

# Summary of Financial Results for the Second Quarter Ended February 28, 2017 [Japan GAAP] (Consolidated)

April 12, 2017

Company **Watts Co., Ltd.** Listed on the TSE  
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 Expected date of filing of quarterly report: April 12, 2017 Expected starting date of dividend payment: -  
 Preparation of quarterly supplementary financial document: Yes  
 Quarterly results briefing: Yes (for institutional investors)

(Rounded down to million yen)

## 1. Consolidated business results for the six months ended February 2017

(September 1, 2016 through February 28, 2017)

(1) Consolidated results of operations (% change from the previous corresponding period)

	Sales		Operating profit		Recurring profit		Net income attributable to owners of parent	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%
Six months ended Feb. 2017	23,484	2.6	643	9.9	695	18.9	489	41.0
Six months ended Feb. 2016	22,895	4.0	586	-26.7	585	-27.0	347	-29.6

(Note) Comprehensive income

Six months ended February 2017: 503 million yen (93.6 %)

Six months ended February 2016: 259 million yen (-54.6 %)

	Net income per share		Diluted net income per share	
	Yen		Yen	
Six months ended Feb. 2017	36.13		-	
Six months ended Feb. 2016	25.62		-	

## (2) Consolidated financial position

	Total assets		Net assets		Shareholders' equity ratio	
	Million yen		Million yen		%	
As of Feb. 2017	19,054		9,565		50.5	
As of Aug. 2016	18,485		9,265		50.1	

(Reference) Shareholders' equity:

As of February 2017: 9,613 million yen

As of August 2016: 9,265 million yen

## 2. Dividends

	Annual dividend				
	End of 1Q	End of 2Q	End of 3Q	Year-end	Total
	Yen	Yen	Yen	Yen	Yen
Year ended Aug. 2016	-	0.00	-	15.00	15.00
Year ending Aug. 2017	-	0.00	-	15.00	15.00
Year ending Aug. 2017 (forecast)	-	-	-	15.00	15.00

(Note) Revisions to dividend forecast for the current quarter: None

## 3. Forecast of consolidated business results for the fiscal year ending August 2017

(September 1, 2016 through August 31, 2017)

(% change from the previous corresponding period)

	Sales		Operating profit		Recurring Profit		Net income attributable to owners of parent		Net income per share	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Yen	
Year ending Aug. 2017	48,000	4.0	1,370	13.6	1,350	13.2	910	26.7	67.17	

(Note) Revisions to business forecast for the current quarter: None

**\*Notes**

(1) Changes in significant subsidiaries during the period (changes in specified subsidiaries accompanying changes in the scope of consolidation): None

(2) Application of accounting procedures specific to preparation of the consolidated quarterly financial statements:  
None

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

- |  |        |
|--|--------|
| ① Changes in accounting policies associated with revision of accounting standards: | : None |
| ② Changes in accounting policies other than ①                                      | : None |
| ③ Changes in accounting estimates  | : None |
| ④ Restatement  | : None |

(4) Shares outstanding (common stock)

① Number of shares outstanding at the end of period (treasury stock included)

As of February 2017 13,958,800 shares

As of August 2016 13,958,800 shares

② Treasury stock at the end of period

As of February 2017 410,874 shares

As of August 2016 410,874 shares

③ Average number of stock during period (quarterly cumulative period)

Six months ended February 2017 13,547,926 shares

Six months ended February 2016 13,547,975 shares

(Note) The number of treasury stock at the end of period includes the Company's shares held by the share issuance trust for directors (FY8/17 2Q: 60,000 shares). In addition, the Company's shares owned by the share issuance trust for directors are included in treasury stock deducted for calculation of the average number of shares during period (FY8/17 2Q: 9,282 shares).

**\*This quarterly financial summary is not subject to the quarterly review procedures.**

**\*Explanation regarding appropriate use of business forecasts and other special instructions**

(Caution concerning forward-looking statements)

The forward-looking statements regarding future performance in this material are based on information currently available to the company and certain assumptions that the company deems to be reasonable at the time this report was prepared. Therefore, the company does not make promises about the achievements. Actual results may differ significantly from the forecasts due to various factors.

