

Summary of Financial Results for the Second Quarter Ended February 29, 2020 [Japan GAAP] (Consolidated)

April 9, 2020

Company **Watts Co., Ltd.** Listed on the TSE
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 Expected date of filing of quarterly report: April 9, 2020 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 2020 (September 1, 2019 through February 29, 2020)

(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. 2020	25,982	1.3	786	114.5	783	132.4	420	306.6
Six months ended Feb. 2019	25,648	7.3	366	-38.7	337	-44.0	103	-72.7

(Note) Comprehensive income

Six months ended February 2020: 421 million yen (-%)

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

	Net income per share	Diluted net income per share
	Yen	Yen
Six months ended Feb. 2020	31.39	-
Six months ended Feb. 2019	7.70	-

(2) Consolidated financial position

	Total assets	Net assets	Shareholders' equity ratio
	Million yen	Million yen	%
As of Feb. 2020	22,230	10,153	46.9
As of Aug. 2019	21,557	9,867	47.1

(Reference) Shareholders' equity:

As of February 2020: 10,437 million yen

As of August 2019: 10,150 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. 2019	-	0.00	-	10.00	10.00
Year ending Aug. 2020	-	0.00	-	10.00	10.00
Year ending Aug. 2020 (forecast)	-	-	-	10.00	10.00

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

3. Forecast of consolidated business results for the fiscal year ending August 2020

(September 1, 2019 through August 31, 2020) (% 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. 2020	51,860	0.9	770	7.4	790	20.4	350	395.9	26.12

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

***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 2020 13,958,800 shares

As of August 2019 13,958,800 shares

② Treasury stock at the end of period

As of February 2020 560,874 shares

As of August 2019 560,874 shares

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

Six months ended February 2020 13,397,926 shares

Six months ended February 2019 13,440,919 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 (FY8/20 2Q: 60,000 shares, FY8/19: 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 (FY8/20 2Q: 60,000 shares, FY8/19: 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.

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1. Results of Operations

(1) Analysis of operating results

During the six months ended February 2020, the Japanese economy underwent a major change around February, with the corporate sector experiencing a slump in exports before February due to worsening global business confidence and the stagnation of trade talks between the U.S. and China, while capital investment demand related to labor saving remained strong. As for the consumer sentiment, wage growth was moderated reflecting the drop in corporate earnings. Even under the circumstances, there were rush demand prior to the consumption tax hike and its reactionary fall, but the fluctuation in demand was smaller than at the time of the last consumption tax hike in 2014, due to the introduction of a reduced tax rate and various monetary easing measures. However, from February the new coronavirus (COVID-19) has spread across Japan and overseas, corporate capital investment declined reflecting the impact of deteriorating business performance. Exports also slumped due to a drop in sales to China and a decline in inbound tourism consumption. Consumer sentiment also weakened due to a growing mood of self-restraint for going out, after school closures and various event cancellations.

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.

In the domestic 100-Yen shop business, the Company is continuing to promote the introduction of products with prices higher than 100 yen (from 200 yen to 1,000 yen). In addition, the Company also opened the Watts Online Shop in response to requests from customers who want to buy the Watts products they saw on SNS, or who do not have a nearby store.

As for the new shop openings, the Company opened 72 shops to the full-year plan of 140 shops. There were 40 shop closings (including 2 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 1,224, which includes 1,198 directly managed shops (net increase of 34), and 26 franchised/other shops (net decrease of 2).

Of these, the number of “Watts” and “Watts with”, the Watts brand shops, was 588 (net increase of 68), accounting for more than 48.0% 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 (net increase of 1). The Company is working on sales promotion activities utilizing LINE@ and improving the wrapping skills of employees. “Søstre Grene”, a Denmark’s life-style variety shop, opened 2 shops in a low-cost format, while closing the Omotesando and Marui Kichijoji shops, bringing the total to 5 shops. “Value-100,” the fresh-foods supermarket collaboration, continues with 1 shop (unchanged). “Real”, a discount shop, was 6 shops (unchanged).

