



Financial Results for FYE May 2021

July 15, 2021

The earnings forecasts in this document are based on the business environment as of the time of writing. Actual results may differ from projections due to a variety of factors. Note also that inquiries should be submitted in Japanese.

Inquiries: Hironori Abe or Ryota Kimura (hdinfo@create-sd.co.jp), Corporate Planning Office.

FYE May 2021 Results

- 1. Statement of Income**
- 2. Balance Sheet**
- 3. Statement of Cash Flows**
- 4. Store Openings/Closings**
- 5. Performance Highlights**
- 6. Statement of Income (Non-Consolidated)**

FYE May 2022 Plan

- 1. Targets for Consolidated Performance for FYE May 2022**
- 2. Growth Strategy**
- 3. Response to Lifestyle Changes**
- 4. Promotion of Digital Transformation (DX)**
- 5. Contribution to Community Health**
- 6. Capital Investment and Dividends**
- 7. Promotion of Sustainable Management**

FYE May 2021 Results

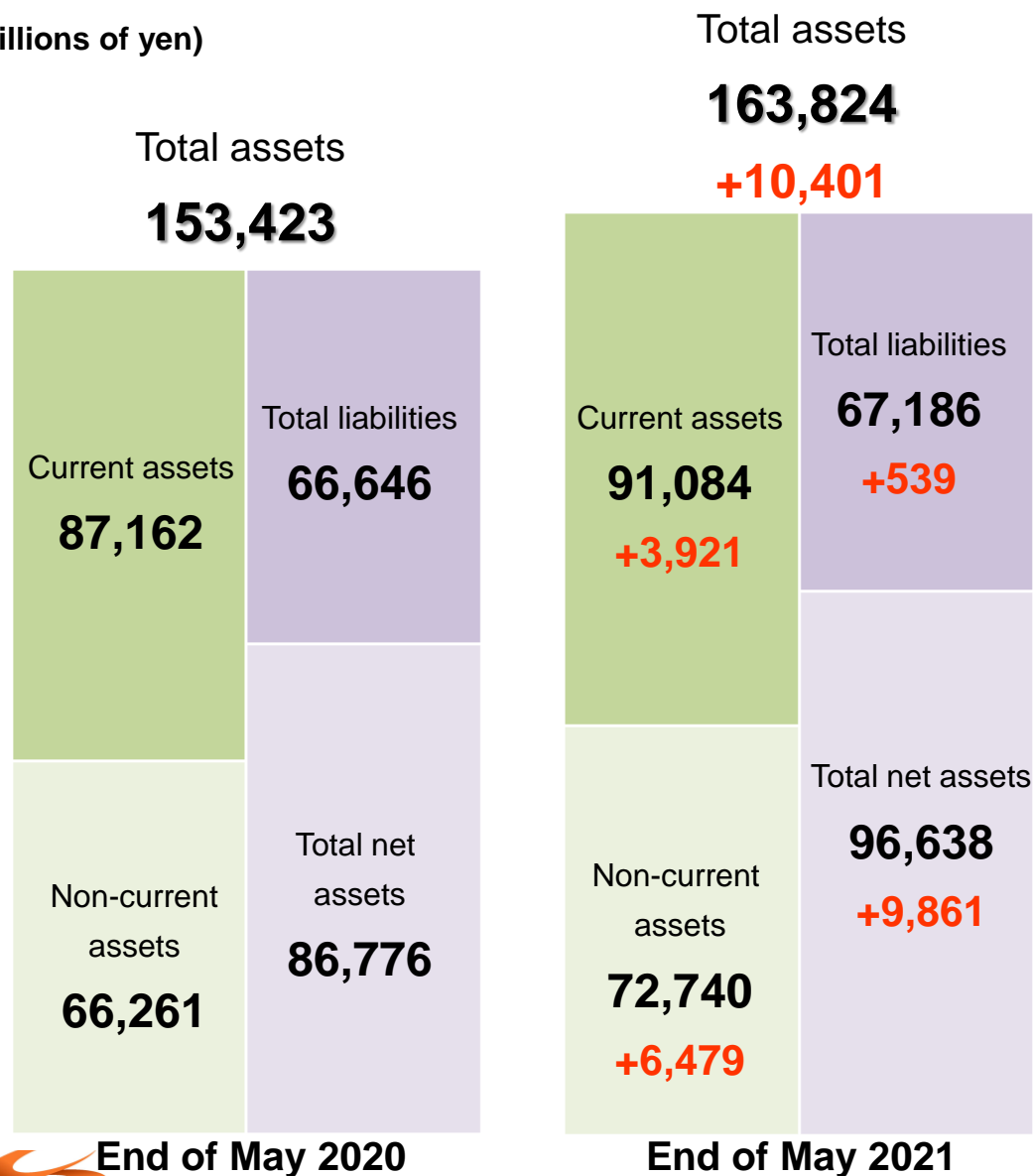
1. Consolidated Statement of Income for FYE May 2021

