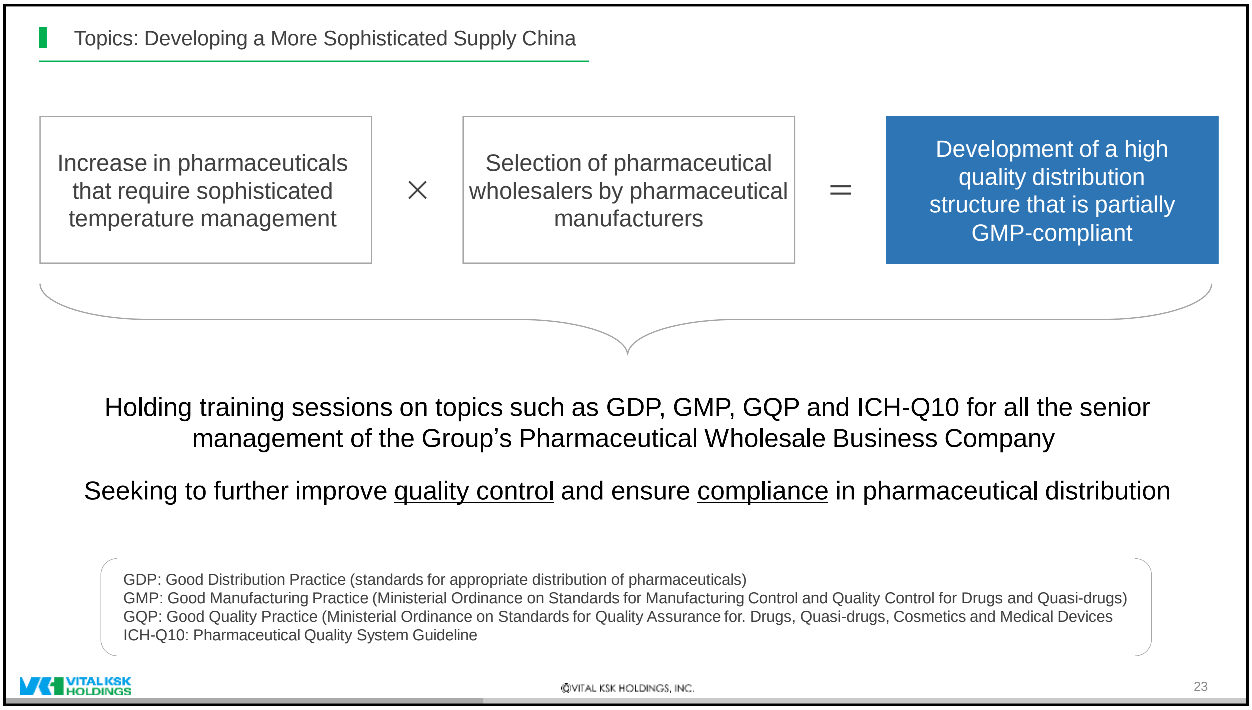
I will now explain the overhaul of management of existing business in more detail.

In the Pharmaceutical Wholesale Business, we generate an appropriate level of profit by ensuring price negotiations based on awareness of distribution costs and continuing to play our part in the *Open Data Revolution*. We will also develop a more sophisticated supply chain and expand the 3PL business nationwide, aiming to be the wholesaler preferred by pharmaceutical manufacturers. In addition, we step up sales of products other than prescription pharmaceuticals such as devices, reagents and diagnostics, to make these into a new source of earnings. We will also work to improve productive through bold measures such as the implementation of DX and the reorganization of logistics centers.

In the Pharmaceutical Business, we will acquire certifications for pharmacies in cooperation with specialized medical institutions and pharmacies in cooperation with local health care facilities and will work to determine dispensing fees in our face-to-face services. We will also pursue the improvement of productivity and expansion of stores in large metropolitan areas.

In the Veterinary Drug Wholesale Business, we will generate a stable profit by expanding sales channels focusing on high priced products and making inroads in the Tokyo Metropolitan Area, which is a large market.

