



Watts Co., Ltd.

(2735; Tokyo Stock Exchange Prime Market)

Operating Results for the Fiscal Year Ended August 2022 and Business Forecasts for the Fiscal Year Ending August 2023

October 14, 2022 (Friday)

Fumio Hiraoka, President and CEO

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Consolidated Operating Results for the Fiscal Year Ended August 2022



(Millions of yen)

Financial highlights	FY8/21		FY8/22 (Current period)			
		Ratio to sales		Ratio to sales	YoY	Ratio to forecast
Sales	50,702	—	58,347	—	115.1%	100.6%
Gross profit	19,625	38.7%	22,281	38.2%	113.5%	—
Selling, general and administrative expenses	17,956	35.4%	21,282	36.5%	118.5%	—
EBITDA	2,049	4.0%	1,690	2.9%	82.4%	—
Operating profit	1,669	3.3%	998	1.7%	59.8%	90.8%
Recurring profit	1,586	3.1%	1,148	2.0%	72.4%	99.9%
Net income attributable to owners of parent	965	1.9%	781	1.3%	80.9%	94.1%
Net income per share (Yen)	72.09		57.83		—	—

- ✓ **Sales increased by 15.1% YoY**, owing to the consolidation of Ontsu F Retail Co., Ltd. (“OFR”) and Nippan Co., Ltd. (“NPN”) as of October 1, 2021. →P 3
- ✓ **Operating income was 59.8% YoY** due to the slightly lower-than-expected 100-Yen shop same-store sales, amortization of goodwill from M&A, and the amortization burden associated with the renewal of the core system. →P 5, 9
- ✓ **Net income attributable to owners of parent was 80.9% YoY**, due to a decrease in tax expenses resulting from the absorption of a consolidated subsidiary and the recognition of deferred tax assets and income taxes-deferred (gain) reflecting the loss carried forward for tax purposes.
- ✓ **Operating profit was 90.8% compared to the plan**, due to higher-than-expected SG&A expenses, including utilities and commissions, although sales were in line with the plan.

Sales by Business Type



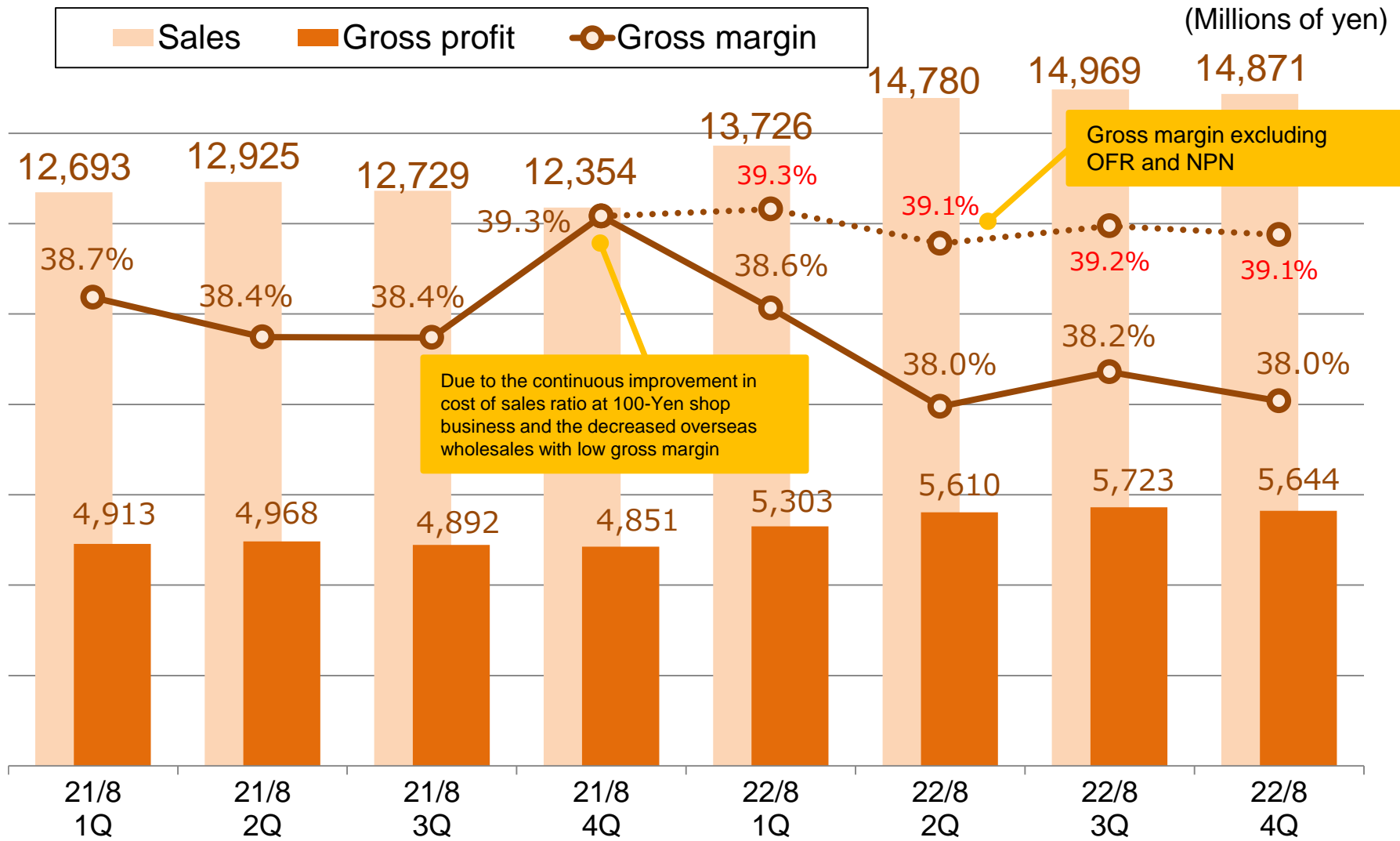
(Millions of yen)

