



Watts Co., Ltd.

(2735; Tokyo Stock Exchange First Section)

# **Operating Results for the Fiscal Year Ended August 2019 and Business Forecasts for the Fiscal Year Ending August 2020**

October 15, 2019 (Tuesday)

Fumio Hiraoka, President and CEO

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# Consolidated Operating Results for the Fiscal Year Ended August 2019



(Millions of yen)

Financial highlights	FY8/18		FY8/19 (Current period)			
		Ratio to sales		Ratio to sales	YoY	Ratio to forecast
Sales	49,480	–	<b>51,399</b>	–	103.9%	98.8%
Gross profit	18,804	38.0%	<b>19,337</b>	37.6%	102.8%	–
Selling, general and administrative expenses	17,803	36.0%	<b>18,620</b>	36.2%	104.6%	–
EBITDA	1,388	2.8%	<b>1,157</b>	2.3%	83.4%	–
Operating profit	1,000	2.0%	<b>716</b>	1.4%	71.6%	77.9%
Recurring profit	1,037	2.1%	<b>656</b>	1.3%	63.2%	74.6%
Net income attributable to owners of parent	633	1.3%	<b>70</b>	0.1%	11.1%	26.1%
Net income per share (Yen)	46.79		<b>5.26</b>		–	–

- ✓ **Sales increased by 3.9% YoY**, mainly due to the concentration of 100-Yen shop opening in 1Q, and making “Real Co., Ltd.”, which operates discount shops, a subsidiary in the previous fiscal year. →P3
- ✓ **Operating profit was 71.6% YoY** due to an increase in personnel expenses associated with a rise in minimum wages and an increase in rent in line with intensifying competition for opening new shop in the 100-Yen shop business. →P5
- ✓ **Net income attributable to owners of parent declined sharply to 11.1% YoY**, mainly due to the recording of impairment losses on store facilities of Søstrene Grene, etc. →P6

## Sales by Business Type

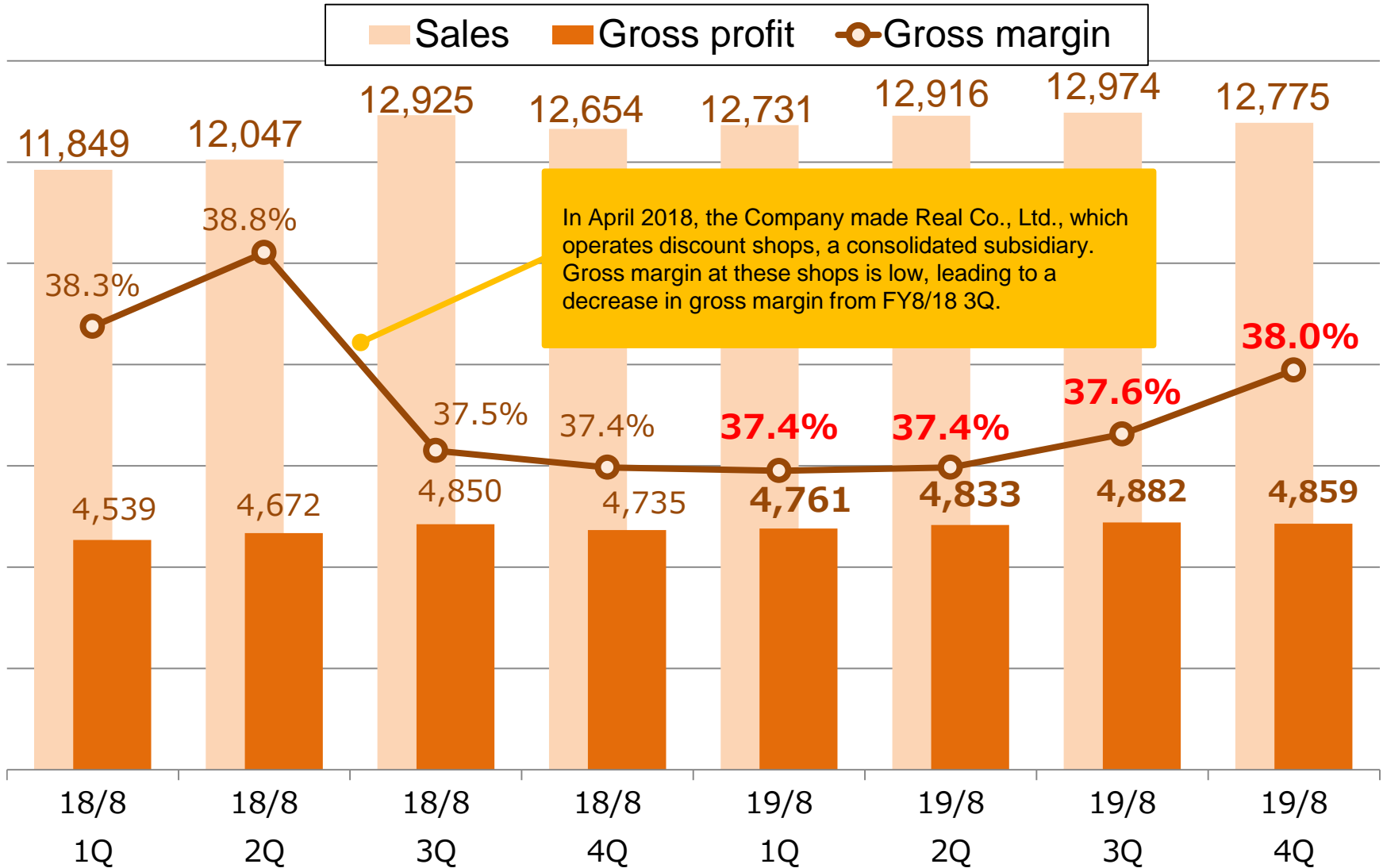


(Millions of yen)

Sales by Business Type		FY8/18		FY8/19 (Current period)		
			Ratio to sales		Ratio to sales	YoY
100-Yen shops	Directly managed	41,248	83.4%	<b>42,529</b>	82.7%	103.1%
	Wholesale, Other	2,764	5.6%	<b>2,368</b>	4.6%	85.7%
	Subtotal	44,012	88.9%	<b>44,897</b>	<b>87.4%</b>	<b>102.0%</b>
Overseas Business	Directly managed	1,098	2.2%	<b>762</b>	1.5%	69.3%
	Wholesale	1,616	3.3%	<b>1,714</b>	3.3%	106.0%
	Subtotal	2,715	5.5%	<b>2,476</b>	<b>4.8%</b>	<b>91.2%</b>
Lifestyle products business	Buona Vita					
	Søstrene Grene	1,814	3.7%	<b>1,697</b>	<b>3.3%</b>	<b>93.6%</b>
	AMANO					
Real, etc.		938	1.9%	<b>2,328</b>	<b>4.5%</b>	<b>248.2</b>
Total		49,480	100.0%	<b>51,399</b>	<b>100.0%</b>	<b>103.9%</b>

- ✓ Sales in the domestic 100-Yen shop business increased by 2.0% YoY. However, its ratio to the consolidated sales decreased by 1.5 percentage points due mainly to making “Real Co., Ltd.” a subsidiary in April of the previous fiscal year.

