



Watts Co., Ltd.

(2735; Tokyo Stock Exchange First Section)

# **Operating Results for the Fiscal Year Ended August 2017 and Business Forecasts for the Fiscal Year Ending August 2018**

October 16, 2017 (Monday)

Fumio Hiraoka, President and CEO

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## Financial Results

**Consolidated Operating Results for the Fiscal Year Ended August 31, 2017**

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## Financial Results

Although both sales and profits surpassed the results in the previous fiscal year, plans were unachieved due to an increase in prior investment in new business



(Millions of yen)

Financial highlights	FY8/16		FY8/17 (Current period)			
		Ratio to sales		Ratio to sales	YoY	Ratio to forecast
Sales	46,176	–	<b>47,494</b>	–	102.9%	98.9%
Gross profit	17,331	37.5%	<b>17,994</b>	37.9%	103.8%	–
Selling, general and administrative expenses	16,126	34.9%	<b>16,785</b>	35.3%	104.1%	–
EBITDA	1,581	3.4%	<b>1,566</b>	3.3%	99.1%	–
Operating profit	1,205	2.6%	<b>1,209</b>	2.5%	100.3%	88.3%
Recurring profit	1,193	2.6%	<b>1,272</b>	2.7%	106.6%	94.3%
Net income attributable to owners of parent	718	1.6%	<b>839</b>	1.8%	116.8%	92.2%
Net income per share (Yen)	53.04		<b>61.96</b>		–	–

- ✓ Sales increased by 2.9% YoY due mainly to strong 100-Yen shop same-store sales and growth of overseas business but fell slightly below the forecast.  
**Sales by Business Type ⇒ P.5 YoY Changes in Same-store performance ⇒ P.6 Overseas Business ⇒ P.11**
- ✓ While gross profit improved, operating profit remained at 0.3% increase YoY due to higher-than-expected SG&A resulting from prior investment in Søstrene Grene. Net income attributable to owners of parent increased by 16.8% YoY due to the effect of organizational restructuring on income taxes-deferred.  
**Overview of Søstrene Grene ⇒ P.10 YoY Changes in Operating Profit ⇒ P.14**

Domestic business: further enhance Watts brand recognition and aggressively develop other businesses including Buona Vita



Topics for Domestic Business

100-Yen Shop Business

Watts brand shops



Establishment of the “Watts with” model which opens at an investment based on the sales size accelerated shop openings and renovations. As a result, the number of Watts brand shops increased by 142 to **257**.  
⇒ Refer to P.8

Opening/closing



Opened **130 shops** exceeding the full-year plan of 97 shops and closed **71 shops** against 64 shops. The number of shops at the end of the period was **1,087** (net increase of 59 shops)  
⇒ Refer to P.7

Other Business

Buona Vita



A life-style goods shop offering comfortable life. Increased by 4 shops to **25 shops**. Focused on development of existing shops such as by carefully selecting shop opening locations and improving product lineups.  
⇒ Refer to P.9

Søstrene Grene










Denmark’s life-style goods shop. Opened up to 3 shops. Plan to open 3 more shops in the next fiscal year and expand the business scale to make it profitable.  
⇒ Refer to P.10



## Topics for Overseas Business

⇒ Refer to P.11

<p>Total</p>  	<p>Sales of overseas business were <b>122.1% YoY</b>, expanding its ratio to consolidated sales from 4.1% to <b>4.8%</b> exceeding the full-year plan of 4.7%. Local retailers with sales floors consisting of the Company's products are increasing steadily and resulted in <b>more than 100 shops</b> including the number of shops of the Watts group.</p>
<p>Thailand</p> 	<p>Opened 5 shops and closed 3 shops, and resulted in <b>31 shops</b>. Existing shops are recovering to favorable level. Continue to actively open shops while focusing on product enhancement.</p>
<p>Malaysia</p> 	<p>Closed 1 shop and resulted in <b>5 shops</b>. Acquired franchise licenses in the previous fiscal year. Now reviewing strategy due to the deteriorating economy in Malaysia.</p>
<p>China</p> 	<p>Opened 1 Chinese style franchised shop and closed one shop, and resulted in <b>9 shops</b> (including 2 Chinese style franchised shops). Focus on opening Chinese style franchised shops and pop-up shops, not on directly managed shops.</p>
<p>Vietnam</p> 	<p>Opened 4 shops and resulted in <b>14 shops</b> in this fiscal year (all franchised shops). Continue to open new shops while raising the selling power of existing shops.</p>
<p>Peru</p> 	<p>Opened 2 shops and resulted in <b>7 shops</b>. Domestic directly-managed shops remain favorable. Started wholesale to Mexico as the first step to enter neighboring countries. Currently 3 shops in Mexico.</p>

Domestic 100-Yen shop business remains the primary source of sales. However, its ratio to total declined due to the growth of the overseas business, etc.



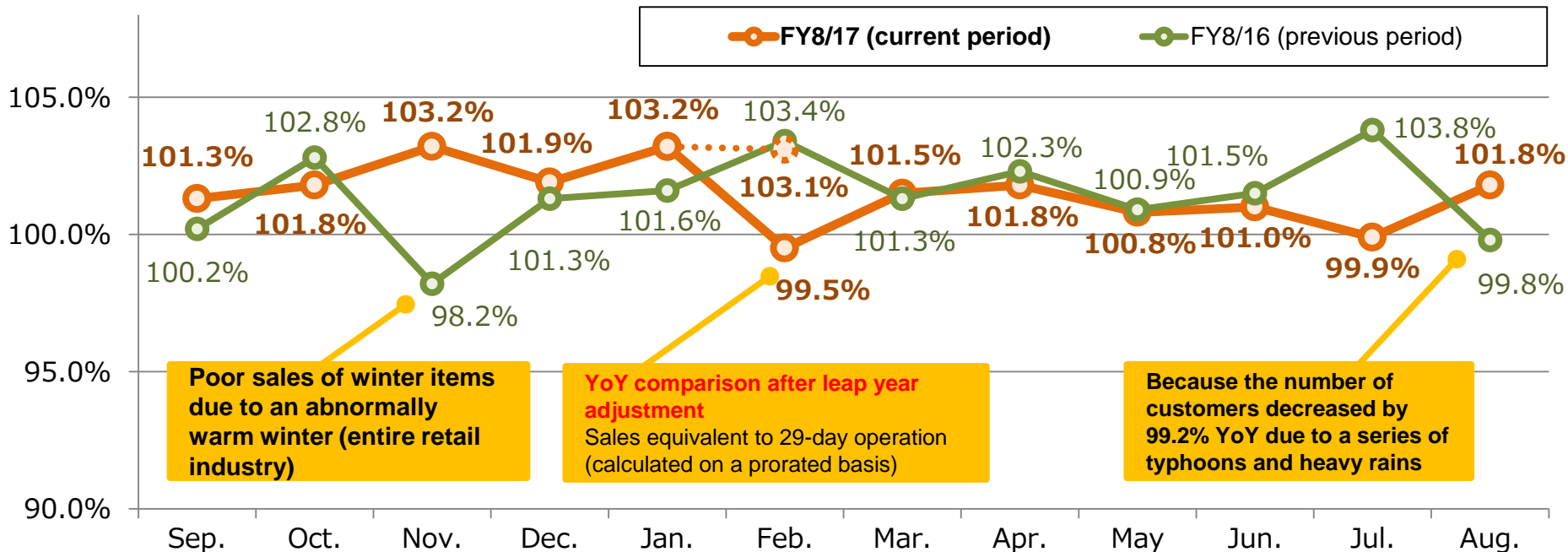
(Millions of yen)

Sales by Business Type		FY8/16		FY8/17 (Current period)		
			Ratio to sales		Ratio to sales	YoY
Domestic 100-Yen shops	Directly managed	38,704	83.8%	<b>39,824</b>	83.9%	102.9%
	Wholesale, Other	3,512	7.6%	<b>3,238</b>	6.8%	92.2%
	Subtotal	42,216	91.4%	<b>43,062</b>	90.7%	102.0%
Overseas Business	Directly managed	707	1.5%	<b>925</b>	1.9%	130.9%
	Wholesale	1,174	2.5%	<b>1,371</b>	2.9%	116.8%
	Subtotal	1,881	4.1%	<b>2,297</b>	4.8%	122.1%
Domestic other businesses	Buona Vita	2,077	4.5%	<b>2,133</b>	4.5%	102.7%
	Søstrene Grene					
	AMANO					
	Other					
Total		46,176	100.0%	<b>47,494</b>	100.0%	102.9%

- ✓ Sales of domestic 100-Yen shop business increased by 2.0% YoY. However, its ratio to consolidated sales decreased by 0.7 points due mainly to the decrease in wholesale sales of franchised shops and growth in overseas sales.
- ✓ The ratio of overseas business to consolidated sales was 4.8% exceeding the full-year plan of 4.7%.

