



CREATE S・D CO., LTD.

– Suburban super drugstore pioneer –



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

Gross profit margin increased 0.9 percentage points YoY
SG&A expense ratio improved 0.5 percentage points YoY

Captured a
recurring profit
margin of 5.9%

	1H FY2006		1H FY007			
	(million yen)	Share (%)	(million yen)	Share (%)	YoY Change (%)	Percentage of forecast
Net Sales	51,398	100.0	55,916	100.0	8.8	101.8
Gross Profit	12,148	23.6	13,684	24.5	12.7	103.5
SG&A Expenses	9,825	19.1	10,396	18.6	5.8	98.4
Operating Profit	2,322	4.5	3,288	5.9	41.6	123.7
Recurring Profit	2,351	4.6	3,316	5.9	41.0	123.7
Net Income	1,215	2.4	1,750	3.1	44.0	134.6

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 24.5%

	1H FY2006			1H FY2007			Gross profit margin	
	(million yen)	Share (%)	Gross profit margin (%)	(million yen)	Share (%)	YoY Change (%)	(%)	YoY Change (percentage points)
Medical and health products	11,350	22.1	35.9	12,557	22.5	10.6	37.0	+1.1
Cosmetics	8,958	17.4	26.3	9,870	17.7	10.2	27.0	+0.8
Food Products	15,728	30.6	15.6	16,942	30.3	7.7	16.2	+0.6
Daily Products	9,766	19.0	23.5	10,861	19.4	11.2	24.1	+0.6
Other	5,593	10.9	17.5	5,683	10.2	1.6	17.9	+0.4
Total	51,398	100.0	23.6	55,916	100.0	8.8	24.5	+0.9

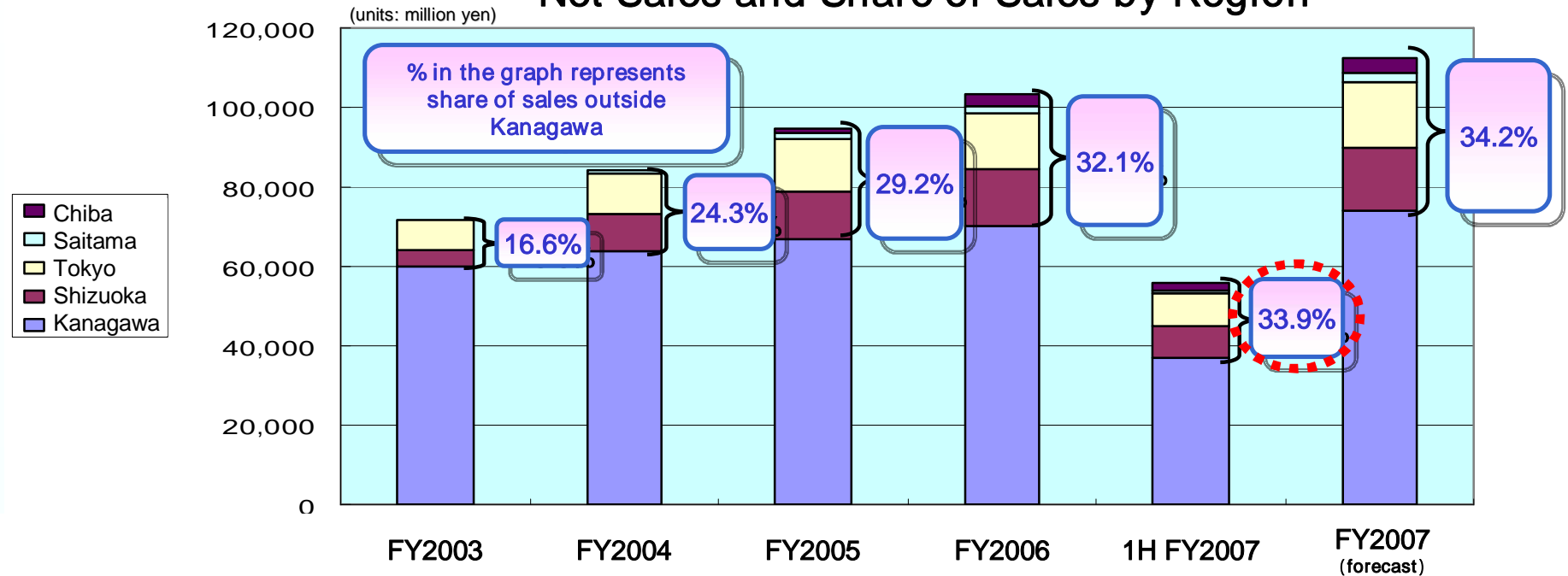
* "Other" includes items such as baby products, clothing, pet products, gardening products, and film development services.



