

Summary of Financial Results for the Second Quarter Ended February 28, 2019 [Japan GAAP] (Consolidated)

April 11, 2019

Company **Watts Co., Ltd.** Listed on the TSE
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 Expected date of filing of quarterly report: April 11, 2019 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 2019

(September 1, 2018 through February 28, 2019)

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

	Sales		Operating profit		Recurring profit		Net income attributable to owners of parent	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%
Six months ended Feb. 2019	25,648	7.3	366	-38.7	337	-44.0	103	-72.7
Six months ended Feb. 2018	23,897	1.8	598	-7.1	602	-13.4	379	-22.5

(Note) Comprehensive income

Six months ended February 2019: -6 million yen (-%)

Six months ended February 2018: 373 million yen (-25.9%)

	Net income per share	Diluted net income per share
	Yen	Yen
Six months ended Feb. 2019	7.70	-
Six months ended Feb. 2018	28.00	-

(Note) The Company has changed its reporting method from the first quarter of the current fiscal year, and the figures for the second quarter of the fiscal year ended August 2018 reflect this change. For more details, please refer to the term of “*Notes (4) Change in Reporting Method” on page 9.

(2) Consolidated financial position

	Total assets	Net assets	Shareholders' equity ratio
	Million yen	Million yen	%
As of Feb. 2019	19,834	9,888	51.3
As of Aug. 2018	19,945	10,234	52.2

(Reference) Shareholders' equity:

As of February 2019: 10,172 million yen

As of August 2018: 10,418 million yen

2. Dividends

	Annual dividend				
	End of 1Q	End of 2Q	End of 3Q	Year-end	Total
	Yen	Yen	Yen	Yen	Yen
Year ended Aug. 2018	-	0.00	-	15.00	15.00
Year ending Aug. 2019	-	0.00	-	15.00	15.00
Year ending Aug. 2019 (forecast)	-	-	-	15.00	15.00

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

3. Forecast of consolidated business results for the fiscal year ending August 2019

(September 1, 2018 through August 31, 2019)

(% change from the previous corresponding period)

	Sales		Operating profit		Recurring Profit		Net income attributable to owners of parent		Net income per share	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Yen	
Year ending Aug. 2019	52,000	5.1	920	-8.1	880	-15.2	270	-57.4	20.15	

(Note) Revisions to business forecast for the current quarter: Yes

***Notes**

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

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

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

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

(4) Shares outstanding (common stock)

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

As of February 2019 13,958,800 shares

As of August 2018 13,958,800 shares

② Treasury stock at the end of period

As of February 2019 560,874 shares

As of August 2018 410,874 shares

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

Six months ended February 2019 13,440,919 shares

Six months ended February 2018 13,547,926 shares

(Note) The number of treasury stock at the end of period includes the Company's shares held by the share issuance trust for directors (FY8/19 2Q: 60,000 shares, FY8/18: 60,000 shares). In addition, the Company's shares owned by the share issuance trust for directors are included in treasury stock deducted for calculation of the average number of shares during period (FY8/19 2Q: 60,000 shares, FY8/18 2Q: 60,000 shares).

***Quarterly financial summary is not subject to auditing procedures by certified public accountants or auditing firms.**

***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.

Please refer to “(3) Future forecast information including consolidated business forecasts” of “1. Results of operations” on page 3 for the suppositions that form the assumptions for business forecasts and cautions concerning the use of business forecasts.

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1. Results of Operations

(1) Analysis of operating results

During the six months ended February 2019, the Japanese economy remained generally strong, supported by robust corporate earnings and investments in labor-saving and IT industries. Consumer sentiment has been showing an improving trend, partly due to a recovery in employee income. The Japanese government judged that the current economy is in the longest recovery phase since the end of World War II, surpassing the "Izanami Economy." However, the outlook remained uncertain due to overseas situations such as the U.S.-China trade talks and the U.K.'s decision to leave the European Union.

Given this environment, in addition to the 100-Yen shop business in Japan, the Company, which operates the "Watts", "Watts with", "meets.", "silk", etc., has been working on diversifying its revenue sources by undertaking other domestic businesses, centering on the sale of life-style goods and discount goods as well as overseas business.