# Financial Results

## 100-Yen shop same-store sales were 101.5% YoY, exceeding the full-year plan of 100%



**Poor sales of winter items due to an abnormally warm winter (entire retail industry)**

**YoY comparison after leap year adjustment**  
Sales equivalent to 29-day operation (calculated on a prorated basis)

**Because the number of customers decreased by 99.2% YoY due to a series of typhoons and heavy rains**

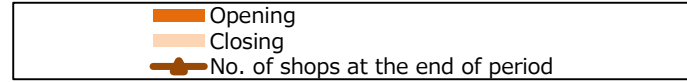
Full-year total	Sales	No. of customers	Spending per customer
YoY	101.4%	100.6%	100.9%
<b>Current period (leap year adjusted)</b>	<b>101.5% (101.7%)</b>	<b>100.5% (100.8%)</b>	<b>100.8% (100.8%)</b>

\* September 2017: 100.6%

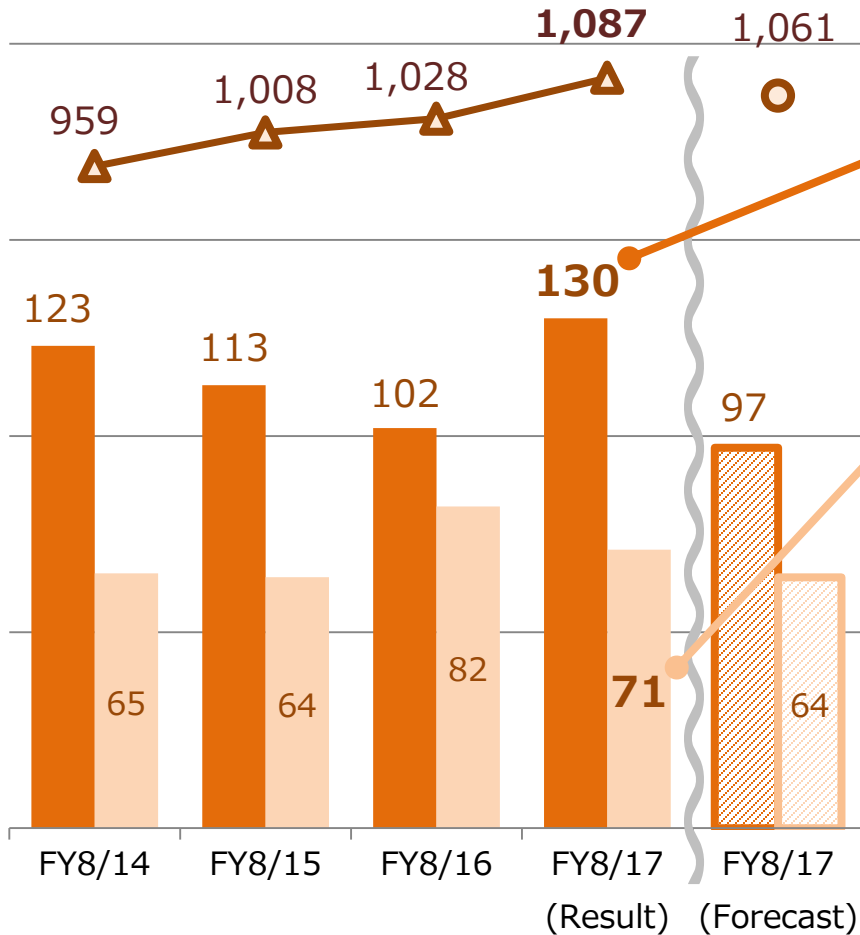
- ✓ The effects of renovation to the Watts brand, introduction of POS system and monthly sales promotion plan etc., are gradually yielding positive results.
- ✓ Achieved the full-year plan due to the synergy of exceeding both the number of customers and spending per customer in the previous fiscal year.
- ✓ February 2016 had an extra business day due to the leap year.

# Financial Results

**Making good progress in opening 100-Yen shops**  
**The number of shops at the end of the period exceeded the plan and resulted in 1,087 shops.**



## Opening/closing plan vs. results



Annual opening plan 97 shops → Opened **130 shops**

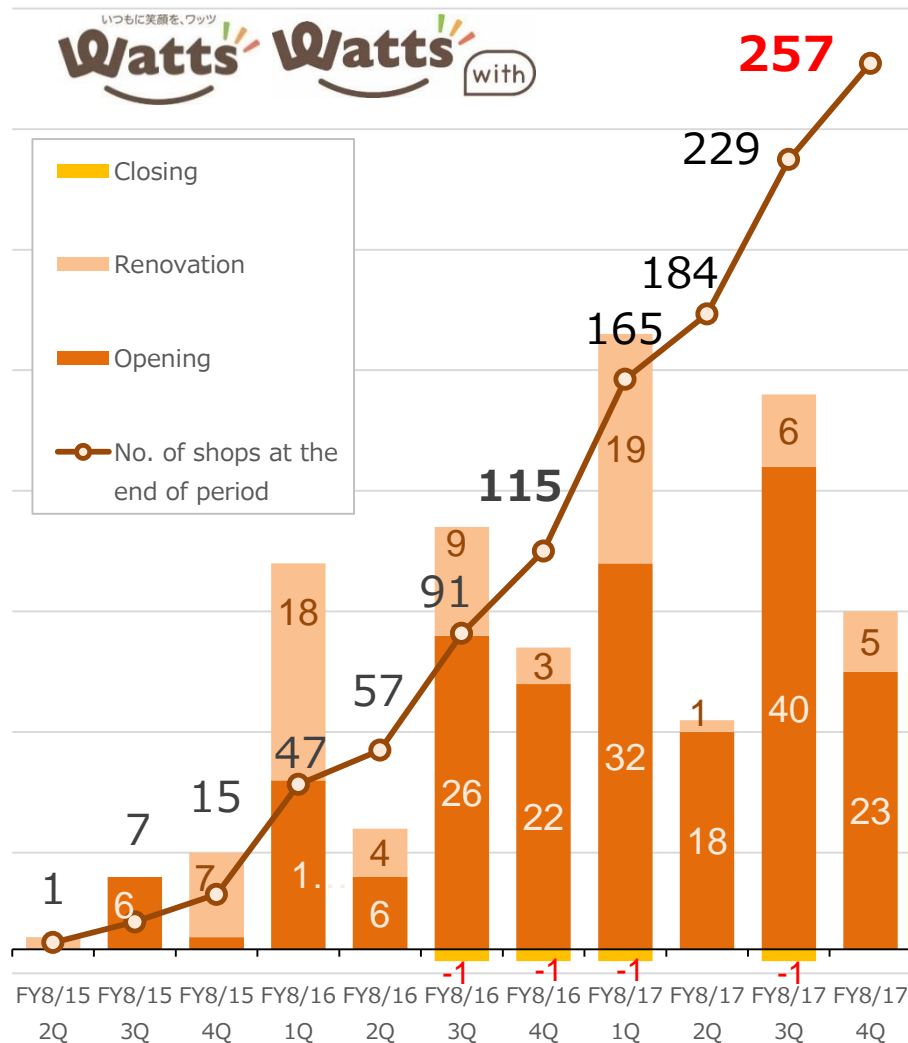
Annual closing plan 64 shops → Closed **71 shops**  
 (of which 5 franchised shops)

- ✓ The number of shops opened exceeded its plan by 33, although the large number of new shops is consignment type with relatively small sales scale.
- ✓ There is still scope for opening consignment shops which account for 110 shops of 130 shops.
- ✓ Continue to increase shop openings by net increase of double digits.



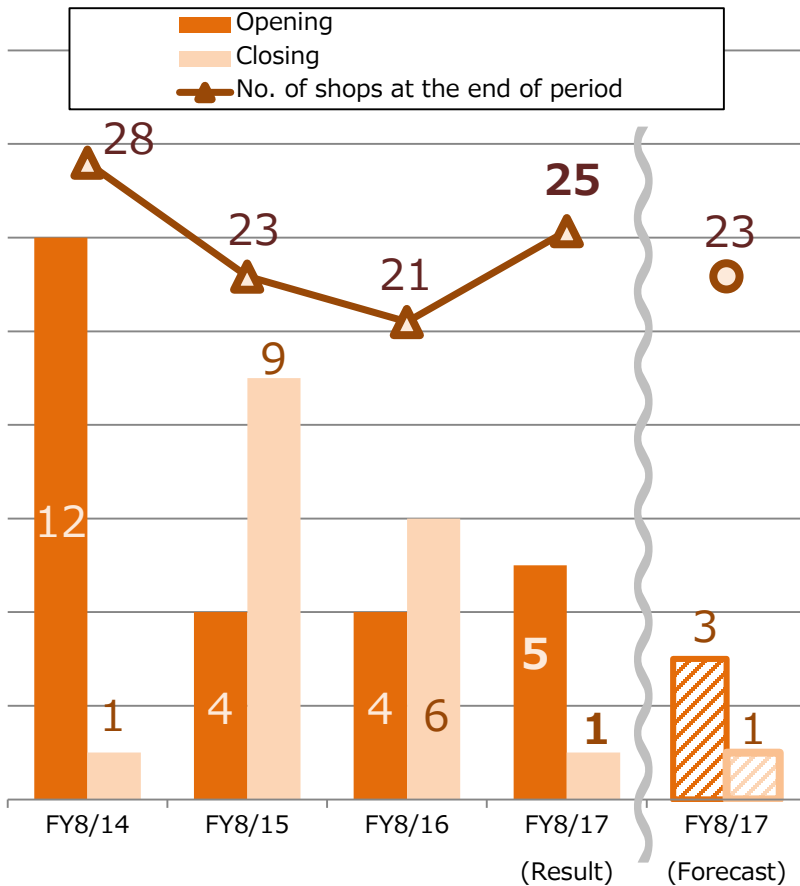
## Financial Results

Watts brand shops: the number of shops increased to 257 due to new shop openings and renovations of existing shops



November 2016 "Watts with" Matsui Yamate shop (Kyoto)

- ✓ The share to total number of shops (1,087 shops) is **23.6%**.
- ✓ Established multiple shop opening models according to sales. Prepared to open 100 shops annually.
- ✓ To open shops mainly Watts brand; renovations will be made with reviewing the possibility of recovering its investment.



