



Watts Co., Ltd.

(2735; Tokyo Stock Exchange First Section)

Operating Results for the Fiscal Year Ended August 2021 and Business Forecasts for the Fiscal Year Ending August 2022

October 14, 2021 (Thursday)

Fumio Hiraoka, President and CEO

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Consolidated Operating Results for the Fiscal Year Ended August 2021



(Millions of yen)

Financial highlights	FY8/20		FY8/21 (Current period)			
		Ratio to sales		Ratio to sales	YoY	Ratio to forecast
Sales	52,795	—	50,702	—	96.0%	99.5%
Gross profit	20,215	38.3%	19,625	38.7%	97.1%	—
Selling, general and administrative expenses	18,446	34.9%	17,956	35.4%	97.3%	—
EBITDA	2,186	4.1%	2,049	4.0%	93.8%	—
Operating profit	1,768	3.4%	1,669	3.3%	94.4%	90.2%
Recurring profit	1,731	3.3%	1,586	3.1%	91.7%	89.1%
Net income attributable to owners of parent	774	1.5%	965	1.9%	124.7%	84.0%
Net income per share (Yen)	57.80		72.09		—	—

*"Ratio to forecast" is comparison with the full-year business forecasts for FY8/21 announced on April 5, 2021 in "Notice Concerning Revision to Business Forecasts"

- ✓ **Sales decreased by 4.0% YoY** due to the impact of COVID-19 on overseas business, and reactionary fall in 100-Yen shop business after the special demand for hygiene products and stay-at-home products in the previous fiscal year. ➔P3
- ✓ **Gross profit was 97.1% YoY**, as the improvement in **gross margin** by 0.4 percentage points could not offset the decline in sales. **Operating profit was 94.4% YoY**. ➔P4,5
- ✓ **Net income attributable to owners of parent** increased at **124.7% YoY** due to a gain on debt exemption of consolidated subsidiary Hilmer Japan Co., Ltd.

Sales by Business Type



(Millions of yen)

Sales by Business Type		FY8/20		FY8/21 (Current period)		
			Ratio to sales		Ratio to sales	YoY
100-Yen shops	Directly managed	45,468	86.1%	44,288	87.3%	97.4%
	Wholesale, Other	2,105	4.0%	1,673	3.3%	79.5%
	Subtotal	47,573	90.1%	45,961	90.7%	96.6%
Overseas Business	Directly managed	444	0.8%	274	0.5%	61.6%
	Wholesale	1,311	2.5%	1,231	2.4%	93.9%
	Subtotal	1,756	3.3%	1,505	3.0%	85.7%
Lifestyle products business	Buona Vita	904	1.7%	766	1.5%	84.8%
	Søstrene Grene					
Real, etc.		2,561	4.9%	2,468	4.9%	96.4%
Total		52,795	100.0%	50,702	100.0%	96.0%

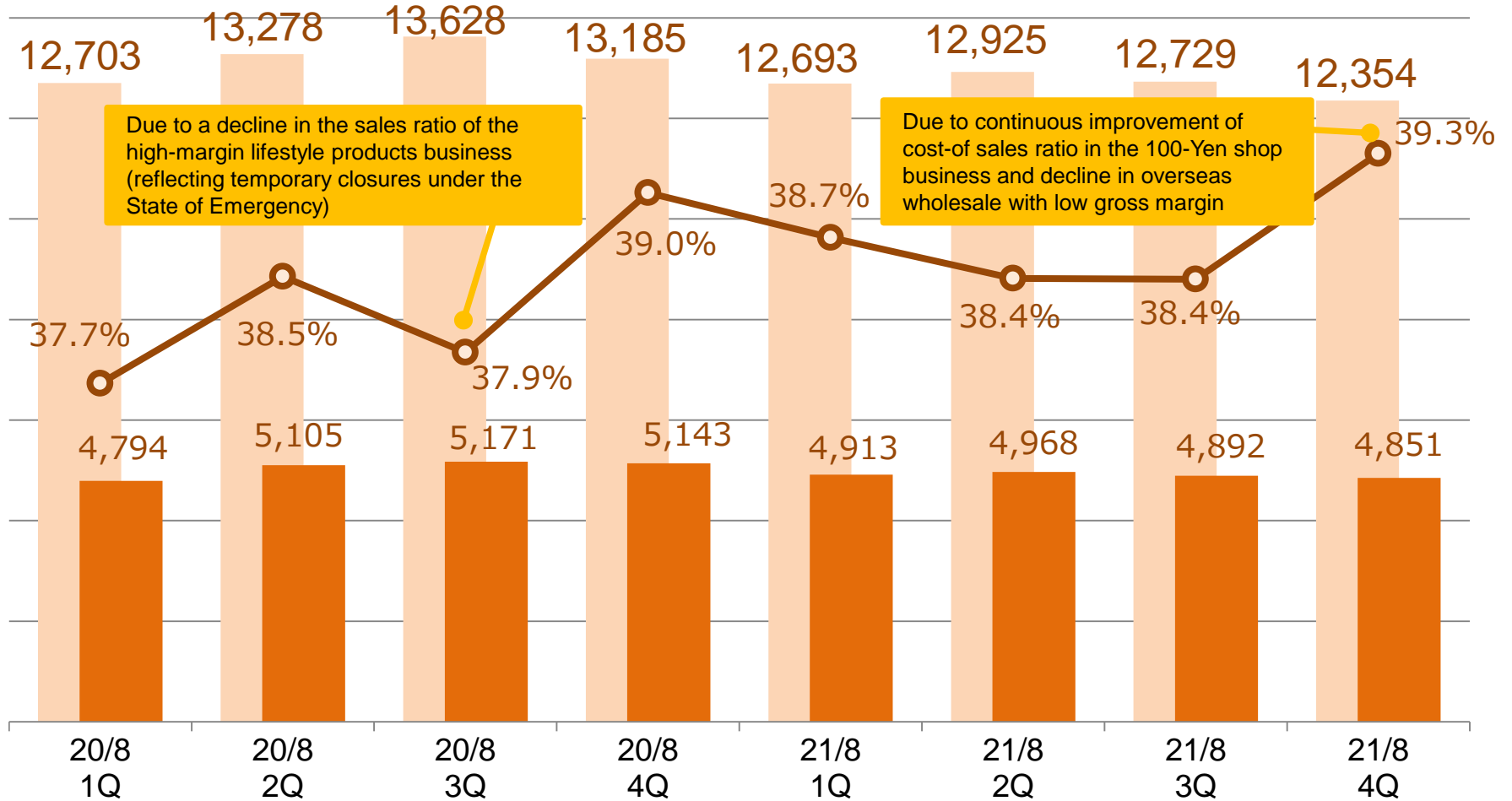
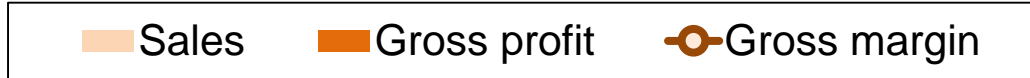
*We have withdrawn from the Søstrene Grene business as of the end of March 2021.

