



Watts Co., Ltd.

(2735; Tokyo Stock Exchange First Section)

# **Operating Results for the Six Months of the Fiscal Year Ending August 31, 2018 and Progress of the Full-Year Plan**

April 16, 2018 (Monday)

Fumio Hiraoka, President and CEO

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## Financial Results

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## Our core 100-Yen shop business struggled in 1H due to abnormal weather, etc., and missed the targets





(Millions of yen)

Financial highlights	FY8/17 2Q		FY8/18 2Q (Current period)			
		Ratio to sales		Ratio to sales	YoY	Ratio to forecast
Sales	23,484	-	23,886	-	101.7%	97.5%
Gross profit	8,868	37.8%	9,207	38.5%	103.8%	-
Selling, general and administrative expenses	8,224	35.0%	8,613	36.1%	104.7%	-
EBITDA	813	3.5%	761	3.2%	93.7%	-
Operating profit	643	2.7%	593	2.5%	92.1%	82.4%
Recurring profit	695	3.0%	602	2.5%	86.6%	80.3%
Net income attributable to owners of parent	489	2.1%	379	1.6%	77.5%	82.5%
Net income per share (Yen)	36.13		28.00		-	-



- ✓ **Sales** rose by only 1.7% YoY due to weakness in 100-Yen shop same-store sales, mainly due to abnormal weather. ➔P5
- ✓ **Gross profit** increased by 3.8% as the gross margin improved by 0.7 percentage points. ➔P12
- ✓ **Operating profit** decreased by 7.9% as a result of higher SG&A expenses. This is due to a large increase 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. ➔P13
- ✓ **Net income attributable to owners of parent** decreased by 22.5% YoY as the Company recorded the gain on income taxes-deferred in the same period of the previous fiscal year due to the reorganization of the company.





## Domestic 100-Yen Shop Business

	Opening/closing	Opened <b>81 shops</b> against the full-year plan of 108 shops and closed <b>32 shops</b> against 75 shops. The number of shops at the end of the period was <b>1,136</b> (net increase of 49 shops) <span style="float: right;">➡P6</span>
	Watts brand shops	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 95 to <b>352</b> . <span style="float: right;">➡P7</span>

## Domestic Other Business

	Buona Vita	A life-style goods shop offering comfortable life. Decreased by 4 shops to <b>21 shops</b> . Focused on development of existing shops such as by carefully selecting shop opening locations and improving product lineups. <span style="float: right;">➡P8</span>
	Søstrene Grene	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 <span style="float: right;">➡P9</span>

## Overseas Business

	Group sales	Sales of overseas business were <b>119.8% YoY</b> , expanding its ratio to consolidated sales from 4.6% to <b>5.4%</b> <span style="float: right;">➡P10</span>
	Number of overseas shops	The number of shops that are selling WATTS products was <b>62</b> (down by 4 YoY), and <b>more than 100 shops</b> including local partners’ shops. <span style="float: right;">➡P11</span>

**Domestic 100-Yen shop business remains the primary source of sales. However, its ratio to consolidated sales declined due to the growth of the overseas business, etc.**