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## 1. Results of Operations

### (1) Analysis of operating results

During the six months ended February 2017, the Japanese real GDP posted its fourth consecutive quarter of growth. As for the corporate sector, the recovery trend became increasingly clear as there were big increases in exports and capital expenditures. Affected also by the rate hike in the U. S., the yen initially weakened to almost 118 yen to the dollar rate from the beginning of the term toward the end of the year amid expectations about the President Trump's administration (big tax cuts, higher government spending, etc.) and concerns (trade protectionism, etc.). But the yen then strengthened to around 113 yen to the dollar rate as the second quarter ended. As for the individual sector, higher wages in Japan did not raise household disposable income because it was offset by increases in taxes and social security burden. As a result, the consumer spending is still sluggish, although there are some signs of recovery.

Given this environment, the Company, which operates the 'Watts', 'meets.', 'silk' and other 100-yen shops, is making continuous efforts to further promote the restructure of its business model. The Company has achieved both greater customer satisfaction and higher earnings at shop by developing and selling ranges of private brand items under the 'WATTS SELECT' brand consisting of reasonably priced, best value-for-money products, mostly daily-use household items, and carrying out low-cost opening and closing of shops and low-cost shop operations. Restructuring its business model means that the Company is to carry out a complete revision of both its hardware side through development of shop packages and merchandise and the introduction of POS systems and reorder support system, and of its software side, which covers shop management and operations and employee training etc, for creating new brand value to meet diversifying customer needs with use of the fostered know-how.

As a result of this initiative, the new 100-yen shops of 'Watts' and 'Watts with' is steadily increasing through renovations for existing shops and new store openings, with the total number of such shops at the end of the second quarter of the current fiscal year was 184.

In the core 100-yen shop business in Japan, the Company opened 58 shops with the full-year plan of opening 97 shops although there were many relatively small size shops. There were 37 shop closings (including 3 franchised shop), including certain unprofitable shops and unpredictable closing of stores where the company's shops were located in. As a result, the total number of 100-yen shops at the end of the second quarter of the current fiscal year was 1,049, which includes 1,005 directly managed shops (net increase of 24), and 44 franchised/other shops (net decrease of 3).

As for the other domestic shops, the number of 'Buona Vita,' which sells lifestyle goods, was 25 (including 1 franchised shops), with opening 4 directly managed shops. 'Value-100,' the fresh-foods supermarket collaboration, continues with 1 shop.

In addition, the Company established a joint-venture in the previous fiscal year for introducing 'Søstrene Grene', a Danish life-style variety shop, and opened its first shop in Shibuya-ku, Tokyo as a flagship shop. Many customers visited the shop and enjoyed shopping. Moreover, the shop received favorable media coverage. The Company plans to open several shops during this fiscal year.

Regarding the overseas operation, the Company operates 'KOMONOYA', a fixed-price shop mainly in Southeast Asia. At the end of the second quarter of the current fiscal year, 'KOMONOYA' opened 5 shops and closed 1 shop in Thailand (Total number of shops: 33), remained 6 shops in Malaysia, opened 1 shops in Vietnam (11), and opened 1 shop in Peru (6). In China, a fixed price shop '小物家园' (Komonokaen) opened 1 Chinese style franchised shop (opened through an agent contract); there are 10 '小物家园' shops, including 3 Chinese style franchised shops. Furthermore, performance of pop-up shops at local Japanese department stores remained favorable. As for the overseas wholesale, the company is working on expanding sales channels, such as starting shipping to Mexico through Watts Peru S.A.C. as the foothold.

