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Consolidated Financial Results for Three Months Ended August 31, 2023 (Japanese GAAP)

October 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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Scheduled filing date of Securities Report: October 13, 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 First Quarter Results for Fiscal Year Ending May 31, 2024 (June 1, 2023 to August 31, 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	%
Three months ended August 31, 2023	104,078	10.1	4,775	0.9	4,888	0.3	3,293	−0.1
Three months ended August 31, 2022	94,530	6.2	4,732	0.2	4,872	0.8	3,297	0.9

(Note) Comprehensive income: Three months ended August 31, 2023: ¥3,298 million (−0.3%)
Three months ended August 31, 2022: ¥3,308 million (1.1%)

	Earnings per share	Diluted earnings per share
	Yen	Yen
Three months ended August 31, 2023	52.09	—
Three months ended August 31, 2022	52.16	—

(2) Consolidated Financial Position

	Total assets	Total net assets	Equity ratio
	Millions of yen	Millions of yen	%
As of August 31, 2023	195,976	118,001	60.2
As of May 31, 2023	194,941	116,409	59.7

(Reference) Net assets: As of August 31, 2023: ¥118,001 million
As of May 31, 2023: ¥116,409 million

2. Dividend Payments

	Dividends per share				
	First quarter	Second quarter	Third quarter	Year-end	Annual
Fiscal year ended May 31, 2023	Yen —	Yen 25.00	Yen —	Yen 27.00	Yen 52.00
Fiscal year ending May 31, 2024	—				
Fiscal year ending May 31, 2024 (forecast)		27.00	—	27.00	54.00

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

3. Consolidated Financial Forecast (From June 1, 2023 to May 31, 2024)

(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
Six months ending November 30, 2023	197,460	5.4	8,440	−8.6	8,720	−7.7	5,930	−7.5	93.80
Full-year	404,100	6.1	19,240	1.7	19,800	1.9	13,000	0.6	205.64

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

Notes

(1) Significant changes of subsidiaries in three months ended August 31, 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))

Notes on significant changes of subsidiaries during period

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

Notes on application of accounting treatments specific to preparation of quarterly consolidated financial statements

(3) Changes in accounting policies, changes in 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

Notes on changes in accounting policies

(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:

Three months ended August 31, 2023	66,819,342 shares	Fiscal year ended May 31, 2023	66,819,342 shares
Three months ended August 31, 2023	3,600,857 shares	Fiscal year ended May 31, 2023	3,600,857 shares
Three months ended August 31, 2023	63,218,485 shares	Three months ended August 31, 2022	63,218,567 shares

Note on issued shares

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

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 three months of fiscal year ending May 31, 2024, Japan's economy proceeded to recover in line with the reclassification of COVID-19 as a Class 5 disease, but the outlook still remains uncertain owing to soaring raw material and energy prices and a fall in consumer sentiment due to the rise in the cost of living.

In the drug store industry, while there are signs of a recovery in demand for medical and health products and cosmetics thanks to the easing of restrictions on movements, there is less demand for products to contain the spread of the coronavirus and a growing need for households to save money owing to the rising cost of living. Business conditions for the Group remain harsh due to new store openings by competitors and intensification of price competition, an increase in the number of new competitors entering the market from other industries and greater consolidation and restructuring, and revisions to medical fees and drug prices in the prescriptions division.

Under these circumstances, the Group is promoting comprehensive health care support for regional contribution in the domains of daily life, prevention, medical care, and nursing care as we continue to strengthen our dominant position in existing areas, mainly in in-store prescription drug stores, to achieve the Medium-term Management Plan.

Drug Stores

In the drug store business, we continued to promote measures to provide everyday low prices (EDLP) and work on product proposals and lineups that included strengthening private brand sales to respond to changes in consumer behavior and growing need for households to save money post-COVID. We also continued our efforts to target quick, one-stop shopping by promoting in-store prescription drug stores and improving convenience and expertise in small trade areas by expanding the lineup of fresh foods and frozen foods.

Net sales for the first three months of fiscal year ending May 31, 2024 exceeded both projections and the first three months of the previous fiscal year. This growth resulted from a rebound in demand for common cold medicines and cosmetics products and the continued success of EDLP measures, including for daily necessities, despite the drop in demand for products such as masks and test kits to contain the spread of the coronavirus. In the prescriptions division, the number of prescriptions filled remained steady as a result of efforts to promote in-store prescription drug stores despite the impact of regulatory revisions to medical fees and drug prices.

