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Consolidated Financial Results for Six Months Ended November 30, 2022 (Japanese GAAP)

January 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>

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Accounting Dept.

Scheduled filing date of Securities Report:

Scheduled date of start of dividend payment:

January 13, 2023

February 6, 2023

Supplementary materials for the financial results: Yes

Quarterly results briefing sessions: Yes (For institutional investors and securities analysts)

(Figures are rounded down to the nearest million yen)

1. Consolidated Second Quarter Results for Fiscal Year Ending May 31, 2023 (June 1, 2022 to November 30, 2022)

(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	%
Six months ended November 30, 2022	187,392	7.8	9,235	4.4	9,451	4.0	6,412	4.0
Six months ended November 30, 2021	173,823	3.1	8,843	-8.7	9,088	-8.3	6,167	-8.4

(Note) Comprehensive income: Six months ended November 30, 2022: ¥6,432 million (4.2%)

Six months ended November 30, 2021: ¥6,171 million (-8.9%)

	Earnings per share	Diluted earnings per share
	Yen	Yen
Six months ended November 30, 2022	101.43	—
Six months ended November 30, 2021	97.55	—

(2) Consolidated Financial Position

	Total assets	Total net assets	Equity ratio
	Millions of yen	Millions of yen	%
As of November 30, 2022	185,601	111,301	60.0
As of May 31, 2022	176,910	106,323	60.1

(Reference) Net assets: As of November 30, 2022: ¥111,301 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
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%	Yen
Full-year	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: Yes

Notes

- (1) Significant changes of subsidiaries in six months ended November 30, 2022 (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:

Six months ended November 30, 2022	66,819,342 shares	Fiscal year ended May 31, 2022	66,819,342 shares
Six months ended November 30, 2022	3,600,815 shares	Fiscal year ended May 31, 2022	3,600,755 shares
Six months ended November 30, 2022	63,218,553 shares	Six months ended November 30, 2021	63,218,600 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 six months of the fiscal year ending May 31, 2023, although there were moves toward normalization of economic activities amid the ongoing impact of COVID-19 on the Japanese economy, the economic future remained uncertain due to the rising cost of living brought about by rising raw material and crude oil 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 in order to address the need for one-stop shopping in which the necessities for daily life are available in one place. We also reviewed the business hours of all drug stores, which were reduced all across the country in the early days of the pandemic, in line with any changes in the local area and customer needs, extending them at more than 130 stores.

During the first six months of the fiscal year ending May 31, 2023, there was increased demand for antiviral products, antigen test kits, and common cold medicines amid the COVID-19 pandemic. In addition, our EDLP measures, including those for daily necessities, were successful against a backdrop of a further increase in economizing as the cost of living continued to rise. 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 man-hours at workplaces despite the impact of soaring utility costs arising from rising crude oil prices and increased labor costs arising from the promotion of in-store prescription drug stores and an increase in the minimum wage.

During the period, we opened 16 new drug stores. Meanwhile we also closed one for which the contract expired. Moreover, we opened 26 new in-store prescription drug stores and closed one dedicated prescription drug store for which the contract expired.

Supermarkets

We operate Yuri Store supermarkets in Asao Ward and Tama Ward, Kawasaki City, Kanagawa. We are gradually renovating and converting existing 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 six months of the fiscal year ending May 31, 2023, we converted one store into a combination drug store/fresh produce store as in the previous fiscal year and 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 recovery training for muscle strength and other physical performance for those who want to live at home as long as possible. We took care to prevent the spread of COVID-19 in our paid assisted living facilities and adult day care services while also pouring effort into customer service, which is one of the distinctive characteristics of our Group, 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 November 30, 2022, the number of the Group's drug stores came to 701, the number of dedicated prescription drug stores to 35, and the number of in-store prescription drug stores to 301, for a total of 336 stores. The Group also has two supermarkets and two 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 six months of the fiscal year ending May 31, 2023 were as follows: Net sales came in at 187,392 million yen (up 7.8% year on year), operating profit was 9,235 million yen (up 4.4%), ordinary profit was 9,451 million yen (up 4.0%), and profit attributable to owners of parent was 6,412 million yen (up 4.0%).

(2) Overview of Financial Position

Total assets as of November 30, 2022 were 185,601 million yen, up 8,690 million yen from the end of the previous fiscal year. The main factors were a 1,321 million yen increase in accounts receivable - trade, a 1,636 million yen increase in merchandise, and a 10,774 million yen increase in non-current assets as well as a 5,219 million yen decrease in cash and deposits.

Total liabilities as of November 30, 2022 were 74,299 million yen, up 3,712 million yen from the end of the previous fiscal year. The main factors were a 1,864 million yen increase in accounts payable - trade, a 294 million yen increase in accrued income taxes, a 1,089 million yen increase in accounts payable - other included in “Other” under current liabilities, and a 382 million yen increase in accrued expenses.

Net assets as of November 30, 2022 were 111,301 million yen, up 4,978 million yen from the end of the previous fiscal year. The main factor was recording 1,454 million yen in dividends paid and 6,412 million yen in profit attributable to owners of parent.

