



CREATE SD HOLDINGS

FY2015 (6/14-5/15) Results Explanatory Meeting July 17, 2015

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.

FY2015 (6/14-5/15) Results Explanatory Meeting

■ FY2015 Consolidated Results

- 1. Profit and Loss Statement**
- 2. Balance Sheet**
- 3. Statement of Cash Flows**
- 4. ROE and Dividend**

■ Results for Each Business Company

- 1. Profit and Loss Statement**
- 2. New Store Openings**
- 3. Sales by Segment**
- 4. Sales**
- 5. Gross Profit Margin**
- 6. Prescription Section**
- 7. SG&A Expenses**
- 8. Care Business**

■ Growth Strategy

- 1. Growth Strategy – Create SD**
- 2. Care Business**
- 3. Medium-term Vision**
- 4. FY2016 Forecasts (Consolidated)**

FY2015

Consolidated Results

(06/2014 – 05/2015)

1. FY2015 Consolidated Profit and Loss Statement

	FY2014 (consolidated)		FY2015 (consolidated)			
	(million yen)	Share (%)	(million yen)	Share (%)	YoY change (%)	% of projection (%)
Net sales	197,483	100.0	213,918	100.0	108.3	98.9
Gross profit	52,004	26.3	57,516	26.9	110.6	99.8
SG&A expenses	42,997	21.8	46,787	21.9	108.8	98.7
Operating profit	9,006	4.6	10,728	5.0	119.1	104.7
Recurring profit	9,470	4.8	10,982	5.1	116.0	104.6
Net profit	5,779	2.9	6,561	3.1	113.5	107.6

2. FY2015 Consolidated Balance Sheet

(million yen)

Main causes of changes

	May 31, 2014 (consolidated)	May 31, 2015 (consolidated)	Change
Total assets	81,140	88,767	+7,626
Current assets	46,889	51,512	+4,623
Fixed assets	34,250	37,253	+3,003
Total liabilities	36,015	42,807	+6,791
Current liabilities	33,850	39,384	+5,533
Fixed liabilities	2,164	3,422	+1,258
Total net assets	45,125	45,960	+834
Total liabilities and net assets	81,140	88,767	+7,626

Total assets

- Cash equivalent and accounts receivable +1,900 million yen
- Merchandise +1,664 million yen
- Opening new stores, etc.
Fixed assets +3,003 million yen

Total liabilities

- Accounts payable +2,944 million yen
- Income taxes payable
+1,048 million yen
- Asset retirement obligation
+1,115 million yen

Total net assets

- Share buyback -4,392 million yen
- Decline due to 1,300 million yen
in dividends
- Net profit +6,561 million yen

3. FY2015 Consolidated Statement of Cash Flows

(million yen)

Major breakdown

	FY2014 (consolidated)	FY2015 (consolidated)	Change
Cash flow from operating activities	7,249	11,811	+4,561
Cash flow from investing activities	-6,281	-4,975	+1,305
Cash flow from financing activities	-1,417	-5,901	-4,484
Change in cash and cash equivalents	-449	933	+1,382
Opening balance of cash and cash equipments	19,785	19,335	-449
Closing balance of cash and cash equipments	19,335	20,268	+933

- Net profit before taxes 10,537 million yen
- Depreciation 3,139 million yen
- Corporate taxes paid -3,566 million yen

- Acquisition of fixed tangible assets due to store openings and renovation -3,694 million yen
- Joint loans for construction -1,042 million yen
- Construction in progress -466 million yen