Sales by Business Type		FY8/21		FY8/22 (Current period)		
			Ratio to sales		Ratio to sales	YoY
100-Yen shops	Directly managed	44,288	87.3%	51,829	88.8%	117.0%
	Wholesale, Other	1,673	3.3%	2,126	3.6%	127.1%
	Subtotal	45,961	90.7%	53,955	92.5%	117.4%
Overseas Business	Directly managed	274	0.5%	304	0.5%	111.2%
	Wholesale	1,231	2.4%	1,123	1.9%	91.2%
	Subtotal	1,505	3.0%	1,428	2.4%	94.8%
Lifestyle products business	Buona Vita	766	1.5%	572	1.0%	74.7%
	Søstrene Grene					
Real, etc.		2,468	4.9%	2,390	4.1%	96.9%
Total		50,702	100.0%	58,347	100.0%	115.1%

*We have withdrawn from the Søstrene Grene business as of March 31, 2021.

- ✓ Sales at directly-managed shops and wholesale business significantly increased through the acquisition of 100-Yen shop operators OFR and NPN. The domestic 100-Yen shop sales to total sales increased by 1.8 percentage points.

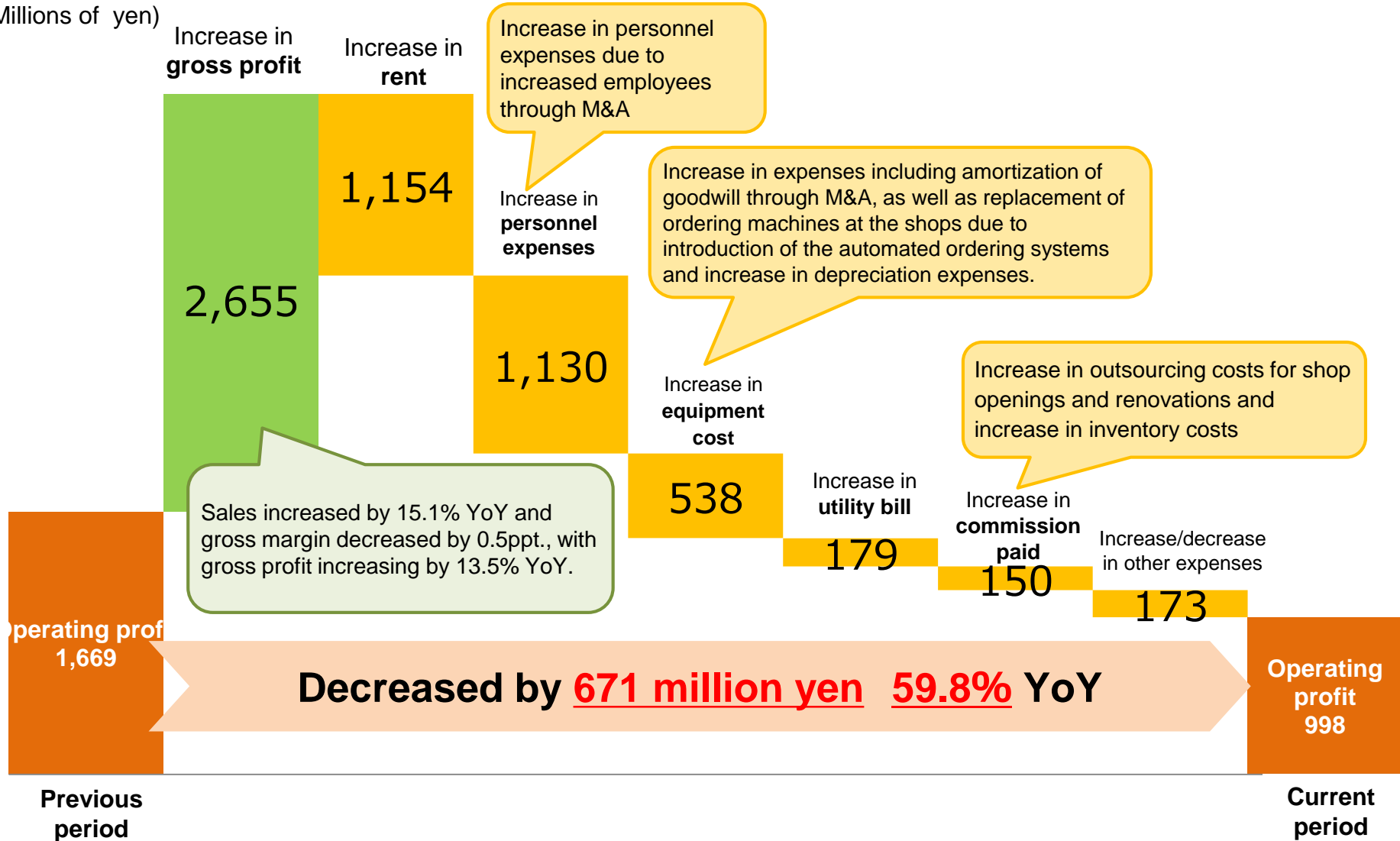
Quarterly Changes in Gross Margin



Factors for Changes in Operating Profit



(Millions of yen)



Consolidated Balance Sheet and Consolidated Cash Flows



(Millions of yen)

