



Watts Co., Ltd.

(2735; Tokyo Stock Exchange First Section)

Operating Results for the Six Months of the Fiscal Year Ending August 2020 and Progress of the Full-Year Plan

April 13, 2020 (Monday)

Fumio Hiraoka, President and CEO

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Consolidated Operating Results for the Six Months of the Fiscal Year Ending August 2020



(Millions of yen)

Financial highlights	FY8/19 2Q		FY8/20 2Q (Current period)			
		Ratio to sales		Ratio to sales	YoY	Ratio to forecast
Sales	25,648	–	25,982	–	101.3%	101.9%
Gross profit	9,595	37.4%	9,900	38.1%	103.2%	–
Selling, general and administrative expenses	9,228	36.0%	9,114	35.1%	98.8%	–
EBITDA	577	2.3%	994	3.8%	172.3%	–
Operating profit	366	1.4%	786	3.0%	214.5%	262.1%
Recurring profit	337	1.3%	783	3.0%	232.4%	252.6%
Net income attributable to owners of parent	103	0.4%	420	1.6%	406.6%	350.5%
Net income per share (Yen)	7.70		31.39		–	–

*Comparison with the business forecasts for FY8/20 2Q, which was announced in the Summary of Financial Results dated October 10, 2019.

- ✓ **Sales increased by 1.3% YoY** and by 1.9% to the plan, thanks to the strong performance of the 100-Yen shop business, which offset the decline in sales due to withdrawal from the Amano business. →P3, P9
- ✓ **Gross profit increased by 3.2%**, as the gross profit margin improved by 0.7 percentage points. →P4
- ✓ **Operating profit significantly increased at 214.5% YoY and at 262.1% to the 1H plan**, due to fewer large store openings compared to the same period of the previous fiscal year and the effect of cost-cutting measures, in addition to the aforementioned factors. →P5

Sales by Business Type



(Millions of yen)

Sales by Business Type		FY8/19 2Q		FY8/20 2Q (Current period)		
			Ratio to sales		Ratio to sales	YoY
100-Yen shops	Directly managed	21,104	82.3%	21,967	84.5%	104.1%
	Wholesale, Other	1,249	4.9%	1,056	4.1%	84.6%
	Subtotal	22,354	87.2%	23,024	88.6%	103.0%
Overseas Business	Directly managed	377	1.5%	329	1.3%	87.3%
	Wholesale	962	3.8%	828	3.2%	86.0%
	Subtotal	1,340	5.2%	1,158	4.5%	86.4%
Lifestyle products business	Buona Vita					
	Søstrene Grene	839	3.3%	537	2.1%	64.0%
	AMANO					
Real, etc.		1,113	4.3%	1,262	4.9%	113.3%
Total		25,648	100.0%	25,982	100.0%	101.3%

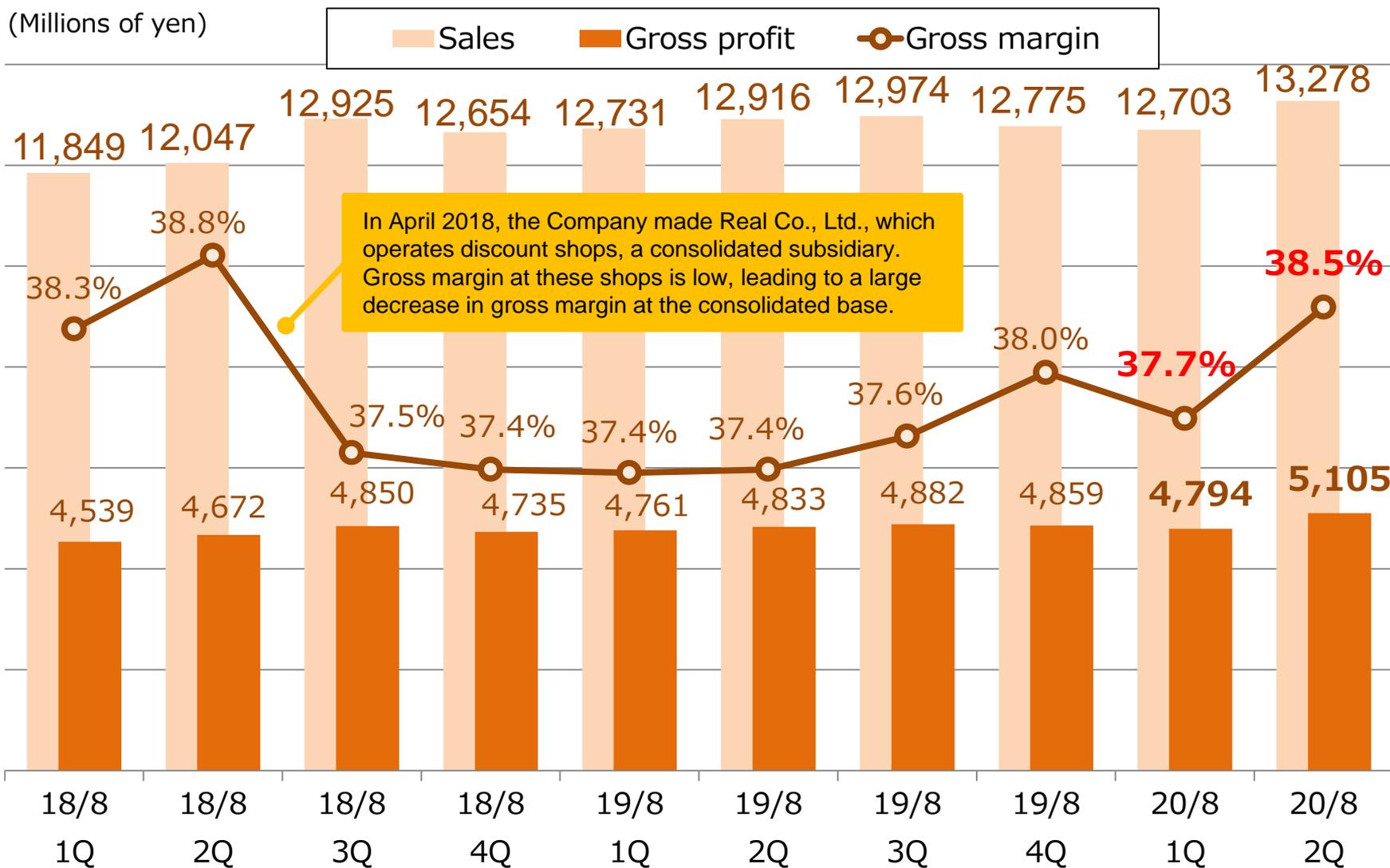
*The Company withdrew from the Amano business at the end of November 2019.

