



CREATE S·D CO., LTD.

– Suburban super drugstore pioneer –



FY2007 (6/06-5/07) Results Explanatory Meeting

July 17, 2007

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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1. FY2007 Results

Sixth consecutive year of both earnings and profit growth as a result of a recurring profit margin of 6.0%

	FY2006		FY2007			
	(million yen)	Share (%)	(million yen)	Share (%)	YoY Change (%)	Percentage of forecast
Net Sales	103,285	100.0	113,647	100.0	110.0	101.3
Gross Profit	24,734	23.9	28,220	24.8	114.1	101.8
SG&A Expenses	20,081	19.4	21,491	18.9	107.0	99.2
Operating Profit	4,653	4.5	6,729	5.9	144.6	111.3
Recurring Profit	4,704	4.6	6,813	6.0	144.8	111.8
Net Profit	2,486	2.4	3,679	3.2	148.0	115.0

2. Net sales and gross profit margin by segment

Expanded sales of PB products, introduced Nichiryu products, improved sales floor shelf allocation, implemented flexible price policy, etc.

Overall gross profit margin rose 0.9 percentage points YoY to **24.8%**

	FY2006			FY2007			Gross profit margin	
	Sales (million yen)	Share (%)	Gross profit margin (%)	Sales (million yen)	Share (%)	YoY Change (%)	(%)	YoY Change (percentage points)
Medical and Health Products	23,256	22.5	36.6	25,856	22.8	111.2	37.8	+ 1.2
Cosmetics	18,116	17.5	26.1	20,257	17.8	111.8	27.0	+ 0.9
Food Products	31,465	30.5	15.6	34,271	30.2	108.9	16.6	+ 1.0
Daily Products	19,290	18.7	23.9	21,741	19.1	112.7	23.7	- 0.2
Other	11,156	10.8	18.0	11,520	10.1	103.3	18.3	+ 0.3
Total	103,285	100.0	23.9	113,647	100.0	110.0	24.8	+0.9

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

3. Factors behind change in SG&A expenses

SG&A expense ratio improved to 18.9% from 19.4%

	FY2006		FY2007		
	(million yen)	Share (%)	(million yen)	Share (%)	YoY Change (%)
Total SG&A Expenses	20,081	19.4	21,491	18.9	107.0
Personnel Expenses	9,739	9.4	10,608	9.3	108.9
Advertising Expenses	2,350	2.3	1,889	1.7	80.4
Other	7,990	7.7	8,994	7.9	112.6

Personnel expenses: personnel expenses declined around 270 million yen due to efforts to improve man-hour productivity at existing stores

(Personnel expenses share of gross profit decreased to 37.6% from 39.4%)

Advertising expenses: expenses related to the point cards introduced in FY2006 shrank around 540 million yen
(Advertising expenses share of gross profit decreased to 6.7% from 9.5%)

4. New store openings (figures in parenthesis are stand alone pharmacies)

Area	As of the end of FY2006	Stores opened during FY2007	Stores closed during FY2007	As of the end of FY2007
Kanagawa	126 (5)	18 (3)	*1	143 (8)
Shizuoka	29	5	1	33
Tokyo	32 (1)	4	0	36 (1)
Saitama	4	2	0	6
Chiba	7	2	0	9
Gunma	0	2	0	2
Total	198 (6)	33 (3)	2	229 (9)

* The one store closed in Kanagawa during FY2007 was a scrap and build.