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 53 shops in Thailand (net increase of 4), 6 shops in Malaysia (net decrease of 2), 7 shops in Vietnam (net decrease of 2), and 20 shops in Peru (unchanged). In China, a fixed price shop “小物家園”(KOMONOKAEN) was 2 shops (unchanged). The total number of own-brand shops “KOMONOYA” and “小物家園”(KOMONOKAEN) was 88 (unchanged). Despite an increase in wholesale sales to Vietnam and the Philippines, overseas business sales declined due to a reactionary fall from the excess orders placed in Thailand in the previous fiscal year.

100-Yen shop same-store sales were strong due to the effect of introducing products with prices higher than 100 yen and the rise in demand for mask and sterilization-related products reflecting the expansion of COVID-19. As a result, for the six months ended February 2020, sales were 25,982 million yen (up 1.3% YoY, 101.9% to the plan), operating profit was 786 million yen (up 114.5% YoY, 262.1% to the plan), recurring profit was 783 million yen (up 132.4% YoY, 252.6% to the plan), and net income attributable to owners of parent was 420 million yen (up 306.6% YoY, 350.5% to the plan). (*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 2020 which were announced in the Summary of Financial Results on October 10, 2019.)

The net loss attributable to noncontrolling interests of Hilmer Japan Co., Ltd., was not recorded in the six months ended February 2020 since it exceeded the maximum amount that could be recorded.

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 16,607 million yen, increased by 508 million yen from the end of the previous fiscal year. This was mainly due to increases of 503 million yen in cash and deposits and 117 million yen in merchandise and finished goods despite a decrease of 101 million yen in notes and accounts receivable-trade.

Fixed assets stood at 5,623 million yen, increased by 164 million yen from the end of the previous fiscal year. This is mainly because deferred tax assets increased by 186 million yen.

As a result, total assets stood at 22,230 million yen, increased by 673 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 10,631 million yen, increased by 255 million yen from the end of the previous fiscal year. This was mainly due to increases of 515 million yen in electronically recorded obligations and 120 million yen in income taxes payable, despite a decrease of 384 million yen in notes and accounts payable-trade.

Fixed liabilities stood at 1,445 million yen, increased by 130 million yen from the end of the previous fiscal year. This was mainly due to an increase of 111 million yen in long-term loans payable.

As a result, total liabilities stood at 12,077 million yen, increased by 386 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 10,153 million yen, increased by 286 million yen compared with the end of the previous fiscal year. This is mainly because retained earnings increased by 286 million yen. As a result, shareholders' equity ratio stood at 46.9% (47.1% 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 6,578 million yen, increased by 503 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 842 million yen (376 million yen was provided in the same period of the previous fiscal year). Cash was provided mainly by income before income taxes of 587 million yen, depreciation and amortization of 205 million yen, increase in notes and accounts payable-trade of 131 million yen, and increase in accrued consumption taxes of 130 million yen. Cash was used mainly for income taxes paid of 232 million yen.

(Cash flows from investing activities)

Net cash used in investing activities was 317 million yen (503 million yen was used in the previous fiscal year). As for the breakdown, there were payments for property, plant and equipment of 242 million yen for opening of new shops, payments for intangible assets of 57 million yen.

(Cash flows from financing activities)

Net cash used for financing activities was 36 million yen (186 million yen was used in the previous fiscal year). This was mainly due to proceeds from long-term loans payable of 400 million yen, repayment of long-term loans payable of 299 million yen, and cash dividends paid of 134 million yen.

(3) Future forecast information including business forecasts

In the six months ended February 2020, both sales and profits exceeded the plan. However, the Company remains unchanged its full-year consolidated business forecasts from the announcement on October 10, 2019 in the Summary of Financial Results due to the ongoing unclear outlook for the COVID-19 infections and its effects for the future. The Company will promptly disclose information if any revisions are deemed necessary in the future.

