



## Financial Results for FYE May 2020

July 17, 2020

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.

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# Impact of COVID-19

# 1. Trends in Demand

## ■ Drug stores

	Product demand	Location
<b>Positive factors</b>	<ul style="list-style-type: none"><li>• Products related to preventing infection (masks, disinfectant products, hand soap)</li><li>• Food and other shut-in products</li><li>• Surging demand from hearsay, etc. (paper products, women's products, etc.)</li></ul>	<b>Suburban type Residential area</b>
<b>Negative factors</b>	<ul style="list-style-type: none"><li>• Cosmetics directly sold by manufacturers to consumers, makeup products</li><li>• Sunscreen, etc. (due to consumers voluntarily staying at home)</li></ul>	<b>Urban type/In front of station Shopping center tenants Demand from inbound tourism</b>

## ■ Prescription drug stores

- **Number of prescriptions down** due to fewer outpatient exams especially for acute illnesses  
On the other hand, **prescription unit prices up** due mainly to lengthening of prescription periods
- Instructions for taking prescription drugs given by phone (promotion of "0410 response")

## 2. Impact on Operations and Store Openings

### ■ Store operations

- Shortening of operating hours
  - (1) April 8 onward: Almost all stores **closed at 8 p.m.** (9 p.m. beginning on June 1)
  - (2) May 11 onward: Some prescription drug stores **shortened operating hours and added non-business days** — 72 stores (back to normal as of July 1)
- Stores inside shopping centers **closed** due to whole building closures — 2 stores
- **Sales promotions** (such as special point accumulation days) **voluntarily suspended** to avoid “three Cs” (closed spaces, crowded places, and close-contact settings)
- Although the number of users and visits declined at day service centers and nursing homes, operations continued while implementing measures to prevent infection

### ■ Impact on store openings

- New store openings and renovations delayed — **4 store openings delayed** (due to difficulty securing materials and personnel)
- Delay in drug store openings and renovations also impacted in-store prescription drug store openings — **2 stores**

### 3. Actions Taken for Employees and Support for Regional Hospitals

#### ■ Actions taken for employees

- To prevent spread of infection at stores/drug stores:
  - (1) Distribution of masks to employees
  - (2) Measures to prevent infection at registers and dispensing counters

Sneeze guards, no direct passing of cash or cards, spacing in register waiting lines, preparation of face shields and gloves
  - (3) Distribution, use, and installation of disinfectant dispensers
- Payment of service and appreciation bonuses



#### ■ Donation of sanitary supplies to regional medical institutions

- Donation of high-performance masks, face shields, protective clothing, gowns, gloves, and other sanitary supplies to prevent infection to central regional hospitals and other medical institutions

# FYE May 2020 Results

# 1. Consolidated Statement of Income for FYE May 2020

	FYE May 2019 Results		FYE May 2020 Results			
	(Millions of yen)	Share (%)	(Millions of yen)	Share (%)	YoY change (%)	Vs target (%)
Net sales	286,299	100.0	319,588	100.0	111.6	103.9
Gross profit	78,953	27.6	88,986	27.8	112.7	104.6
SG&A expenses	64,711	22.6	71,192	22.3	110.0	101.6
Operating profit	14,241	5.0	17,793	5.6	124.9	118.9
Ordinary profit	14,623	5.1	18,210	5.7	124.5	119.0
Profit attributable to owners of parent	9,719	3.4	12,254	3.8	126.1	119.3



## 2. Consolidated Balance Sheet for FYE May 2020

(Millions of yen)

	May 31, 2019	May 31, 2020	Change
<b>Total assets</b>	<b>133,315</b>	<b>153,423</b>	<b>+20,108</b>
Current assets	75,763	87,162	+11,398
Non-current assets	57,551	66,261	+8,709
<b>Total liabilities</b>	<b>56,426</b>	<b>66,646</b>	<b>+10,220</b>
Current liabilities	50,718	59,595	+8,877
Non-current liabilities	5,707	7,050	+1,343
<b>Total net assets</b>	<b>76,889</b>	<b>86,776</b>	<b>+9,887</b>
<b>Total liabilities and net assets</b>	<b>133,315</b>	<b>153,423</b>	<b>+20,108</b>

