

# Summary of Business Results for the Second Quarter Ended February 28, 2014 [Japan GAAP] (Consolidated)

April 11, 2014

Company **Watts Co., Ltd.** Listed on the TSE  
 Stock Code 2735 URL: <http://www.watts-jp.com/>  
 Representative Fumio Hiraoka, President and CEO  
 Contact Hidehito Mori, Director, General Manager of Corporate Planning Office T E L: +81-6-4792-3280  
 Expected date of filing of quarterly report: April 11, 2014 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 2014 (September 1, 2013 through February 28, 2014)

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

	Net sales		Operating income		Ordinary income		Net income	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%
Six months ended Feb. 2014	21,545	5.1	906	-25.5	905	-25.5	480	-33.6
Six months ended Feb. 2013	20,500	1.1	1,215	14.9	1,215	14.4	724	20.4

(Note) Comprehensive income

Six months ended February 2014: 503 million yen (-33.2 %)

Six months ended February 2013: 754 million yen (26.9 %)

	Net income per share		Diluted net income per share	
	Yen	Yen	Yen	Yen
Six months ended Feb. 2014	35.50	-	-	-
Six months ended Feb. 2013	57.27	-	-	-

(Note) The company carried out a 2-for-1 stock split on common shares with the effective date of March 1, 2013. Consequently, the amount provided in net income per share has been retrospectively adjusted by calculating it on the assumption that the stock split was carried out at the beginning of the previous consolidated fiscal year.

(2) Consolidated financial position

	Total assets	Net assets	Shareholders' equity ratio
	Million yen	Million yen	%
As of Feb. 2014	16,388	7,969	48.6
As of Aug. 2013	18,177	7,695	42.3

(Reference) Shareholders' equity:

As of February 2014: 7,969 million yen

As of August 2013: 7,695 million yen

## 2. Dividends

	Annual dividend				
	End of 1Q	End of 2Q	End of 3Q	Year-end	Total
Year ended Aug. 2013	-	0.00	-	17.00	17.00
Year ending Aug. 2014	-	0.00	-	15.00	15.00
Year ending Aug. 2014 (forecast)	-	-	-	15.00	15.00

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

Dividend of 2 yen is included in the year-end dividend for the fiscal year ended August 2013 to commemorate change in listing market to the second section of the Tokyo Stock Exchange.

## 3. Forecast of consolidated business results for the fiscal year ending August 2014

(September 1, 2013 through August 31, 2014) (% change from the previous corresponding period)

	Net sales		Operating income		Ordinary income		Net income		Net income per share
	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Yen
Year ending Aug. 2014	44,000	5.5	2,140	3.1	2,100	1.2	1,180	5.0	93.07

(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): Yes

New 1 company (company name) 上海望趣商貿有限公司

(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 2014 13,958,800 shares

As of August 2013 13,958,800 shares

② Treasury stock at the end of period

As of February 2014 410,794 shares

As of August 2013 410,794 shares

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

Six months ended February 2014 13,548,006 shares

Six months ended February 2013 12,652,006 shares

(Note) The company carried out a 2-for-1 stock split on common shares with the effective date of March 1, 2013. Consequently, the numbers of shares provided have been retrospectively adjusted by calculating them on the assumption that the stock split was carried out at the beginning of the previous consolidated fiscal year.

**\*Implementation status of quarterly review procedures**

At the time of disclosure of this report, the procedures for review of consolidated financial statements pursuant to the Financial Instruments and Exchange Act are in progress.

**\* 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.

## 1. Results of Operations

### (1) Analysis of operating results

During the six months ended February 28, 2014, the Japanese economy recovered to some extent because of the government economic measures (Abenomics). However, few people believe the recovery will continue. Furthermore, Japan's stock markets and the yen have been weak since the beginning of the year because of overseas political events and financial instability. Consumer spending in Japan is expected to drop following the April consumption tax hike. However, spending will probably start recovering after a short time because the return of wage increases is likely to improve consumer sentiment and more economic stimulus measures are expected. Overseas, economies are generally healthy in Asia except China, the United States and Europe. But there is uncertainty due to new political concerns in Eastern Europe and increasing environmental and credit problems in China.

In this environment, the Group operating 100-Yen shops "meets." and "silk" developed and sold best value-for-money products lines, mostly practical-use household items under its private brand "WATTS SELECT," and continued to carry out low-cost opening and closing of shops and low-cost shop operations. Through these activities, Watts continued its efforts to boost customer satisfaction while at the same time securing shop revenues.