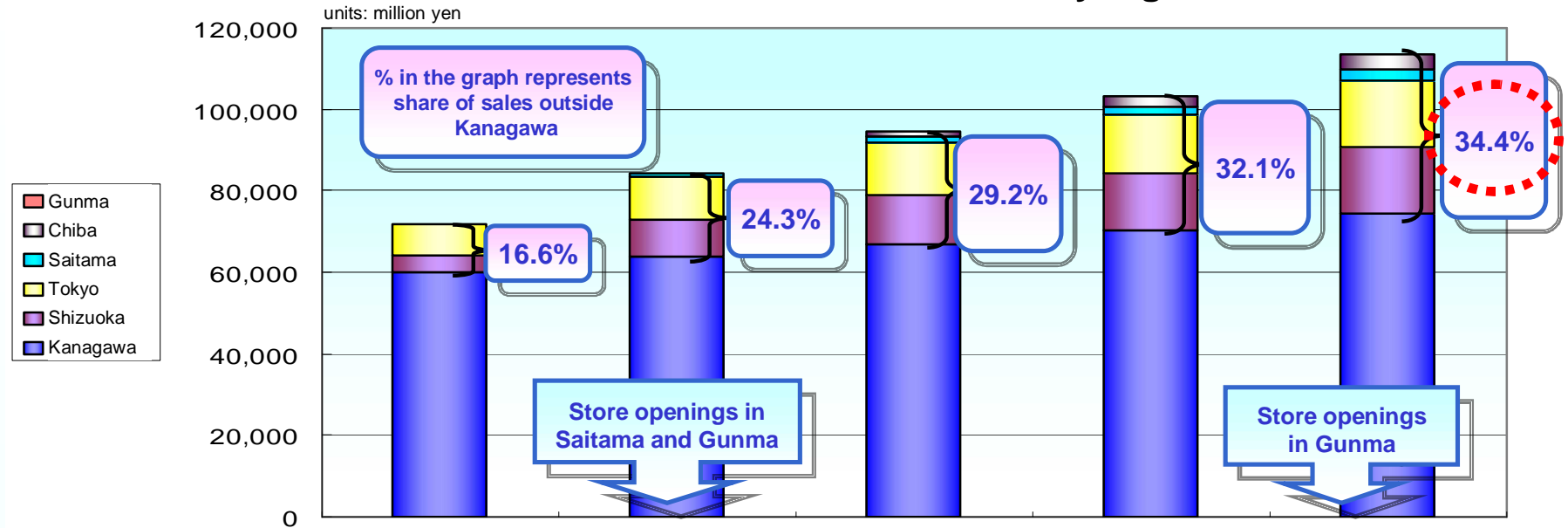
Number of new stores by type: 25 suburban stand alone, 1 suburban complex, 2 shop in SM, 1 shop in SC, 1 building in front of station, 3 pharmacies

Of pharmacies at the end of FY2007, 9 were stand alone and 15 were in a store, for a total of 24.

5. Net sales and number of stores by region

Growth while maintaining operating profit margin (expansion of the area stores are opened)

Net sales and share of sales by region



	FY2003	FY2004	FY2005	FY2006	FY2007
No. of Stores in Kanagawa <small>(figures in parenthesis are YoY changes)</small>	100 (+8)	106 (+6)	117 (+11)	126 (+9)	143 (+17)
No. of Stores outside Kanagawa <small>(figures in parenthesis are YoY changes)</small>	29 (+14)	47 (+18)	62 (+15)	72 (+10)	86 (+14)
Overall Operating Profit Margin	4.9%	4.5%	4.6%	4.5%	5.9%

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0. Management reform

FY2007

Code name: **Flight of the Seagull Strategy**

Seven strategic points to focus

Open 30
new stores

Increase gross
profit margin

Improve man-hour
productivity

Secure
employment

etc.

