



CREATE SD HOLDINGS

FY2016 (6/15-5/16) Results Explanatory Meeting July 14, 2016

The earnings forecasts appearing in this material are based on the business environment at the present time, and there is the possibility that actual earnings may differ from forecasts for various reasons.
Furthermore, only inquiries in Japanese are handled.
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FY2016 (6/15-5/16) Results Explanatory Meeting

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FY2016

Consolidated Results

(06/2015 – 05/2016)

1. FY2016 Consolidated Profit and Loss Statement

	FY2015 (consolidated)		FY2016 (consolidated)			
	(million yen)	Share (%)	(million yen)	Share (%)	YoY change (%)	% of adjustment in projection (%)
Net sales	213,918	100.0	231,892	100.0	108.4	99.9
Gross profit	57,516	26.9	63,423	27.4	110.3	100.2
SG&A expenses	46,787	21.9	49,469	21.3	105.7	100.2
Operating profit	10,728	5.0	13,954	6.0	130.1	100.1
Recurring profit	10,982	5.1	14,314	6.2	130.3	100.1
Net profit	6,561	3.1	9,274	4.0	141.3	103.9

2. FY2016 Consolidated Balance Sheet

(million yen)

Main causes of changes

	May 31, 2015 (consolidated)	May 31, 2016 (consolidated)	Change
Total assets	88,767	99,334	+10,567
Current assets	51,512	60,879	+9,366
Fixed assets	37,254	38,455	+1,200
Total liabilities	42,807	45,749	+2,942
Current liabilities	39,384	41,760	+2,375
Fixed liabilities	3,422	3,989	+566
Total net assets	45,960	53,585	+7,624
Total liabilities and net assets	88,767	99,334	+10,567

Total assets

- Cash equivalent and accounts receivable +6,643 million yen
- Merchandise +2,305 million yen
- Opening new stores, etc.
Fixed assets +1,200 million yen

Total liabilities

- Accounts payable +1,873 million yen
- Income taxes payable +335 million yen

Total net assets

- Decline due to 1,475 million yen in dividends
- Net profit +9,274 million yen

3. FY2016 Consolidated Statement of Cash Flows

(million yen)

Major breakdown

	FY2015 (consolidated)	FY2016 (consolidated)	Change
Cash flow from operating activities	11,811	11,843	+32
Cash flow from investing activities	-4,975	-4,282	+693
Cash flow from financing activities	-5,901	-1,475	+4,426
Change in cash and cash equivalents	933	6,085	+5,152
Opening balance of cash and cash equipments	19,335	20,268	+933
Closing balance of cash and cash equipments	20,268	26,354	+6,085

- Net profit before taxes 13,906 million yen
- Depreciation 2,942 million yen
- Corporate taxes paid -5,029 million yen