- ✓ Sales in the domestic 100-Yen shop business increased by 3.0% YoY, its ratio to the consolidated sales increased by 1.4 percentage points.

Quarterly Changes in Gross Margin



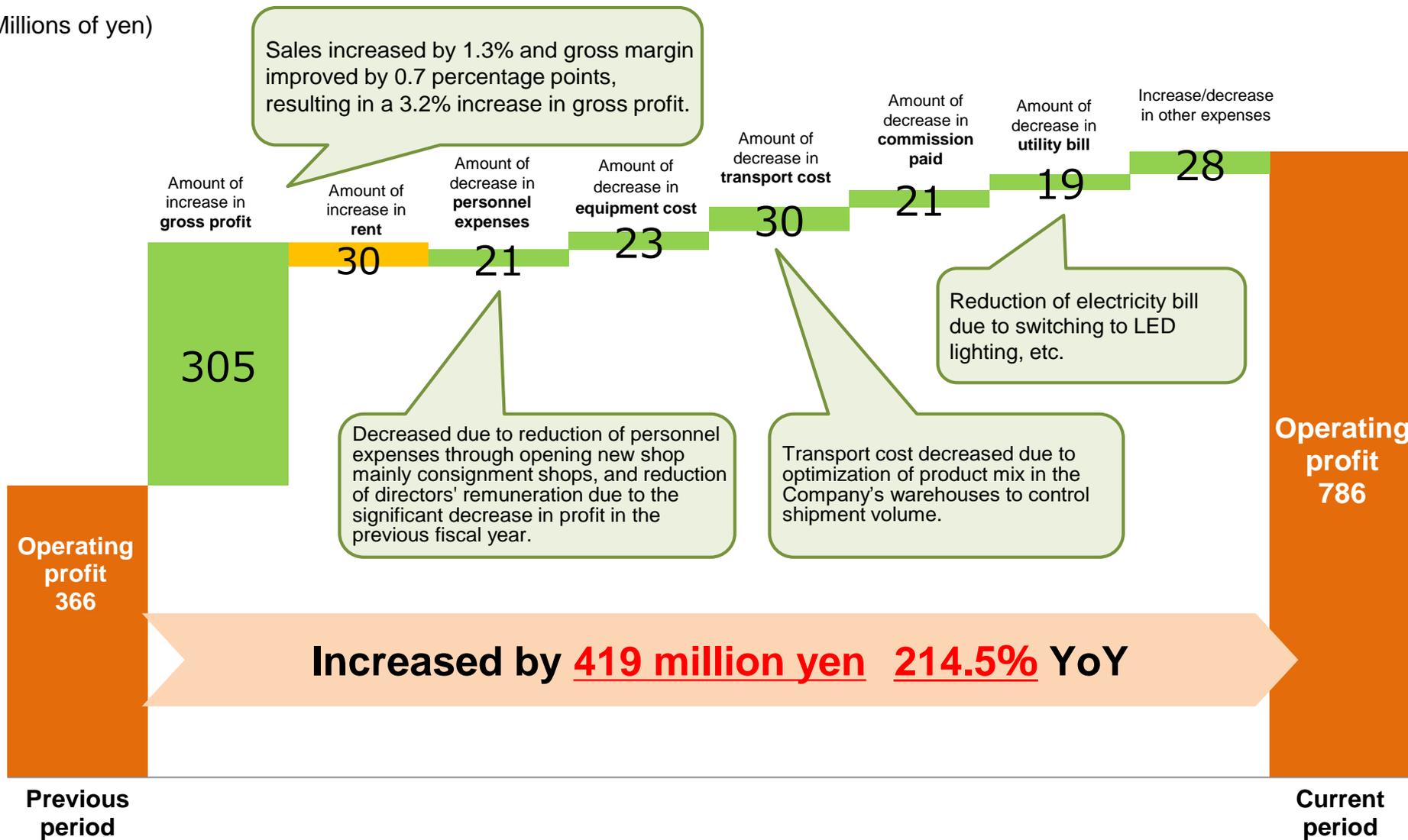
(Millions of yen)



Factors for Changes in Operating Profit



(Millions of yen)



Previous period

Current period

Consolidated Balance Sheet and Consolidated Cash Flows



(Millions of yen)

Consolidated balance sheet	FY8/19		FY8/20 2Q (Current period)	
		Pct. change		Pct. change
Cash and deposits	6,075	Up 18.0%	6,578	Up 8.3%
Merchandise and finished goods	7,081	Up 4.0%	7,198	Up 1.7%
Other current assets	2,942	Up 11.2%	2,831	Down 3.8%
Tangible fixed assets	1,780	Up 1.2%	1,769	Down 0.6%
Other fixed assets	3,677	Up 2.7%	3,853	Up 4.8%
Total assets	21,557	Up 8.1%	22,230	Up 3.1%
Liabilities	11,690	Up 20.4%	12,077	Up 3.3%
Net assets	9,867	Down 3.6%	10,153	Up 2.9%

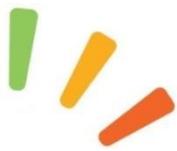
- ✓ Shareholders' equity ratio was 46.9%, down by 0.2 percentage points from the end of the previous period.
- ✓ In other current assets, deferred tax assets increased by 186 million yen due to the transfer of a Chinese subsidiary and other factors
- ✓ In liabilities, notes and accounts payable-trade decreased by 384 million yen, while electronically recorded obligations increased by 515 million yen and long-term debt increased by 111 million yen.

(Millions of yen)

Consolidated cash flows	FY8/19 2Q		FY8/20 2Q (Current period)	
		Change		Change
Net cash provided by (used in) operating activities	376	+32	842	+465
Net cash provided by (used in) investing activities	△503	△112	△ 317	+186
Net cash provided by (used in) financing activities	△186	+10	△ 36	+149
Effect of exchange rate change on cash and cash equivalents	+1	+11	15	+13
Cash and cash equivalents at end of period	4,835	△638	6,578	+1,743
Free cash flows	△127	△79	524	+651

- ✓ In the cash flows from operating activities, income before income taxes and minority interests increased by 392 million yen.
- ✓ In the cash flows from investing activities, acquisition of property, plant and equipment decreased by 125 million yen due to fewer large shop openings compared with the same period of the previous fiscal year.