Consolidated balance sheet	FY8/21		FY8/22 (Current period)	
		Pct. change		Pct. change
Cash and deposits	6,169	Down 6.4%	6,687	Up 8.4%
Merchandise and finished goods	7,431	Up 4.5%	8,734	Up 17.5%
Other current assets	2,448	Down 9.6%	3,139	Up 28.2%
Tangible fixed assets	1,552	Down 3.5%	2,155	Up 38.9%
Other fixed assets	3,739	Up 6.2%	4,883	Up 30.6%
Total assets	21,340	Down 0.9%	25,600	Up 20.0%
Liabilities	10,118	Down 8.5%	13,669	Up 35.1%
Net assets	11,222	Up 7.1%	11,931	Up 6.3%

- ✓ Shareholders' equity ratio was 46.6%, decreased by 5.9 percentage points from the end of the previous period.
- ✓ In other current assets, goodwill increased by 526 million yen and guarantee deposits increased by 475 million yen, mainly due the acquisition of OFR.
- ✓ In liabilities, long-term loans payable increased by 1,915 million yen, mainly due to the assumption of loans payable through M&A.

(Millions of yen)

Consolidated cash flows	FY8/21		FY8/22 (Current period)	
		Change		Change
Net cash provided by (used in) operating activities	378	△543	1,721	1,343
Net cash provided by (used in) investing activities	△778	△252	△975	△196
Net cash provided by (used in) financing activities	△51	△158	△328	△276
Effect of exchange rate change on cash and cash equivalents	30	16	101	70
Cash and cash equivalents at end of period	6,169	△422	6,687	518
Free cash flows	△400	△796	746	1,146

- ✓ Cash flows from investing activities: Increase of 1,559 million yen in notes and accounts payable-trade due to net increase from M&A, etc.
- ✓ Cash flows from investing activities: increase of 485 million yen in payments for lease and guarantee deposits, mainly due to changes in contractors as a result of M&A.

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Domestic 100-Yen Shop Business

	Opening/closing	<p>Opened 193 shops against the full-year plan of 230 shops and closed 61 shops against 86 shops. The number of shops at the end of the period was 1,641. →P10</p>
	Watts brand shops	<p>Increased by 204 shops to 1,029 shops through openings and renovations. The share to total number of 100-Yen shops was 62.7%.</p>
	M&A	<p>Made OFR a subsidiary as of October 1, 2021. Completed the post-merger integration process in September 2022. →P12</p>

Overseas Business

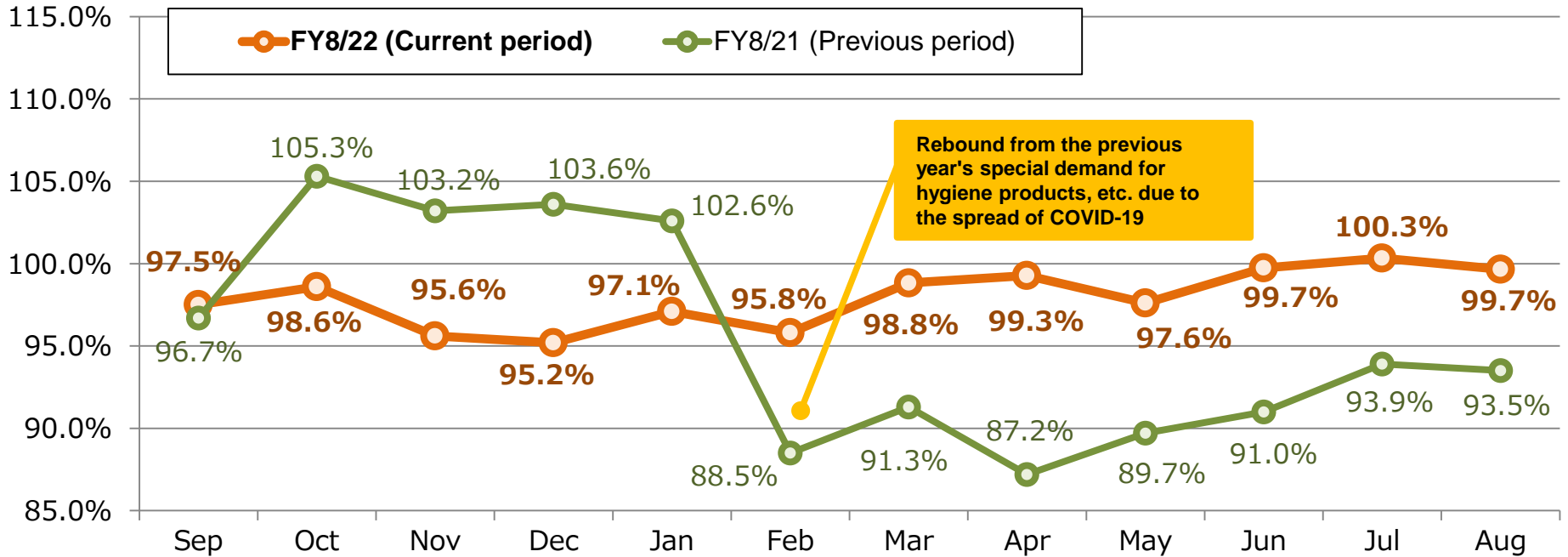
	Overseas shops	<p>The number of shops that are selling WATTS products was 55 (down 14 from the end of the previous fiscal year), and about 90 shops including local partners' shops. →P13</p>
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Domestic Other Business

	Buona Vita	<p>A life-style goods shop offering comfortable and joyful life. The number of shops was 23, mainly opening consignment shops in our 100-Yen shop. →P14</p>
	Real	<p>Community-based discount shop. Operates 6 shops at the end of August 2022. Aim to create synergies with 100-Yen shop business. →P15</p>

