

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



February 7, 2024

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

Stock exchange listing: Tokyo Stock Exchange

Code number: 3151

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

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Scheduled date of filing quarterly report: February 14, 2024

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 Third Quarter of the Fiscal Year Ending March 31, 2024 (April 1, 2023 – December 31, 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	%
Nine months ended								
December 31, 2023	448,909	—	5,658	—	6,506	—	5,054	—
December 31, 2022	444,384	—	3,061	—	4,302	—	2,433	—

(Note) Comprehensive income: Nine months ended December 31, 2023: ¥ 6,526 million [—%]

Nine months ended December 31, 2022: ¥ 4,740 million [—%]

	Basic earnings per share	Diluted earnings per share
	Yen	Yen
Nine months ended		
December 31, 2023	99.12	—
December 31, 2022	46.59	—

(2) Consolidated Financial Position

	Total assets	Net assets	Equity ratio
	Million yen	Million yen	%
As of			
December 31, 2023	328,344	102,703	30.9
March 31, 2023	297,316	100,165	33.3

(Reference) Equity: As of December 31, 2023: ¥101,447 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	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Yen	
Full year	584,000	–	5,200	–	6,300	–	5,500	–	108.27	

(Note) Revision to forecast of consolidated results announced most recently: Yes

* 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 “(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):

December 31, 2023: 51,902,976 shares

March 31, 2023: 61,224,796 shares

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

December 31, 2023: 1,706,337 shares

March 31, 2023: 9,438,699 shares

3) Average number of shares during the period:

Nine months ended December 31, 2023: 50,997,734 shares

Nine months ended December 31, 2022: 52,229,190 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. As a result of this change, the results for the nine 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.

(1) Explanation of Operating Results

During the nine months ended December 31, 2023, the Japanese economy saw increased social and economic activities, reflecting inbound demand surpassing pre-COVID level and gradual recovery in domestic demand. However, uncertainties remained elevated due to concerns about international affairs, continuing depreciation of the yen, rising prices, supply restrictions and instability in financial and capital markets, and the economic visibility remains limited.

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 and is working to achieve the practical tasks: "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 Group management that meets Prime Market requirements."

With regard to business results for the first nine months of the fiscal year under review, revenue increased slightly, attributable to favorable sales of anti-cancer drug and anti-coronavirus agents, in addition to growth of the overall market for prescription pharmaceuticals. Profits exceeded the level of a year ago, mainly attributable to the absence of allowance for doubtful accounts for certain major customers which was posted in the previous fiscal year, in addition to the effect of the increased revenue described above. As a result, net sales were ¥448,909 million (compared with ¥444,384 million for the same period of the previous year), operating profit was ¥5,658 million (compared with ¥3,061 million for the same period of the previous year), ordinary profit was ¥6,506 million (compared with ¥4,302 million for the same period of the previous), and profit attributable to owners of parent was ¥5,054 million (compared with ¥2,433 million for the same period of the previous).

Performance results by business segment are as follows.

1) Pharmaceutical Wholesale Business

In the first nine months of the fiscal year under review, the pharmaceutical wholesale business posted a slight increase in revenue, attributable to higher-than-expected growth in sales of anticancer drugs, COVID-19 treatments, flu treatments, etc., which more than offset the negative impact of a decrease in revenue that mainly reflected drug price revisions, the suspension of the handling of certain drugs by certain manufacturers and decreased sales of COVID-related test agents, equipment, etc. In addition, the Company negotiated prices while paying attention to transaction costs with each of its customers, resulting in significantly higher profits than in the previous year.

As a result of the foregoing, net sales were ¥423,218 million (compared with ¥419,449 million for the same period of the previous year), and segment profit (operating profit) was ¥5,211 million (compared with ¥2,810 million for the same period of the previous year).

2) Pharmacy Business

The pharmacy business posted net sales of ¥14,295 million (compared with ¥13,769 million for the same period of the previous year), reflecting, in addition to an increase of one store due to the business acquisition in August 2023, 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 ¥259 million (compared with ¥77 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 ¥8,472 million (compared to ¥8,164 million in the same period of the previous fiscal year), driven by sales growth in companion animal operations. Segment profit (operating profit) was ¥288 million (compared to ¥283 million a year ago), mainly reflecting the impact of higher purchase prices.