As for the domestic 100-Yen shop business, the Company is promoting further improvements mainly "Restructuring the Business Model" with the goal of creating new brand value to meet diversifying customer needs. Specifically, the Company is working to enhance its product lineup by introducing higher price products with sales prices ranging from 200 yen to 1,000 yen. In addition, the Company is also working to create synergies among the Group's businesses, such as by offering products of the discount shop "Real", which became a consolidated subsidiary in the previous fiscal year, as a special feature at the newly-opened 100-Yen shop "Watts Kadoma-Minami Shop".

As for the new shop openings, the Company opened 58 shops (including 1 franchised shop) against the full-year plan of 115 shops, although there were many relatively small sized shops. There were 40 shop closings (including 3 franchised shops), including certain unprofitable shops and unpredictable closing of shops where the Company's shops were located in. As a result, the total number of 100-Yen shops at the end of the second quarter was 1,179, which includes 1,149 directly managed shops (net increase of 20), and 30 franchised/other shops (net decrease of 2). Of these, the number of "Watts" and "Watts with", the Watts brand shops, increased to 479 (net increase of 60), accounting for about 40% of the total.

As for the number of the domestic other shops at the end of the second quarter, "Buona Vita," a life-style goods shop offering comfortable life, was 21 shops (unchanged). Buona Vita has been working to develop the existing shops, such as introducing new gift items. "Søstre Grene", a Denmark's life-style variety shop, was 5 shops (increased by 1). Its same-store sales have not yet reach the target, the Company will continue to strengthen promotions using SNS and product lineups to attract more customers. "Value-100," the fresh-foods supermarket collaboration, continues with 1 shop (unchanged). "Real", a discount shop, was 5 shops (increased by 1).

Regarding the overseas operation, the Company operates "KOMONOYA", a fixed-price shop mainly in Southeast Asia. At the end of the second quarter, "KOMONOYA" operates 41 shops in Thailand (increased by 4), 8 shops in Malaysia (decreased by 1), 9 shops in Vietnam (decreased by 2), and 17 shops in Peru (increased by 4). In China, a fixed price shop "小物家园" (KOMONOKAEN) was 2 shops (unchanged). The total number of own-brand shops "KOMONOYA" and "小物家园" (KOMONOKAEN) was 77 (increased by 5). The numbers of local shops with sales floors consisting of the Company's products are gradually increasing and expanding particularly in Mexico and Brazil. The total number of shops, in addition to our group shops, exceeds 120 shops. Despite the transfer of a subsidiary in Malaysia in the previous fiscal year and the switch from directly managed operations to franchise operation, overseas sales increased YoY due to the steady opening of new shops in Thailand and Peru.

As a result, for the six months ended February 2019, sales were 25,648 million yen (up 7.3% YoY, 101.0% to the plan). Operating profit was 366 million yen (down 38.7% YoY, 85.3% to the plan), and recurring profit was 337 million yen (down 44.0% YoY, 78.4% to the plan) due to proactive opening of relatively large-scale shops in the 100-Yen shop business and delays in improving profits at "Søstre Grene" and Chinese subsidiary. Net income attributable to owners of parent was 103 million yen (down 72.7% YoY, 40.6% to the plan) mainly due to the recording of impairment losses on "Søstre Grene" store facilities. (*Year on year: comparison with the results for the same period of the previous fiscal year. Ratio to plan: ratio to the business forecasts for the six months ended February 2019 which were announced in the Summary of Financial Results on October 11, 2018.)

Since the Group operates under a single segment consisting of the operation of 100-Yen shops associated business, segment information is omitted.

(2) Analysis of financial position

a. Assets, liabilities and net assets

(Assets)

As of the end of the current second quarter of the fiscal year, current assets stood at 14,331 million yen, decreased by 273 million yen from the end of the previous fiscal year. This was mainly due to an increase of 277 million yen in merchandise and finished goods despite decreases of 311 million yen in cash and deposits and 223 million yen in notes and accounts receivable-trade.