2. Quarterly Consolidated Financial Statements

(1) Quarterly Consolidated Balance Sheets

(Thousands of yen)

	Previous fiscal year (August 31, 2019)	Current second quarter (February 29, 2020)
Assets		
Current assets		
Cash and deposits	6,075,315	6,578,615
Notes and accounts receivable-trade	2,535,234	2,433,286
Merchandise and finished goods	7,081,181	7,198,229
Raw materials and supplies	7,571	12,628
Consumption taxes receivable	98,166	56,350
Other	359,194	382,923
Allowance for doubtful accounts	-57,258	-54,167
Total current assets	16,099,405	16,607,866
Noncurrent assets		
Property, plant and equipment		
Buildings and structures	1,846,084	1,899,493
Accumulated depreciation and impairment loss	-1,066,489	-1,083,770
Buildings and structures, net	779,594	815,722
Vehicles	23,480	20,418
Accumulated depreciation and impairment loss	-15,053	-13,357
Vehicles, net	8,427	7,061
Tools, furniture and fixtures	3,566,030	3,610,345
Accumulated depreciation and impairment loss	-2,873,042	-2,931,784
Tools, furniture and fixtures, net	692,988	678,561
Land	257,800	257,800
Leased assets	27,623	27,623
Accumulated depreciation and impairment loss	-14,058	-16,969
Leased assets, net	13,564	10,654
Construction in progress	28,319	-
Total property, plant and equipment	1,780,694	1,769,799
Intangible assets		
Other	147,681	190,933
Total intangible assets	147,681	190,933
Investments and other assets		
Investment securities	462,938	457,677
Deferred tax assets	373,215	559,435
Guarantee deposits	2,498,717	2,447,668
Other	202,091	203,849
Allowance for doubtful accounts	-6,946	-6,363
Total investments and other assets	3,530,016	3,662,267
Total noncurrent assets	5,458,392	5,623,000
Total assets	21,557,797	22,230,866

(Thousands of yen)

	Previous fiscal year (August 31, 2019)	Current second quarter (February 29, 2020)
Liabilities		
Current liabilities		
Notes and accounts payable-trade	4,696,346	4,311,999
Electronically recorded obligations	3,589,730	4,105,577
Current portion of long-term loans payable	434,366	423,450
Income taxes payable	245,379	365,499
Accrued consumption taxes	110,152	199,543
Provision for loss on business liquidation	32,163	107,007
Provision for bonuses	187,223	174,256
Other	1,080,003	943,920
Total current liabilities	10,375,364	10,631,254
Noncurrent liabilities		
Long-term loans payable	572,851	684,478
Liabilities relating to retirement benefits	276,781	288,905
Provision for directors' retirement benefits	24,735	26,073
Provision for directors' stock-based benefits	32,721	36,850
Asset retirement obligations	152,399	149,922
Other	255,893	259,709
Total noncurrent liabilities	1,315,382	1,445,939
Total liabilities	11,690,746	12,077,194
Net assets		
Shareholders' equity		
Capital stock	440,297	440,297
Capital surplus	1,637,636	1,637,636
Retained earnings	8,325,881	8,611,882
Treasury stock	-273,120	-273,120
Total shareholders' equity	10,130,694	10,416,696
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	5,411	1,863
Foreign currency translation adjustment	14,443	18,611
Total accumulated other comprehensive income	19,855	20,475
Non-controlling interests	-283,500	-283,500
Total net assets	9,867,050	10,153,671
Total liabilities and net assets	21,557,797	22,230,866

(2) 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, 2018 to February 28, 2019)	Current second quarter (from September 1, 2019 to February 29, 2020)
Sales	25,648,425	25,982,206
Cost of sales	16,053,143	16,081,752
Gross profit	9,595,281	9,900,453
Selling, general and administrative expenses	9,228,680	9,114,209
Operating profit	366,601	786,243
Non-operating revenues		
Interest income	3,851	4,477
Equity in earnings of affiliates	5,235	-
Foreign exchange gains	-	12,153
Royalty income	2,653	3,144
Compensation income	3,333	24,677
Other	4,725	15,606
Total non-operating income	19,799	60,060
Non-operating expenses		
Interest expenses	2,492	2,362
Early-withdrawal penalty	37,643	44,578
Equity in loss of earnings of affiliates	-	11,520
Exchange loss	7,920	-
Other	1,280	4,649
Total non-operating expenses	49,337	63,111
Recurring profit	337,063	783,192
Extraordinary income		
Surrender value of insurance	-	1,260
Gain on sales of noncurrent assets	-	362
Insurance income	-	25,138
Total extraordinary income	-	26,761
Extraordinary loss		
Loss on retirement of noncurrent assets	6,290	2,376
Impairment loss	135,440	89,997
Loss on liquidation of business	-	107,007
Loss due to disaster	-	23,228
Total extraordinary losses	141,731	222,610
Income before income taxes and minority interests	195,331	587,343
Income taxes-current	208,945	353,314
Income taxes-deferred	-18,070	-186,551
Total income taxes	190,874	166,762
Net income	4,457	420,580
Net loss attributable to non-controlling interests	-98,980	-
Net income attributable to owners of parent	103,437	420,580