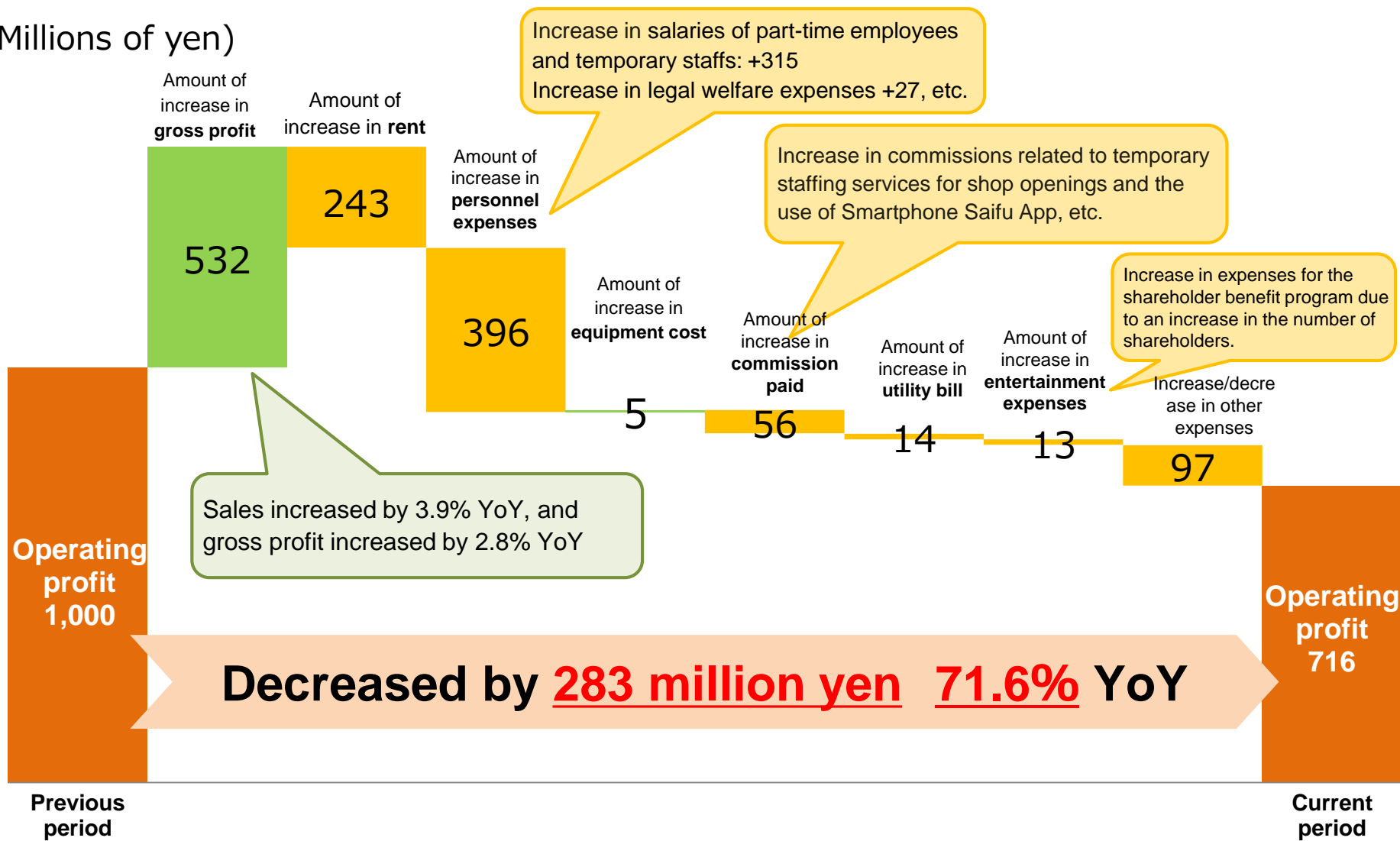
# Quarterly Changes in Gross Margin



# Factors for Changes in Operating Profit



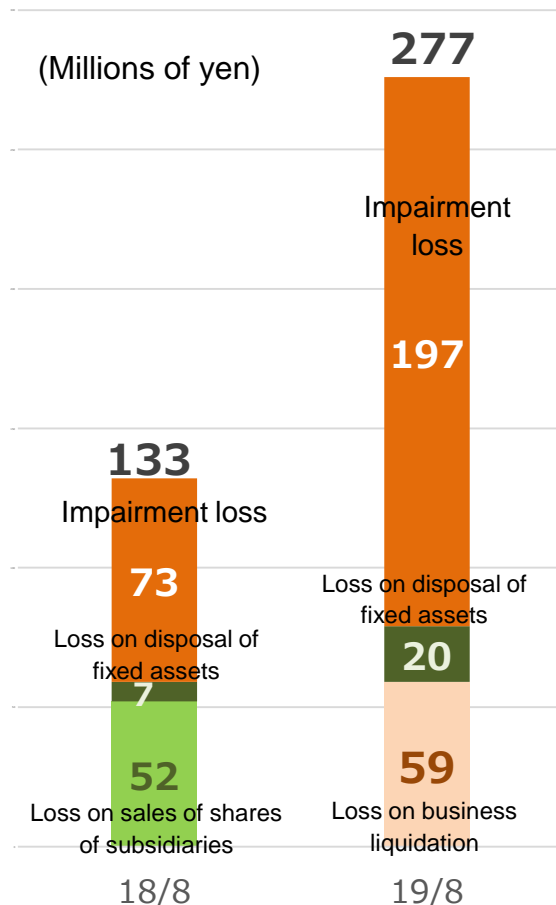
(Millions of yen)



# Breakdown of Extraordinary Losses



Breakdown of  
extraordinary losses



- ✓ **52 million yen of loss on the sale of shares of a subsidiary** in the previous fiscal year was due to the transfer of a Malaysian subsidiary that had been in red in the previous fiscal year
- ✓ **59 million yen of loss on business liquidation** in the current fiscal year is due to the withdrawal from the AMANO business which is unlikely to turn profitable around November 2019.
- ✓ **Of the 197 million yen of impairment loss** in the current fiscal year, 115 million is ascribed to store equipment, etc. at Søstrene Grene.
- ✓ **Loss on disposal of fixed assets** increased by 13 million yen due to active closure of unprofitable shops, mainly 100-Yen shops.
- ✓ Continue to actively close low profitability and unprofitable shops as well as review of unprofitable businesses. Certain level of extraordinary losses is expected in the next and following years. However, these losses are expected to be stabilized.

# Consolidated Balance Sheet and Consolidated Cash Flows



(Millions of yen)

Consolidated balance sheet	FY8/18		FY8/19 (Current period)	
		Pct. change		Pct. change
Cash and deposits	5,147	Down 10.1%	<b>6,075</b>	Up <b>18.0%</b>
Merchandise and finished goods	6,811	Up 4.7%	<b>7,081</b>	Up <b>4.0%</b>
Other current assets	2,646	Down 13.0%	<b>2,942</b>	Up <b>11.2%</b>
Tangible fixed assets	1,759	Up 14.4%	<b>1,780</b>	Up <b>1.2%</b>
Other fixed assets	3,581	Up 9.5%	<b>3,677</b>	Up <b>2.7%</b>
<b>Total assets</b>	<b>19,945</b>	Down 0.7%	<b>21,557</b>	Up <b>8.1%</b>
<b>Liabilities</b>	<b>9,711</b>	Down 4.9%	<b>11,690</b>	Up <b>20.4%</b>
<b>Net assets</b>	<b>10,234</b>	Up 3.7%	<b>9,867</b>	Down <b>3.6%</b>

- ✓ Shareholders' equity ratio was 47.1%, down by 5.1 percentage points from the end of the previous period.
- ✓ In other current assets, accrued consumption taxes increased by 55 million yen.
- ✓ In liabilities, electronically recorded obligations increased by 1,044 million yen and notes and accounts payable-trade increased by 699 million yen
- ✓ Net assets decreased by 367 million yen due mainly to the purchase of treasury stock of 135 million yen.