- ✓ In addition to the transfer of the local subsidiary in China in the previous fiscal year, sales of the overseas business and the lifestyle products business decreased due to the impact of the spread of COVID-19. As a result, the ratio of domestic 100-Yen shop business to the consolidated sales increased by 0.6 percentage points.

Quarterly Changes in Gross Margin



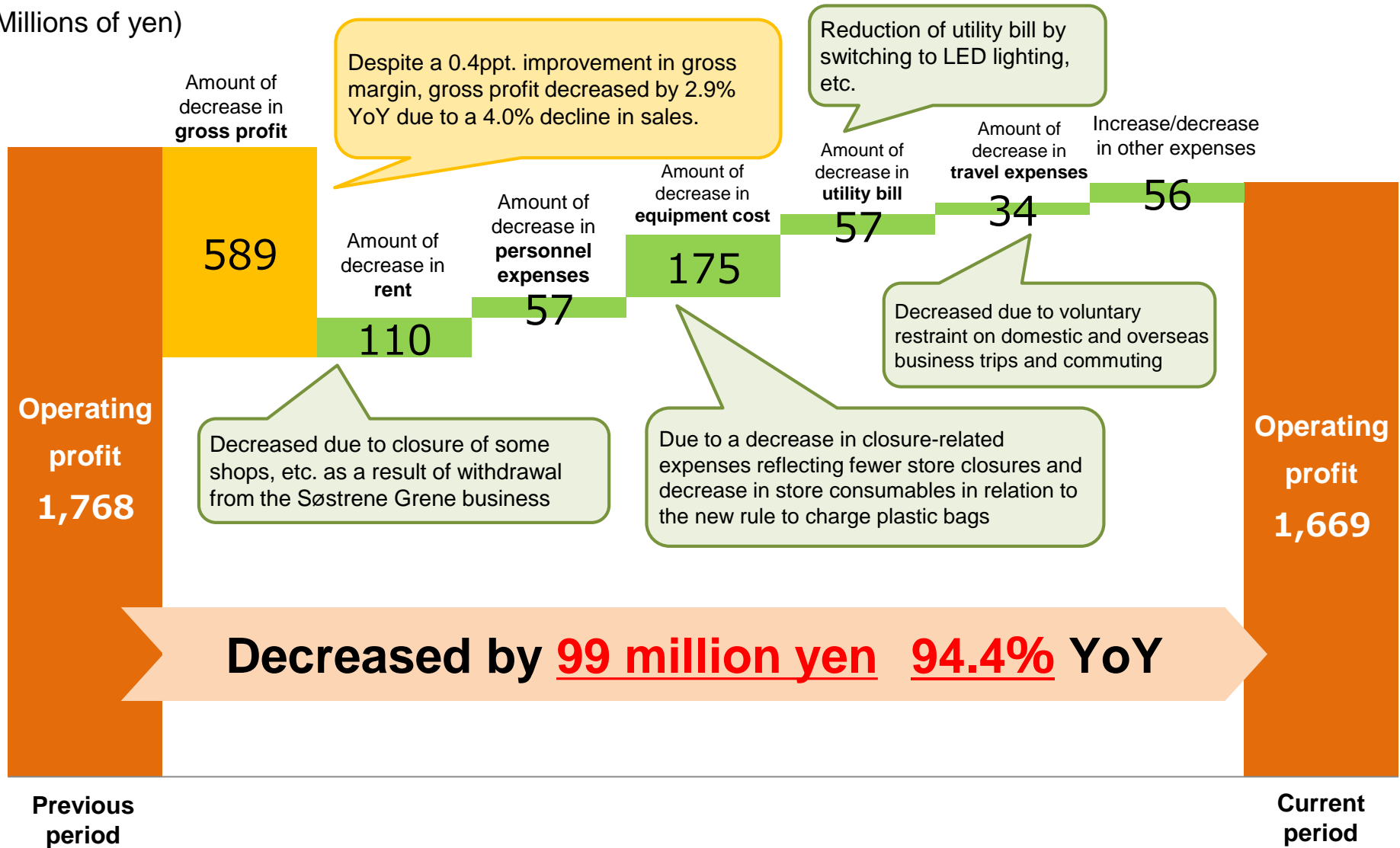
(Millions of yen)



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	FY8/20		FY8/21 (Current period)	
		Pct. change		Pct. change
Cash and deposits	6,591	Up 8.5%	6,169	Down 6.4%
Merchandise and finished goods	7,114	Up 0.5%	7,431	Up 4.5%
Other current assets	2,710	Down 7.9%	2,448	Down 9.6%
Tangible fixed assets	1,608	Down 9.7%	1,552	Down 3.5%
Other fixed assets	3,519	Down 4.3%	3,739	Up 6.2%
Total assets	21,544	Down 0.1%	21,340	Down 0.9%
Liabilities	11,062	Down 5.4%	10,118	Down 8.5%
Net assets	10,481	Up 6.2%	11,222	Up 7.1%

- ✓ Shareholders' equity ratio was 52.6%, up by 3.9 percentage points from the end of the previous period.
- ✓ In other current assets, notes and accounts receivable-trade decreased by 189 million yen.
- ✓ In liabilities, electronically recorded obligations decreased by 540 million yen, and notes and accounts payable-trade decreased by 361 million yen.