### 3. Store Openings/Closings

#### ■ Store openings/closings, etc.

- Openings: **28 drug stores** (45 planned) / **23 prescription drug stores** (30 planned)
- Subsidiary acquisitions: **5 food supermarkets** from acquisition of Yurigaoka Sangyo

		Kanagawa	Tokyo	Shizuoka	Chiba	Aichi	Total
Store opening	Drug store	15	1	5	5	2	28
	Prescription drug store	17	2	0	3	1	23
Subsidiary acquisition	Supermarket	5	0	0	0	0	5

Store closings: **2 drug stores** (1 after completion of contract and 1 to improve management efficiency) **1 prescription drug store** (to improve management efficiency)

- Renovations: **31 drug stores**

⇒ Review of merchandise and sales floor composition at 24 stores, promotion of in-store pharmacies and prescription drug store opening at 7 stores

Expansion of **5 prescription drug stores**

### 3. Store Openings/Closings

#### ■ Number of stores at year end

		Kanagawa	Tokyo	Shizuoka	Chiba	Saitama	Aichi	Other	Total
May 31, 2020 No. of Stores	Drug stores	351	100	88	44	15	16	11	625
	In-store pharmacies	122	32	18	12	2	8	2	196
	Rate of in- store pharmacies	34.8%	32.0%	20.5%	27.3%	13.3%	50.0%	18.2%	31.4%
	Dedicated prescription drug stores	24	6	0	2	2	0	0	34
	Supermarkets	5	0	0	0	0	0	0	5
	Total no. of stores	380	106	88	46	17	16	11	664

- Rate of in-store pharmacies increased, primarily in Kanagawa

## 4. New Format Stores

### ■ Cremo openings: 2 stores Year end: 8 stores

Across Plaza Ichihara Sarashina Store (Chiba)

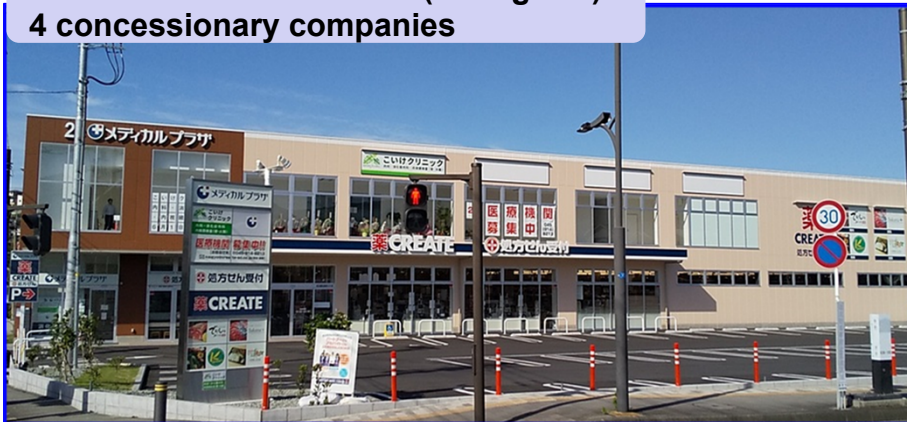


Hamamatsu Plaza Frespo Store (Shizuoka)



### ■ Store openings in collaboration with other business categories: 2 stores Year end: 5 stores

Hadano Taishincho Store (Kanagawa):  
4 concessionary companies



Abiko Tennodai Store (Chiba): Supermarket  
perishables and daily dish departments