67 concrete commitments

Set responsible person, schedule, and measurement

Hold weekly Commitment Meeting and check progress

1. Firm sales at existing stores

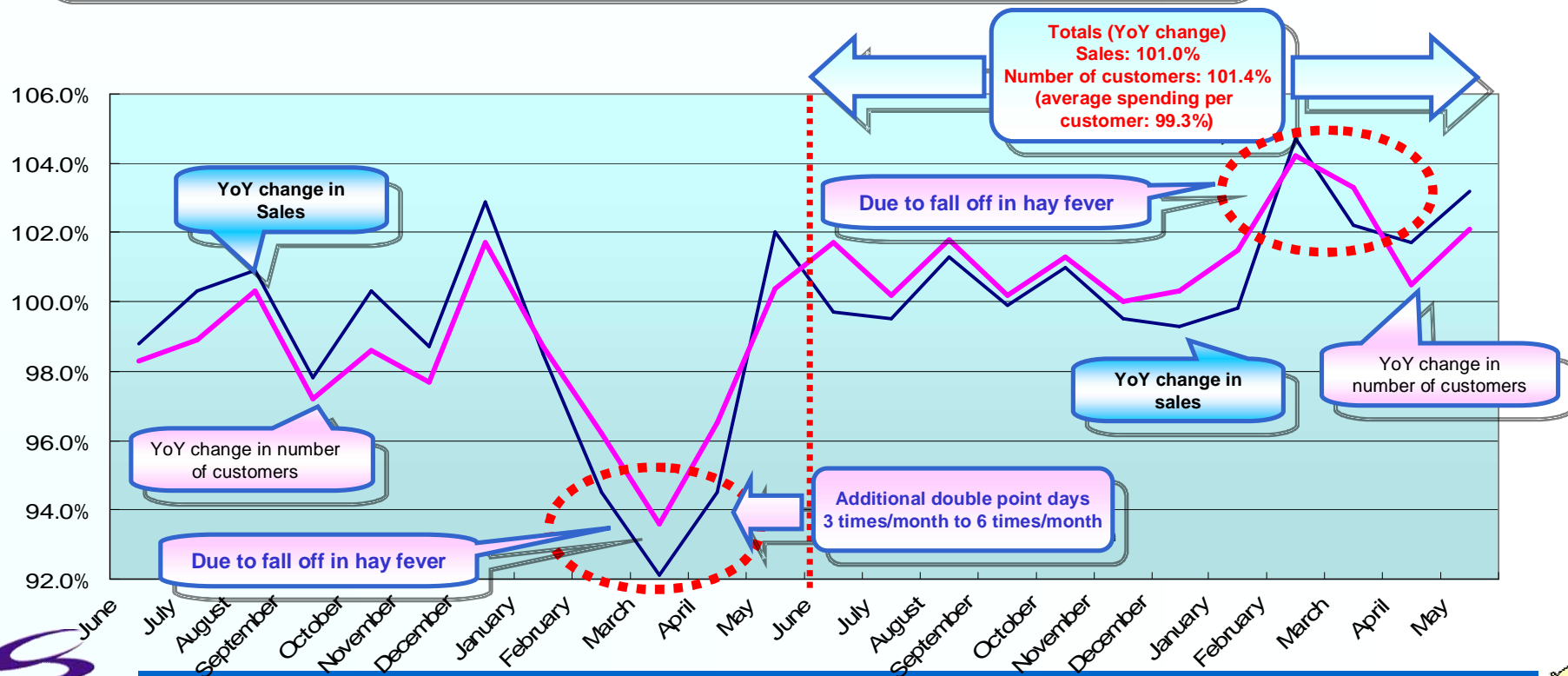
Existing store sales compared to the previous fiscal year rose to **101.0% for FY2007** from 98.4% for FY2006

Focus on measures related to member point cards without relying on flyer promotions

Number of members topped **1.94 million** at the end of FY2007

Double point days were increased to 6 times a month from 3 times a month

The frequency of visits rose to **3.6 times a month** from 3.4 times a month (existing stores)



2. 33 new store openings, a historic high

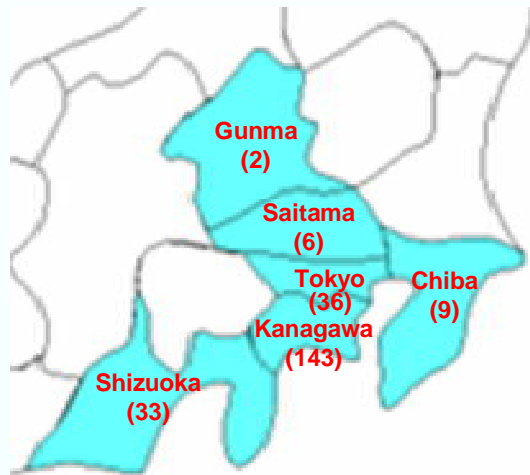
New stores by region

* Includes 3 stand alone pharmacies

FY2007	Kanagawa	Shizuoka	Tokyo	Saitama	Chiba	Gunma	Total
Initial plan	16 (3)	7	2	1	2	0	28 (3)
Actual	18 (3)	5	4	2	2	2	33 (3)



