



Financial Results for Q2 of FYE May 2020
(June 1, 2019 to November 30, 2019)
January 17, 2020

The earnings forecasts in this document are based on the business environment as of the time of writing. Actual results may differ from projections due to a variety of factors. Note also that inquiries should be submitted in Japanese.

Inquiries: Hironori Abe or Shinsuke Tamura (hdinfo@create-sd.co.jp), Corporate Planning Office.

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SDGs Initiatives

SDGs Initiatives

1. Environmentally Conscious Corporate Activities

- **Ongoing acquisition of ISO 14001 certification**
=> Ongoing acquisition of ISO 14001 certification at all stores since 2001



- Reduction of waste (Eco-cap Campaign, cardboard recycling)
- Efficient use of resources (reduction of plastic bags, energy-saving air conditioning, efficient lighting)
- Consideration for surrounding area (noise, exhaust, etc.)

2. Sustainable Management and Store Opening Strategy

- **Only 18 stores have closed due to business slump since founding 36 years ago**

- Strict criteria for store openings
- Proposals of product lineups and store layouts matching location and scale
- Efficient management based on dominance

SDGs Initiatives

3. Contribution to the Community

■ Signing of disaster agreements with municipalities

=> Provision of supplies (products) during times of disaster

As of January 2020

Signed with 17 cities, 8 towns, 1 village, and 2 neighborhood associations



■ Promotion of healthy lifestyles and welfare for local residents

=> Health consultations, healthy working events, hands-on pharmacist experience for children, etc.



Consolidated Results for H1 of FYE May 2020

1. Consolidated Statement of Income for H1 of FYE May 2020

	FYE May 2019 H1 Results		FYE May 2020 H1 Results			
	(Millions of yen)	Share (%)	(Millions of yen)	Share (%)	YoY change (%)	Vs plan (%)
Net sales	140,728	100.0	153,305	100.0	108.9	101.2
Gross profit	38,661	27.5	42,027	27.4	108.7	101.5
SG&A expenses	31,981	22.7	34,985	22.8	109.4	100.5
Operating profit	6,680	4.7	7,041	4.6	105.4	107.2
Ordinary profit	6,873	4.9	7,219	4.7	105.0	107.3
Profit attributable to owners of parent	4,667	3.3	4,912	3.2	105.3	105.9

2. Consolidated Balance Sheet for H1 of FYE May 2020

(Millions of yen)

	May 31, 2019	Nov. 30, 2019	Change
Total assets	133,315	138,322	+5,006
Current assets	75,763	78,502	+2,739
Non-current assets	57,551	59,819	+2,267
Total liabilities	56,426	57,620	+1,193
Current liabilities	50,718	51,656	+937
Non-current liabilities	5,707	5,963	+256
Total net assets	76,889	80,702	+3,813
Total liabilities and net assets	133,315	138,322	+5,006

3. New Store Openings

■ OTC: **15 stores** / Prescription drug stores: **5 stores**

		Kanagawa	Tokyo	Shizuoka	Chiba	Other	Total
FYE May 2020	OTC	9	1	1	3	1	15
No. of store openings	In-store pharmacies	2	0	0	2	1	5

Store closures: **1 OTC store**
(to improve management efficiency)

- Continued to **deepen dominant** store openings
- New format store openings => Cremo **2 stores**
- Opened 5 prescription drug stores in H1 due to pharmacist OTC training period

		Kanagawa	Tokyo	Shizuoka	Chiba	Other	Total
Nov. 30, 2019 No. of Stores	OTC	346	100	84	42	41	613
	In-store pharmacies	108	30	18	11	12	179
	Rate of in-store pharmacies	31.2	30.0	21.4	26.2	29.3	29.2
	Dedicated prescription drug stores	24	6	0	2	2	34
	Total no. of stores	370	106	84	44	43	647

3. New Store Openings

■ Cremo openings: **2 stores**

Chiba: Across Plaza Ichihara Sarashina Store



Shizuoka: Hamamatsu Plaza Frespo Store



4. Renovation of Existing Stores

■ Renovations: **21 stores**

▪ OTC: **17 stores**

- => (1) Improvement of health & beauty product departments
- (2) Review of merchandise and retail space allocations
- (3) In-store prescription drug stores

