



Watts Co., Ltd.

(2735; Tokyo Stock Exchange First Section)

Operating Results for the Six Months of the Fiscal Year Ending August 2019 and Progress of the Full-Year Plan

April 15, 2019 (Monday)

Fumio Hiraoka, President and CEO

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Consolidated Operating Results for the Six Months of the Fiscal Year Ending August 2019



(Millions of yen)

Financial highlights	FY8/18 2Q		FY8/19 2Q (Current period)			
		Ratio to sales		Ratio to sales	YoY	Ratio to forecast
Sales	23,897	—	25,648	—	107.3%	101.0%
Gross profit	9,212	38.5%	9,595	37.4%	104.2%	—
Selling, general and administrative expenses	8,613	36.0%	9,228	36.0%	107.1%	—
EBITDA	767	3.2%	577	2.3%	75.2%	—
Operating profit	598	2.5%	366	1.4%	61.3%	85.3%
Recurring profit	602	2.5%	337	1.3%	56.0%	78.4%
Net income attributable to owners of parent	379	1.6%	103	0.4%	27.3%	40.6%
Net income per share (Yen)	28.00		7.70		—	—

- ✓ **Sales increased by 7.3% YoY**, slightly above the target 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 61.3% YoY** due to the opening of relatively large-scale 100-Yen shops and delays in improving earnings at the Chinese subsidiary and the lifestyle products business. →P5
- ✓ **Net income attributable to owners of parent was 27.3% YoY**, largely below the target, mainly due to the recording of impairment losses on store facilities of Søstrene Grene, etc. →P6

Sales by Business Type

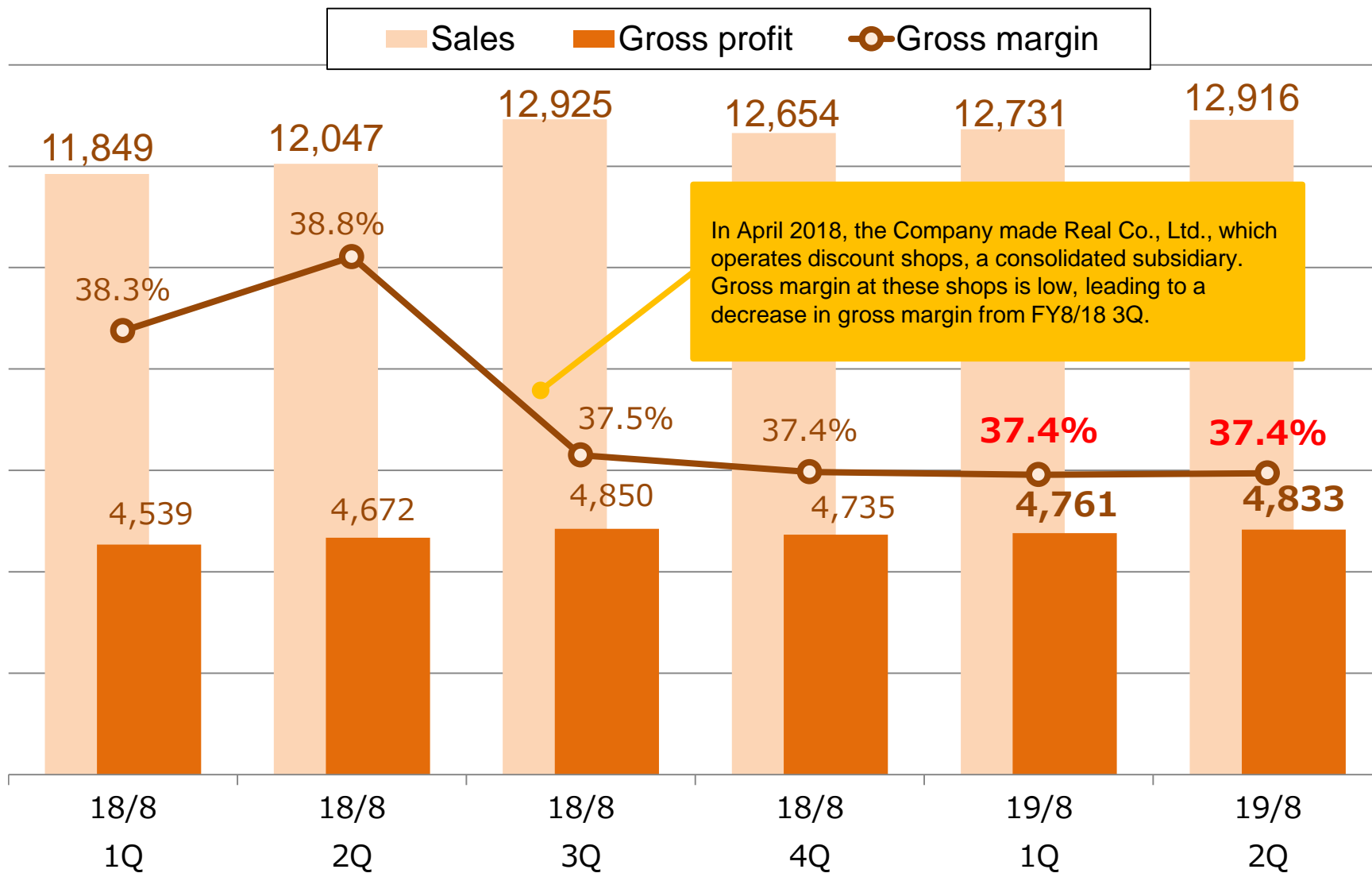


(Millions of yen)

Sales by Business Type		FY8/18 2Q		FY8/19 2Q (Current period)		
			Ratio to sales		Ratio to sales	YoY
100-Yen shops	Directly managed	20,223	84.6%	21,104	82.3%	104.4%
	Wholesale, Other	1,419	5.9%	1,249	4.9%	88.0%
	Subtotal	21,642	90.6%	22,354	87.2%	103.3%
Overseas Business	Directly managed	526	2.2%	377	1.5%	71.7%
	Wholesale	771	3.2%	962	3.8%	124.8%
	Subtotal	1,298	5.4%	1,340	5.2%	103.2%
Lifestyle products business	Buona Vita	956	4.0%	839	3.3%	87.8%
	Søstrene Grene					
	AMANO					
Real, etc.	—	—	1,113	4.3%	—	
Total		23,897	100.0%	25,648	100.0%	107.3%

- ✓ Sales in the domestic 100-Yen shop business increased by 3.3% YoY. However, its ratio to the consolidated sales decreased by 3.4 percentage points due mainly to a decrease in wholesale sales of franchised shops and a making “Real Co., Ltd.”, which operates discount shops, a subsidiary in April of the previous fiscal year.

