



Watts Co., Ltd.

(2735; Tokyo Stock Exchange First Section)

Operating Results for the Fiscal Year Ended August 2018 and Business Forecasts for the Fiscal Year Ending August 2019

October 15, 2018 (Monday)

Fumio Hiraoka, President and CEO

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Consolidated Operating Results for the Fiscal Year Ended August 31, 2018



(Millions of yen)

Financial highlights	FY8/17		FY8/18 (Current period)			
		Ratio to sales		Ratio to sales	YoY	Ratio to forecast
Sales	47,494	–	49,444	–	104.1%	99.7%
Gross profit	17,994	37.9%	18,779	38.0%	104.4%	–
Selling, general and administrative expenses	16,785	35.3%	17,803	36.0%	106.1%	–
EBITDA	1,566	3.3%	1,363	2.8%	87.0%	–
Operating profit	1,209	2.5%	975	2.0%	80.7%	67.3%
Recurring profit	1,272	2.7%	1,037	2.1%	81.5%	68.2%
Net income attributable to owners of parent	839	1.8%	633	1.3%	75.5%	68.5%
Net income per share (Yen)	61.96		46.79		–	–

- ✓ **Sales** increased by **4.1%** YoY, almost as planned, as a result of steady 100-Yen shop opening and making “Real Co., Ltd.” which operates discount shops a subsidiary in April. ➔P3
- ✓ **Gross** profit increased by **4.4%** as the gross margin improved by 0.1 percentage point. ➔P4
- ✓ **Operating profit** decreased by **19.3%** as a result of higher SG&A expenses. This is due to weakness in 100-Yen shop same-store sales mainly due to extremely abnormal weather and increases in rent and personnel expenses associated with an increase in the number of shops, and an increase in the use of temporary staff when opening shops. Profits fell significantly below the forecast. ➔P5

Sales by Business Type

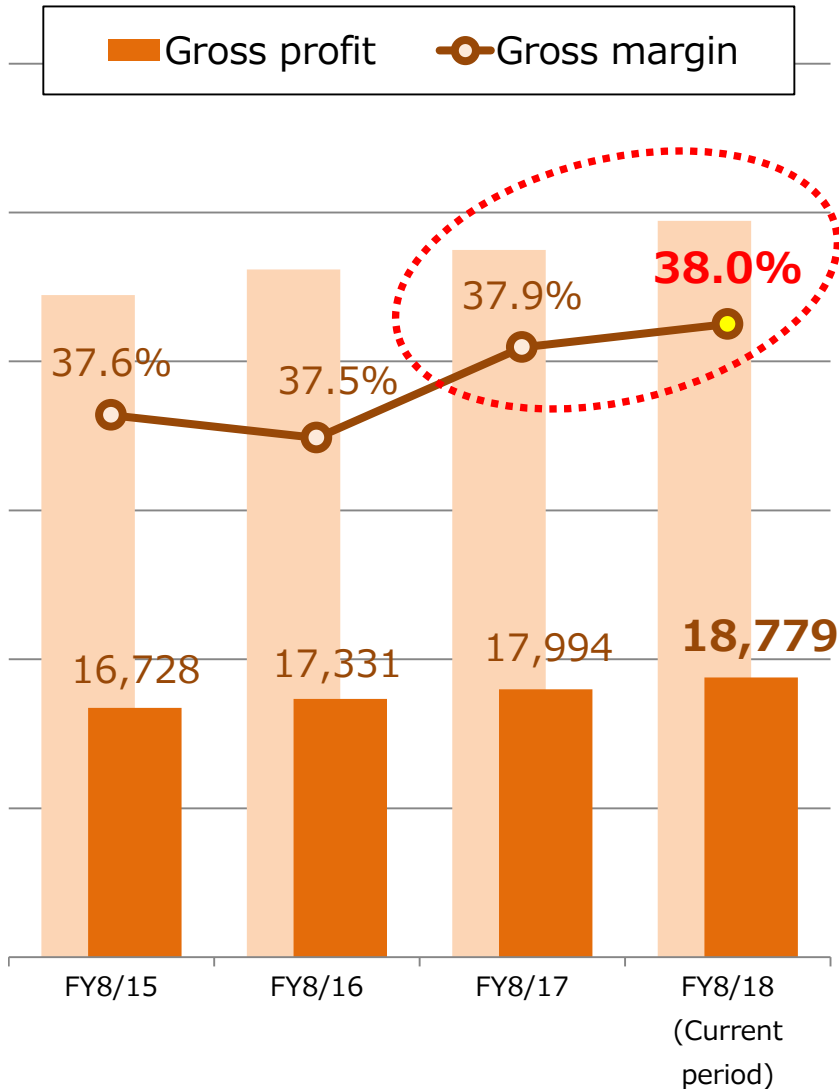


(Millions of yen)

Sales by Business Type		FY8/17		FY8/18 (Current period)		
			Ratio to sales		Ratio to sales	YoY
100-Yen shops	Directly managed	39,824	83.9%	41,243	83.4%	103.6%
	Wholesale, Other	3,238	6.8%	2,748	5.6%	84.9%
	Subtotal	43,062	90.7%	43,991	89.0%	102.2%
Overseas Business	Directly managed	925	1.9%	1,098	2.2%	118.7%
	Wholesale	1,371	2.9%	1,616	3.3%	117.9%
	Subtotal	2,297	4.8%	2,715	5.5%	118.2%
Lifestyle products business	Buona Vita					
	Søstrene Grene	1,792	3.8%	1,814	3.7%	101.2%
	AMANO					
Other		341	0.7%	923	1.9%	270.4%
Total		47,494	100.0%	49,444	100.0%	104.1%

- ✓ Sales of domestic 100-Yen shop business increased by 2.2% YoY. However, its ratio to consolidated sales decreased by 1.7 percentage points due mainly to the decrease in wholesale sales of franchised shops and growth in overseas sales.
- ✓ The ratio of overseas business to consolidated sales increased from 4.8% to 5.5%.

Changes in Gross Margin



In the 100-Yen shop business

- ✓ Gradually replace to higher value-added products mainly in the Watts brand shops.
- ✓ Reduce food with high cost rate and continue to raise the daily-use product sales ratio.
- ✓ Composition ratio of directly-managed shops continue to rise because of not expanding franchised shops and wholesaling.