■ Sales and profits have risen steadily for three consecutive years

	FYE May 2020 Results		FYE May 2021 Results			
	(Millions of yen)	Share (%)	(Millions of yen)	Share (%)	YoY change (%)	Vs plan (%)
Net sales	319,588	100.0	338,476	100.0	105.9	100.0
Gross profit	88,986	27.8	93,365	27.6	104.9	100.4
SG&A expenses	71,192	22.3	74,735	22.1	105.0	99.5
Operating profit	17,793	5.6	18,629	5.5	104.7	104.3
Ordinary profit	18,210	5.7	19,061	5.6	104.7	104.3
Profit attributable to owners of parent	12,254	3.8	12,376	3.7	101.0	100.6

2. Consolidated Balance Sheet for FYE May 2021

(Millions of yen)



Breakdown of change

■ Current assets	+3,921
• Increase in accounts receivable	+1,160
• Increase in products	+3,524
■ Non-current assets	+6,479
• Property, plant and equipment	+4,011
• Intangible assets	+ 337
• Investments and other assets	+2,129
■ Total liabilities	+539
• Provision for points	+149
• Advance receipts	+944
• Liabilities related to retirement benefits	+195
• Accounts payable	−444
• Accrued income taxes	−490
■ Total net assets	+9,861
• Retained earnings	+9,721

2. Consolidated Statement of Cash Flows for FYE May 2021

(Millions of yen)

Breakdown of change

	FYE May 2020	FYE May 2021	Change
Cash flows from operating activities	22,765	11,572	-11,193
Cash flows from investing activities	-10,507	-10,424	+83
Cash flows from financing activities	-3,053	-2,655	+397
Change in cash and cash equivalents	9,204	-1,506	-10,711
Cash and cash equivalents at end of period	40,788	39,282	-1,506

■ Cash flows from operating activities

-11,193

- Change in inventories -2,527
- Change in trade payables -4,777
- Change in income taxes paid -1,784

■ Cash flows from investing activities

+83

- Expenditures associated with store openings

■ Cash flows from financing activities

+397

- Payment of dividends

Capital investment/depreciation and amortization

	FYE May 2020	FYE May 2021	Change
Capital investment	9,982	11,107	+1,125
Depreciation and amortization	3,521	3,655	+133

3. Store Openings/Closings

Store openings/closings and renovations

• Store openings: **39** drug stores / **34** prescription drug stores

		Kanagawa	Tokyo	Shizuoka	Chiba	Saitama	Ibaraki	Aichi	Total
Store opening	Drug stores	25	7	1	3	1	0	2	39
	Prescription drug stores	24	5	0	3	1	1	0	34

Store closings: **5** drug stores (1 for S&B, 1 after completion of contract, and 3 to improve management efficiency) / **2** in-store prescription drug stores (1 to improve management efficiency and 1 after completion of contract)

• Renovations of existing stores: **30** stores (**28** drug stores / **2** prescription drug stores)

No. of stores at year end

		Kanagawa	Tokyo	Shizuoka	Chiba	Aichi	Other	Total
May 31, 2021 No. of stores	Drug stores	374	105	88	47	18	27	659
	In-store pharmacies	143	36	18	15	8	6	226
	Rate of in-store pharmacies	38.2%	34.3%	20.5%	31.9%	44.4%	22.2%	34.3%
	Dedicated prescription drug stores	26	6	0	2	0	2	36
	Supermarkets	5	0	0	0	0	0	5
	Total no. of stores	405	111	88	49	18	29	700