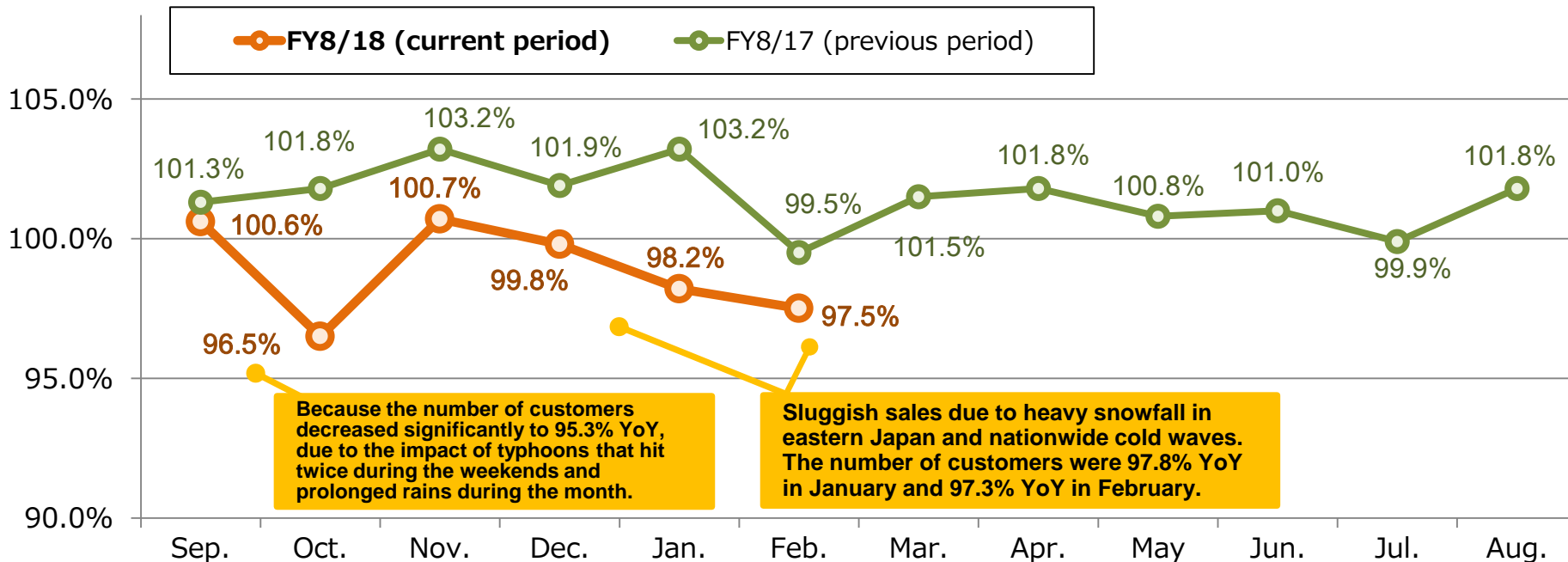


(Millions of yen)

Sales by Business Type		FY8/17 2Q		FY8/18 2Q (Current period)		
			Ratio to sales		Ratio to sales	YoY
Domestic 100-Yen shops	Directly-managed	19,670	83.8%	20,221	84.7%	102.8%
	Wholesale, Other	1,655	7.0%	1,410	5.9%	85.2%
	Subtotal	21,325	90.8%	21,632	90.6%	101.4%
Overseas Business	Directly-managed	459	2.0%	526	2.2%	114.6%
	Wholesale	623	2.7%	771	3.2%	123.7%
	Subtotal	1,083	4.6%	1,298	5.4%	119.8%
Lifestyle products business	Buona Vita	889	3.8%	956	4.0%	106.5%
	Søstrene Grene					
	AMANO					
Other		177	0.8%	—	—	—
Total		23,484	100.0%	23,886	100.0%	101.7%

- ✓ Sales of domestic 100-Yen shop business increased by 1.4% YoY. However, its ratio to consolidated sales decreased by 0.2 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 by 0.8 percentage points to 5.4%.

# 100-Yen Shop same-store sales were 98.9% YoY, Aiming to achieve full-year targets by renovating and revitalizing sales floors



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.

Sluggish 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.