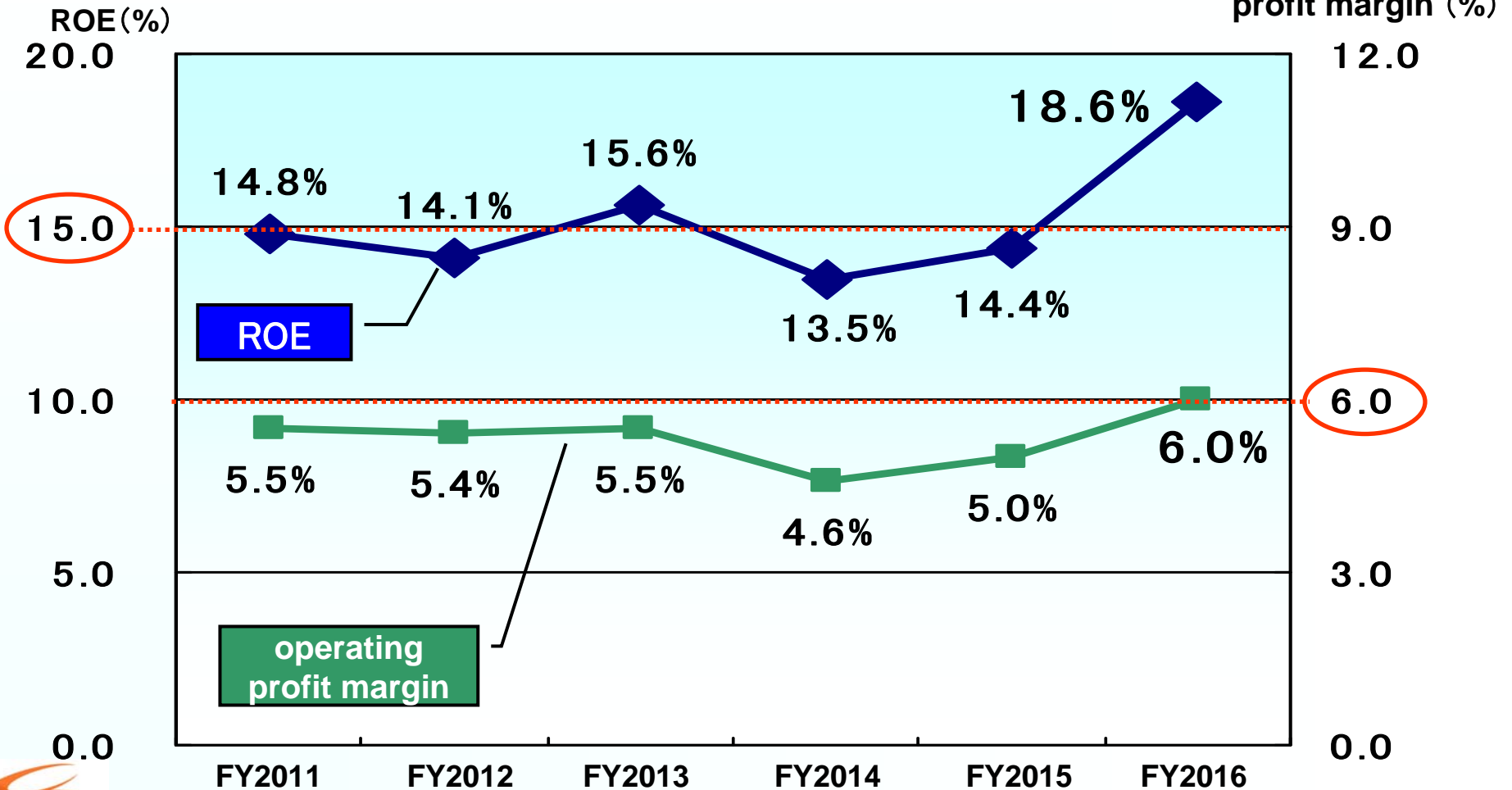
- Acquisition of fixed tangible assets due to store openings and renovation -3,518 million yen
- Joint loans for construction -582 million yen
- Construction in progress -756 million yen