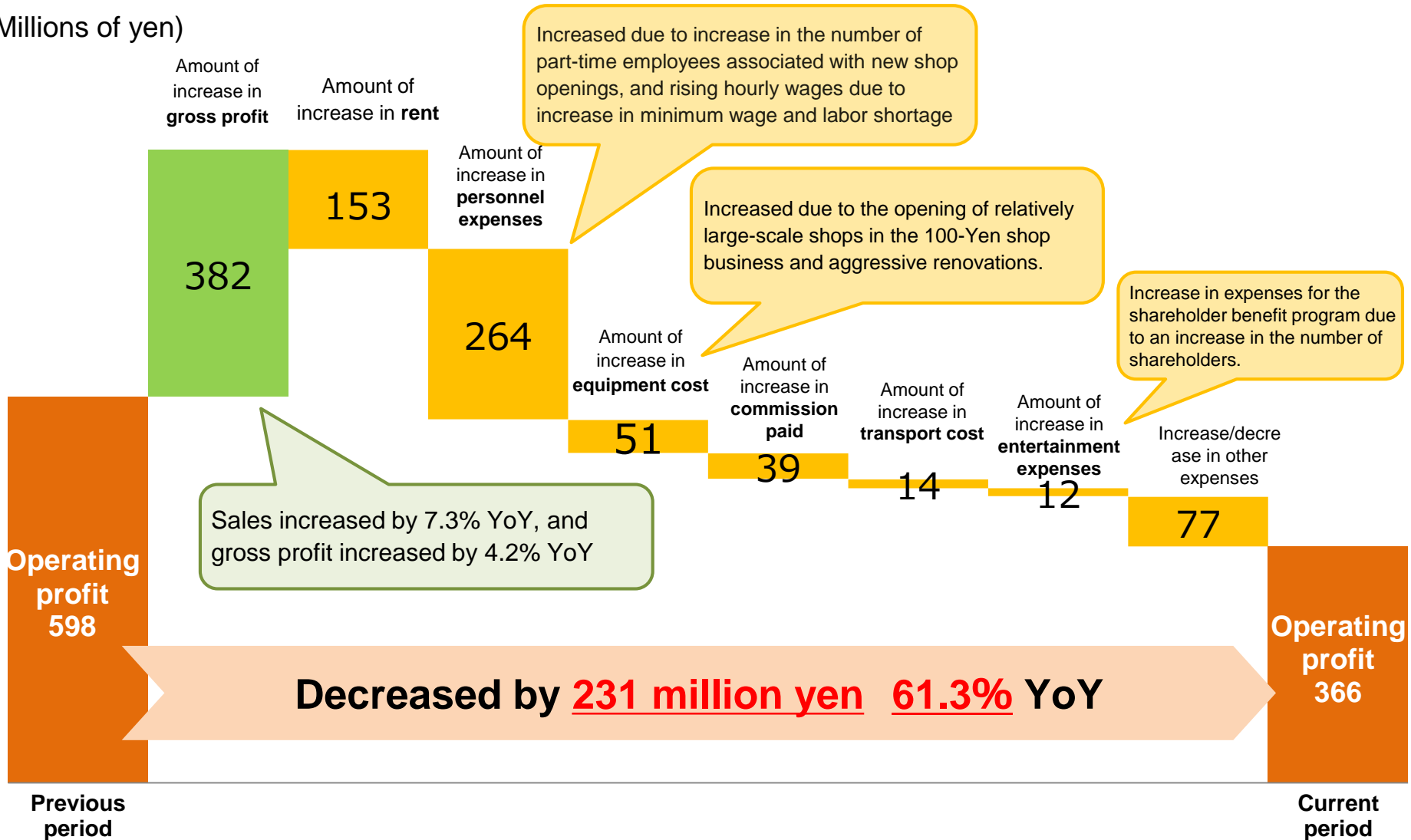
Quarterly Changes in Gross Margin



Factors for Changes in Operating Profit



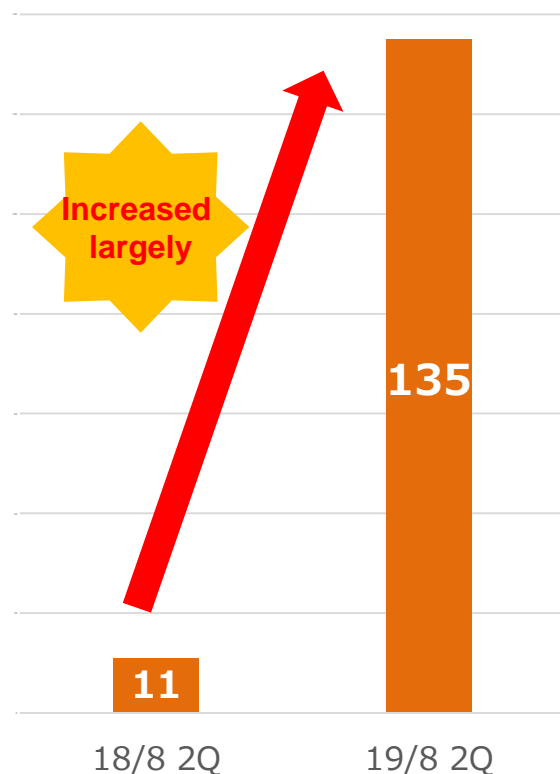
(Millions of yen)





Amount of impairment losses

(Million yen)



- ✓ Among the impairment losses of 135 million yen, **115 million yen** was related to store facilities, etc. of Søstrene Grene.
- ✓ In October 2016, Søstrene Grene opened its first shop in Omotesando, where is the source of fashion trend, to increase the brand recognition in Japan. As of the end of February 2019, it operates 5 shops.
- ✓ However, in addition to an increase in initial investment costs, sales of Søstrene Grene were significantly below expectations, and it would take some time to improve its performance. Therefore, **impairment losses were recorded for these 3 shops**: Omotesando Shop, Divercity Tokyo Plaza Shop, and Marui Kichijoji Shop.
- ✓ The Company intends to increase its sales and profitability by opening multiple shops with low shop opening costs.

Consolidated Balance Sheet and Consolidated Cash Flows



(Millions of yen)

Consolidated balance sheet	FY8/18		FY8/19 2Q (Current period)	
		Pct. change		Pct. change
Cash and deposits	5,147	Down 10.1%	4,835	Down 6.1%
Merchandise and finished goods	6,811	Up 4.7%	7,088	Up 4.1%
Other current assets	2,646	Down 13.0%	2,407	Down 9.0%
Tangible fixed assets	1,759	Up 14.4%	1,836	Up 4.4%
Other fixed assets	3,581	Up 9.5%	3,666	Up 2.4%
Total assets	19,945	Down 0.7%	19,834	Down 0.6%
Liabilities	9,711	Down 4.9%	9,945	Up 2.4%
Net assets	10,234	Up 3.7%	9,888	Down 3.4%

- ✓ Shareholders' equity ratio was 51.3%, down by 0.9 percentage points from the end of the previous period.
- ✓ Merchandise and finished goods increased by 277 million yen due to new shop openings and renovations of 100-Yen shops. In other fixed assets, guarantee deposits increased by 79 million yen.
- ✓ Net assets decreased by 345 million yen due mainly to the purchase of treasury stock of 135 million yen.