July 2017 KOBE HARBORLAND umie shop

- ✓ Closed 1 shop but opened 5 shops which exceeded the full-year plan and resulted in a total of **25 shops**.
- ✓ Same-store sales remained at **96.8%** due to the somewhat weak sales of apparel products.
- ✓ The locations of shops are gradually getting better. Strive to further improve existing shops.

## Financial Results

# Denmark's "Søstrene Grene", a life-style goods shop offering North European items, opened three shops in Tokyo



Aug. 2017 Søstrene Grene Marui Kichijoji shop

- ✓ Operated by a joint venture company "Hilmer Japan Co., Ltd.". A brand company which operates more than 100 specialty shops offering North European items mainly in Europe holds 40% shares.
- ✓ Opened the first flagship shop in Omotesando on October 28, 2016. Then opened shops in DiverCity Tokyo Plaza and also in Marui, Kichijoji. 3 shops as of the end of August 2017. Open a shop in "PRIMETREE AKAIKE," a shopping mall which is scheduled to open in Aichi Prefecture in late November 2017.
- ✓ Sell North European items at reasonable prices and introduce about 100 new items every week.
- ✓ Not achieved the plan in terms of sales but will raise brand recognition using SNS and also aim for profitability early by promoting multi-store development.



## Financial Results

Despite the slower pace of shop openings in Thailand in 2H of FY8/16, Peru and other new growth drivers emerged

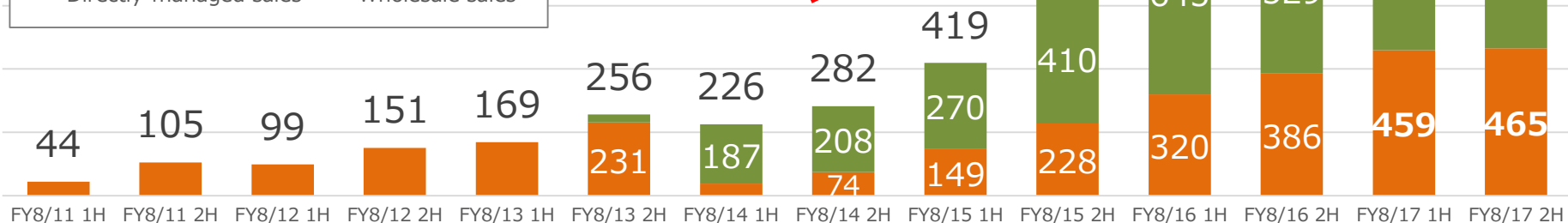


**KOMONOYA**  
OSAKA JAPAN



(Millions of yen)

Directly-managed sales Wholesale sales



March 2017 Auco shop (Vietnam)

- ✓ Directly-managed shops gain foothold while focusing on wholesale sales to neighboring countries (collaboration with local partners).
- ✓ There are about 40 fixed-price shops with sales floors consisting of the Company's products which include 18 shops in Myanmar, 10 shops in Mongolia and other countries.

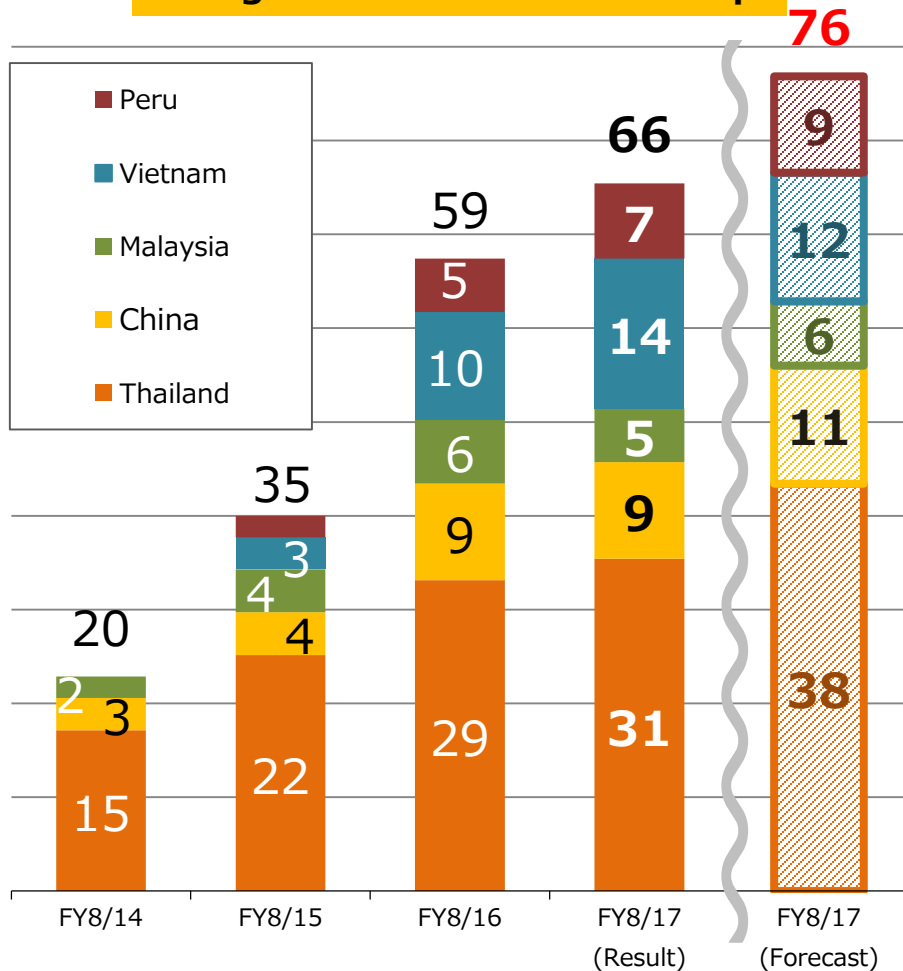
Overseas business	FY8/16	FY8/17	YoY
Sales	1,881million yen	2,297million yen	122.1%

## Financial Results

The number of shops increased by 7 to 66. Including shops of local partners, there are more than 100 retailers dealing our shop items.



### Change in no. of overseas shops

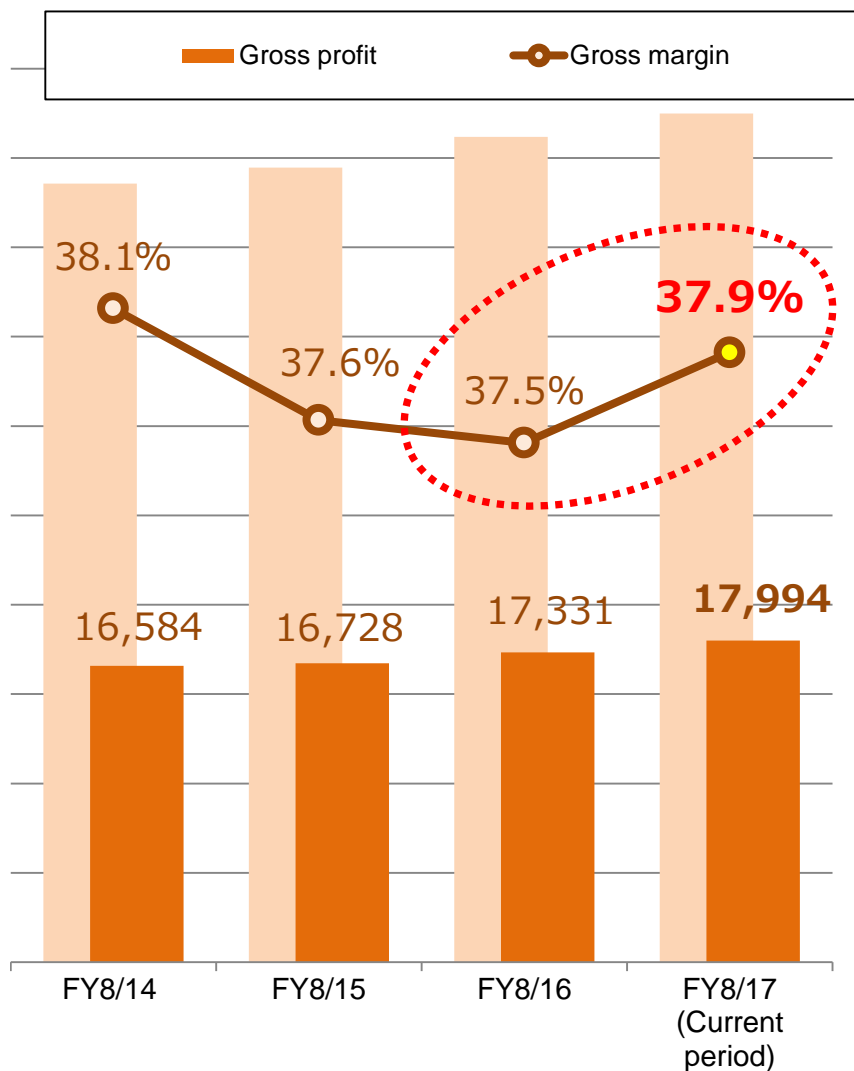


July 2017 Villa el Salvador Shop (Peru)

- ✓ As for Thailand, opened only 2 shops but sales of existing shops recovered.
- ✓ Rapid expansion in Vietnam in the previous fiscal year. Opened 4 shops in the current fiscal year. Seeking new store opening location such as roadside shop.
- ✓ In Peru, domestic directly-managed shops remain favorable. Started expanding into neighboring countries and wholesale to Mexico.

## Financial Results

Measures to reduce procurement costs began to bear fruit and gross margin improved by 0.4 points YoY



### In the 100-Yen shop business

- ✓ Gradually replace stock of higher value-added products mainly in the Watts brand shops.
- ✓ Reduce high cost rate food and continue to raise the daily-use product sales ratio.
- ✓ Composition ratio of directly-managed shops continue to rise because of not expanding franchised shops and wholesaling.