- Dividend payment -1,475 million yen

4. Changes in ROE

Intend ROE More Than 15%

Changes in ROE - operating profit margin

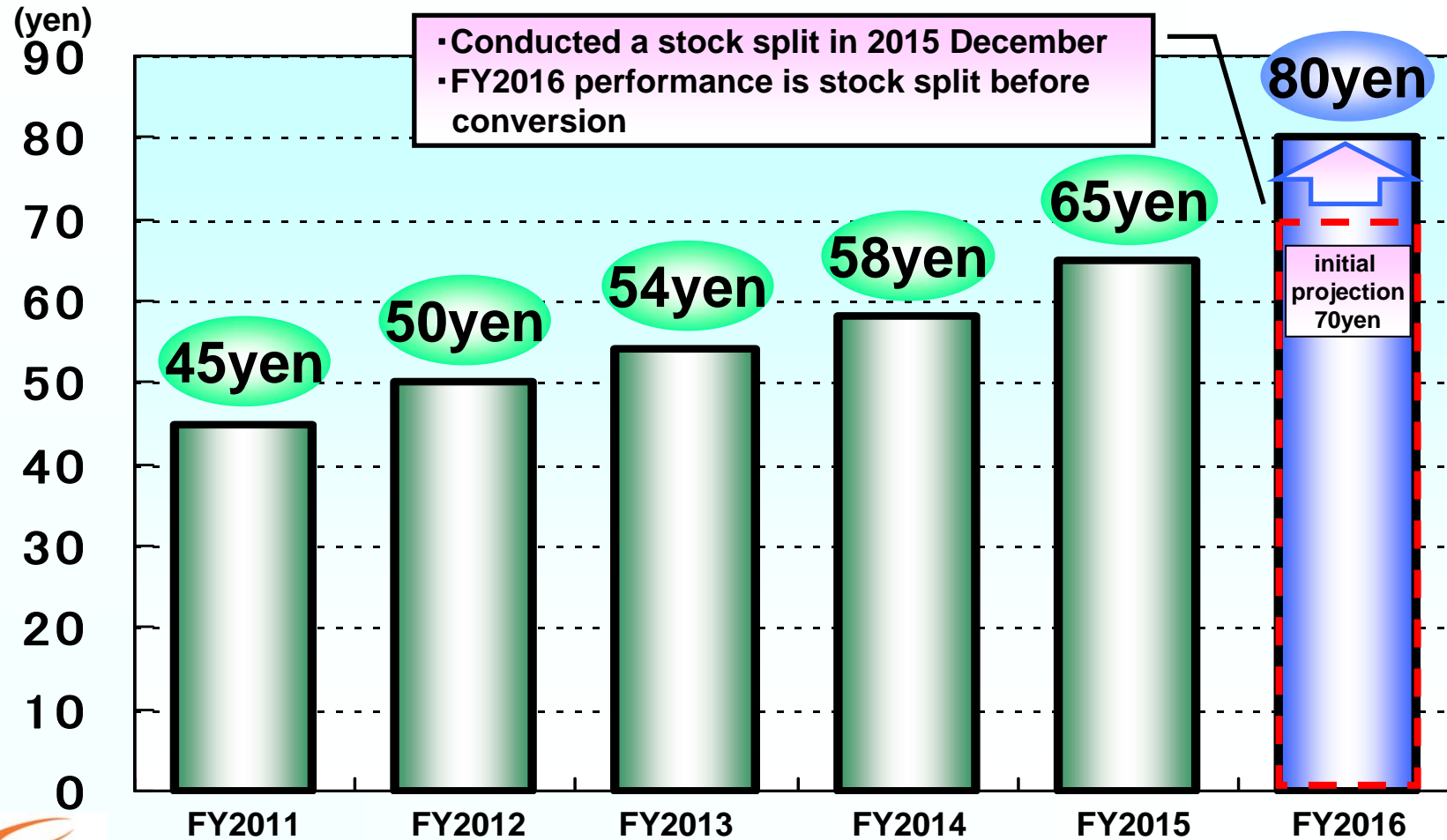


5. Changes in Dividend

**Stable and Sustainable
Increase in Dividend**

FY2016 performance
Dividend payout ratio 18.2%
Dividend on Equity 3.4%

Change in dividend per stock



Results of a main business company

1. FY2016 Profit and Loss Statement (Create SD)

	FY2015		FY2016			
	(million yen)	Share (%)	(million yen)	Share (%)	YoY change (%)	% of adjustment in projection (%)
Net sales	212,274	100.0	230,145	100.0	108.4	99.9
Gross profit	57,476	27.1	63,458	27.6	110.4	100.2
SG&A expenses	47,358	22.3	50,136	21.8	105.9	100.3
Operating profit	10,118	4.8	13,321	5.8	131.7	100.0
Recurring profit	10,366	4.9	13,672	5.9	131.9	100.0
Net profit	6,256	2.9	8,966	3.9	143.3	104.8

2. New Store Openings

28 new OTC stores and 6 ethical pharmacies were opened
(of which 2 were dedicated prescription pharmacies)

New store openings by area

		Kanagawa	Tokyo	Shizuoka	Chiba	Other	Total
New stores opened in FY2016	OTC	18	4	2	2	2	28
	in-store pharmacies	1	0	0	2	1	4
	Dedicated prescription pharmacies	2	0	0	0	0	2



- Drug Stores closing: 2 were S&B , 1 was contract expiration
- Dedicated prescription pharmacies closing: 1 was contract expiration
- In-store pharmacies closing : 2 were management efficiency enhancement

		Kanagawa	Tokyo	Shizuoka	Chiba	Other	Total
Total number of stores as of the end of FY2016	OTC	263	80	66	25	37	471
	in-store pharmacies	67	19	12	3	10	111
	Rate of pharmacy establishment in OTC stores	25.5%	23.8%	18.2%	12.0%	27.0%	23.6%
	dedicated prescription pharmacies	19	7	0	3	2	31