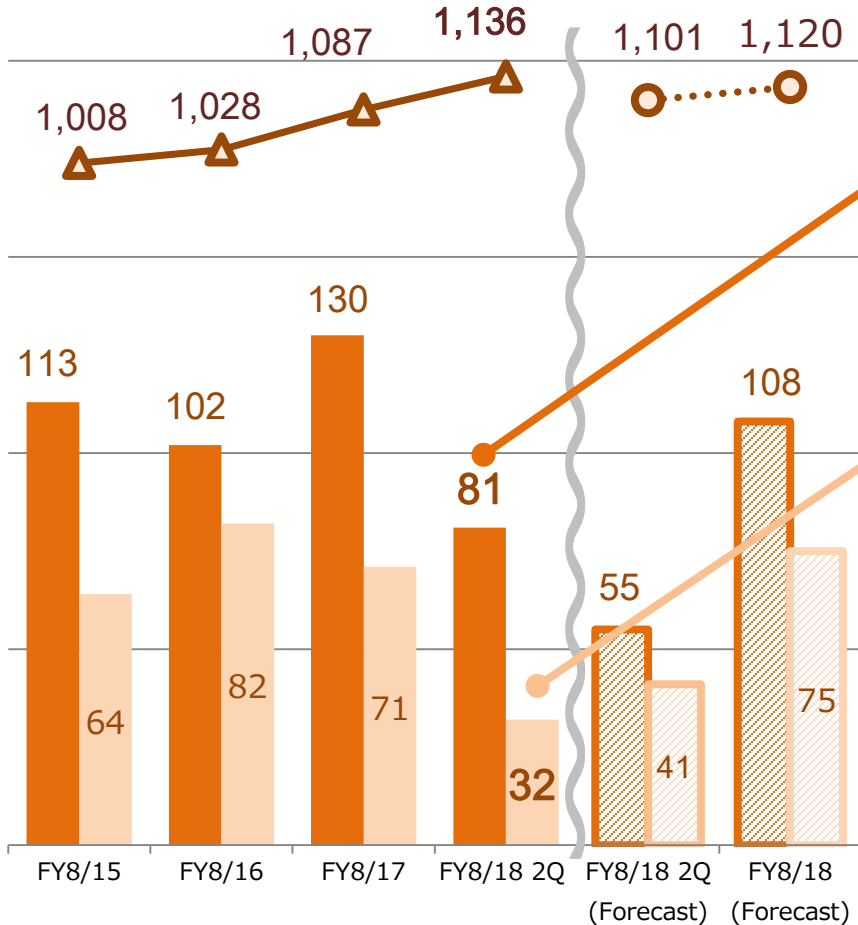
1H total	Sales	No. of customers	Spending per customer
YoY	101.8%	100.7%	101.1%
Current period	<b>98.9%</b>	<b>98.4%</b>	<b>100.3%</b>

✓ Spending per customer exceeded 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.

\*March 2018: 100.1%

# Financial Results

Openings of new 100-Yen shops continued to perform well  
The number of shops was 1,136 at the end of 2Q



## Opening/closing plan vs. results

2Q opening plan 55 shops → Opened **81 shops**  
(75.0% to the full-year plan)