Fixed assets stood at 5,503 million yen, increased by 162 million yen. This was mainly due to increases of 79 million yen in guarantee deposits, 59 million yen in tools, furniture and fixtures, and 22 million yen in buildings and structures.

As a result, total assets stood at 19,834 million yen, decreased by 110 million yen from the end of the previous fiscal year.

(Liabilities)

As of the end of the current second quarter of the fiscal year, current liabilities stood at 8,528 million yen, increased by 113 million yen from the end of the previous fiscal year. This was mainly due to increases of 941 million yen in electronically recorded obligations and 90 million yen in income taxes payable, despite a decrease of 863 million yen in notes and accounts payable-trade.

Fixed liabilities stood at 1,417 million yen, increased by 121 million yen. This was mainly due to an increase of 147 million yen in long-term loans payable.

As a result, total liabilities stood at 9,945 million yen, increased by 234 million yen from the end of the previous fiscal year.

(Net assets)

As of the end of the current second quarter of the fiscal year, net assets stood at 9,888 million yen, decreased by 345 million yen compared with the end of the previous fiscal year. This was mainly due to a decrease of 100 million yen in retained earnings, and purchase of treasury stock of 135 million yen. As a result, shareholders' equity ratio was 51.3% (52.2% at the end of the previous fiscal year).

b. Cash flows

Cash and cash equivalents (hereinafter referred to as "cash") at end of the current second quarter of the fiscal year amounted to 4,835 million yen, decreased by 311 million yen from the previous fiscal year. Details and breakdown of each cash flow in the second quarter are as follows.

(Cash flows from operating activities)

Net cash provided by operating activities was 376 million yen (344 million yen was provided in the same period of the previous fiscal year). Cash was provided mainly by a decrease in notes and accounts receivable-trade of 223 million yen, depreciation and amortization of 209 million yen, and income before income taxes of 195 million yen. Cash was used mainly for an increase of 283 million yen in inventories.

(Cash flows from investing activities)

Net cash used in investing activities was 503 million yen (391 million yen was used in the previous fiscal year). As for the breakdown, there were payments for property, plant and equipment of 368 million yen for opening of new shops, payments for lease and guarantee deposits of 150 million yen.

(Cash flows from financing activities)

Net cash used for financing activities was 186 million yen (197 million yen was used in the previous fiscal year). This was mainly due to proceeds from long-term loans payable of 500 million yen, repayment of long-term loans payable of 343 million yen, cash dividends paid of 203 million yen, and purchase of treasury stock of 135 million yen.

(3) Future forecast information including business forecasts

In view of recent trends in business results, the Company revised its full-year business results, which were announced on October 11, 2018.

2. Quarterly Consolidated Financial Statements

(1) Quarterly Consolidated Balance Sheets

(Thousands of yen)

	Previous fiscal year (August 31, 2018)	Current second quarter (February 28, 2019)
Assets		
Current assets		
Cash and deposits	5,147,120	4,835,206
Notes and accounts receivable-trade	2,262,537	2,039,062
Merchandise and finished goods	6,811,518	7,088,555
Raw materials and supplies	8,087	6,976
Consumption taxes receivable	42,588	47,904
Other	374,125	364,716
Allowance for doubtful accounts	-40,991	-50,907
Total current assets	14,604,987	14,331,513
Noncurrent assets		
Property, plant and equipment		
Buildings and structures	1,658,569	1,834,048
Accumulated depreciation and impairment loss	-887,262	-1,040,017
Buildings and structures, net	771,306	794,030
Vehicles	18,856	18,529
Accumulated depreciation and impairment loss	-12,969	-13,947
Vehicles, net	5,886	4,582
Tools, furniture and fixtures	3,369,569	3,549,877
Accumulated depreciation and impairment loss	-2,665,399	-2,786,043
Tools, furniture and fixtures, net	704,169	763,833
Land	257,800	257,800
Leased assets	27,623	27,623
Accumulated depreciation and impairment loss	-7,432	-11,148
Leased assets, net	20,191	16,475
Total property, plant and equipment	1,759,354	1,836,721
Intangible assets		
Other	69,547	92,322
Total intangible assets	69,547	92,322
Investments and other assets		
Investment securities	472,690	459,724
Deferred tax assets	420,341	410,157
Guarantee deposits	2,481,628	2,560,651
Other	140,832	145,134
Allowance for doubtful accounts	-3,827	-1,664
Total investments and other assets	3,511,665	3,574,004
Total noncurrent assets	5,340,566	5,503,049
Total assets	19,945,554	19,834,562