3. Renovation of existing stores

Expansion of merchandize and renovation of **21 stores** to improve floor space allocation

- Introduction and expansion of new merchandize including food and miscellaneous products
- Improvement of floor space allocation per section to meet sales composition and regional characteristics

Small-scale renovation of **13 stores** to introduce new categories

Renovation of the food section to facilitate the introduction of meat, boxed lunches and prepared meals

Pharmacy remodeling **5 stores**

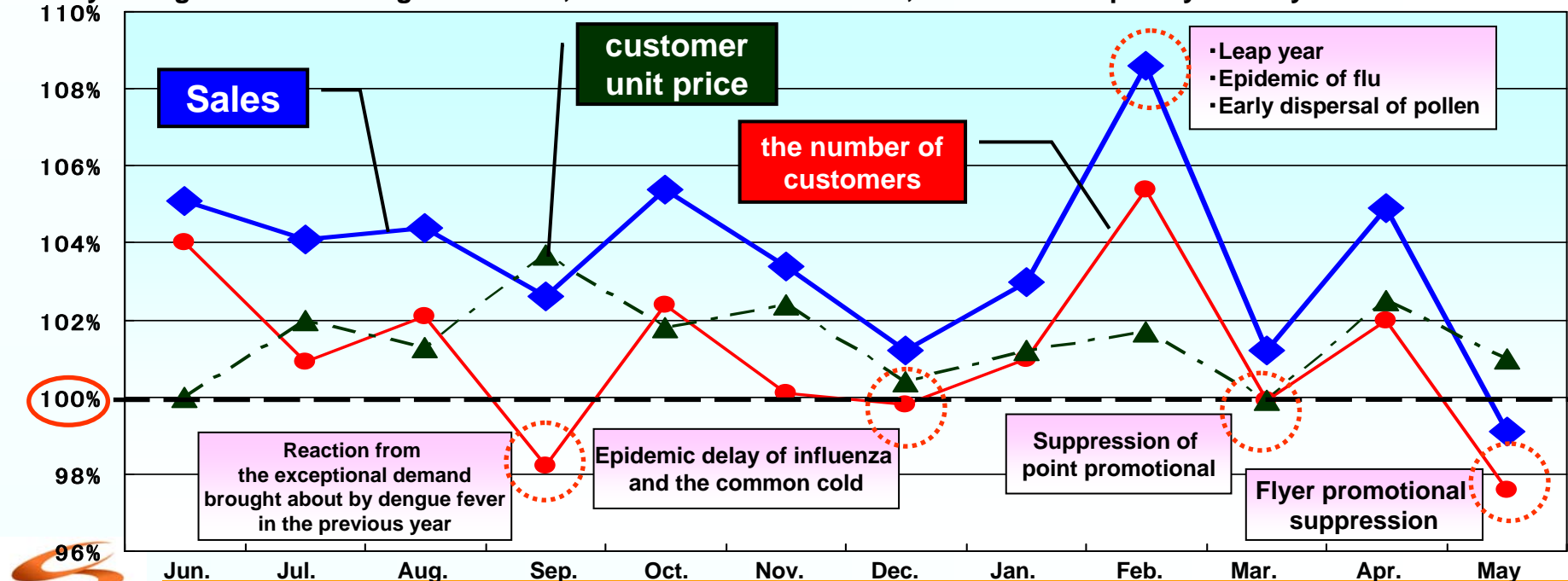
Expansion of floor space and renovation of the waiting area in profitable in-store pharmacies

4. Sales

The top-line ended at **+8.4%**, boosted by existing stores that posted **+3.5%**

- The main factors: **+1.0%** increase in the number of customers, an increase of **+1.4%** per customer, dispensing department **+17.2%**
- Number of customers increased due to the expansion of merchandize and the EDLP measures
- Average sales per customer rose thanks to the revision of selling prices and the deployment of high-added-value and large-sized products

Monthly changes in the existing store sales, the number of customers, customer unit price year-on-year