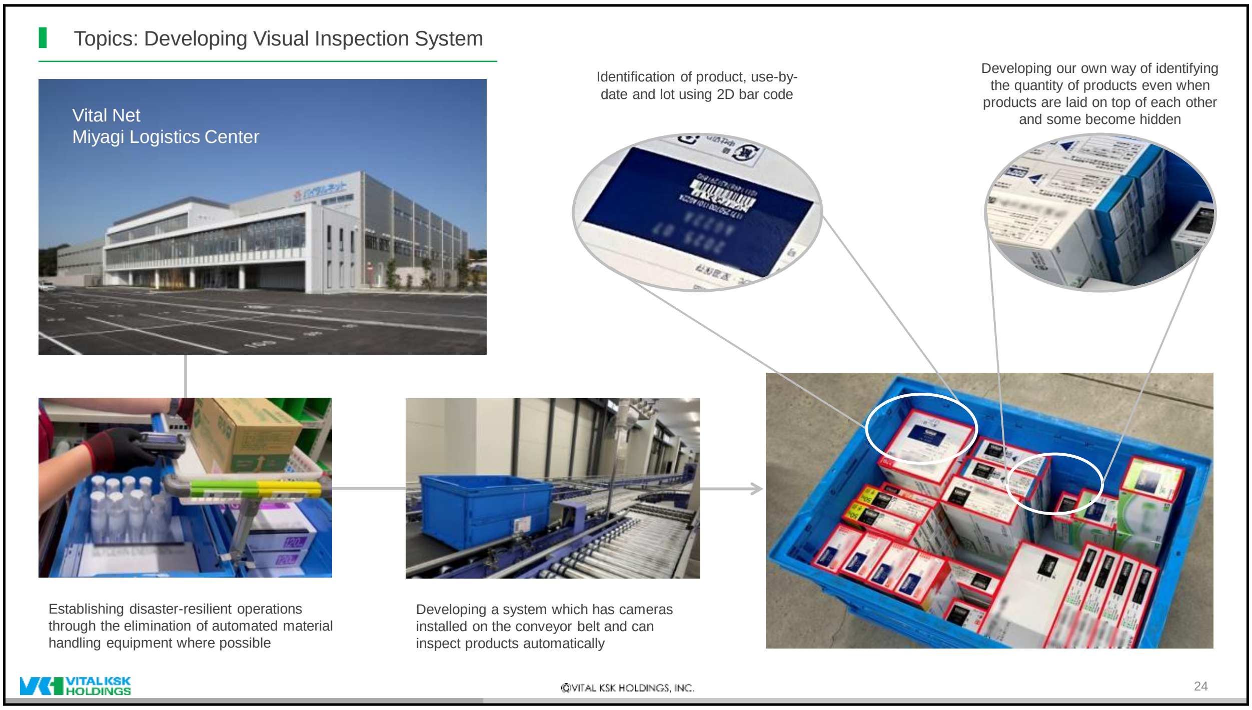
In Other Businesses, we will carry out business restructuring based on an awareness of the cost of capital, including downsizing and withdrawing from unprofitable businesses.



I would now like to explain several of our initiatives.

Our Fifth Medium-Term Management Plan identified the development of a more sophisticated supply chain as a major practical issue.

This requires not only development in terms of logistics centers and other facilities but also the development of the human resources who will manage and operate them. We are holding training sessions on topics such as GDP, GMP, GQP and ICH-Q10 for all the senior management of the Group's Pharmaceutical Wholesale Business Company and working as an organization to further improve quality control and ensure compliance in pharmaceutical distribution. As a company that handles vitally important products, we will continue developing a more sophisticated supply chain.

