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Consolidated Financial Results for Nine Months Ended February 28, 2023 (Japanese GAAP)

April 10, 2023

Name of Listed Company: CREATE SD HOLDINGS CO., LTD.

Listing: Tokyo Stock Exchange

Securities code: 3148

URL: <https://www.createsdhd.co.jp/English/tabid/129/Default.aspx>

Representative: Taizo Hirose, Representative Director and President

Contact: Tetsuya Yamazaki, Executive Officer and General Manager, Finance and Accounting Dept.

Tel: +81-45-914-8241

Scheduled filing date of Securities Report: April 14, 2023

Scheduled date of start of dividend payment: —

Supplementary materials for the financial results: None

Quarterly results briefing sessions: None

(Figures are rounded down to the nearest million yen)

1. Consolidated Third Quarter Results for Fiscal Year Ending May 31, 2023 (June 1, 2022 to February 28, 2023)

(1) Consolidated Operating Results

(Figures in percentages denote the year-on-year change)

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
Nine months ended February 28, 2023	282,365	8.3	14,021	5.9	14,366	5.6	9,734	5.5
Nine months ended February 28, 2022	260,636	3.3	13,240	-8.2	13,606	-7.8	9,227	-7.9

(Note) Comprehensive income: Nine months ended February 28, 2023: ¥9,766 million (5.8%)

Nine months ended February 28, 2022: ¥9,234 million (-8.3%)

	Earnings per share	Diluted earnings per share
	Yen	Yen
Nine months ended February 28, 2023	153.98	—
Nine months ended February 28, 2022	145.95	—

(2) Consolidated Financial Position

	Total assets	Total net assets	Equity ratio
	Millions of yen	Millions of yen	%
As of February 28, 2023	181,930	113,055	62.1
As of May 31, 2022	176,910	106,323	60.1

(Reference) Net assets: As of February 28, 2023: ¥113,055 million

As of May 31, 2022: ¥106,323 million

2. Dividend Payments

	Dividends per share				
	First quarter	Second quarter	Third quarter	Year-end	Annual
	Yen	Yen	Yen	Yen	Yen
Fiscal year ended May 31, 2022	—	23.00	—	23.00	46.00
Fiscal year ending May 31, 2023	—	25.00	—		
Fiscal year ending May 31, 2023 (forecast)				25.00	50.00

(Note) Revisions to most recently announced dividend forecast: None

3. Consolidated Financial Forecast (From June 1, 2022 to May 31, 2023)

(Figures in percentages denote the year-on-year change)

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent		Earnings per share
Full-year	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%	Yen
	376,800	7.4	18,950	4.3	19,380	3.8	12,700	0.8	200.89

(Note) Revisions to most recently announced financial results forecast: None

Notes

(1) Significant changes of subsidiaries in nine months ended February 28, 2023 (changes in specific subsidiaries accompanied by a change in the scope of consolidation): None
Newly consolidated: — companies (company name(s)); Deconsolidated: — companies (company name(s))

(2) Application of accounting treatments specific to preparation of quarterly consolidated financial statements: Yes

(3) Changes in accounting policies, changes of accounting estimates and restatement

(i) Changes in accounting policies due to amendments to accounting standards: None

(ii) Other changes in accounting policies: None

(iii) Changes in accounting estimates: None

(iv) Restatements: None

(4) Issued shares (common shares)

(i) Issued shares (including treasury shares) at period-end:

(ii) Treasury shares at period-end:

(iii) Average issued shares during period:

Nine months ended February 28, 2023	66,819,342 shares	Fiscal year ended May 31, 2022	66,819,342 shares
Nine months ended February 28, 2023	3,600,857 shares	Fiscal year ended May 31, 2022	3,600,755 shares
Nine months ended February 28, 2023	63,218,536 shares	Nine months ended February 28, 2022	63,218,596 shares

This financial summary is not subject to a quarterly review by certified public accountants or audit firms.

Cautionary statement regarding business results forecasts and special notes

(Notes concerning forward-looking statements, etc.)