Situation of 100-Yen Shop Business ①

— Changes in same-store sales YoY —



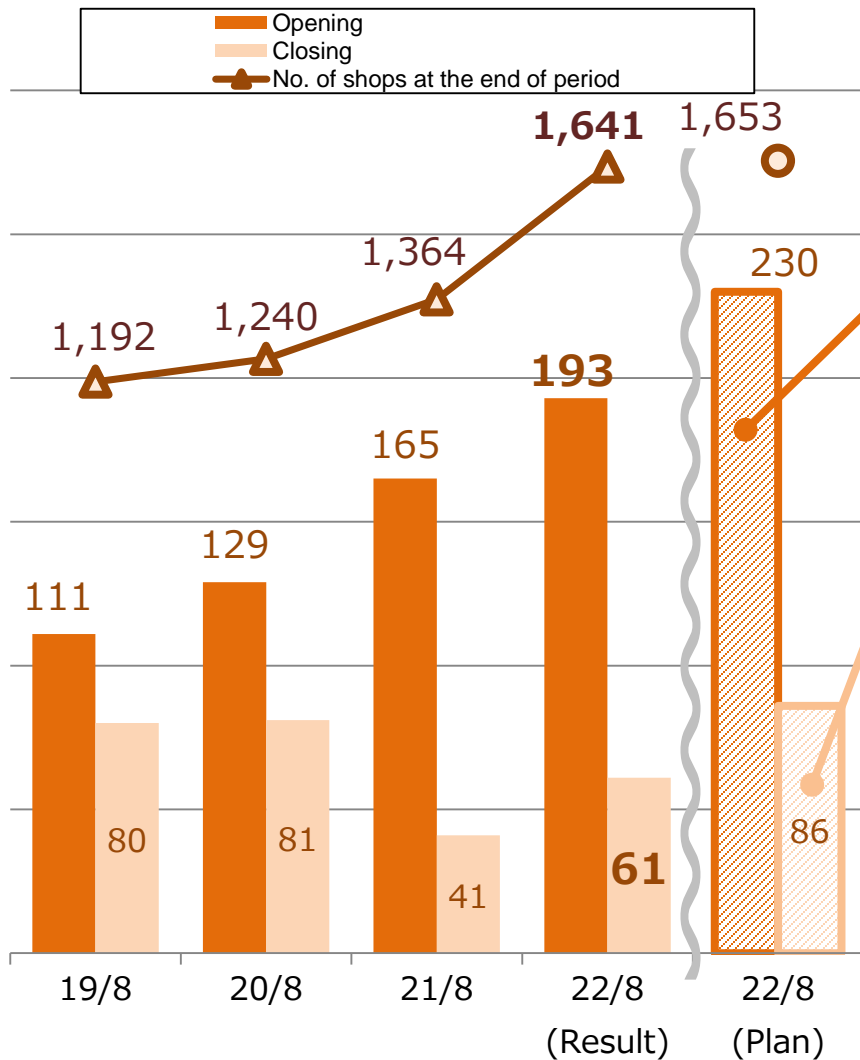
Pct. change of same-store sales	Sep	Oct	Nov	Dec	Jan
Previous period (A)	-3.3%	+5.3%	+3.2%	+3.6%	+2.6%
Current period (B)	-2.5%	-1.4%	-4.4%	-4.8%	-2.9%
A+B	-5.8%	+3.9%	-1.2%	-1.2%	-0.3%

- ✓ Sales were 97.9% YoY, number of customers was 96.5%, and spending per customers was 100.3%.
- ✓ Sales of Watts brand shops were 99.5% YoY.

* Since the September-January period of the previous fiscal year was significantly impacted by the stay-at-home demand, we present the sum of the percentage change between the previous fiscal year and the current fiscal year as the growth rate excluding the impact of the reactionary decline.