In the core 100-Yen shop business, Watts has been opening shops faster than originally planned because of sluggish sales in the previous fiscal year caused by delays in opening shops. As a result, sales were higher than planned until February, when record-setting snow caused sales to fall sharply. Overall, sales for the six months ended February 28, 2014 were slightly below the plan. Earnings too fell short of the plan because of expenses associated with the large number of new shops. During the six months ended February 28, 2014, the number of new 100-yen shops was 70 compared with the plan to open 100 shops during the entire fiscal year. There were 30 shop closings (including one franchised shop) due mainly to closing of stores where the company's shops were located in and closing of few unprofitable shops. At the end of the period, there were 941 shops, consisting of 889 directly managed shops (net increase of 41) and 52 franchised shops (decrease of 1).

In addition to these 100-Yen shops, there was rapid growth at "Buona Vita," which sell natural lifestyle products, as the number of shops increased by six to 23 (no closings). "Value-100," which is a collaboration with a large scale fresh food discounter, has one shop as before.

Overseas, the Southeast Asia network of "Komonoya" shops, which sells all products at a single price, grew to 12 shops in Thailand as four shops were opened and the first shop was opened in Malaysia in November. In China, a fixed-price shop "Komonoya" opened one shop in Shanghai, raising the number of shops to three. Watts also expanded wholesales for Vietnam, Myanmar, Australia, New Zealand and other countries.

Due to these activities, sales for the six months ended February 28, 2014 was 21,545 million yen (up 5.1% year on year), operating income was 906 million yen (down 25.5% year-on-year), ordinary income was 905 million yen (down 25.5% year-on-year), and net income was 480 million yen (down 33.6% year on year).

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)

Total assets were 16,388 million yen at the end of the first half, down 1,788 million yen from the end of the previous fiscal year. Current assets decreased 1,987 million yen to 12,294 million yen. Major changes were a 263 million yen increase in merchandise and finished goods and, due to the end of the previous fiscal year falling on a bank holiday, decreases of 1,622 million yen in cash and deposits and 494 million yen in notes and accounts receivable-trade. Noncurrent assets increased 198 million yen to 4,094 million yen. This was attributable mainly to increases of 64 million yen in tools, furniture and fixtures, 52 million yen in guarantee deposits and 47 million yen in buildings and structures.

#### (Liabilities)

Total liabilities were 8,419 million yen, down 2,062 million yen from the end of the previous fiscal year. Current liabilities decreased 1,754 million yen to 7,569 million yen in part because of a 1,171 million yen decrease in notes and accounts payable-trade for the same reason that notes and accounts receivable-trade decreased. In addition, there was a 219 million yen decrease in the current portion of long-term loans payable as loans were repaid and a 168 million yen increase in income taxes payable. Noncurrent liabilities decreased 307 million yen to 850 million yen mainly because long-term loans payable decreased 326 million yen due to repayments.

Net assets increased 273 million yen to 7,969 million yen mainly because of a 250 million yen increase in retained earnings. As a result, shareholders' equity ratio was 48.6% (42.3% 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 first half were 4,657 million yen, 1,622 million yen less than at the end of the previous fiscal year.

Details and main reasons for increases and decreases of each cash flow for the six months ended February 28, 2014 are as follows.

#### (Cash flows from operating activities)

Net cash used in operating activities was 421 million yen (670 million yen was provided one year earlier). Major sources of cash were income before income taxes and minority interests of 902 million yen, a 495 million yen decrease in notes and accounts receivable-trade, and depreciation and amortization of 115 million yen. Major uses of cash were a 1,109 million yen decrease in notes and accounts payable-trade because the end of the previous fiscal year was a bank holiday, a 253 million yen increase in inventories, and income taxes paid of 178 million yen.

#### (Cash flows from investing activities)

Net cash used in investing activities was 400 million yen (101 million yen was used one year earlier). Purchase of property, plant and equipment was 275 million yen, payments for lease and guarantee deposits, mainly for new

shops, were 119 million yen, and proceeds from collection of lease and guarantee deposits, mainly for shops that were closed, were 51 million yen.

(Cash flows from financing activities)

Net cash used in financing activities was 814 million yen (507 million yen was used one year earlier). Repayment of long-term loans payable was 545 million yen, cash dividends paid were 229 million yen and there was a net decrease of 40 million yen in short-term loans payable.

(3) Future forecast information including consolidated business forecasts

Watts made no revisions to its full-year consolidated business forecasts announced in the summary of financial results on October 11, 2013.

## 2. Notes

(1) Changes in significant subsidiaries during the period

In the first quarter, 上海望趣商貿有限公司 was established and included in the consolidated financial statements.