### In other domestic businesses

- ✓ Aim to expand the sales share of Buona Vita and Søstrene Grene (which is capable of earning a relatively high gross profit).

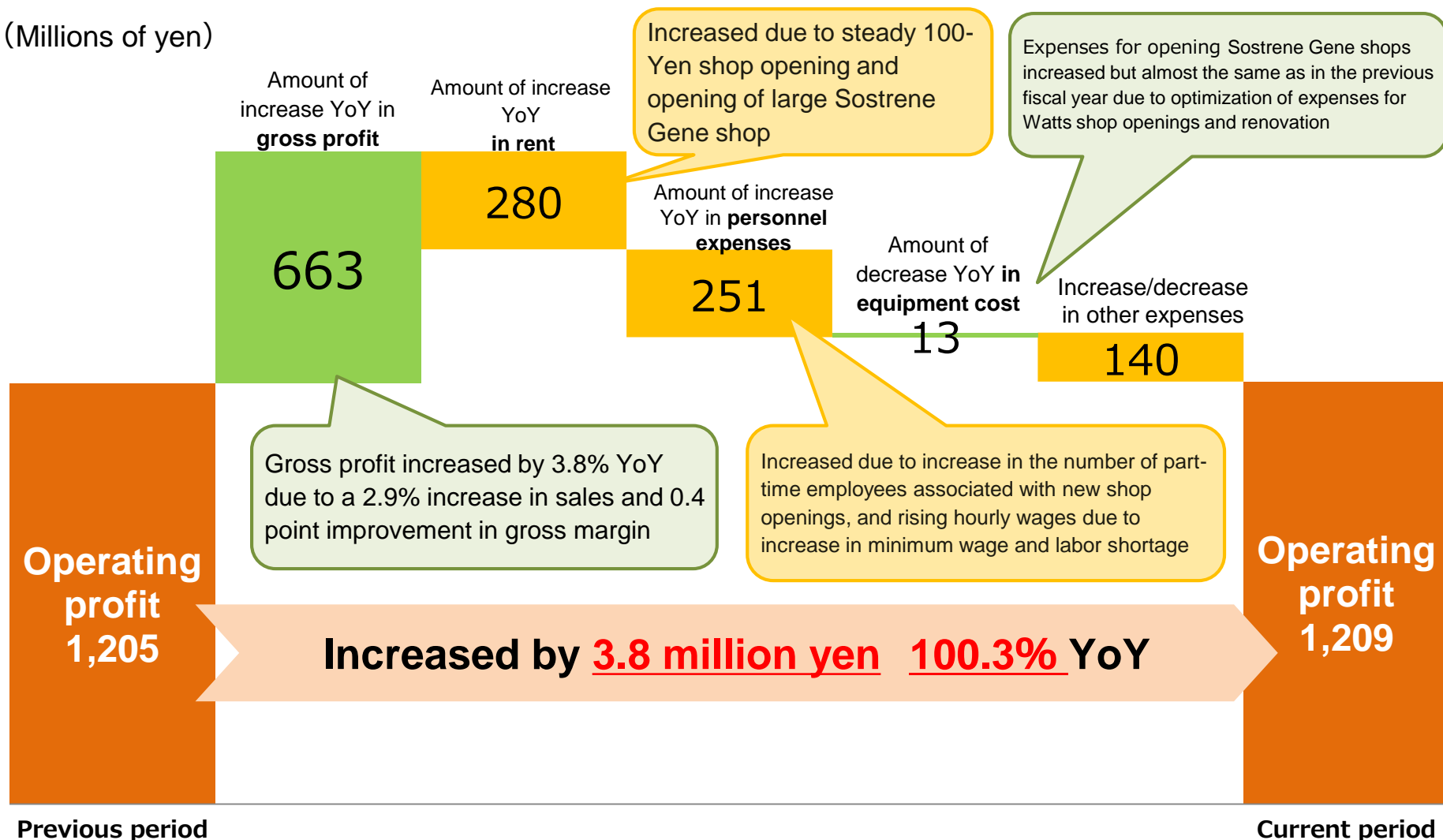
### In the overseas business

- ✓ Recently, because the wholesale with low markup rate compared with directly-managed shops is expanding, the Company will carefully assess appropriate gross margin while also focusing on the SG&A ratio trend.

# Financial Results

**SG&A increased mainly because of opening more shops than planned but operating profit was 100.3% YoY**

(Millions of yen)



Previous period

Current period

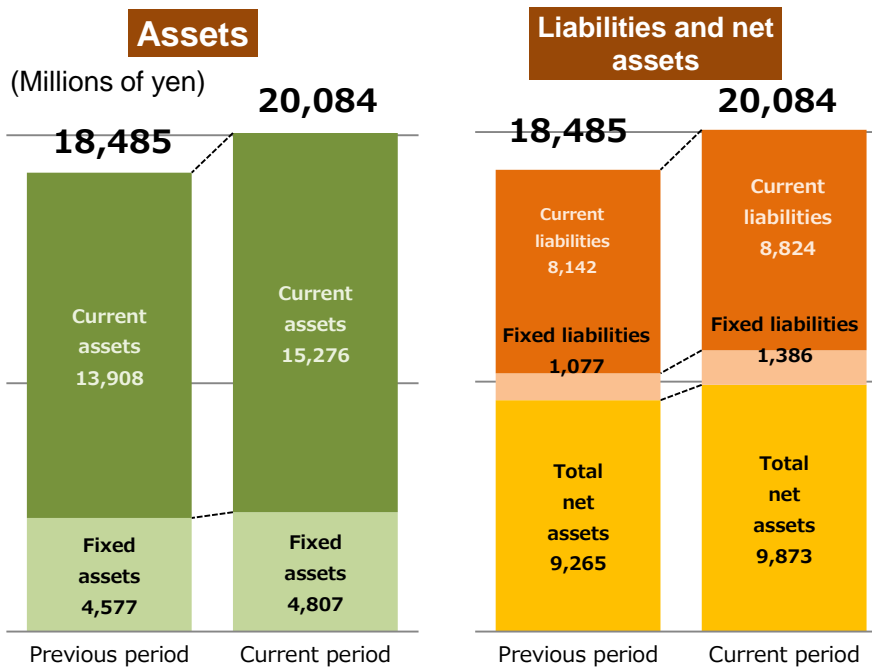
# Financial Results

Fixed assets gradually increased as a result of new shop openings and renovation of existing shops. Shareholders' equity ratio was 49.7%, slightly decreased from the previous fiscal year.

(Millions of yen)

Consolidated Balance Sheet	FY8/16	FY8/17 (Current)	Change	Pct. change
Total assets	18,485	20,084	1,598	Up8.6%
Current assets	13,908	15,276	1,368	Up9.8%
Cash and deposits	5,030	5,727	696	Up13.8%
Notes and accounts receivable-trade	2,163	2,201	38	Up1.8%
Merchandise and finished goods	6,110	6,506	396	Up6.5%
Other current assets	604	842	237	Up39.4%
Fixed assets	4,577	4,807	229	Up5.0%
Land	257	257	-	-
Buildings and structures	519	683	164	Up31.6%
Tools, furniture and fixtures	641	590	△50	Down7.9%
Investment securities	314	453	138	Up43.8%
Guarantee deposits	2,539	2,488	△51	Down2.0%
Other fixed assets	305	334	29	Up9.8%
Total liabilities	9,220	10,210	990	Up10.7%
Current liabilities	8,142	8,824	682	Up8.4%
Notes and accounts payable-trade	6,129	6,325	196	Down3.2%
Current portion of long-term loans payable	626	648	22	Up3.5%
Accrued income tax	185	349	163	Up88.4%
Consumption tax payable	716	252	175	Up230.5%
Other current liabilities	1,125	1,249	123	Up11.0%
Fixed liabilities	1,077	1,386	308	Up28.6%
Long-term loans payable	534	771	236	Up44.2%
Other fixed liabilities	542	614	71	Up13.3%
Net assets	9,265	9,873	607	Up6.6%
Shareholders' equity	9,333	9,969	636	Up6.8%
Equity	440	440	-	-
Retained equity	1,583	1,637	53	Up3.4%
Retained earnings	7,393	8,029	636	Up8.6%
Treasury stock	△84	△137	△53	-
Accumulated other comprehensive income	△67	4	72	-
Net assets	-	△100	△100	-

- ✓ Increase of 696 million yen in cash and deposits and increase of 396 million yen in merchandise and finished goods, etc. are the main factors for 1,368 million yen increase in current assets.
- ✓ Increase of 196 million yen in notes and accounts payable-trade, increase of 175 million yen in consumption tax payable and increase of 163 million yen in accrued income tax are the main factors for 682 million yen increase in current liabilities.
- ✓ Shareholders' equity ratio was 49.7%.