(Millions of yen)

Consolidated cash flows	FY8/18 2Q		FY8/19 2Q (Current period)	
		Change		Change
Net cash provided by (used in) operating activities	344	△244	376	+32
Net cash provided by (used in) investing activities	△391	△132	△ 503	△ 112
Net cash provided by (used in) financing activities	△197	△197	△ 186	+10
Effect of exchange rate change on cash and cash equivalents	△9	△24	+1	+11
Cash and cash equivalents at end of period	5,473	98	4,835	△ 638
Free cash flows	△47	△376	△127	△79

- ✓ Net cash provided by (used in) operating activities was same level as the previous year due to a decrease of 209 million yen in income taxes paid, despite a decrease of 395 million yen in income before income taxes.
- ✓ In net cash provided by (used in) investing activities, payments for lease and guarantee deposits increased by 71 million yen due to new shop openings.

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Domestic 100-Yen Shop Business

 	Opening/closing	<p>Opened 58 shops against the full-year plan of 115 shops and closed 40 shops against 84 shops. The number of shops at the end of the period was 1,179 (net increase of 18 shops) →P11</p>
 	Watts brand shops	<p>Increased by 60 shops to 479 shops due to openings and renovations. The share to total number of 100-Yen shops increased to 40.6% →P12</p>

Overseas Business

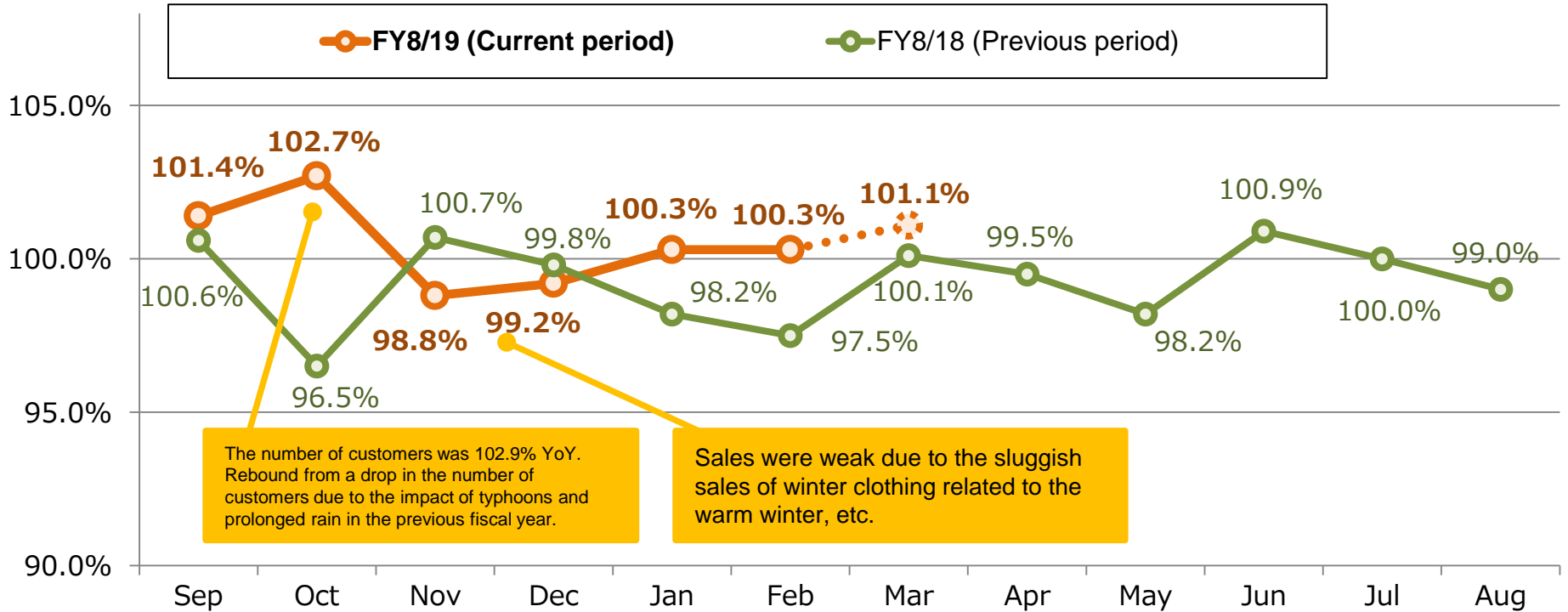
 	Overseas shops	<p>The number of shops that are selling WATTS products was 77 (up 5 from the end of the previous fiscal year), and more than 120 shops including local partners' shops. →P13,14</p>
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Domestic Other Business

	Buona Vita	<p>A life-style goods shop offering comfortable life. The number of shops at the end of period was 21. Focused on development of existing shops such as by improving product lineups. →P15</p>
	Søstrene Grene	<p>Denmark's life-style goods shop. Opened 1 shop, and totaled 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. →P19</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 —



The number of customers was 102.9% YoY. Rebound from a drop in the number of customers due to the impact of typhoons and prolonged rain in the previous fiscal year.

Sales were weak due to the sluggish sales of winter clothing related to the warm winter, etc.