Situation of 100-Yen Shop Business ②

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



Opening/closing plan and results

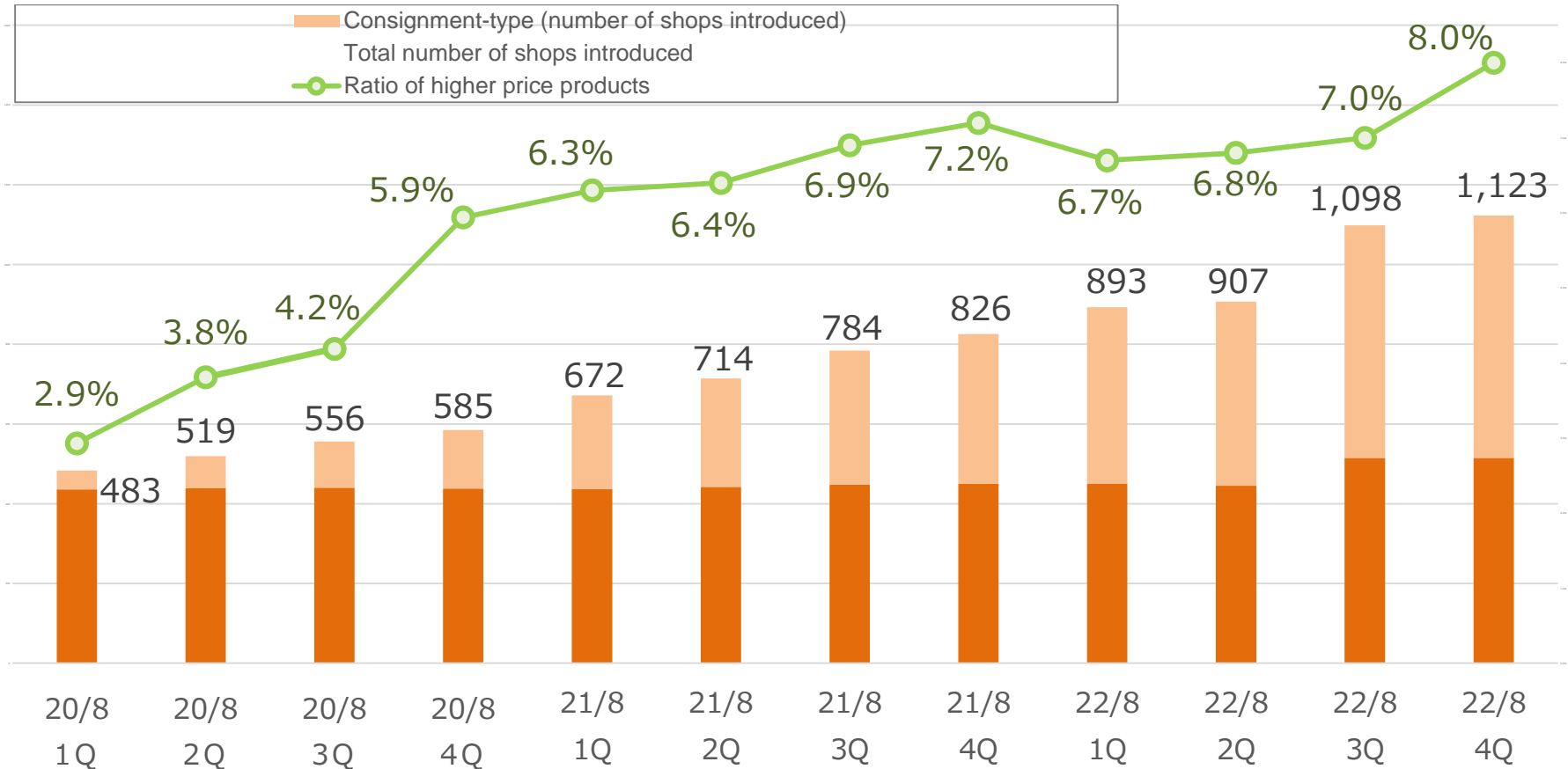
Opening plan
230 shops → Opened **193 shops**

Closing plan
86 shops → Closed **61 shops**

- ✓ Despite the slower-than-planned new shop openings, the number of shop closures was also less than expected, resulting in a **net increase of 277 shops** compared to the plan of 289 shops (net increase includes 145 shops of OFR acquired on October 1, 2021).
- ✓ Of the total 1,641 shops, 1,029 are Watts brand shops (net increase of 204 shops).

Situation of 100-Yen Shop Business ③

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



*Including OFR stores since FY8/22 3Q

- ✓ Continue to introduce more higher-priced products and expand lineups to achieve a 20.0% sales composition ratio of these products.

Situation of 100-Yen Shop Business ④

-Integration with OFR



FLET'S
100 YEN SHOP

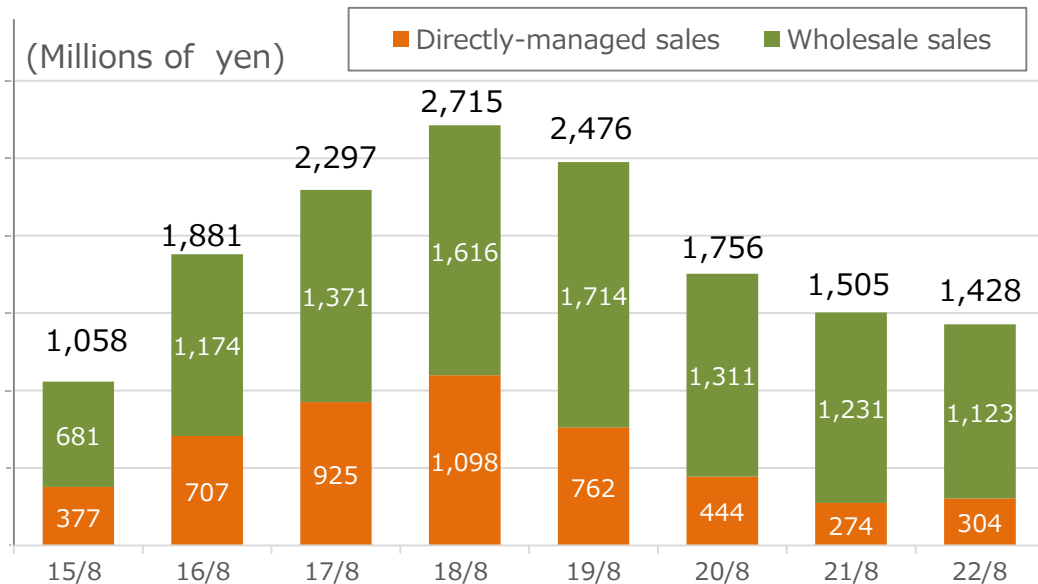


百圓領事館



- ✓ As of October 1, 2021, we acquired OFR, which operates 100-Yen shop "FLET'S" and "Hyakuen Ryojikan" etc., and made them into subsidiaries.
- ✓ As we have completed the integration of product master file, management operations, personnel systems, and store operations, etc., in September 2022 we absorbed OFR into Watts East Japan Sales Co., Ltd. and Watts West Japan Sales Co., Ltd.
- ✓ Create and strengthen a stand-alone shop format in the 100-Yen shop business.
- ✓ Although we have not yet completed the integration of food ordering and POS register systems, we intend to complete the integration along with automated ordering system during FY8/23.