▪ Prescription drug stores: **4 stores**

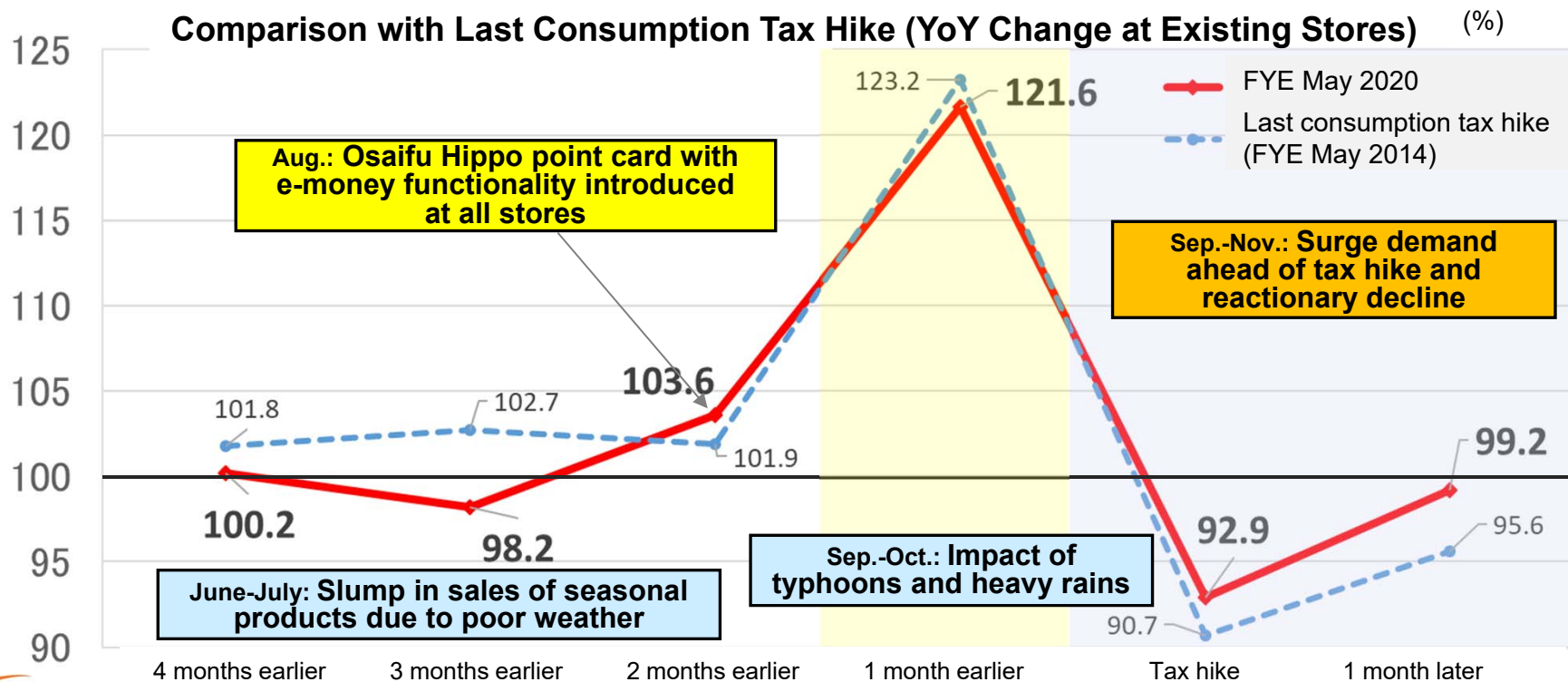
- => Expansion of dispensing rooms and customer waiting spaces in response to increase in number of prescriptions

5. Performance Highlights

Net sales

■ Up 8.9% YoY (up 2.4% at existing stores)

- Sales of seasonal products slumped in June and July due to poor weather and low temperatures
- Measures to address special demand ahead of tax hike were successful in significantly increasing sales in September, and the reactionary decline was limited
- Osaifu Hippo point card with e-money functionality was introduced at all stores in August



5. Performance Highlights

Net sales

- Prescriptions **up 20.8%** compared to previous year and medical and health product share **up 0.5 pts**

	FYE May 2019 H1 Results		FYE May 2020 H1 Results		
	Net sales (millions of yen)	Share (%)	Net sales (millions of yen)	Share (%)	YoY change (%)
Medical and health products	33,061	23.7	36,811	24.2	111.3
OTC	21,612	15.5	22,986	15.1	106.4
Prescriptions	11,448	8.2	13,824	9.1	120.8
Cosmetics	19,799	14.2	20,780	13.7	105.0
Food products	55,942	40.0	60,947	40.0	108.9
Daily products	23,185	16.6	25,399	16.7	109.5
Other*	7,735	5.5	8,289	5.4	107.2
Total	139,725	100.0	152,227	100.0	108.9

* "Other" includes stationery, baby products, clothing, pet products, and gardening products.