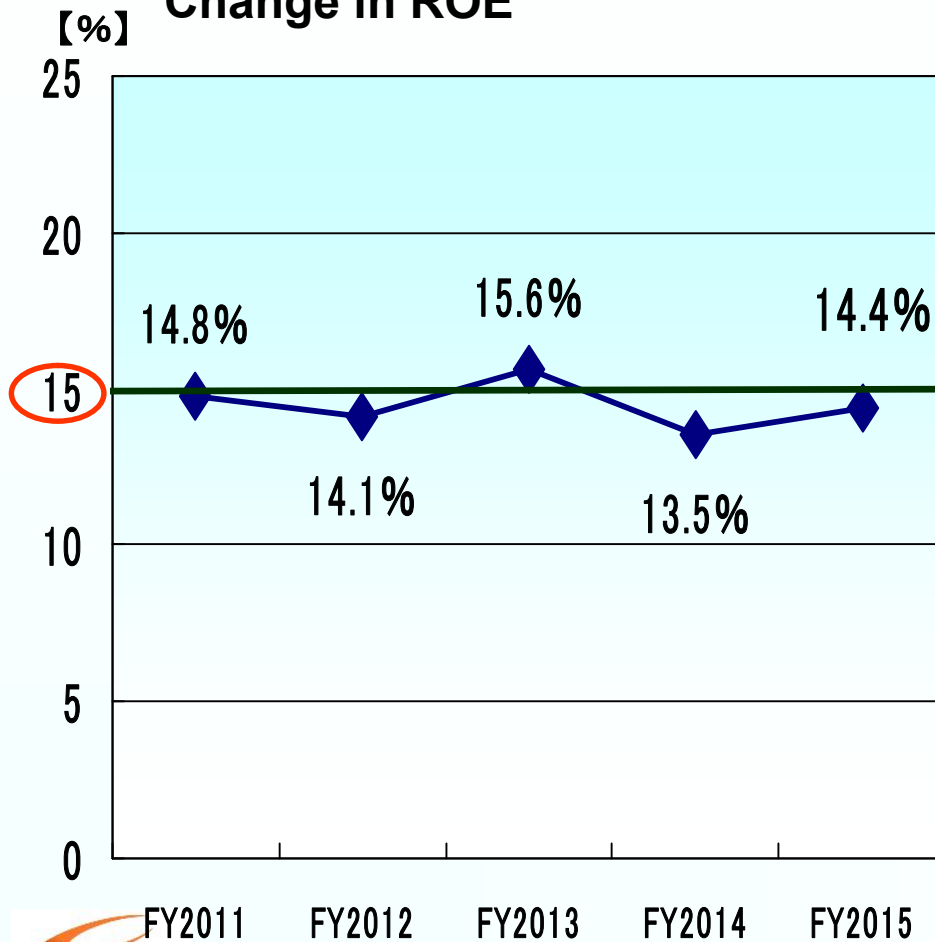
- Dividend payment -1,300 million yen
- Share buyback -4,392 million yen