Number of stores (as of the end of FY2007)	143 (8)	33	36 (1)	6	9	2	229 (9)
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(1) Strengthening the store development system

- Established a North Kanto Development Department, Central Kanto Development Department and South Kanto/Tokai Development Department within the Store Development Division
- Staff were assigned to each department and more detailed development through stronger relationships with customers will be promoted

(2) Expansion of the area stores are opened

- Although plans were to open stores in Gunma prefecture in FY2008, the plans were moved up, and two stores were opened in Gunma prefecture (Takasaki-Iizuka store and the Maebashi-Kamikoide store)

(3) Increase in store openings at complexes

- **Opening stores in NCSs, in collaboration with CVS, and other facilities**

(4) Employee cooperation

- Four stores were opened during FY2007

3. Increase in gross profit margin to **24.8%** from 23.9%

1. Products – expand PB and jointly-procured products

- Strengthen PB products by revision and elimination based on sales
- Expand Nichiryu products

PB products

	Number of Items	Net Sales	Share of Sales
FY2005	485	7,373 million yen	8.0%
FY2006	599	9,739 million yen	9.6%
FY2007	653	11,792 million yen	10.7%

Nichiryu products

	Number of Items	Net Sales
FY2007	280	928 million yen



2. Sales – clarify sales products

- Eliminate ineffective or hit-or-miss price reductions

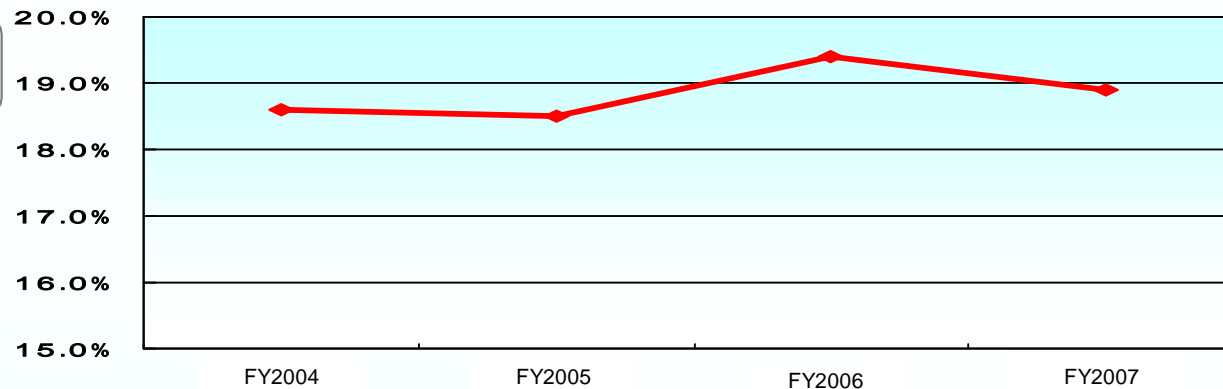
3. Purchasing – pursue merits of scale

- Increase buying power through concentrated procurement of sale products, which will lead to lower purchase price

4. Decline in SG&A expense ratio to **18.9%** from 19.4%

Promoting low-cost management assuming a decline in existing-store sales

SG&A expense ratio



1. Reduce advertising expenses

- Focus sales promotion on member services
- Reduce other flyer and event sales promotions

Existing-store advertising expenses declined 420 million yen (advertising expenses were 79.0% year on year)

* There were no one-time expenses of 540 million yen due to the introduction of magnetic point cards, but the number of double point days increased led to an increase of 120 million yen