In other domestic businesses

- ✓ Aim to expand the sales share of Buona Vita and Søstrene Grene (which is capable of earning a relatively high gross profit).

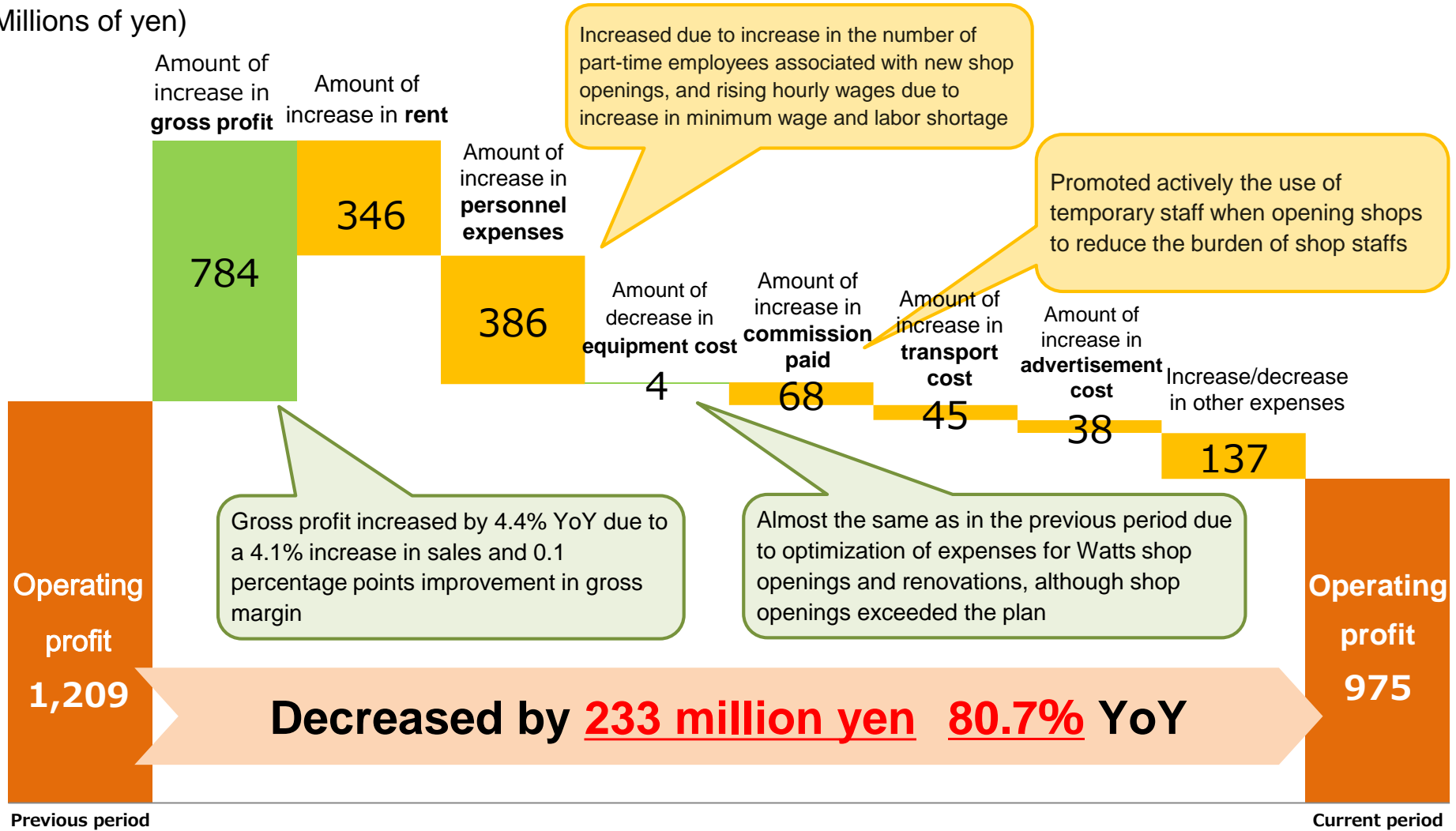
In the overseas business

- ✓ Recently, the Company will carefully assess appropriate gross margin while also focusing on the SG&A ratio trend, because the wholesale with low markup rate compared with directly-managed shops is expanding.

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	FY8/17		FY8/18 (Current period)	
		Pct. change		Pct. change
Cash and deposits	5,727	Up 13.8%	5,147	Down 10.1%
Merchandise and finished goods	6,506	Up 6.5%	6,811	Up 4.7%
Other current assets	3,043	Up 10.0%	2,914	Down 4.2%
Tangible fixed assets	1,538	Up 8.2%	1,759	Up 14.4%
Other fixed assets	3,269	Up 3.6%	3,312	Up 1.3%
Total assets	20,084	Up 8.6%	19,945	Down 0.7%
Liabilities	10,210	Up 10.7%	9,711	Down 4.9%
Net assets	9,873	Up 6.6%	10,234	Up 3.7%

- ✓ Shareholders' equity ratio was 52.2%, up 2.5% from the end of the previous period
- ✓ Merchandise and finished goods increased by 305 million yen due to aggressive shop openings and renovations of 100-Yen shops. Also, tools, furniture and fixtures in tangible fixed assets increased by 113 million yen
- ✓ Liabilities decreased by 4.9% due mainly to repayment of 239 million yen in long-term loans
- ✓ Retained earnings increased by 429 million yen from the end of the previous period

(Millions of yen)

Consolidated cash flows	FY8/17		FY8/18 (Current period)	
		Change		Change
Net cash provided by (used in) operating activities	1,157	428	687	△469
Net cash provided by (used in) investing activities	△525	176	△615	△89
Net cash provided by (used in) financing activities	55	149	△658	△714
Effect of exchange rate change on cash and cash equivalents	9	60	5	△3
Cash and cash equivalents at end of period	5,727	696	5,147	△580
Free cash flows	631	605	72	△559

- ✓ In net cash provided by (used in) operating activities, income before income taxes and minority interests decreased by 297 million yen and accrued consumption tax decreased by 222 million yen, respectively
- ✓ In net cash provided by (used in) financing activities, proceeds from long-term loans payable decreased by 671 million yen