4. ROE and Dividend

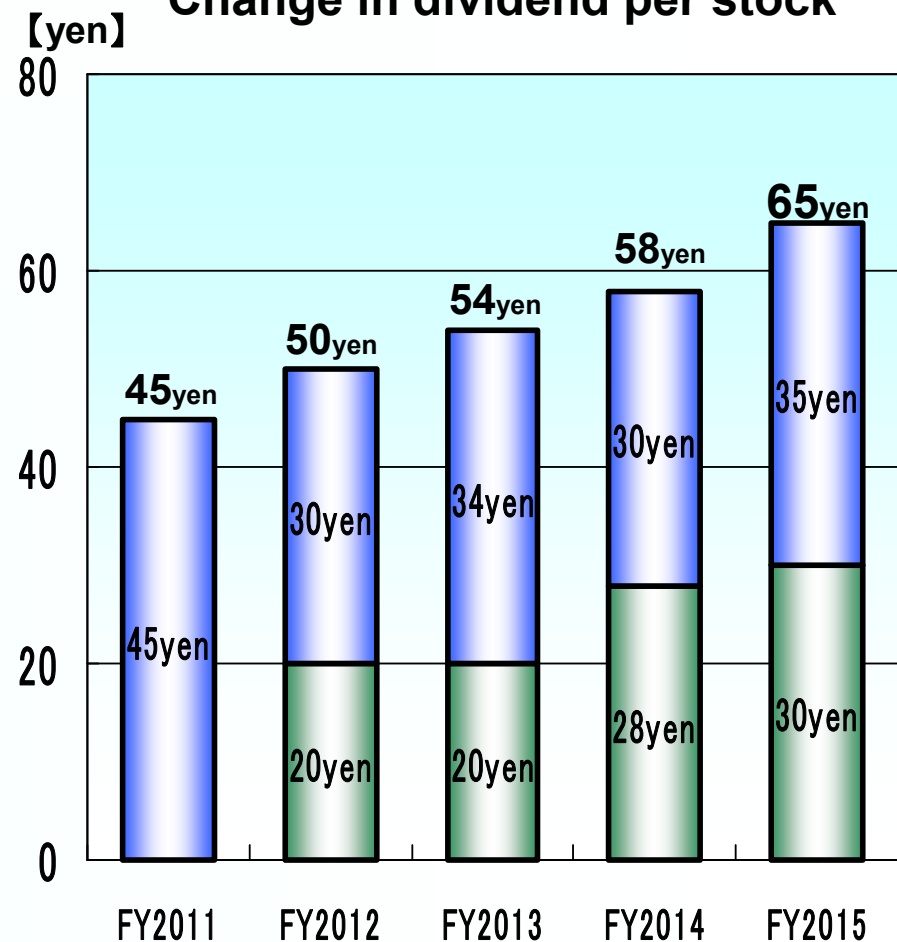
Intend ROE More Than 15%

Stable and Sustainable Increase in Dividend

Change in ROE



Change in dividend per stock



Results for Each Business Company

1. FY2015 Profit and Loss Statement (Create SD)

	FY2014		FY2015			
	(million yen)	Share (%)	(million yen)	Share (%)	YoY change (%)	% of projection (%)
Net sales	195,841	100.0	212,274	100.0	108.4	98.9
Gross profit	51,908	26.5	57,476	27.1	110.7	99.8
SG&A expenses	43,406	22.2	47,358	22.3	109.1	98.7
Operating profit	8,501	4.3	10,118	4.8	119.0	104.9
Recurring profit	8,887	4.5	10,366	4.9	116.6	104.8
Net profit	5,440	2.8	6,256	2.9	115.0	108.7

2. New Store Openings

Create SD

34 new OTC stores and 26 ethical pharmacies were opened
(of which 5 was dedicated prescription drug store)

New store openings by area

		Kanagawa	Tokyo	Shizuoka	Chiba	Aichi	Other	Total
New stores opened in FY2015	OTC	13	6	5	4	5	1	34
	in-store pharmacies	15	4	0	0	1	1	21
	Dedicated prescription drug stores	3	1	0	0	1	0	5

Store closing 3 were S&B , 1 was contract expiration ,
3 were management efficiency enhancement

		Kanagawa	Tokyo	Shizuoka	Chiba	Aichi	Other	Total
Total number of stores as of the end of FY2015	OTC	246	77	64	23	9	27	446
	in-store pharmacies	66	20	12	1	5	5	109
	Rate of pharmacy establishment in OTC stores	26.8%	26.0%	18.8%	4.3%	55.6%	18.5%	24.4%
	dedicated prescription drug stores	17	8	0	3	1	1	30

3. Sales by Segment

Create SD

	FY2014			FY2015		
	Sales (million yen)	Share (%)	YoY change (%)	Sales (million yen)	Share (%)	YoY change (%)
Medical and health products	44,629	22.8	108.4	49,309	23.2	110.5
(O T C)	34,170	17.5	103.7	35,522	16.7	104.0
(Prescription)	10,458	5.3	127.1	13,787	6.5	131.8
Cosmetics	31,094	15.9	106.0	31,780	15.0	102.2
Food products	72,334	36.9	110.5	80,886	38.1	111.8
Daily products	35,689	18.2	107.8	37,505	17.7	105.1
Other	12,093	6.2	104.0	12,793	6.0	105.8
Total	195,841	100.0	108.4	212,274	100.0	108.4