4. Sales

Traction expertise of the pharmacy business and the convenience of grocery

	FY2015			FY2016		
	Sales (million yen)	Share (%)	YoY change (%)	Sales (million yen)	Share (%)	YoY change (%)
Medical and health products	49,309	23.2	110.5	54,195	23.5	109.9
(O T C)	35,522	16.7	104.0	37,487	16.2	105.5
(Prescription)	13,787	6.5	131.8	16,708	7.3	121.2
Cosmetics	31,780	15.0	102.2	33,669	14.6	105.9
Food products	80,886	38.1	111.8	88,727	38.6	109.7
Daily products	37,505	17.7	105.1	39,810	17.3	106.1
Other	12,793	6.0	105.8	13,742	6.0	107.4
Total	212,274	100.0	108.4	230,145	100.0	108.4

5. Pharmacy department

	FY2016		
	(million yen)	Share (%)	YoY change (%)
Net sales	16,708	100.0	121.2
Gross profit	6,542	39.2	116.7

Existing store sales rose +17.2%

- Expanded remarkably as recognition rose against the background of a large number of in-store pharmacies handling mainly prescriptions issued by multiple medical institutions
- Boosted by renovation and unifying store names

Sales in prescription operations and the number of prescriptions issued

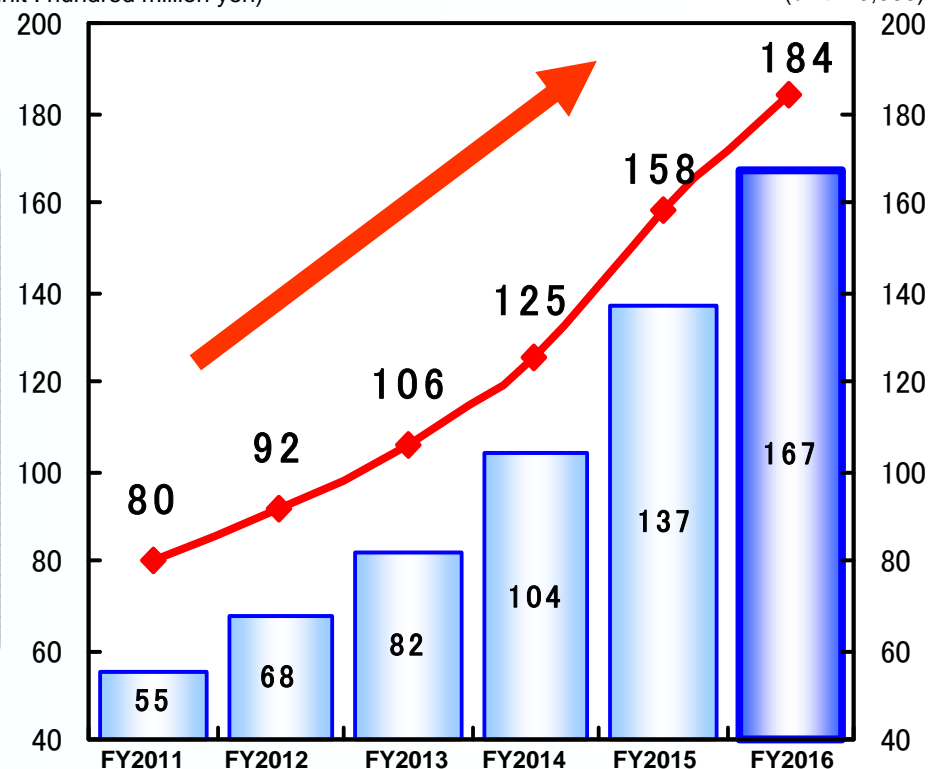
Bar graph: Sales

(unit : hundred million yen)

Line graph:

Number of prescriptions issued

(unit: 10,000)



- Promotion of generic product usage
Usage rate is 65.4% (quantity basis)
- More capital investments were made in dispensing equipment in order to raise the efficiency of operations
- Focus on the development of human resources

A pharmacist training center equipped with advanced dispensing equipment and enough space for a number of people to attend class was established

6. Gross profit margin

Gross profit margin 27.6% Previous year difference + 0.5pt

Selling price measures

- Gross profit of each product was controlled by EDLP while restraining special prices.
- Pricing that matches the market price