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Domestic 100-Yen Shop Business

 	Opening/closing	<p>Opened 141 shops against the full-year plan of 108 shops and closed 67 shops against 75 shops. The number of shops at the end of the period was 1,161 (net increase of 74 shops) →P10</p>
 	Watts brand shops	<p>Establishment of the “Watts with” model which opens at an investment based on the sales size accelerated shop openings and renovations. As a result, the number of Watts brand shops increased by 162 to 419. →P11</p>

Overseas Business

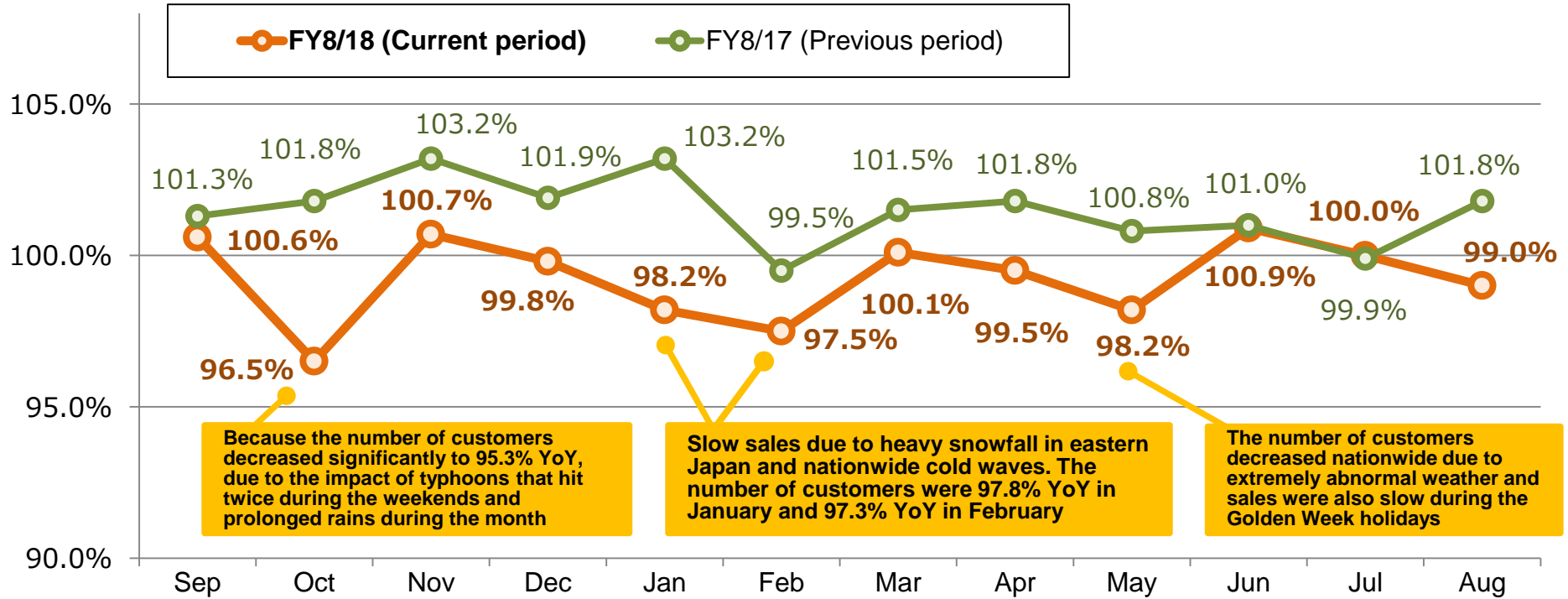
	Group sales	<p>Sales of overseas business were 118.2% YoY, expanding its ratio to consolidated sales from 4.8% to 5.5% →P12</p>
	Number of overseas shops	<p>The number of shops that are selling WATTS products was 72 (up 6 YoY), and more than 110 shops including local partners' shops →P13</p>

Domestic Other Business

	Buona Vita	<p>A life-style goods shop offering comfortable life. Decreased by 4 shops to 21 shops. Focused on development of existing shops such as by improving product lineups →P14</p>
	Søstrene Grene	<p>Denmark's life-style goods shop. Opened up to 4 shops. Raise brand recognition and expand its scale of operation to make the business into profitable →P15</p>

Situation of 100-Yen Shop Business①

— Changes in Same-store sales YoY —



Because the number of customers decreased significantly to 95.3% YoY, due to the impact of typhoons that hit twice during the weekends and prolonged rains during the month

Slow sales due to heavy snowfall in eastern Japan and nationwide cold waves. The number of customers were 97.8% YoY in January and 97.3% YoY in February

The number of customers decreased nationwide due to extremely abnormal weather and sales were also slow during the Golden Week holidays

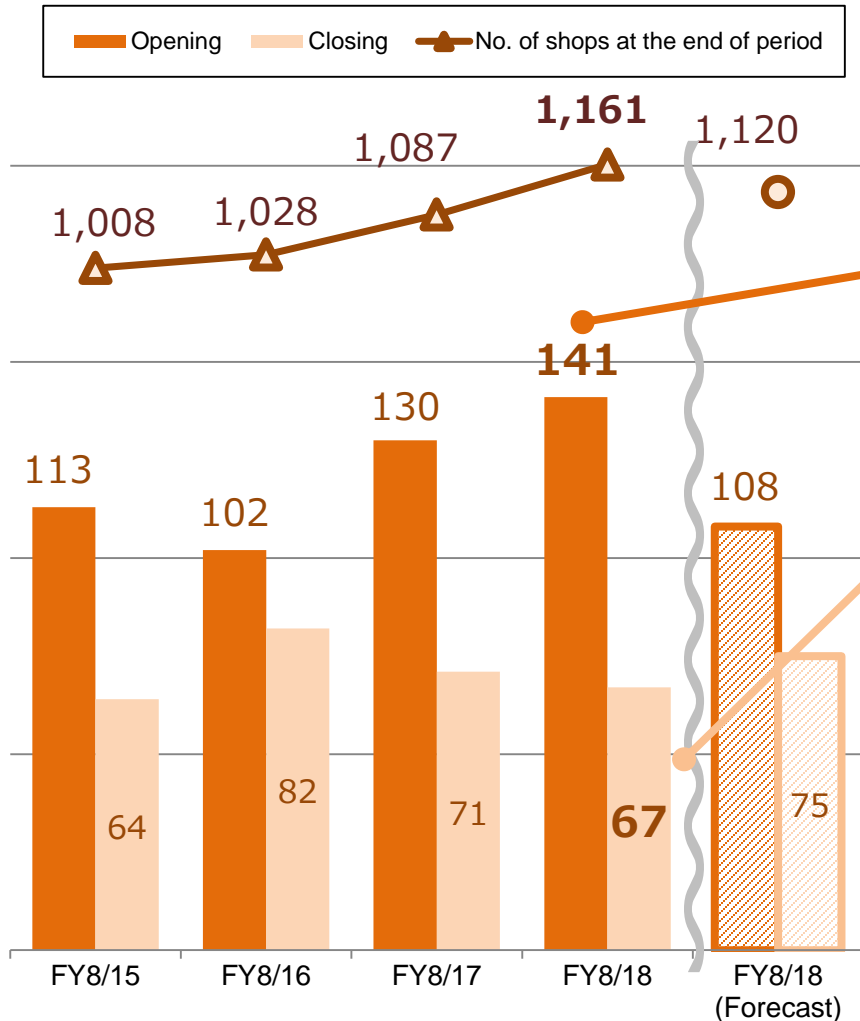
Full-year total	Sales	No. of customers	Spending per customer
YoY	101.5%	100.5%	100.8%
Current period	99.3%	98.6%	100.5%