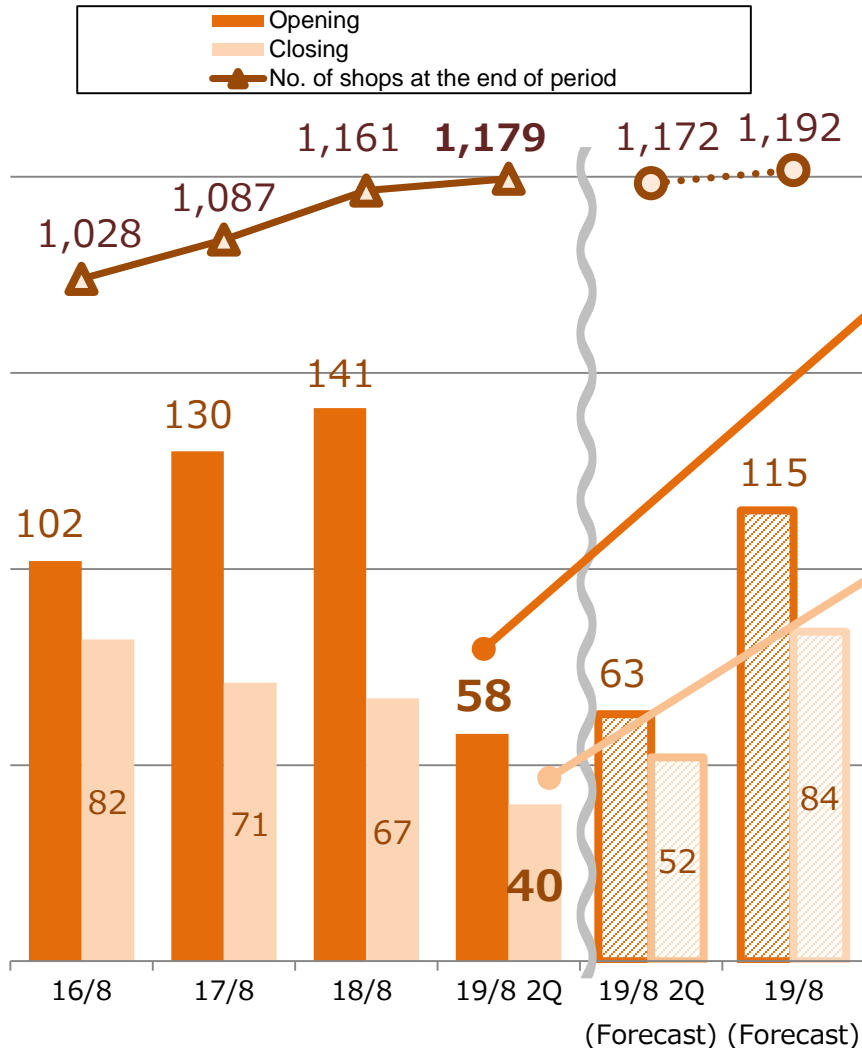
Full-year total	Sales	No. of customers	Spending per customer
YoY	98.9%	98.4%	100.3%
Current period	100.4%	99.6%	100.7%

- ✓ Spending per customer increased YoY in all months.
- ✓ YoY same-store sales for 1H exceeded the full-year target of 100.0%. Aiming to achieve the target for the full-year through sales promotion activities using insert flyers and SNS, and shop renovations.
- ✓ Sales of Watts brand shops reached 102.4% YoY.

*Sales of March 2019: 101.1%

Situation of 100-Yen Shop Business②

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



Opening/closing plan and results

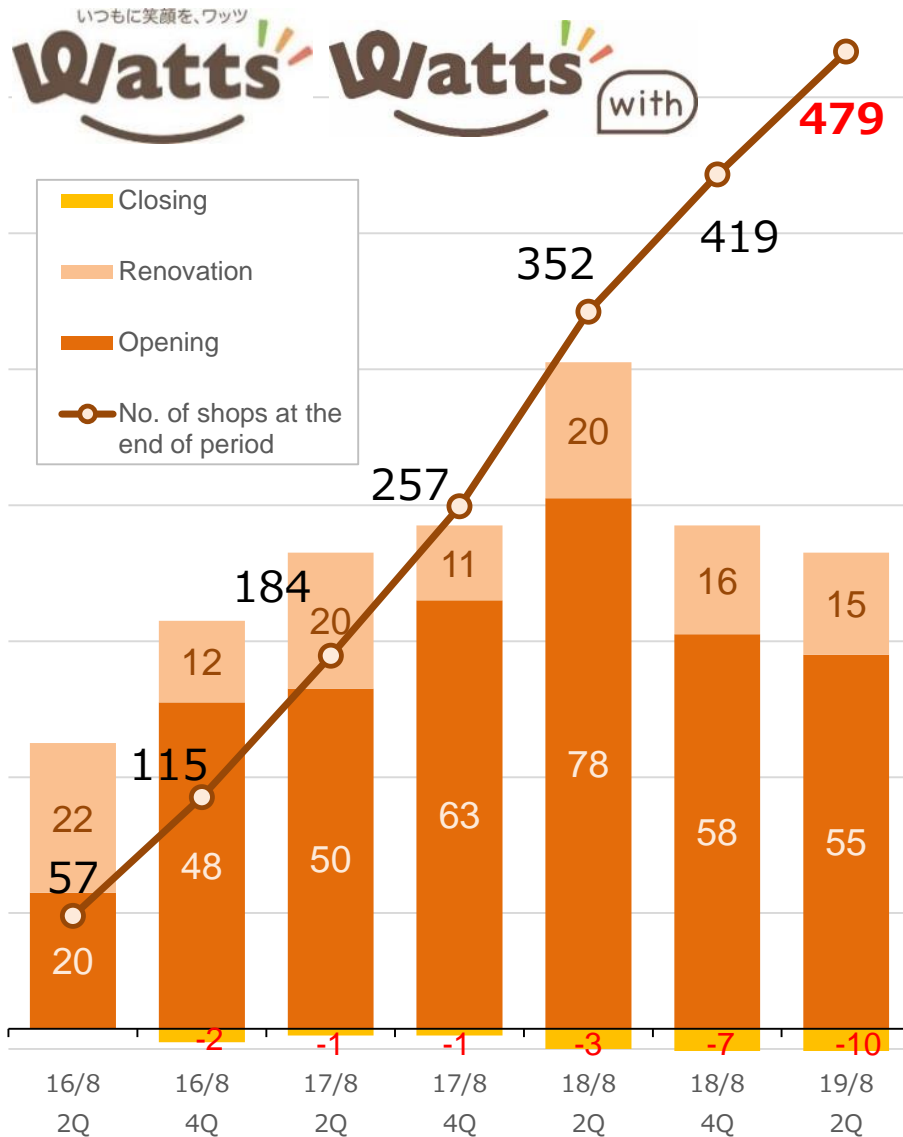
2Q
Opening plan 63 shops → Opened **58 shops**
(Full-year progress rate: 50.4%)

2Q
Closing plan 52 shops → Closed **40 shops**
(Full-year progress rate: 47.6%)

- ✓ Breakdown of shop openings: 17 tenant shops, 40 consignment shops, and 1 FC shop. Total number of shops was 58.
- ✓ **Net increase of 18 shops.**
- ✓ Pace of shop openings was in line with the plan. The number of shops was 1,179 (up 7 shops to the plan) at the end of 2Q.