2. Improve man-hour productivity

- Review operations from orders and delivery to displaying and restocking
- Reduce personnel expenses around and during flyer time by reducing the frequency of flyers, centered on new stores

Existing-store personnel expenses fell 270 million yen (personnel expenses were 96.2% year on year)

5. CREATE SD's Main Business Indicators

Recurring profit margin
Target of 5% or greater

FY5/07 **6.0%**
No. 2 among top 10 companies

ROA (return on assets)
Target of 15% or greater

FY5/07 **18.5%**
No. 1 among top 10 companies

ROE (return on equity)
Target of 15% or greater

FY5/07 **21.6%**
No. 1 among top 10 companies

Based on actual figures for the previous FY for each company

6. Dividend policy

Stable dividends with a target of **3% of net assets**

7. Issues

1. Listing on first section of TSE

Launched trading on the first section of the TSE on May 8, 2007

Goals of listing

- (1) Increase corporate value by improving corporate strength and culture
- (2) Secure good employees and increase quality and morale of employees
- (3) Ensure store locations by strengthening society's trust in the company

2. Establish CREATE BEGIN

Established as special subsidiary in Dec. 2006

Goal of establishing the subsidiary:

Fulfill corporate social responsibility (CSR)

Providing work opportunities to handicapped who have a desire to work but have been socially isolated matches the Company's ideal of "a drugstore loved by the local community" and contributes to the local community.



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1. FY2008 Forecasts

Aiming for double digit growth in earnings and profit

	FY2007 (actual)		FY2008 (Forecasts)		
	(million yen)	Share (%)	(million yen)	Share (%)	YoY Change (%)
Net Sales	113,647	100.0	128,200	100.0	112.8
Gross Profit	28,220	24.8	32,038	25.0	113.5
SG&A Expenses	21,491	18.9	24,628	19.2	114.6
Operating Profit	6,729	5.9	7,410	5.8	110.1
Recurring Profit	6,813	6.0	7,500	5.9	110.1
Net Income	3,679	3.2	4,050	3.2	110.1

Capital Expenditures	¥4,000 million (YoY Change: 128.3%)
Depreciation Expense	¥1,219 million (YoY Change: 135.7%)