- ✓ Spending per customer exceeded every month the previous year's level, but this was below the full-year target of 101.0%, as the number of customers was weak due to the frequent abnormal weathers and other factors.
- ✓ Sales of Watts brand shops achieved over 100% YoY

*Sales of September 2018: 101.4%

Situation of 100-Yen Shop Business②

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



Opening/closing plan and results

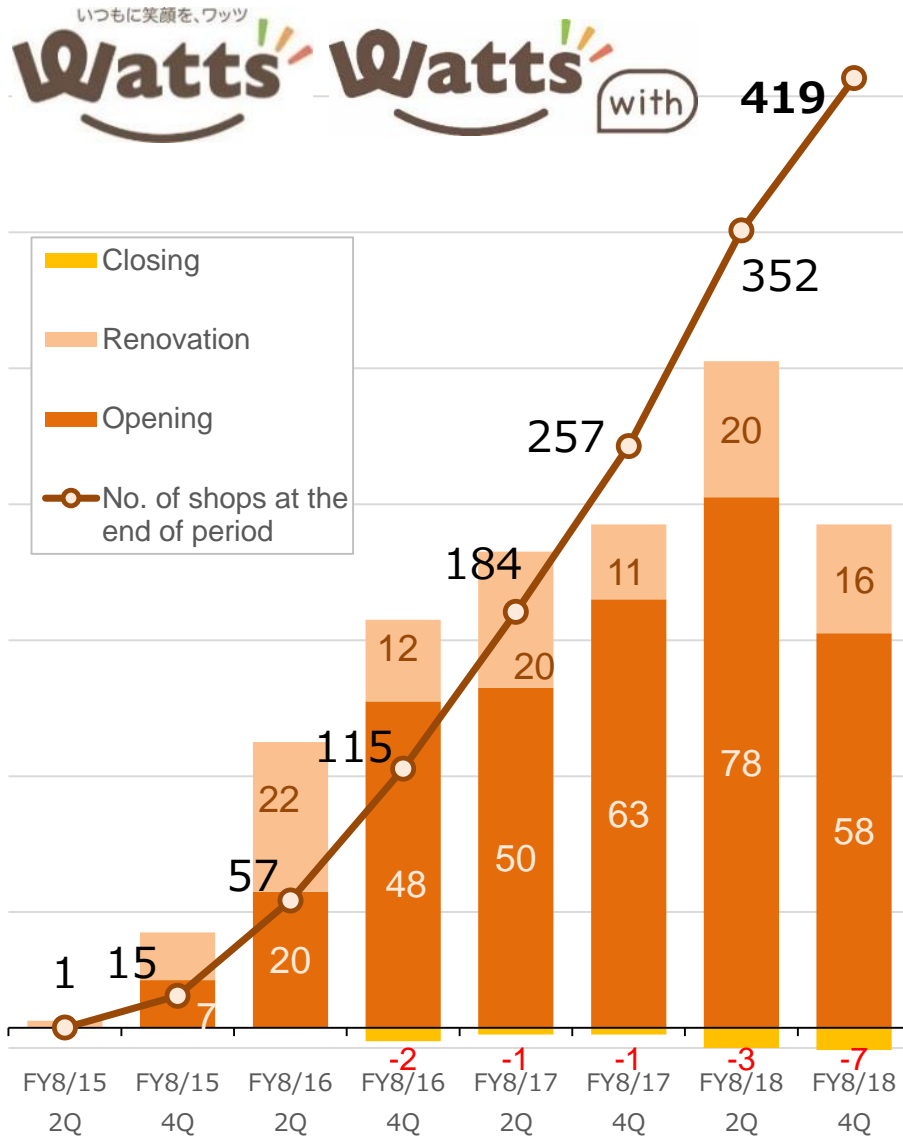
Opening plan
108 shops → Opened **141 shops**

Closing plan
75 shops → Closed **67 shops**
(of which 10 franchised shops)

- ✓ New shop openings achieved the full-year target (exceeded 33 shops compared to the plan), although the large number of new shops is consignment type with relatively small sales scale
- ✓ There is still scope for opening consignment shops which account for 113 shops of 141 shops
- ✓ The number of shops at the end of period exceeded the plan resulting in 1,161 shops

Situation of 100-Yen Shop Business③

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



September 2018 Watts Odawara Dynacity West Shop (Kanagawa)

- ✓ The share to total number of shops (1,161 shops) is **36.1%**.
- ✓ The number of shops increased by 162 from the end of the previous period as a result of establishing multiple shop opening models according to sales
- ✓ 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)—