(Millions of yen)

Consolidated cash flows	FY8/20		FY8/21 (Current period)	
		Pct. change		Pct. change
Net cash provided by (used in) operating activities	922	△1,357	378	△ 543
Net cash provided by (used in) investing activities	△526	305	△ 778	△ 252
Net cash provided by (used in) financing activities	106	616	△ 51	△ 158
Effect of exchange rate change on cash and cash equivalents	14	23	30	16
Cash and cash equivalents at end of period	6,591	516	6,169	△ 422
Free cash flows	395	△ 1,052	△ 400	△ 796

- ✓ Cash flows from operating activities: Decrease of 310 million yen in loss on business liquidation and decrease of 291 million yen in gain on debt exemption
- ✓ Cash flows from investing activities: Increase of 331 million yen in purchase of intangible fixed assets due to the renewal of the core system

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Domestic 100-Yen Shop Business

	Opening/closing	<p>Opened 165 shops against the full-year plan of 144 shops and closed 41 shops against 89 shops. The number of shops at the end of the period was 1,364 (net increase of 124 shops). ➡P10</p>
	Watts brand shops	<p>Increased by 186 shops to 825 shops through openings and renovations. The share to total number of 100-Yen shops increased to 60.5%.</p>

Overseas Business

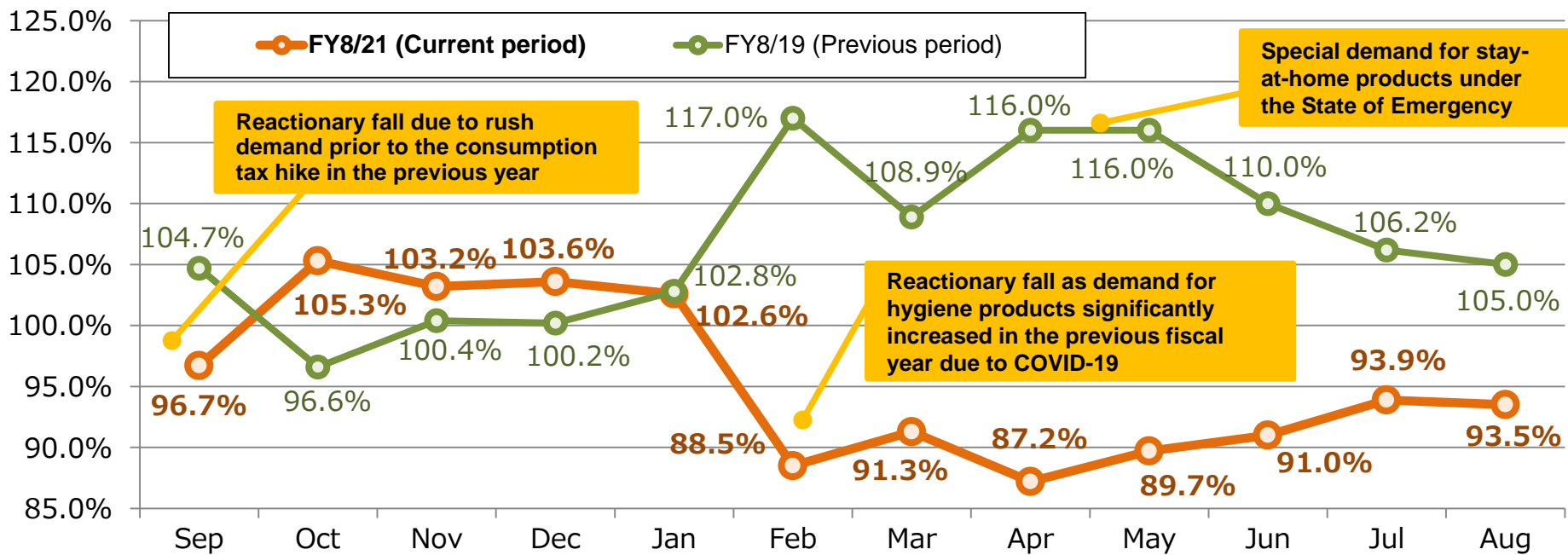
	Overseas shops	<p>The number of shops that are selling WATTS products was 69 (down 14 from the end of the previous fiscal year), and more than 100 shops including local partners' shops. ➡P12</p>
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Domestic Other Business

	Buona Vita	<p>A life-style goods shop offering comfortable life. The number of shops was 21, mainly opening consignment shops in our 100-Yen shop. ➡P13</p>
	Søstrene Grene	<p>Denmark's life-style goods shop. Decided to withdraw from this business after determining that it would be difficult to early achieve profitability on a business basis. <u>All shops were closed</u> at the end of March 2021.</p>
	Real	<p>Community-based discount shop. Operates 6 shops at the end of August 2021. Aim to create synergies with 100-Yen shop business. ➡P14</p>

Situation of 100-Yen Shop Business ①

— Changes in same-store sales YoY —



Pct. change of same-store sales	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug
Previous period (A)	+4.7%	-3.4%	+0.4%	+0.2%	+2.8%	+17.0%	+8.9%	+16.0%	+16.0%	+10.0%	+6.2%	+5.0%
Current period (B)	-3.3%	+5.3%	+3.2%	+3.6%	+2.6%	-11.5%	-8.7%	-12.8%	-10.3%	-9.0%	-6.1%	-6.5%
A+B *	+1.4%	+1.9%	+3.6%	+3.8%	+5.4%	+5.5%	+0.2%	+3.2%	+5.7%	+1.0%	+0.1%	-1.5%