(Millions of yen)

Consolidated cash flows	FY8/18		FY8/19 (Current period)	
		Change		Change
Net cash provided by (used in) operating activities	687	△469	<b>2,279</b>	<b>1,592</b>
Net cash provided by (used in) investing activities	△615	△89	△ <b>832</b>	△ <b>216</b>
Net cash provided by (used in) financing activities	△658	△714	△ <b>510</b>	<b>147</b>
Effect of exchange rate change on cash and cash equivalents	5	△3	△ <b>8</b>	△ <b>14</b>
Cash and cash equivalents at end of period	5,147	△580	<b>6,075</b>	<b>928</b>
Free cash flows	72	△559	<b>1,447</b>	<b>1,375</b>

- ✓ In the cash flows from operating activities, accounts payable increased by 1,779 million yen due to the closing day of the current consolidated fiscal year being a holiday.
- ✓ In the cash flows from investing activities, acquisition of intangible fixed assets increased by 62 million yen due to the renewal of the core system.



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## Domestic 100-Yen Shop Business

	Opening/closing	<p><b>Opened 111 shops</b> against the full-year plan of 115 shops and <b>closed 80 shops</b> against 84 shops. The number of shops at the end of the period was <b>1,192</b> (net increase of 31 shops) →P11</p>
	Watts brand shops	<p>Increased by 101 shops to <b>520 shops</b> due to openings and renovations. The share to total number of 100-Yen shops increased to 43.6% →P12</p>

## Overseas Business

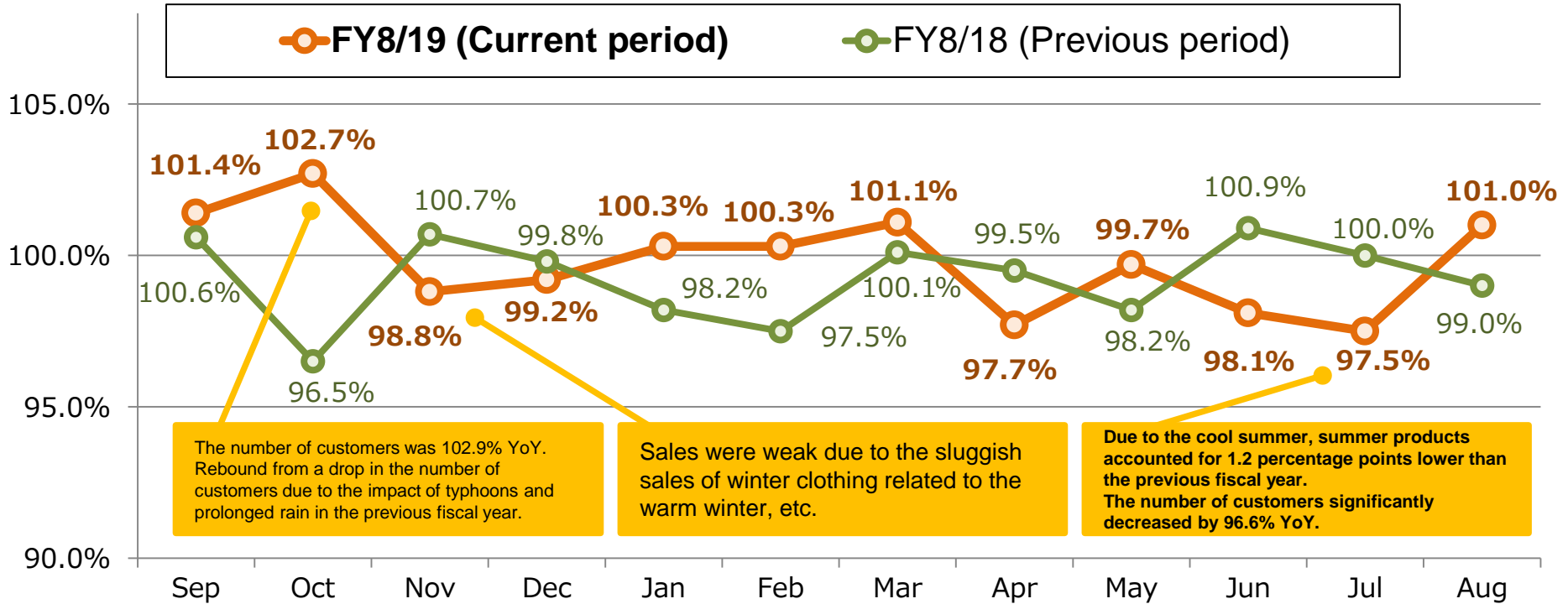
	Overseas shops	<p>The number of shops that are selling WATTS products was <b>88</b> (up 16 from the end of the previous fiscal year), and <b>more than 130 shops</b> including local partners' shops. →P13,14</p>
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## Domestic Other Business

	Buona Vita	<p>A life-style goods shop offering comfortable life. The number of shops at the end of period was 20. Focused on development of existing shops such as by improving product lineups. →P15</p>
	Søstre Grene	<p>Denmark's life-style goods shop. Operate 5 shops. Raise brand recognition and expand its scale of operation to make the business into profitable. →P16</p>
	AMANO	<p>Decided to withdraw from this business as there is no prospect for improvement in profits.</p>
	Real	<p>Community-based discount shop. Made as subsidiary in April of the previous fiscal year. Aim to create synergies with 100-Yen shop business. →P17</p>