Situation of 100-Yen Shop Business③

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



October 2018 Watts Nishiarai Tosca East Bldg. Shop (Tokyo)

- ✓ Increased by 60 shops from the end of the previous fiscal year. The share to total number of shops (1,179 shops) is **40.6%**.
- ✓ 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)—

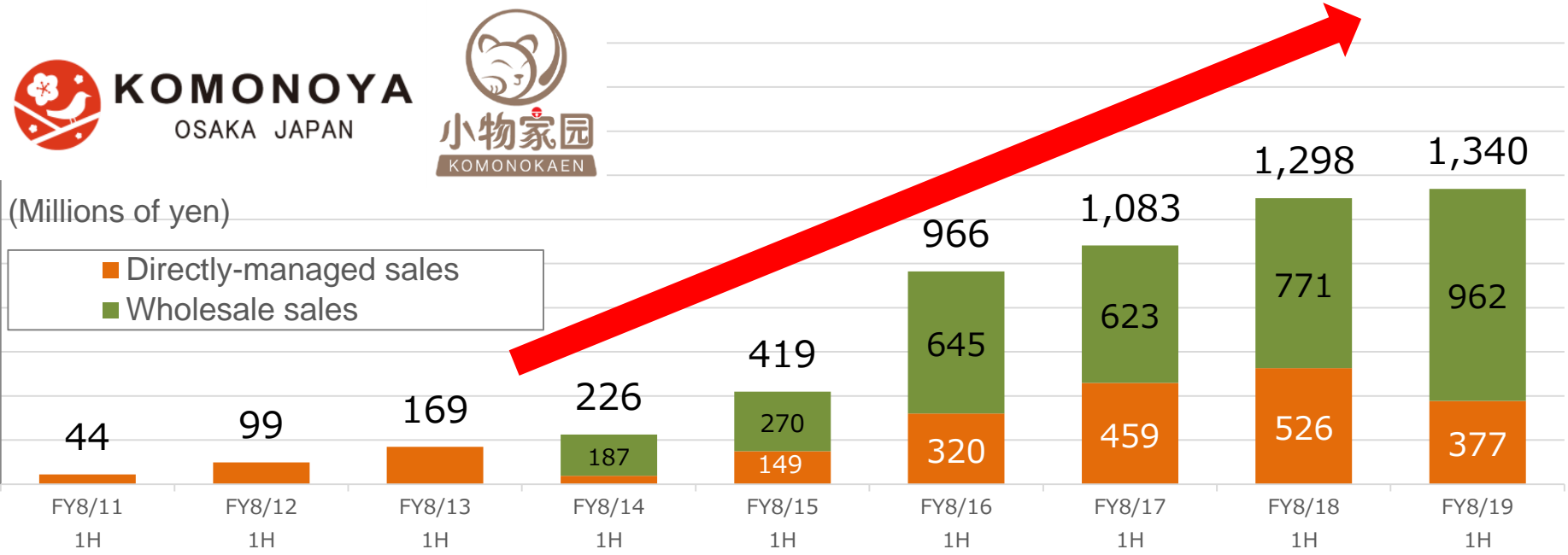


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(Millions of yen)

■ Directly-managed sales
■ Wholesale sales



December 2018 Central World 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 1H	FY8/19 1H	YoY
Sales	1,298 million yen	1,340 million yen	103.2%

Situation of Overseas Business②

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

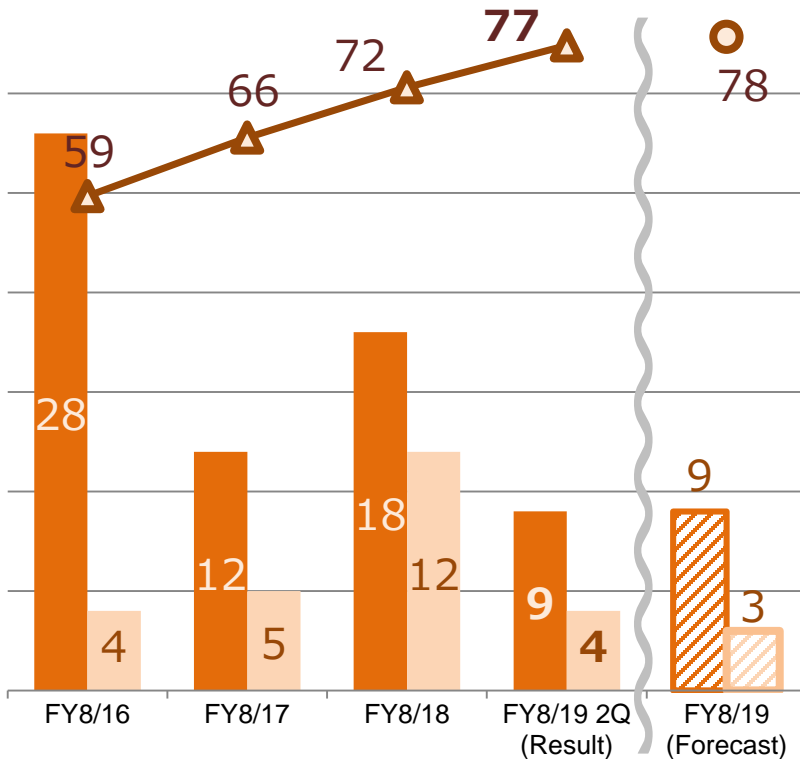


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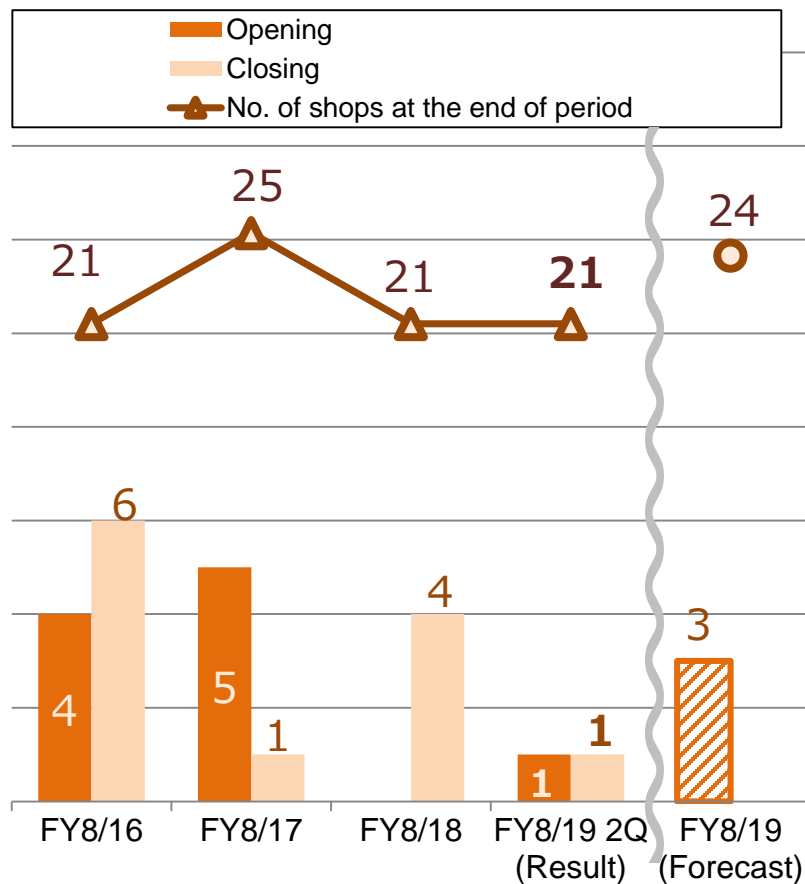
Opening Closing No. of shops at the end of period