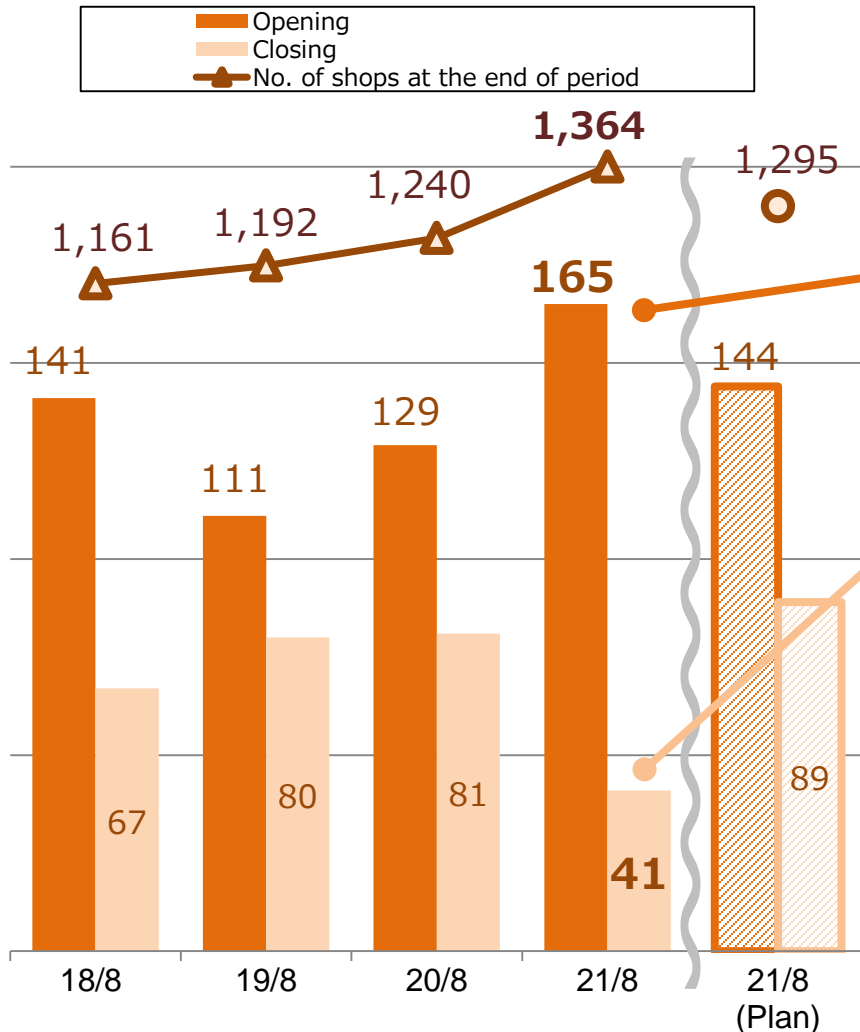
※ The sum of the pct. change between the previous period and the current period = the rate of growth excluding the impact of reactionary fall from the previous fiscal year.

✓ [Same-store sales YoY] Sales: 95.2%, Number of customers: 92.8%, Spending per customer: 101.6%

✓ Sales of Watts brand shops were 97.4% YoY.

Situation of 100-Yen Shop Business ②

—Number of shops (opening/closing plan and results)—



Opening/closing plan and results

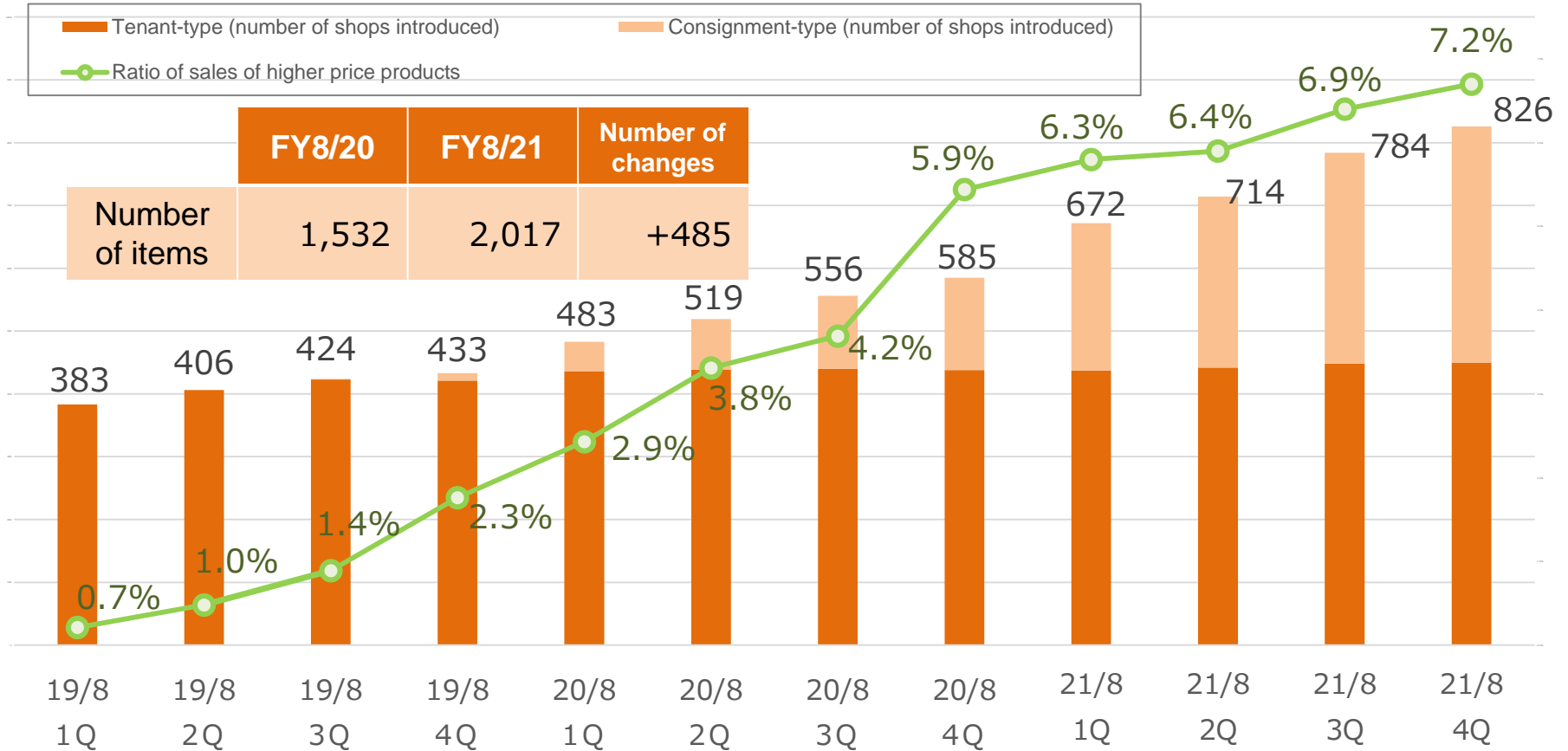
Opening plan 144 shops → Opened **165 shops**

Closing plan 89 shops → Closed **41 shops**

- ✓ Since supermarkets and malls, etc. where our shops are located performed well, the number of unpredictable closing of tenant-type shops was less than usual. **Net increase of 124 shops** against the plan of 55 shops.
- ✓ Of the total 1,364 shops, 825 are Watts brand shops (net increase of 186 shops).