# Situation of 100-Yen Shop Business①

## — Changes in Same-store sales YoY —



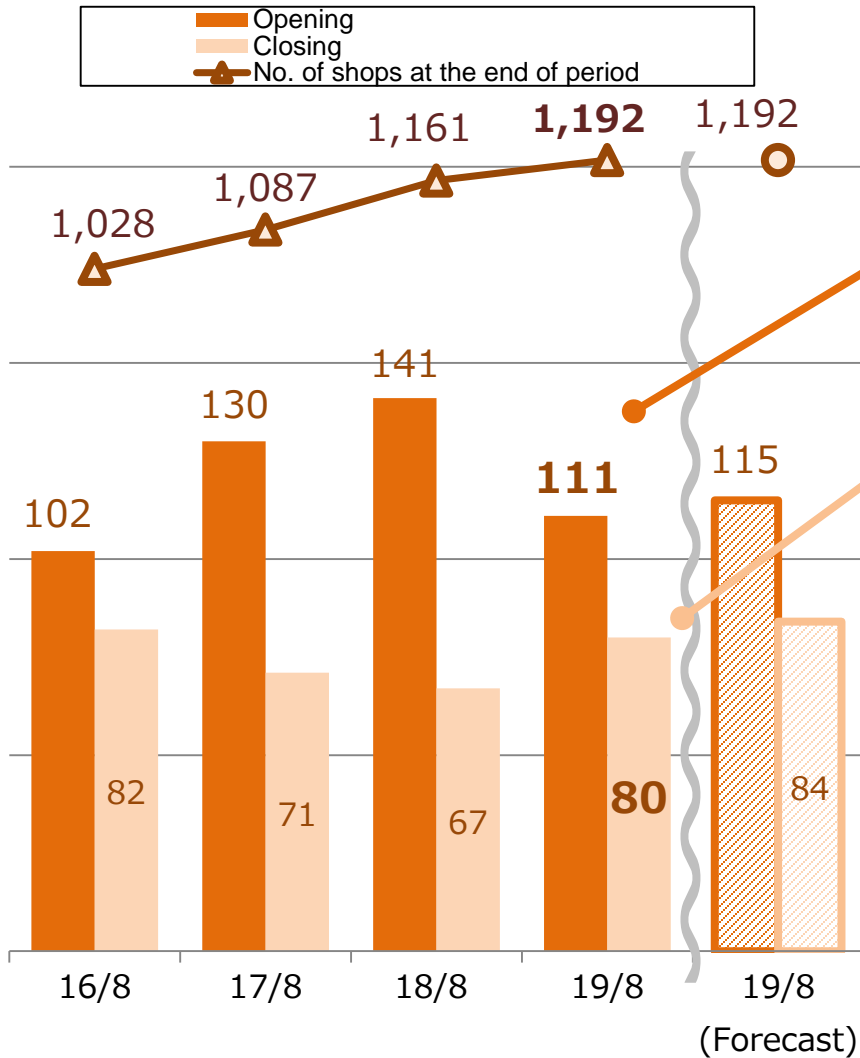
Full-year total	Sales	No. of customers	Spending per customer
YoY	99.3%	98.6%	100.5%
<b>Current period</b>	<b>99.7%</b>	<b>98.8%</b>	<b>100.9%</b>

- ✓ Spending per customer increased YoY in all months, but was below the full-year target of 100.0% as we unable to offset the decline in customer numbers due to the impact of competition and weather conditions, etc.
- ✓ Sales of Watts brand shops reached 101.5% YoY.

※ Sales for September 2019:104.7%

# Situation of 100-Yen Shop Business②

—Number of Shops (Opening/Closing Plan and Results)—



## Opening/closing plan and results

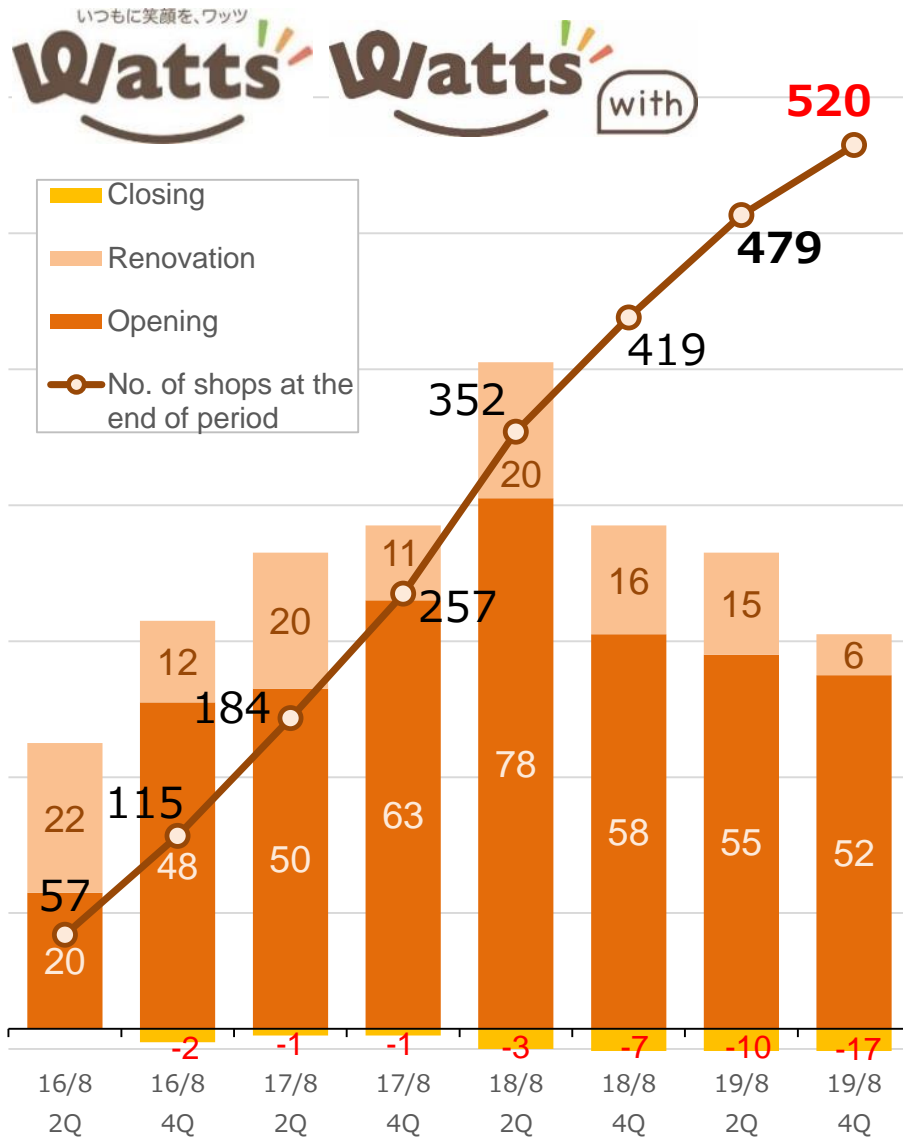
Opening plan 115 shops → Opened **111 shops**

Closing plan 84 shops → Closed **80 shops**

- ✓ Breakdown of shop openings: 23 tenant shops, 87 consignment shops, and 1 FC shop. Total number of shops was 111.
- ✓ Breakdown of shop closings: 37 tenant shops and 43 consignment shops. Total number of shops was 80.
- ✓ **Net increase of 31 shops.** The number of shops was **1,192** at the end of period, in line with the plan.

# Situation of 100-Yen Shop Business③

## —New Shop Openings and Renovations of “Watts” Brand Shops—



September 2019 Watts Tachikawa Shop (Tokyo)

- ✓ Increased by 101 shops from the end of the previous fiscal year. The share to total number of shops (1,192 shops) is **43.6%**.
- ✓ Watts brand recognition is steadily increasing, as the Company was able to open some shops at facilities that attract large numbers of customers in the current fiscal year.
- ✓ To open shops mainly Watts brand; renovations will be made by reviewing the possibility of investment recovery.