3. Store Openings/Closings

Store openings

薬CREATE + Cremo

Integration with Cremo format (Northport Mall)



■ Large, more than 990 m² non-food store in a shopping center

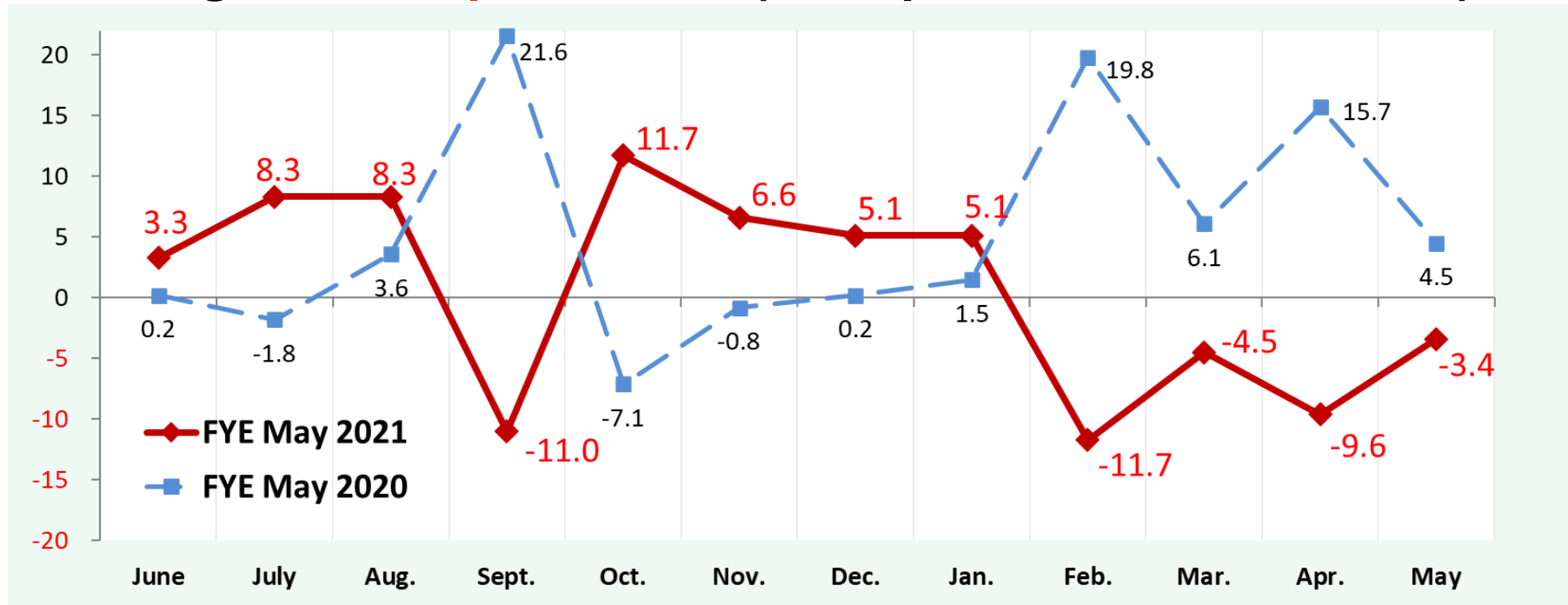
- One of Create's largest assortments of merchandise
 - One of the largest assortments of merchandise in the healthcare, beauty, and daily necessities categories in the region
- Emphasis on ease of buying and choosing
 - Grouping by use and function
- Adding "joy of choosing" that is only possible at a physical store
- In-store prescription drug stores



4. Performance Highlights

Monthly trend in YoY sales

■ Existing stores: **Up 0.2% YoY** (1H: Up 3.8%; 2H: Down 3.4%)



Reactionary drop following previous year's consumption tax hike

Reactionary drop following previous year's COVID-19-related demand

Reduction of operating hours and continuation of voluntary suspension of sales promotions that lead to crowding of stores

Gradual expansion of EDLP products: July-

4. Performance Highlights

Net sales -Net sales by segment-

- Demand for products related to preventing infection (masks and disinfectants) and quarantining (food and daily necessities) was up, but demand for makeup and general drugs for the common cold was down associated with people voluntarily staying home and lifestyle changes.
- The percentage of sales accounted for by prescriptions was up to **9.7%**, despite the impact of fewer prescriptions associated with fewer exams.

