August 2, 2023

VITAL KSK HOLDINGS, INC.

Financial Results for the First Three Months of the Fiscal Year Ending March 31, 2024 (the 15th term)

This material is supplemental material for the financial results for the first three months (April-June) of the fiscal year ending March 31, 2024 (the 15th term) of Vital KSK Holdings, Inc.

Please read this material together with the Consolidated Financial Statements for the First Quarter of the Fiscal Year Ending March 31, 2024 released on August 2, 2023.

1. Financial Highlights for the First Three Months of the Fiscal Year Ending March 31, 2024

First of all, I will provide an explanation with respect to financial highlights for the first three months of the fiscal year ending March 31, 2024.

Summary of Income

(Million yen, %)

	Apr.-Sep. 2023 Financial Forecast		Apr.-Jun. 2023 Results				Apr.-Jun. 2022 Results	
	Amount	Ratio to net sales	Amount	Ratio to net sales	YoY	Rate of progress	Amount	Ratio to net sales
Net sales	290,000	-	144,542	-	-	49.8	143,919	-
Operating profit	2,400	0.83	1,167	0.81	-	48.6	849	0.59
Ordinary profit	3,100	1.07	1,470	1.02	-	47.4	1,198	0.83
Profit attributable to owners of parent	2,000	0.69	917	0.63	-	45.9	640	0.44

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Net sales for the first three months under review rose slightly, up from ¥143,919 million a year earlier, to ¥144,542 million, mainly due to growth in sales of products eligible for the price maintenance premium such as COVID-19 treatments, which offset NHI drug price revision and the suspension of handling of certain manufacturers. Operating profit increased from ¥849 million a year earlier to ¥1,167 million chiefly due to the effect of these increased sales and a significant decrease in amortization of goodwill. Ordinary profit climbed from ¥1,198 million a year earlier to ¥1,470 million due to the increase in operating profit, and profit attributable to owners of parent also grew from ¥640 million a year earlier to ¥917 million for the same reason.

The Group previously recognized income from the provision of sales information to manufacturers as administrative service fee income under non-operating income but changed to the method of including this income in net sales from the fiscal year under review. As a result of this change, year-on-year comparisons are omitted.

Profit by Segment

Prescription drugs 100.9%
Reagents and medical devices 95.2%
OTC drugs 96.6%

(Million yen, %)

	Pharmaceutical Wholesale Business[*1]			Pharmacy Business[*2]		Veterinary Drug Wholesale Business[*3]		Other Businesses[*4]	
	Results	Ratio to net sales	Results for the same period a year earlier	Results	Results for the same period a year earlier	Results	Results for the same period a year earlier	Results	Results for the same period a year earlier
Net sales	135,922	–	135,588	4,654	4,481	2,783	2,660	1,182	1,189
Gross profit	9,572	7.04	9,245	1,184	1,165	428	443	961	933
Selling, general and administrative expense	8,517	6.27	8,461	1,096	1,150	328	321	1,052	1,002
Operating profit	1,054	0.78	783	87	14	99	121	-90	-69

*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 profit by segment.

Let me start with our core Pharmaceutical Wholesale Business. Net sales rose from ¥135,588 million a year earlier to ¥135,922 million. The Pharmaceutical Wholesale Business posted a slight increase in sales despite the negative impact of the April 2023 NHI drug price revision and the suspension of handling of certain manufacturers, with growth in sales of prescription pharmaceuticals (sales growth rate of 100.9%) driven by growth in sales of 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 (sales growth rate of reagents and medical devices was 95.2% of the level a year earlier while sales growth rate of OTC pharmaceuticals was 96.6% of the level a year earlier), which had pushed up sales the previous year. Gross profit rose from ¥9,245 million a year earlier, to ¥9,572 million, mainly due to the effect of these increased sales, and SG&A expenses grew from ¥8,461 million a year earlier, to ¥8,517 million owing to an increase in integrated system-related investment and electricity charges. As a result, operating profit increased from ¥783 million a year earlier, to ¥1,054 million.