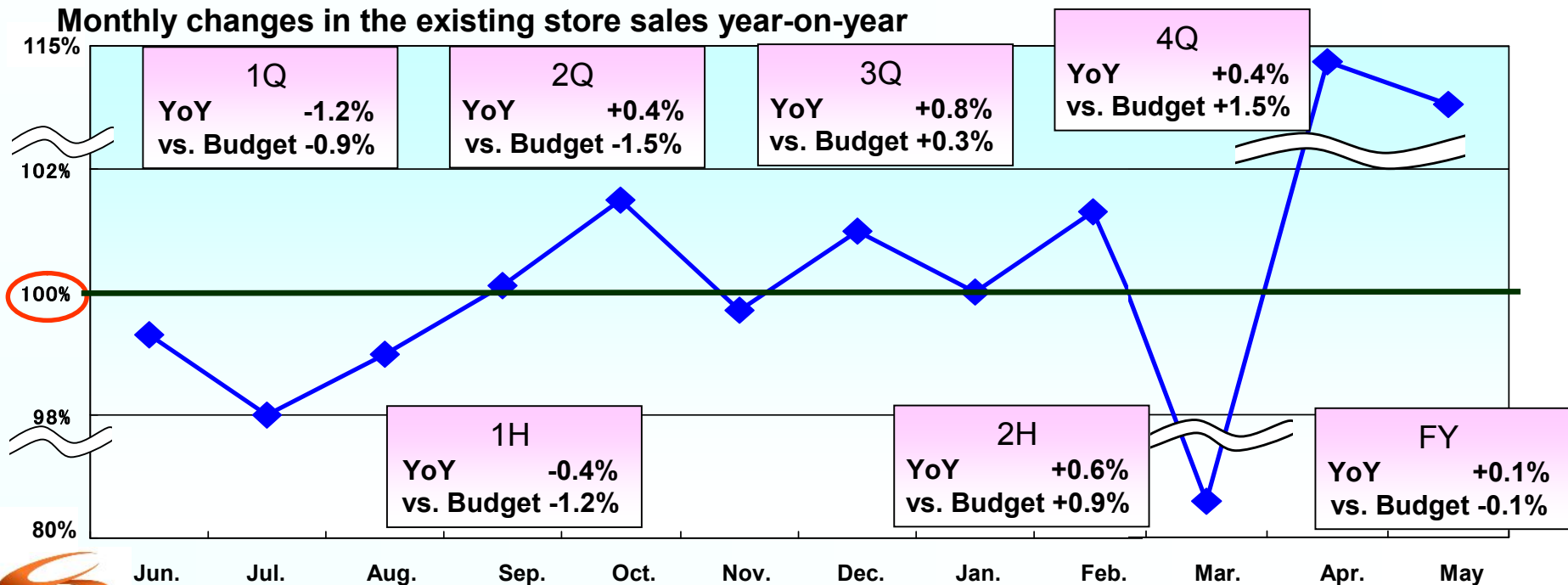
4. Sales

Create SD

YoY +8.4% vs. Budget -1.1% Existing stores +0.1% YoY

- Maintained 8% increase through store openings during previous term for the top line
- Plan was not achieved during the second quarter due to the tax increase, and store-opening plan was not achieved
- Existing stores are reactivated by promoting parallel establishment of dispensaries, refurbishment, and improved product lineup

Monthly changes in the existing store sales year-on-year



4. Sales

Expansion of the dispensing pharmacy

Sustained strong performance for dispensary sales that have been promoting improvement in specialty without being affected by the tax increase

The dispensing pharmacy ⇒ **21 stores opened**

The existing store sales in prescription operations YoY ⇒ **+18.3%**

Renovation of existing stores

- Expansion of the dispensing pharmacy
- Department revamped to match the sales mix
- Expanded introduction of meat as additional product lineup to enhance convenience

Grown as a category that can earn sales and gross profits through well-established operations