	FYE May 2020 Results		FYE May 2021 Results		
	Net sales (Millions of yen)	Share (%)	Net sales (Millions of yen)	Share (%)	YoY change (%)
Medical and health products	79,856	25.3	89,417	27.0	112.0
OTC	50,895	16.1	57,418	17.3	112.8
Prescriptions	28,961	9.2	31,999	9.7	110.5
Cosmetics	40,823	12.9	40,906	12.3	100.2
Food products	127,393	40.3	130,882	39.4	102.7
Daily products	51,305	16.2	53,859	16.2	105.0
Other*	16,869	5.3	16,848	5.1	99.9
Total	316,249	100.0	331,914	100.0	105.0

* "Other" includes stationery, baby products, clothing, pet products, and gardening products.

4. Performance Highlights

Gross profit margin/SG&A ratio

■ Gross profit margin: 27.77% Down 0.24 pts YoY

<Factors pushing gross profit margin down>

- Downward pressure from expansion of EDLP products
- Decreased sales of makeup and general drugs for the common cold

<Factors pushing gross profit margin up>

- Boost from increase in prescriptions as a percentage of sales
- Increase in sales of masks, disinfectants, and other high margin products

■ SG&A ratio: 22.53% Down 0.18 pts YoY

Personnel expense ratio: 11.96% Up 0.03 pts YoY

Other expense ratio: 10.57% -0.21 pts YoY

<Factors pushing SG&A down>

- Lower expenses for sales promotions and points due to voluntary suspension of sales promotions
- Decrease in utility expenses

<Factors pushing SG&A up>

- Active hiring of pharmacists ahead of accelerated store openings
- Increase in repair expenses associated with increased investment in 2H
- Increase in expenses associated with increase in cashless transactions

4. Performance Highlights

Dispensing department -Net sales/No. of prescriptions/prescription unit price-

■ **Sales at all stores: Up 10.5% YoY** **Sales at existing stores: Up 6.9% YoY**

• Number of prescriptions down and unit prices up in 1H due to fewer exams and longer-term prescriptions, but demand bounced back from previous year in 2H for overall increase of **3.0%** in number of prescriptions and **3.8%** in unit prices