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Domestic 100-Yen Shop Business

 	Opening/closing	<p>Opened 72 shops to the full-year plan of 140 shops and closed 40 Shops to the plan of 82 shops. The number of shops at the end of the period was 1,224 (net increase of 32 shops) →P10</p>
 	Watts brand shops	<p>Increased by 68 shops to 588 shops through openings and renovations. The share to total number of 100-Yen shops increased to 48.0% →P11</p>

Overseas Business

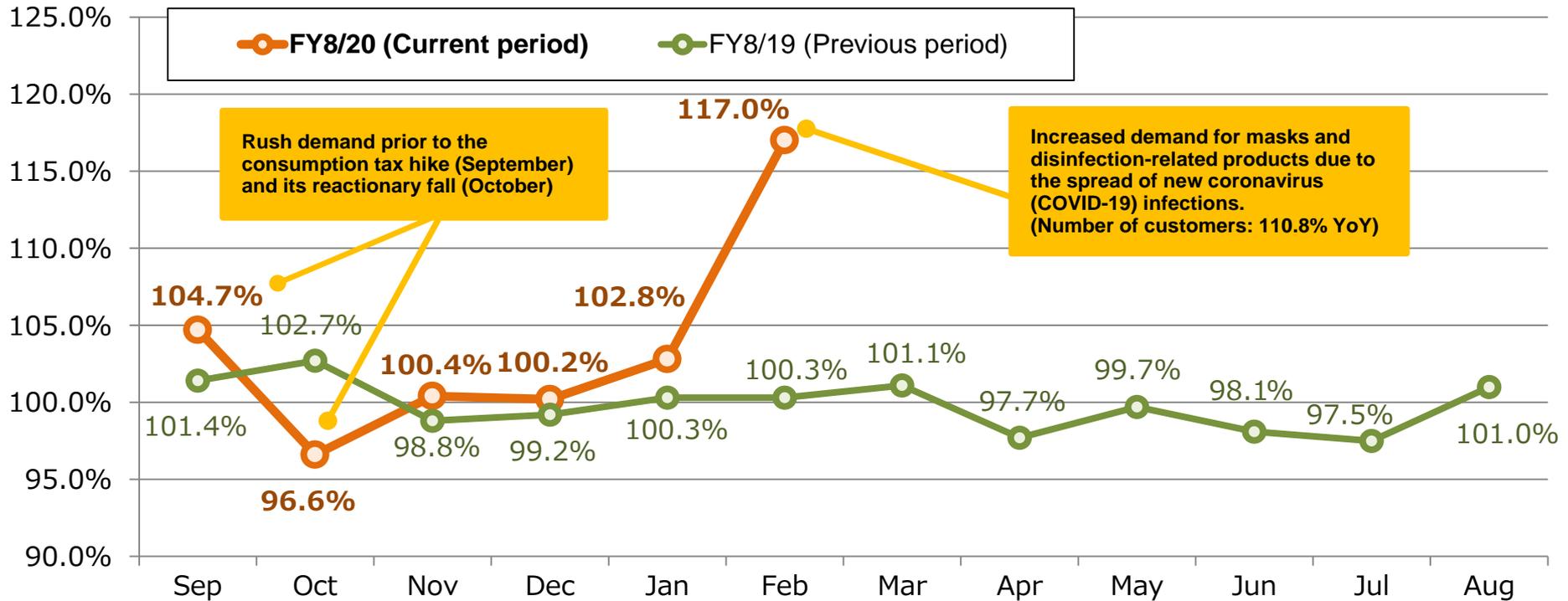
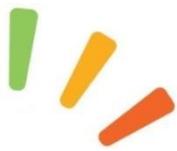
 	Overseas shops	<p>The number of shops that are selling WATTS products was 88 (unchanged), and more than 130 shops including local partners' shops. →P13</p>
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Domestic Other Business

	Buona Vita	<p>A life-style goods shop offering comfortable life. The number of shops at the end of period was 21. Focused on strengthening gift items to further develop existing shops. →P14</p>
	Søstrene Grene	<p>Denmark's life-style goods shop. Operate 5 shops. Worked to improve profitability by closing unprofitable shops and opening low-cost format shops. →P15</p>
	AMANO	<p>Withdrew from this business as there is no prospect for improvement in profits.</p>
	Real	<p>Community-based discount shop. Operates 6 shops at the end of February 2020. Aim to create synergies with 100-Yen shop business. →P16</p>

Situation of 100-Yen Shop Business①

— Changes in Same-store sales YoY —



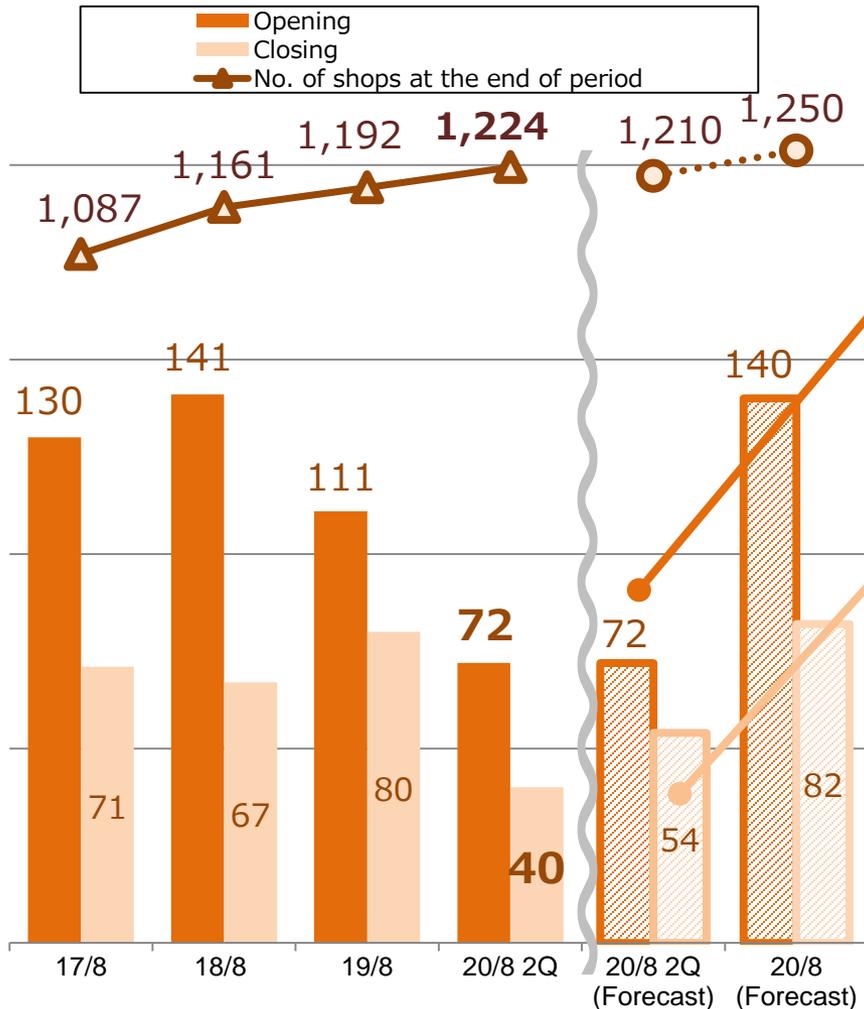
1H total	Sales	No. of customers	Spending per customer
YoY	100.4%	99.6%	100.7%
Current period	103.5%	100.1%	103.2%

- ✓ The effect of introducing products with prices other than 100 yen was evident, with spending per customer increasing around 3% in every month.
- ✓ Sales of Watts brand shops were strong at 105.3% YoY.