5. Performance Highlights

Gross profit margin

■ Gross profit margin: **27.6%** Down 0.1 pts YoY

- Cost of food products such as milk products and ice cream went up in early spring
- Sales of seasonal products slumped

SG&A ratio

■ SG&A ratio: **23.29%** Up 0.10 pts YoY

- Personnel expense ratio: **12.14%** Up 0.12 pts YoY
- Other expense ratio: **11.15%** Down 0.02 pts YoY

Factors behind YoY increase in personnel expense ratio

- Increase in unit cost of personnel expenses (employee salary increases/higher salary at hiring)

Factors behind YoY decrease in other expense ratio

- Utility expenses: Lower basic rate with contract change

Rainy season ended a month later than previous year, and temperatures were also lower

5. Performance Highlights

Dispensing department

- Number of prescriptions trending favorably, up **16.1%** while net sales up **20.8%**
- Some time has passed since NHI medical fee/drug price revisions in April 2018, and gross margin has recovered

	FYE May 2019 H1 Results	FYE May 2020 H1 Results	YoY Change
Sales of prescriptions at all stores (millions of yen)	11,448	13,824	120.8%
No. of prescriptions (thousands)	1,319	1,531	116.1%
Prescription unit price (yen)	8,540	8,891	104.1%
Sales at existing stores (millions of yen)	11,407	13,227	115.9%
No. of prescriptions (thousands)	1,313	1,450	110.5%
Prescription unit price (yen)	8,547	8,983	105.1%
Sales of home care services (millions of yen)	609	688	113.1%
No. of stores	122	132	+10
No. of prescriptions (thousands)	40	45	111.5%
Gross margin on prescriptions at all stores (%)	40.7	40.7	-0.0 pts

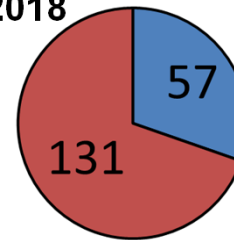
5. Performance Highlights

Dispensing department

■ Premiums for Local Support System

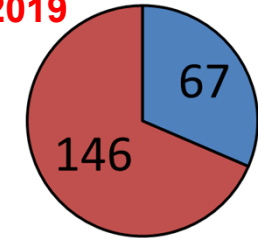
- No. of stores with premiums: **67** stores (up 10 from previous year)

Nov. 30, 2018



■ 35 pts ■ 0 pts

Nov. 30, 2019

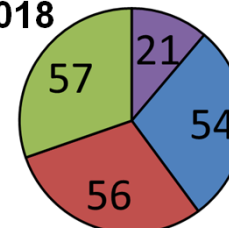


■ 35 pts ■ 0 pts

■ Premiums for Generics Dispensing System

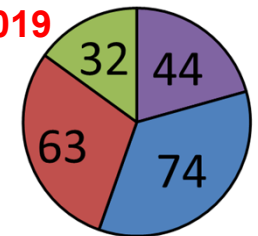
- Premium III: 85% or more: **44** stores (up 23 from previous year)
- Premium II: 80% or more: **74** stores (up 20 from previous year)
- Premium I: 75% or more: **63** stores (up 7 from previous year)
- No premium: **32** stores (down 25 from previous year)

Nov. 30, 2018



■ 26 pts ■ 22 pts ■ 18 pts ■ 0 pts

Nov. 30, 2019



■ 26 pts ■ 22 pts ■ 18 pts ■ 0 pts

Generics usage rate: 79.50% (up 2.36 pts from previous year)
(Market: 76.9%)

5. Performance Highlights

Dispensing department

■ Human resources development and improvement of environment

(1) Expansion of dispensing training center

- Increase in number of trainees
- Address relaxation of regulations on dispensing work

Roughly double the number of trainees



Recreate actual dispensing rooms



(2) Construction of home service training center

- Utilize as base for on-the-job training
- Change home service training curriculum

Recreate individual rooms



Use practical training model



■ Improvement of work with introduction of dispensing equipment

- Fully automated powdered medicine packaging machine
- Fully automated liquid medicine dispensing machine
- Fully automated tablet packaging machine
- Picking machine, etc.