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

None

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

None

### 3. Quarterly Consolidated Financial Statements

#### (1) Quarterly Consolidated Balance Sheets

(Thousands of yen)

	Previous consolidated fiscal year (August 31, 2013)	Current second quarter (February 28, 2014)
<b>Assets</b>		
<b>Current assets</b>		
Cash and deposits	6,280,114	4,657,683
Notes and accounts receivable-trade	2,320,628	1,825,927
Merchandise and finished goods	4,961,451	5,224,682
Raw materials and supplies	14,514	7,520
Deferred tax assets	261,722	264,791
Consumption taxes receivable	9,745	8,419
Other	457,977	323,967
Allowance for doubtful accounts	-24,245	-18,787
<b>Total current assets</b>	<b>14,281,909</b>	<b>12,294,203</b>
<b>Noncurrent assets</b>		
<b>Property, plant and equipment</b>		
Buildings and structures	879,330	901,814
Accumulated depreciation and impairment loss	-585,220	-560,467
<b>Buildings and structures, net</b>	<b>294,110</b>	<b>341,347</b>
Vehicles	27,460	10,441
Accumulated depreciation and impairment loss	-25,144	-8,714
<b>Vehicles, net</b>	<b>2,315</b>	<b>1,726</b>
Tools, furniture and fixtures	2,339,954	2,474,665
Accumulated depreciation and impairment loss	-1,892,543	-1,962,312
<b>Tools, furniture and fixtures, net</b>	<b>447,411</b>	<b>512,353</b>
Land	257,800	257,800
<b>Total property, plant and equipment</b>	<b>1,001,637</b>	<b>1,113,227</b>
<b>Intangible assets</b>		
Other	28,109	51,310
<b>Total intangible assets</b>	<b>28,109</b>	<b>51,310</b>
<b>Investments and other assets</b>		
Investment securities	216,527	225,913
Deferred tax assets	88,224	94,520
Guarantee deposits	2,474,314	2,527,001
Other	114,777	111,925
Allowance for doubtful accounts	-27,778	-29,175
<b>Total investments and other assets</b>	<b>2,866,066</b>	<b>2,930,185</b>
<b>Total noncurrent assets</b>	<b>3,895,813</b>	<b>4,094,723</b>
<b>Total assets</b>	<b>18,177,723</b>	<b>16,388,926</b>

(Thousands of yen)

	Previous consolidated fiscal year (August 31, 2013)	Current second quarter (February 28, 2014)
<b>Liabilities</b>		
<b>Current liabilities</b>		
Notes and accounts payable-trade	6,578,900	5,407,136
Short-term loans payable	140,000	100,000
Current portion of long-term loans payable	957,844	738,730
Income taxes payable	285,577	454,036
Accrued consumption taxes	61,667	53,625
Provision for bonuses	140,390	146,201
Other	1,159,302	669,729
<b>Total current liabilities</b>	<b>9,323,682</b>	<b>7,569,458</b>
<b>Noncurrent liabilities</b>		
Long-term loans payable	644,375	318,021
Provision for retirement benefits	127,309	132,002
Provision for directors' retirement benefits	121,492	127,047
Asset retirement obligations	74,762	76,508
Other	190,203	196,643
<b>Total noncurrent liabilities</b>	<b>1,158,142</b>	<b>850,224</b>
<b>Total liabilities</b>	<b>10,481,825</b>	<b>8,419,682</b>
<b>Net assets</b>		
<b>Shareholders' equity</b>		
Capital stock	440,297	440,297
Capital surplus	1,583,816	1,583,816
Retained earnings	5,716,939	5,967,511
Treasury stock	-84,093	-84,093
<b>Total shareholders' equity</b>	<b>7,656,960</b>	<b>7,907,532</b>
<b>Accumulated other comprehensive income</b>		
Valuation difference on available-for-sale securities	3,515	11,073
Foreign currency translation adjustment	35,421	50,637
<b>Total accumulated other comprehensive income</b>	<b>38,937</b>	<b>61,711</b>
<b>Total net assets</b>	<b>7,695,898</b>	<b>7,969,244</b>
<b>Total liabilities and net assets</b>	<b>18,177,723</b>	<b>16,388,926</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, 2012 to February 28, 2013)	Current second quarter (from September 1, 2013 to February 28, 2014)
Net sales	20,500,255	21,545,071
Cost of sales	12,589,437	13,358,680
Gross profit	7,910,818	8,186,390
Selling, general and administrative expenses	6,695,038	7,280,131
Operating profit	1,215,780	906,258
Non-operating revenues		
Rent income	9,637	12,227
Equity in earnings of affiliates	3,973	7,262
Reversal of allowance for doubtful accounts	3,229	6,802
Other	8,555	6,879
Total non-operating income	25,397	33,172
Non-operating expenses		
Interest expenses	7,196	3,819
Early-withdrawal penalty	11,600	10,243
Cost of lease revenue	4,962	5,436
Exchange loss	-	7,881
Other	2,141	6,434
Total non-operating expenses	25,900	33,815
Recurring profit	1,215,277	905,615
Extraordinary income		
Gain on sales of noncurrent assets	-	1,826
Gain on sales of investment securities	730	-
Surrender value of insurance	-	6,284
Compensation income	23,198	-
Total extraordinary income	23,928	8,110
Extraordinary loss		
Loss on retirement of noncurrent assets	4,777	2,851
Impairment loss	6,059	8,641
Total extraordinary losses	10,837	11,493
Income before income taxes and minority interests	1,228,368	902,232
Income taxes-current	523,633	436,629
Income taxes-deferred	-19,843	-15,285
Total income taxes	503,789	421,344
Income before minority interests	724,579	480,888
Net income	724,579	480,888