## 5. Cashless Transactions

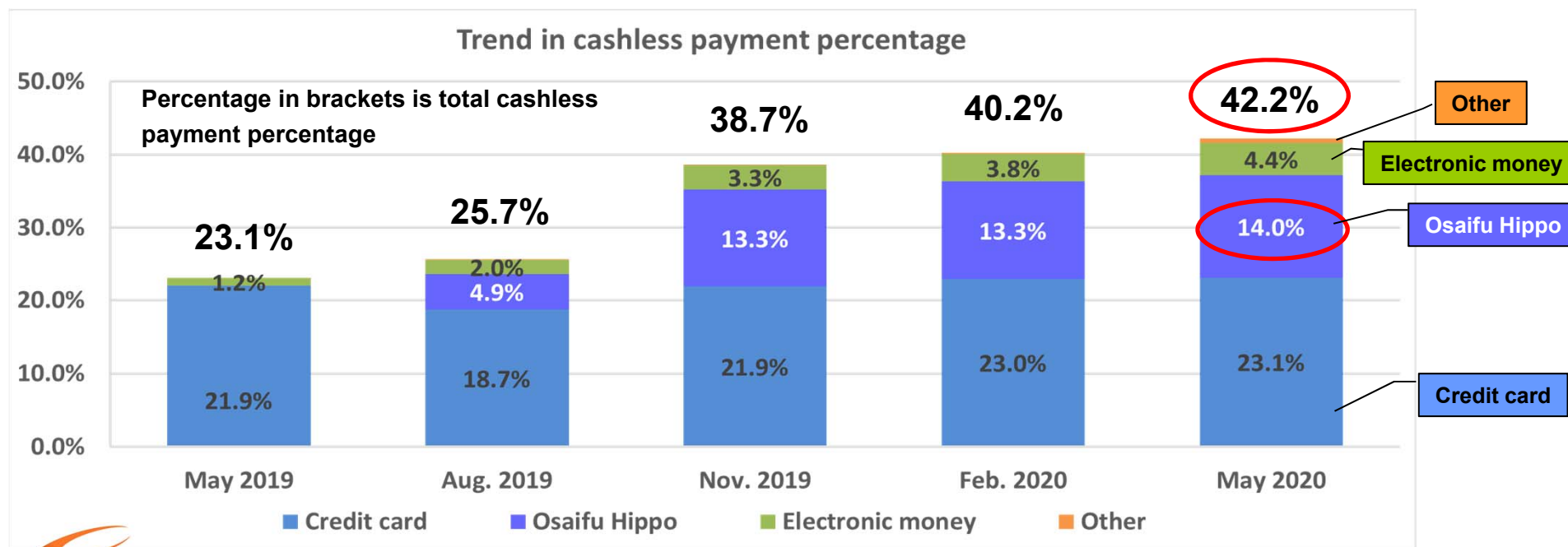
### ■ Promote use of Osaifu Hippo

- Switchover/introduction completed at all stores by end of August 2019
- Refill and payment possible using official app as of November 2019