By Business Situation of Overseas Business



Country	Format	Opening	Closing	No. of shops (FY8/22)
Thailand	FC	—	4	37
China	FC	—	—	4
Malaysia	FC	—	2	—
Vietnam	FC	—	3	—
Peru	Directly-managed	1	6	14
Total		1	15	55



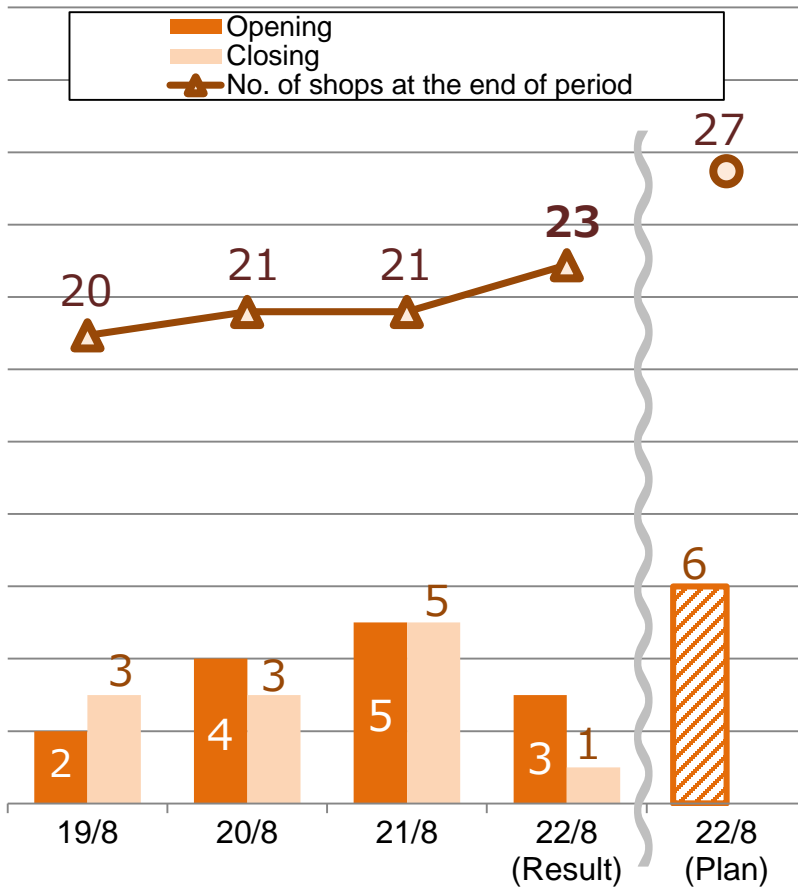
KOMONOYA San Felipe Shop (Peru)

- ✓ In Thailand, there are 37 shops (down 4 YoY). There are 11 Watts brand shops through new openings and renovations.
- ✓ In Peru, we are able to make profits as a result of closing unprofitable shops due to the impact of COVID-19.

Situation of “Buona Vita”



Buona Vita
フォーナ・ビータ



Buona Vita Grand Emio Tokorozawa (Saitama)

- ✓ **23 shops** as of the end of August 2022. Operate 6 consignment shops in our 100-Yen shop.
- ✓ Same-store sales were 104.2% YoY, showing a strong performance since the customer traffic recovered to the pre-COVID level.



- ✓ 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 2022 (5 tenant shops and 1 consignment shop).



- ✓ **Household items shop “Tokino:ne”.** The concept is “Create a pleasant me-time”.
- ✓ In March 2022, we opened the second shop at AEON mall in Chiba City, Chiba Prefecture.
- ✓ 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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Business Forecasts for FY8/23



(Millions of yen)

Business forecasts	FY8/21			FY8/22			FY8/23 (Forecast)		
		Ratio to sales	YoY		Ratio to sales	YoY		Ratio to sales	YoY
Sales	50,702	–	96.0%	58,347	–	115.1%	60,500	–	103.7%
Gross profit	19,625	38.7%	97.1%	36,066	38.2%	113.5%	–	–	–
SG&A	17,956	35.4%	97.3%	21,282	36.5%	118.4%	–	–	–
EBITDA	2,049	4.0%	93.8%	1,690	2.9%	82.4%	1,744	2.9%	103.2%
Operating profit	1,669	3.3%	94.4%	998	1.7%	59.8%	920	1.5%	92.1%
Recurring profit	1,586	3.1%	91.7%	1,148	2.0%	72.4%	850	1.4%	74.0%
Net income attributable to owners of parent	965	1.9%	124.7%	781	1.3%	80.9%	530	0.9%	67.8%
Net income per share (yen)	72.09		–	57.83		–	39.04		–
ROE	8.9%		–	6.7%		–	4.4%		–

- ✓ 100-Yen shop opening/closing plan
 [Opening] 1H: 107, 2H: 129, Total: 236
 [Closing] 1H: 62, 2H: 28, Total: 90
Net increase: 146 shops
- ✓ 100-Yen shop same-store sales are expected to be **100.0% YoY** for the full-year.
- ✓ Operating profit is expected to be 92.1% YoY, as we plan to renovate existing shops, including FLETS shops, and introduce self-checkout systems for labor saving.
- ✓ In FY8/22, foreign exchange gains and tax savings from the merger had a significant impact on our performance, so recurring profit and net income attributable to owners of parent are expected to significantly decrease in the next fiscal year.



