



CREATE SD HOLDINGS

FY2016 (6/15–5/16)

Exploratory

FY2017 (6/16–5/17) Interim Results Explanatory Meeting
January 13, 2017

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. Inquiries should be direct to Mr. Kasai or Mr. Tamura. (045-914-8241) in the Corporate Planning Office.

FY2017 (6/16–5/17) Interim Results Explanatory Meeting

■ 1H FY2017 Consolidated Results

1. Profit and Loss Statement
2. Balance Sheet
3. Statement of Cash Flows

■ The Results of The Business Company

1. Profit and Loss Statement (Create SD)
2. New Store Openings
3. Assortment Tailored to Customer Needs
4. Sales
5. Sales by Segment
6. Pharmacy Department
7. Gross Profit Margin
8. Expense Rate
9. Efforts to Improve Productivity
10. Care Business

■ FY2017 Consolidated The Second Half of the Efforts

1. New Store Openings
2. Assortment Tailored to Customer Needs
3. Efforts to Improve Productivity
4. Pharmacy Efforts
5. FY2017 Forecasts (Consolidated)

1H FY2017

Consolidated Results

(06/2016 – 11/2016)

1. 1H FY2017 Consolidated Profit and Loss Statement

	1H FY2016 (consolidated)		1H FY2017 (consolidated)			
	(million yen)	Share (%)	(million yen)	Share (%)	YoY change (%)	% of projection (%)
Net sales	113,721	100.0	121,549	100.0	106.9	100.1
Gross profit	30,885	27.2	33,421	27.5	108.2	101.4
SG&A expenses	24,154	21.2	26,327	21.7	109.0	101.1
Operating profit	6,731	5.9	7,093	5.8	105.4	102.5
Recurring profit	6,933	6.1	7,249	6.0	104.6	102.5
Net profit	4,502	4.0	4,923	4.1	109.4	104.8

2. 1H FY2017 Consolidated Balance Sheet

(million yen)

	May 31, 2016 (consolidated)	November 30, 2016 (consolidated)	Change
Total assets	99,334	103,356	+4,021
Current assets	60,879	63,377	+2,497
Fixed assets	38,455	39,979	+1,523
Total liabilities	45,749	45,758	+8
Current liabilities	41,760	41,625	-135
Fixed liabilities	3,989	4,133	+144
Total net assets	53,585	57,598	+4,013
Total liabilities and net assets	99,334	103,356	+4,021

Main causes of changes

Total assets

- Cash and cash equivalents +1,613 million yen
- Merchandise + 781 million yen
- Opening new stores, etc. Fixed assets +1,523 million yen

Total liabilities

- Income taxes payable -315 million yen
- Point reserve fund +110 million yen
- Asset retirement obligation etc. +202 million yen

Total net asset

- Decline due to 948 million yen in dividends
- Net profit +4,923 million yen

3. 1H FY2017 Consolidated Statement of Cash Flows

(million yen)

	November 30, 2015 (consolidated)	November 30, 2016 (consolidated)	Change
Cash flow from operating activities	5,122	5,216	+94
Cash flow from investing activities	-1,874	-2,654	-780
Cash flow from financing activities	-737	-948	-210
Change in cash and cash equivalents	2,509	1,613	-896
Opening balance of cash and cash equipments	20,268	26,354	+6,085
Closing balance of cash and cash equipments	22,778	27,967	+5,189

Major breakdown

- Net profit before taxes 7,246 million yen
- Depreciation 1,374 million yen
- Corporate taxes paid -3,642 million yen

- Acquisition of fixed tangible assets due to store openings and renovation -1,813 million yen
- Joint loans for construction -218 million yen
- Construction in progress -1,007 million yen

- Dividend payment -948 million yen

The Results of Business Company

1.1H FY2017 Profit and Loss Statement (Create SD)

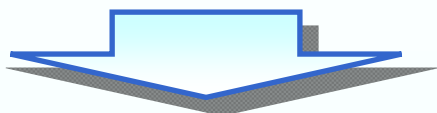
	1H FY2016		1H FY2017			
	(million yen)	Share (%)	(million yen)	Share (%)	YoY change (%)	% of projection (%)
Net sales	112,860	100.0	120,616	100.0	106.9	100.1
Gross profit	30,904	27.4	33,399	27.7	108.1	101.3
SG&A expenses	24,453	21.7	26,662	22.1	109.0	101.0
Operating profit	6,450	5.7	6,736	5.6	104.4	102.5
Recurring profit	6,647	5.9	6,886	5.7	103.6	102.6
Net profit	4,313	3.8	4,678	3.9	108.5	104.5

2. New Store Openings

14 new OTC stores and 6 ethical pharmacies were opened
(of which 1 was dedicated prescription pharmacies)