	Opening	Closing	No. of shops at the end of period (FY8/19 2Q)
Thailand	5	1	41
China	—	—	2
Malaysia	—	1	8
Vietnam	—	2	9
Peru	4	—	17
Total	9	4	77

- ✓ In Thailand, both existing and new shops are performing well. The Company commenced to open Watts brand shops. Opened 5 shops, and closed 1 shop, totaled 41 shops.
- ✓ There are about 50 fixed-price shops with sales floors consisting of the Company's products which include 15 shops in Myanmar, 12 shops in Mongolia, 11 shops in Mexico and other countries.
- ✓ Opened 4 shops in Peru, and totaled 17 shops. Wholesaling to Mexico and Brazil via Peru.

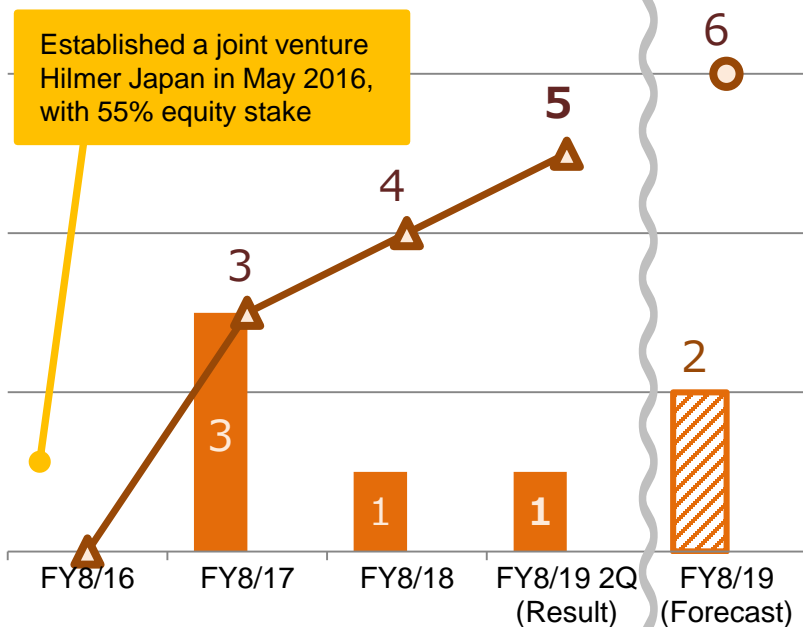
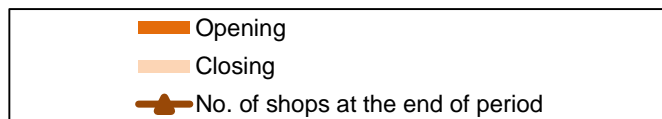
Situation of “Buona Vita”



November 2018 Buona Vita Machinoma Omori Shop (Tokyo)

- ✓ Carefully select locations for new shop openings, mainly in front of the station. During 2Q, opened 1 shop, and closed 1 shop, totaled 21 shops.
- ✓ Despite efforts to developing existing shops, such as introducing new gift items, same-store sales remained at 94.5% YoY.

Situation of "Søstrene Grene"



November 2017 Søstrene Grene PRIMETREE AKAIKE Shop (Aichi)

- ✓ Opened the first flagship shop in Omotesando on October 28, 2016. Operate 5 shops as of the end of February 2019.
- ✓ Same-store sales have not yet reached the target, and profits have deteriorated due to the recording of impairment losses for store facilities, etc. in the current fiscal year.
- ✓ Improve brand recognition by introducing products that meet the domestic market and strengthening branding using SNS and also promote multi-store expansion, 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.
- ✓ Operate 5 shops as of the end of February 2019. Plan to open Kayashima Shop (Neyagawa City, Osaka) in April.

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(Million yen)

Business forecasts	FY8/18 (Results)		FY8/19 (Previous Forecasts)	
		Ratio to sales		Ratio to sales
Sales	49,480	-	52,000	-
Operating profit	1,000	2.0%	1,080	2.1%
Ordinary profit	1,037	2.1%	1,110	2.1%
Net income attributable to owners of parent	633	1.3%	650	1.3%
Net income				
Net Income per Share (Yen)	46.79		47.98	



FY8/19 (Revised)			
	Ratio to sales	Change	Change ratio
52,000	-	-	-
920	1.8%	△160	△14.8%
880	1.7%	△230	△20.7%
270	0.5%	△380	△58.5%
20.15			-

100-Yen shop business

- ✓ Same-store sales were 100.4% in 1H, versus the full-year plan at 100.0% YoY. The pace of new shop openings was went according to the plan, and is expected to be generally in line with the plan for the full-year.

Overseas business

- ✓ Made slight downward revision to the overseas business due to the delay in improving profitability of the Chinese subsidiary, while wholesale sales have been steady.

Lifestyle products business

- ✓ As there is no prospect of improving profitability of AMANO Co., Ltd., the Company decided to withdraw from the business. Made downward revision as expenses related to the withdrawal are expected. Sales at Søstrene Grene shops are also expected to be significantly below the target, due to lower-than-expected same-store sales and the recording of impairment losses on its store facilities.



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



Watts brand shops



- ✓ Renovate “Watts” and “Watts with” in a systematic manner. Increase Watts brand shops at a pace of 100 shops per year with new shop openings
- ✓ Establish shop models to suit the location and customer segments based on sales analysis using POS data.
- ✓ Continue to conduct group interviews, customer visit survey, and online questionnaires to reflect customer feedback in the creation of sales floors.

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.