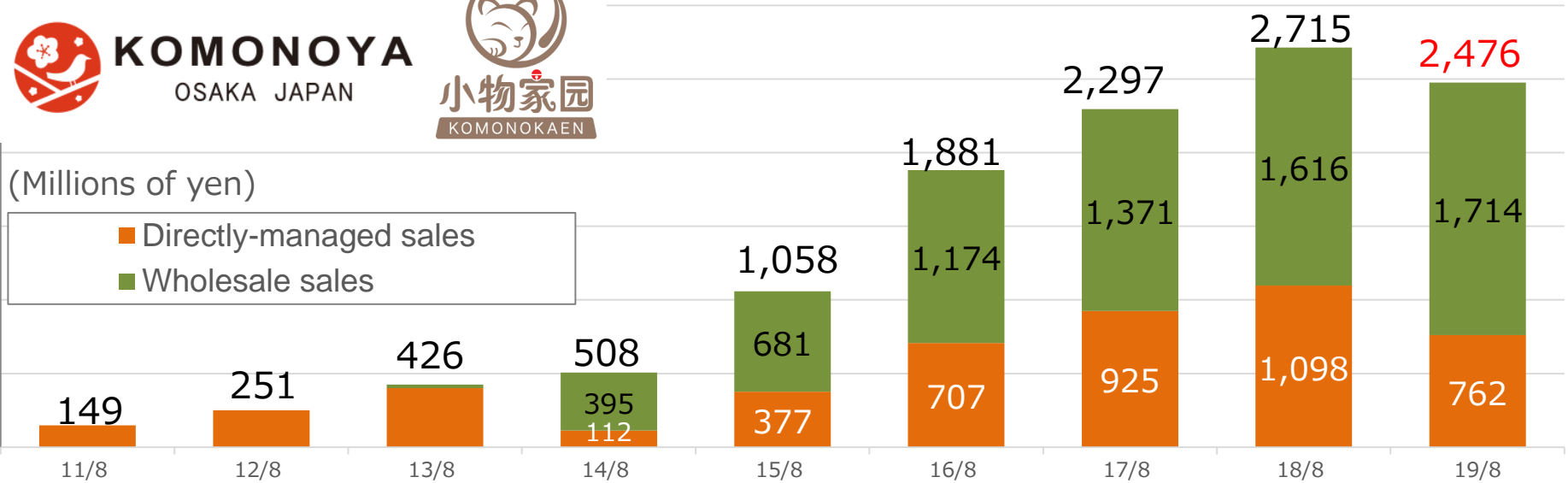
# Situation of Overseas Business①

—Changes in Sales (Directly-managed and Wholesale)—



(Millions of yen)

■ Directly-managed sales  
■ Wholesale sales



June 2019 Big-C Roi Et Shop (Thailand)

- ✓ Directly-managed shops gain foothold while focusing on wholesale sales to neighbor countries (collaboration with local partners).
- ✓ Sales at directly-managed shops decreased due to the transfer of a sales subsidiary in Malaysia to a local partner and the switch from directly-managed operation to franchised operation in April of the previous fiscal year.

Overseas business	FY8/18	FY8/19	YoY
Sales	2,715 million yen	2,476 million yen	91.2%

# Situation of Overseas Business②

— Number of Shops (Opening/Closing Plan and Results) —

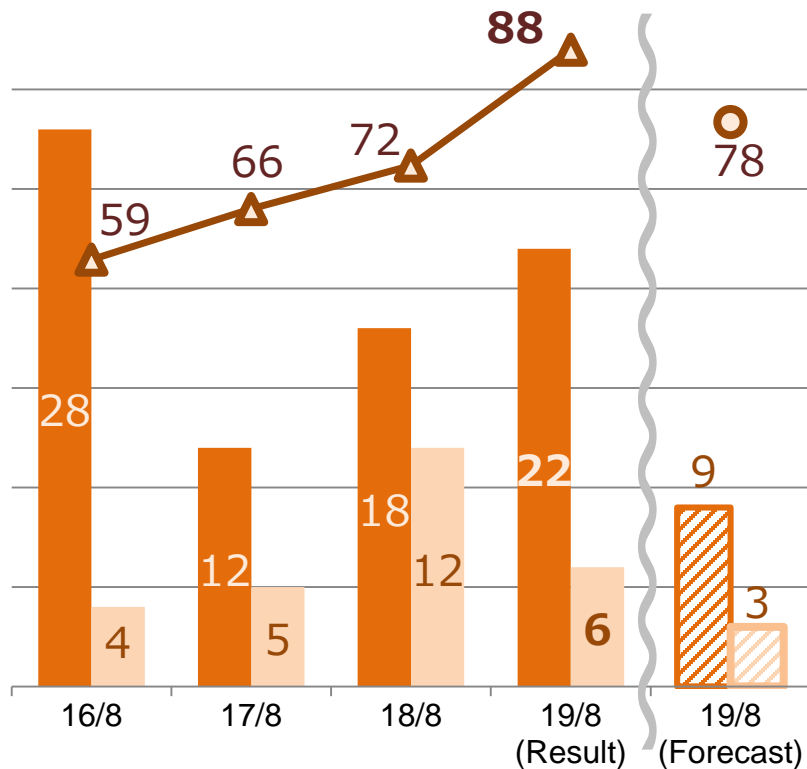


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OSAKA JAPAN



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KOMONOYAEN

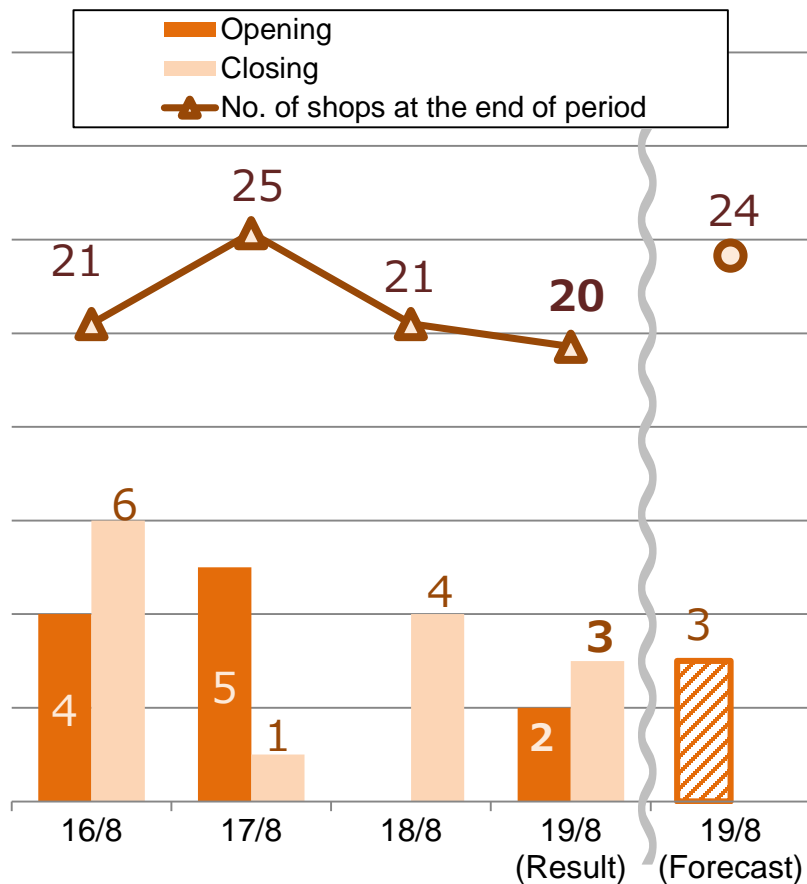
■ Opening  
■ Closing  
▲ No. of shops at the end of period



	Opening	Closing	No. of shops at the end of period (FY8/19)
Thailand	13	1	49
China	—	—	2
Malaysia	—	1	8
Vietnam	1	3	9
Peru	8	1	20
<b>Total</b>	<b>22</b>	<b>6</b>	<b>88</b>

- ✓ In Thailand, **net increase of 12 shops**, totaled 49 shops. The Company commenced to open Watts brand shops, there are 8 Watts shops including renovated shops.
- ✓ There are about 50 fixed-price shops with sales floors consisting of the Company's products which include 16 shops in Myanmar, 11 shops in Mexico and other countries.
- ✓ In Peru, **net increase of 7 shops**, totaled 20 shops. Wholesaling to Mexico and Brazil via Peru.