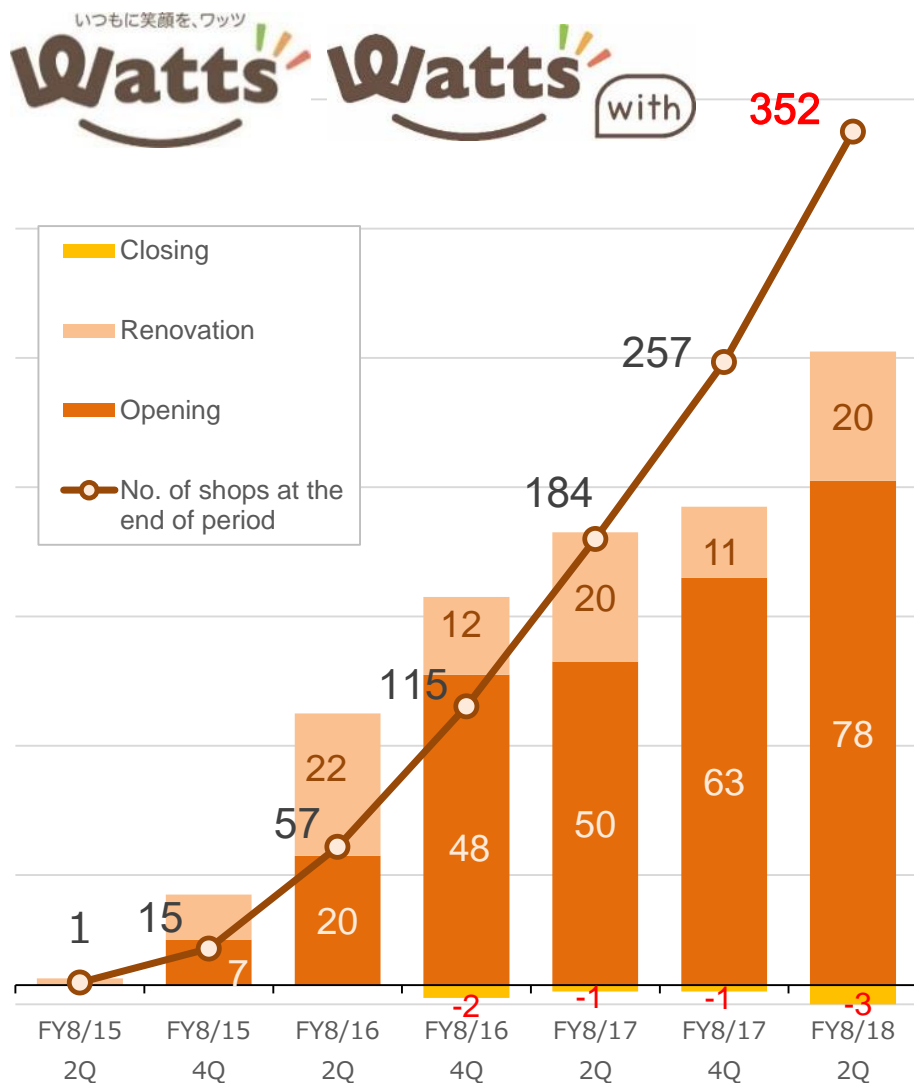
2Q closing plan 41 shops → Closed **32 shops**  
(42.7% to the full-year plan)

- ✓ New shop openings performed well, and achieved the 1H target (exceeded 26 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 68 shops of 81 shops.



## Financial Results

Watts brand shops: the number of shops increased to **352** due to new shop openings and renovations of existing shops



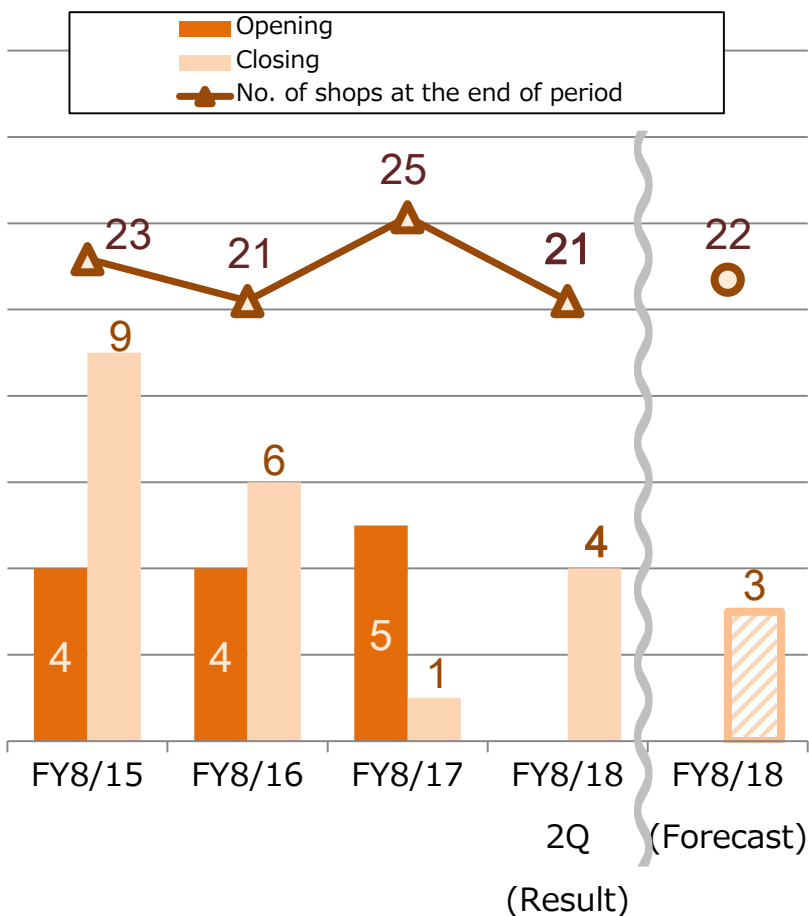
March 2018 Watts Namba Marui Shop (Osaka)

- ✓ The share to total number of shops (1,136 shops) is **31.0%**.
- ✓ Established multiple shop opening models according to sales. Prepared to open 100 shops annually.
- ✓ To open shops mainly Watts brand; renovations will be made with reviewing the possibility of recovering its investment.