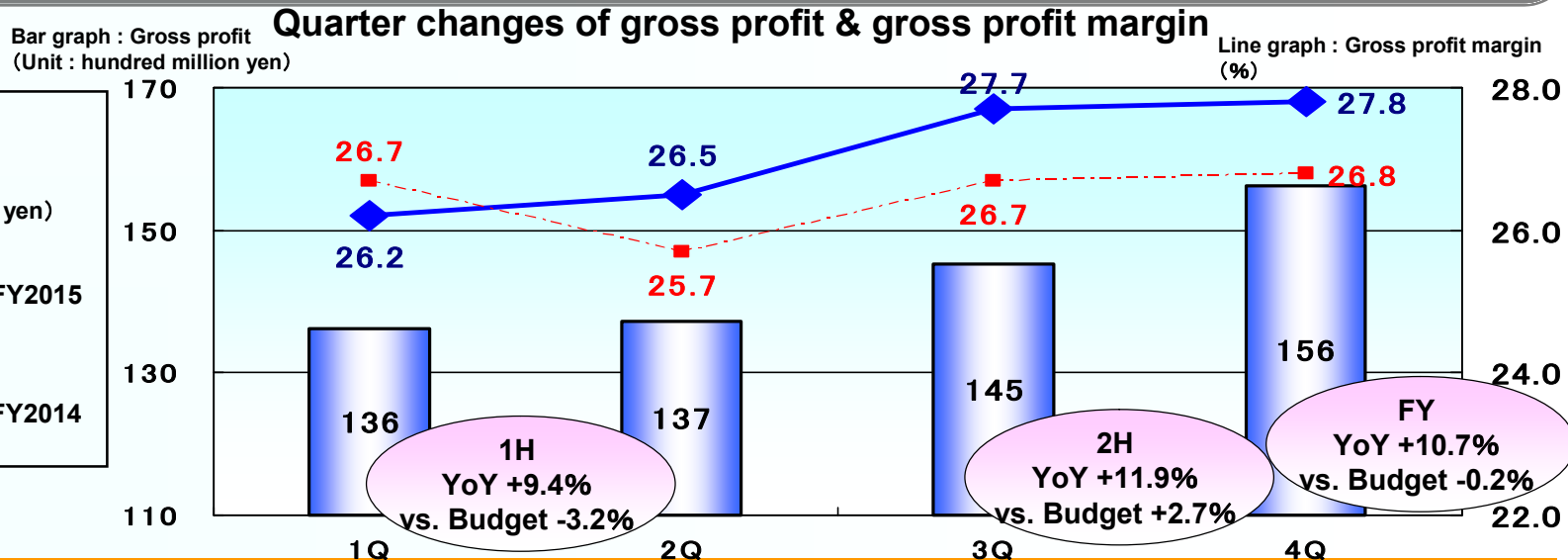
Renovation of **66 stores**

Expanded introduction of meat ⇒ **237 stores FY2015**

5. Gross profit margin

Gross profit margin 27.1%
YoY change +0.6pt vs. Budget change +0.3pt

- Recoil following exceptional demand prior to tax increase in the 1st half caused downturn mainly for H&B
- In the 2nd half, recovered from the recoil, and OTC pharmaceuticals and dispensing boosted gross profit rate due to **epidemic of colds and increase dispersal of pollen**
- Improved gross profit rate by promoting **Everyday Low Price (EDLP)**, reinforced development of core category products, and growth of dispensary sector



5. Gross profit margin

Promoting Everyday Low Price (EDLP)

Restrained reduction in gross profit rate while advertising low prices for small trade area by adopting **EDLP per item** rather than temporary discounts using flyers

Merchandise measure

Improvement in gross profit rate without increasing the selling price by **mixing different rates** while clearly presenting core category products of the drugstore without slanting towards mass display of low-price products

Expansion of the dispensing pharmacy

The dispensary sector, whose growth rate is high, has expanded, so its sales composition ratio has increased, boosting the overall gross profit rate