During the period, we opened 4 new drug stores. Meanwhile, we also closed two for which the contract expired. New prescription drug store openings included four new in-store prescription drug stores and one dedicated prescription drug store in a medical mall.

Supermarkets

We are gradually renovating and converting existing Yuri Store supermarkets into combination drug store/fresh produce stores. The number of stores as of August 31, 2023 remained unchanged from the end of the previous fiscal year at five stores. This includes two food supermarkets (one of which is temporarily close for renovation) and three fresh produce stores. At some stores, we pursued the delivery and sale of delicatessen dishes and fresh meats prepared in Yuri Store supermarkets to drug stores in the Group and continued our efforts to improve convenience in small trade areas to generate synergies with the drug store business.

Nursing Care

As society ages, we are operating two 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 37 half-day adult care centers characterized by training to maintain and improve bodily functions such as muscle strength for those who want to live at home as long as possible. For our paid assisted living facilities and adult day care services we have put every effort into customer service, which is one of the distinctive characteristics of our Group, to increase user satisfaction and improve occupancy rates.

Owing to the efforts above, the number of the Group's drug stores reached 719 as of August 31, 2023, and the total number of prescription drug stores reached 375, including 37 dedicated prescription drug stores and 338 in-store prescription drug 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 half-day adult care centers in the nursing care business.

As a result of the above, net sales for the first three months of fiscal year ending May 31, 2024 were 104,078 million yen (up 10.1% year on year), operating profit was 4,775 million yen (up 0.9%), ordinary profit was 4,888 million yen (up 0.3%), and profit attributable to owners of parent was 3,293 million yen (down 0.1%).

(2) Overview of Financial Position

Total assets as of August 31, 2023 were 195,976 million yen, up 1,034 million yen from the end of the previous fiscal year. The main factors were a 451 million yen increase in accounts receivable - trade and a 6,159 million yen increase in non-current assets, which exceeded a 4,133 million yen decrease in cash and deposits.

Total liabilities as of August 31, 2023 were 77,974 million yen, down 557 million yen from the end of the previous fiscal year. The main factors were a 1,717 million yen decrease in accrued income taxes, which exceeded the 1,254 million yen increase in accounts payable - trade.

Net assets as of August 31, 2023 were 118,001 million yen, up 1,591 million yen from the end of the previous fiscal year. The main factors were a 1,706 million yen decrease in dividends paid and recording of 3,293 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 forecast for the fiscal year ending May 31, 2024 announced on July 10, 2023.

2. Consolidated Financial Statements and Notes

(1) Consolidated Balance Sheet

(Millions of yen)

	FY2022 (As of May 31, 2023)	1Q of FY2023 (As of August 31, 2023)
Assets		
Current assets		
Cash and deposits	37,526	33,393
Accounts receivable - trade	13,312	13,764
Merchandise	38,497	37,594
Other	10,295	9,755
Total current assets	99,631	94,506
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	27,762	28,836
Land	25,211	25,385
Other, net	4,858	7,709
Total property, plant and equipment	57,832	61,930
Intangible fixed assets		
Goodwill	473	443
Other	1,055	986
Total intangible assets	1,529	1,430
Investments and other assets		
Long-term loans receivable	9,654	9,528
Leasehold and guarantee deposits	11,576	11,630
Other	14,759	16,988
Allowance for doubtful accounts	(40)	(39)
Total investments and other assets	35,948	38,108
Total non-current assets	95,310	101,469
Total assets	194,941	195,976
Liabilities		
Current liabilities		
Accounts payable - trade	50,485	51,739
Accrued income taxes	3,386	1,668
Accrued bonuses	378	1,893
Provision for bonuses for directors (and other officers)	145	39
Provision for point card certificates	171	161
Asset retirement obligations	89	84
Provision for loss on store closings	8	8
Other	15,487	13,868
Total current liabilities	70,152	69,465
Non-current liabilities		
Net defined benefit liability	3,310	3,380
Asset retirement obligations	3,579	3,621
Provision for loss on subleasing	30	29
Other	1,459	1,478
Total non-current liabilities	8,379	8,509
Total liabilities	78,532	77,974

(Millions of yen)

	FY2022 (As of May 31, 2023)	1Q of FY2023 (As of August 31, 2023)
Net assets		
Equity capital		
Share capital	1,000	1,000
Capital surplus	934	934
Retained earnings	118,741	120,328
Treasury shares	(4,393)	(4,393)
Total shareholders' equity	116,282	117,869
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	39	46
Remeasurements of defined benefit plans	87	85
Total accumulated other comprehensive income	126	132
Total net assets	116,409	118,001
Liabilities and net assets	194,941	195,976