Deployment of high-value-added products

By deploying high-value-added products, improved by the mix of gross profit

Extension of the pharmacy department

Gross profit margin was improved by the higher sales share of the pharmacy department after promoting new openings of in-store pharmacies in the past three years

7. Expense rate

Expense rate 21.8% Previous year difference - 0.5pt

Cost of utilities ⇒ - 0.2pt

- Curbing electricity consumption by **shifting store lighting to LED** and taking **power-saving measures in stores**
- A reduction in fuel adjustment cost unit price due to **falling oil prices**

Logistics cost ⇒ - 0.1pt

The distance between stores and logistics centers was optimized by establishing a **new logistics center**

Depreciation ⇒ - 0.2pt Rent ⇒ - 0.1pt

- A decline in the cost for opening new stores due to a delay in actual openings and **continued restraint in building costs**
- **Additional investments** were made in large-scale renovation and introduction of store fixtures and dispensing equipment in the second half

Growth Strategy

1. New Store Openings

New drugstores **40 stores** ⇒ Previous year difference **+12 stores**

- Opening of stores in Kanto (mainly in Kanagawa prefecture) and Tokai regions
- Improve convenience and enhance the food and daily necessities assortment

Dispensing pharmacy **23 stores** ⇒ Previous year difference **+17 stores**
In-store pharmacies **20 stores** (+16stores)
Dedicated prescription pharmacies **3 stores** (+1 store)

- Opening of in-store pharmacies has been sped up again
- Profitable pharmacies have been opened in coordination with medical institutions so as to meet the allocation of medical institutions in the vicinity and cope with the exit of in-hospital pharmacies from hospitals

2. Renovation of existing stores

Existing stores renovated to increase the convenience **30 stores**

Expansion of the store that can provide more convenience in a small trade area

- Expanding assortment of groceries
- The introduction of miscellaneous products

Pharmacy remodeling **5 stores**

Improve profitability by renovating pharmacies that handle high numbers of prescriptions

- Expansion of the preparation space and waiting room
- Improve the visibility from the drugstore

3. Efforts to improve productivity

Raise efficiency by expanding a computer-assisted ordering system

Not only shorten the time for placing orders but also improve the accuracy of sales forecasts, on which ordering is based, by expanding the stores and sections that have introduced a computer-assisted ordering system

Development of logistics system

- **Establish a logistics system to handle a new selection of merchandize and improve efficiency in the delivery**
- **Improve work processes by upgrading material handling equipment**

4. Pharmacy efforts

Expansion of prescription number of pharmacies dealing with prescription issued by a number of medical institutions

- **Shorten waiting times** by improving operations through the utilization of equipment
- **Make announcements by taking advantage of drug stores' ability to attract customers** as well as improve convenience by introducing a prescription drug app

The development of human resources

Utilize the Pharmacist Training Center, opened in April 2016, and the completely renewed development curriculums

4. Pharmacy efforts

Control of stock

Utilize the logistics center to optimize inventories in each store

Corresponding to the medical fee revision

- Raise the rate of generic product usage ⇒ **70%**
(**4.3%** increase from the end of the previous year)
- Acquire extra basic dispensing fees ⇒ **20 stores**
- Strengthening of "primary care" function
 - ⇒ Expansion of individual home support pharmacy
 - ⇒ Promotion of implementation health consultations

5. Care Business

Fee-charging Nursing Home business

Improvement of the occupancy rate
by strengthening sales capabilities
⇒ occupancy rate **80%**