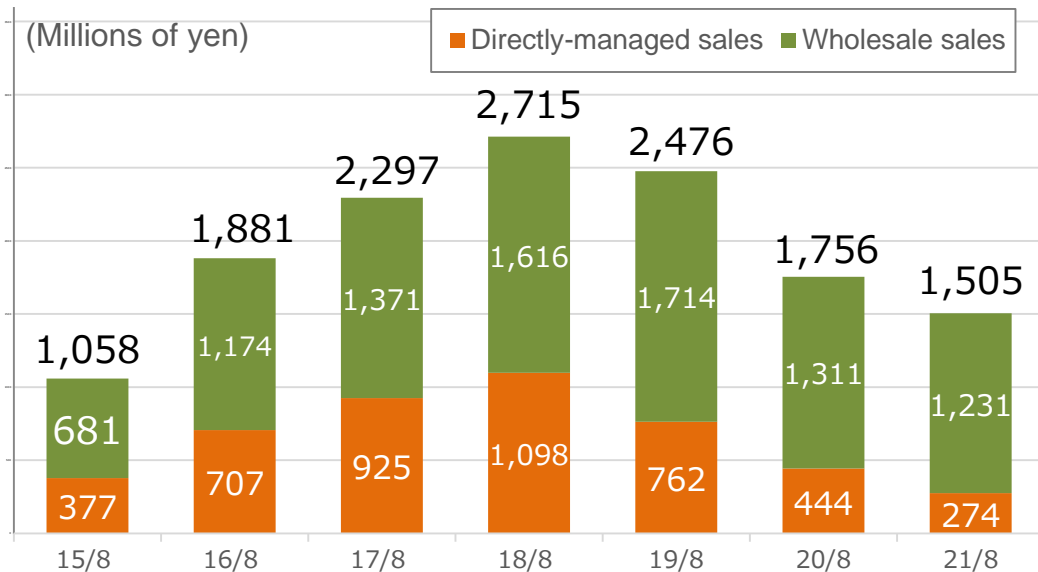
Situation of 100-Yen Shop Business ③

—Number of shops introduced higher price products and its sales mix—



- ✓ The introduction of higher price products to the tenant-type shops has been roughly completed, and we will continue to introduce to the consignment type shops.
- ✓ Sales of high price products increased by about 1.5 times YoY.

By Business Situation of Overseas Business



KoMoNoYA
OSAKA JAPAN



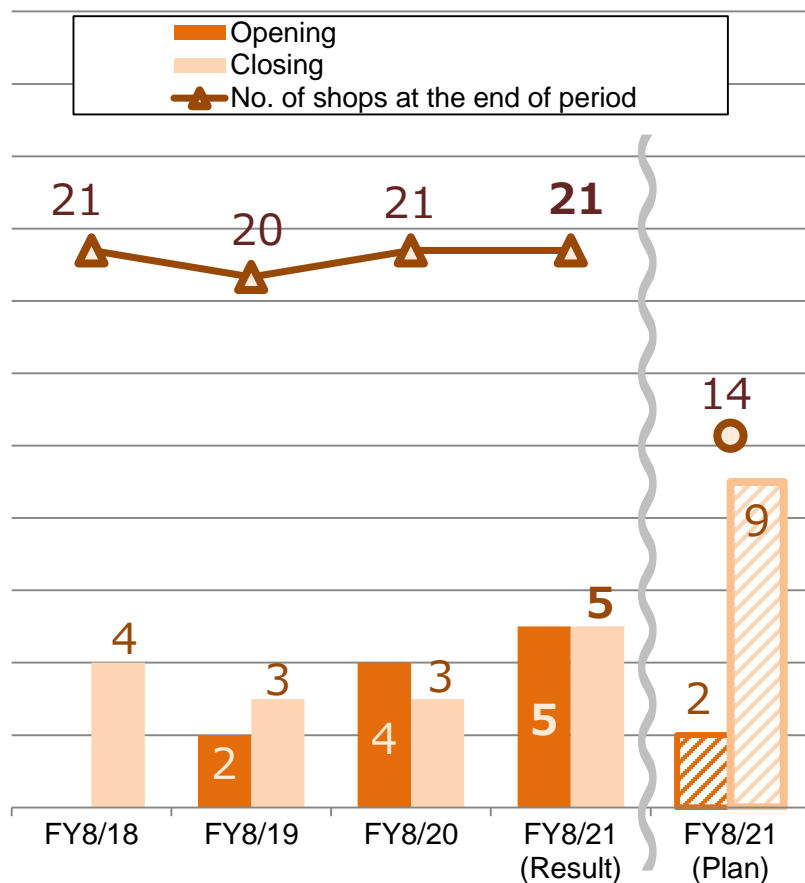
Country	Format	Opening	Closing	No. of shops (FY8/21)
Thailand	FC	—	9	41
China	FC	—	2	4
Malaysia	FC	—	—	2
Vietnam	FC	—	2	3
Peru	Directly-managed	2	3	19
Total		2	16	69



December 2020 San Felipe Shop (Peru)

- ✓ In Thailand, there are 41 shops (down 9 from the end of the previous fiscal year). 10 "Watts" brand shops opened through new openings and renovations.
- ✓ Secured profitability despite a decrease in sales due to the transfer of a sales subsidiary in China in April of the previous fiscal year and the impact of the spread of COVID-19.

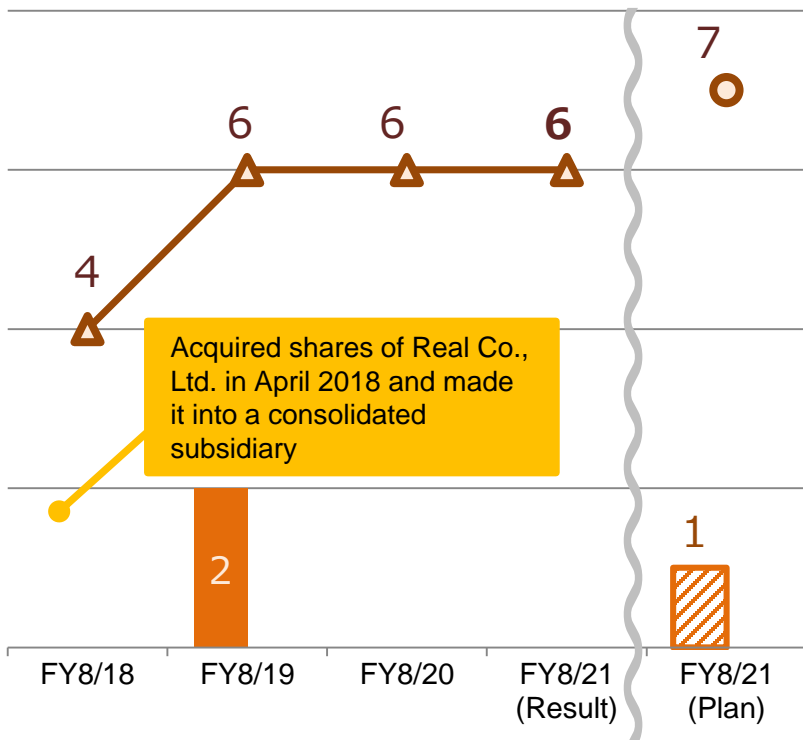
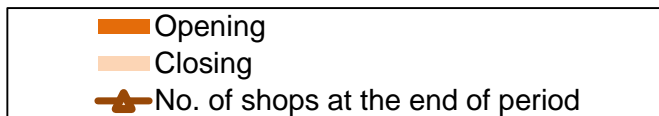
By Business Situation of “Buona Vita”