• Gross margin **up 1.9 pts** despite impact of price revision in April

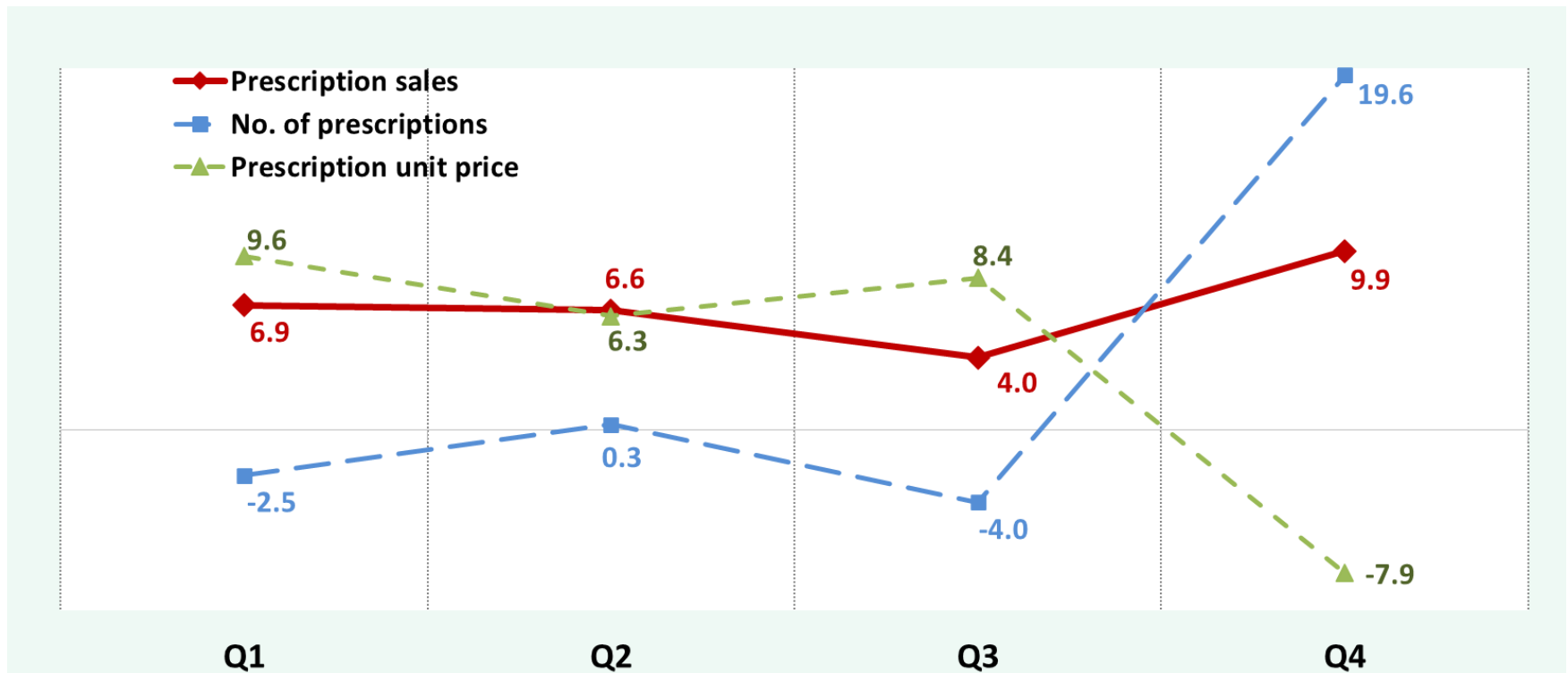
	FYE May 2020 Results	FYE May 2021 1H results	YoY change (%)	FYE May 2021 2H results	YoY change (%)	FYE May 2021 Cumulative	YoY change (%)
Sales at all stores (millions of yen)	28,961	15,218	110.1	16,781	110.9	31,999	110.5
No. of prescriptions (thousands)	3,072	1,572	102.7	1,717	111.4	3,290	107.1
Prescription unit price (yen)	9,282	9,523	107.1	9,632	99.6	9,580	103.2
Sales at existing stores (millions of yen)	27,704	14,697	106.8	16,092	107.0	30,789	106.9
No. of prescriptions (thousands)	3,056	1,509	98.9	1,639	107.1	3,148	103.0
Prescription unit price (yen)	9,282	9,590	107.9	9,682	100.1	9,638	103.8
Home-based dispensing sales (millions of yen)	1,396	701	102.3	698	98.3	1,400	100.3
No. of stores offering home-based dispensing services	135	152	+20	154	+19	154	+19
No. of prescriptions (thousands)	89	46	103.2	47	104.9	93	104.1
Gross profit margin at all stores (%)	41.0	43.1	+2.4	42.7	+1.5	42.9	+1.9

4. Performance Highlights

Dispensing department -Net sales/No. of prescriptions/prescription unit price-

■ Sales at existing stores: **Up 6.9% YoY** (Number of prescriptions: **Up 3.0%**; Unit prices: **Up 3.8%**)

• Number of prescriptions down and unit prices up through 3Q due to fewer exams and longer-term prescriptions, but demand bounced back from previous year in 4Q



5. Non-consolidated Statement of Income for FYE May 2021

	FYE May 2020 Results		FYE May 2021 Results			
	(Millions of yen)	Share (%)	(Millions of yen)	Share (%)	YoY change (%)	Vs plan (%)
Net sales	316,249	100.0	331,914	100.0	105.0	100.0
Gross profit	88,610	28.0	92,189	27.8	104.0	100.4
SG&A expenses	71,832	22.7	74,795	22.5	104.1	99.5
Operating profit	16,777	5.3	17,393	5.2	103.7	104.7
Ordinary profit	17,170	5.4	17,813	5.4	103.7	104.6
Profit attributable to owners of parent	11,693	3.7	11,765	3.5	100.6	103.3