Expansion of “WATT’S new”



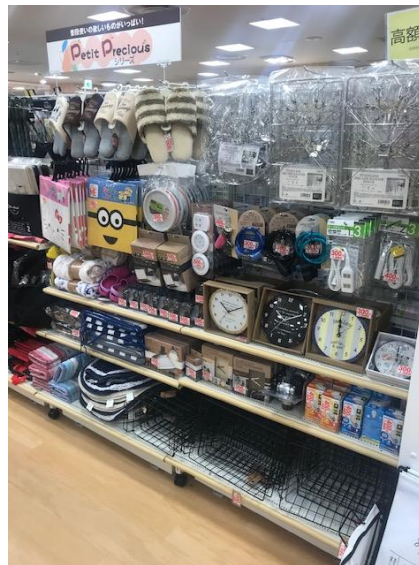
- ✓ Set a theme every 3 months and drastically change displays. Develop an area that allows customers to image a scene of life and appeal to young females
- ✓ As of the end of February 2019, 7 shops are displaying “WATT’S new” space

Monthly sales promotion



- ✓ Implement monthly headquarter-led sales promotion
 - *The above photos show examples of development of monthly sales promotion
- ✓ Increase the number of fashionable items, switching from the standard lineup of consumables and general merchandises. Also aggressively introduce new products and seasonal products

Offer higher price products



- ✓ Increase the number of higher price products (¥200 to ¥1,000) to enhance the product lineups and revitalize sales floors. Aiming for the introduction of 338 items as of the end of February and 600 items as of the end of the current fiscal year.
- ✓ Collaboration shops with a discount shop "Real" will promote to customers other than 100-Yen shops, leading to expansion of customer base.



Moves toward cashless payments



- ✓ Cashless payment services currently available: **credit cards, electronic money, iD, nanaco, WAON, and Rakuten Edy.**
- ✓ Accept most of major international credit card brands.
- ✓ As of the end of February 2019, cashless payment is available at 135 shops among the 480 tenant-type shops. Aim to introduce at 240 shops by the end of this fiscal year.
- ✓ Amid the emerging moves toward cashless payments, the Company is aggressively introducing cashless payments, reflecting its importance.

Future considerations



- ✓ Introduction of **QR code payment** is under consideration.
- ✓ Collect information on other technologies and determine if they are applicable to our shops.





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[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 **“120 shops.”** The Company will continue to keep an eye on entering a promising market

[Boost up existing market]

- ✓ Rebuild support system of the existing market and shops through a new department which was established in the current period. Raise the level of management of sales floors to expand sales. Regard particularly Thailand, Vietnam and Myanmar as significant markets and will actively provide support for operation

【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



- Plan to open 3 new shops. Carefully select locations to grow as income generating business.
- Strengthen lineups of popular products, gift-related products, and handmade products to win repeat customers.
- Headquarter distributes hot topics, merchandising schedules, and product display methods to each store to create high-quality sales floors.



- Plan to open 2 new shops. Focus on product innovation and promote merchandising that matches the Japanese market. Also focus on stable supply of regular and popular products.
- Through measures to spread information via SNS and increase media exposure, aim to build a powerful brand in Japan. In addition, by holding regular workshops and in-store events, aim to improve customer satisfaction and PR effectiveness.

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- Establish a structure that creates operation synergies with 100-Yen shops
- Enhance sale promotion activities using insert flyers, etc.

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Domestic 100-Yen shop business



Overseas business



Other domestic business





“Buona Vita,” a variety store which proposes a comfortable life. Operates 21 shops as of the end of February 2019. The photo is Sannomiya OPA2 shop which opened in February 2017



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



Collaboration shop between 100-Yen shop and grocery



Community-based small discount shop. Operates 5 shops as of the end of February 2019.



Import and wholesale of European taste lifestyle goods



twitter

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 40,000 in about six months since its launch.
- ✓ Aiming to acquire new customers as well as increase the frequency of visits of existing customers

Instagram

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 so that more people will follow.