# Situation of “Buona Vita”

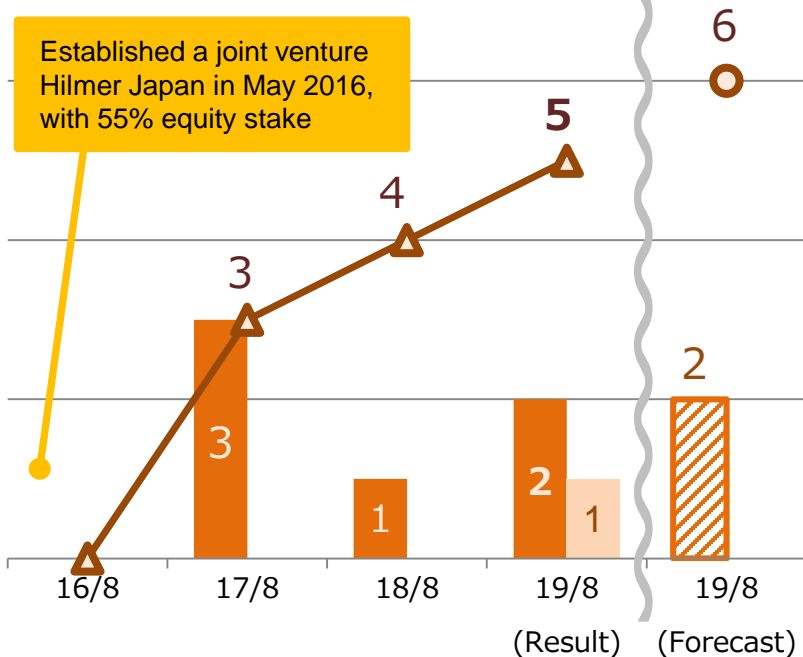
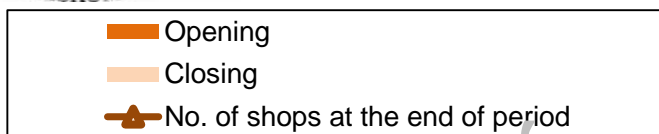


November 2018 Buona Vita Machinoma Omori Shop (Tokyo)

- ✓ Carefully select locations for new shop openings, mainly in front of the station. During the fiscal year, closed 3 unprofitable shops, totaled **20 shops**.
- ✓ Despite efforts to developing existing shops, such as introducing new gift items, same-store sales remained at 96.5% YoY.



# Situation of "Søstrene Grene"



Established a joint venture Hilmer Japan in May 2016, with 55% equity stake



September 2019 Søstrene Grene Kawasaki Le FRONT Shop (Kanagawa)

- ✓ Opened the first flagship shop in Omotesando on October 28, 2016. Operate **5 shops** as of the end of August 2019.
- ✓ Same-store sales have not yet reached the target, and the loss increased due to the closing costs of the Diversity Tokyo Plaza Shop and the recording of impairment losses on store facilities.
- ✓ Improve brand recognition by introducing products that meet the domestic market and strengthening branding using SNS and also promote multi-store expansion, utilizing low-operating-cost-shop format with the aim of making the business profitable early.



On April 2, 2018, the Company acquired all shares of Real Co., Ltd., which operates small-scale discount shops, and made it a consolidated subsidiary.



- ✓ Offer a wide range of value-for-money products with utilizing their strength in procurement capability.
- ✓ Implement cost-cutting measures through the integration of headquarters functions, etc.
- ✓ Trial opening of collaborative shops with the Company's 100-Yen shops to create synergies with 100-Yen shop business.
- ✓ Opened Kayashima Shop (Neyagawa City, Osaka) in April, operate **6 shops** as of the end of August 2019.

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(Millions of yen)

Business forecasts	FY8/19 2Q		FY8/20 2Q (Forecast)			FY8/19		FY8/20 (Forecast)		
		Ratio to sales		Ratio to sales	YoY		Ratio to sales		Ratio to sales	YoY
Sales	25,648	—	<b>25,500</b>	—	<b>99.4%</b>	51,399	—	<b>51,860</b>	—	<b>100.9%</b>
Gross profit	9,595	37.4%	—	—	—	19,337	37.6%	—	—	—
SG&A	9,228	36.0%	—	—	—	18,620	36.2%	—	—	—
Operating profit	366	1.4%	<b>300</b>	<b>1.2%</b>	<b>81.8%</b>	716	1.4%	<b>770</b>	<b>1.5%</b>	<b>107.4%</b>
Recurring profit	337	1.3%	<b>310</b>	<b>1.2%</b>	<b>92.0%</b>	656	1.3%	<b>790</b>	<b>1.5%</b>	<b>120.4%</b>
Net income attributable to owners of parent	103	0.4%	<b>120</b>	<b>0.5%</b>	<b>116.0%</b>	70	0.1%	<b>350</b>	<b>0.7%</b>	<b>495.9%</b>
Net income per share (yen)	7.70		<b>8.96</b>			5.26		<b>26.12</b>		
ROE	1.0%		<b>1.2%</b>			0.7%		<b>3.4%</b>		

- ✓ 100-Yen shop opening/closing plan  
【Opening】1H:72, 2H:68, Total:140  
【Closing】1H:54, 2H:28, Total:82

➔ **Net increase: 58 shops**

- ✓ 100-Yen shop same-store sales target :  
**100.0% YoY**

- ✓ Revenue growth was limited due to withdrawal from the AMANO business, but earnings improved for the full year.
- ✓ Net income attributable to owners of parent is expected to increase significantly as we expect the decrease in impairment loss, although we will continue to close low-profit and unprofitable stores.



## 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

Watts

Other  
businesses

## Expand business and Enlarge source of earnings

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



## Offer higher price products



- ✓ Increase the number of higher price products (¥200 to ¥1,000) to enhance the product lineups and revitalize sales floors.
- ✓ Introduce not only to tenant-type shops but also to consignment-type shops, leading to an improvement in gross margin for the entire Group
- ✓ 862 items as of the end of August. Aiming for the introduction of 1,300 items as of the end of 26th term.

## Inter-group collaboration

- ✓ Trial collaboration with discount shops "Real" and lifestyle products businesses to create synergies among Group businesses (Photograph: Watts Kadoma Minami Shop with a product section of Real)



## Full use of POS data



- ✓ Accurately identify popular and unpopular items. Reduce stagnant products and replace them with popular and new products to increase the freshness of products of sales floors
- ✓ Introduce ordering support system to avoid losing sales opportunities due to stock-out
- ✓ Create sales floors that match seasonal and regional characteristics by sharing accumulated POS data with all shops, not only at each shop.