## Financial Results

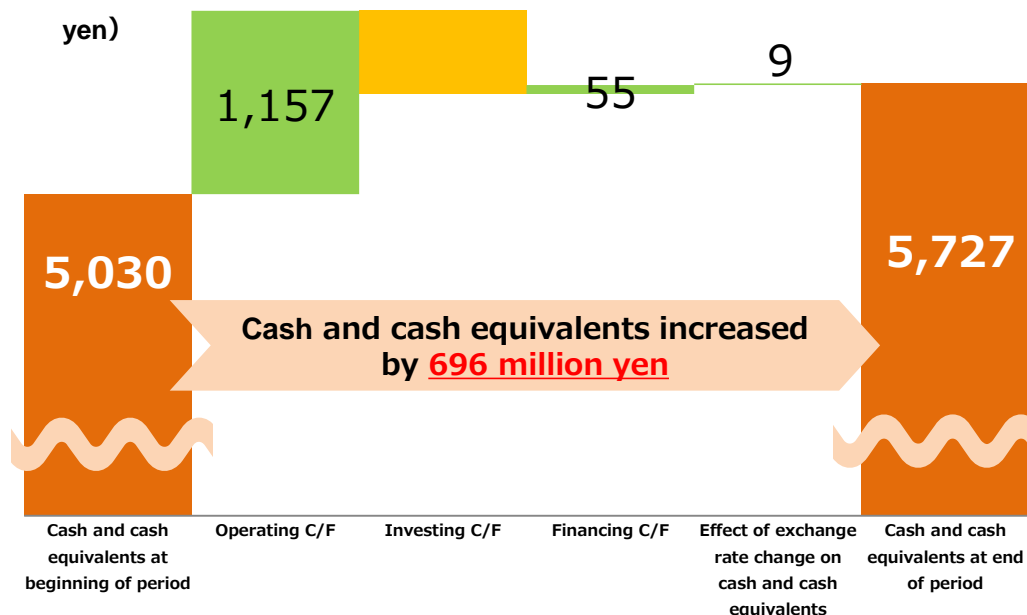
# Cash and cash equivalents increased by 696 million yen by offsetting investments in the opening of more shops than planned and new business with operating C/F



(Millions of yen)

Consolidated Cash Flows	FY8/16	FY8/17 (Current)	Pct. change
Cash and cash equivalents at beginning of period	5,149	5,030	△118
Net cash provided by (used in) operating activities	728	1,157	428
Income before income taxes and minority interests	1,161	1,217	56
Depreciation and amortization	376	358	△18
Decrease (increase) in accounts receivable- trade	△127	△32	95
Decrease (increase) in inventories	△532	△392	139
Increase (decrease) in accounts payable-trade	300	191	△109
Income taxes paid	△398	△462	△63
Other cash flows from operating activities	△50	278	328
Net cash provided by (used in) investing activities	△702	△525	176
Payments for acquisition of tangible fixed assets	△672	△430	242
Payments for lease and guarantee deposits	△268	△134	134
Proceeds from collection of lease and guarantee deposits	224	129	△94
Purchase of investment securities	-	△48	△48
Other cash flows from investing activities	14	△42	△56
Net cash provided by (used in) financing activities	△93	55	149
Proceeds from long-term loans payable	845	1,071	226
Repayment of long-term loans payable	△717	△812	△94
Cash dividends paid	△229	△202	26
Other financing activities	8	-	△8
Effect of exchange rate change on cash and cash equivalents	△50	9	60
Changes during period	5,030	5,727	696
* Free cash flows	25	631	605

(Millions of yen)



- ✓ Due to shop openings and renovation, inventory assets increased by 139 million yen. 430 million yen was used for acquisition of tangible fixed assets and 134 million yen was used for lease and guarantee deposits.
- ✓ Operating C/F covered shop openings, renovations and other activities, resulting in free cash flows of 631 million yen.
- ✓ 48 million yen of purchase for investment securities is for subscription of new shares of overseas affiliated companies.

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## Financial Results

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## Forecasts Mid-term Plan

**Business Forecasts for the Fiscal Year Ending August 31, 2018 and Medium-Term Management Plan**

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## Reference

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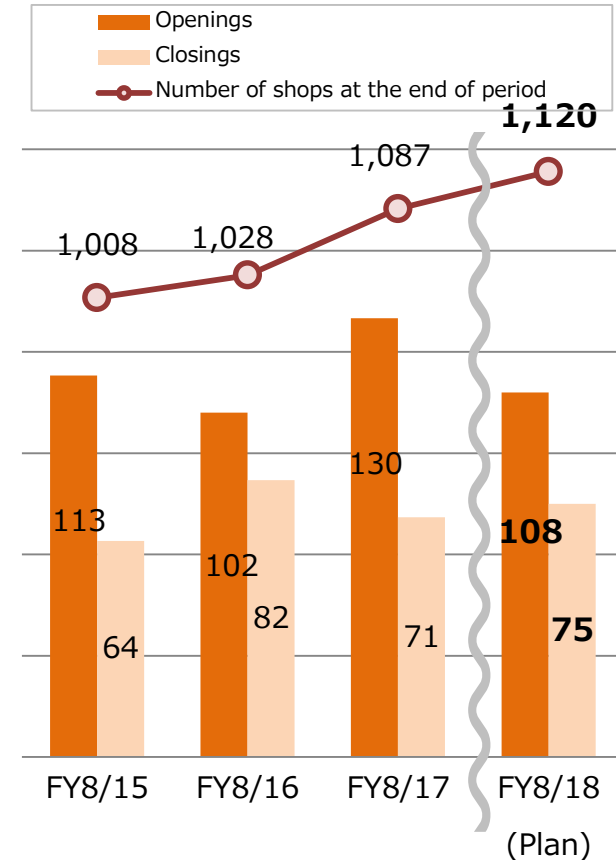
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# Establish the foundations for a business model enabling us to achieve medium-to-long-term growth, although the expected growth rate is limited



(Millions of yen)

Business Forecast	FY8/17			FY8/18 (Forecast)		
		Ratio to sales	YoY		Ratio to sales	YoY
Sales	47,494	–	103.9%	<b>49,600</b>	–	<b>104.4%</b>
Gross profit	17,994	37.9%	103.6%	–	–	–
SG&A	16,785	35.3%	104.2%	–	–	–
Operating profit	1,209	2.5%	95.8%	<b>1,450</b>	<b>2.9%</b>	<b>119.9%</b>
Recurring profit	1,272	2.7%	94.4%	<b>1,520</b>	<b>3.1%</b>	<b>119.5%</b>
Net income attributable to owners of parent	839	1.8%	102.5%	<b>925</b>	<b>1.9%</b>	<b>110.2%</b>
Net income per share (Yen)	61.96		–	<b>68.28</b>		–



- ✓ Net increase in the number of 100-Yen shops: 33 shops
- ✓ Renovation of existing shops to “Watts” and “Watts with”
- ✓ Expand the overseas business and other businesses



Certainly achieve the goals aiming for double-digit earnings growth

## Customer needs for 100-Yen shops continue to diversify and remain firm while overseas market will become even more important



### Japan

- Due to hourly wage hikes resulting from improvement in employment situation, recovery in consumer confidence is expected but inflation is likely to remain limited.
- There are risk factors such as the Bank of Japan's exit strategy but the price of crude oil is expected to remain stable and the foreign exchange market looks less likely to swing towards one direction unless there is an emergent event.
- There will be rush demand before the consumption tax rate hike planned in October 2019 and the subsequent downturn.
- Toward the Tokyo Olympics in 2020, infrastructure-related investment is likely to become much more lively. Demand for reconstruction of facilities of high economic growth period (60's & 70's) is also expected.

**Slowly begin to realize that the economy is recovering**  
**Needs for 100-Yen shops is growing despite greater diversification**

### Overseas

- The United States economy is expected to continue to slowly expand, but there may be a sense of uncertainty depending on how the policies of administration are executed.
- European economy except United Kingdom is expected to be strong. The negotiations over the withdrawal of the United Kingdom from the European Union might become a destabilizing factor.
- In Asian economies, there are concerns over a slower rate of growth in the Chinese economy, which is expected to have a ripple effect on other emerging economies.
- However, there is concern that geopolitical risks have been revealed in East Asia and the Middle East.

**Overseas market is important, while the size of the domestic market is**  
**unlikely to grow significantly**

# The growth strategy for the domestic 100-Yen shop is the brushing up of Watts brand



## Growth strategy

- ✓ 100-Yen shop business strategy      Recover profitability by promoting business models of both type of tenancy and consignment
- ✓ Overseas business strategy      Formulate and deploy country-specific business models to quickly achieve a 10% share of sales
- ✓ Other businesses strategy      Cultivate businesses that complement the domestic 100-Yen shop business, including by tapping into M&A needs

### Growth strategy for domestic 100-Yen shop business

- Tenant shops strategy  
Brush up Watts brand by revising both facilities and operations.  
For facilities:  
Renovate shop package and expand “Watts” and “Watts with” shops and “WATT’S new” proposal type sales floors.  
Develop a more sophisticated order placement support system using POS system and reflect merchandising.
- For operations:  
Renovate shop operations to create invigorated atmosphere and work to improve productivity.  
Review employee training in pursuit of higher levels of customer satisfaction.
- Consignment shop strategy  
Review shop packages to achieve better value for money and replacements with attractive merchandise.
- Strengthen competitiveness of products to meet customer needs.

## Overseas business: adopt a steady and stable stance towards each of the countries Domestic and other businesses: being careful and bold



### Growth strategy for overseas business

- Thailand: Steady shop openings and improvement in sales of existing shops
- Vietnam: Development of new locations of shops and improvement in sales of existing shops
- Malaysia: Fundamental review of business model
- China: Focus on conducting pop-up shops and opening shops operated through an agent contract, not on directly managed shops
- Peru: Active opening of directly-managed shops and development of markets in other Latin American countries
- Reduction of procurement cost by using distribution system in China
- Development of new target areas based on the thorough market research

### Growth strategy for other business

- Buona Vita  
Select locations of shops to create more profitable businesses.
- Søstrene Grene  
Establish brand strength and open 30 shops in Japan early by dispatching information using SNS and increasing media exposure.
- Develop M&A projects that are likely to generate synergies with the core 100-Yen shop business.