September 2020 Buona Vita Grand Emio Tokorozawa (Saitama)

- ✓ Operate **21 shops** as of the end of August 2021. Operate 4 consignment shops in our 100-Yen shop.
- ✓ Although we have promoted items for stay-at-home time, same-store sales remained weak at **81.2%** YoY due to the impact of the spread of COVID-19.

By Business Situation of "Real"



- ✓ Offer a wide range of value-for-money products with utilizing their strength in procurement capability.
- ✓ Operating collaborative shops with the Company's 100-Yen shops to create synergies with 100-Yen shop business.
- ✓ Operate **6 shops** at the end of August 2021 (5 tenant shops and 1 consignment shop).
- ✓ Maintained profitability.

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Business Forecasts for FY8/22



(Millions of yen)

Business forecasts	FY8/20			FY8/21			FY8/22 (Forecast)		
		Ratio to sales	YoY		Ratio to sales	YoY		Ratio to sales	YoY
Sales	52,795	–	102.7%	50,702	–	96.0%	60,200	–	118.7%
Gross profit	20,215	38.3%	104.5%	19,625	38.7%	97.1%	–	–	–
SG&A	18,446	34.9%	99.1%	17,956	35.4%	97.3%	–	–	–
EBITDA	2,186	4.1%	188.9%	2,049	4.0%	93.8%	1,802	3.0%	87.9%
Operating profit	1,768	3.4%	246.7%	1,669	3.3%	94.4%	1,035	1.7%	62.0%
Recurring profit	1,731	3.3%	263.9%	1,586	3.1%	91.7%	955	1.6%	60.2%
Net income attributable to owners of parent	774	1.5%	1097.3%	965	1.9%	124.7%	510	0.8%	52.8%
Net income per share (yen)	57.80		–	72.09		–	38.07		–
ROE	7.5%		–	8.9%		–	4.5%		–

- ✓ 100-Yen shop opening/closing plan
 [Opening] 1H: 115, 2H: 115, Total: 230
 [Closing] 1H: 40, 2H: 46, Total: 86
Net increase: 144 shops
- ✓ 100-Yen shop same-store sales are expected to be **100.0% YoY** for the full-year.

- ✓ Sales are expected to increase substantially due to the acquisition of ONTSU F RETAIL CO., LTD., but profits are expected to decline mainly due to the opening of a large number of new stores to further expand the market share of consignment-type shops, an increase in rent due to intensifying competition in store openings, and an increase in SG&A expenses due to higher minimum wages.



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
- ✓ Ongoing efforts to improve customer service

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



Acquisition of Ontsu F·RETAIL Co., Ltd.



FLET'S
100 YEN SHOP



百圓領事館



- ✓ As of October 1, 2021, we acquired Ontsu F·RETAIL Co., Ltd., which operates 100-Yen shop "FLET'S" and "Hyakuen Ryojikan" etc. with 145 shops nationwide, and made them into subsidiaries.
- ✓ Following the increased purchase volume, we will be able to reduce the cost-of-sales ratio, and thereby improving profitability.
- ✓ Attractive product lineup with increased number of items.
- ✓ By leveraging their know-how, we intend to build and strengthen a business model for opening stand-alone shops.
- ✓ Further expand market share of consignment shops, one of our strengths, into overwhelmingly No.1.
- ✓ Further improve the profitability of former Ontsu brand shops through early integration of operation model with those of Watts.



Offer higher price products



- ✓ Increase the number of higher price products (¥200 to ¥1,000) to enhance the product lineups and revitalize sales floors.
- ✓ Actively introduce to consignment-type shops, leading to an improvement in gross margin for the entire group
- ✓ 2,017 items as of the end of August 2021. Maintain 2,000 lineups while reviewing these items.

Intra-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



- ✓ Reduce slow moving products and replace them with popular and new products to increase the freshness of products of sales floors
- ✓ Based on sales analysis utilizing POS data, create store models that suit the shop location and customer characteristics.
- ✓ Promote verification for the introduction of an automatic ordering system



Reopened online shop



- ✓ Watts Online Shop was reopened on September 1, 2021
- ✓ Substantially increased lineups with **over 10,000 items!**
- ✓ Customers can order from one unit
- ✓ Intend to develop as a group-wide online shop not only for 100-Yen shop business

Self-checkout POS register



- ✓ Plan to introduce self-checkout POS registers **for cashless payment at 100 shops** in FY8/22
- ✓ The objectives is to improve in-store productivity through more efficient purchase process, and to prevent the spread of COVID-19 for both customers and employees through contactless payment

 KOMONOYA
OSAKA JAPAN

【Overseas Business】

- Product strategies and proposals suitable for each product supplier
- Develop measures to improve same-store sales and increase the number of customers and spending per customer
- Select and enter into new markets based on disposable income, sales price, degree of dependence on imports, etc.