As a result, sales for the end of the second quarter of the fiscal year ending August 2017 were increased to 23,484 million yen (up 2.6% year on year, 99.9% to the plan). However, operating profit was 643 million yen (up 9.9% year on year, 106.4% to the plan), recurring profit was 695 million yen (up 18.9% year on year, 117.9% to the plan), as there were steady improvement in the gross profit and progress in optimization of expenses for Watts-branded shop openings and renovation. Net income attributable to owners of parent was 489 million yen (up 41.0% year on year, 127.1% to the plan) mainly because of the effect on deferred income taxes by reorganization in the first quarter of the current fiscal year. (Year on year comparison: comparison with results for the second quarter of the previous fiscal year, plan comparison: comparison with the business forecasts for the second quarter of the fiscal year ended August 2016, announced on October 12, 2016.) Since the Group operates under a single segment consisting of the operation of 100-yen shops associated business, segment information is omitted.

## (2) Analysis of financial position

### a. Assets, liabilities and net assets

#### (Assets)

As of the end of the current second quarter of the fiscal year, current assets stood at 14,325 million yen, an increase of 417 million yen compared with the end of the previous fiscal year. This is mainly because cash and deposits increased by 344 million yen, and merchandise and finished goods increased by 250 million yen. While notes and accounts receivable-trade decreased by 226 million yen.

Fixed assets stood at 4,729 million yen, an increase of 151 million yen compared with the end of the previous fiscal year. This is mainly because investment securities increased by 98 million yen, and buildings and structures increased by 41 million yen for new store openings.

As a result, total assets stood at 19,054 million yen, an increase of 568 million yen compared with the end of the previous fiscal year.

#### (Liabilities)

As of the end of the current second quarter of the fiscal year, current liabilities stood at 8,351 million yen, an increase of 209 million yen compared with the end of the previous fiscal year. This is mainly because current portion of long-term loans payable increased by 178 million yen.

Fixed liabilities stood at 1,137 million yen, an increase of 59 million yen compared with the end of the previous fiscal year.

Since the Company abolished the directors' retirement benefits program in the first quarter of the fiscal year, 91 million yen as part of the provision for directors' retirement benefits has been transferred to long-term accounts payable and was recorded in "other" in noncurrent liabilities.

As a result, total liabilities stood at 9,488 million yen, an increase of 268 million yen compared with the end of the previous fiscal year.

#### (Net assets)

As of the end of the current second quarter of the fiscal year, net assets stood at 9,565 million yen, an increase of 299 million yen compared with the end of previous fiscal year. This is mainly because retained earnings increased by 286 million yen.

As a result, shareholders' equity ratio was 50.5% (50.1% at the end of the previous fiscal year).

## b. Cash flows

Cash and cash equivalents (hereinafter referred to as “cash”) at the end of the second quarter of the current fiscal year amounted to 5,375 million yen, an increase of 344 million yen compared with the previous fiscal year.

Details and main reasons for increases and decreases of each cash flow in the current fiscal year are as follows.

### (Cash flows from operating activities)

Net cash provided by operating activities was 588 million yen (182 million yen was provided in the same period of the previous fiscal year). Cash was provided mainly for income before income taxes of 649 million yen, decrease in accounts receivable-trade of 233 million yen, and depreciation and amortization of 170 million yen. Cash was used mainly for increase in inventory assets of 230 million yen and income taxes paid of 177 million yen.

### (Cash flows from investing activities)

Net cash used in investing activities was 259 million yen (365 million yen was used in the same period of the previous fiscal year). As for the breakdown, cash was used mainly for property, plant and equipment of 181 million yen for opening of new shops, payments for lease and guarantee deposits of 63 million yen, purchase of investment securities of 48 million yen for capital increase in overseas affiliates, and there was proceeds from collection of lease and guarantee deposits of 61 million yen due to closing of shops.

### (Cash flows from financing activities)

Net cash provided by financing activities was 0 million yen (198 million yen was used in the same period of the previous fiscal year). As for the breakdown, there were proceeds from long-term loans payable of 599 million yen, repayment of long-term loans payable of 396 million yen, and dividend paid of 202 million yen.