The financial forecasts and other forward-looking statements contained herein are based on currently available information and certain assumptions considered by the Company to be reasonable. Actual financial results may differ materially due to various factors. Refer to “(3) Overview of Consolidated Financial Results Forecast and Future Expectations” on page 3 of the supplementary material for the underlying assumptions and proper use of the forecasts.

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1. Qualitative Information Related to Consolidated Financial Results

(1) Overview of Operating Results

During the first nine months of the fiscal year ending May 31, 2023, although there were steady moves toward normalization of economic activities affected by COVID-19 in Japan, the economic future remained uncertain due to the rising cost of living brought about by the prolonged war in Ukraine, rising raw material prices, fluctuations in the financial and capital markets, and other factors.

The business environment in the drug store industry remains harsh due to the entry of new competitors from other industries and an increase in consolidation and restructuring on top of new store openings by competitors and intensification of price competition.

Under these circumstances, the Group will promote comprehensive health care support for regional contribution in the domains of daily life, prevention, medical care, and nursing care.

Drug Stores

In the drug store business, while promoting everyday low prices (EDLP), we focused on enhancing our fresh and frozen food offerings, promoting in-store prescription drug stores, and improving convenience and expertise in small trade areas. These efforts were implemented in order to address the need for one-stop shopping in which the necessities for daily life are available in one place and to provide a location for everyday consultations related to healthy living.

During the first nine months of the fiscal year ending May 31, 2023, there was increased demand amid the COVID-19 pandemic. In addition, our EDLP measures, including those for daily necessities, were successful against a backdrop of the rising cost of living. These factors pushed net sales higher than the same period of the previous year and the plan. In regard to expenses, we made efforts to curb them by thoroughly implementing measures to save as much electricity as possible and optimizing person-hours at workplaces despite the impact of soaring utility costs arising from rising crude oil prices and increased labor costs arising from the expanded hiring of pharmacists and an increase in the minimum wage.

During the period, we opened 23 new drug stores. Meanwhile, we also closed two for which the contract expired. Moreover, we opened 42 new in-store prescription drug stores and closed one dedicated prescription drug store for which the contract expired.

Supermarkets

We are gradually renovating and converting existing Yuri Store supermarkets into combination drug store/fresh produce stores in order to enhance the competitiveness of individual stores and create synergy with our drug store business. During the first nine months of the fiscal year ending May 31, 2023, we converted one existing supermarket into a combination drug store/fresh produce store as in the previous fiscal year and opened one new combination drug store/fresh produce store in Chigasaki City, Kanagawa. Meanwhile, we also closed one supermarket from the standpoint of improving management efficiency.

Nursing Care

As society ages, we are operating paid assisted living facilities characterized by delicious meals for elderly people who want to live safely and securely under the care of nursing staff as well as adult day care centers characterized by functional maintenance and improvement training for muscle strength and other physical performance for those who want to live at home as long as possible. We poured effort into customer service, which is one of the distinctive characteristics of our Group, in our paid assisted living facilities and adult day care services to increase user satisfaction and improve occupancy rates. During this period, we closed two adult day care centers from the standpoint of improving management efficiency.

Owing to the efforts above, as of February 28, 2023, the number of the Group's drug stores came to 707, the number of dedicated prescription drug stores to 36, and the number of in-store prescription drug stores to 316, for a total of 352 stores. The Group also has two supermarkets and three combination drug store/fresh produce stores in the supermarket business as well as two paid assisted living facilities and 37 adult day care centers in the nursing care business.

As a result of the above, the financial results for the first nine months of the fiscal year ending May 31, 2023 were as follows: Net sales came in at 282,365 million yen (up 8.3% year on year), operating profit was 14,021 million yen (up 5.9%), ordinary profit was 14,366 million yen (up 5.6%), and profit attributable to owners of parent was 9,734 million yen (up 5.5%).

(2) Overview of Financial Position

Total assets as of February 28, 2023 were 181,930 million yen, up 5,019 million yen from the end of the previous fiscal year. The main factors were a 315 million yen increase in merchandise and a 12,845 million yen increase in non-current assets as well as a 7,832 million yen decrease in cash and deposits.

Total liabilities as of February 28, 2023 were 68,875 million yen, down 1,712 million yen from the end of the previous fiscal year. The main factors were a 2,449 million yen decrease in “Other” under current liabilities, and a 1,060 million yen decrease in accrued income taxes.