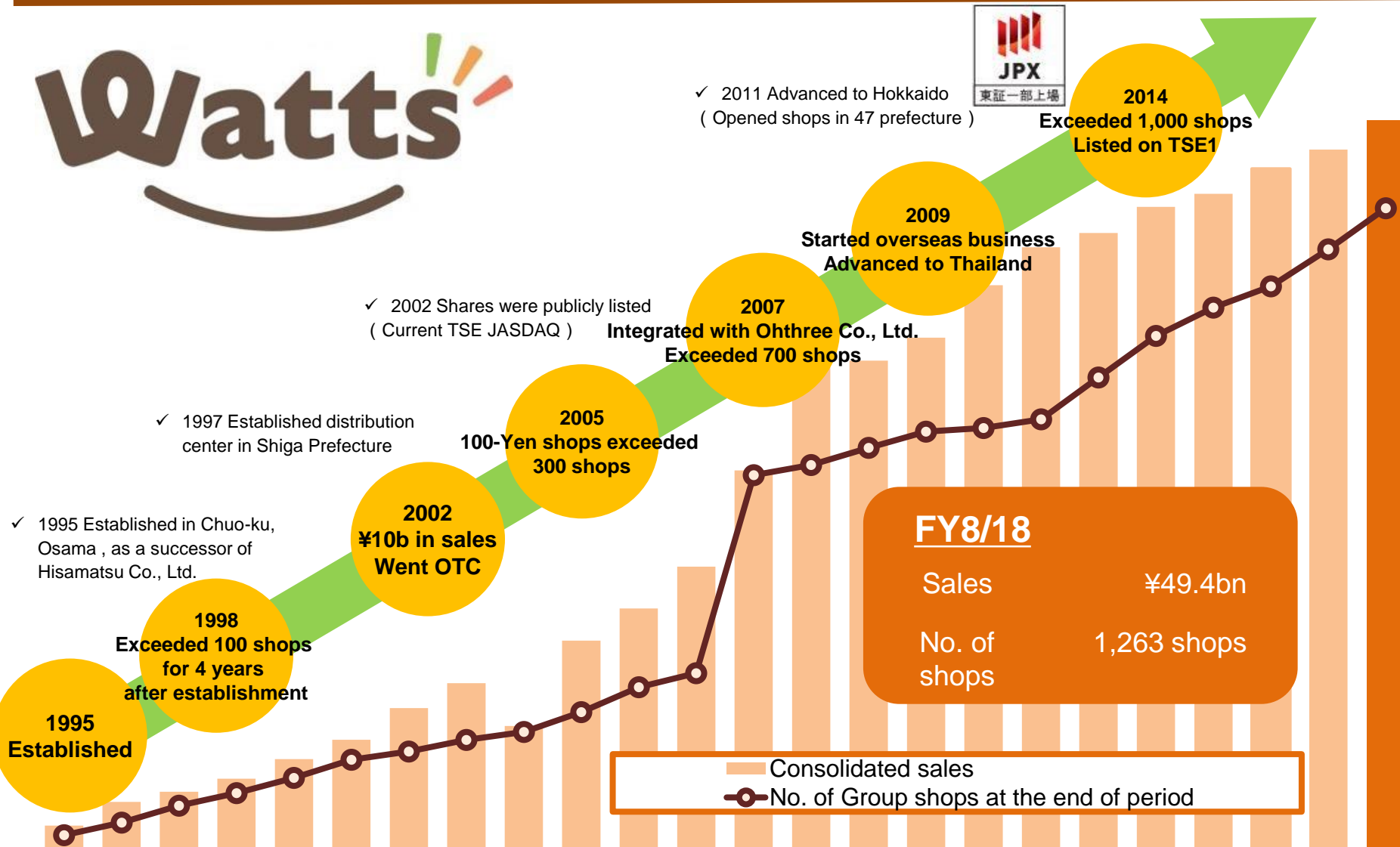
友だちだからお得な情報届けます。

LINE@
友だち募集中。

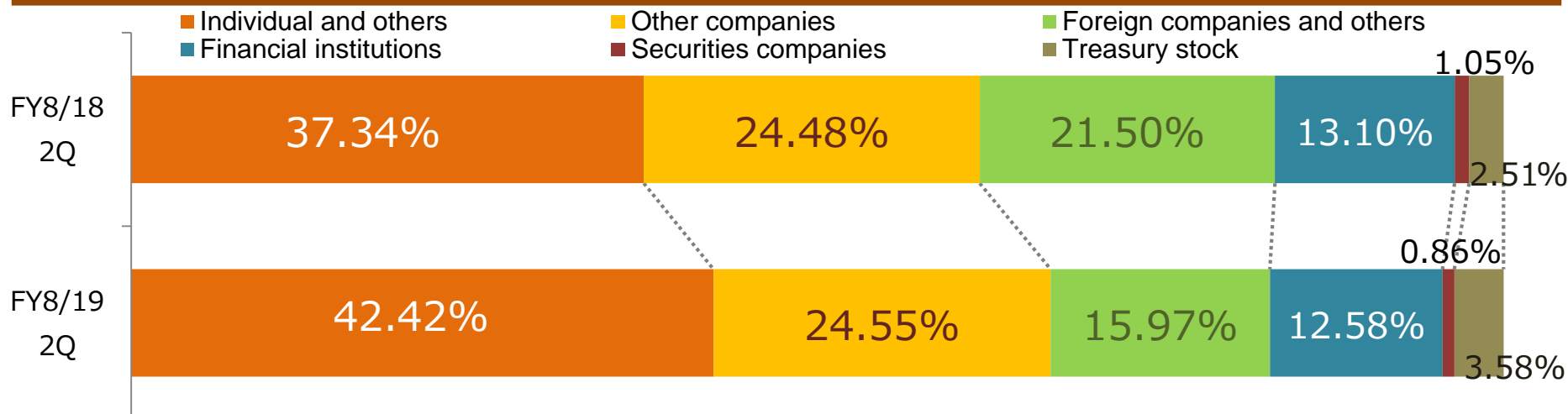
LINE@ is also available at several shops, which users can get information when you become friend.



Establishment	February 22, 1995 (Currently the 25th 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 million yen (as of August 31, 2018)
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	3,375 employees (as of February 28, 2019) *Part-time workers included
Number of shops	1,288 shops (as of February 28, 2019) *Other shops included



Shareholder Composition



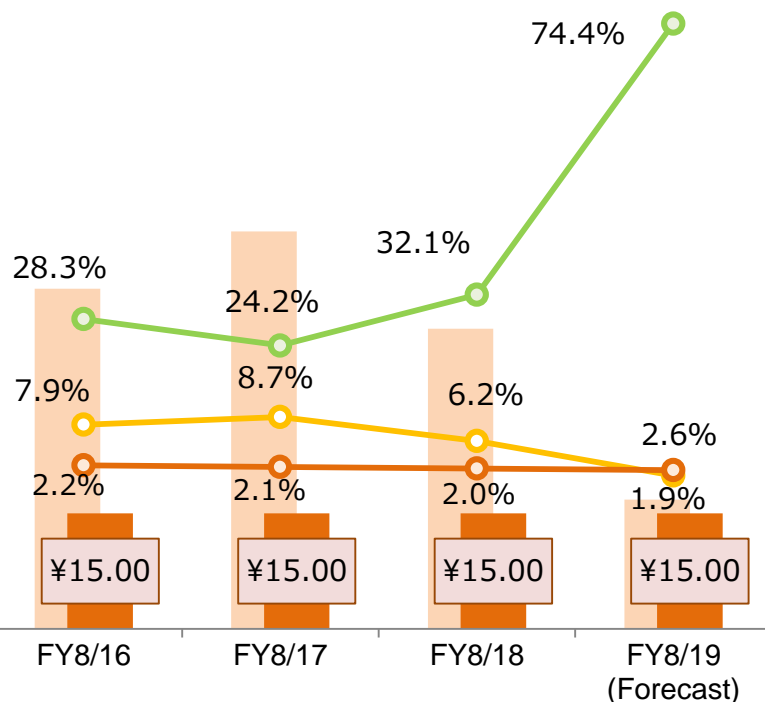
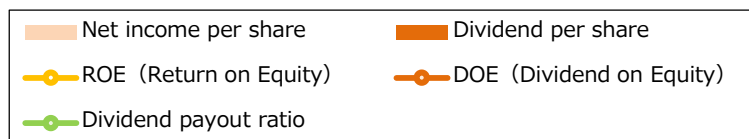
	FY8/17 2Q	FY8/18 2Q	FY8/19 2Q	YoY
Total number of shares issued	13,958,800 shares	13,958,800 shares	13,958,800 shares	—
Number of shareholders	5,060	7,212	11,666	+4,454
Ownership ratio				
Individuals and others	35.46%	37.34%	42.42%	+5.08P
Other domestic companies	24.37%	24.48%	24.55%	+0.07P
Foreign companies and others	22.72%	21.50%	15.97%	+5.53P
Financial institutions	14.11%	13.10%	12.58%	△0.52P
Securities companies	0.83%	1.05%	0.86%	△0.19P
Treasury stock	2.51%	2.51%	3.58%	+1.07P

- ✓ Number of shareholders increased by 4,454 from the previous fiscal year-end.
- ✓ Ownership ratio of individual shareholders increased by 5.08 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 (Forecast)
Net income per share (Yen)	53.04	61.96	46.79	20.15
Dividend per share (Yen)	15.00	15.00	15.00	15.00
Dividend payout ratio	28.3%	24.2%	32.1%	74.4%
Dividend yield	1.6%	1.1%	1.6%	2.1%
ROE (Return on Equity)	7.9%	8.7%	6.2%	2.6%
DOE (Dividend on Equity)	2.2%	2.1%	2.0%	1.9%

*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 February 28, 2019)

*Figures for FY8/19 (forecast) is calculated based on the revised forecast as of April 11, 2019.



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 FY8/18.
- ✓ 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.

Please contact us if you have any inquiry regarding this material.

Inquiries:

Hidehito Mori

(Executive Managing Director, Head of Corporate Planning Office), Watts Co., Ltd.

e-mail : ir@watts-jp.com

TEL : 06-4792-3280