Cash Flows

Cash and cash equivalents as of November 30, 2022 were 36,447 million yen, down 5,219 million yen from the end of the previous fiscal year.

Cash flows as of November 30, 2022 were as follows:

Cash flows from operating activities

Net cash provided by operating activities amounted to 8,248 million yen, up 2,027 million yen year on year. The main factors were profit before income taxes of 9,440 million yen, depreciation of 2,028 million yen, income tax refunds of 799 million yen, an increase in inventories of 1,644 million yen, an increase in trade payables of 1,864 million yen, and income taxes paid of 3,965 million yen.

Cash flows from investing activities

Net cash used in investing activities amounted to 12,013 million yen, up 6,445 million yen year on year. This was mainly due to 9,298 million yen for the purchase of property, plant and equipment associated with the store openings and 2,934 million yen for store openings in progress.

Cash flows from financing activities

Net cash used in financing activities amounted to 1,454 million yen, down 0 million yen year on year. This is the result of dividends paid of 1,454 million yen.

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

The forecasts for the fiscal year ending May 31, 2023 announced on July 11, 2022 have been revised in light of trends in consolidated operating results in the first six months of the fiscal year.

Refer to the “Notice concerning Difference between Forecasts and Results for the First Six Months of the Fiscal Year Ending May 31, 2023 and Revision of Full-Year Consolidated Earnings Forecast” published today (January 10, 2023; in Japanese only) for details.

2. Consolidated Financial Statements and Notes

(1) Consolidated Balance Sheet

(Millions of yen)

	FY2021 (As of May 31, 2022)	2Q of FY2022 (As of November 30, 2022)
Assets		
Current assets		
Cash and deposits	42,067	36,847
Accounts receivable - trade	11,158	12,480
Merchandise	35,615	37,252
Other	9,274	9,451
Total current assets	98,115	96,031
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	23,166	24,742
Land	17,196	24,169
Other, net	4,407	4,511
Total property, plant and equipment	44,770	53,423
Intangible fixed assets		
Goodwill	593	533
Other	918	954
Total intangible assets	1,511	1,487
Investments and other assets		
Long-term loans receivable	9,868	9,718
Leasehold and guarantee deposits	11,251	11,349
Other	11,436	13,633
Allowance for doubtful accounts	(43)	(42)
Total investments and other assets	32,513	34,658
Total non-current assets	78,795	89,570
Total assets	176,910	185,601
Liabilities		
Current liabilities		
Accounts payable - trade	44,228	46,092
Accrued income taxes	3,070	3,365
Accrued bonuses	357	317
Provision for bonuses for directors (and other officers)	145	72
Provision for point card certificates	164	173
Asset retirement obligations	4	40
Other	14,628	16,000
Total current liabilities	62,598	66,062
Non-current liabilities		
Net defined benefit liability	3,150	3,338
Asset retirement obligations	3,417	3,492
Provision for loss on subleasing	37	34
Other	1,383	1,372
Total non-current liabilities	7,988	8,237
Total liabilities	70,587	74,299

(Millions of yen)

	FY2021 (As of May 31, 2022)	2Q of FY2022 (As of November 30, 2022)
Net assets		
Equity capital		
Share capital	1,000	1,000
Capital surplus	934	934
Retained earnings	108,850	113,808
Treasury shares	(4,393)	(4,393)
Total shareholders' equity	106,391	111,349
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	23	29
Remeasurements of defined benefit plans	(91)	(77)
Total accumulated other comprehensive income	(68)	(47)
Total net assets	106,323	111,301
Liabilities and net assets	176,910	185,601

(2) Consolidated Statements of Income and Comprehensive Income

Consolidated Statement of Income

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

(Millions of yen)

	1H of FY2021 (From June 1, 2021 to November 30, 2021)	1H of FY2022 (From June 1, 2022 to November 30, 2022)
Net sales	173,823	187,392
Cost of sales	126,854	136,402
Gross profit	46,968	50,989
Selling, general and administrative expenses		
Provision for point card certificates	146	173
Salaries and allowances	16,012	17,009
Provision for bonuses	269	289
Provision for directors' bonuses	65	68
Retirement benefit expenses	223	406
Depreciation and amortization	1,841	1,962
Land/office rent	7,864	8,243
Other	11,704	13,601
Total selling, general and administrative expenses	38,125	41,754
Operating profit	8,843	9,235
Non-operating profit		
Interest income	46	44
Dividend income	0	0
Rent income	149	161
Other	134	122
Total non-operating income	331	329
Non-operating expenses		
Rental expenses	84	83
Other	1	29
Total non-operating expenses	85	112
Ordinary profit	9,088	9,451
Extraordinary losses		
Loss on retirement of non-current assets	3	7
Loss on store closings	—	3
Total extraordinary losses	3	10
Profit before income taxes	9,084	9,440
Income taxes	2,917	3,028
Profit	6,167	6,412
Profit attributable to non-controlling interests	—	—
Profit attributable to owners of parent	6,167	6,412