### ■ QR code payment

- Available at all stores as of May 2020



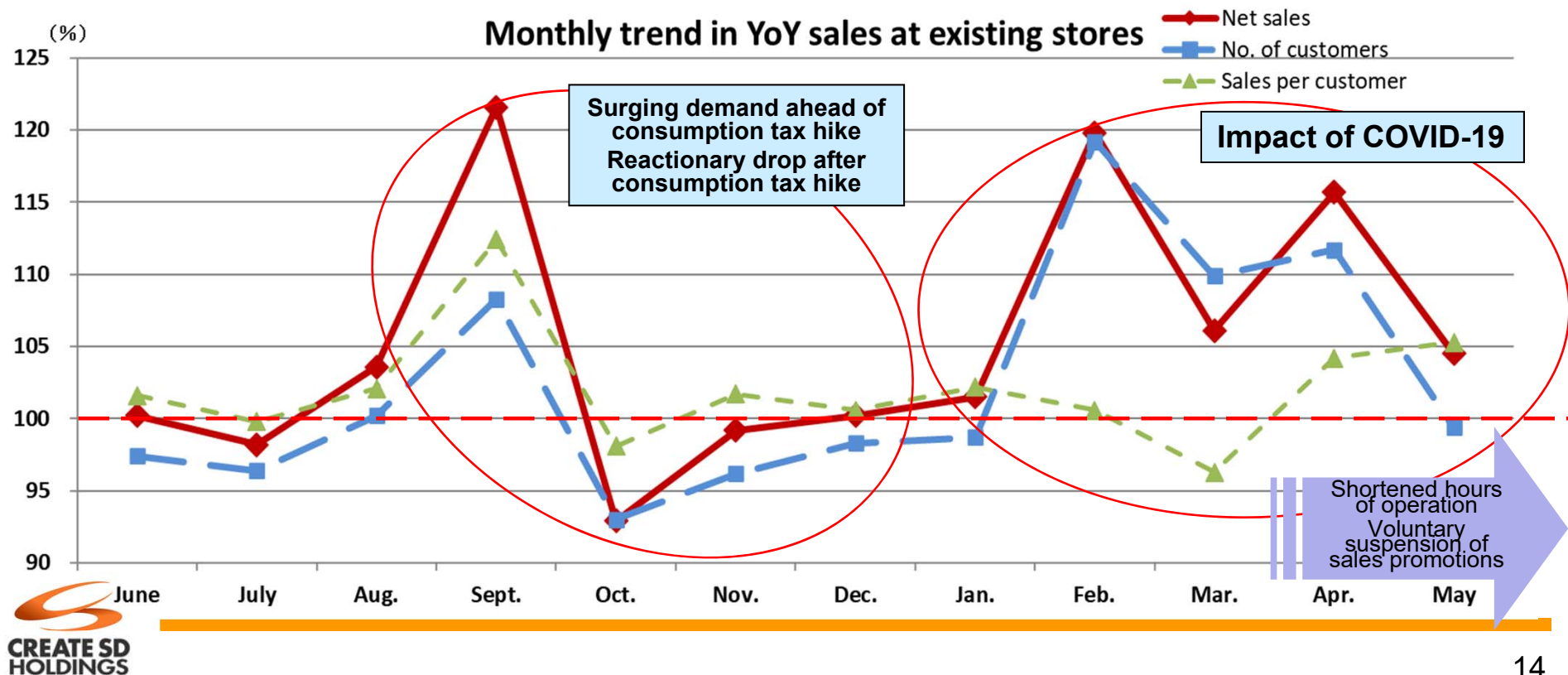


## 6. Performance Highlights

### Net sales

■ **Up 11.2% YoY (Up 3.5% vs target)**   **Up 5.1% YoY at existing stores**

- 1H at existing stores: Up 2.4% YoY   2H at existing stores: Up 7.7% YoY
- Prescriptions were down sharply due to drug price revisions and the spread of COVID-19, but double-digit growth was maintained at existing stores



## 6. Performance Highlights

### Net sales

- By segment, sales were up in specialized prescription and infection-related categories
- Prescriptions were **up 0.5 pts to 9.2%** as a percentage of sales

	FYE May 2019 Results		FYE May 2020 Results		
	Net sales (millions of yen)	Share (%)	Net sales (millions of yen)	Share (%)	YoY change (%)
<b>Medical and health products</b>	<b>69,940</b>	<b>24.6</b>	<b>79,856</b>	<b>25.3</b>	<b>114.2</b>
<b>OTC</b>	<b>45,305</b>	<b>15.9</b>	<b>50,895</b>	<b>16.1</b>	<b>112.3</b>
<b>Prescriptions</b>	<b>24,635</b>	<b>8.7</b>	<b>28,961</b>	<b>9.2</b>	<b>117.6</b>
<b>Cosmetics</b>	<b>39,307</b>	<b>13.8</b>	<b>40,823</b>	<b>12.9</b>	<b>103.9</b>
<b>Food products</b>	<b>112,939</b>	<b>39.7</b>	<b>127,393</b>	<b>40.3</b>	<b>112.8</b>
<b>Daily products</b>	<b>46,255</b>	<b>16.3</b>	<b>51,305</b>	<b>16.2</b>	<b>110.9</b>
<b>Other*</b>	<b>15,828</b>	<b>5.6</b>	<b>16,869</b>	<b>5.3</b>	<b>106.6</b>
<b>Total</b>	<b>284,270</b>	<b>100.0</b>	<b>316,249</b>	<b>100.0</b>	<b>111.2</b>