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
- ✓ Utilize POS system and promote the introduction of automated ordering system

100-Yen Shop business

Develop shops
**collaborated with other
business formats**

- ✓ Further improvement of the "Watts" and "Watts with" shop opening model
- ✓ Create group synergies by leveraging other business formats
- ✓ Consider M&A for further growth

**Establish business
model for each
country**

- ✓ Further growth of existing businesses under COVID-19 environment
- ✓ Start joint businesses with overseas partners
- ✓ Collaboration with other industries utilizing existing management resources

**Overseas
business**



**Other
businesses**

**Expand business and
enlarge source of
earnings**

- ✓ Fundamentally strengthen the Group's e-commerce channels
- ✓ Capture new opportunities including M&A



Offer higher price products



- ✓ Increase the number of higher price products (price ranges other than 100 yen) 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.
- ✓ Plan to reach 20.0% of sales composition ratio in FY8/23 with 4,000 lineups.

Intra-group collaboration

- ✓ Work to create synergies among Group businesses with collaborative shops with the discount shop "Real" and the lifestyle products business "Buona Vita", etc.





Self-checkout POS register



- ✓ As of the end of August 2022, 58 self-checkout POS registers for cashless payments are in operation. Promote the introduction of full function self-checkout machines that accept cash payments.
- ✓ Improve in-store productivity through more efficient purchase process and labor saving; use spare resources to improve customer satisfaction.
- ✓ Reduce waiting time to minimize peak-time queue (Reduce opportunity losses)
- ✓ To prevent the spread of COVID-19 for both customers and employees through contactless payment

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.
- ✓ The automatic ordering system has been introduced to more than 450 shops, mainly tenant-type shops. Improve the accuracy of automatic ordering and introduce it to former OFR shops.



Reopened online shop



\\ 選りすぐり \\

個人・法人・学校・団体事業者様

約 **270** アイテム

セット単位 専用

まとめ購入 サイト

- ✓ The product lineup is **more than 13,000 items**, and orders can be placed from one unit.
- ✓ Opened a dedicated page for bulk purchases.
- ✓ Handling a wide-range of products of Watts Group brands as well as 100-Yen shop products.

Social Media

twitter



Instagram



- Watts official YouTube channel



- ✓ Use as a tool to raise brand awareness



KOMONOYA
OSAKA JAPAN



KOMONOYA
OSAKA JAPAN

【Overseas Business】

- Increase Japanese products
- Increase customer numbers by strengthening promotions
- Cultivate new markets and further develop existing markets
- Conduct structural reform of Thai business and improve the performance of Peru business



Buona Vita
ブォーナ・ビータ

【Buona Vita】

- Plan to open 4 new shops
- Same-store sales: 102.0% YoY
- Increase the number of shops introducing low-priced makeup products



スーパーディスカウント



リアル

【Real】

- Plan to open 1 new shop (Switch from Watts directly managed shop)
- Same-store sales: 100.0% YoY
- Establish a system that can be expected to generate synergies with the 100-Yen shop business



NIPPAN
ニッパ

【Nippan】

- Send catalogues and direct mail brochures for each company
- Introduce a credit card payment system to the online shop

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Brands of Watts Group



Domestic 100-Yen shop business



FLET'S
100 YEN SHOP



百圓領事館

NIPPAN
ニッパ

Overseas business

KoMoNoYA
OSAKA JAPAN



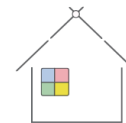
KOMONOYA
OSAKA JAPAN



小物家园
KOMONOKAEN

Other domestic business

Buona Vita
ブォーナ・ビータ



Tokino:ne

スーパーディスカウント

リアル



Overview of Other Businesses



Buona Vita
フオーナ・ビータ

“Buona Vita,” a variety store which proposes a comfortable life. Operates 23 shops as of the end of August 2022.




Tokino:ne

Tokino:ne, a household items shop under the theme of “time”, opened its second shop in March 2022



Collaboration shop between 100-Yen shop and grocery



Community-based small discount shop. Operate 6 shops as of the end of August 2022

Company Profile



Establishment	February 22, 1995 (Currently the 29th 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 Prime Market (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	3,593 employees (as of August 31, 2022) *Part-time workers included
Number of shops	1,728 shops (as of August 31, 2022) *Other shops included

Corporate History



✓ 2022 Transition to the Prime Market



2021
Acquired
Ontsuf Retail
Co., Ltd.

2014
Exceeded
1,000 shops

✓ 2011 Advanced to Hokkaido
(Opened shops in 47 prefecture)