### Moves toward cashless payments



- ✓ Cashless payment services currently available:  
**credit cards, electronic money, iD, nanaco, WAON, and Rakuten Edy.**
- ✓ As of the end of August 2019, cashless payment is available at 218 shops among the 465 tenant-type shops.
- ✓ More than 200 of our shops are participating in **the Cashless and Consumer Redemption Business (cashless point redemption business)**

### Introduction of Smartphone Saifu App



- ✓ The aim is to increase repeat customers and win Watts fans
- ✓ Utilize for events at the time of opening and sales promotions at existing shops  
(Example: "Stamp xx times campaign", etc.)
- ✓ Introduced at about 200 shops, membership exceeded 66 thousand
- ✓ The number of customers at shops using the service increased, contributing to the acquisition of a certain number of repeat customers

### Streamlining cash registers



- ✓ Introduce automatic change machines on a trial basis at some shops
- ✓ Currently verifying the effects of reducing the time required for settlement processing



## KOMONOYA



## 小物家园 “KOMONOKAEN”



### [Expansion of wholesaling]

- ✓ Currently, countries and regions with shipping records are China, South Korea, Taiwan, Myanmar, Singapore, Mongolia, New Zealand, Australia, Mexico, Brunei and Philippines, etc. The number of retailers including wholesalers that are selling only WATTS products is more than **“130 shops.”** The Company will continue to keep an eye on entering a promising market

### [Strengthen product competitiveness]

- ✓ Focus on supplying products for overseas as well as existing 100 yen products. Actively procure products such as Japanese-made products and high quality products that are in high demand overseas
- ✓ Build a commodity supply system to respond to a timely shipment overseas

### [Further improvement of existing markets]

- ✓ Improve novelty of shops through strategic renovations
- ✓ Replacement of products and improvement of ordering based on POS data
- ✓ Regard particularly Thailand, Vietnam and Myanmar as significant markets and will actively provide support for operation





- Plan to open 2 new shops (including Seibu Higashi-totsuka Shop to open in October). Carefully select locations to grow as income generating business.
- Conduct sales promotion activities such as distribution of sales information and event information by individual store via LINE official accounts, promotion of new products via Instagram
- Improvement of customer service level including wrapping skill



- Plan to open 2 new shops (including Kawasaki Le FRONT Shop opened in September).
- Review shop operations to promote transition to low operating cost shops.
- Promote redevelopment of past popular (best-selling) products and developing original Japanese products. Continue to focus on evergreen and fast-selling products.
- Strengthened sales promotion by effective coupon distribution and development of SNS contents and other actions for the Japanese market.

スーパーディスカウント

リアル

- Plan to open 1 new shop, reduce and optimize shop opening costs
- Establish a structure that creates operation synergies with 100-Yen shops
- Strengthen liquor sales and increase customer drawing power

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# Brands of Watts Group

## Domestic 100-Yen shop business



## Overseas business



## Other domestic business





**Buona Vita**  
フオーナ・ビータ

“Buona Vita,” a variety store which proposes a comfortable life. Operates 20 shops as of the end of August 2019. The photo is nonowa Higashikoganei shop which opened in April 2019



“Søstre Grene”, a joint venture in a life-style goods shop offering North European items. Operates 5 shops as of the end of August 2019



Collaboration shop between 100-Yen shop and grocery



Community-based small discount shop. Operates 6 shops as of the end of August 2019.



Import and wholesale of European taste lifestyle goods



# twitter

[https://twitter.com/watts\\_100/](https://twitter.com/watts_100/)



- Watts official twitter  
Providing photos of recommended products and announcements of monthly sales promotion.  
Retweeting blogs and articles containing 100-Yen shop information.

- ✓ Launched our official SNS accounts in the 100-Yen Shop business!
- ✓ The number of Instagram followers has exceeded 60,000
- ✓ Aiming to acquire new customers as well as increase the frequency of visits of existing customers

# Instagram

[https://www.instagram.com/watts\\_100/](https://www.instagram.com/watts_100/)



- Watts official Instagram  
Like twitter, we will inform you the recommended products of our 100-Yen Shops. Providing attractive information to get more followers