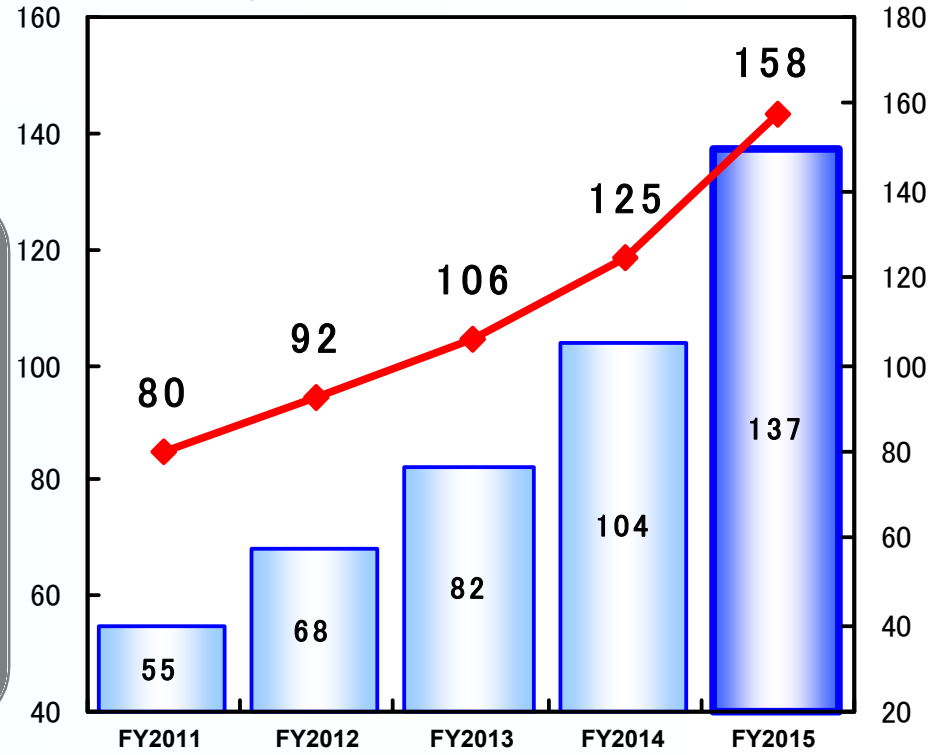
6. Prescription Section

Create SD

	FY2015		
	(million yen)	Share (%)	YoY change (%)
Net sales	13,787	100.0	131.8
Gross profit	5,605	40.7	135.2

Existing stores comparisons
Sales year-on-year +18.3%
Prescription year-on-year +12.6%

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 **60.7%** (quantity basis)
- Promotion of standardized pharmacies
56 standardized pharmacies FY2015
(**+21** pharmacies year on year)
- Promotion of medication guidance by visit
Collaboration with **68** nursing facilities
(demand from **9** new facilities)

7. SG&A Expenses

Create SD

Expense rate 22.3% YoY change +0.1pt vs. budget -0.1pt

Minimized any increase in sales, general, and administrative expenses for various factors that cause increased costs, such as personnel, construction, and electricity costs, with considered balance between necessary investment and cost cutting

Advertising expenses

Restrained costs compared to previous term for increase in stores by **reviewing sales promotion method**

Utilities expenses

Continuing on from the previous term, **changed store lighting to LEDs** in 1st quarter, **changed electricity provider**, and curtailed electricity consumption with in-store **power-saving measures**

Building expenses

Restrained any increase in construction costs by **reviewing store specifications** and **competitive bidding** to cope with the rise in construction materials and labor costs

8. Care Business

Fee-charging Nursing Home business

- Improved occupancy rate by reinforcing sales
⇒ Occupancy rate **75.0%** FY2015 (YoY change **+11.4pt**)
- Environmental improvements through refurbishment of equipment and furniture within the facility

Preventive Nursing business

- Development of 「SALON DAY Refre」, a massage-type day service Handling for increased proportion of people needing nursing care through revision of the Long-Term Care Insurance Act
- Day service centers **7 facilities** opened
 - Day service centers **41 facilities**
 - Rehabilitation-type day service 38 facilities
 - Massage-type day service **3 facilities**
(In-store centers 10 facilities Stand-alone centers 31 facilities)
 - Long-term care support centers 2 centers