Consolidated Statement of Comprehensive Income

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

(Millions of yen)

	1H of FY2021 (From June 1, 2021 to November 30, 2021)	1H of FY2022 (From June 1, 2022 to November 30, 2022)
Profit	6,167	6,412
Other comprehensive income		
Valuation difference on available-for-sale securities	(1)	5
Remeasurements of defined benefit plans, net of tax	5	14
Total other comprehensive income	4	20
Comprehensive income	6,171	6,432
Comprehensive income attributable to:		
Owners of parent	6,171	6,432
Non-controlling interests	—	—

(3) Consolidated Statements of Cash Flows

(Millions of yen)

	1H of FY2021 (From June 1, 2021 to November 30, 2021)	1H of FY2022 (From June 1, 2022 to November 30, 2022)
Cash flows from operating activities		
Profit before income taxes	9,084	9,440
Depreciation and amortization	1,919	2,028
Increase (decrease) in allowance for doubtful accounts	(0)	(0)
Increase (decrease) in provision for bonuses	(29)	(40)
Increase (decrease) in provision for bonuses for directors (and other officers)	(53)	(72)
Increase (decrease) in provision for point card certificates	19	8
Increase (decrease) in provision for loss on subleasing	8	(3)
Increase (decrease) in retirement benefit liability	177	209
Interest and dividend income	(46)	(45)
Decrease (increase) in trade receivables	(512)	(1,321)
Decrease (increase) in inventories	(1,541)	(1,644)
Increase (decrease) in trade payables	(233)	1,864
Increase (decrease) in advances received	166	85
Other	562	904
Subtotal	9,522	11,412
Interest and dividends received	1	1
Income taxes paid	(4,227)	(3,965)
Income taxes refund	924	799
Net cash provided by operating activities	6,220	8,248
Cash flows from investing activities		
Purchase of property, plant and equipment	(2,750)	(9,298)
Purchase of intangible assets	(103)	(118)
Payments into time deposits	(400)	(400)
Proceeds from withdrawal of time deposits	—	400
Long-term loan advances	(258)	(158)
Proceeds from collection of long-term loans receivable	490	497
Payments of leasehold and guarantee deposits	(88)	(21)
Proceeds from refund of leasehold and guarantee deposits	71	74
Purchase of long-term prepaid expenses	(18)	(27)
Payments for store openings in progress	(2,370)	(2,934)
Payments into deposit money	(137)	(29)
Other	(0)	1
Net cash used in investing activities	(5,567)	(12,013)
Cash flows from financing activities		
Purchase of treasury shares	(0)	(0)
Dividends paid	(1,454)	(1,454)
Net cash used in financing activities	(1,454)	(1,454)
Net increase (decrease) in cash and cash equivalents	(801)	(5,219)
Cash and cash equivalents at beginning of period	39,282	41,667
Cash and cash equivalents at end of period	38,481	36,447

(4) 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 six 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 six months of the fiscal year ending May 31, 2023 were as follows:

Product division	1H of FY2022 (From June 1, 2022 to November 30, 2022)	
	Amount (millions of yen)	YoY change (%)
Drug Stores		
Medical and health products	51,050	111.6
OTC	30,588	108.2
Prescription drug stores	20,461	117.1
Cosmetics	22,286	106.6
Food products	73,549	108.5
Daily products	28,907	104.0
Other	8,811	105.9
Subtotal	184,605	108.2
Supermarkets	1,681	76.3
Nursing Care		
Paid assisted living facilities	356	93.5
Adult day care services	689	100.7
Subtotal	1,046	98.1
Revenue from contracts with customers	187,333	107.8
Other revenue (Notes)	58	—
Total	187,392	107.8

(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 six months of the fiscal year ending May 31, 2023 were as follows:

	1H of FY2021 (From June 1, 2021 to November 30, 2021)		1H of FY2022 (From June 1, 2022 to November 30, 2022)	
	Amount (millions of yen)	Share (%)	Amount (millions of yen)	Share (%)
Kanagawa	107,978	62.1	116,461	62.1
Tokyo	24,878	14.3	27,258	14.5
Shizuoka	19,755	11.4	20,529	11.0
Chiba	12,296	7.1	13,574	7.2
Other	8,915	5.1	9,569	5.1
Total	173,823	100.0	187,392	100.0

(2) Purchase results

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

Product division	1H of FY2022 (From June 1, 2022 to November 30, 2022)	
	Amount (millions of yen)	YoY change (%)
Drug Stores		
Medical and health products	29,888	109.4
OTC	17,931	107.7
Prescription drug stores	11,957	109.4
Cosmetics	14,466	106.9
Food products	63,752	108.8
Daily products	20,530	105.0
Other	7,125	107.0
Subtotal	135,763	108.0
Supermarkets	1,270	75.4
Nursing Care		
Paid assisted living facilities	—	—
Adult day care services	—	—
Subtotal	—	—
Purchases for revenue from contracts with customers	137,034	107.6
Other revenue	—	—
Total	137,034	107.6