(Quarterly Consolidated Statements of Comprehensive Income)

(Second quarter)

(Thousands of yen)

	Previous second quarter (from September 1, 2018 to February 28, 2019)	Current second quarter (from September 1, 2019 to February 29, 2020)
Net income	4,457	420,580
Other comprehensive income		
Valuation difference on available-for-sale securities	-10,353	-3,547
Foreign currency translation adjustment	-8,876	-7,647
Share of other comprehensive income of associates accounted for using equity method	8,224	11,815
Total other comprehensive income	-11,005	620
Comprehensive income	-6,548	421,200
(Breakdown)		
Comprehensive income attributable to owners of parent	92,432	421,200
Comprehensive income attributable to non-controlling interests	-98,980	-

(3) Quarterly Consolidated Statements of Cash Flows

(Thousands of yen)

	Previous second quarter (from September 1, 2018 to February 28, 2019)	Current second quarter (from September 1, 2019 to February 29, 2020)
Net cash provided by (used in) operating activities		
Income before income taxes and minority interests	195,331	587,343
Depreciation and amortization	209,192	205,985
Impairment loss	135,440	89,997
Amortization of goodwill	1,907	2,860
Increase (decrease) in allowance for doubtful accounts	8,376	-3,673
Increase (decrease) in provision for bonuses	-5,375	-12,966
Increase (decrease) in liabilities relating to retirement benefits	-6	12,124
Increase (decrease) in provision for directors' retirement benefits	-13,839	1,337
Increase (decrease) in provision for directors' stock-based benefits	4,128	4,128
Increase (decrease) in provision for loss on business liquidation	-	74,844
Interest and dividends income	-3,936	-4,562
Interest expenses	2,492	2,362
Loss on retirement of noncurrent assets	6,290	2,376
Decrease (increase) in accounts receivable-trade	223,300	101,903
Decrease (increase) in inventories	-283,103	-121,934
Increase (decrease) in notes and accounts payable-trade	95,993	131,443
Increase (decrease) in accrued consumption taxes	8,911	130,445
Other	-91,263	-132,058
Subtotal	493,839	1,071,957
Interest and dividends income received	3,728	4,340
Interest expenses paid	-1,494	-1,295
Income taxes paid	-119,808	-232,845
Net cash provided by (used in) operating activities	376,265	842,156
Net cash provided by (used in) investing activities		
Purchase of property, plant and equipment	-368,098	-242,135
Proceeds from sales of property, plant and equipment	-	780
Purchase of intangible assets	-	-57,424
Payments for lease and guarantee deposits	-150,096	-34,233
Proceeds from collection of lease and guarantee deposits	72,684	61,247
Payments for asset retirement obligations	-2,037	-45,609
Purchase of investment securities	-	-387
Other	-55,933	300
Net cash provided by (used in) investing activities	-503,481	-317,460
Net cash provided by (used in) financing activities		
Proceeds from long-term loans payable	500,000	400,000
Repayment of long-term loans payable	-343,268	-299,289
Repayment of lease obligations	-3,989	-3,143
Purchase of treasury shares	-135,128	-
Cash dividends paid	-203,892	-134,297
Net cash provided by (used in) financing activities	-186,279	-36,729
Effect of exchange rate change on cash and cash equivalents	1,580	15,334
Net increase (decrease) in cash and cash equivalents	-311,914	503,299
Cash and cash equivalents at beginning of period	5,147,120	6,075,315
Cash and cash equivalents at end of period	4,835,206	6,578,615

(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)

None