3. Net Sales and Number of Stores by Region

Despite expanding area of operations, steadily maintaining an operating profit margin of 4.5% or greater

Net Sales and Share of Sales by Region



Number of Stores in Kanagawa (figures in parenthesis are year-on-year changes)	100 (+8)	106 (+6)	117 (+11)	126 (+9)	131 (+5)	142 (+16)
Number of Stores outside Kanagawa (figures in parenthesis are year-on-year changes)	29 (+14)	47 (+18)	62 (+15)	72 (+10)	77 (+5)	85 (+13)
Overall Operating Profit Margin	4.9%	4.5%	4.6%	4.5%	5.9%	5.4%

4. Factors behind change in SG&A expenses

SG&A expense ratio improved to **18.6%** from **19.1%**

	1H FY2006		1H FY2007		
	(million yen)	Share (%)	(million yen)	Share (%)	YoY Change (%)
Total SG&A Expenses	9,825	19.1	10,396	18.6	5.8
Personnel Expenses	4,842	9.4	5,187	9.3	7.1
Advertising Expenses	1,116	2.2	927	1.7	-16.9
Other	3,865	7.5	4,280	7.7	10.7

Factors behind the improvement in advertising expenses (as percentage of sales) to 1.7% from 2.2% (an improvement of 0.5 percentage points)

Improvement due to the one time expense of introducing magnetic point cards in 1H FY2006 (0.4 percentage points)
Reduction in flyer and event expenses on account of concentrating sales promotions on members (0.1 percentage points)

5. 1H Store Openings

Area	As of End of FY2006	Stores Opened in 1H	Stores Closed in 1H	As of End of 1H FY2007	Notes
Kanagawa	126	*5	0	*131	<ul style="list-style-type: none"> • One of the stores opened in 1H independently prepares medicines • Six of the stores at the end of 1H independently prepare medicines
Shizuoka	29	4	0	33	
Tokyo	32	0	0	*32	<ul style="list-style-type: none"> • One of the stores at the end of 1H independently prepares medicines
Saitama	4	1	0	5	
Chiba	7	0	0	7	
Total	198	10	0	208	

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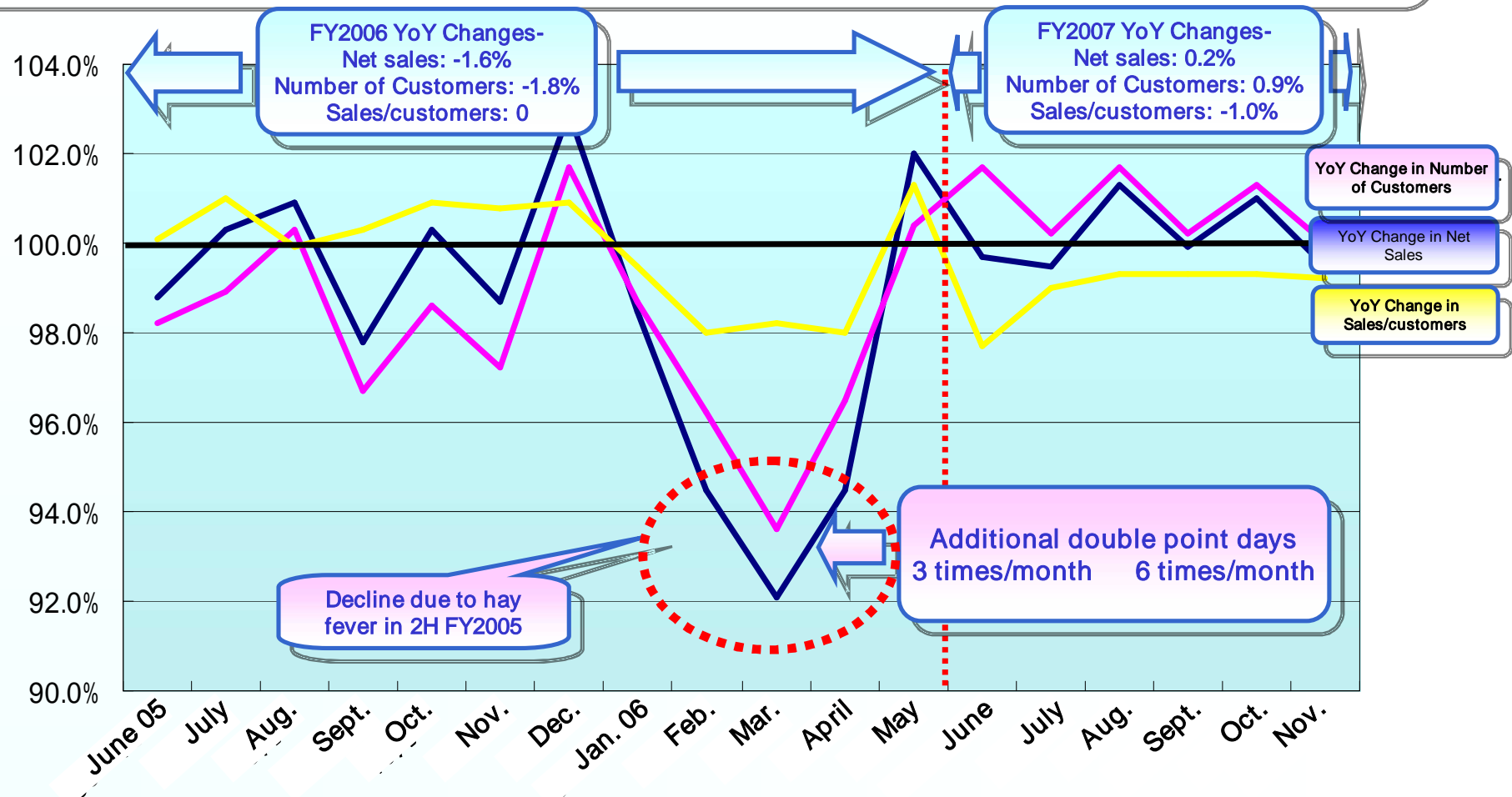
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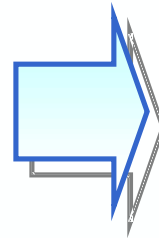
1. Numerous policies targeting members