FYE May 2022 Plan

1. Revised FYE May 2022 Plan (Consolidated)

■ Sales and profits expected to increase

	FYE May 2021 (Consolidated Results)		FYE May 2022 (Consolidated Targets)		
	(Millions of yen)	Share (%)	(Millions of yen)	Share (%)	YoY change (%)
Net sales	338,476	100.0	352,600	100.0	104.2
Gross profit	93,365	27.6	95,880	27.2	102.7
SG&A expenses	74,735	22.1	76,500	21.7	102.4
Operating profit	18,629	5.5	19,380	5.5	104.0
Ordinary profit	19,061	5.6	19,800	5.6	103.9
Profit attributable to owners of parent	12,376	3.7	12,770	3.6	103.2

Assumptions

- Store openings: **41 stores** (40 drug stores / 1 dedicated prescription drug store)
- Store closings: **4 stores** (3 drug stores / 1 dedicated prescription drug store)
- Existing stores: **Up 0.6% YoY**

Impact from change in standard for revenue recognition

Net sales: -2,890 million yen

Gross profit margin: -0.6 pts

2. Growth Strategy

Accelerate promotion of in-store prescription drug stores

Promote continued opening of in-store prescription drug stores and launch of dispensing operations at existing stores to achieve target of 50% of stores with in-store prescription drug stores by end of May 2024

■ New store openings

40 drug stores / **50** prescription drug stores

- Plan to open record high number of prescription drug stores
- Continue pursuit of dominance in existing areas
- Promote collaboration with regional medical institutions

May 31, 2021 No. of stores (Results)	Drug stores	659
	In-store pharmacies	226
	Rate of in-store pharmacies	34.3%
	Dedicated prescription drug stores	36
	Supermarkets	5
	All stores	700
FYE May 2022 No. of store openings (Plan)	Drug stores	40
	In-store pharmacies	49
	Dedicated prescription drug stores	1
	All stores	41
May 31, 2022 No. of stores (Plan)	Drug stores	696
	In-store pharmacies	275
	Rate of in-store pharmacies	39.5%
	Dedicated prescription drug stores	36
	Supermarkets	5
	All stores	737

Note: Planned closings: 3 drug stores / 1 prescription drug store

3. Response to Lifestyle Changes

Strengthening of competitiveness of existing stores

Respond to changes in lifestyles and purchasing behavior arising from COVID-19 and focus on achieving short-time, one-stop shopping

■ Existing-store renovations: 32 stores

- Renovations, including increased floor area and additions
- In-store prescription drug stores
- Collaboration with fresh produce category
 - Collaboration with Yuri Store supermarket and change of format to combination drug store

■ Expansion and review of lineup

- Expansion of fresh and frozen foods and instant food products
 - Ensure convenience with one-stop shopping
- New development and revamping of private brand (PB) products

■ Review of sales promotion methods

- Review of EDLP products
- Review of flyer and sales promotion content
 - Promote bulk buying with sales of product sets

■ Strengthening of customer service capabilities

- Foster and rebuild corporate culture
- Customer service education utilizing tablets
 - Standardize and streamline educational content

4. Promotion of Digital Transformation (DX)

Improvement of customer and patient experience

Utilize digital tools to provide customers and patients with a new experience

■ Optimization of marketing

- Update point system
- Update official smartphone app
 - Shift to sales promotions that better correspond to customer characteristics



■ Response to diverse transaction methods

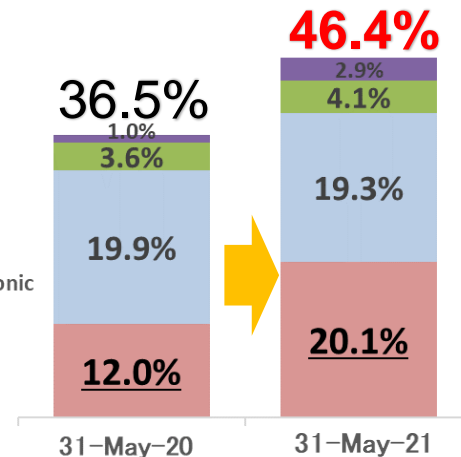
- Cashless transaction ratio: **46.4%** (May 31, 2021)
 - Osaifu Hippo transaction ratio: **20.1%** (up 8.1 pts YoY)
- Add support for QR code transactions (July 2021–)
 - Rakuten Pay, auPAY, d Pay, Merpay