4) Other Businesses

The other business posted net sales of ¥2,922 million (compared to ¥3,000 million a year ago), primarily due to a decrease in revenue in the wholesale business handling agricultural chemicals, agricultural materials, etc. Segment loss (operating loss) came to ¥162 million (compared to a segment loss of ¥236 million a year ago), due to the improved profitability of nursing care-related business.

(2) Explanation of Forward-looking Information, including Consolidated Performance Forecast

In light of recent earnings trends, etc., the Company revised its earnings forecasts for the fiscal year ending March 31, 2024 released on May 12, 2023. For details, please refer to the Notice of Revision to Full-year Consolidated Earnings Forecasts announced on February 7, 2024.

2. Quarterly Consolidated Financial Statements and Primary Notes

(1) Quarterly Consolidated Balance Sheets

(Million yen)

	As of March 31, 2023	As of December 31, 2023
Assets		
Current assets		
Cash and deposits	19,029	31,100
Notes and accounts receivable - trade	118,585	131,235
Inventories	30,846	33,863
Accounts receivable - other	16,466	16,523
Other	3,616	2,903
Allowance for doubtful accounts	(41)	(50)
Total current assets	188,502	215,575
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	20,370	19,601
Land	24,917	25,083
Other, net	3,736	4,062
Total property, plant and equipment	49,024	48,747
Intangible assets		
Goodwill	818	716
Other	2,558	3,339
Total intangible assets	3,377	4,055
Investments and other assets		
Investment securities	44,642	47,563
Other	12,771	13,159
Allowance for doubtful accounts	(1,002)	(756)
Total investments and other assets	56,411	59,966
Total non-current assets	108,813	112,769
Total assets	297,316	328,344

(Million yen)

	As of March 31, 2023	As of December 31, 2023
Liabilities		
Current liabilities		
Notes and accounts payable - trade	164,571	195,107
Short-term borrowings	990	980
Current portion of long-term borrowings	970	970
Income taxes payable	2,095	1,070
Provision for bonuses	1,569	613
Other	8,462	8,518
Total current liabilities	178,659	207,259
Non-current liabilities		
Long-term borrowings	6,790	6,065
Other provisions	251	245
Retirement benefit liability	855	900
Other	10,594	11,170
Total non-current liabilities	18,491	18,381
Total liabilities	197,150	225,641
Net assets		
Shareholders' equity		
Share capital	5,000	5,000
Capital surplus	12,810	5,272
Retained earnings	67,864	70,550
Treasury shares	(7,575)	(1,653)
Total shareholders' equity	78,099	79,170
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	19,972	21,638
Remeasurements of defined benefit plans	913	639
Total accumulated other comprehensive income	20,886	22,277
Non-controlling interests	1,179	1,255
Total net assets	100,165	102,703
Total liabilities and net assets	297,316	328,344

(2) Quarterly Consolidated Statements of Income and Comprehensive Income Quarterly Consolidated Statements of Income
Quarterly Consolidated Statements of Income
Nine Months Ended December 31, 2022 and 2023

(Million yen)

	For the nine months ended December 31, 2022	For the nine months ended December 31, 2023
Net sales	444,384	448,909
Cost of sales	409,345	412,537
Gross profit	35,038	36,372
Selling, general and administrative expenses	31,977	30,714
Operating profit	3,061	5,658
Non-operating income		
Interest income	51	50
Dividend income	555	492
Share of profit of entities accounted for using equity method	83	21
Other	695	439
Total non-operating income	1,385	1,004
Non-operating expenses		
Interest expenses	74	74
Rental expenses	60	58
Other	9	23
Total non-operating expenses	144	156
Ordinary profit	4,302	6,506
Extraordinary income		
Gain on sale of non-current assets	15	46
Gain on sale of investment securities	59	1,221
Other	–	26
Total extraordinary income	74	1,295
Extraordinary losses		
Loss on sale of non-current assets	0	–
Impairment losses	22	49
Loss on sale of investment securities	26	–
Loss on valuation of investment securities	56	42
Soil treatment cost	136	–
Demolition cost	–	47
Other	2	36
Total extraordinary losses	244	176
Profit before income taxes	4,132	7,625
Income taxes	1,622	2,490
Profit	2,510	5,134
Profit attributable to non-controlling interests	77	80
Profit attributable to owners of parent	2,433	5,054