*Sales of March 2020: 108.8%

Situation of 100-Yen Shop Business②

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



Opening/closing plan and results

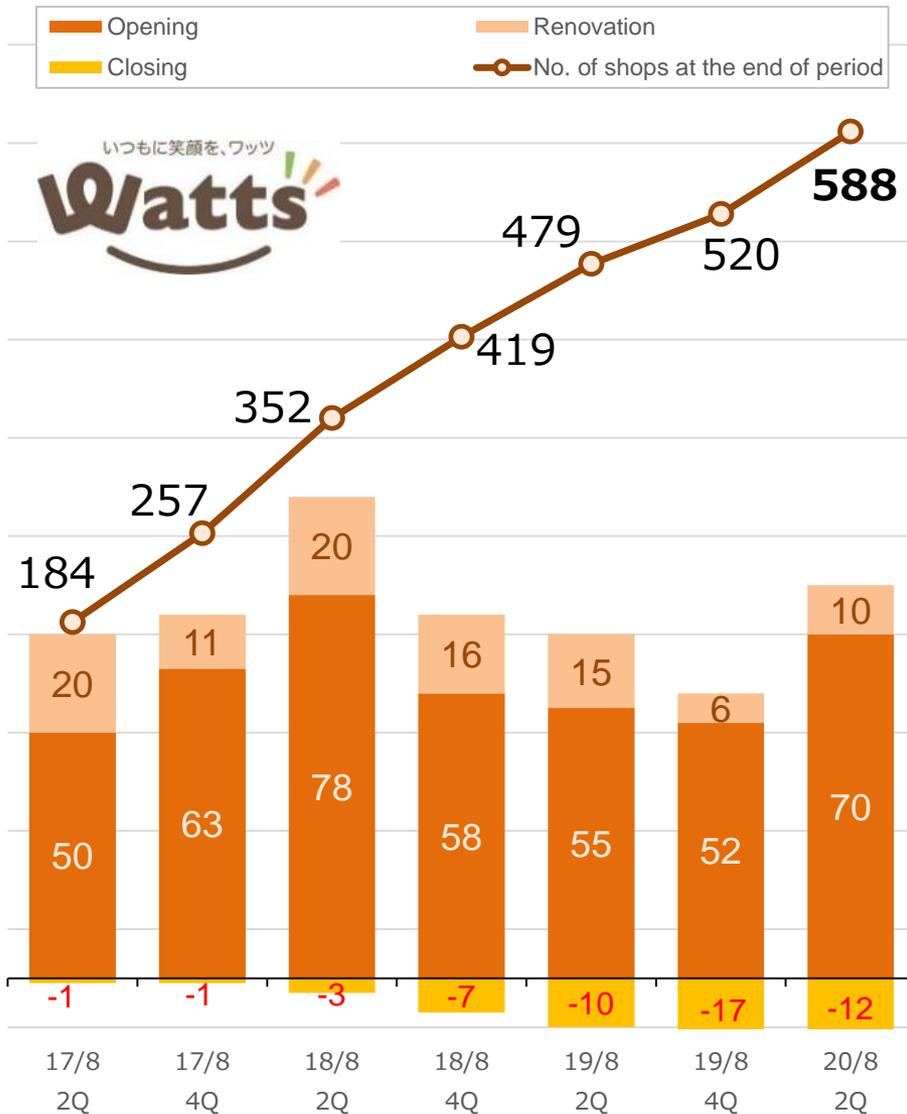
2Q
 Opening plan 72 shops → Opened **72 shops**
 (Full-year progress rate: 51.4%)

2Q
 Closing plan 54 shops → Closed **40 shops**
 (Full-year progress rate: 48.8%)

- ✓ Breakdown of shop openings: 9 tenant shops, 63 consignment shops. Total number of shops was 72.
- ✓ Breakdown of shop closings: 14 tenant shops, 24 consignment shops, and 2 FC shops. Total number of shops was 40.
- ✓ **Net increase of 32 shops.** The number of shops was **1,224** at the end of period.

Situation of 100-Yen Shop Business③

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



November 2019 Watts Tennoji Apollo Shop (Osaka)

- ✓ Increased by 68 shops from the end of the previous fiscal year. The share to total number of shops (1,224 shops) is **48.0%**.
- ✓ To open shops mainly Watts brand; renovations will be made by reviewing the possibility of investment recovery.