(Thousands of yen)

	Previous fiscal year (August 31, 2018)	Current second quarter (February 28, 2019)
Liabilities		
Current liabilities		
Notes and accounts payable-trade	3,997,054	3,133,233
Electronically recorded obligations - operating	2,544,768	3,486,023
Short-term loans payable	100,000	100,000
Current portion of long-term loans payable	539,349	548,133
Income taxes payable	129,943	220,270
Accrued consumption taxes	66,137	81,286
Provision for bonuses	177,783	172,408
Other	860,065	787,003
Total current liabilities	8,415,102	8,528,360
Noncurrent liabilities		
Long-term loans payable	532,182	680,130
Liabilities relating to retirement benefits	264,848	264,842
Provision for directors' retirement benefits	38,785	24,946
Provision for directors' stock-based benefits	24,464	28,592
Asset retirement obligations	134,835	153,274
Other	300,888	265,765
Total noncurrent liabilities	1,296,004	1,417,550
Total liabilities	9,711,107	9,945,910
Net assets		
Shareholders' equity		
Capital stock	440,297	440,297
Capital surplus	1,637,636	1,637,636
Retained earnings	8,459,425	8,358,744
Treasury stock	-137,991	-273,120
Total shareholders' equity	10,399,368	10,163,557
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	20,482	10,129
Foreign currency translation adjustment	-883	-1,535
Total accumulated other comprehensive income	19,598	8,593
Non-controlling interests	-184,519	-283,500
Total net assets	10,234,447	9,888,651
Total liabilities and net assets	19,945,554	19,834,562

(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, 2017 to February 28, 2018)	Current second quarter (from September 1, 2018 to February 28, 2019)
Sales	23,897,647	25,648,425
Cost of sales	14,685,292	16,053,143
Gross profit	9,212,354	9,595,281
Selling, general and administrative expenses	8,613,979	9,228,680
Operating profit	598,375	366,601
Non-operating revenues		
Equity in earnings of affiliates	10,863	5,235
Other	22,905	14,564
Total non-operating income	33,768	19,799
Non-operating expenses		
Interest expenses	2,757	2,492
Early-withdrawal penalty	20,540	37,643
Exchange loss	1,087	7,920
Other	5,438	1,280
Total non-operating expenses	29,824	49,337
Recurring profit	602,320	337,063
Extraordinary income		
Gain on sales of fixed assets	1,034	-
Total extraordinary income	1,034	-
Extraordinary loss		
Loss on retirement of fixed assets	843	6,290
Impairment loss	11,508	135,440
Total extraordinary losses	12,352	141,731
Income before income taxes and minority interests	591,002	195,331
Income taxes-current	230,057	208,945
Income taxes-deferred	19,228	-18,070
Total income taxes	249,286	190,874
Net income	341,715	4,457
Net loss attributable to non-controlling interests	-37,629	-98,980
Net income attributable to owners of parent	379,345	103,437

(Quarterly Consolidated Statements of Comprehensive Income)

(Second quarter)

(Thousands of yen)

	Previous second quarter (from September 1, 2017 to February 28, 2018)	Current second quarter (from September 1, 2018 to February 28, 2019)
Net income	341,715	4,457
Other comprehensive income		
Valuation difference on available-for-sale securities	6,515	-10,353
Foreign currency translation adjustment	8,962	-8,876
Share of other comprehensive income of associates accounted for using equity method	15,881	8,224
Total other comprehensive income	31,359	-11,005
Comprehensive income	373,075	-6,548
(Breakdown)		
Comprehensive income attributable to owners of parent	410,705	92,432
Comprehensive income attributable to non-controlling interests	-37,629	-98,980

(3) Quarterly Consolidated Statements of Cash Flows

(Thousands of yen)