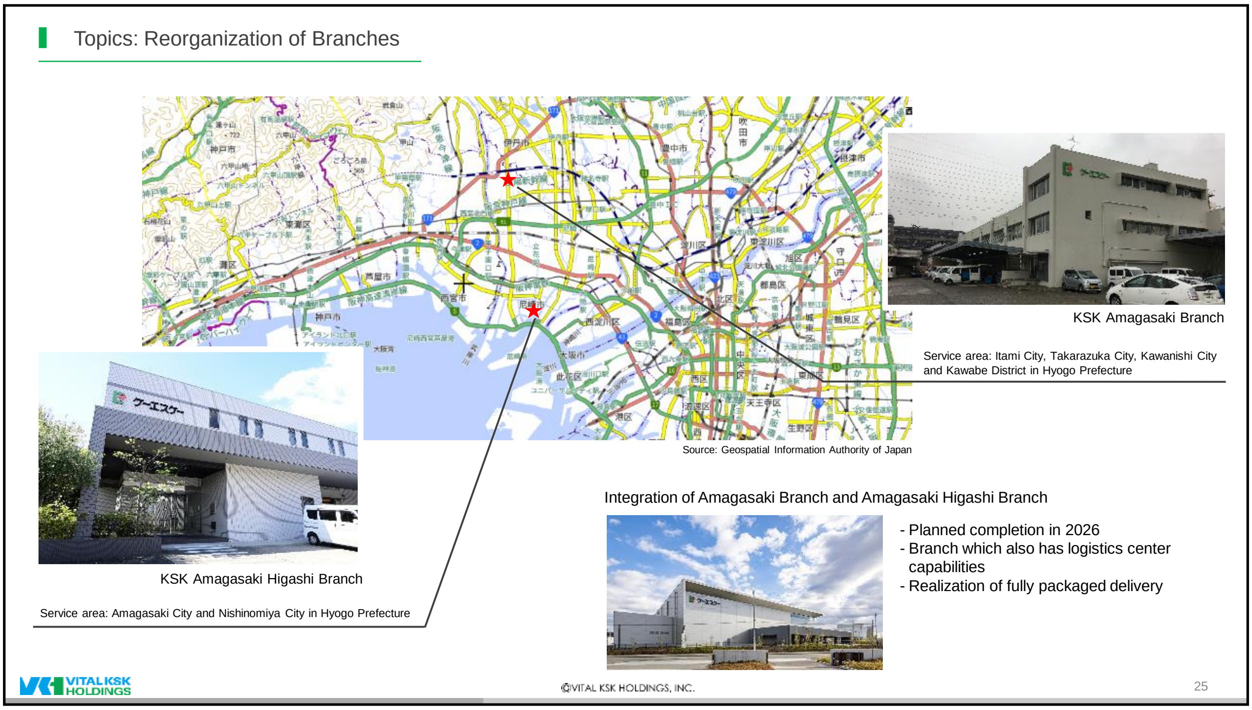


We are currently developing a visual inspection system which will increase productivity and accuracy.

Based on the lessons learned from the 2011 Great East Japan Earthquake, Vital Net's Miyagi Logistics Center, which is central to our logistics capabilities, is eliminating automated material handling equipment as much as possible and product inspections are carried out manually using a two-tiered approach.

To do this more efficiently, we are currently developing a system which has cameras installed on the conveyor belt and can inspect products automatically. This system has its own unique way of counting the quantity of products accurately even when they are placed on top of each other, with some hidden. A 2D barcode is used to identify products, use-by-dates and lots, enabling reliable product inspections.