 Buona Vita
フォナ・ビータ

【Buona Vita】

- Establish basic package for consignment shop
- Plan to open 6 shops in collaboration with our 100-Yen shop
- Propose products for new lifestyles with themes of "enriching stay-at-home time" and "healing and relaxation"
- Speedy replacement of products at shops and inventory control

スーパーディスカウント

リアル

【Real】

- Plan to open 1 new shop
- Same-store sales were 100.0% YoY
- Establish a structure that creates operation synergies with 100-Yen shops

Launched a new brand “Tokino:ne”



- ✓ **Household items shop “Tokino:ne”. The concept is “Create a pleasant me-time”.**
- ✓ Opened the first shop in Kobe City, Hyogo Prefecture, on March 26, 2021.
- ✓ Offer products that help you enjoy your day from morning till night: waking up in the morning, getting ready to go, going to work or shopping, coming home, having dinner, taking a bath, and going to bed.
- ✓ The layout is divided into zones for morning, noon, evening, and night. It offers a collection of products necessary for each time zone, allowing customers to enjoy shopping while imagining their own routines.

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- ◆ **Results of the initial assessment** on compliance with the listing criteria for the Prime Market of new market segment

Criteria	Results of the initial assessment
Number of shares outstanding	Meet the criteria
Market capitalization of shares outstanding	Do not meet the criteria
Ratio of shares outstanding	Meet the criteria
Trading value	Meet the criteria

- ✓ Of the continued listing criteria for the Prime Market, our “market capitalization of shares outstanding” does not meet the criteria.
- ✓ Plan to apply transitional measures for continued listing criteria by submitting and disclosing a “plan for compliance with continued listing criteria”.
- ✓ In order to achieve sustainable growth and enhance corporate value over the medium to long term, we will work to improve our corporate governance. Furthermore, we will increase the “market capitalization of shares outstanding” to meet all the criteria for listing the Prime Market.

Brands of Watts Group



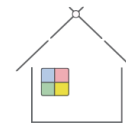
Domestic 100-Yen shop business



Overseas business



Other domestic business



Tokino:ne

スーパーディスカウント

リアル





Buona Vita
フオーナ・ビータ

“Buona Vita,” a variety store which proposes a comfortable life. Operates 21 shops as of the end of August 2021. The photo is Shin-Koshigaya Varie Shop which opened in February 2020.




Tokino:ne

Tokino:ne, a household items shop under the theme of “time”, opened its first shop in March 2021



Collaboration shop between 100-Yen shop and grocery



Community-based small discount shop. Operate 6 shops as of the end of August 2021.



twitter



- Watts official twitter
Tweeting photos of recommended items and monthly sales promotion news. Also retweeting blogs and articles on 100-Yen shop information.

- Started Watts official YouTube channel



Opened in February 2021.
The subscribers exceeded 1,400.

Instagram



- Watts official Instagram
As with twitter, we post our recommended 100-Yen items. Providing attractive information to get more followers.