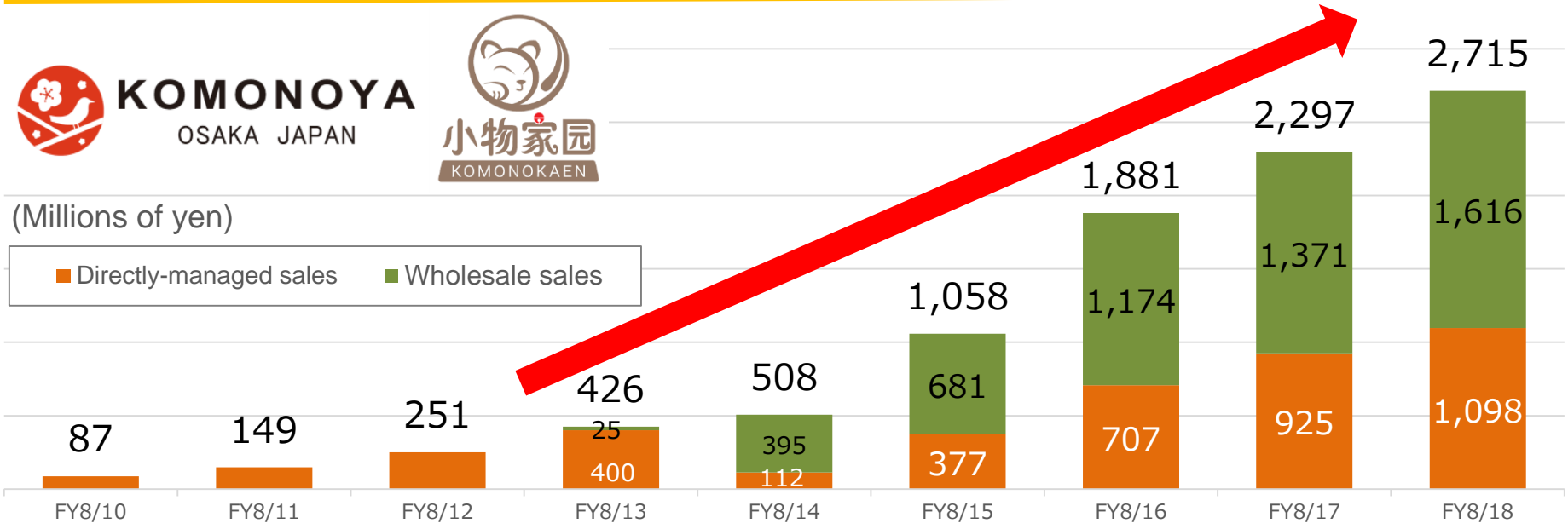


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OSAKA JAPAN



(Millions of yen)

■ Directly-managed sales
 ■ Wholesale sales



May 2018 Udon Thani Shop (Thailand)

- ✓ Directly-managed shops gain foothold while focusing on wholesale sales to neighbor countries (collaboration with local partners)
- ✓ There are about 40 fixed-price shops with sales floors consisting of the Company's products which include 17 shops in Myanmar, 12 shops in Mongolia and other countries

Overseas business	FY8/17	FY8/18	YoY
Sales	2,297 million yen	2,715 million yen	118.2%

Situation of Overseas Business②

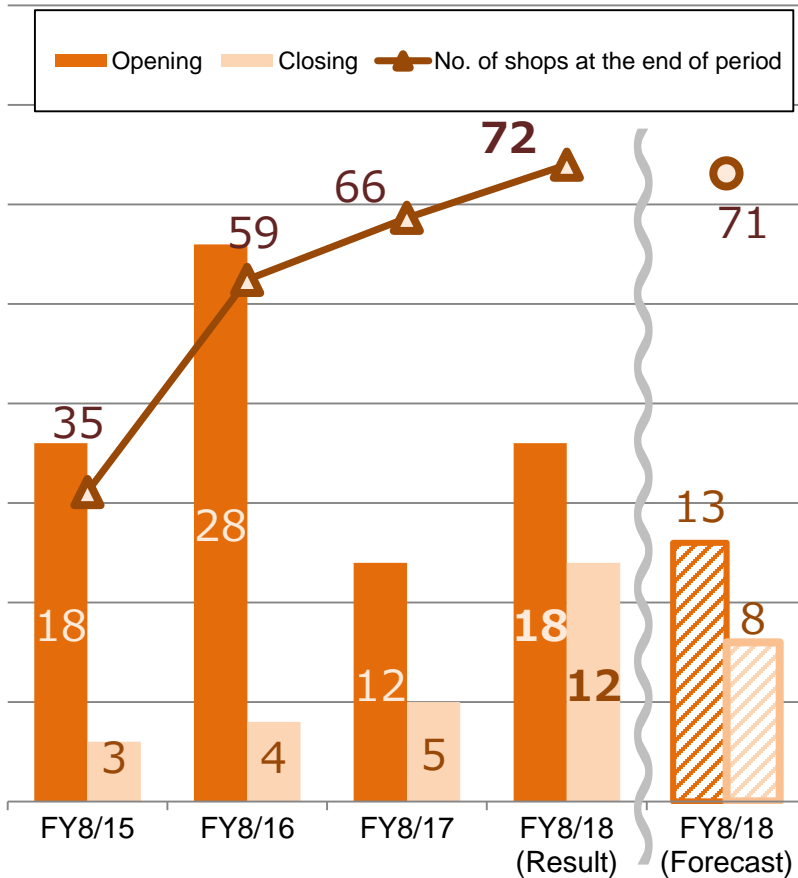
— Number of Shops (Opening/Closing Plan and Results) —