Moving on to the Pharmacy Business, net sales rose from ¥4,481 million a year earlier, to ¥4,654 million. The sales growth reflects 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 largely as a result of increased movement of people. Gross profit climbed from ¥1,165 million a year earlier, to ¥1,184 million due to the effect of increased sales, which offset the negative impact of NHI drug price revision. SG&A expenses fell from ¥1,150 million a year earlier, to ¥1,096 million, reflecting significant decrease in the amortization of goodwill from the fiscal year under review as a result of the recognition of an impairment loss for goodwill at the end of the previous fiscal year. As a result, operating profit rose from ¥14 million a year earlier, to ¥87 million.

In the Veterinary Drug Wholesale Business, net sales climbed from ¥2,660 million a year earlier, to ¥2,783 million, reflecting growth in companion animal operations. However, gross profit decreased from ¥443 million a year earlier, to ¥428 million under the impact of higher purchase prices and although SG&A expenses were mostly unchanged year on year, operating profit fell from ¥121 million a year earlier, to ¥99 million.

Finally, Other Businesses saw lackluster performances mainly in the sports facility management business and reported net sales of ¥1,182 million, compared with ¥1,189 million a year earlier, gross profit of ¥961 million, compared with ¥933 million a year earlier, and SG&A expenses of ¥1,052 million, compared with ¥1,002 million a year earlier. As a result, the segment reported an operating loss of ¥90 million, compared with a segment loss of ¥69 million a year earlier.

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2. Sustainability Initiatives

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Next, I will explain our sustainability initiatives.

Calculation of Greenhouse Gas (GHG) Emissions and Setting of Reduction Targets

Coverage: VITAL KSK HOLDINGS, INC. and all its subsidiaries
Calculation Period: April 2021 - March 2022

		2021
Direct emissions from business operations (Scope 1 + Scope 2)		19,226t-CO_2
Breakdown of emissions	Scope 1 (emissions from fuel use)	11,292t-CO_2
	Scope 2 (emissions from purchased power)	7,934t-CO_2

Working as a group to reduce GHG emissions, aiming for 30% reduction (from FY2021 level) by FY2030

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We have set GHG emissions as an indicator and evaluate and manage the impact of our activities on climate change, aiming to realize sustainable management. We recently calculated our Scope 1 and Scope 2 emissions for the period from April 2021 to March 2022.

Meanwhile, to conform to the long-term goal set out in the Paris Agreement of holding the increase in the global average temperature to below 2°C above pre-industrial levels and pursuing efforts to limit the temperature increase to 1.5°C above pre-industrial levels, as well as the Japanese Government’s goal of reducing greenhouse gas emissions to net-zero, that is, to realize carbon neutrality by 2050, we have set the target of achieving a 30% reduction in the Group’s total GHG emissions compared to the FY2021 level by FY2030.

To achieve this target, we are implementing a range of initiatives including switching to LED lighting, going paperless by digitizing documents, installing solar panels and introducing HVs and EVs.

Indicators of Policies for Human Resource Development and Enhancing the Internal Work Environment

Indicators	Targets	Results (Year ended March 31, 2023)
Percentage of female employees in management positions	20.0% by the end of March 2030	14.0%
Percentage of male employees taking childcare leave	80.0% by the end of March 2030	28.6%
Wage gap between male and female employees	Endeavor to close the wage gap by continuing to appoint female employees to senior positions and raising their salaries through support for individual employees to develop their skills and proper implementation of the performance evaluation system.	All employees 63.6% Regular full-time employees 71.0% Non-regular employees 73.2%

* Calculated based on the definition of a management position as section chief level or higher with direct supervisory responsibilities.
* Percentage of male employees taking childcare leave is calculated by dividing the number of male employees who took childcare leave during a particular fiscal year by the number of male employees whose partners gave birth during that fiscal year. Accordingly, male employees who took childcare leave across two fiscal years is included in the calculation for the following fiscal year.
* The wage gap is calculated based on the number of workers without the conversion of hours for non-regular workers.