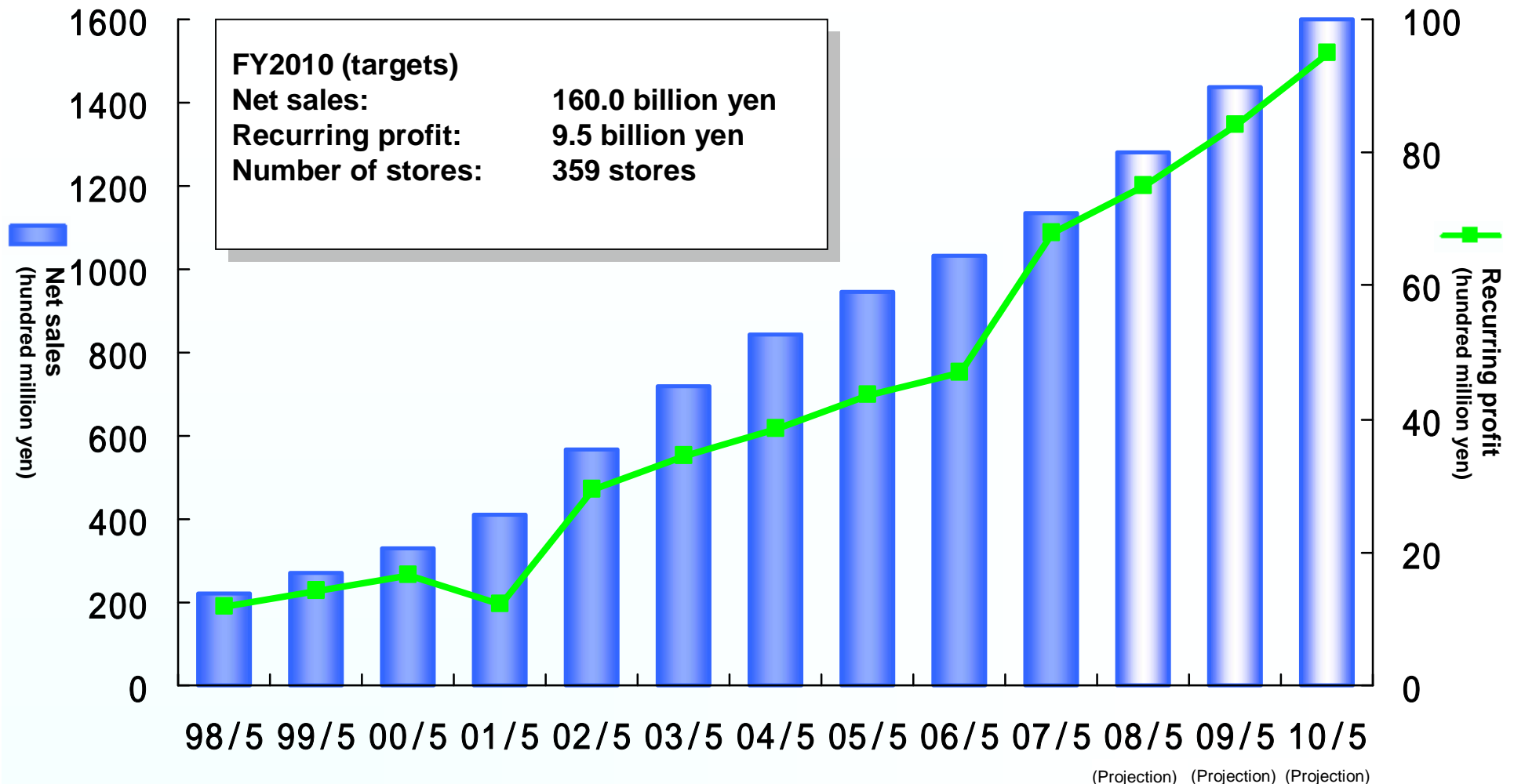
FY2008 forecasts are based on the following assumptions:

1. Sales: 40 new stores, YoY change of existing store sales: 99.6%
2. Gross profit margin: 25.0% (YoY change: 0.2 percentage point increase)
3. SG&A expenses: 19.2% of net sales (YoY change: 0.3 percentage point increase)

2. FY2008 Forecasts (by segment)

Net Sales by Segment	FY2007 (Actual)		FY2008 (Forecast)		
	(million yen)	Share (%)	(million yen)	Share (%)	YoY Change (%)
Medical and Health Products	25,856	22.8	29,486	23.0	114.0
Cosmetics	20,257	17.8	23,204	18.1	114.5
Food Products	34,271	30.2	38,418	30.0	112.1
Daily Products	21,741	19.1	24,781	19.3	114.0
Other	11,520	10.1	12,307	9.6	106.8
Total	113,647	100.0	128,200	100.0	112.8

3. Medium term business plan



Total number of stores	43	54	71	98	109	129	153	179	198	229	268	311	359
										(Projection)	(Projection)	(Projection)	



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1. 40 new stores

Accelerate growth by expanding the area stores are opened
At the same time, secure a strong profit margin by opening half of stores in Kanagawa prefecture

FY2008 Planned store openings by area

Kanagawa	Shizuoka	Tokyo	Saitama	Chiba	Gunma	Ibaraki	Total
17	5	4	4	3	5	2	40

Deepening dominance

- Create a strong foundation by deepening dominance in Kanagawa prefecture, which is highly profitable

+

Expand the area stores are opened

- Expand store openings in Gunma and Ibaraki prefecture to increase growth potential

Aiming to become a **SUPER REGIONAL CHAIN** in the Kanto and Tokai regions while ensuring overall profitability