Quarterly Consolidated Statements of Comprehensive Income
 Nine Months Ended December 31, 2022 and 2023

(Million yen)

	For the nine months ended December 31, 2022	For the nine months ended December 31, 2023
Profit	2,510	5,134
Other comprehensive income		
Valuation difference on available-for-sale securities	2,416	1,327
Remeasurements of defined benefit plans, net of tax	(267)	(273)
Share of other comprehensive income of entities accounted for using equity method	81	337
Total other comprehensive income	2,230	1,391
Comprehensive income	4,740	6,526
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	4,663	6,445
Comprehensive income attributable to non-controlling interests	77	80

(3) Notes to Quarterly Consolidated Financial Statements

(Notes on going concern assumption)

For the nine months ended December 31, 2023 (from April 1, 2023 to December 31, 2023)

Not applicable.

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

For the nine months ended December 31, 2023 (from April 1, 2023 to December 31, 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 nine 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 ¥1,194 million, which had been presented under non-operating income, has been restated as net sales, resulting in net sales of ¥444,384 million and operating profit of ¥3,061 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)

As described in "change in reporting method," the Company changed the method for reporting administrative service fee income under non-operating income to include it in net sales, starting in the first three months of the current fiscal year.

To reflect this change in the reporting method, the financial results for the first nine months of the previous fiscal year have been retrospectively adjusted. As a result, compared to the previous method, net sales increased in the pharmaceutical wholesale business and veterinary drug wholesale business by ¥1,187 million and ¥7 million, respectively, while segment profit increased by ¥1,187 million and ¥7 million, respectively.

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 nine months ended December 31, 2022 (from April 1, 2022 to December 31, 2022)

(Million yen)

	Reportable segment				Others (Note 1)	Total	Adjustment (Note 2)	Amount recorded in Consolidated Statements of Income (Note 3)
	Pharmaceutical Wholesale Business	Pharmacy Business	Veterinary Drug Wholesale Business	Total				
Net sales								
Net sales to outside customers	419,449	13,769	8,164	441,384	3,000	444,384	–	444,384
Inter-segment net sales or transfers	7,976	6	0	7,983	1,896	9,880	(9,880)	–
Total	427,426	13,776	8,164	449,367	4,896	454,264	(9,880)	444,384
Segment income (loss)	2,810	77	283	3,171	(236)	2,935	126	3,061

- (Notes) 1. “Others” is the segment which is not included in reportable segments, including such businesses as wholesale of agricultural chemicals, nursing care service business, transportation business, and consulting services for medical institutions.
 2. Adjustment of segment profit (loss) of ¥126 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 nine months ended December 31, 2023 (from April 1, 2023 to December 31, 2023)

(Million yen)

	Reportable segment				Others (Note 1)	Total	Adjustment (Note 2)	Amount recorded in Consolidated Statements of Income (Note 3)
	Pharmaceutical Wholesale Business	Pharmacy Business	Veterinary Drug Wholesale Business	Total				
Net sales								
Net sales to outside customers	423,218	14,295	8,472	445,987	2,922	448,909	–	448,909
Inter-segment net sales or transfers	8,031	9	0	8,041	1,955	9,997	(9,997)	–
Total	431,250	14,304	8,473	454,028	4,878	458,907	(9,997)	448,909
Segment income (loss)	5,211	259	288	5,759	(162)	5,597	61	5,658

- (Notes) 1. “Others” is the segment which is not included in reportable segments, including such businesses as wholesale of agricultural chemicals, nursing care service business, transportation business, and consulting services for medical institutions.
 2. Adjustment of segment profit (loss) of ¥61 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.