Total net assets as of February 28, 2023 were 113,055 million yen, up 6,731 million yen from the end of the previous fiscal year. The main factors were a 3,034 million yen decrease in dividends paid and recording of 9,734 million yen in profit attributable to owners of parent.

(3) Overview of Consolidated Financial Results Forecast and Future Expectations

At this time, no changes have been made to the forecasts for the fiscal year ending May 31, 2023 announced on January 10, 2023.

2. Consolidated Financial Statements and Notes

(1) Consolidated Balance Sheet

(Millions of yen)

	FY2021 (As of May 31, 2022)	3Q of FY2022 (As of February 28, 2023)
Assets		
Current assets		
Cash and deposits	42,067	34,234
Accounts receivable - trade	11,158	11,685
Merchandise	35,615	35,930
Other	9,274	8,438
Total current assets	98,115	90,289
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	23,166	25,199
Land	17,196	24,572
Other, net	4,407	4,570
Total property, plant and equipment	44,770	54,341
Intangible fixed assets		
Goodwill	593	503
Other	918	943
Total intangible assets	1,511	1,446
Investments and other assets		
Long-term loans receivable	9,868	9,828
Leasehold and guarantee deposits	11,251	11,472
Other	11,436	14,593
Allowance for doubtful accounts	(43)	(42)
Total investments and other assets	32,513	35,852
Total non-current assets	78,795	91,641
Total assets	176,910	181,930
Liabilities		
Current liabilities		
Accounts payable - trade	44,228	44,343
Accrued income taxes	3,070	2,009
Accrued bonuses	357	1,664
Provision for bonuses for directors (and other officers)	145	108
Provision for point card certificates	164	172
Asset retirement obligations	4	95
Other	14,628	12,178
Total current liabilities	62,598	60,573
Non-current liabilities		
Net defined benefit liability	3,150	3,426
Asset retirement obligations	3,417	3,455
Provision for loss on subleasing	37	32
Other	1,383	1,387
Total non-current liabilities	7,988	8,301
Total liabilities	70,587	68,875

(Millions of yen)

	FY2021 (As of May 31, 2022)	3Q of FY2022 (As of February 28, 2023)
Net assets		
Equity capital		
Share capital	1,000	1,000
Capital surplus	934	934
Retained earnings	108,850	115,550
Treasury shares	(4,393)	(4,393)
Total shareholders' equity	106,391	113,091
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	23	33
Remeasurements of defined benefit plans	(91)	(69)
Total accumulated other comprehensive income	(68)	(36)
Total net assets	106,323	113,055
Liabilities and net assets	176,910	181,930

(2) Consolidated Statements of Income and Comprehensive Income

Consolidated Statement of Income

First nine months of the fiscal year ending May 31, 2023

(Millions of yen)

	3Q of FY2021 (From June 1, 2021 to February 28, 2022)	3Q of FY2022 (From June 1, 2022 to February 28, 2023)
Net sales	260,636	282,365
Cost of sales	190,017	205,684
Gross profit	70,619	76,681
Selling, general and administrative expenses		
Provision for point card certificates	155	172
Salaries and allowances	24,013	25,449
Provision for bonuses	1,482	1,601
Provision for directors' bonuses	103	104
Retirement benefit expenses	334	615
Depreciation and amortization	2,794	3,013
Land/office rent	11,934	12,413
Other	16,560	19,289
Total selling, general and administrative expenses	57,378	62,660
Operating profit	13,240	14,021
Non-operating profit		
Interest income	69	66
Dividend income	0	1
Gain on receipt of donated non-current assets	35	25
Rent income	229	244
Other	162	163
Total non-operating income	498	501
Non-operating expenses		
Compensation expenses	0	2
Rental expenses	127	124
Other	4	29
Total non-operating expenses	132	156
Ordinary profit	13,606	14,366
Extraordinary profit		
Subsidy income	—	9
Total extraordinary income	—	9
Extraordinary losses		
Loss on retirement of non-current assets	3	10
Loss on store closings	—	3
Loss on tax purpose reduction entry of non-current assets	—	9
Total extraordinary losses	3	22
Profit before income taxes	13,602	14,352
Income taxes	4,375	4,618
Profit	9,227	9,734
Profit attributable to non-controlling interests	—	—
Profit attributable to owners of parent	9,227	9,734