2. Focus on further strengthening existing stores while accelerating new store openings

Basic thoroughness

1. Thorough organization – prevent supply shortages

- Organization research is conducted three times a year
- Maintain the sales floor and B/Y conditions

2. Provide extremely friendly service

- Store research – aiming for all stores to pass

Response to change

Improve profits through detailed sales floor development that corresponds to conditions at each stores

- Handle stores by classifying them into one of three types (normal store, competition store, new store)

Increase the competitiveness of stores through individual responses

Securing employees and early training

1. Secure employees

(1) Launch employee recruitment project

- Decrease the number of people quitting by expanding efforts to resolve issues for prospective employees provisionally hired

(2) Measures to retain workers

- Create a work environment to prevent people from quitting as a result of marriage and child raising

2. Employee education

(1) Early training for store manager candidates

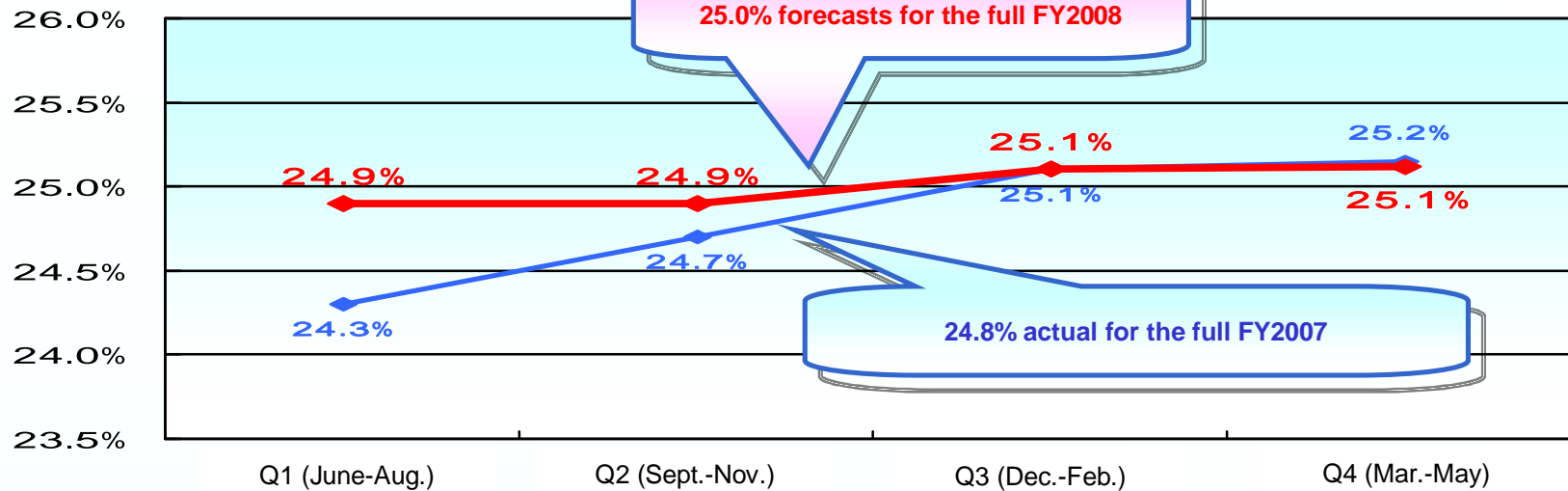
- Clarify issues to become manager
- Conduct training with set deadlines

(2) Early training of new employees

- Check the level of training for each employee
- Conduct training in cooperation with the store managers and AM.