Growth Strategy

1. Growth Strategy – Create SD

Opening New Stores

40 new drugstores


- Opening of stores in Kanto (mainly in Kanagawa prefecture) and Tokai regions
- Development of business category of small urban-style stores
- Addition of new product lineups for large stores

Dispensing pharmacy

In-store pharmacies **10 stores**

Dedicated prescription drugstores **5 stores**

- Opening of stores with parallel establishment of highly profitable dispensaries connect to medical institutions
- Opening of stores near general hospitals or in clinic malls



Total number of stores as of the end of FY2016
OTC **483 stores** (In-store pharmacies **118 stores**)
Dedicated prescription drugstores **34 stores**

1. Growth Strategy – Create SD

Renovation of existing stores

Activation of existing stores ⇒ **35 stores**

- Continuing on expansion of the dispensing pharmacy, department revamped to match the sales mix, and introduction of meat
- Improvement of merchandizing for urban-style stores

Improve services

Reinforcement of service function supplementing stores
〈 **Integration of EC, custom-orders, and home deliveries into one organization** 〉

- Ordering items is a supplementary store service mainly for H&B
- Purchases delivered to people who really need a delivery service by charging
- Deliver medical supplies, daily necessities to the nursing facilities in conjunction with medicine for home deliveries

1. Growth Strategy – Create SD

Profit Creation

- Continuously promote affordability through EDLP in small trade areas, and ensure profit through a mixture of gross profit rates by **exploring profitable products**
- Product lineups suited to **store size, location, and regional character**

Introduction of Joyful Goods

Introduce sundry goods that provide pleasure for shopping, and explore new customers without reducing the gross profit rate

Introduce New Sales Promotion

Smartphone apps, CATALINA Marketing, etc.

1. Growth Strategy – Create SD

Measures for Low Costs and Improved Productivity

Improve efficiency of overall supply chain through automated ordering

- Improve logistics efficiency through **leveling of quantities ordered and delivered**
- Improve productivity by **reducing workload** for store operation and **reviewing personnel allocation**

Dispensing Pharmacy

- Personal pharmacies come true early by promoting to add dispensaries to OTC in the dominant areas
- Making of the growth plan and improvement of training contents for development and education of human resources
- Administration of legal compliance

2. Care Business

Fee-charging Nursing Home business

Provide safe and comfortable living environment,
and increase the number of residents

- Provide well-establishment meals and **unique facility operation**, such as offering rooms where pets are acceptable
- **Reinforce sales activities** via website and facility tours

Preventive Nursing business

Focus on improving the profitability of existing facilities

- Switch from a 10-person system to a 16-person system **10 facilities**

Total number of facilities as of the end of FY2016

⇒ **42 facilities**

16-person system **18 facilities**

10-person system **24 facilities**

3. Medium-term Vision

Promotion of a business model for small trade areas/frequently visited by providing a variety of services and pleasure of shopping in addition to reinforcing specialty and convenience with due consideration for the rapid aging of society



Medium-term Aim

ROE

more than 15%

Operating profit ratio

more than 6%

Number of stores

600 stores

Sales component ratio of prescription

more than 10%

4. FY2016 Forecasts (Consolidated)

ROE 14.4%

	FY2015 (consolidated results)		FY2016 (consolidated projection)		
	(million yen)	Share (%)	(million yen)	Share (%)	YoY Change (%)
Net sales	213,918	100.0	227,300	100.0	106.3
Gross profit	57,516	26.9	61,000	26.8	106.1
SG&A expenses	46,787	21.9	49,860	21.9	106.6
Operating profit	10,728	5.0	11,140	4.9	103.8
Recurring profit	10,982	5.1	11,400	5.0	103.8
Net profit	6,561	3.1	7,030	3.1	107.1

Transition to Company with Audit and Supervisory Committee and two outside director system