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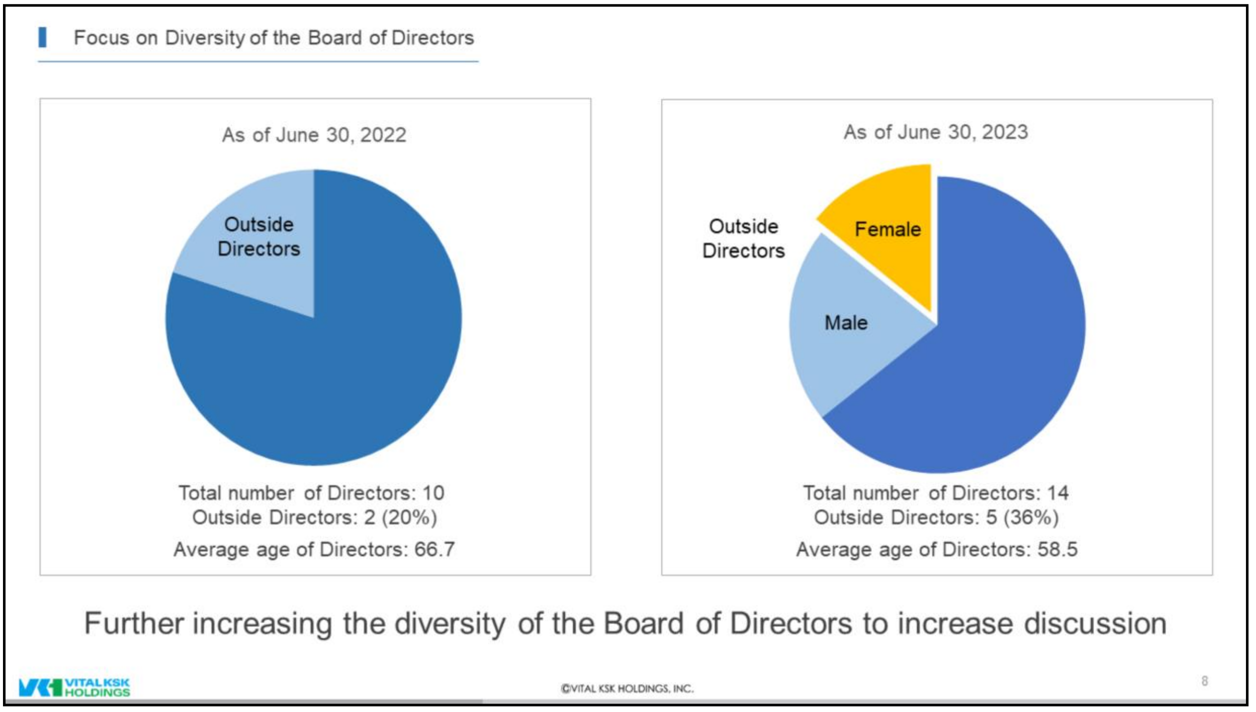
We believe that creating an environment in which human resources with diverse values feel comfortable is an important management issue. Our indicators of policies for developing human resources and enhancing the internal environment and our targets and results based on these indicators are as follows.

Firstly, the percentage of female employees in management positions was 14.0% in the most recent fiscal year but we aim to increase this to 20.0% by the end of March 2030. Meanwhile, the percentage of male employees taking childcare leave was 28.6% in the most recent fiscal year and we are aiming for 80.0% by the end of March 2030. In addition, we are endeavoring to close the wage gap between male and female employees by continuing to appoint female employees to senior positions and raising their salaries through support for individual employees to develop their skills and proper implementation of the performance evaluation system.



We are also promoting the diversity of the Board of Directors.

As of the end of June 2022, our Board of Directors consisted of a total of 10 Directors, two of whom were Outside Directors and all of whom were male. However, as of the end of June 2023, our Board of Directors consisted of a total of 14 Directors, five of whom were Outside Directors and we also have two female Directors.
Furthermore, our Board of Directors is also now much younger, with the average age of Directors down from 66.7 years of age to 58.5.

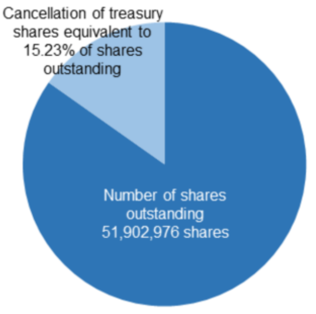
Going forward, we will continue striving to further strengthen our corporate governance and working to enhance our corporate value by increasing the diversity of our Board of Directors in terms of experience, age and gender.

Finally, I would like to highlight some other topics.