3. Further improve gross margin to **25.0%**

Quarterly gross profit margin



(1) Continue and deepen measures such as those related to setting sale price and improving shelving allocation; (2) expand sales of PB and Nichiryu products, (3) increase percentage of health and beauty products (40.6% for FY2007)

PB plans

	Number of Items	Net Sales	Share of Sales
FY2007 actual	653	11,792 million yen	10.7%
FY2008 forecast	660	14,102 million yen	11.0%
FY2009 forecast	670	16,203 million yen	11.3%
FY2010 forecast	680	18,530 million yen	11.6%

Gross Profit Margin for Whole Company

24.8%
25.0%
25.2%
25.3%

4. Expand the prescription business

Expand the prescription business in the form of medical malls and buildings which are highly profitable

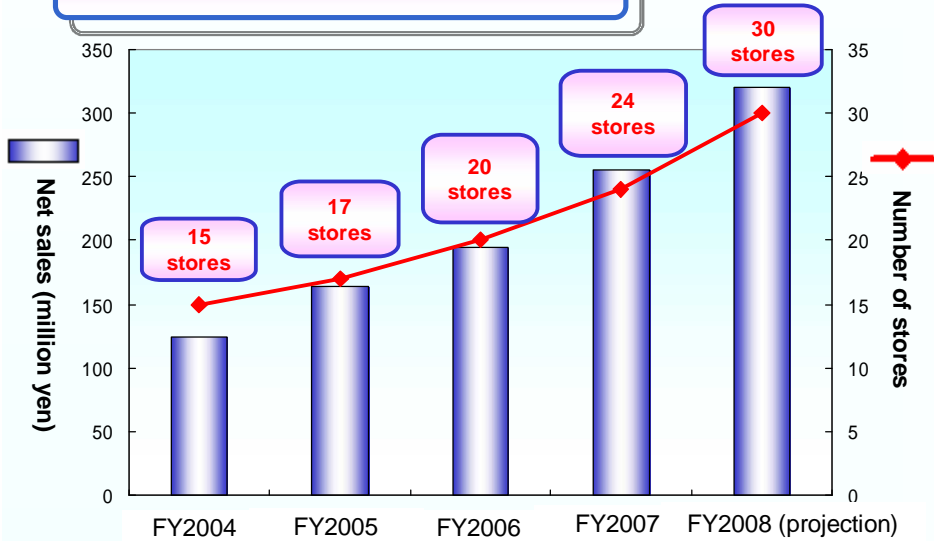
1. 6 new store openings

Plans for 3 stand alone and 3 attached
(for FY2007, 3 stand alone and 1 attached)

2. M&A efforts

Aggressive M&A efforts will be launched in the future

Net sales and number of stores



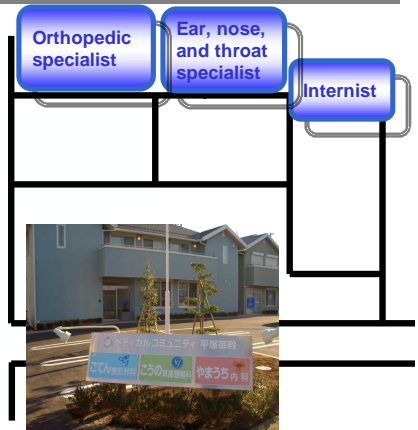
Hiratsukagoten Pharmacy
(a facility with a pharmacy that can prepare medicines)



Hiratsukagoten Store

Pharmacy

Creation of medical malls by attracting internists, ear, nose and throat specialists, and orthopedic specialists



5. Response to revisions in the Pharmaceutical Affairs Law

Revisions of the Pharmaceutical Affairs Law (from 2009) –
Over-the-counter drugs are grouped into one of three categories – A,B,C – depending on how dangerous their side effects are. Sales of drugs ranked B or C, which entail less risk of side effects, can be sold by people obtaining the newly created “registered sales staff (provisional name)” qualification.

Threat of entrance of companies in other industries entering the pharmaceutical sales business

Fiercer competition

By strengthening specialization, the goal is to create a drugstore tied to the local community that customers can rely on and that can solve problems.

Strengthening specialization

(1) **Health consultations** – conducted at two stores in each area
(2) **OTC drug consultations** – providing appropriate advice requested by stores on a wide variety of drugs through headquarters

Training for registered sales staff

Training for registered sales staff qualification
Initially, in order for all store managers to obtain the qualification, training is being implemented at the store manager meeting.
* The goal is to have 584 certified registered sales staff by FY2009.