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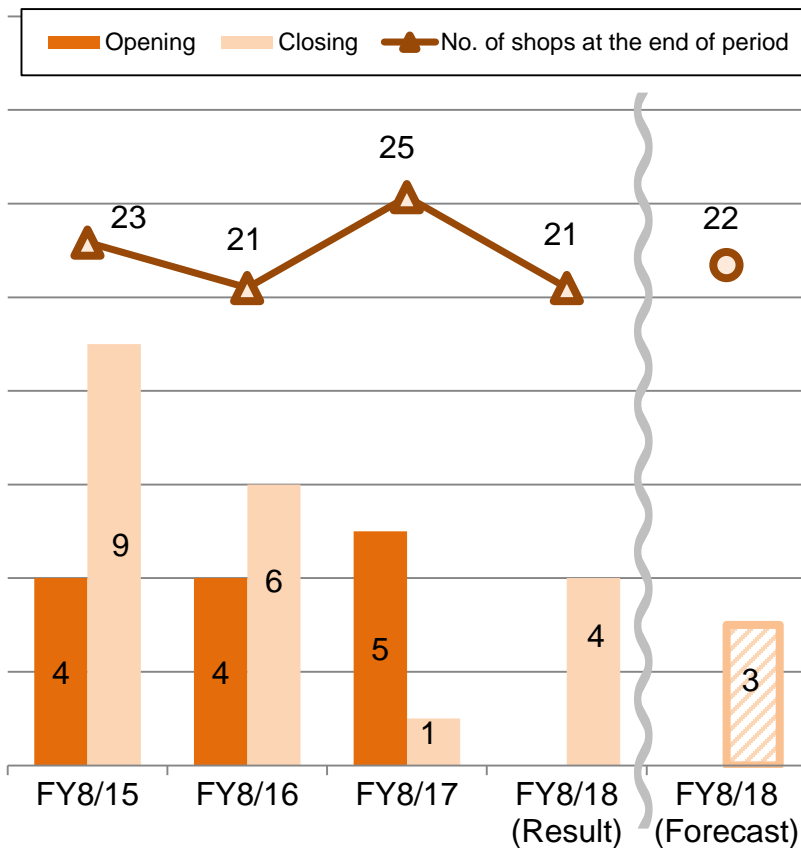


	Opening	Closing	No. of shops at the end of period (FY8/18)
Thailand	7	1	37
China	—	7	2
Malaysia	5	1	9
Vietnam	—	3	11
Peru	6	—	13
Total	18	12	72

- ✓ Same-store sales in Thailand are recovering, and the Company will continue to focus on products while aggressively opening new shops
- ✓ Malaysia transferred its sales subsidiary to a local partner in April. Wholesales to Singapore via Malaysia are expanding steadily and the Company will continue to focus on wholesales as a significant market
- ✓ China shrank its direct-managed shops and focused on pop-up shops
- ✓ Peru's directly-managed shops remained strong. Started wholesales to Mexico in the previous period



~Planned number of shops opened/closed and results of the number of shops~



July 2017 KOBE HARBORLAND umie Shop

- ✓ Closed 4 shops and totaled **21 shops**
- ✓ Same-store sales were **98.3% YoY** but the Company is gradually replacing a product range tailored to each store and sales are recovering
- ✓ Slowed the pace of new shop openings to improve profitability at existing shops



November 2017 Søstrene Grene PRIMETREE AKAIKE Shop

- ✓ Operated by a joint venture company "Hilmer Japan Co., Ltd.". A brand company which operates more than 200 specialty shops offering Scandinavian items mainly in Europe holds 40% shares
- ✓ Opened the first flagship shop in Omotesando on October 28, 2016. Operates 4 shops as of the end of August 2018. Scheduled to open Kokubunji Shop (Kokubunji-shi, Tokyo) in November 2018
- ✓ Sell Scandinavian items at reasonable prices and introduce about 100 new items every week
- ✓ Improve brand recognition by introducing products that meet the domestic market and strengthening branding using SNS and also promote multi-store expansion, with the aim of making the business profitable early



On April 2, 2018, the Company acquired all the shares of Real Co., Ltd., which operates small-scale discount shops, and made it a consolidated subsidiary.



- ✓ Community-based shop with extensive product lineup of daily necessities.
- ✓ Four shops in Osaka and Hiroshima.
- ✓ We will utilize the Company's strength in procurement capability cultivated with the 100-yen shop business.
- ✓ Improve profitability by implementing cost-cutting measures through the integration of headquarters functions, etc., thereby increasing the contribution to profits.

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Business Forecasts for the Fiscal Year Ending August 31, 2019



(Millions of yen)

Business Forecast	FY8/18 2Q		FY8/19 2Q (Forecast)			FY8/18		FY8/19 (Forecast)		
		Ratio to sales		Ratio to sales	YoY		Ratio to sales		Ratio to sales	YoY
Sales	23,886	–	25,400	–	106.3%	49,444	–	52,000	–	105.2%
Gross profit	9,207	38.5%	–	–	–	18,779	38.0%	–	–	–
SG&A	8,613	36.1%	–	–	–	17,803	36.0%	–	–	–
Operating profit	593	2.5%	430	1.7%	72.5%	975	2.0%	1,080	2.1%	110.7%
Recurring profit	602	2.5%	430	1.7%	71.4%	1,037	2.1%	1,110	2.1%	107.0%
Net income attributable to owners of parent	379	1.6%	255	1.0%	67.2%	633	1.3%	650	1.3%	102.5%
Net income per share (Yen)	28.00		18.82			46.79		47.98		
ROE	3.8%		2.4%			6.2%		6.1%		

Opening/closing plan of 100-Yen shops

[Opening] 63 shops in 1H, 52 shops in 2H, a total of 115 shops

[Closing] 52 shops in 1H, 32 shops in 2H, a total of 84 shops

 **Net increase of 31 shops**

✓ Profits are expected to decrease in 1H due to the closing of unprofitable and less profitable shops and aggressive renovations mainly in 1H. Meanwhile in 2H, the Company is expected to ensure profits as in the previous period for the full-year as a result of contribution of effects of new shop openings and renovations in 1H to profits.



