

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



November 6, 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: November 13, 2023

Scheduled date of commencing dividend payments: December 5, 2023

Preparation of supplementary explanatory materials: Yes

Quarterly financial results meeting: Yes (for institutional investors and analysts)

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

1. Consolidated Results for the Second Quarter of the Fiscal Year Ending March 31, 2024

(April 1, 2023 – September 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	%
Six months ended September 30, 2023	294,213	-	2,868	-	3,478	-	2,347	-
Six months ended September 30, 2022	290,166	-	1,521	-	2,423	-	1,437	-

(Note) Comprehensive income: Six months ended September 30, 2023: ¥4,951 million [-%]

Six months ended September 30, 2022: ¥5,328 million [-%]

	Basic earnings per share	Diluted earnings per share
	Yen	Yen
Six months ended September 30, 2023	45.78	-
Six months ended September 30, 2022	27.42	-

(2) Consolidated Financial Position

	Total assets	Net assets	Equity ratio
	Million yen	Million yen	%
As of September 30, 2023	321,745	102,766	31.6
As of March 31, 2022	297,316	100,165	33.3

(Reference) Equity: As of September 30, 2023: ¥101,539 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	-	19.00			
Year ending March 31, 2024 (forecast)			-	20.00	39.00

(Note) 1 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
Full year	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Yen
	576,000	-	4,700	-	6,000	-	5,200	-	102.37

(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 (Change in method of presentation) in (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 “(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: 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):

September 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:

September 30, 2023: 1,106,317 shares

March 31, 2023: 9,438,699 shares

3) Average number of shares during the period:

Six months ended September 30, 2023: 51,269,318 shares

Six months ended September 30, 2022: 52,451,916 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.
- The Company plans to hold a financial results briefing for institutional investors and analysts on November 10, 2023. The presentation materials to be used at the briefing will be posted on the Company’s website immediately after the briefing.

Table of Contents

1. Qualitative Information on Quarterly Financial Results	2
Explanation of Operating Results	2
2. Quarterly Consolidated Financial Statements and Primary Notes	4
(1) Quarterly Consolidated Balance Sheets	4
(2) Quarterly Consolidated Statements of Income and Comprehensive Income	6
(3) Quarterly Consolidated Statements of Cash Flows	8
(4) Notes to Quarterly Consolidated Financial Statements	10
(Notes on going concern assumption)	10
(Notes in the case of significant changes in amount of shareholders' equity)	10
(Accounting policies adopted specially for the preparation of quarterly consolidated financial statements)	10
(Change in method of presentation)	10
(Segment information)	10

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. As a result of this change, the results for the first six months 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 six months ended September 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 six months ended September 30, 2023, net sales were ¥294,213 million (compared with ¥290,166 million for the same period of the previous year), operating profit was ¥2,868 million (compared with ¥1,521 million for the same period of the previous year), ordinary profit was ¥3,478 million (compared with ¥2,423 million for the same period of the previous), and profit attributable to owners of parent was ¥2,347 million (compared with ¥1,437 million for the same period of the previous).

Performance results by business segment are as follows.

1) Pharmaceutical Wholesale Business

In the six months ended September 30, 2023, the pharmaceutical wholesale business posted an increase in sales, as the negative impact of NHI drug price revisions and the suspension of handling of certain manufacturers, as well as decreased sales of COVID test reagent and equipment, etc., were more than offset by the growth in

products such as COVID-19 treatments. In addition, the Company negotiated prices while paying attention to transaction costs with each of its customers and, given the absence of an allowance for doubtful accounts for certain major customers which was posted in the same period of the previous fiscal year, resulting in significantly higher profits than in the previous year.

As a result of the foregoing, net sales were ¥277,201 million (compared with ¥273,830 million for the same period of the previous year), and segment profit (operating profit) was ¥2,640 million (compared with ¥1,393 million for the same period of the previous year).

2) Pharmacy Business

The pharmacy business posted net sales of ¥9,386 million (compared with ¥9,009 million for the same period of the previous year), reflecting, in addition to an increase of one store due to the business acquisition, 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 ¥114 million (compared with ¥32 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 ¥5,589 million (compared with ¥5,314 million for the same period of the previous year), driven by sales growth in companion animal operations. However, segment profit (operating profit) was ¥183 million (compared with ¥182 million for the same period of the previous year), reflecting the impact of higher purchase prices.