6. Topics

New construction of in-house distribution center (DC) in Chigasaki City, Kanagawa (operational since September 2019)

■ **Land and building owned, operations outsourced to distribution company**

- Serves approx. 130 stores in southwestern Kanagawa => Improved delivery efficiency
- Improve food product inventory function (DC function) => Shortening of supply chain
- Introduction of latest equipment (case sorter, conveyor system, etc.) => Improved efficiency of work inside DC
- Installation of solar panels on roof => Consideration of environment by reducing CO₂ emissions



7. Statement of Income for H1 of FYE May 2020 (Create SD)

	FYE May 2019 H1 Results		FYE May 2020 H1 Results			
	(Millions of yen)	Share (%)	(Millions of yen)	Share (%)	YoY change (%)	Vs plan (%)
Net sales	139,725	100.0	152,227	100.0	108.9	101.2
Gross profit	38,658	27.7	41,968	27.6	108.6	101.4
SG&A expenses	32,400	23.2	35,452	23.3	109.4	100.4
Operating profit	6,257	4.5	6,515	4.3	104.1	107.1
Ordinary profit	6,444	4.6	6,685	4.4	103.8	107.1
Net profit	4,381	3.1	4,545	3.0	103.7	105.5

Initiatives in H2 of FYE May 2020

1. New Store Openings

■ OTC H2 forecast: 20 stores

- Continue pursuit of dominance in existing areas **without relaxing store opening criteria**
- **Store openings in collaboration with other business categories** => H2 plan: 2 stores

■ Prescription drug store H2 forecast: 25 stores

Ratio of in-store pharmacies at year end: **32.1%**

- **Store openings in collaboration with regional medical institutions**
=> Store openings in collaboration with clinics
- **Stores handling prescriptions on a widespread basis using OTC stores' ability to attract customers**
=> Promote store openings within existing OTC stores having strong abilities to attract customers

May 31, 2019 No. of Stores	OTC	599
	In-store pharmacies	173
	<i>Rate of in-store pharmacies</i>	28.9%
	Dedicated prescription drug stores	35
	All stores	634
FYE May 2020 No. of store openings (Forecast)	OTC	35
	In-store pharmacies	30
	Dedicated prescription drug stores	—
	All stores	35
May 31, 2020 No. of Stores (Forecast)	OTC	632
	In-store pharmacies	203
	<i>Rate of in-store pharmacies</i>	32.1%
	Dedicated prescription drug stores	34
	All stores	666

Notes: 1. 2 OTC stores to be closed
2. 1 prescription drug store to be closed

2. Revitalization of Existing Stores

■ Renovation—H2 forecast: **20 stores** (Full-year forecast: **41 stores**, **6 more** than plan)

- Improve lineups at old types of stores

=> Change retail space allocations and lineups to those for new stores

Retail space allocations that are suitable for locations and in line with regional needs

- Optimization of perishables sections

=> Increase or decrease perishables sections flexibly depending on store locations and needs

- Establishment of in-store prescription drug stores, expansion of prescription drug stores

■ Improve health & beauty product sales

- Focus on sales of high margin products

=> Narrow down and focus on sales of high margin products not susceptible to weather

- Strengthen sales of new private brand products

=> Roll out initiatives of favorably performing stores to other stores, and tie them into increased recognition of private brand and higher profits

