

Consolidated Financial Statements for the First Quarter of the Fiscal Year Ending March 31, 2024 [Japanese GAAP]



August 2, 2023

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

Stock exchange listing: Tokyo Stock Exchange

Code number: 3151

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

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Scheduled date of filing quarterly report: August 9, 2023

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, 2024 (April 1, 2023 – June 30, 2023)

(1) Consolidated Operating Results (% indicates changes from the previous corresponding period.)

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%
Three months ended								
June 30, 2023	144,542	-	1,167	-	1,470	-	917	-
June 30, 2022	143,919	-	849	-	1,198	-	640	-

(Note) Comprehensive income: Three months ended June 30, 2023: ¥4,000 million [-%]

Three months ended June 30, 2022: ¥3,068 million [-%]

	Basic earnings per share	Diluted earnings per share
	Yen	Yen
Three months ended		
June 30, 2023	17.81	-
June 30, 2022	12.05	-

(2) Consolidated Financial Position

	Total assets	Net assets	Equity ratio
	Million yen	Million yen	%
As of			
June 30, 2023	305,713	102,199	33.0
March 31, 2023	297,316	100,165	33.3

(Reference) Equity: As of June 30, 2023: ¥100,996 million

As of March 31, 2023: ¥98,986 million

2. Cash Dividends

	Cash dividends per share				
	1st quarter-end	2nd quarter-end	3rd quarter-end	Year-end	Total
	Yen	Yen	Yen	Yen	Yen
Year ended March 31, 2023	-	12.00	-	27.00	39.00
Year ending March 31, 2024	-				
Year ending March 31, 2024 (forecast)		19.00	-	20.00	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, 2024
(April 1, 2023 - March 31, 2024)**

(% 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	
First half	290,000	-	2,400	-	3,100	-	2,000	-	39.07	
Full year	576,000	-	4,700	-	6,000	-	5,200	-	101.57	

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

* The percentage increase/decrease is not shown due to a change in presentation method. For details, please see (3) Notes to Quarterly Consolidated Financial Statements of 2. Quarterly Consolidated Financial Statements and Primary Notes.

*** 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: None

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, 2023: 51,902,976 shares

March 31, 2023: 61,224,796 shares

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

June 30, 2023: 706,479 shares

March 31, 2023: 9,438,699 shares

3) Average number of shares during the period:

Three months ended June 30, 2023: 51,546,832 shares

Three months ended June 30, 2022: 53,125,895 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

The Group previously recognized income from the provision of sales information to manufacturers as administrative service fee income under non-operating income but changed the method of presentation and this income is included in net sales from the first quarter of the consolidated fiscal year under review. As a result of this change, the results for the first quarter of the previous fiscal year have been retrospectively adjusted to reflect the change in method of presentation.

For details, please see (Change in method of presentation) in (3) Notes to Quarterly Consolidated Financial Statements of 2. Quarterly Consolidated Financial Statements and Primary Notes.

Explanation of Operating Results

The Japanese economy during the three months ended June 30, 2023 saw a resumption of economic activity as COVID-19 became endemic, fueling expectation of a gradual economic recovery. However, at the same time, continued global monetary tightening to conquer inflation could trigger a global economic downturn, and poses a downside risk to Japan's economy. In addition, there is still a high degree of uncertainty in the outlook, with rising prices, supply constraints and financial and capital market volatility, and attention needs to be paid to economic developments.

In the pharmaceutical wholesale business sector, which is the Group's main business, the drug price revisions in April 2023 cut approximately ¥310 billion from national healthcare costs and, going forward, discussions aimed at radically reforming policies and systems related to people's lives and health such as the social security system and the drug pricing system are likely to increase and the policy of curbing drug costs is likely to be maintained. With pharmaceutical market development, manufacturing and distribution operations also changing dynamically day by day, the solutions to pharmaceutical distribution related problems are also becoming increasingly complex and the business environment remains challenging.

In light of such changes in the market structure and operating environment, the Group formulated its Long-term Vision 2035 from the fiscal year ending March 31, 2024, which is "to transform the future of medical care by transcending boundaries and "acting as a bridge" to cutting-edge medicines." Based on this long-term vision, the Group will expand medical care-related businesses with the aim of developing a sustainable distribution structure for drugs and medical care-related products through independence and cooperation and contributing to the resolution of social issues and the extension of healthy life expectancy. Furthermore, with "business model innovation looking at next-generation capabilities" as its medium-term vision, the Group is implementing its fifth Medium-Term Management Plan, spanning the three-year period from the year ending March 31, 2023 to the year ending March 31, 2025. In the medium-term management plan, the Company has set out practical tasks to "1. Explore a pharmaceutical distribution model to adapt to 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, 2023, net sales were ¥144,542 million (compared with ¥143,919 million for the same period of the previous year), operating profit was ¥1,167 million (compared with ¥849 million for the same period of the previous year), ordinary profit was ¥1,470 million (compared with ¥1,198 million for the same period of the previous), and profit attributable to owners of parent was ¥917 million (compared with ¥640 million for the same period of the previous).