# The trinity of 100 yen shops, overseas business, and other domestic business to drive the growth of the group



## Continue to pursue Structure to Sell Better Products at Lower Prices

- ✓ Low-cost opening and closing of shops
- ✓ Low-cost operation
- ✓ Best value-for-money daily-use household items

## 100-Yen Shop business

## Brush up of **Watts** brand

- ✓ Shops and product lineups that add more style to one's life
- ✓ Establish shop opening model of "Watts" and "Watts with"
- ✓ Utilize POS system and improve reordering support system

## Establish business model for each country

- ✓ Expand directly managed shops by fully owned local subsidiaries
- ✓ Establish joint venture company with local partners
- ✓ Develop new shops by franchisee system

## Overseas business

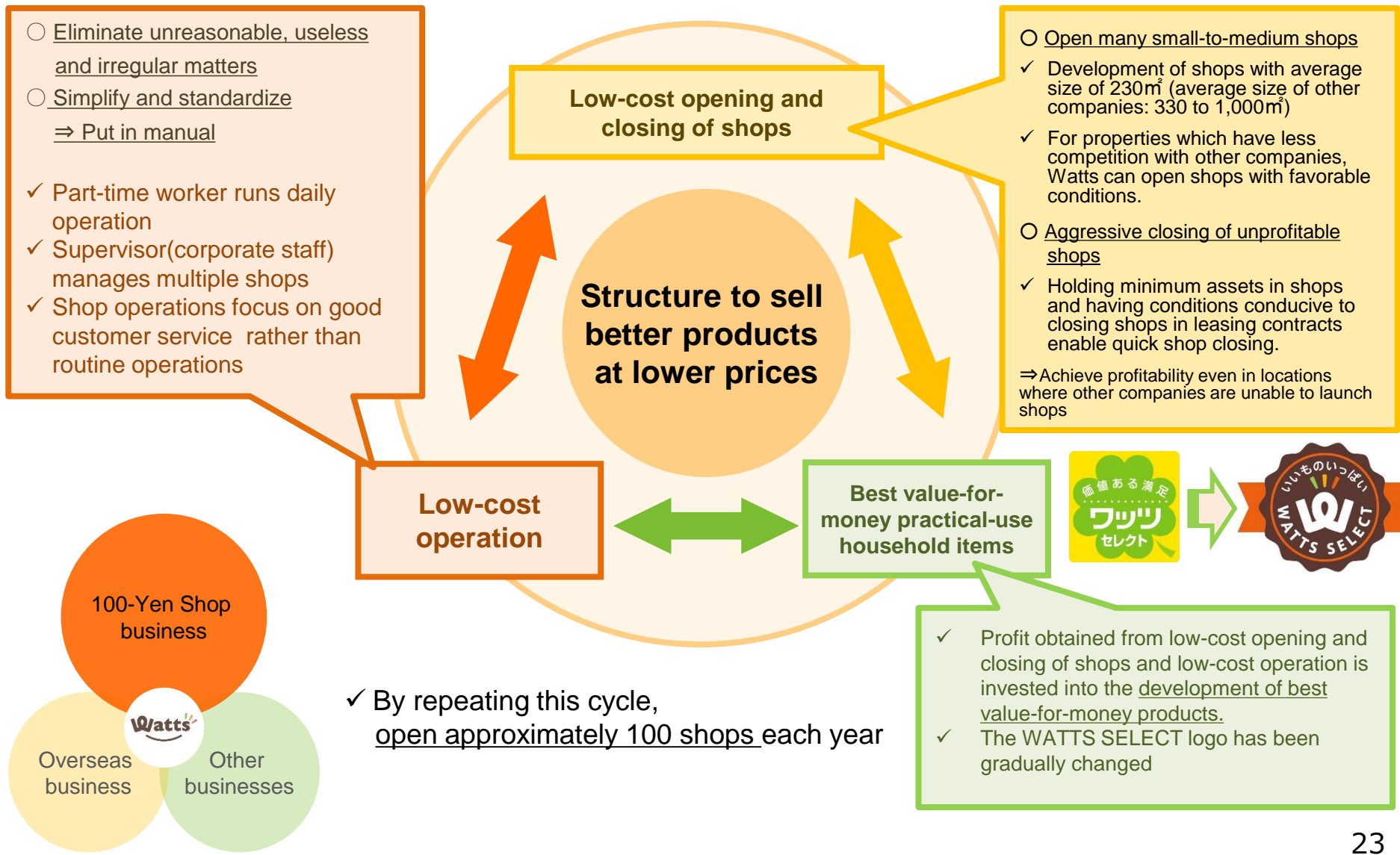


## Other businesses

## Expand business and Enlarge source of earnings

- ✓ Grow existing business and secure profitability
- ✓ Capture new opportunities including M&A

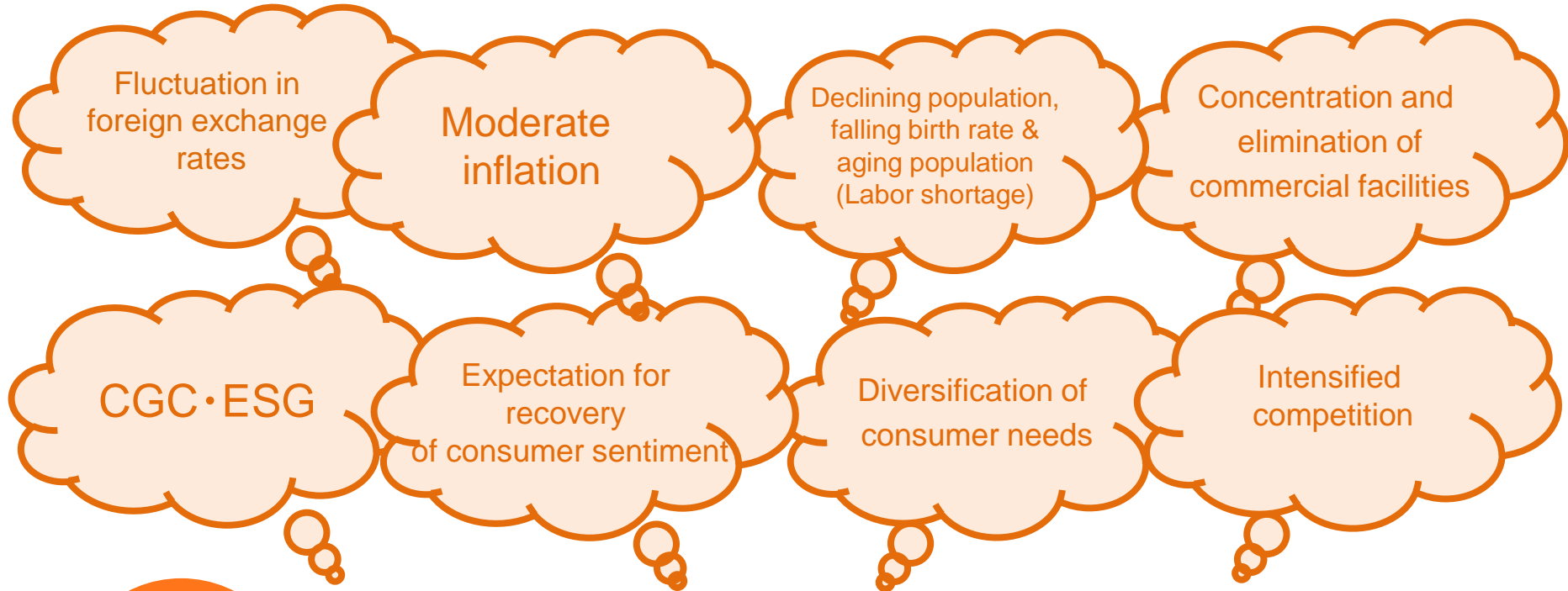
# The basis of the 100-Yen shop does not change: polishing up a “Structure to sell better products at lower prices”



✓ By repeating this cycle, open approximately 100 shops each year



# Diversifying needs of 100-Yen shops Start working on restructuring of business model



Need to restructure its business model which enables to create a new added-value

→Efforts to review shop images, operations and product range overall and brush up

# A 100-Yen shop, “Always be there”



いつもに笑顔を、ワッツ



## 【WITH TOWN】

Watts will create community-based shops closely linked to their locations which customers can visit casually. We want to grow by even more closely reflecting the characteristics that define each region.

## 【WITH LIFE】

Watts will raise the quality of customers' daily life by reflecting more closely differences and changes in life styles, to accurately target customers' daily activities and seasonal changes in their needs.

## 【WITH YOU】

Watts will aim to be favored by customers with a broad spectrum of interests and preferences. We are dedicated to being a source of even greater satisfaction and happiness for every customer.