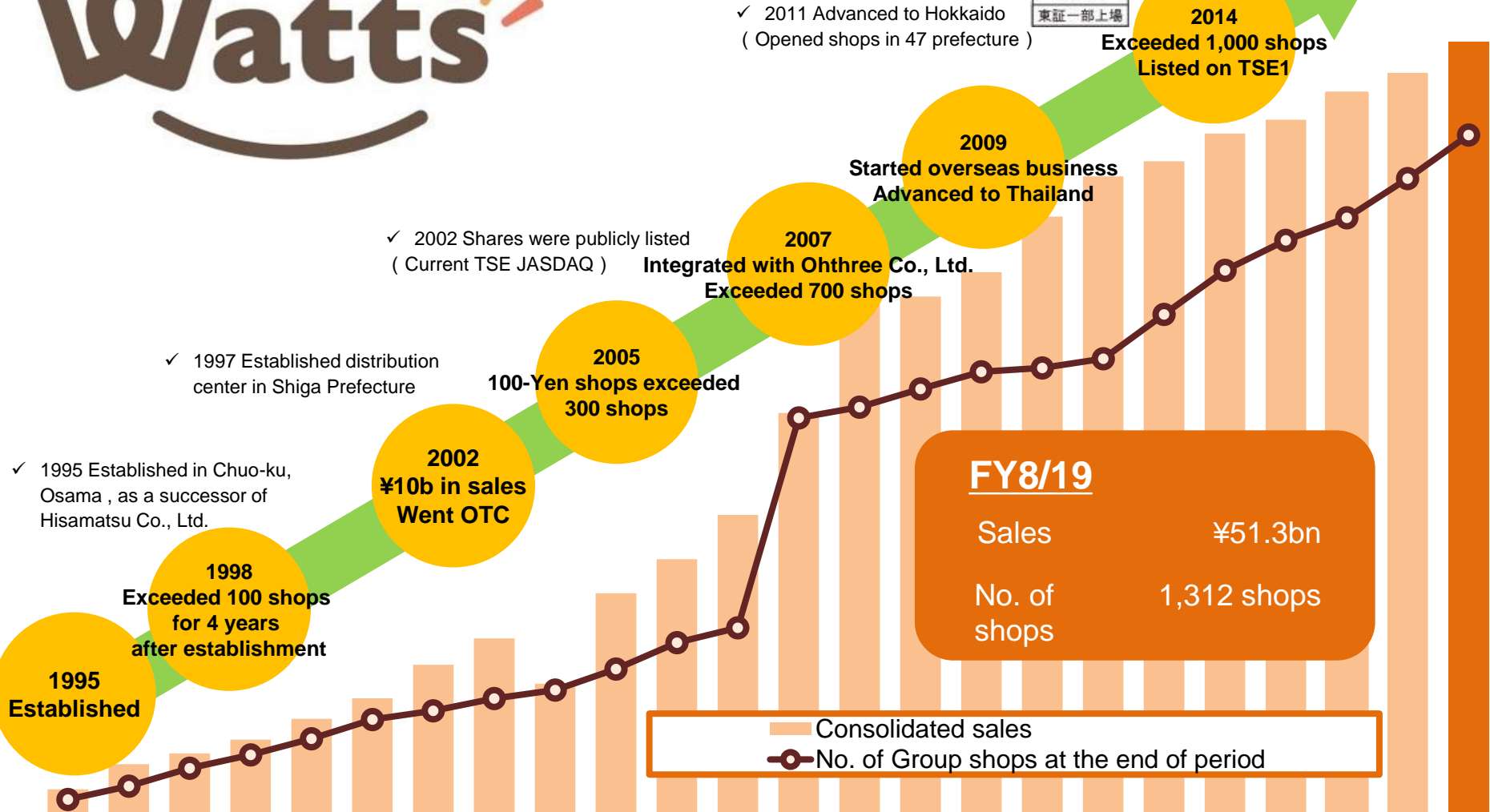
友だちだからお得な情報届けます。

**LINE@**  
**友だち募集中。**

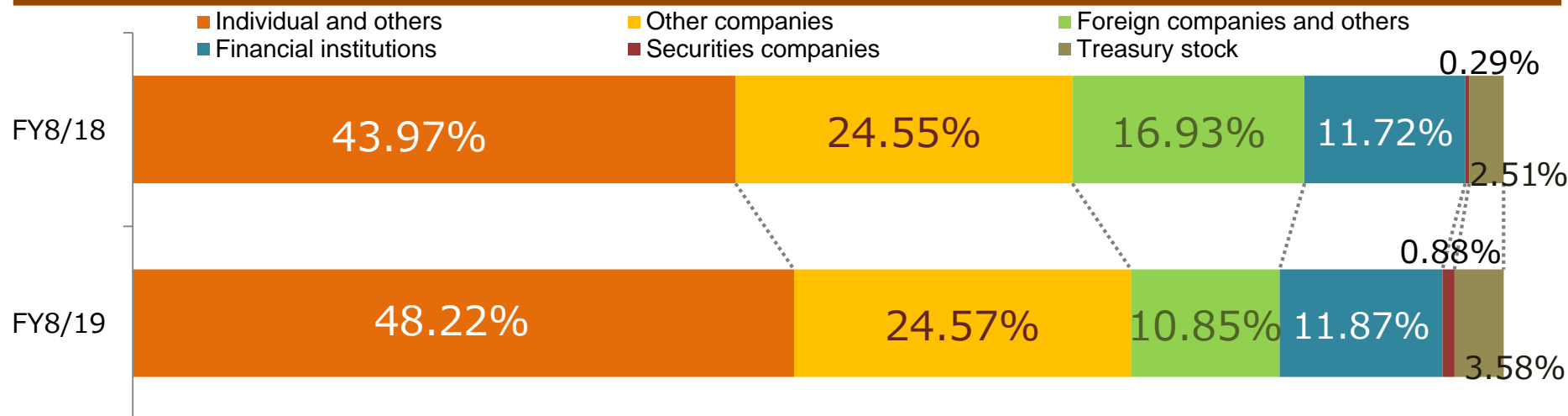
LINE@ is also available at several shops, which users can get information when you become friend.



Establishment	February 22, 1995 (Currently the <b>26<sup>th</sup> business term</b> )
Meaning of the Company's name	<b>Derived from “Wa! tto ikou” (Japanese catch cry to “go forth energetically”)</b>
Market listing	Tokyo Stock Exchange First Section (Securities code: <b>2735</b> )
Capital stock	440 million yen (as of August 31, 2018)
Head office	5F, Sumitomo OBP Plaza Building, 4-70, Shiromi 1-chome, Chuo-ku, Osaka-shi, <b>Osaka Prefecture</b>
Main business	Wholesale and retail of daily-use and household items (Mainly <b>operation of 100-Yen shops</b> )
Number of employees	3,311 employees (as of August 31, 2019) *Part-time workers included
Number of shops	1,312 shops (as of August 31, 2019) *Other shops included



# Shareholder Composition



	FY8/17	FY8/18	FY8/19	YoY
Total number of shares issued	13,958,800 shares	13,958,800 shares	13,958,800 shares	—
Number of shareholders	8,316	15,225	17,590	+2,365
<b>Ownership ratio</b>				
Individuals and others	37.54%	43.97%	48.22%	+4.25P
Other domestic companies	24.55%	24.55%	24.57%	+0.02P
Foreign companies and others	23.18%	16.93%	10.85%	△6.08P
Financial institutions	11.52%	11.72%	11.87%	+0.15P
Securities companies	0.68%	0.29%	0.88%	+0.59P
Treasury stock	2.51%	2.51%	3.58%	+1.07P

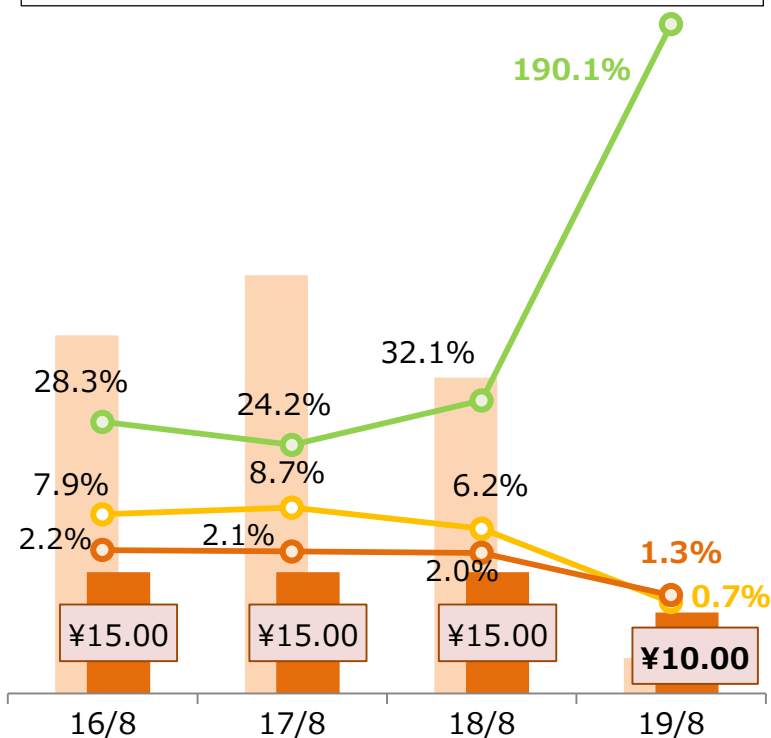
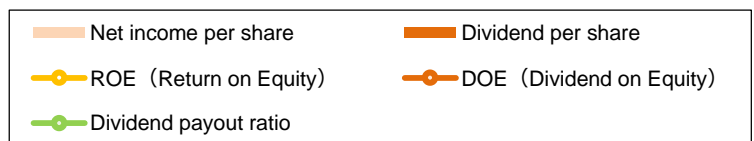
- ✓ Number of shareholders increased by 2,365 from the previous fiscal year-end.
- ✓ Ownership ratio of individual shareholders increased by 4.25 percentage points YoY.
- ✓ The increase in treasury stock is due to the acquisition of 150,000 of treasury stock during the current fiscal year.

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





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



	FY8/16	FY8/17	FY8/18	FY8/19
Net income per share (Yen)	53.04	61.96	46.79	<b>5.26</b>
Dividend per share (Yen)	15.00	15.00	15.00	<b>10.00</b>
Dividend payout ratio	28.3%	24.2%	32.1%	<b>190.1%</b>
Dividend yield	1.6%	1.1%	1.6%	<b>1.6%</b>
ROE (Return on Equity)	7.9%	8.7%	6.2%	<b>0.7%</b>
DOE (Dividend on Equity)	2.2%	2.1%	2.0%	<b>1.3%</b>

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

\*Payout ratio for FY8/19 is calculated based on the stock price as of today.



Number of shares held and holding period	Description
100 to 999 shares	A
1,000 shares or more/ Holding 3 years or more	A + B



- ✓ Shown above is shareholder benefit products for FY8/19.
- ✓ 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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