2009
Started overseas business
Advanced to Thailand

2007
Integrated with Ohtthree Co., Ltd.
Exceeded 700 shops

✓ 1997 Established distribution
center in Shiga Prefecture

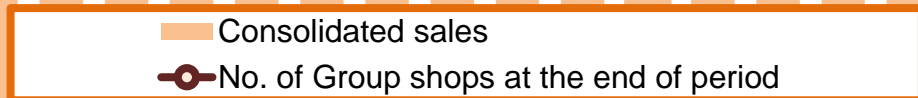
2002
¥10b in sales
Went OTC

1998
Exceeded 100 shops
for 4 years
after establishment

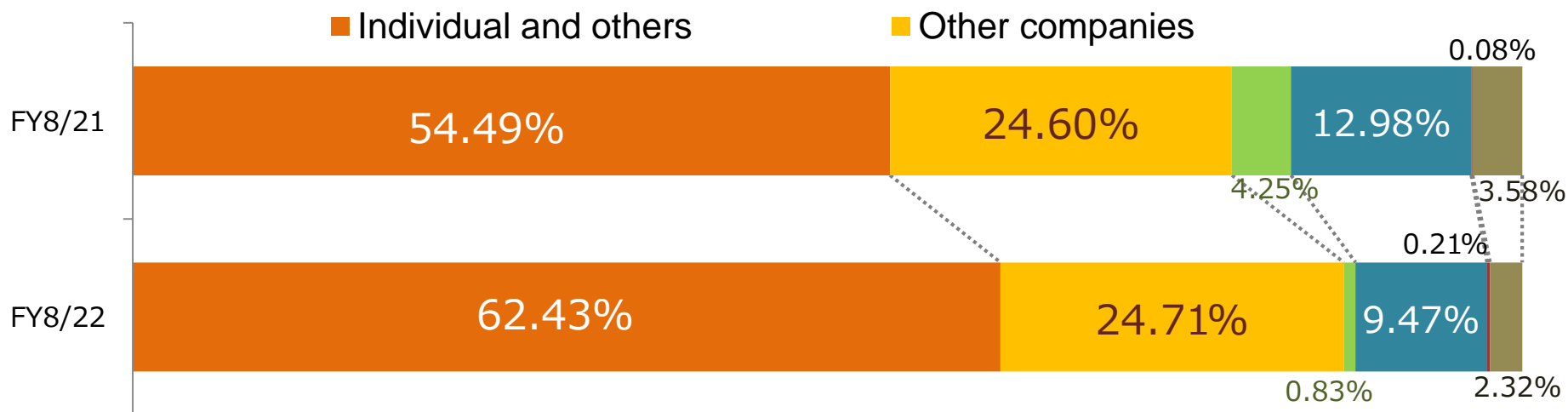
✓ 1995 Established in Chuo-ku,
Osaka-shi, as a successor of
Hisamatsu Co., Ltd.

1995
Established

FY8/22	
Sales	¥58.3bn
No. of shops	1,728 shops



Shareholder Composition



	FY8/20	FY8/21	FY8/22	YoY
Total number of shares issued	13,958,800 shares	13,958,800 shares	13,898,800 shares	△60,000
Number of shareholders	23,454	22,290	23,447	+1,157
Individuals and others	52.77%	54.49%	62.43%	+7.94P
Other domestic companies	24.60%	24.60%	24.71%	+0.11P
Foreign companies and others	4.43%	4.25%	0.83%	△3.42P
Financial institutions	12.88%	12.98%	9.47%	△3.51P
Securities companies	1.71%	0.08%	0.21%	+0.13P
Treasury stock	3.58%	3.58%	2.32%	△1.26P

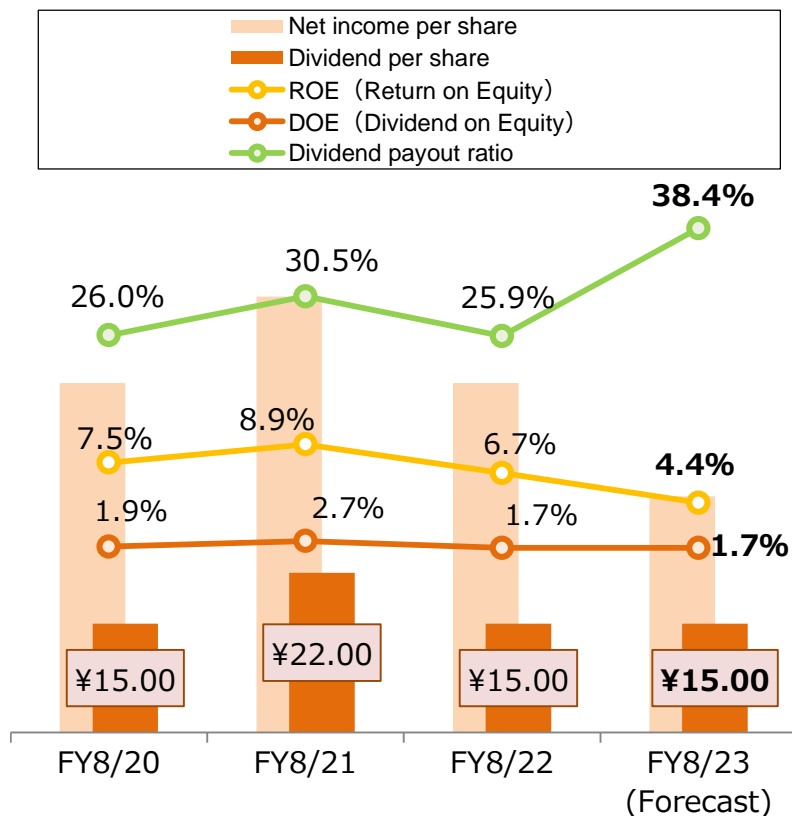
- ✓ Total number of shares issued decreased by 60,000 due to the cancellation of treasury stock.
- ✓ Treasury stock was allocated to Watts Group executives and employees as restricted stock compensation, resulting in a 1.26ppt. decrease in treasury stock ownership.

(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.



	FY8/20	FY8/21	FY8/22	FY8/23 (forecasts)
Net income per share (Yen)	¥57.80	¥72.09	¥57.83	¥39.04
Dividend per share (Yen)	¥15.00	¥22.00	¥15.00	¥15.00
Dividend payout ratio	26.0%	30.5%	25.9%	38.4%
Dividend yield	1.6%	2.5%	2.1%	2.1%
ROE (Return on Equity)	7.5%	8.9%	6.7%	4.4%
DOE (Dividend on Equity)	1.9%	2.7%	1.7%	1.7%

*Dividend payout ratio for each fiscal year is calculated based on the stock price of accounting date.
(Payout ratio for FY8/23 is calculated based on the stock price on August 31, 2022.)

Shareholder Benefit Program



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)

- ✓ To meet the needs of shareholders who want to freely select the benefit, we present shareholder gift certificates available at our online shop.

*The benefits outlined above are for FY8/22.

*This benefit is available for all products in our online shop.

*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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