- ✓ To open shops mainly Watts brand
- ✓ To develop new initiatives that will gain more customer support



# Establish a shop model to suit the location and customer base, plan both to improve customer satisfaction and to maximize sales and profit



100-Yen Shop  
business

Overseas  
business

Other  
businesses



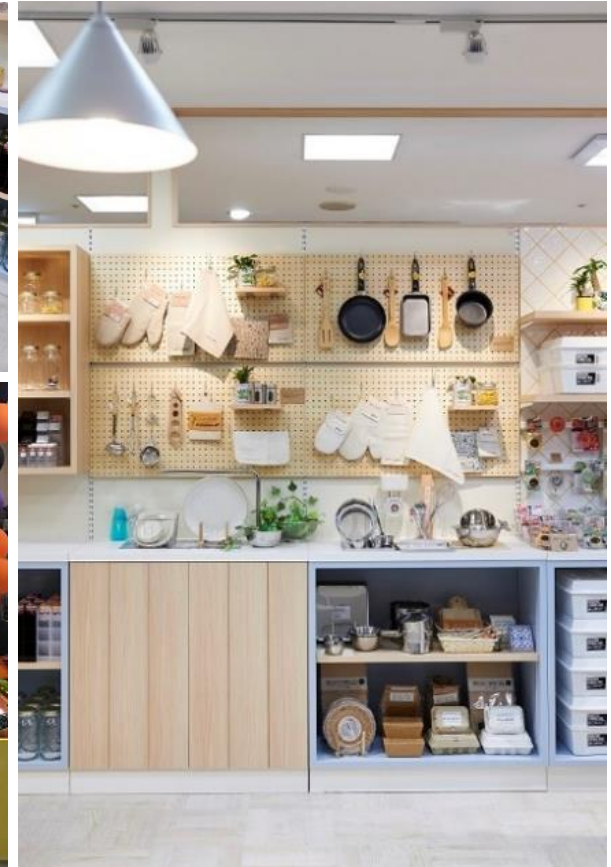


# Watts brand shops and new sales floor functions!

## Operate proposal type sales floor “WATT’S new”



- ✓ Set a theme every 3 months and drastically change displays.
- ✓ Develop an area that allows customers to image a scene of life and appeal to young females.
- As of the end of August 2017, now being developed in 2 shops, Watts Seibu Honkawagoe PePe shop and Watts with Kitaurawa AEON shop.
- The Company will pursue an attractive sales floor to deal with various shop locations.



# Intensify sales promotion led by the headquarter Revitalize sales floors with monthly product proposals



- ✓ Set a theme for each month and distribute display example, etc. with list of products to shops.
- ✓ Implement creative ideas at shops that reflect their respective locations, customer segments and other characteristics.

- To gather the information on displays in respective shops, accumulate know-how, and share good examples among shops.
- To collect qualitative feedback through questionnaires targeted at shop staff, etc.
- Analysis of POS data
- Markup rate control by the headquarters.

【Example】



100-Yen Shop  
business

Overseas  
business

Other  
businesses





# Proactively try out a variety of business to diversify our revenue sources and operations



Life-style goods shop proposing Buona Vita (comfortable life). Operates 25 shops as of the end of August 2017.  
Shown on the left is Sannomiya OPA2 shop opened in February 2017.



“Søstrene Grene”, a joint venture in a life-style goods shop offering North European items. Operates 3 shops as of the end of August 2017.

100-Yen Shop business



Collaboration shop between Daikokuten Bussan Company and Watts consisting of 100-Yen shop and grocery



Import and wholesale of European taste lifestyle goods

Overseas business



Other businesses

Expand the overseas business boldly and carefully  
by establishing optimal business models tailored to each  
of the countries

✓ KOMONOYA



✓ 小物家园 “KOMONOKAEN”



100-Yen Shop  
business

Overseas  
business

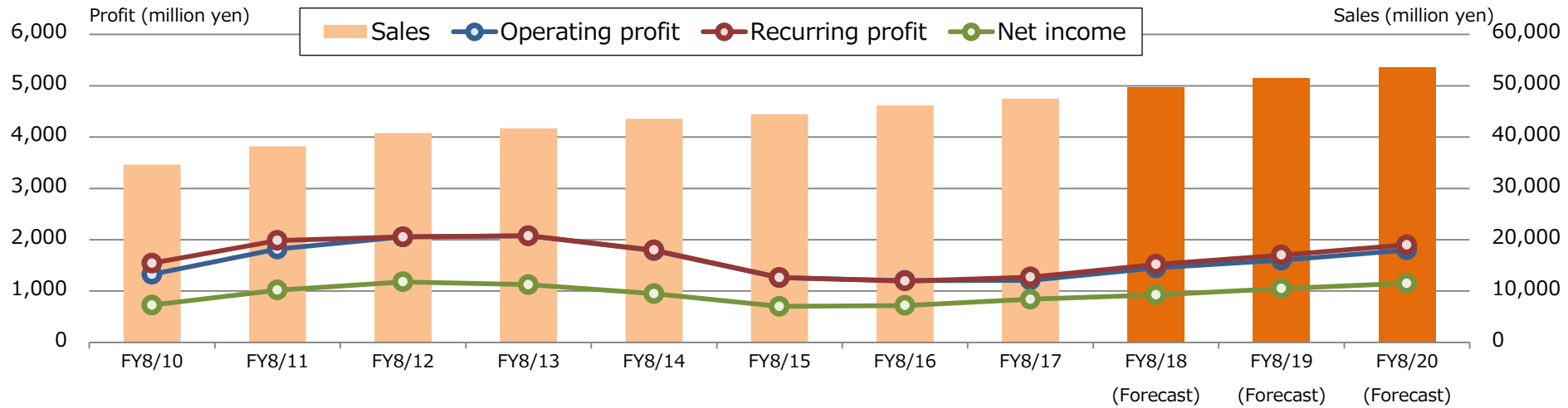
Other  
businesses



- ✓ Aim to achieve a **10%** overseas business sales share to the group sales early.
- ✓ Developed wholesale supply of products aggressively. The number of retailers that are selling only WATTS products is more than “**100 shops**” including the number of shops of the Watts group.
- ✓ Currently, wholesale operations are in the following countries: China, South Korea, Taiwan, Myanmar, Singapore, Mongolia, Brunei, New Zealand, Australia, and Mexico by gaining a foothold in Peru, etc.

## Forecasts Mid-term Plan

# 3-year target: sales of 53.5 billion yen, operating profit margin of 3.4%, and ROE of 9.6%



(Millions of yen)

3-year Plan	FY 8/16 (Result)			FY 8/17 (Result)			FY 8/18 (Forecast)			FY 8/19 (Forecast)			FY 8/20 (Forecast)		
		Ratio to sales	YoY		Ratio to sales	YoY		Ratio to sales	YoY		Ratio to sales	YoY		Ratio to sales	YoY
Sales	46,176	-	103.9%	47,494	-	102.9%	49,600	-	104.4%	51,500	-	103.8%	53,500	-	103.9%
Operating profit	1,205	2.6%	95.8%	1,209	2.5%	100.3%	1,450	2.9%	119.9%	1,600	3.1%	110.3%	1,800	3.4%	112.5%
Recurring profit	1,193	2.6%	94.4%	1,272	2.7%	106.6%	1,520	3.1%	119.5%	1,700	3.3%	111.8%	1,900	3.6%	111.8%
Net income attributable to owners of parent	718	1.6%	102.5%	839	1.8%	116.8%	925	1.9%	110.2%	1,050	2.0%	113.5%	1,150	2.1%	109.5%
ROE		7.9%	△0.2P		8.7%	0.8P		8.9%	0.2P		9.4%	0.5P		9.6%	0.2P
Plan assumptions															
100-Yen shop total at year-end (Shops)	1,028	20		1,087	59		1,120	33		1,155	35		1,190	35	
Other shops total at year-end (Shops)	81	22		95	14		100	5		129	29		156	27	
Other shops sales share	8.6%	1.4P		9.3%	0.7P		10.1%	0.8P		11.2%	1.1P		12.0%	0.8P	
Of which overseas business total at year-end (Shops)	59	24		66	7		71	5		91	20		111	20	
Overseas business sales share	4.1%	1.7P		4.8%	0.7P		5.9%	1.1P		6.0%	0.1P		6.7%	0.7P	



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## Financial Results

Consolidated Operating Results for  
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## Forecasts Mid-term Plan

Business Forecasts for the Fiscal Year  
Ending August 31, 2018 and  
Medium-Term Management Plan