Preventive Nursing business

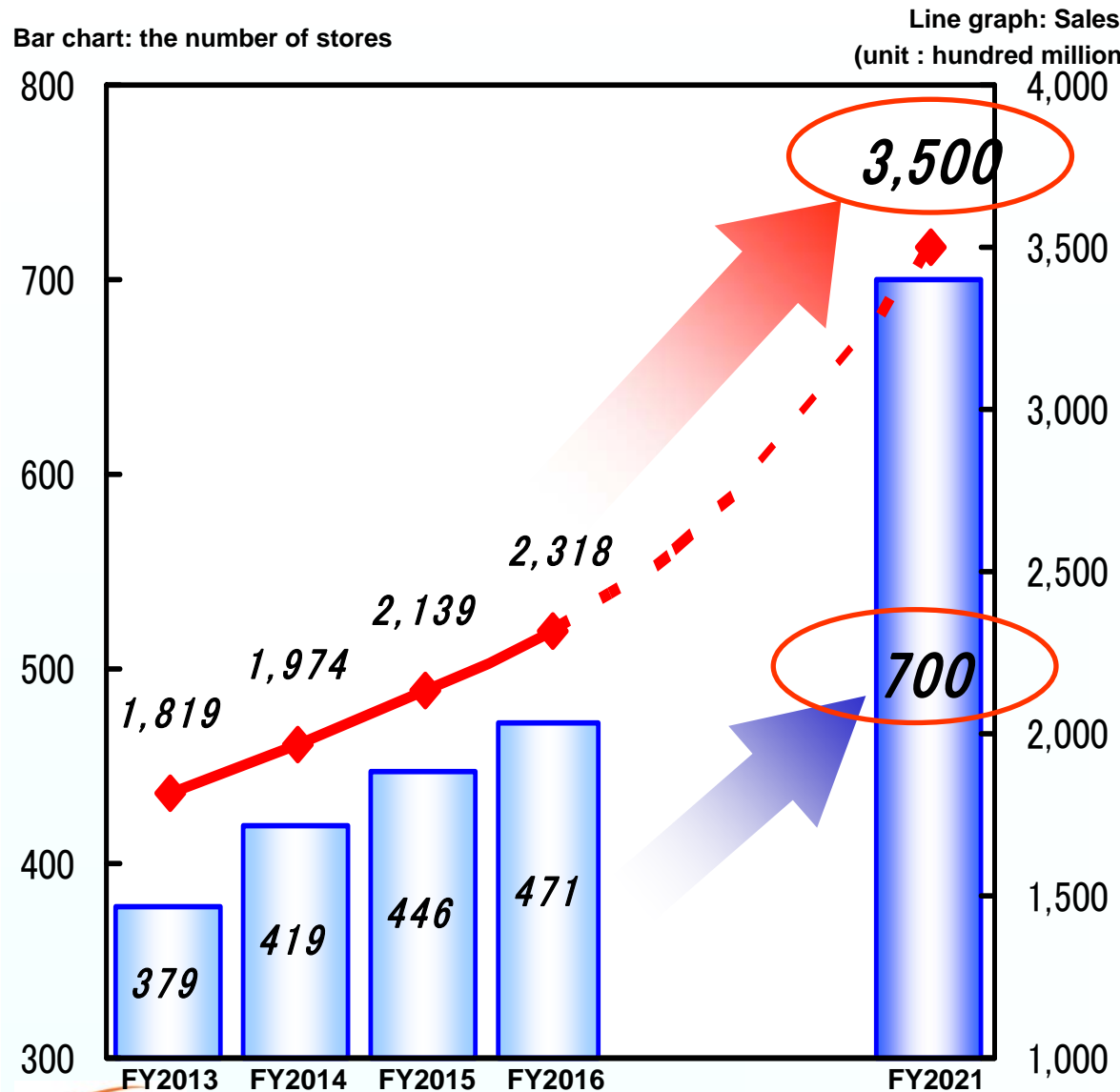
Focus on improving the profitability of existing facilities

- Switch from a 10-person system to a 16-person system **3 facilities**
- Enhance the operational rate of existing facilities
with a capacity of 16 people ⇒ to **80%** at the end of the year.
- Promote the introduction of a hybrid system of machine
training and massage
- Introduce training programs for preventing dementia

6. FY2017 Forecasts (Consolidated)

	FY2016 (consolidated results)		FY2017 (consolidated projection)		
	(million yen)	Share (%)	(million yen)	Share (%)	YoY Change (%)
Net sales	231,892	100.0	247,700	100.0	106.8
Gross profit	63,423	27.4	67,730	27.3	106.8
SG&A expenses	49,469	21.3	53,030	21.4	107.2
Operating profit	13,954	6.0	14,700	5.9	105.3
Recurring profit	14,314	6.2	15,000	6.1	104.8
Net profit	9,274	4.0	9,700	3.9	104.6

7. Medium-term vision



Medium-term target

Number of stores
700 stores

Amount of sales
3,500
hundred million yen

Operating margin
6.0% or more

ROE
15.0% or more