Anti-bacterial and sterilizing agents, masks, and other products to prevent infection

Increased demand associated with consumers staying home

Surging demand for paper products, women's products, etc.

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

## 6. Performance Highlights

### Gross profit margin/SG&A ratio

■ **Gross profit margin: 28.0%** **Up 0.2 pts** YoY **Up 0.2 pts vs target**

- Prescriptions were up as a percentage of sales
- Gross profit margin improved with voluntary suspension of sales promotions
- Gross profit margin improved with increase in sales of products to prevent infection

■ **SG&A ratio: 22.7%** **Down 0.4 pts** YoY **Down 0.6 pts vs target**

**Personnel expense ratio: 11.9%** **0.0 pts** YoY **Down 0.1 pts vs target**

**Other expense ratio: 10.8%** **Down 0.3 pts** YoY **Down 0.4 pts vs target**

- Fixed expense burden reduced by increased sales
- Electric charges reduced by reviewing contracts



## 6. Performance Highlights

### Dispensing department

- Prescriptions were down due to two drug price revisions and the spread of COVID-19, but double-digit growth was maintained

Sales at all stores: **Up 17.6% YoY** Sales at existing stores: **Up 12.8% YoY**

	FYE May 2019 Full-year results	FYE May 2020 1H results	YoY change (%)	FYE May 2020 2H results	YoY change (%)	FYE May 2020 Full-year results	YoY change (%)
<b>Sales at all stores</b> (millions of yen)	<b>24,635</b>	<b>13,824</b>	<b>120.8</b>	<b>15,137</b>	<b>114.8</b>	<b>28,961</b>	<b>117.6</b>
No. of prescriptions (thousands)	2,799	1,531	116.1	1,541	104.1	3,072	109.8
Prescription unit price (yen)	8,668	8,891	104.1	9,670	110.1	9,282	107.1
<b>Gross profit margin at all stores (%)</b>	<b>40.9</b>	<b>40.7</b>	<b>-0.0</b>	<b>41.2</b>	<b>+0.2</b>	<b>41.0</b>	<b>+0.1</b>
<b>Sales at existing stores</b> (millions of yen)	<b>24,550</b>	<b>13,226</b>	<b>115.9</b>	<b>14,477</b>	<b>110.2</b>	<b>27,704</b>	<b>112.8</b>
No. of prescriptions (thousands)	2,787	1,450	110.5	1,460	99.1	2,911	104.4
Prescription unit price (yen)	8,673	8,983	105.1	9,767	111.2	9,376	108.1