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

Watts

Other
businesses

Expand business and Enlarge source of earnings

- ✓ Grow existing business and secure profitability
- ✓ Capture new opportunities including M&A



Watts brand shops



- ✓ Renovate “Watts” and “Watts with” in a systematic manner. Increase Watts brand shops at a pace of 100 shops per year with new shop openings
- ✓ Plan both to improve customer satisfaction and to maximize sales and profits by establishing a shop model to suit the location and customer segments, while leveraging our expertise in low-cost opening and closing of shops and low-cost operation, which we have cultivated through existing models “meets.” and “silk”
- ✓ Create sales floors that reflect locations and customer segments by distributing merchandise reports for shops and conducting sales analysis using POS

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 sales data accumulated under the Watts brand with “meets.” and “silk”



Expansion of “WATT’S new”



- ✓ Set a theme every 3 months and drastically change displays. Develop an area that allows customers to image a scene of life and appeal to young females
- ✓ As of the end of August 2018, 4 shops are displaying “WATT'S new” space

Revitalization of sales floors



- ✓ Implement monthly headquarter-led sales promotion
*The above photos show examples of development of monthly sales promotion
- ✓ Increase the number of fashionable items, switching from the standard lineup of consumables and general merchandises. Also aggressively introduce new products and seasonal products
- ✓ Increase the number of higher price products aiming for rise in spending per customer
- ✓ Establish a sales floor follow-up system suited to each management style by placing dedicated staff in charge of each store format



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小物家园 “KOMONOKAEN”



[Expansion of wholesaling]

- ✓ Currently, countries and regions with shipping records are China, South Korea, Taiwan, Myanmar, Singapore, Mongolia, New Zealand, Australia, Mexico, Brunei and Philippines, etc. The number of retailers including wholesalers that are selling only WATTS products is more than **“110 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

[Boost up existing market]

- ✓ Rebuild support system of the existing market and shops through a new department which was established in the current period. Raise the level of management of sales floors to expand sales. Regard particularly Thailand, Vietnam and Myanmar as significant markets and will actively provide support for operation



- Plan to open 3 new shops. Select locations to grow as a business that makes a good profit
- Aim to gain repeat customers by strengthening trend products, gift-related and hand-made items
- Distribute information on trends, MD schedules and ways to develop products to shops controlled by the headquarters to create high quality sales floors



- Plan to open 2 new shops. Focus on reform of products and promote MD that suits the Japanese market. Also focus on stable supply of regular and popular products
- Aim to establish a brand in Japan by dispatching information using SNS and increasing media exposure. Customer satisfaction improvement and PR effects are also expected by holding workshops and in-store events on a regular basis



- Expand sales through multi-store operation of website and development of exclusive merchandise
- Strengthen sales of elegant general merchandise, our area of expertise



- Create a business format which is likely to generate synergies with the 100-Yen shop business
- Strengthening of sales promotion such as through leaflets

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Domestic 100-Yen shop business



Overseas business



Other domestic business





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 2018. The photo is Sannomiya OPA2 shop which opened in February 2017



“Søstre Grene”, a joint venture in a life-style goods shop offering North European items. Operates 4 shops as of the end of August 2018



Collaboration shop between 100-Yen shop and grocery



Community-based small discount shop. Operates 4 shops as of the end of August 2018



Import and wholesale of European taste lifestyle goods



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.

- ✓ Launched our official SNS accounts in the 100-Yen Shop business!
- ✓ 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.



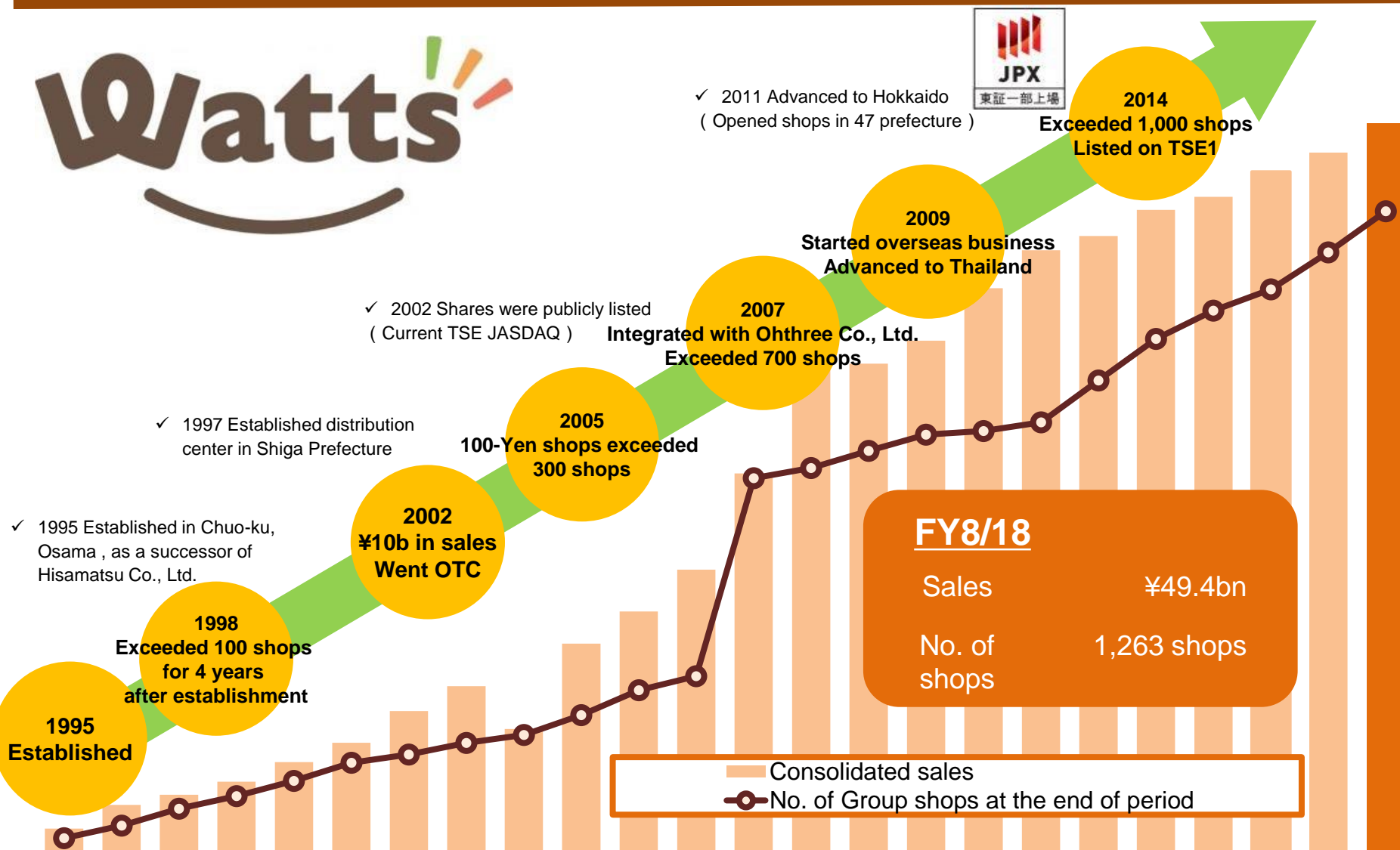
友だちだからお得な情報届けます。

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 25th 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	3,245 employees (as of August 31, 2018) *Part-time workers included
Number of shops	1,263 shops (as of August 31, 2018) *Other shops included