Situation of Overseas Business①

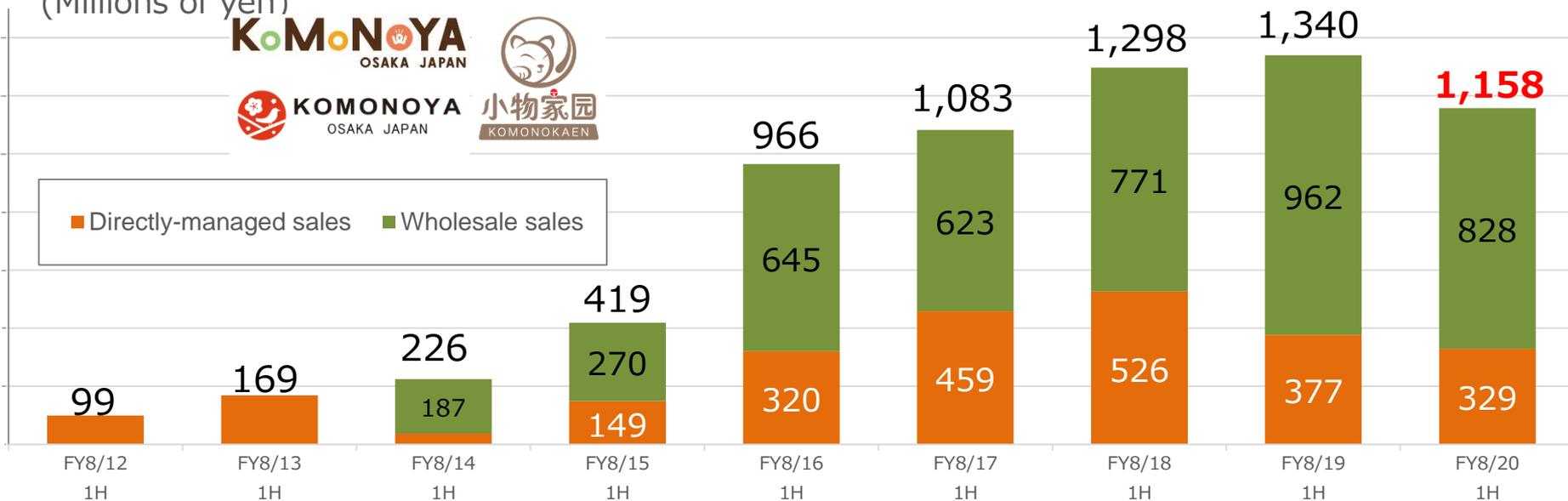


—Changes in Sales (Directly-managed and Wholesale)—

(Millions of yen)



■ Directly-managed sales
 ■ Wholesale sales



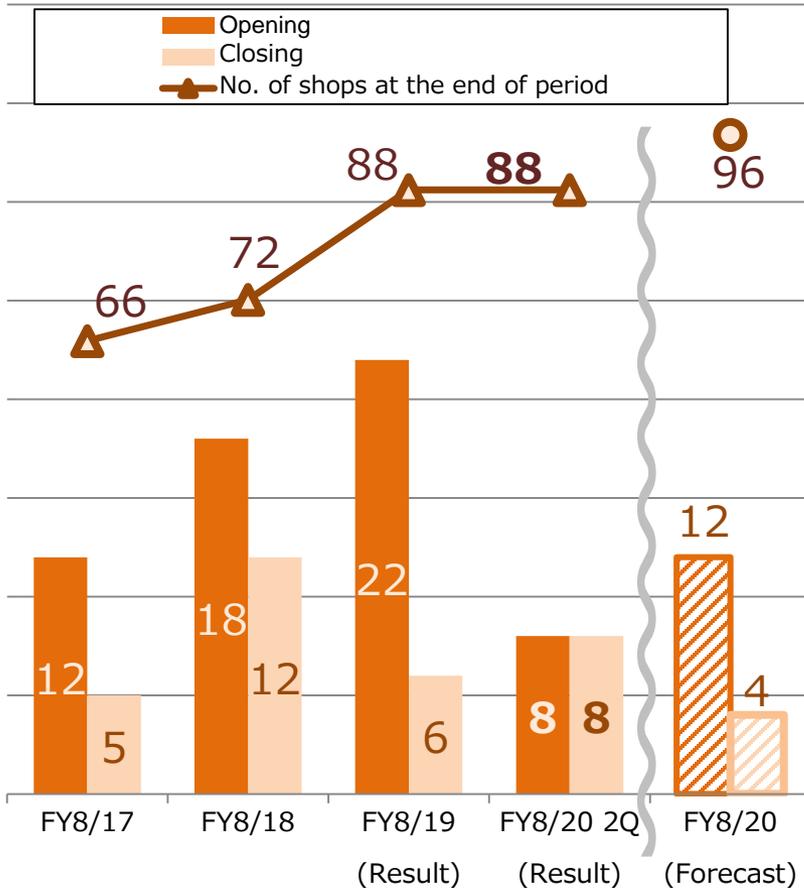
October 2019 Central Festival Phuket Shop (Thailand)

- ✓ Directly-managed shops gain foothold while focusing on wholesale sales to neighbor countries (collaboration with local partners).
- ✓ Despite an increase in wholesale sales to Vietnam and the Philippines, sales were lower than the previous year's level, mainly due to a decline in wholesale sales to Thailand.

Overseas business	FY8/19 1H	FY8/20 1H	YoY
Sales	1,340 million yen	1,158 million yen	86.4%

Situation of Overseas Business②

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

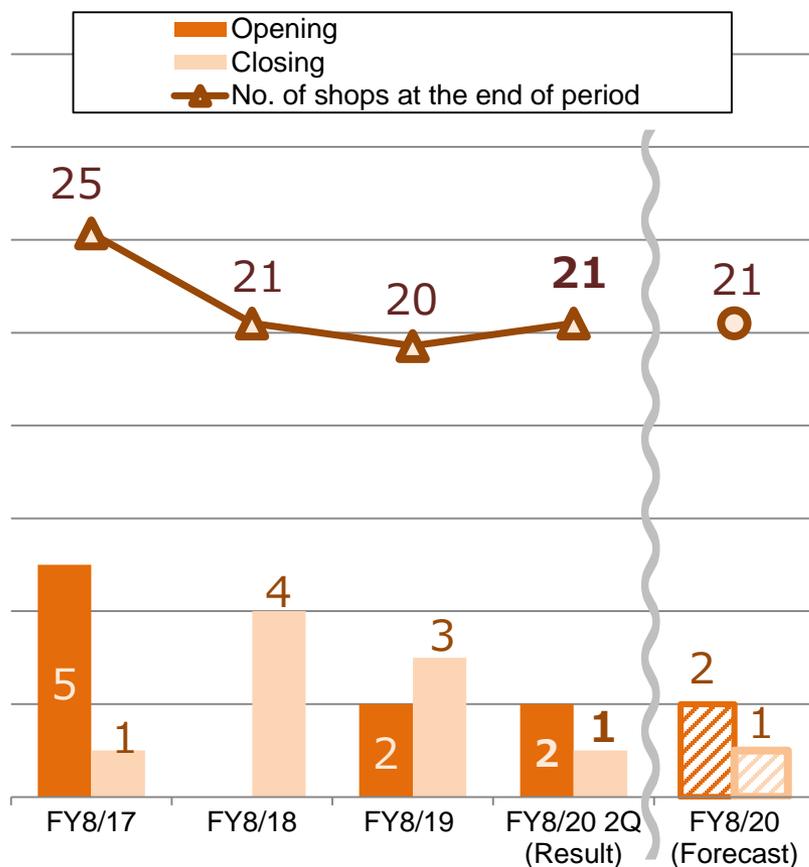


	Opening	Closing	No. of shops at the end of period (FY2/20)
Thailand	8	4	53
China	—	—	2
Malaysia	—	2	6
Vietnam	—	2	7
Peru	—	—	20
Total	8	8	88

- ✓ In Thailand, **net increase of 4 shops**, totaled 53 shops. Of these, there are 10 Watts band shops through new shop openings and renovations.
- ✓ In China, the Company has decided to transfer its sales subsidiary and aims to expand the business through wholesale.
- ✓ There are about 50 fixed-price shops with sales floors consisting of the Company's products which include 17 shops in Myanmar, 9 shops in Mexico and other countries.