## 6. Performance Highlights

### Dispensing department

#### ■ Expansion of home-based dispensing services

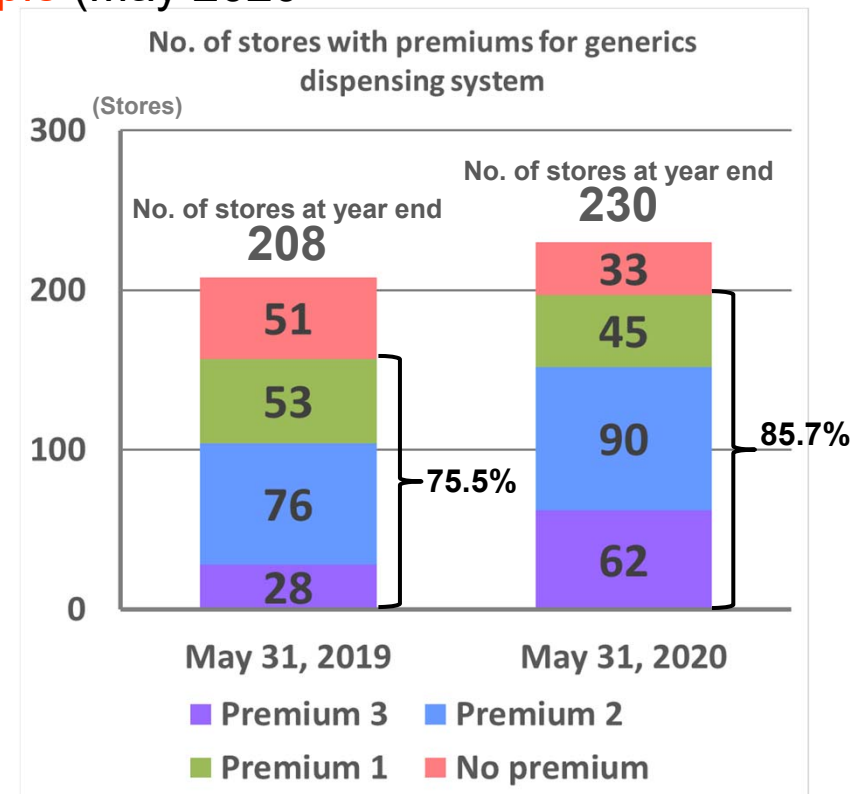
- No. of stores offering home-based dispensing services at year end: **135 stores** (up 13 from previous year)
- No. of at-home patients supported: **3,432 people** (May 2020 results, up 79 from previous year)

#### ■ Premiums for Local Support System

- No. of stores with premiums at year end: **76 stores** (up 5 from previous year)

#### ■ Premiums for Generics Dispensing System

- Pct. of stores with premiums at year end: **85.7%** (up 10.2 pts from previous year)
- Rate of generics use: **80.7%** (up 2.2 pts from previous year)