Consolidated Statement of Comprehensive Income

First nine months of the fiscal year ending May 31, 2023

(Millions of yen)

	3Q of FY2021 (From June 1, 2021 to February 28, 2022)	3Q of FY2022 (From June 1, 2022 to February 28, 2023)
Profit	9,227	9,734
Other comprehensive income		
Valuation difference on available-for-sale securities	(1)	9
Remeasurements of defined benefit plans, net of tax	8	22
Total other comprehensive income	7	32
Comprehensive income	9,234	9,766
Comprehensive income attributable to:		
Owners of parent	9,234	9,766
Non-controlling interests	—	—

(3) Notes to Consolidated Financial Statements

Going concern assumption

Not applicable

Notes in case of significant changes in shareholders' equity

Not applicable

Application of specific accounting treatment in the preparation of consolidated financial statements

(Calculation of tax expenses)

We make a reasonable estimate of the effective tax rate to be imposed on profit before income taxes in the fiscal year ending May 31, 2023, including the first nine months, after applying tax effect accounting and perform the calculation by multiplying profit before income taxes by the estimated effective tax rate.

Changes to accounting policies

Not applicable

Changes in accounting estimates

Not applicable

Additional Information

There are no significant changes to the assumptions regarding the impact of COVID-19 described in (Additional Information) and (Accounting Estimates for Impact of COVID-19) in the securities report for the previous fiscal year.

3. Supplemental Information

(1) Production, Orders Received, and Sales

1) Sales results

(i) Sales results by product division

Sales results by product division during the first nine months of the fiscal year ending May 31, 2023 were as follows:

Product division	3Q of FY2022 (From June 1, 2022 to February 28, 2023)	
	Amount (millions of yen)	YoY change (%)
Drug Stores		
Medical and health products	77,971	112.1
OTC	46,235	108.1
Prescription drug stores	31,735	118.3
Cosmetics	33,121	105.7
Food products	111,264	110.1
Daily products	42,723	104.0
Other	13,391	106.2
Subtotal	278,471	108.9
Supermarkets	2,263	68.8
Nursing Care		
Paid assisted living facilities	522	92.5
Adult day care services	1,023	100.7
Subtotal	1,545	97.7
Revenue from contracts with customers	282,281	108.3
Other revenue (Notes)	84	—
Total	282,365	108.3

(Note) Other revenue includes rent income based on the Accounting Standard for Lease Transactions (ASBJ Statement No. 13).

(ii) Sales results by region

Sales results by region during the first nine months of the fiscal year ending May 31, 2023 were as follows:

	3Q of FY2021 (From June 1, 2021 to February 28, 2022)		3Q of FY2022 (From June 1, 2022 to February 28, 2023)	
	Amount (millions of yen)	Share (%)	Amount (millions of yen)	Share (%)
Kanagawa	162,370	62.3	175,264	62.1
Tokyo	37,110	14.2	40,985	14.5
Shizuoka	29,430	11.3	31,027	11.0
Chiba	18,377	7.1	20,689	7.3
Other	13,347	5.1	14,398	5.1
Total	260,636	100.0	282,365	100.0

(2) Purchase results

Purchase results by product division during the first nine months of the fiscal year ending May 31, 2023 were as follows:

Product division	3Q of FY2022 (From June 1, 2022 to February 28, 2023)	
	Amount (millions of yen)	YoY change (%)
Drug Stores		
Medical and health products	45,246	109.2
OTC	26,623	106.5
Prescription drug stores	18,623	113.3
Cosmetics	20,938	106.2
Food products	96,141	110.9
Daily products	30,014	103.3
Other	10,465	108.1
Subtotal	202,806	108.7
Supermarkets	1,698	68.1
Nursing Care		
Paid assisted living facilities	—	—
Adult day care services	—	—
Subtotal	—	—
Purchases for revenue from contracts with customers	204,504	108.2
Other revenue	—	—
Total	204,504	108.2