(2) Consolidated Statements of Income and Comprehensive Income

Consolidated Statement of Income

First three months of the fiscal year ending May 31, 2024

(Millions of yen)

	1Q of FY2022 (From June 1, 2022 to August 31, 2022)	1Q of FY2023 (From June 1, 2023 to August 31, 2023)
Net sales	94,530	104,078
Cost of sales	69,160	77,399
Gross profit	25,370	26,678
Selling, general and administrative expenses		
Provision for point card certificates	164	161
Salaries and allowances	8,492	8,925
Provision for bonuses	1,411	1,492
Provision for directors' bonuses	32	35
Retirement benefit expenses	202	192
Depreciation and amortization	912	1,048
Land/office rent	4,117	4,268
Other	5,306	5,778
Total selling, general and administrative expenses	20,638	21,902
Operating profit	4,732	4,775
Non-operating profit		
Interest income	22	21
Dividend income	0	0
Rent income	98	90
Other	62	47
Total non-operating income	183	159
Non-operating expenses		
Rental expenses	41	40
Other	1	5
Total non-operating expenses	42	46
Ordinary profit	4,872	4,888
Extraordinary losses		
Loss on sale of non-current assets	—	26
Loss on retirement of non-current assets	2	1
Total extraordinary losses	2	27
Profit before income taxes	4,870	4,860
Income taxes	1,573	1,567
Profit	3,297	3,293
Profit attributable to non-controlling interests	—	—
Profit attributable to owners of parent	3,297	3,293

Consolidated Statement of Comprehensive Income

First three months of the fiscal year ending May 31, 2024

(Millions of yen)

	1Q of FY2022 (From June 1, 2022 to August 31, 2022)	1Q of FY2023 (From June 1, 2023 to August 31, 2023)
Profit	3,297	3,293
Other comprehensive income		
Valuation difference on available-for-sale securities	3	7
Remeasurements of defined benefit plans, net of tax	7	(2)
Total other comprehensive income	11	5
Comprehensive income	3,308	3,298
Comprehensive income attributable to:		
Owners of parent	3,308	3,298
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, 2024, including the first three 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

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 three months of the fiscal year ending May 31, 2024 were as follows:

Product division	1Q of FY2023 (From June 1, 2023 to August 31, 2023)	
	Amount (millions of yen)	YoY change (%)
Drug Stores		
Medical and health products	27,422	105.5
OTC	15,456	96.7
Prescription drug stores	11,966	119.4
Cosmetics	12,384	108.6
Food products	42,575	116.6
Daily products	15,817	106.8
Other	4,807	110.1
Subtotal	103,007	110.7
Supermarkets	506	56.7
Nursing Care		
Paid assisted living facilities	170	93.8
Adult day care services	357	104.9
Subtotal	528	101.0
Revenue from contracts with customers	104,042	110.1
Other revenue (Note)	35	110.8
Total	104,078	110.1

(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 three months of the fiscal year ending May 31, 2024 were as follows:

	1Q of FY2022 (From June 1, 2022 to August 31, 2022)		1Q of FY2023 (From June 1, 2023 to August 31, 2023)	
	Amount (millions of yen)	Share (%)	Amount (millions of yen)	Share (%)
Kanagawa	58,668	62.1	63,808	61.3
Tokyo	13,801	14.6	14,889	14.3
Shizuoka	10,407	11.0	11,556	11.1
Chiba	6,800	7.2	8,558	8.2
Other	4,852	5.1	5,264	5.1
Total	94,530	100.0	104,078	100.0

(2) Purchase results

Purchase results by product division during the first three months of the fiscal year ending May 31, 2024 were as follows:

Product division	1Q of FY2023 (From June 1, 2023 to August 31, 2023)	
	Amount (millions of yen)	YoY change (%)
Drug Stores		
Medical and health products	16,102	104.0
OTC	8,605	90.8
Prescription drug stores	7,497	124.9
Cosmetics	7,300	105.0
Food products	37,326	118.6
Daily products	11,192	108.9
Other	3,692	108.4
Subtotal	75,615	111.9
Supermarkets	381	56.1
Nursing Care		
Paid assisted living facilities	—	—
Adult day care services	—	—
Subtotal	—	—
Purchases for revenue from contracts with customers	75,996	111.3
Other revenue	—	—
Total	75,996	111.3