New store openings by area

		Kanagawa	Tokyo	Shizuoka	Chiba	Other	Total
New stores opened in 1H FY2017	OTC	12	1	1	0	0	14
	in-store pharmacies	4	0	1	0	0	5
	dedicated prescription drug stores	1	0	0	0	0	1



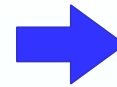
• Drug Stores closing : 1 was S&B
• In-store pharmacies closing : 1 was relocations

		Kanagawa	Tokyo	Shizuoka	Chiba	Other	Total
Total number of stores as of the end of 1H FY2017	OTC	274	81	67	25	37	484
	in-store pharmacies	70	19	13	3	10	115
	Rate of pharmacy establishment in OTC stores	25.5%	23.5%	19.4%	12.0%	27.0%	23.8%
	dedicated prescription drug stores	20	7	0	3	2	32

3. Assortment Tailored to Customer Needs

Enhance convenience and add dispensing function to raise the profitability of individual stores even in small commercial areas and competitors

Renovation of existing stores : **12 stores**



Cumulatively **18 stores**
from the previous term

- Expansion of assortments of food that is frequently bought
- Strengthening cosmetics sales floor
- The introduction of miscellaneous products
- Addition of dispensing pharmacy function



Increase visit frequency, increase sales, number of guests and prescription number

4. Sales

Year on year **106.9%** (**100.1%** compared to plan)

Existing store performance at **101.5%** compared with the previous term

OTC year on year **106.6%** (**100.4%** compared to plan) Existing store **101.1%**

Number of customers in existing stores 100.0%

The number of customers was maintained amid competition with own stores, which was caused by the establishment of dominance. This is because the frequency of customers' visits was raised by the expansion of merchandise that meet customers' needs and through EDLP measures.

Average sales per customer in existing store 101.1%

A rise in average prices by price revisions and high-value added products ran its course in August. Driven by the good performance of seasonal goods including cough, cold medicines and related goods, and heating packs in October and November.

Pharmacies year on year **109.8%** (**96.0%** compared to plan) Existing store **106.7%**

The unit price of prescriptions declined more than planned due to the big impact of the revision of the medical payment system. With 109.8% of the previous term, the overall sales were shored up. However, the plan failed to be achieved.

5. Sales by Segment

Traction expertise of the pharmacy business and the convenience of grocery

	1H FY2016			1H FY2017		
	Sales (million yen)	Share (%)	YoY change (%)	Sales (million yen)	Share (%)	YoY change (%)
Medical and health products	25,992	23.0	111.8	27,747	23.0	106.7
(O T C)	18,104	16.0	106.3	19,082	15.8	105.4
(Prescription)	7,888	7.0	127.0	8,664	7.2	109.8
Cosmetics	16,813	14.9	106.1	17,852	14.8	106.2
Food products	43,392	38.4	109.3	46,739	38.8	107.7
Daily products	19,926	17.7	106.0	21,196	17.6	106.4
Other	6,735	6.0	108.7	7,080	5.8	105.1
Total	112,860	100.0	108.7	120,616	100.0	106.9

“Other” includes items such as stationery, baby products, clothing, pet products, gardening products, and film development services.

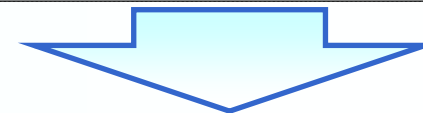
6. Pharmacy Department

Sales Year on year **109.8%** Number of prescription sheets **112.3%**

	1H FY2017		
	(million yen)	Share (%)	YoY change (%)
Net sales	8,664	100.0	109.8
Gross profit	3,481	40.2	110.0

Impact of the revision of the medical payment system on net sales -7pt

- Reduction of medicine prices
- Decrease in extra fees of generic products
- Decrease in extra basic dispensing fees



- Promotion of generic product usage rate (quantity basis)

As of the end of the previous fiscal year 65.4% ⇒ At the end of the first half **68.5%**

- Efforts to acquire extra basic dispensing fees

The number of such stores decreased from 56 to 2 due to the medicine price revision

⇒ **19 stores** acquired fees during the first half.

Expansion of the number of individual home support pharmacies

25 stores at the end of the previous term ⇒ **34 stores** became involved.

Implementation of health consultations at pharmacies

26 stores at the end of the previous term ⇒ **46 stores** held them.