## (3) Future forecast information including business forecasts

With regard to the business results for the six month of the current fiscal year, sales were generally in line with the plan, and profits were slightly higher than the plan. However, as the business environment remains uncertain due to the market trend and exchange rate fluctuations, etc., the Company made no revisions to its full-year business forecasts announced in the summary of financial results on October 12, 2016. If it is necessary to revise the forecast, the Company will disclose the information promptly.

## 2. Notes

### (1) Changes in significant subsidiaries during the period

None

### (2) Accounting methods specific to preparation of quarterly consolidated financial statements

None

### (3) Changes in accounting principles and estimates, retrospective restatements

None

### (4) Additional information

#### (Abolition of retirement benefit program for directors)

At the annual shareholders' meeting held on November 25, 2016, a resolution was approved to make final payments associated with the abolition of the retirement benefit program for directors. Due to the abolition of this program, the entire "provision for directors' retirement benefits" was reversed and the amount payable of 91,401 thousand yen for the final benefit payments are included as "long-term accounts payable" in "other" in noncurrent liabilities.

Some consolidated subsidiaries will continue to pay retirement benefits to directors. In accordance with internal rules, the amount that must be paid will be shown on the balance sheet as a "provision for directors' retirement benefits".

#### (Performance-linked stock compensation program)

The Company has established a performance-linked stock compensation program beginning with the second quarter of the fiscal year ending August 2017. This compensation program more clearly links the compensation of directors (excluding directors who are Audit and Supervisory Committee members and non-executive directors) with results of operations and the stock price. The aim is to enable eligible directors to benefit from an increase in the stock price as well as be exposed to the risk of a decline in the stock price. As a result, these directors will have the same potential benefits and risks involving stock price fluctuation as all the Company's shareholders. The objective is to increase the motivation of these directors to make a contribution to the medium to long-term growth in performance as well as in corporate value.

#### (1) Summary of the compensation program

The compensation program uses a trust to which the Company has made a monetary payment for the purchase of its stock. Eligible directors receive points based on standards determined by the stock distribution rules in accordance with the ability to reach certain financial indicators or other performance indicators. The trust will then distribute stock to these directors based on the number of points they have received so that stock compensation is linked to the company's results of operations. As a rule, eligible directors will receive this stock compensation at the end of their terms as directors.

#### (2) Stock remaining in the trust

At the end of the second quarter of the current fiscal year, the compensation trust held 60,000 shares of the Company's stock. The book value (excluding associated expenses) of this stock is 66,060 thousand yen and is included in "treasury stock" in net assets.

#### (3) Provision for directors' stock-based benefits

Provision for directors' stock-based benefits is newly recognized based on the estimated stock distribution liabilities as of the end of the second quarter of the current fiscal year, in order to prepare for the distribution of the Company's stock to directors as stipulated in the stock distribution rules.

### 3. Quarterly Consolidated Financial Statements

#### (1) Quarterly Consolidated Balance Sheets

	(Thousands of yen)	
	Previous consolidated fiscal year (August 31, 2016)	Current second quarter ( February 28, 2017)
<b>Assets</b>		
<b>Current assets</b>		
Cash and deposits	5,030,891	5,375,078
Notes and accounts receivable-trade	2,163,014	1,936,155
Merchandise and finished goods	6,110,086	6,360,313
Raw materials and supplies	16,051	11,014
Deferred tax assets	233,518	292,499
Consumption taxes receivable	59,654	78,027
Other	315,747	293,958
Allowance for doubtful accounts	-20,761	-21,814
<b>Total current assets</b>	<b>13,908,203</b>	<b>14,325,232</b>
<b>Fixed assets</b>		
<b>Property, plant and equipment</b>		
Buildings and structures	1,208,130	1,302,713
Accumulated depreciation and impairment loss	-689,032	-741,974
Buildings and structures, net	519,098	560,739
Vehicles	6,367	8,572
Accumulated depreciation and impairment loss	-3,261	-3,612
Vehicles, net	3,105	4,960
Tools, furniture and fixtures	2,969,309	3,036,593
Accumulated depreciation and impairment loss	-2,327,769	-2,417,339
Tools, furniture and fixtures, net	641,539	619,253
Land	257,800	257,800
<b>Total property, plant and equipment</b>	<b>1,421,544</b>	<b>1,442,753</b>
<b>Intangible assets</b>		
Other	61,785	79,455
<b>Total intangible assets</b>	<b>61,785</b>	<b>79,455</b>
<b>Investments and other assets</b>		
Investment securities	314,993	413,126
Deferred tax assets	122,882	139,038
Guarantee deposits	2,539,244	2,520,835
Other	120,999	136,742
Allowance for doubtful accounts	-3,662	-2,615
<b>Total investments and other assets</b>	<b>3,094,458</b>	<b>3,207,127</b>
<b>Total fixed assets</b>	<b>4,577,788</b>	<b>4,729,337</b>
<b>Total assets</b>	<b>18,485,991</b>	<b>19,054,570</b>