(Quarterly Consolidated Statements of Comprehensive Income)

(Second quarter)

(Thousands of yen)

	Previous second quarter (from September 1, 2012 to February 28, 2013)	Current second quarter (from September 1, 2013 to February 28, 2014)
Income before minority interests	724,579	480,888
Other comprehensive income		
Valuation difference on available-for-sale securities	12,396	7,558
Foreign currency translation adjustment	17,525	20,380
Share of other comprehensive income of associates accounted for using equity method	-	-5,164
Total other comprehensive income	29,921	22,773
Comprehensive income	754,500	503,662
(Breakdown)		
Comprehensive income attributable to parent company shareholders	754,500	503,662

## (3) Quarterly Consolidated Statements of Cash Flows

(Thousands of yen)

	Previous second quarter (from September 1, 2012 to February 28, 2013)	Current second quarter (from September 1, 2013 to February 28, 2014)
Net cash provided by (used in) operating activities		
Income before income taxes and minority interests	1,228,368	902,232
Depreciation and amortization	108,110	115,320
Impairment loss	6,059	8,641
Amortization of goodwill	5,545	-
Increase (decrease) in allowance for doubtful accounts	-2,930	-4,059
Increase (decrease) in provision for bonuses	6,327	5,810
Increase (decrease) in provision for directors' bonuses	-9,700	-
Increase (decrease) in provision for retirement benefits	4,508	4,693
Increase (decrease) in provision for directors' retirement benefits	5,985	5,555
Interest and dividends income	-1,145	-1,201
Interest expenses	7,196	3,819
Loss (gain) on sales of investment securities	-730	-
Loss on retirement of noncurrent assets	4,777	2,851
Decrease (increase) in accounts receivable-trade	104,765	495,121
Decrease (increase) in inventories	-162,665	-253,474
Increase (decrease) in notes and accounts payable-trade	203,273	-1,109,700
Increase (decrease) in accrued consumption taxes	-175,210	-6,260
Other	-135,395	-409,785
Subtotal	1,197,141	-240,434
Interest and dividends income received	1,077	1,053
Interest expenses paid	-7,056	-3,666
Income taxes paid	-520,611	-178,186
Net cash provided by (used in) operating activities	670,551	-421,233
Net cash provided by (used in) investing activities		
Purchase of property, plant and equipment	-123,381	-275,473
Proceeds from sales of property, plant and equipment	875	2,379
Payments for lease and guarantee deposits	-105,842	-119,203
Proceeds from collection of lease and guarantee deposits	124,758	51,546
Payments for asset retirement obligations	-4,100	-
Proceeds from sales of investment securities	13,097	-
Other	-7,172	-59,668
Net cash provided by (used in) investing activities	-101,764	-400,419
Net cash provided by (used in) financing activities		
Net decrease of short-term loans	-	-40,000
Proceeds from long-term loans payable	400,000	-
Repayment of long-term loans payable	-719,149	-545,468
Cash dividends paid	-188,793	-229,170
Net cash provided by (used in) financing activities	-507,942	-814,638
Effect of exchange rate change on cash and cash equivalents	3,753	13,859
Net increase (decrease) in cash and cash equivalents	64,598	-1,622,431
Cash and cash equivalents at beginning of period	4,086,621	6,280,114
Cash and cash equivalents at end of period	4,151,220	4,657,683

(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