■ Enhancement and verification of new services

- Store inventory EC (mobile orders with in-store pickup)
- Delivery of EC products via lockers
- Support for online instructions for taking prescription drugs



- QR code payment
- Transportation electronic money
- Credit card
- Osaifu Hippo



5. Contribution to Community Health

Enhanced Professionalism

Promote development of pharmacies that will be chosen by patients in the community in the aim of becoming a company that contributes significantly to community health in a super aging society

■ Promotion of certification as pharmacies partnered with regional medical institutions

→Promote people-focused work and establish system for patients

- Promote people-focused work

→Promote follow-up during prescription period and active role of medical assistants

- Expand home-based dispensing services

→Target for end of May 2022: **178 stores**
(additional 24 stores)

- Participate in various occupational associations

- Establish system for responding to demand for aseptic prescriptions

■ Promotion of shift to digital prescriptions

→Improve patient satisfaction and promote reduced burden on stores

- Utilize prescription transmission app

- Support for online instructions for taking prescription drugs

- Introduce dispensing equipment

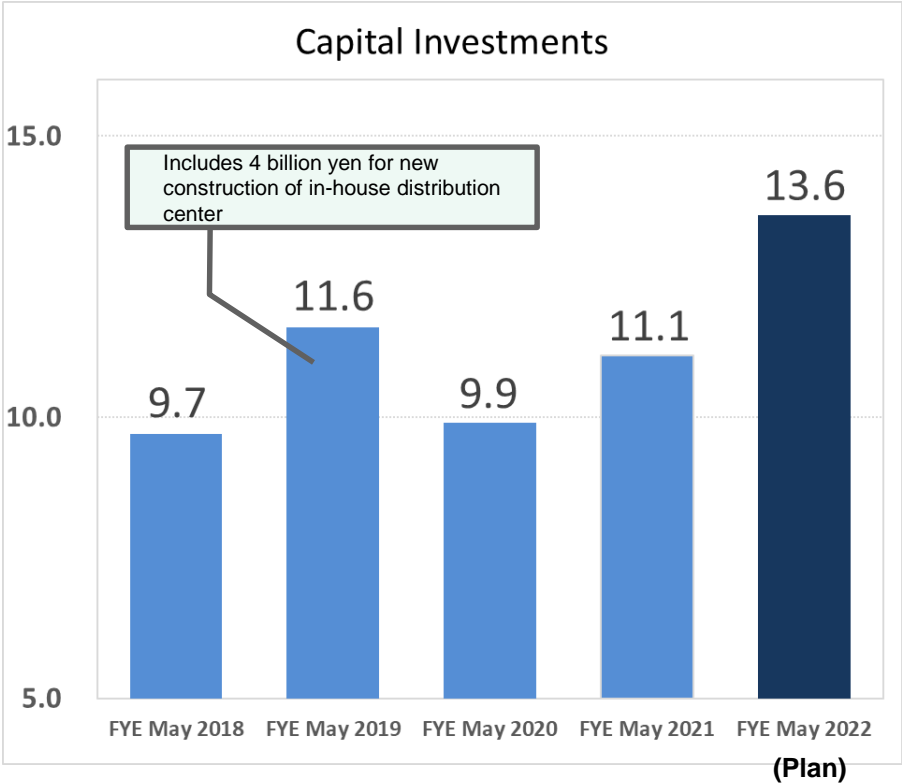
- Streamline operations utilizing tablets