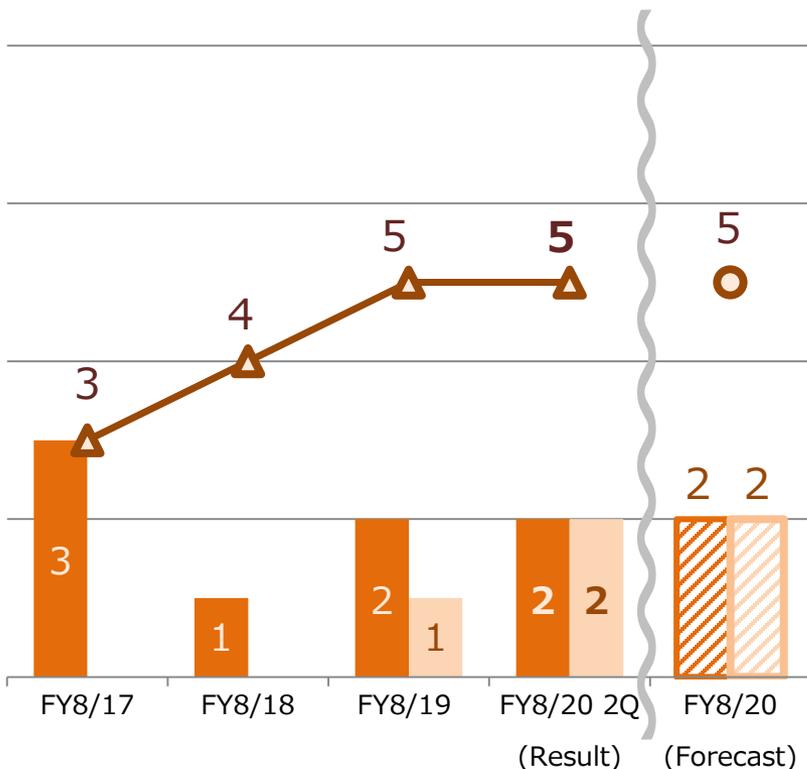
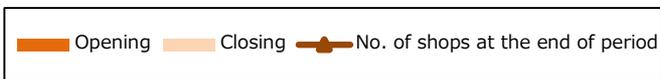
Buona Vita
フォーナ・ビータ



February 2020 Buona Vita Shin-Koshigaya Varie Shop (Saitama)

- ✓ Carefully select locations for new shop openings. During the second quarter, opened 2 shops and closed 1 shop, totaled **21 shops**.
- ✓ Same-store sales were weak at 94.1% YoY, despite the implementation of the LINE friends-only discount service at the same time of events at shops where the Company's shops are located in, and efforts to improve employee wrapping skills.

Situation of "Søstrene Grene"



October 2019 Søstrene Grene Terrace Mall Matsudo Shop (Chiba)

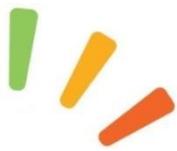
- ✓ The Company opened 2 new shops and closed unprofitable shops, Omotesando Shop and Marui Kichijoji Shop, bringing the total to **5 shops**.
- ✓ Improve brand recognition by introducing products that meet the domestic market and strengthening branding using SNS and also promote multi-store expansion, utilizing low-operating-cost-shop format with the aim of making the business profitable early.

Situation of “Real”



- ✓ In April 2018, the Company acquired all the shares of Real Co., Ltd., which operates the discount shop Real, and made it a consolidated subsidiary.
- ✓ Offer a wide range of value-for-money products with utilizing their strength in procurement capability.
- ✓ Trial opening of collaborative shops with the Company's 100-Yen shops to create synergies with 100-Yen shop business.
- ✓ Operate **6 shops** at the end of February 2020 (5 tenant shops and 1 consignment shop).

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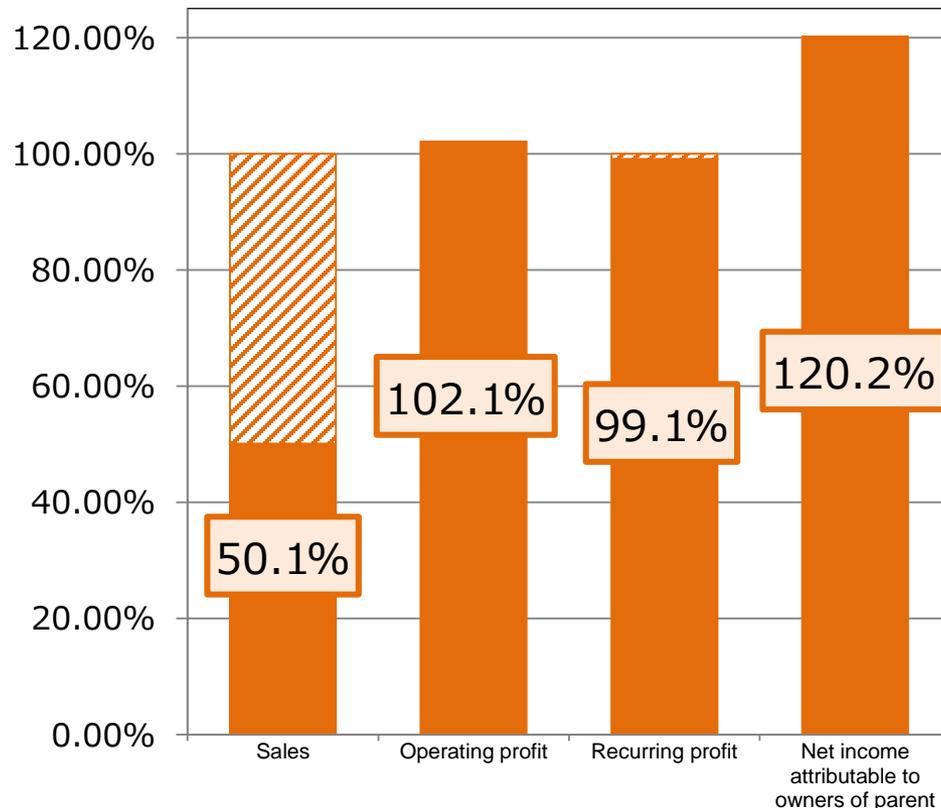


(Millions of yen)

Business forecasts	FY8/20 (Forecast)		
		Ratio to sales	YoY
Sales	51,860	—	100.9%
Gross profit	—	—	—
Selling, general and administrative expenses	—	—	—
Operating profit	770	1.5%	107.4%
Recurring profit	790	1.5%	120.4%
Net income attributable to owners of parent	350	0.7%	495.9%
Net income			
Net Income per share (Yen)	26.12		—

- ✓ Although the performance has been strong and may exceed the full-year forecasts, **the Company remains unchanged its full-year consolidated business forecasts** as there are unclear outlooks for the termination of the new coronavirus (COVID-19) infectious and for its future impact on the performance.
- ✓ The Company will promptly disclose any information that it deems necessary to revise.