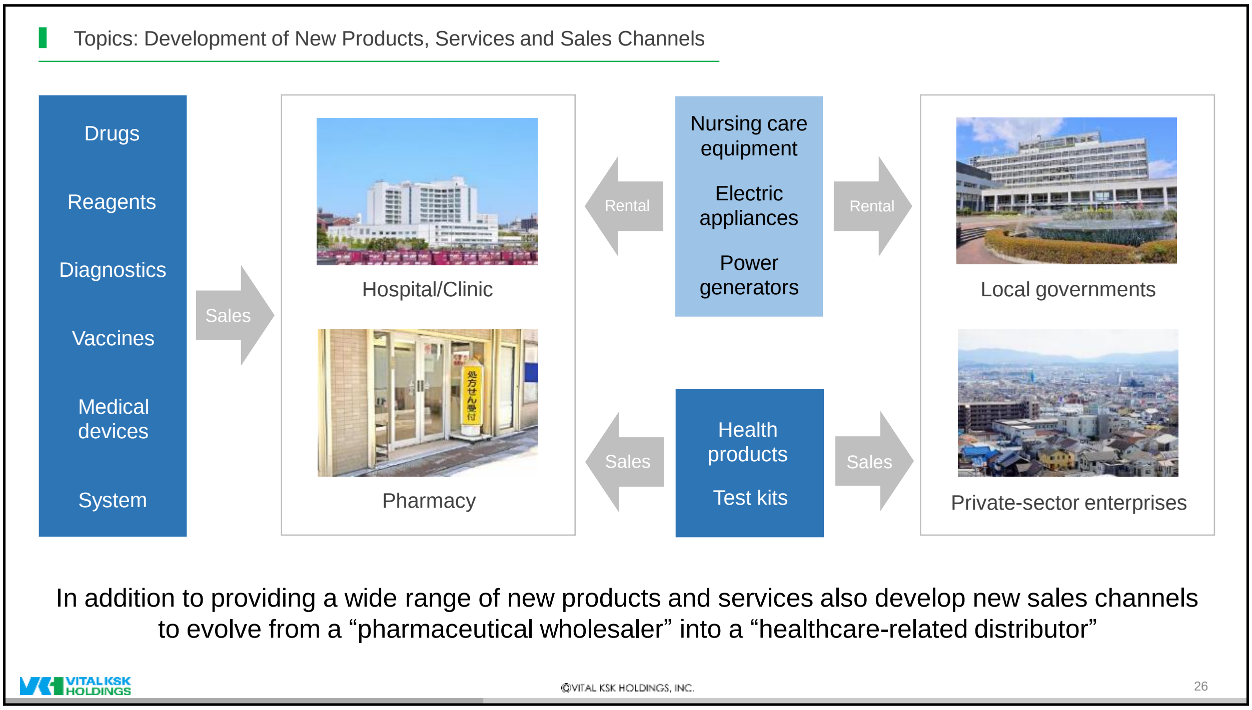
In addition to this system, we are also incorporating the predictive ordering system and packaged delivery introduced previously in a bid to develop even more sophisticated and efficient logistics capabilities.



We are also considering the reorganization of branches where necessary.

I would like to explain the integration of KSK's Amagasaki Branch and Amagasaki Higashi Branch as one example. Both branches are large branches in urban areas which provide around 1,800 homes with pharmaceuticals and other products on a daily basis. We are planning to reorganize the two branches in 2026, integrating them to realize more efficient fully packaged delivery and to create a site which also functions as a logistics center close to central Osaka.

In addition, we plan to actively optimize our logistics centers based on regional characteristics.



This is about the development of new products, services and sales channels.

So far, we have sold pharmaceuticals, reagents, diagnostics, vaccines, medical equipment and systems to hospitals, clinics and pharmacies. Recently, we have also been expanding the business of renting welfare equipment, electric appliances and power generators. We have also been stepping up sales of new products such as health products and testing kits.

Moreover, we are not only expanding products and services for existing customers but also developing new customers such as local governments and private-sector enterprises and have started making rental proposals and selling health products to them.

In this way, we are using existing business relationships to expand new business opportunities, aiming to evolve from a ”pharmaceutical wholesaler” into a ”healthcare-related distributor”.

Finally, I will explain our full-year earnings forecasts for FY2023.