(Thousands of yen)

	Previous consolidated fiscal year (August 31, 2016)	Current second quarter ( February 28, 2017)
<b>Liabilities</b>		
<b>Current liabilities</b>		
Notes and accounts payable-trade	6,129,109	6,096,803
Short-term loans payable	100,000	100,000
Current portion of long-term loans payable	626,351	804,473
Income taxes payable	185,424	292,690
Accrued consumption taxes	76,330	197,547
Provision for bonuses	158,113	169,556
Other	867,350	690,614
<b>Total current liabilities</b>	<b>8,142,679</b>	<b>8,351,686</b>
<b>Fixed liabilities</b>		
Long-term loans payable	534,903	559,813
Liabilities relating to retirement benefits	169,913	177,530
Provision for directors' retirement benefits	91,498	12,813
Provision for directors' stock-based benefits	-	3,908
Asset retirement obligations	83,800	97,947
Other	197,468	285,188
<b>Total fixed liabilities</b>	<b>1,077,583</b>	<b>1,137,202</b>
<b>Total liabilities</b>	<b>9,220,263</b>	<b>9,488,888</b>
<b>Net assets</b>		
<b>Shareholders' equity</b>		
Capital stock	440,297	440,297
Capital surplus	1,583,816	1,637,636
Retained earnings	7,393,399	7,679,629
Treasury stock	-84,171	-137,991
<b>Total shareholders' equity</b>	<b>9,333,342</b>	<b>9,619,572</b>
<b>Accumulated other comprehensive income</b>		
Valuation difference on available-for-sale securities	5,592	13,184
Foreign currency translation adjustment	-73,205	-19,151
<b>Total accumulated other comprehensive income</b>	<b>-67,613</b>	<b>-5,966</b>
<b>Non-controlling interests</b>		
-	-	-47,923
<b>Total net assets</b>	<b>9,265,728</b>	<b>9,565,681</b>
<b>Total liabilities and net assets</b>	<b>18,485,991</b>	<b>19,054,570</b>

(2) Quarterly Consolidated Statements of Income and Statements of Comprehensive Income  
(Quarterly Consolidated Statements of Income)  
(Second quarter)

	(Thousands of yen)	
	Previous second quarter (from September 1, 2015 to February 29, 2016)	Current second quarter (from September 1, 2016 to February 28, 2017)
Sales	22,895,488	23,484,918
Cost of sales	14,315,713	14,616,096
Gross profit	8,579,774	8,868,822
Selling, general and administrative expenses	7,993,727	8,224,927
Operating profit	586,047	643,895
Non-operating revenues		
Rent income	11,256	11,002
Equity in earnings of affiliates	2,567	15,465
Foreign exchange gains	-	26,032
Other	7,900	13,831
Total non-operating income	21,724	66,332
Non-operating expenses		
Interest expenses	2,579	2,595
Early-withdrawal penalty	1,581	5,507
Cost of lease revenue	5,327	5,430
Exchange loss	7,868	-
Loss on abandonment of inventory assets	3,973	-
Other	1,366	803
Total non-operating expenses	22,695	14,335
Recurring profit	585,076	695,891
Extraordinary income		
Gain on sales of fixed assets	734	-
Surrender value of insurance	-	287
Compensation income	16,949	-
Total extraordinary income	17,683	287
Extraordinary loss		
Loss on retirement of fixed assets	5,229	4,680
Loss on sales of fixed assets	-	84
Impairment loss	43,286	41,649
Total extraordinary losses	48,515	46,414
Income before income taxes and minority interests	554,243	649,765
Income taxes-current	211,451	281,944
Income taxes-deferred	-4,328	-73,704
Total income taxes	207,123	208,240
Net income	347,120	441,525
Net loss attributable to non-controlling interests	-	-47,923
Net income attributable to owners of parent	347,120	489,449