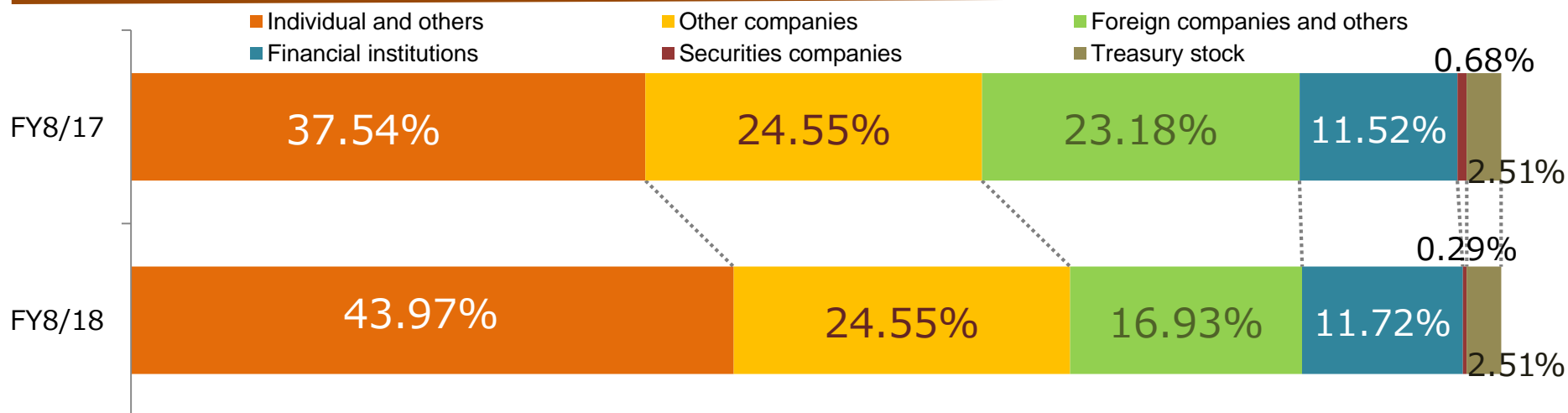


FY8/18

Sales	¥49.4bn
No. of shops	1,263 shops

Consolidated sales
 No. of Group shops at the end of period

Shareholder Composition



	FY8/17	FY8/18	YoY
Total number of shares issued	13,958,800 shares	13,958,800 shares	–
Number of shareholders	8,316	15,225	+ 6,909
Ownership ratio			
Individuals and others	37.54%	43.97%	+6.43P
Other domestic companies	24.55%	24.55%	±0P
Foreign companies and others	23.18%	16.93%	-6.25P
Financial institutions	11.52%	11.72%	+0.20P
Securities companies	0.68%	0.29%	-0.39P
Treasury stock	2.51%	2.51%	±0P

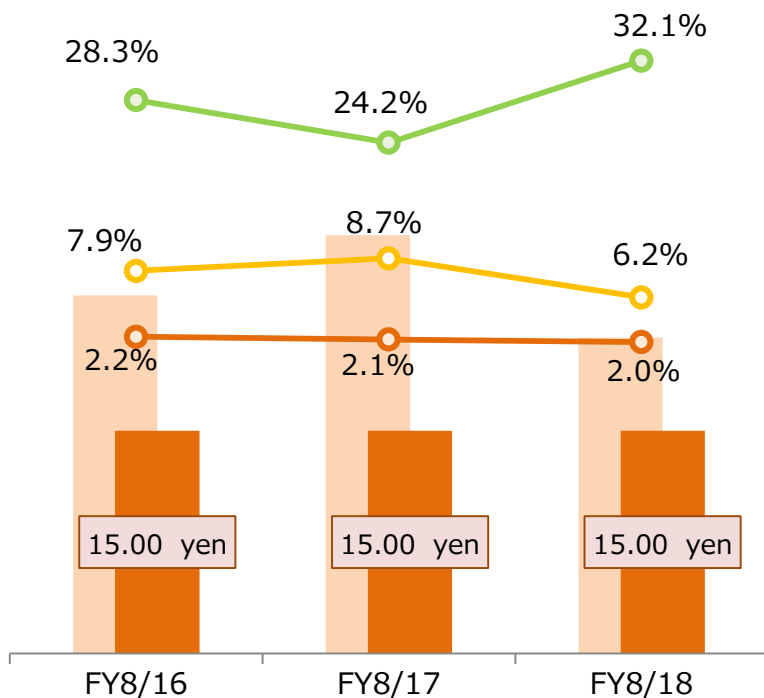
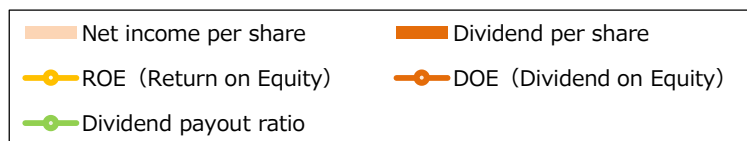
- ✓ Number of shareholders increased by 6,909 from the previous fiscal year-end.
- ✓ Ownership ratio of individual shareholders increased by 6.43 percentage points YoY, and of foreign companies decreased by 6.25 percentage points.
- ✓ Watts will secure return capital for shareholders by achieving good results.

(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.



	FY8/16	FY8/17	FY8/18
Net income per share (Yen)	53.04	61.96	46.79
Dividend per share (Yen)	15.00	15.00	15.00
Dividend payout ratio	28.3%	24.2%	32.1%
Dividend yield	1.6%	1.1%	1.6%
ROE (Return on Equity)	7.9%	8.7%	6.2%
DOE (Dividend on Equity)	2.2%	2.1%	2.0%
Stock price of accounting date (Aug. 31)(Yen)	959	1,305	950

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

*Dividend per share for FY8/18 is forecast as of today.



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



- ✓ Shown above is shareholder benefit products for FY8/18.
- ✓ 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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