Full-year Earnings Forecasts for the Fiscal Year Ending March 31, 2024

(Million yen, %)

	Year ended March 31, 2023 Results		Year ending March 31, 2024 Forecast			
	Amount	Ratio to net sales	Amount	Ratio to net sales	Change	YoY
Net sales	579,772	–	576,000			
Operating profit	2,470	0.43	4,700	0.82	–	–
Ordinary profit	5,960	1.03	6,000	1.04	40	100.7
Profit attributable to owners of parent	4,831	0.83	5,200	0.90	369	107.6

(1) Recording of administrative service fee income in net sales Approx. 1,600 million yen
(2) Improvement of profit, etc. Approx. 200 million yen
(3) Decrease in amortization of goodwill Approx. 200 million yen
(4) Expected reversal of allowance for doubtful accounts Approx. 200 million yen

(Note) The amount of change and YoY comparison for net sales and operating profit are omitted because "administrative service fee income," which was previously recorded in non-operating income, will be recorded in net sales following a change of presentation method from FY2023 due to the increased importance of the data business.

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Net sales for the fiscal year ending March 31, 2024 are expected to amount to 576,000 million yen, falling around 4,000 million from the previous year.

The main negative factors are (1) the suspension of transactions with one foreign pharmaceutical company, (2) decline in the sale of JCHO reflecting the lifting of the suspension of rival wholesalers from participating in tenders, and (3) decline in COVID-related delivery earnings and sales of related products as result of the change in classification of COVID-19. These negative factors combined are expected to have a negative impact on sales of around 16,000 million yen.

Meanwhile, the main positive factors are (1) growth of the pharmaceutical market, (2) stepped-up initiatives for products other than pharmaceuticals, (3) the recording of administrative service fee income from pharmaceutical manufacturers in net sales instead of non-operating income as before. These positive factors combined are expected to have a positive impact on sales of around 12,000 million yen.

Accordingly, full-year net sales will fall by around 4,000 million yen, to 576,000 million yen.

Turning next to operating profit.

The abovementioned recording of administrative service fee income in net sales as well as other factors such as initiatives to improve profit, a decrease in the amortization of goodwill and the expected reversal of the allowance for doubtful accounts are expected to push operating profit up by around 2,200 million yen from the previous year, to 4,700 million yen.

We forecast ordinary profit of 6,000 million yen and profit attributable to owners of parent of 5,200 million yen.

Revision of Profit Plan due to Change in Method of Presentation

(Million yen, %)

	Year ending March 31, 2024 (FY2023)			Year ending March 31, 2025 (FY2024)			
	Amount	Ratio to net sales	YoY	Before revision	After revision	Ratio to net sales	YoY
Net sales	576,000	–	–	566,000	576,000	–	100.0
Operating profit	4,700	0.82	–	3,700	5,300	0.92	112.8
Ordinary profit	6,000	1.04	100.7	6,200	6,200	1.08	103.3
Profit attributable to owners of parent	5,200	0.90	107.6	5,400	5,400	0.94	103.8

(Note) The YoY comparison for net sales and operating profit for FY2023 is omitted because "administrative service fee income," which was previously recorded in non-operating income, will be recorded in net sales following a change of presentation method from FY2023 due to the increased importance of the data business.

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I would also like to explain our revision to the profit plan for FY2024 as a result of the aforementioned change in presentation method.

Our plan for FY2024 is net sales of 576,000 yen, operating profit of 5,300 million yen, ordinary profit of 6,200 million yen, and profit attributable to owners of parent of 5,400 million yen.

Note on Forward Looking Statements

The Company’s current plans, strategies, earnings forecasts and other forward-looking statements in these materials are based on information currently available to the Company, and include potential risks and uncertainties.

Please be aware that there is a possibility that actual business activities and performance will differ greatly from these outlooks due to changes in the economic situation, market conditions and various other factors.

For this reason, please do not rely entirely on these forward-looking statements alone when considering aspects of the Company such as its performance and corporate value.

Furthermore, none of the information contained in these materials is intended to induce you to buy or sell the Company’s stock or recommend investment in the Company’s stock.

Final decisions on investment should be made at your own discretion.

Please refer to the note on forward-looking statements shown here.

Contact for Inquiries

VITAL KSK HOLDINGS, INC.

Corporate Communications Department

Mail: ir@vitalksk.co.jp

Contacts: Sato, Nanjo

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I would like to ask you to direct any inquiries your might have about today s presentation to our Corporate communications Department.

Thank you for your attention.