(Quarterly Consolidated Statements of Comprehensive Income)

(Second quarter)

	(Thousands of yen)	
	Previous second quarter (from September 1, 2015 to February 29, 2016)	Current second quarter (from September 1, 2016 to February 28, 2017)
Net income	347,120	441,525
Other comprehensive income		
Valuation difference on available-for-sale securities	-5,007	7,592
Foreign currency translation adjustment	-59,808	30,164
Share of other comprehensive income of associates accounted for using equity method	-22,380	23,889
Total other comprehensive income	-87,196	61,646
Comprehensive income	259,924	503,172
(Breakdown)		
Comprehensive income attributable to owners of parent	259,924	551,096
Comprehensive income attributable to non-controlling interests	-	-47,923

## (3) Quarterly Consolidated Statements of Cash Flows

(Thousands of yen)

	Previous second quarter (from September 1, 2015 to February 29, 2016)	Current second quarter (from September 1, 2016 to February 28, 2017)
Net cash provided by (used in) operating activities		
Income before income taxes and minority interests	554,243	649,765
Depreciation and amortization	171,201	170,035
Impairment loss	43,286	41,649
Increase (decrease) in allowance for doubtful accounts	-755	6
Increase (decrease) in provision for bonuses	13,563	11,443
Increase (decrease) in liabilities relating to retirement benefits	4,612	7,617
Increase (decrease) in provision for directors' retirement benefits	-20,773	-78,685
Increase (decrease) in provision for directors' stock-based benefits	-	3,908
Interest and dividends income	-1,313	-1,293
Interest expenses	2,579	2,595
Loss on retirement of fixed assets	5,229	4,680
Decrease (increase) in accounts receivable-trade	161,821	233,803
Decrease (increase) in inventories	-379,633	-230,102
Increase (decrease) in notes and accounts payable-trade	101,926	-14,455
Increase (decrease) in accrued consumption taxes	-131,876	106,732
Other	-221,833	-141,119
Subtotal	302,278	766,582
Interest and dividends income received	1,263	1,266
Interest expenses paid	-2,603	-2,072
Income taxes paid	-118,010	-177,494
Net cash provided by (used in) operating activities	182,928	588,282
Net cash provided by (used in) investing activities		
Purchase of property, plant and equipment	-411,471	-181,084
Proceeds from sales of property, plant and equipment	5,691	1,338
Payments for lease and guarantee deposits	-123,458	-63,199
Proceeds from collection of lease and guarantee deposits	144,148	61,434
Payments for asset retirement obligations	-410	-
Purchase of investment securities	-	-48,745
Other	20,014	-29,135
Net cash provided by (used in) investing activities	-365,485	-259,390
Net cash provided by (used in) financing activities		
Proceeds from long-term loans payable	400,000	599,450
Repayment of long-term loans payable	-369,006	-396,418
Cash dividends paid	-229,725	-202,562
Net cash provided by (used in) financing activities	-198,731	469
Effect of exchange rate change on cash and cash equivalents	-29,389	14,825
Net increase (decrease) in cash and cash equivalents	-410,677	344,187
Cash and cash equivalents at beginning of period	5,149,822	5,030,891
Cash and cash equivalents at end of period	4,739,144	5,375,078

(4) Notes to consolidated financial statements

(Notes on going concern assumption)

None

(Notes if there is a significant change in the amount of shareholders' equity)

None