Progress ratio vs. full-year forecasts





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



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
- ✓ 1,118 items as of the end of February. 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 February 2020, cashless payment is available at 236 shops among the 460 tenant-type shops.
- ✓ More than 200 of our shops are participating in **the Cashless and Consumer Redemption Business (cashless point redemption business)**

Launch of EC Site



- ✓ Opened Watts Online Shop in response to customer requests
- ✓ Sell mainly products featured on SNS and Watts Select products.
- ✓ Started to sell Søstrene Grene products, in addition to the 100-Yen shop products.

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



Watts Anniversary Event “Watts × RODY”

- ✓ Collaboration campaign with "RODY" to celebrate **25th anniversary of Watts**
- ✓ Changed in-store POP, etc. to collaborative designs with Rody and promote Rody goods.



- ✓ Various events are under planning such as sales of original mascot and Watts exclusive Rody goods and 3 consecutive months of SNS giveaway campaign!



- ✓ In the first month of the giveaway campaign named "100,000 Instagram Followers Thank You Campaign", 50 people can get an assortment of Rody goods.

(All images shown are for illustration purpose only.)



おかげさまで25周年

25th
Anniversary



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KOMONOYA



小物家园 “KOMONOKAEN”



[Expansion of wholesaling]

- ✓ Currently, countries and regions with shipping records are China, Myanmar, Singapore, Mongolia, Cambodia, U.S.A, New Zealand, 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, Philippines and Myanmar as significant markets and will actively provide support for operation



- Plan to open 2 new shops. 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.
- 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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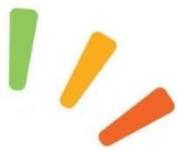
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Domestic 100-Yen shop business



Overseas business



KOMONOYA
OSAKA JAPAN



小物家园
KOMONOKAEN

Other domestic business





Buona Vita
フォーナ・ビータ

“Buona Vita,” a variety store which proposes a comfortable life. Operates 21 shops as of the end of February 2020. The photo is nonowa Higashi-Koganei shop which opened in April 2019.



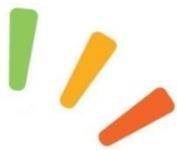
“Søstrene Grene”, a joint venture in a life-style goods shop offering North European items. Operates 5 shops as of the end of February 2020.



Collaboration shop between 100-Yen shop and grocery



Community-based small discount shop. Operates 6 shops as of the end of February 2020.



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.

- ✓ Instagram followers exceed 100,000.
- ✓ 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.