7. Gross Profit Margin

Gross profit margin 27.7% Previous year difference + 0.3pt

Improvement of OTC gross profit margin +0.1 pt

- Increase in the number of seasonal goods sold, such as insect repellants, cough, cold medicines and related goods, and heating packs.
- Gross profit mix due to the deployment of high-value-added products.
- Control over gross profits by reducing the number of flyers and taking the EDLP measures to each product

Increase by improvement in delivery prices +0.1 pt

Review of planogram by category and negotiations on the delivery price of each product

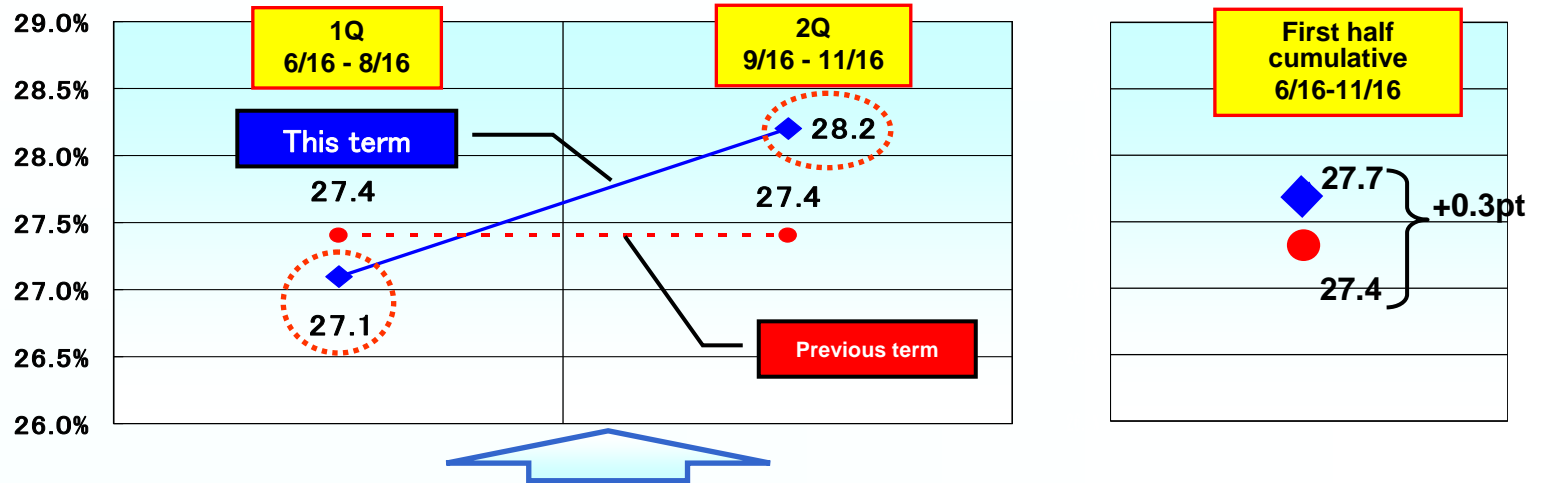
Improvement by growth of dispensing division +0.1 pt

Improvement on gross profit margin due to a larger percentage of the expertise-based pharmacy business in total sales

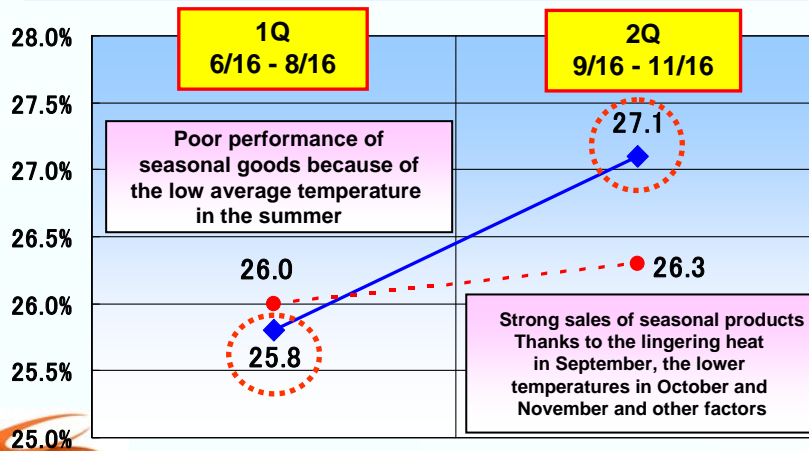
7. Gross Profit Margin

Gross profit margin quarterly year-on-year comparison

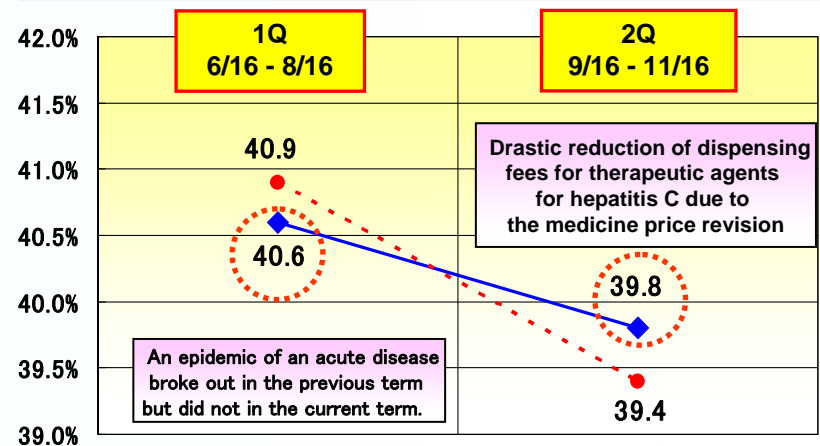
First half cumulative 27.7%(previous term 27.4%) Previous year difference + 0.3pt