Performance results by business segment are as follows.

1) Pharmaceutical Wholesale Business

In the three months ended June 30, 2023, the pharmaceutical wholesale business posted a slight increase

in sales despite the negative impact of NHI drug price revision and the suspension of handling of certain manufacturers, with growth in products eligible for the price maintenance premium such as anticancer drugs and COVID-19 treatments more than offsetting the decline in sales of COVID-19-related products such as test kits. Meanwhile, profit grew, mainly due to the effect of this sales growth.

As a result of the foregoing, net sales were ¥135,922 million (compared with ¥135,588 million for the same period of the previous year), and segment profit (operating profit) was ¥1,054 million (compared with ¥783 million for the same period of the previous year).

2) Pharmacy Business

The pharmacy business posted net sales of ¥4,654 million (compared with ¥4,481 million for the same period of the previous year), reflecting efforts to expand income from dispensing technical fees and income from pharmaceutical management fees as well as an increase in the number of prescriptions received as a result of increased movement of people with the downgrading of COVID-19 to a Class 5 infectious disease under the Infectious Diseases Act. Segment profit (operating profit) was ¥87 million (compared with ¥14 million for the same period of the previous year) due to the effect of this sales growth as well as a significant decrease in amortization of goodwill.

3) Veterinary Drug Wholesale Business

The veterinary drug wholesale business recorded net sales of ¥2,783 million (compared with ¥2,660 million for the same period of the previous year), driven by sales growth in companion animal operations. However, segment profit (operating profit) was ¥99 million (compared with ¥121 million for the same period of the previous year), reflecting the impact of higher purchase prices.

4) Other Businesses

Other businesses reported net sales of ¥1,182 million (compared with ¥1,189 million for the same period of the previous year) and a segment loss (operating loss) of ¥90 million (compared with a segment loss of ¥69 million in the same period of the previous year), reflecting lackluster performances mainly in the sports facility management business.

2. Quarterly Consolidated Financial Statements and Primary Notes

(1) Quarterly Consolidated Balance Sheets

(Million yen)

	As of March 31, 2023	As of June 30, 2023
Assets		
Current assets		
Cash and deposits	19,029	21,371
Notes and accounts receivable - trade	118,585	123,726
Inventories	30,846	29,069
Accounts receivable - other	16,466	14,027
Other	3,616	4,464
Allowance for doubtful accounts	(41)	(39)
Total current assets	188,502	192,619
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	20,370	20,072
Land	24,917	24,918
Other, net	3,736	4,027
Total property, plant and equipment	49,024	49,018
Intangible assets		
Goodwill	818	784
Other	2,558	2,523
Total intangible assets	3,377	3,307
Investments and other assets		
Investment securities	44,642	48,918
Other	12,771	12,855
Allowance for doubtful accounts	(1,002)	(1,006)
Total investments and other assets	56,411	60,767
Total non-current assets	108,813	113,093
Total assets	297,316	305,713

(Million yen)

	As of March 31, 2023	As of June 30, 2023
Liabilities		
Current liabilities		
Notes and accounts payable - trade	164,571	169,673
Short-term borrowings	990	990
Current portion of long-term borrowings	970	970
Income taxes payable	2,095	615
Provision for bonuses	1,569	2,417
Other	8,462	9,464
Total current liabilities	178,659	184,129
Non-current liabilities		
Long-term borrowings	6,790	6,547
Other provisions	251	252
Retirement benefit liability	855	774
Other	10,594	11,810
Total non-current liabilities	18,491	19,384
Total liabilities	197,150	203,513
Net assets		
Shareholders' equity		
Share capital	5,000	5,000
Capital surplus	12,810	5,272
Retained earnings	67,864	67,380
Treasury shares	(7,575)	(599)
Total shareholders' equity	78,099	77,054
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	19,972	23,119
Remeasurements of defined benefit plans	913	822
Total accumulated other comprehensive income	20,886	23,942
Non-controlling interests	1,179	1,203
Total net assets	100,165	102,199
Total liabilities and net assets	297,316	305,713