On account of the growth in the number of customers, existing-store net sales **rose 0.2% year on year (2.2 percentage points greater than projected)**



2. Improvement in the gross profit margin

1H FY2006
23.6%



1H FY2007
24.5%

1. Increased percentage of highly-profitable products, centered on jointly-developed products such as newly-introduced PB and Nichiryu products, in the product line
2. Improved shelf allocation on the sales floor
3. Implemented flexible price strategies

PB introduction plan

	Number of Items	Net Sales	Share of Sales	Overall Gross Profit Margin
FY2005	485	¥7,373 million	8.0%	23.1%
FY2006	599	¥9,739 million	9.6%	23.9%
1H FY2007	637	¥5,657 million	10.4%	24.5%
FY2007 (forecast)	650	¥11,781 million	10.5%	24.7%



3. Improvement in SG&A expense ratio to 18.6%

Business based on assumption of decline in existing-store net sales

Raise the operating profit margin by reducing operating costs, not excessively increasing sales

1. Improved gross profit/man-hour

- Reviewed operations from product orders to delivery to stocking and restocking
- Reduced personnel expenses before/during/after flyer campaigns by reducing the number of flyer campaigns, particularly for new stores

Results of efforts during 1H

Existing-store personnel expenses fell 4% year on year, ¥150 million

2. Reduced advertising expenses and further improved prices

- Eliminated flyer and event sales promotions aimed at excessively increasing sales
- Concentrated on member services

Existing-store advertising expenses declined 18% year on year, ¥180 million

* However, at the time there was a ¥140 million decline in expenses due to the introduction of magnetic cards in 1H FY2006

3. Reduced water and energy costs

- Implemented measures to reduce energy costs at existing stores

Existing-store water and energy costs fell 4% year on year, ¥16 million



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1. FY2007 Forecasts

Initial forecasts for net sales were revised upward by ¥1 billion and recurring profit by ¥840 million

Plan for New Store Opening During FY2007 (figures in parenthesis are changes from initial forecast)

Kanagawa	Shizuoka	Tokyo	Saitama/Chiba	Northern Kanto	Total
15 (+2)	6 (-1)	3	3 (+1)	3 (+3)	30 (+5)

	FY2007 (Forecasts)				
	(million yen)	Share (%)	YoY Change (%)	Expected FY2007 YoY Change after Revision (million yen)	Size of Revision From Initial Forecast (million yen)
Net Sales	112,200	100.0	8.7	+8,954	+1,000
Gross Profit	27,709	24.7	12.0	+2,975	+804
SG&A Expenses	21,665	19.3	7.9	+1,584	-25 (advantageous revision)
Operating Profit	6,045	5.4	29.9	+1,391	+830
Recurring Profit	6,100	5.4	29.6	+1,396	+840
Net Income	3,200	2.9	28.7	+714	+450

Capital Expenditures	¥3,000 million (+43.1% year on year)
Depreciation Expense	910 million (+11.0% year on year)