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## Reference

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# Brands of Watts Group



## Domestic 100-Yen shop business



## Overseas business



## Other domestic business

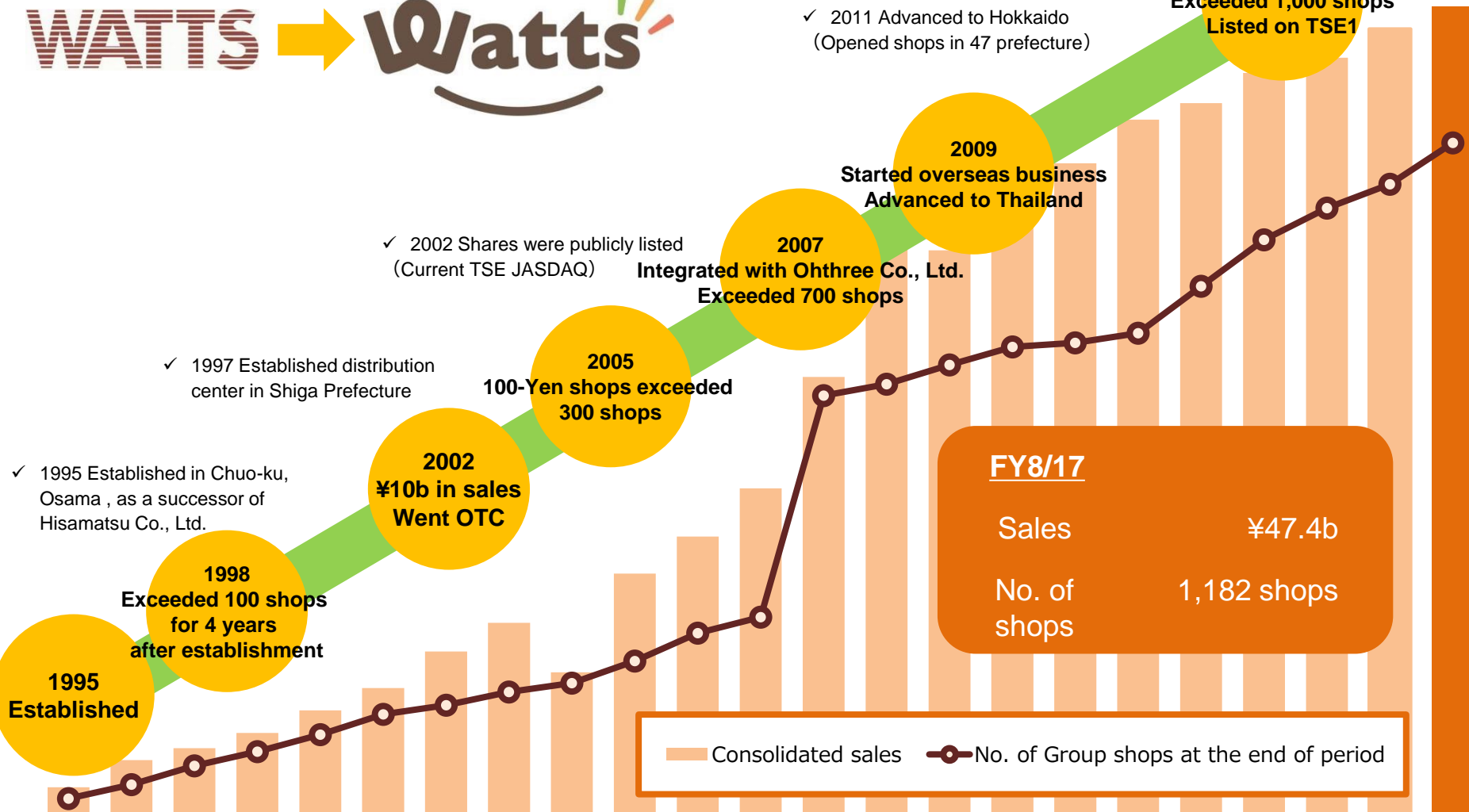




Establishment	February 22, 1995 (Currently the 24 <sup>th</sup> business term)
Meaning of the Company's name	Derived from "Wa! tto ikou" (Japanese catch cry to "go forth energetically")
Market listing	Tokyo Stock Exchange First Section (Securities code: 2735)
Capital stock	440.29 million yen (as of August 31, 2017)
Head office	5F, Sumitomo OBP Plaza Building, 4-70, Shiromi 1-chome, Chuo-ku, Osaka-shi, Osaka Prefecture
Main business	Wholesale and retail of daily-use and household items (Mainly operation of 100-Yen shops)
Number of employees	3,199 employees (as of August 31, 2017) *Part-time workers included
Number of shops	1,182 shops (as of August 31, 2017) *Other shops included

# Corporate History

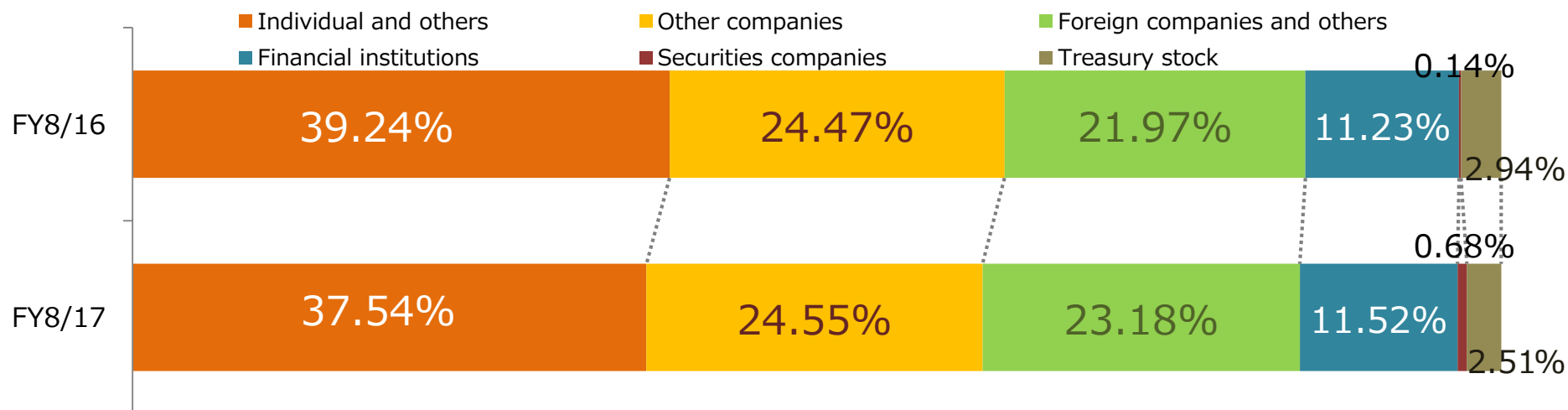
Changed its corporate logo in 2015!



FY8/17	
Sales	¥47.4b
No. of shops	1,182 shops

— Consolidated sales —●— No. of Group shops at the end of period

# Shareholder Composition



	FY8/16	FY8/17	YoY
Total number of shares issued	13,958,800 shares	13,958,800 shares	—
Number of shareholders	8,143	8,316	+173
Ownership ratio			
Individuals and others	39.24%	37.54%	△1.70P
Other domestic companies	24.47%	24.55%	+0.08P
Foreign companies and others	21.97%	23.18%	+1.21P
Financial institutions	11.23%	11.52%	+0.29P
Securities companies	0.14%	0.68%	+0.54P
Treasury stock	2.94%	2.51%	△0.43P

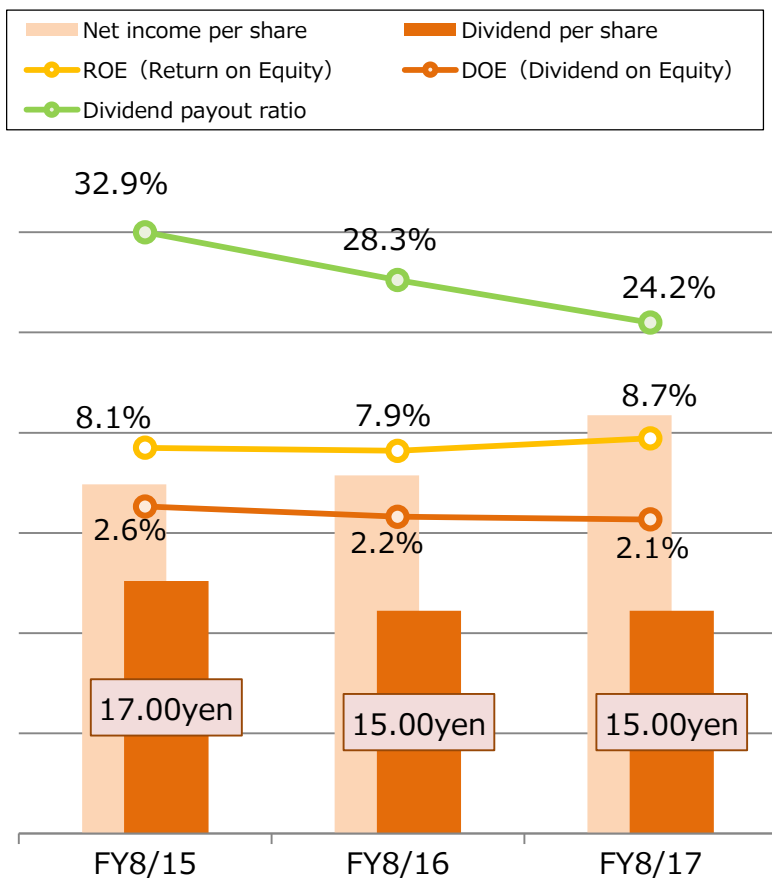
- ✓ The number of shareholders increased by 2.1% YoY
- ✓ Ratio of individual shareholders decreased by 1.70 points and ratio of foreign companies and others increased by 1.21 points YoY.
- ✓ Transfer of shares to the trust for performance-linked stock compensation reduced the treasury stock.
- ✓ Watts will secure return capital for shareholders by achieving good results.

(Note) The figures are rounded to the third decimal place and may not add up to 100% when adding the ratios of each section.

# Dividend Policy



The Company's policy is **“to maintain a stable dividend payment,”** considering the return of profits to shareholders.



	FY8/15	FY8/16	FY8/17
Net income per share (Yen)	51.73	53.04	61.96
Dividend per share (Yen)	17.00	15.00	15.00
Dividend payout ratio	32.9%	28.3%	24.2%
Dividend yield	1.7%	1.6%	1.1%
ROE (Return on Equity)	8.1%	7.9%	8.7%
DOE (Dividend on Equity)	2.6%	2.2%	2.1%
Stock price of accounting date (Aug. 31)	980	959	1,305

\*Dividend per share in FY8/15 includes a commemorative dividend of ¥2.00 for the Company's 20th anniversary of establishment.

\*Dividend payout ratio for each fiscal year is calculated based on the stock price of accounting date.

\*Dividend per share for the current fiscal year is the dividend forecast as of today.

# Shareholder Benefit Program



Description	Number of shares held	
	100 to 999 shares	1,000 shares or more/ Holding 3 years or more
Package of our original products	(A)	(A) + (B)



- ✓ Shown above is products we delivered in FY8/16.
- ✓ We will plan more attractive benefits with reflecting your opinions and suggestions.



The data and future forecasts presented in this material are based on information that was available at the time this material was released. Changes in circumstances can occur due to a range of factors and the Company gives no guarantee regarding achievement of objectives and forecasts, or future operating results. Information contained herein may change without forewarning. When using this data and reference materials, please verify and confirm details against information that you have obtained by other methods and exercise your discretionary judgment. Watts Co., Ltd. will in no way be held liable for any loss resulting from the use of this material.

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