## 6. Performance Highlights

### Dispensing department

#### ■ “Family pharmacist” initiative

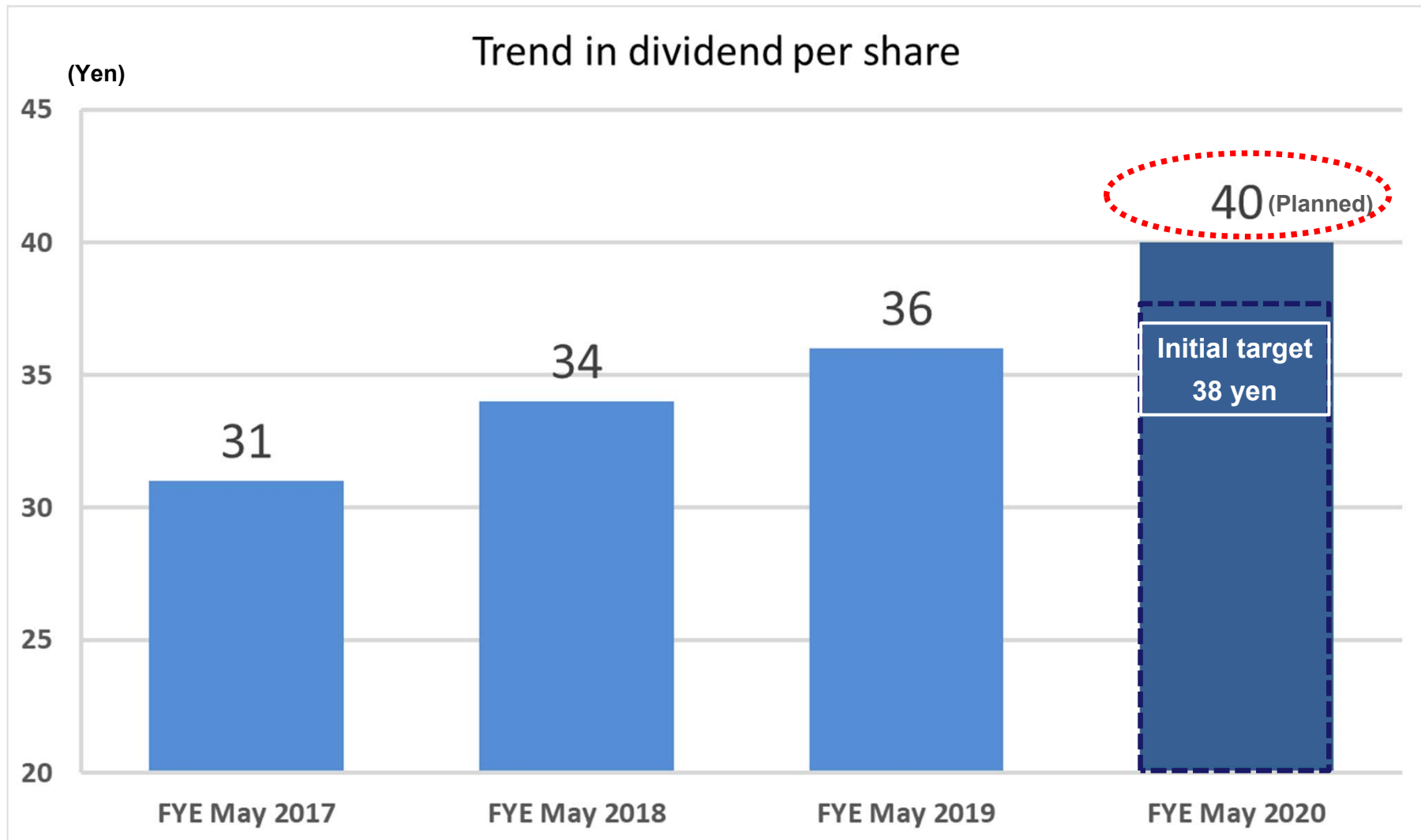
- Shift of focus from objects to people
- No. of “family pharmacists” with track records: **90** (up 52 from previous year)

#### ■ Initiative to shift to online operations

- Medicinal e-pocketbook app with prescription transmission function
  - ⇒ Introduction at all pharmacies and partnership with official smartphone app
- Online instructions for taking prescription drugs in specific districts in Chiba
  - ⇒ Registration at four pharmacies in specific districts (preparations for future increase in demand)
- Instructions for taking prescription drugs given by phone (promotion of “0410 response”)
  - ⇒ Giving of instructions by phone recognized as temporary extraordinary measure for preventing spread of COVID-19



## 7. Dividends



- Continuous increase of dividend per share **Up 2 yen** vs target in FYE May 2020 and **up 4 yen** from previous year to 40 yen

# FYE May 2021 Plan

# 1. New Store Openings/Renovation of Existing Stores

## ■ Drug stores: 43 stores

- Pursuit of dominance in existing areas
- Collaboration with different business categories

## ■ Prescription drug stores: 35 stores

- Increase rate of in-store pharmacies to 50% at an early stage
- Store openings in collaboration with regional medical institutions
- Store openings leveraging drug stores' ability to attract customers

## ■ Renovations: 25 stores

- Retail space allocations that are suitable for locations and in line with regional needs
- In-store prescription drug stores
- Collaboration with different business categories in conjunction with renovations and increased floor area
- Format change at Yuri Store supermarket