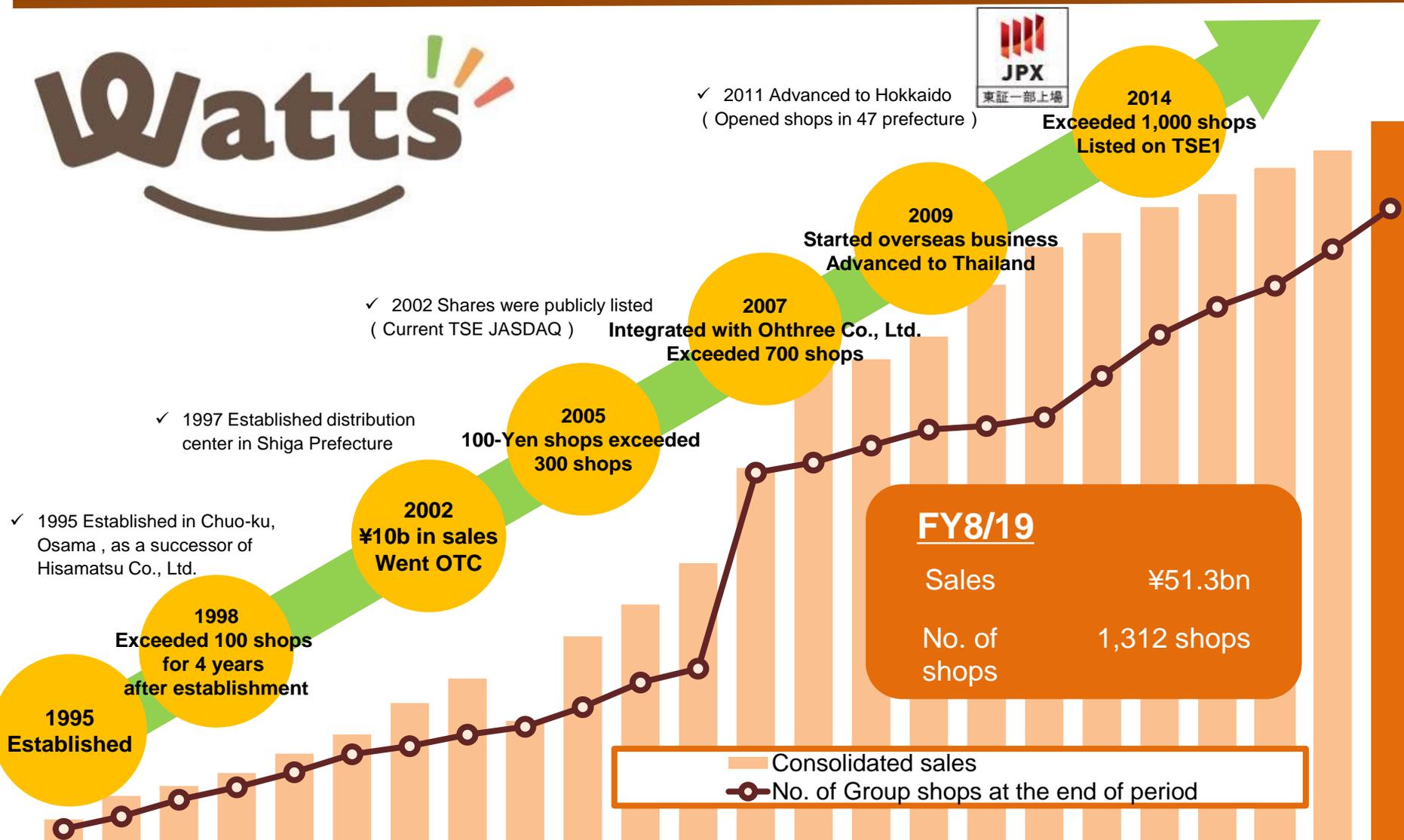
友だちだからお得な情報届けます。

LINE@
友だち募集中。

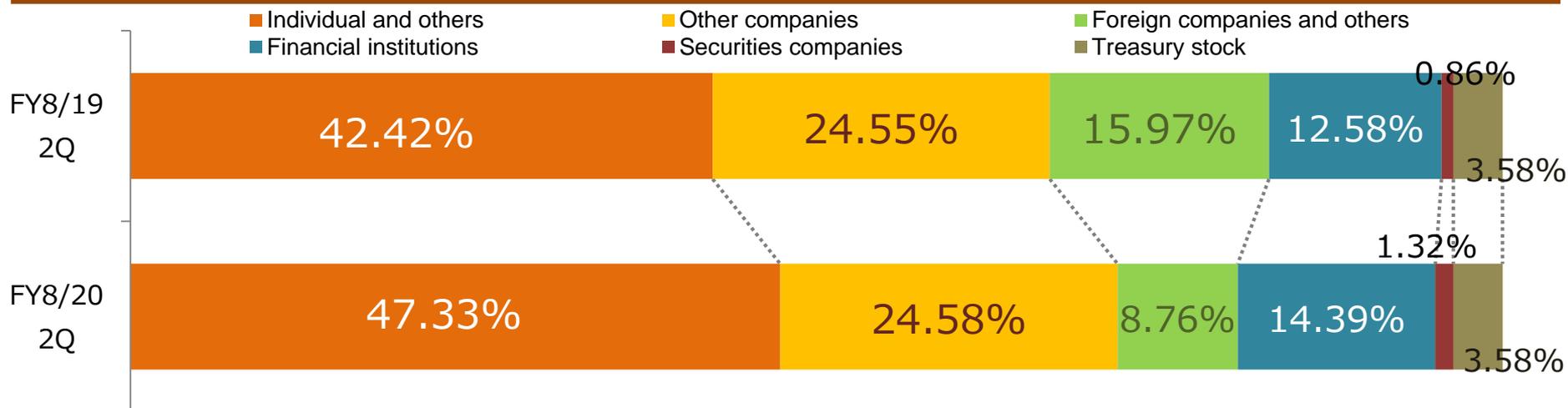
LINE@ is also available at several shops, which users can get information when you become friend.



Establishment	February 22, 1995 (Currently the 26th 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	3,240 employees (as of February 29, 2020) *Part-time workers included
Number of shops	1,345 shops (as of February 29, 2020) *Other shops included



Shareholder Composition



	FY8/18 2Q	FY8/19 2Q	FY8/20 2Q	YoY
Total number of shares issued	13,958,800 shares	13,958,800 shares	13,958,800 shares	—
Number of shareholders	7,212	11,666	16,029	+4,363
Ownership ratio				
Individuals and others	37.34%	42.42%	47.33%	+4.91P
Other domestic companies	24.48%	24.55%	24.58%	+0.03P
Foreign companies and others	21.50%	15.97%	8.76%	△7.21P
Financial institutions	13.10%	12.58%	14.39%	1.81P
Securities companies	1.05%	0.86%	1.32%	0.46P
Treasury stock	2.51%	3.58%	3.58%	—

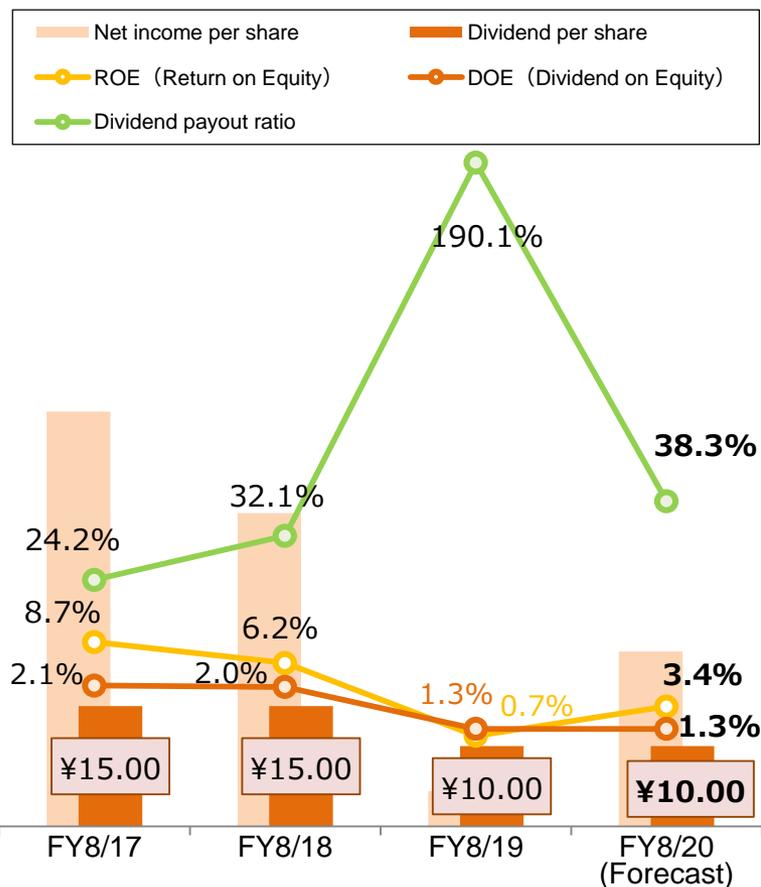
- ✓ Number of shareholders increased by 4,363 YoY.
- ✓ Ownership ratio of individual shareholders increased by 4.91 percentage points YoY.

(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.



	FY8/17	FY8/18	FY8/19	FY8/20 (Forecasts)
Net income per share (Yen)	61.96 yen	46.79 yen	5.26 yen	26.12 yen
Dividend per share (Yen)	15.00 yen	15.00 yen	10.00 yen	10.00 yen
Dividend payout ratio	24.2%	32.1%	190.1%	38.3%
Dividend yield	1.1%	1.6%	1.6%	1.9%
ROE (Return on Equity)	8.7%	6.2%	0.7%	3.4%
DOE (Dividend on Equity)	2.1%	2.0%	1.3%	1.3%

*Dividend payout ratio for each fiscal year is calculated based on the stock price of accounting date.
(Payout ratio for FY8/20 is calculated based on the stock price as of February 28.)



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



*All images are for illustrative purposes only. Actual product may differ.

- ✓ 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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Inquiries:

Hidehito Mori

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

e-mail : ir@watts-jp.com

TEL : 06-4792-3280