- New development and revamping of private brand products

3. Digital Sales Measures

■ Promote use of Osaifu Hippo

· Osaifu Hippo transaction ratio

Nov. 30, 2019

13.3%

Target for May 2020

20.0%

· Monthly users

Nov. 30, 2019

380,000

Target for May 2020

460,000



(1) Acquisition of new users

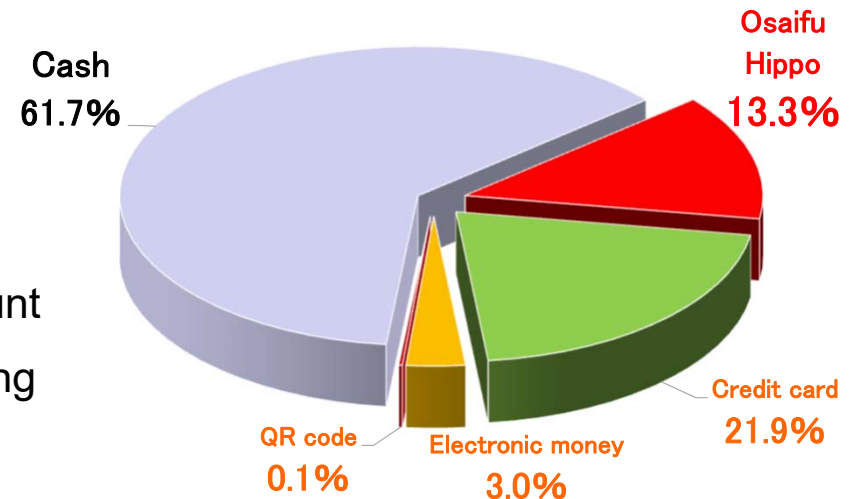
- => Provision of first time incentives for new users
- => Establishment of use by having customers experience it

(2) Promotion of conversion to loyal customers

- => Provision of incentives for topping up large amount
- => Reduction of cash register work load by increasing amounts of individual charges

Breakdown of transactions (as of Nov. 30, 2019)

Cashless transactions: **38.3%**



3. Digital Sales Measures

■ Utilization of official smartphone app

- No. of downloads as of Nov. 30, 2019: **620,000** (achieved initial target of 460,000 downloads)
- Released **linking function with Osaifu Hippo** at end of H1
=>Charges and payment can be made via smartphone app



- (1) Implement promotional campaigns with cooperation of manufacturers
- (2) Linking with medicinal e-pocketbook (prescription transmission app)

meiji
明治プロビオヨーグルトR-1
続けるキャンペーン!
対象商品を **6** 個お買い上げごとに
もれなく **100** ポイントプレゼント!
キャンペーン期間 **12月23日~12月31日**
スマートキャンペーンからエントリー

SUNTORY
対象商品を **6** 本以上お買上で
抽選で **200** 名様に
5,000 ポイントプレゼント
【キャンペーン期間】
2020年1月5日~2月29日
スマートキャンペーンからエントリー

薬 クリエイト
CREATE
処方せん



4. Productivity Improvement

■ Tool-based operational improvement

- Establishment of product expiration date management system operations

=> Introduced at all stores in July 2019, continuing to monitor operations at all stores

- Improvement of means of communication between stores

=> Introduce mobile devices at all stores

(1) Improved efficiency of information sharing between stores and with multiple stores

(2) Utilization as communication tool

■ Man-hour management according to store environment

- Continued control of man-hours by store

=> (1) Establishment and achievement of man-hour targets according to sales, store size, and store environment

(2) Thorough management of progress on man-hours by day

5. Prescription Drug Store Initiatives

■ Human resources development

- Utilization of new training center, change of home service training curriculum
 - => Carry out model-based vital sign training and sterilization-related home service training
- Review of medical assistant training
 - => Carry out picking training in aim of attaining certain level of dispensing skills
- New introduction of customer service training for pharmacists
 - => Customer service training for pharmacists on things like pleasantness, cleanliness, etc.

■ Productivity improvement

- Introduction of medicinal e-pocketbook (prescription transmission app) at all stores and promotion of use
 - => Approach to patients and linking with official smartphone app
- Reduction of pharmacist work load
 - => (1) Utilization of dispensing-related equipment and development of operations
 - (2) Promotion of active roles for medical assistants

6. Targets for Consolidated Performance for FYE May 2020

Full-year plan has not been revised

	FYE May 2019 (Results)		FYE May 2020 (Targets)		
	(Millions of yen)	Share (%)	(Millions of yen)	Share (%)	YoY change (%)
Net sales	286,299	100.0	307,600	100.0	107.4
Gross profit	78,953	27.6	85,050	27.6	107.7
SG&A expenses	64,711	22.6	70,080	22.8	108.3
Operating profit	14,241	5.0	14,970	4.9	105.1
Ordinary profit	14,623	5.1	15,300	5.0	104.6
Profit attributable to owners of parent	9,719	3.4	10,270	3.3	105.7