6. Capital Investment and Dividends

Trend in capital investment

■ Planning aggressive capital investment

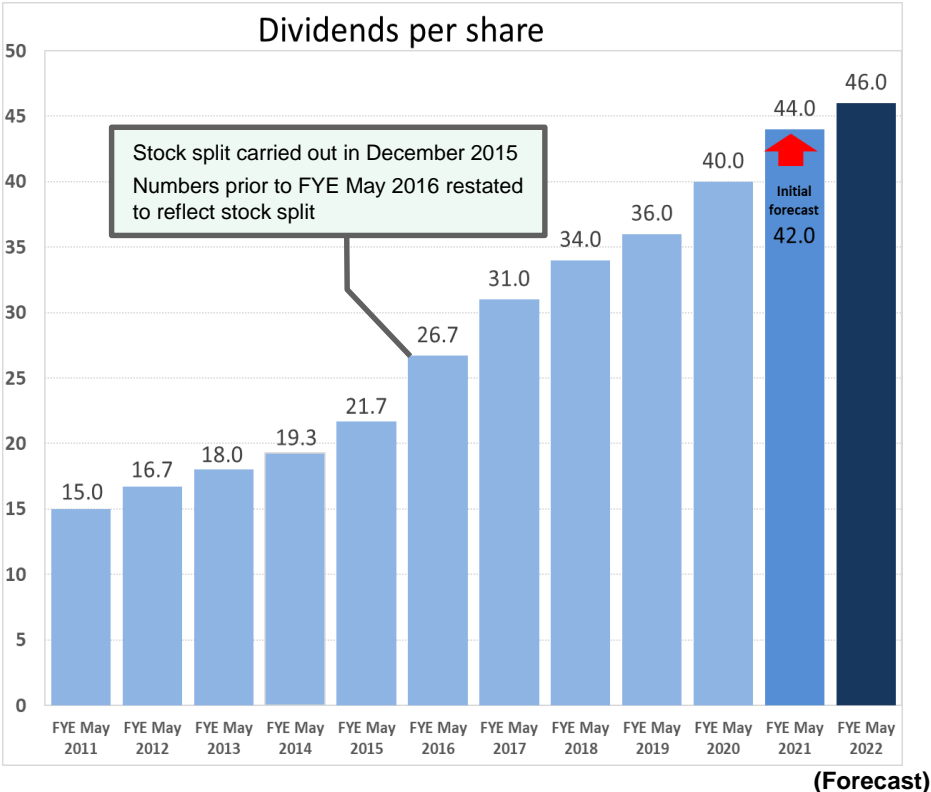
→New stores, renovations, land purchases, system investments, etc.



Trend in dividends

■ 10 consecutive years of dividend increases

→Dividend increased 2 yen from initial plan in FYE May 2021



7. Promotion of Sustainable Management









Management philosophy



We value being close to our customers and interacting with them



Through interaction with local customers, we aim to become a company that contributes to community health as a lifeline protecting daily life and resolve social issues to realize a sustainable society.

Important issue	Example initiative	SDGs
Business activities conducted from standpoint of environmental conservation (E)	<ul style="list-style-type: none"> • Acquisition and maintenance of ISO14001 certification at all stores (waste reduction, efficient utilization of resources, etc.) • Improvement of energy efficiency, including air conditioning and lighting • Reduction of CO₂ emissions by improving efficiency of distribution 	 
Contribution to healthy lives in the community (S)	<ul style="list-style-type: none"> • Improvement of convenience in small trade area by enhancing expertise through in-store prescription drug stores and carrying food products • Contribution to community health in home-based services and nursing care domain • Promotion of healthy living among local residents by holding health consultations and events 	
Realization of society in which people want to continue working indefinitely (S)	<ul style="list-style-type: none"> • Creation of job satisfaction by conducting periodic individual interviews based on work-life balance • Enhancement of programs such as childcare leave and reduced working hours and establishment of working environments that are pleasant for women 	  
Management considering medium- to long-term best strategies (S)	<ul style="list-style-type: none"> • Thorough adherence to company creed, management philosophy, and code of conduct by all employees • Store openings based on strict criteria to minimize closings • Development of opinion gathering tools such as postcards addressed to the President's Office and ongoing improvement activities 	 
Promotion of corporate governance (G)	<ul style="list-style-type: none"> • Establishment of Audit and Supervisory Committee with 2 members who are outside directors • Risk identification, analysis, evaluation, and swift OODA loop at meetings of the board of directors • Timely disclosure of information, including non-financial information 	