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

Quarterly Consolidated Statements of Income

Three Months Ended June 30, 2022 and 2023

(Million yen)

	For the three months ended June 30, 2022	For the three months ended June 30, 2023
Net sales	143,919	144,542
Cost of sales	132,786	133,079
Gross profit	11,132	11,462
Selling, general and administrative expenses	10,282	10,295
Operating profit	849	1,167
Non-operating income		
Interest income	15	13
Dividend income	185	167
Share of profit of entities accounted for using equity method	24	18
Other	173	147
Total non-operating income	398	347
Non-operating expenses		
Interest expenses	26	22
Rental expenses	20	19
Other	3	2
Total non-operating expenses	49	43
Ordinary profit	1,198	1,470
Extraordinary income		
Gain on sale of non-current assets	3	3
Total extraordinary income	3	3
Extraordinary losses		
Loss on valuation of investment securities	55	42
Soil treatment cost	62	—
Other	2	0
Total extraordinary losses	119	42
Profit before income taxes	1,081	1,431
Income taxes	406	486
Profit	675	945
Profit attributable to non-controlling interests	35	27
Profit attributable to owners of parent	640	917

Quarterly Consolidated Statements of Comprehensive Income

Three Months Ended June 30, 2022 and 2023

(Million yen)

	For the three months ended June 30, 2022	For the three months ended June 30, 2023
Profit	675	945
Other comprehensive income		
Valuation difference on available-for-sale securities	2,234	2,726
Remeasurements of defined benefit plans, net of tax	(89)	(91)
Share of other comprehensive income of entities accounted for using equity method	247	419
Total other comprehensive income	2,392	3,055
Comprehensive income	3,068	4,000
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	3,032	3,973
Comprehensive income attributable to non-controlling interests	35	27

(3) Notes to Quarterly Consolidated Financial Statements

(Notes on going concern assumption)

For the three months ended June 30, 2023 (from April 1, 2023 to June 30 2023)

Not applicable.

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

For the three months ended June 30, 2023 (from April 1, 2023 to June 30 2023)

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.

(Change in method of presentation)

The Group previously recognized income from the provision of sales information to manufacturers as administrative service fee income under non-operating income but changed the method of presentation and this income is included in net sales from the first quarter of the consolidated fiscal year under review.

Based on its medium-term vision “business model innovation looking at next-generation capabilities” and under a basic policy of “evolution of distribution and marketing model in step with progress of DX in health care,” the Group positions information provision as an important operating activity given the increasing importance of information provision services and the purpose of this change in presentation method is to properly present the results of the Group's operating activities.

The quarterly consolidated financial statements for the first three months of the previous consolidated fiscal year and the consolidated financial statements for the previous consolidated fiscal year have been restated to reflect this change in presentation method.

As a result, administrative service fee income of ¥397 million, which had been presented under non-operating income, has been restated as net sales, resulting in net sales of ¥143,919 million and operating profit of ¥849 million. Ordinary profit and profit before income taxes are not affected by this change.

In addition, accounts receivable-other of ¥199 million, which had been presented in current assets, has been restated as notes and accounts receivable-trade, resulting in notes and accounts receivable-trade of ¥118,585 million.

(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, 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)
	Pharma- ceutical Wholesale Business	Pharmacy Business	Veterinary Drug Wholesale Business	Total				
Net sales								
Net sales to outside customers	135,588	4,481	2,660	142,729	1,189	143,919	-	143,919
Inter-segment net sales or transfers	2,777	0	0	2,777	626	3,404	(3,404)	-
Total	138,365	4,481	2,660	145,507	1,815	147,323	(3,404)	143,919
Segment income (loss)	783	14	121	919	(69)	850	(0)	849

(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, sports facility management 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.

For the fiscal year ending March 31, 2024 (from April 1, 2023 to June 30, 2023)

(Million yen)

	Reportable segment				Others (Note 1)	Total	Adjustment (Note 2)	Amount recorded in Consolidated Statements of Income (Note 3)
	Pharma- ceutical Wholesale Business	Pharmacy Business	Veterinary Drug Wholesale Business	Total				
Net sales								
Net sales to outside customers	135,922	4,654	2,783	143,360	1,182	144,542	-	144,542
Inter-segment net sales or transfers	2,769	3	0	2,772	648	3,421	(3,421)	-
Total	138,691	4,657	2,783	146,132	1,830	147,963	(3,421)	144,542
Segment income (loss)	1,054	87	99	1,242	(90)	1,151	15	1,167

(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, sports facility management business, and consulting services for medical institutions.

2. Adjustment of segment income (loss) of ¥15 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.