OTC 26.4%(previous term 26.2%)
Previous year difference + 0.2pt



Pharmacy 40.2%(previous term 40.1%)
Previous year difference + 0.1pt



8. Expense Rate

Expense rate 22.1% Previous year difference + 0.4pt

Personnel expenses +0.5pt

- Increase by a pay raise for existing employees and a revision of various allowances
- A rise in average costs related to changing employment conditions, and recruitment

Utilities expenses - 0.1pt

- 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

Advertising expense - 0.1pt

Promotion of EDLP measures to each product and a revision of the number of stores that implement flyer campaigns

9. Efforts to Improve Productivity

Raise efficiency by expanding a computer-assisted ordering system

Expansion of introduction stores (The introduction rate stands at 98%.)

Introduction was completed to all stores except some new ones

Expansion of introduction division

Food Department 192 stores at the end of the previous term

⇒ 399 stores as of the end of November

Other departments 380 stores at the end of the previous term

⇒ Introduced to all stores as of the end of November

Improvement of logistics system

- Efficiency enhanced by a revision of distribution methods that suit new assortments of goods
- Strengthened chilled logistics system

10. Care Business

Fee-charging nursing home business

- Improvement of occupancy rate by strengthening sales force

Occupancy rates by facilities

Tokyo: As of the end of the previous fiscal year 71.4%

⇒ At the end of the first half **78.6%**

Hachioji: As of the end of the previous fiscal year 70.0%

⇒ At the end of the first half **71.7%**

Preventive nursing business

Focus on improving the profitability of existing facilities

- Switch to a 16-person system : As of the end of the previous fiscal year 13 facilities
⇒ At the end of the first half **16 facilities**
- Improved occupancy rate : As of the end of the previous fiscal year 73%
⇒ At the end of the first half **75%**
- Promote the introduction of a hybrid system of machine training and massage
- Introduce training programs for preventing dementia

FY 2017 Consolidated The Second Half of the Efforts

1. New Store Openings

OTC New Store Openings

14 stores in the first half **26 stores** in the second half
Forecast of **40 stores** for the full term

- Opening new stores is planned in Tokyo, Chiba and Shizuoka with a focus placed in Kanagawa
- Promotion of product selection tailored to customer needs

Pharmacies New Store Openings

6 stores in the first half **12 stores** in the second half
18 stores prospects for the full term
(of which 2 were dedicated prescription pharmacies)

- 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
- To be added to a store to which a selection of items was added

2. Assortment Tailored to Customer Needs

Continued efforts will be made to promote coordination between convenience, generated by adding merchandise that meet customers' needs, and the expertise of the pharmacy business.

Renovation of existing stores 12 stores in the first half

11 stores in the second half

Original plan 30 stores ⇒ Forecast of **23 stores** for the full term

- Expansion of food that is bought frequently
- Strengthening of cosmetics within shopping center
- The introduction of miscellaneous products
- Expansion of assortment of arbitrary products such as alcoholic beverages and cigarette
- New introduction of POSA card

3. Efforts to Improve Productivity

Effort tailored to new assortments of goods

- **Improvement of logistics system**
 - Review of shipping methods for shops directly
 - Improve efficiency by recombination of delivery stores at each center
- **Improvement in store operation**
 - Reduction of loss ratios by reviewing sales floor efficiency
 - Enhancement of efficiency in stocking shelves by means of changes in delivery methods
 - Establishment of a system corresponding to perishables

Effort at dispensing pharmacy

- **Control of stock**
 - Utilize the logistics center to optimize inventories in each store
- **Improvements in inventory efficiency and gross profit through integration of generic medications**

4. Pharmacy Efforts

Corresponding to the medical fee revision

Raise the rate of generic product usage

Improvements through proposals to medical institutions and requests from patients
⇒ Target usage rate revised upward to **75%** (original plan 70%)

Corresponding to the medical fee revision

Expansion of individual home support pharmacy
Increase of the number of pharmacies that implement health consultations.
⇒13 stores acquired in the second half.
32 stores are expected to acquire on a full year basis. (original plan 20 stores)

5. 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