May 31, 2020 No. of Stores	Drug stores	625
	In-store pharmacies	196
	<i>Rate of in-store pharmacies</i>	31.4%
	Dedicated prescription drug stores	34
	All stores	659
FYE May 2021 No. of store openings (Plan)	Drug stores	43
	In-store pharmacies	34
	Dedicated prescription drug stores	1
	All stores	44
May 31, 2021 No. of Stores (Plan)	Drug stores	665
	In-store pharmacies	229
	<i>Rate of in-store pharmacies</i>	34.4%
	Dedicated prescription drug stores	35
	All stores	700

Notes: 1. Planned drug store closings: 3 stores  
2. Planned in-store pharmacy closings: 1 store

## 2. Peri-/Post-COVID-19 Sales Measures

### Changes

- Lowering of prices
- Prevention of “three Cs” (in sales promotions)
- Non-contact (cashless)

### ■ Strengthening of EDLP and PB

- Price of around 200 items lowered starting in July
- Level out sales by switching from sales promotions that attract customers on specific days to the every day low price (EDLP) scheme
- Develop and introduce low-priced private brand (PB) products

### ■ Promotion of shift to digital

- Reduce contact and time waiting at registers by promoting use of Osaifu Hippo
- Utilize official smartphone app
  - ⇒ Deliver information in one-to-one marketing
- Utilize prescription transmission app
  - ⇒ Reduce prescription waiting time by sending prescriptions in advance

## 3. Productivity Improvement

### ■ Drug stores

- Increase accuracy of assisted orders with better demand prediction utilizing AI
- Expand introduction of semi-self-checkout registers at stores

### ■ Prescription drug stores

- Introduction of dispensing equipment
- Promote active roles for medical assistants (support for “0402 notifications”)
  - ⇒ Shift pharmacists’ roles to more people-focused work, such as follow-up during prescription period, by allowing medical assistants to handle object-oriented work (preparation of drugs, etc.)

### ■ Partial introduction of telecommuting

- Shift to online meetings and training
- Shift to online hiring (explanatory meetings/interviews)



## 4. Enhanced Professionalism

### ■ Health care/dispensing promotion

- Achieve 50% rate of in-store pharmacies quickly
- Promote active role of nutritionists
  - ⇒ Train nutritionists as health care staff

### ■ Expansion of pharmacies partnered with regional medical institutions

- Train “family pharmacists” – No. of “family pharmacists”: 90 ⇒ 120
- Expand support for at home treatment – No. of stores offering the services: 135 ⇒ 142
- Expand premiums for local support system – No. of stores with premiums: 76 ⇒ 110

### ■ Initiative to shift to online instructions for taking prescription drugs

- Develop system and operations in anticipation of normalization after temporary measures to address COVID-19

## 5. Targets for Consolidated Performance for FYE May 2021

Impact of COVID-19 is expected to remain (even if decreasing) through 1H (November 2020).

	FYE May 2020 (Results)		FYE May 2021 (Targets)		
	(Millions of yen)	Share (%)	(Millions of yen)	Share (%)	YoY change (%)
<b>Net sales</b>	<b>319,588</b>	<b>100.0</b>	<b>333,700</b>	<b>100.0</b>	<b>104.4</b>
<b>Gross profit</b>	<b>88,986</b>	<b>27.8</b>	<b>92,160</b>	<b>27.6</b>	<b>103.6</b>
<b>SG&amp;A expenses</b>	<b>71,192</b>	<b>22.3</b>	<b>75,640</b>	<b>22.7</b>	<b>106.2</b>
<b>Operating profit</b>	<b>17,793</b>	<b>5.6</b>	<b>16,520</b>	<b>5.0</b>	<b>92.8</b>
<b>Ordinary profit</b>	<b>18,210</b>	<b>5.7</b>	<b>16,930</b>	<b>5.1</b>	<b>93.0</b>
<b>Profit attributable to owners of parent</b>	<b>12,254</b>	<b>3.8</b>	<b>11,290</b>	<b>3.4</b>	<b>92.1</b>