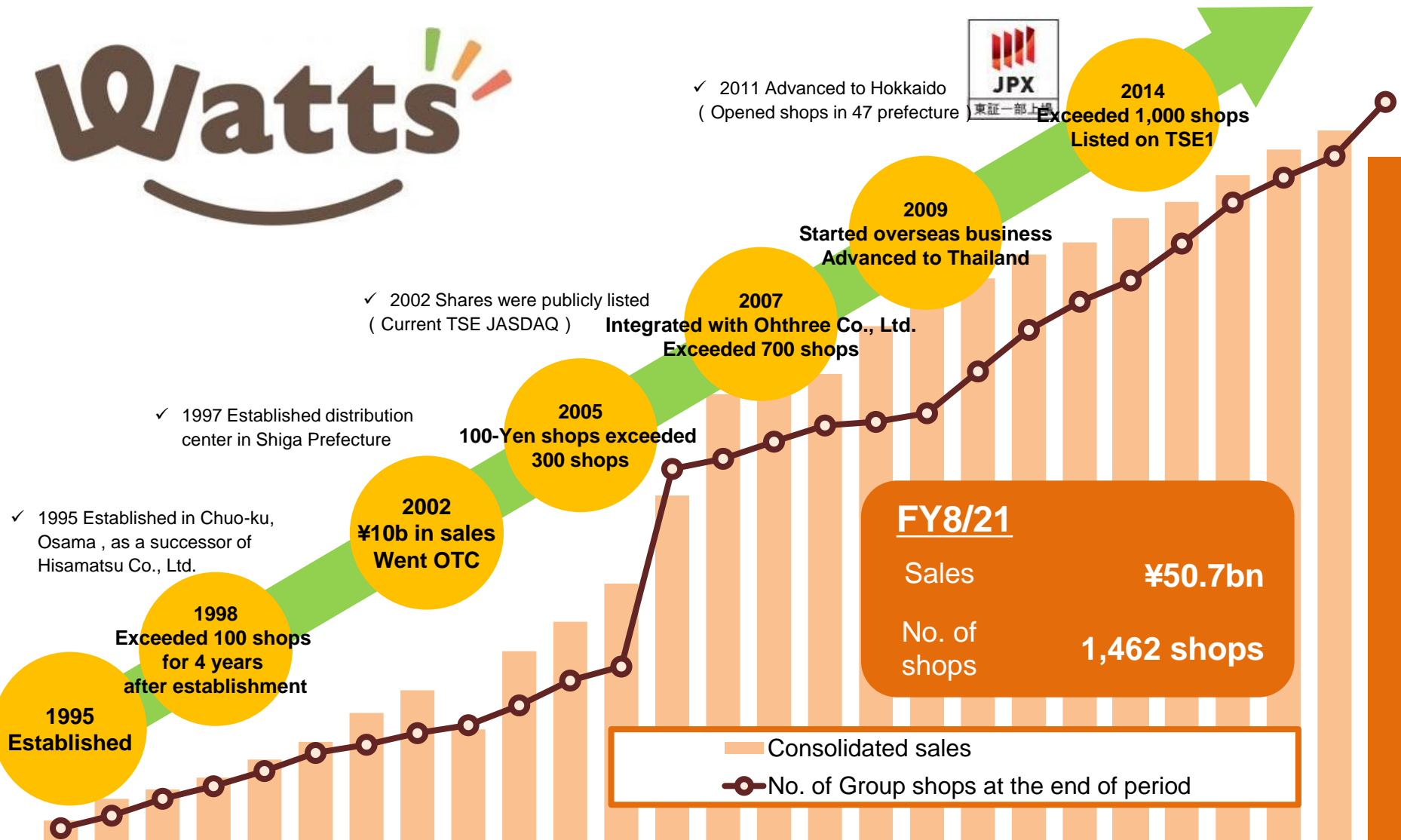
友だちだからお得な情報届けます。

LINE@
友だち募集中。

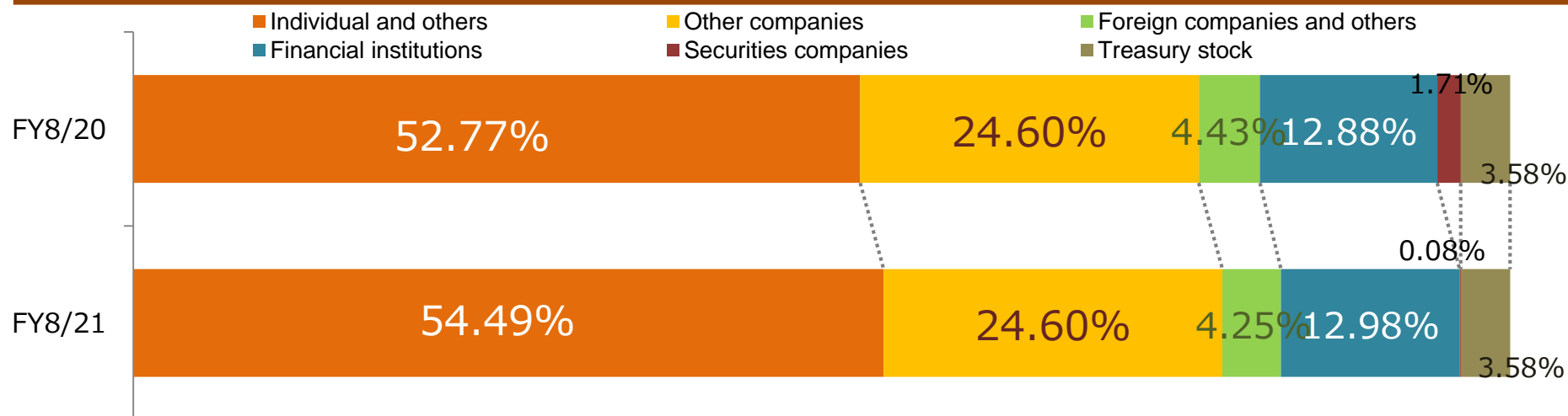
LINE@ is also available at several shops. You can receive information by adding us as “friend”.
*LINE is the most popular messaging app. in Japan



Establishment	February 22, 1995 (Currently the 28th 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
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	3,153 employees (as of August 31, 2021) *Part-time workers included
Number of shops	1,462 shops (as of August 31, 2021) *Other shops included



Shareholder Composition



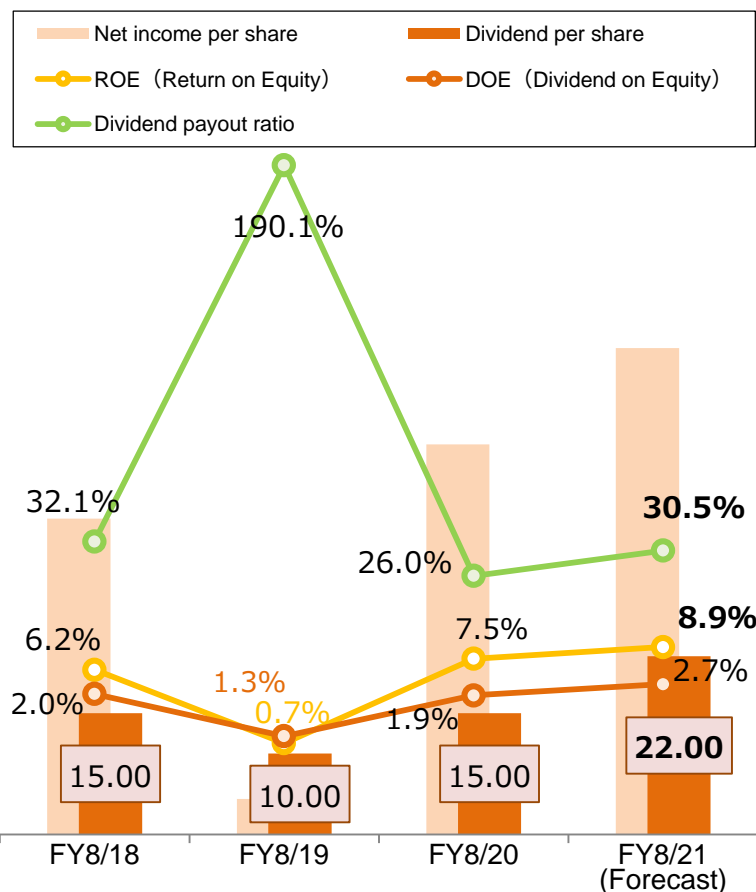
	FY8/19	FY8/20	FY8/21	YoY
Total number of shares issued	13,958,800 shares	13,958,800 shares	13,958,800 shares	—
Number of shareholders	17,590	23,454	22,290	△1,164
Ownership ratio				
Individuals and others	48.22%	52.77%	54.49%	+1.72P
Other domestic companies	24.57%	24.60%	24.60%	—
Foreign companies and others	10.85%	4.43%	4.25%	△0.18P
Financial institutions	11.87%	12.88%	12.98%	+0.10P
Securities companies	0.88%	1.71%	0.08%	△1.63P
Treasury stock	3.58%	3.58%	3.58%	—

- ✓ Number of shareholders decreased by 1,164 YoY.
- ✓ Ownership ratio of individual shareholders increased by 1.72 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.



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



	FY8/18	FY8/19	FY8/20	FY8/21 (Forecast)
Net income per share (Yen)	46.79	5.26	57.80	72.09
Dividend per share (Yen)	15.00	10.00	15.00	22.00
Dividend payout ratio	32.1%	190.1%	26.0%	30.5%
Dividend yield	1.6%	1.6%	1.6%	2.5%
ROE (Return on Equity)	6.2%	0.7%	7.5%	8.9%
DOE (Dividend on Equity)	2.0%	1.3%	1.9%	2.7%

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

*Dividend per share for FY8/21 is forecasted amount as of today.



Number of shares held	Outline of benefits
200 shares or more	Shareholder gift certificates available at our online shop: worth 2,200 yen (tax included)

- ✓ According to shareholders' requests to have a choice for shareholder benefits, we will present shareholder gift certificates available at our online shop, which was reopened on September 1, 2021.

*We will ship the products at our costs.

*The shareholder gift certificates are available only at our online shop, not at our physical shops.



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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