4) Other Businesses

In the Other Business segment, net sales were 2,035 million yen (2,011 million yen in the same period of the previous year) and segment loss (operating loss) was 108 million yen (segment loss of 146 million yen in the same period of the previous year) due to increased revenue in the sports facility management business as a result of increased human flow following the downgrading of COVID-19 to a Class 5 infectious disease under the Infectious Diseases Act, as mentioned earlier. Segment loss (operating loss) was due to soaring electricity and fuel costs despite efforts to reduce expenses.

2. Quarterly Consolidated Financial Statements and Primary Notes
(1) Quarterly Consolidated Balance Sheets

(Million yen)

	As of March 31, 2023	As of September 30, 2023
Assets		
Current assets		
Cash and deposits	19,029	30,463
Notes and accounts receivable - trade	118,585	127,815
Inventories	30,846	31,052
Accounts receivable - other	16,466	15,981
Other	3,616	2,897
Allowance for doubtful accounts	(41)	(48)
Total current assets	188,502	208,163
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	20,370	19,848
Land	24,917	25,026
Other, net	3,736	4,183
Total property, plant and equipment	49,024	49,058
Intangible assets		
Goodwill	818	750
Other	2,558	3,408
Total intangible assets	3,377	4,158
Investments and other assets		
Investment securities	44,642	48,064
Other	12,771	13,335
Allowance for doubtful accounts	(1,002)	(1,035)
Total investments and other assets	56,411	60,365
Total non-current assets	108,813	113,582
Total assets	297,316	321,745

(Million yen)

	As of March 31, 2023	As of September 30, 2023
Liabilities		
Current liabilities		
Notes and accounts payable - trade	164,571	186,787
Short-term borrowings	990	890
Current portion of long-term borrowings	970	970
Income taxes payable	2,095	1,343
Provision for bonuses	1,569	1,567
Other	8,462	8,263
Total current liabilities	178,659	199,821
Non-current liabilities		
Long-term borrowings	6,790	6,305
Other provisions	251	236
Retirement benefit liability	855	825
Other	10,594	11,789
Total non-current liabilities	18,491	19,157
Total liabilities	197,150	218,979
Net assets		
Shareholders' equity		
Share capital	5,000	5,000
Capital surplus	12,810	5,272
Retained earnings	67,864	68,809
Treasury shares	(7,575)	(983)
Total shareholders' equity	78,099	78,099
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	19,972	22,709
Remeasurements of defined benefit plans	913	730
Total accumulated other comprehensive income	20,886	23,440
Non-controlling interests	1,179	1,226
Total net assets	100,165	102,766
Total liabilities and net assets	297,316	321,745

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

Quarterly Consolidated Statements of Income

Six Months Ended September 30, 2022 and 2023

(Million yen)

	For the six months ended September 30, 2022	For the six months ended September 30, 2023
Net sales	290,166	294,213
Cost of sales	267,227	270,626
Gross profit	22,939	23,587
Selling, general and administrative expenses	21,418	20,719
Operating profit	1,521	2,868
Non-operating income		
Interest income	35	33
Dividend income	384	326
Share of profit of entities accounted for using equity method	27	28
Other	556	330
Total non-operating income	1,003	717
Non-operating expenses		
Interest expenses	51	50
Rental expenses	41	39
Other	9	18
Total non-operating expenses	102	108
Ordinary profit	2,423	3,478
Extraordinary income		
Gain on sale of non-current assets	13	33
Gain on sale of investment securities	59	169
Other	-	24
Total extraordinary income	72	227
Extraordinary losses		
Loss on sale of non-current assets	0	-
Impairment losses	22	49
Loss on valuation of investment securities	55	42
Soil treatment cost	62	-
Dismantlement expense	-	47
Other	5	29
Total extraordinary losses	145	169
Profit before income taxes	2,350	3,536
Income taxes	862	1,139
Profit	1,487	2,397
Profit attributable to non-controlling interests	49	50
Profit attributable to owners of parent	1,437	2,347

Quarterly Consolidated Statements of Comprehensive Income

Six Months Ended September 30, 2022 and 2023

(Million yen)

	For the six months ended September 30, 2022	For the six months ended September 30, 2023
Profit	1,487	2,397
Other comprehensive income		
Valuation difference on available-for-sale securities	3,806	2,322
Remeasurements of defined benefit plans, net of tax	(178)	(182)
Share of other comprehensive income of entities accounted for using equity method	213	413
Total other comprehensive income	3,841	2,553
Comprehensive income	5,328	4,951
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	5,279	4,900
Comprehensive income attributable to non-controlling interests	49	50

(3) Quarterly Consolidated Statements of Cash Flows

(Million yen)