2. FY2007 Forecasts (by segment)

Net Sales by Segment	FY2006 (Actual)		FY2007 (Forecast)		
	(million yen)	Share (%)	(million yen)	Share (%)	YoY Change (%)
Medical and health products	23,256	22.5	25,708	22.9	10.5
Cosmetics	18,116	17.5	19,929	17.8	10.0
Food Products	31,465	30.5	33,831	30.2	7.5
Daily Products	19,290	18.7	21,415	19.1	11.0
Other	11,156	10.8	11,314	10.1	1.4
Total	103,285	100.0	112,200	100.0	8.7



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Social Changes 1

1. Review of insurance and medical system finances on account of tighter government finances

- ⇒ Promotion of self-responsibility for one's health
- Review of types of sales promotions for medicines
 - Price reductions for medicines and compensation for preparing medicines

Drugstore business

Work to differentiate CREATE SD by strengthening counseling capabilities

Medicine-preparation business

Develop highly-profitable medical malls

2. Deregulation of suburban shopping centers over 10,000m² through the implementation of the three town-building laws

- ⇒ Expected acceleration in the opening of neighborhood shopping centers (NSC)

Jointly open stores with parties such as SM and open stores in NSC

3. Chronic labor shortage

1. Advent of an era of labor shortage on account of improvements in the labor environment and shrinkage of the labor force
2. In 2010 and 2011 there will be no students graduating from college who studied pharmacology on account of the transition to a six-year pharmacology program

Necessary to review comprehensive personnel measures that match workers



Social Changes 2

4. Shift toward an age of excess competition among drugstores

1. Net sales/tsubo declined 14%, from ¥214 million/month in FY2004 to ¥184 million/month in FY2005
2. In FY2005, 65 companies had 7,827 stores, with a market/store of 16,000 people
3. Within the industry there is a trend for companies to strengthen store openings outside of their base

Source: Nihon Retailing Center FY2007 New Year Policy Seminar

Necessary to reduce costs based on assumption that existing-store net sales will fall

5. Industry reorganization

Acceleration in the formation of alliances through the development of FCs, formation of groups, and M&As that cross industries

⇒ Increasing the buying power of the whole group

Work to increase CREATE SD's dominate market share by deepening dominate areas

6. Reorganization of producers and wholesalers

Strengthening negotiation ability vis-à-vis retailers through alliances and integration



1. Store Opening Strategy

FY2008

Open half of 35 planned stores in 1H

Area Strategy

Focus store openings in the Kanto and Tokai regions and expand dominate position from point to area

+

Location Strategy

Open stores in other stores and NSC, not only in the suburbs



Aiming to become a **super regional chain** in the Kanto and Tokai areas

Number of stores at the end of FY2007 by area (planned)

Kanagawa	Shizuoka	Tokyo	Saitama/Chiba	Northern Kanto	Total
142	33	35	14	3	227

* Number of stores includes 8 stores that independently prepare medicines.



2. Strengthening specialization as a drugstore

Restrictions on sellers are being relaxed on account of deregulation of medical products



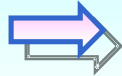
Only pharmacists are able to sell risk-level A products, but registered sellers are able to sell other products

Training of pharmacists capable of providing advise



Shift towards preparation and sales of risk-level A products

Questions have arisen about the quality of pharmacists, including requirement of face-to-face sales and information disclosure

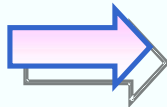


Working to create **pharmacists “capable of providing advise”** through various efforts including staffing of new training advisers for new employees and holding study groups on medical and health products (in the first year), and follow-up study group and skill-improvement study group (after second year), and health-advising meetings

Developing registered sellers



Sales of risk-level B and C products



Support general employee's obtaining health care advisor certification

135 employees are certified, 54 are preparing to take the test as of December 29
Also preparing for the future deregulation of medicine sales



3. Efforts related to medicine-preparation business

Development of highly-profitable medical malls

Strategy for opening new stores

- Open stores in conjunction with doctors opening offices
- Open combination stores by attracting medical malls
- Open stores that independently prepare medicines in medical buildings.

	New stores	Pharmacies capable of preparing medicines	Net Sales
FY2006	4 (1 closure)	20	¥1.9 billion
FY2007 (forecast)	3	23	¥2.6 billion
FY2008 (forecast)	6	29	¥3.0 billion

Yokosuka-Hayashi Pharmacy (Medical-building type)



Opened on the first floor of a medical building

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



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

Hiratsukagoten Store

Pharmacy

Orthopedic specialist

Ear, nose, and throat specialist

Internist





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