	Previous second quarter (from September 1, 2017 to February 28, 2018)	Current second quarter (from September 1, 2018 to February 28, 2019)
Net cash provided by (used in) operating activities		
Income before income taxes and minority interests	591,002	195,331
Depreciation and amortization	169,232	209,192
Impairment loss	11,508	135,440
Amortization of goodwill	-	1,907
Increase (decrease) in allowance for doubtful accounts	1,860	8,376
Increase (decrease) in provision for bonuses	-6,927	-5,375
Increase (decrease) in provision for directors' bonuses	-11,475	-
Increase (decrease) in liabilities relating to retirement benefits	11,450	-6
Increase (decrease) in provision for directors' retirement benefits	1,345	-13,839
Increase (decrease) in provision for directors' stock-based benefits	4,486	4,128
Interest and dividends income	-2,036	-3,936
Interest expenses	2,757	2,492
Loss on retirement of fixed assets	843	6,290
Decrease (increase) in accounts receivable-trade	291,584	223,300
Decrease (increase) in inventories	-160,888	-283,103
Increase (decrease) in notes and accounts payable-trade	2,433	95,993
Increase (decrease) in accrued consumption taxes	-95,206	8,911
Other	-204,511	-91,263
Subtotal	607,461	493,839
Interest and dividends income received	1,986	3,728
Interest expenses paid	-1,800	-1,494
Income taxes paid	-329,405	-119,808
Income taxes refund	65,913	-
Net cash provided by (used in) operating activities	344,155	376,265
Net cash provided by (used in) investing activities		
Purchase of property, plant and equipment	-320,812	-368,098
Proceeds from sales of property, plant and equipment	1,034	-
Payments for lease and guarantee deposits	-78,283	-150,096
Proceeds from collection of lease and guarantee deposits	45,519	72,684
Payments for asset retirement obligations	-865	-2,037
Other	-38,018	-55,933
Net cash provided by (used in) investing activities	-391,425	-503,481
Net cash provided by (used in) financing activities		
Proceeds from long-term loans payable	400,000	500,000
Repayment of long-term loans payable	-394,082	-343,268
Repayment of lease obligations	-	-3,989
Purchase of treasury shares	-	-135,128
Cash dividends paid	-203,144	-203,892
Net cash provided by (used in) financing activities	-197,226	-186,279
Effect of exchange rate change on cash and cash equivalents	-9,466	1,580
Net increase (decrease) in cash and cash equivalents	-253,963	-311,914
Cash and cash equivalents at beginning of period	5,727,607	5,147,120
Cash and cash equivalents at end of period	5,473,644	4,835,206

(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)

The Company acquired 150,000 shares of its treasury stock pursuant to the resolution of the Board of Directors meeting on October 11, 2018. With this, treasury stock was increased by 135,128 thousand yen during the six months of the current fiscal year. As a result, treasury stock at the end of the second quarter of the current fiscal year was 273,120 thousand yen.

(Additional information)

(Application of "Partial Revision of Accounting Standard for Tax Effect Accounting")

From the beginning of the first quarter of the current fiscal year, the Company has applied the "Partial Revision of Accounting Standard for Tax Effect Accounting" (ASBJ Statement No. 28, February 16, 2018), and deferred tax assets are presented under "Investments and other assets."

(Changes in reporting method)

(Quarterly consolidated statements of income)

Previously, real estate leasing transactions were recorded in "Rental income" and "Cost of rental income" under non-operating income and non-operating expenses. However, from the first quarter of the current fiscal year, "Rental income" is now presented as "Sales" and "Cost of rental income" is presented as "Cost of sales".

The Company regards leasing to tenants as one of its businesses, and recognizes that rental income is a stable source of revenue. Based on this recognition, the Company has changed its reporting method in order to more appropriately present the actual state of its business operations.

As a result, in the consolidated statements of income for the six months of the current fiscal year, the amount of 10,742 thousand yen, which was presented as "Rent Received" in non-operating income, was reclassified as "Sales", and the amount of 5,400 thousand yen, which was presented as "Cost of Rental Income" in non-operating expenses, was reclassified as "Cost of sales."