	For the six months ended September 30, 2022	For the six months ended September 30, 2023
Cash flows from operating activities		
Profit before income taxes	2,350	3,536
Depreciation	1,460	1,505
Impairment losses	22	49
Amortization of goodwill	171	69
Increase (decrease) in allowance for doubtful accounts	660	39
Increase (decrease) in provision for bonuses	(60)	(3)
Increase (decrease) in retirement benefit liability	(2,093)	(226)
Interest and dividend income	(419)	(359)
Rental income	(113)	(130)
Interest expenses	51	50
Share of loss (profit) of entities accounted for using equity method	(27)	(28)
Loss (gain) on sale and valuation of investment securities	(3)	(126)
Loss (gain) on sale and retirement of property, plant and equipment	(13)	(31)
Decrease (increase) in trade receivables	(4,042)	(9,161)
Decrease (increase) in inventories	344	(183)
Decrease (increase) in accounts receivable - other	713	520
Decrease (increase) in guarantee deposits	4,301	28
Increase (decrease) in trade payables	2,563	22,158
Other, net	(794)	(298)
Subtotal	5,069	17,407
Interest and dividends received	408	342
Interest paid	(51)	(50)
Income taxes paid	(2,255)	(1,906)
Income taxes refund	857	897
Other, net	5	76
Net cash provided by (used in) operating activities	4,035	16,767

	For the six months ended September 30, 2022	For the six months ended September 30, 2023
Cash flows from investing activities		
Net decrease (increase) in time deposits	(150)	400
Purchase of property, plant and equipment	(1,108)	(549)
Proceeds from sale of property, plant and equipment	102	116
Purchase of intangible assets	(306)	(1,583)
Purchase of investment securities	(183)	(5)
Proceeds from sale of investment securities	265	277
Proceeds from redemption of investment securities	100	200
Loan advances	(60)	(0)
Proceeds from collection of loans receivable	25	11
Purchase of shares of subsidiaries resulting in change in scope of consolidation	-	(147)
Other, net	113	(268)
Net cash provided by (used in) investing activities	(1,200)	(1,549)
Cash flows from financing activities		
Net increase (decrease) in short-term borrowings	-	(100)
Repayments of long-term borrowings	(485)	(485)
Repayments of lease liabilities	(379)	(481)
Proceeds from disposal of treasury shares	-	0
Purchase of treasury shares	(998)	(956)
Dividends paid	(745)	(1,401)
Other, net	(4)	(4)
Net cash provided by (used in) financing activities	(2,611)	(3,429)
Net increase (decrease) in cash and cash equivalents	223	11,789
Cash and cash equivalents at beginning of period	23,239	15,147
Increase (decrease) in cash and cash equivalents resulting from change in scope of consolidation	29	-
Cash and cash equivalents at end of period	23,492	26,936

(4) Notes to Quarterly Consolidated Financial Statements

(Notes on going concern assumption)

For the six months ended September 30, 2023 (from April 1, 2023 to September 30, 2023)

Not applicable.

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

For the six months ended September 30, 2023 (from April 1, 2023 to September 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.

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 ¥790 million, which had been presented under non-operating income, has been restated as net sales, resulting in net sales of ¥290,166 million and operating profit of ¥1,521 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.

In addition, in the consolidated statement of cash flows for the previous fiscal year, "Office work fee" and "Office work fee received" that were shown under "cash flows from operating activities" were changed to "increase(decrease) in trade receivables." It is included in the amount. As a result, "Office work fee" of -790 million yen and "Office work fee received" of 784 million yen, which were shown in "Cash flows from operating activities," have been reclassified to "Increase(decrease) in trade receivables." , the "increase(decrease) in trade receivables" was -9,161 million yen.

(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 September 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	273,830	9,009	5,314	288,155	2,011	290,166	-	290,166
Inter-segment net sales or transfers	5,125	3	0	5,128	1,263	6,392	(6,392)	-
Total	278,956	9,013	5,314	293,284	3,274	296,559	(6,392)	290,166
Segment income (loss)	1,393	32	182	1,609	(146)	1,463	58	1,521

(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, and the sports facility management business.

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.

For the fiscal year ending March 31, 2024 (from April 1, 2023 to September 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	277,201	9,386	5,589	292,178	2,035	294,213	-	294,213
Inter-segment net sales or transfers	5,276	6	0	5,283	1,300	6,583	(6,583)	-
Total	282,478	9,392	5,589	297,461	3,335	300,797	(6,583)	294,213
Segment income (loss)	2,640	114	183	2,938	(108)	2,829	39	2,868

(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, and the sports facility management business.

2. Adjustment of segment profit (loss) of ¥39 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.