Cancellation and Purchase of Treasury Shares

■ Cancellation of treasury shares

(1) Class of shares cancelled: Common shares of the Compan
(2) Total number of shares cancelled: 9,321,820 shares
(3) Date of cancellation: June 30, 2023



■ Purchase of treasury shares

(1) Class of shares to be purchased: Common shares of the Company
(2) Total number of shares that may be purchased:
1,000,000 shares (maximum)
(3) Total purchase value of shares: 1,200,000,000 yen (maximum)
(4) Purchase period: May 15, 2023 to September 30, 2023
(5) Purchase method: Open market purchase, including purchase of shares on the Tokyo Stock Exchange Trading Network Off-Auction Own Share Repurchase Trading System

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We recognize that increasing shareholder returns is an important management issue and are focusing on doing this.

On June 30, 2023, we cancelled around 9.32 million treasury shares, which is the equivalent of 15.23% of the total number of outstanding shares, all in one go. We are additionally purchasing another one million treasury shares before the end of the purchase period on September 30, 2023.

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.

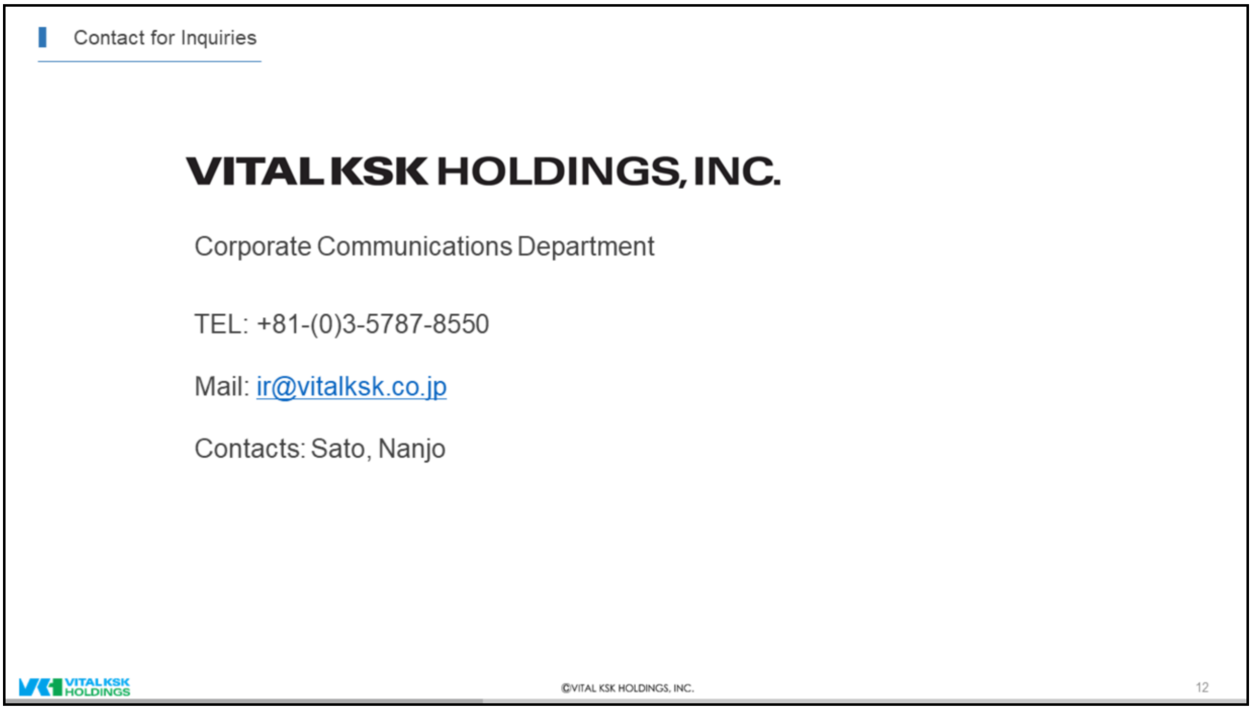
Please be aware that there is a possibility that actual business activities and performance will differ greatly from these outlooks due to changes in the economic situation, market conditions and various other factors.

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.



I would like to ask you to direct any inquiries your might have about this material to our Corporate communications Department.