## Financial Results

# Buona Vita: Selected locations of shops to focus on upgrading existing shops and improving profitability



July 2017 KOBE HARBORLAND umie shop

- ✓ Closed 4 shops and totaled **21 shops**
- ✓ Same-store sales remained at **99.4% YoY**, although the Company is gradually replacing a product range tailored to each store.
- ✓ Slowed the pace of new shop openings to improve profitability at existing shops.

## Financial Results

Denmark's "Søstrene Grene", a life-style goods shop offering North European items, has 4 shops mainly in Tokyo



November 2017 Søstrene Grene PRIMETREE AKAIKE Shop

- ✓ Operated by a joint venture company "Hilmer Japan Co., Ltd.". A brand company which operates more than 180 specialty shops offering North European items mainly in Europe holds 40% shares.
- ✓ Opened the first flagship shop in Omotesando on October 28, 2016. Then opened shops in DiverCity Tokyo Plaza and also in Marui Kichijoji. In November 2017, opened a shop in "PRIMETREE AKAIKE," a shopping mall in Aichi Prefecture.
- ✓ Sell North European items at reasonable prices and introduce about 100 new items every week.
- ✓ Not achieved to be profitable, but profits have been improving. Using SNS to improve brand recognition and promote multi-store expansion, with the aim of making the business into profitable early.

## Financial Results

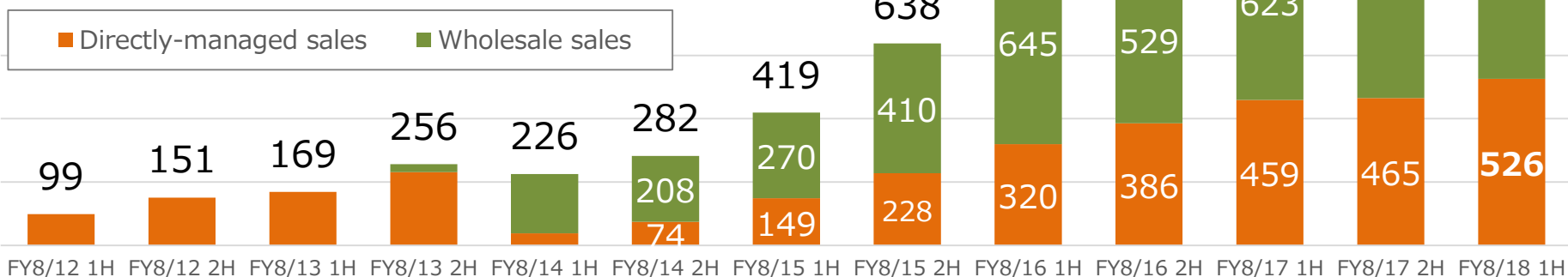
**Growth in directly-managed shops in Peru and wholesale sales in Vietnam**  
**New supply locations, such as the Philippines, also contributed to the growth**



**KOMONOYA**  
OSAKA JAPAN



(Millions of yen)



October 2017 Lurin Shop (Peru)

- ✓ Directly-managed shops gain foothold while focusing on wholesale sales to neighboring countries (collaboration with local partners).
- ✓ There are about 40 fixed-price shops with sales floors consisting of the Company's products which include 19 shops in Myanmar, 11 shops in Mongolia and other countries.

Overseas business	FY8/17 1H	FY8/18 1H	YoY
Sales	1,083 million yen	1,298 million yen	119.8%

## Financial Results

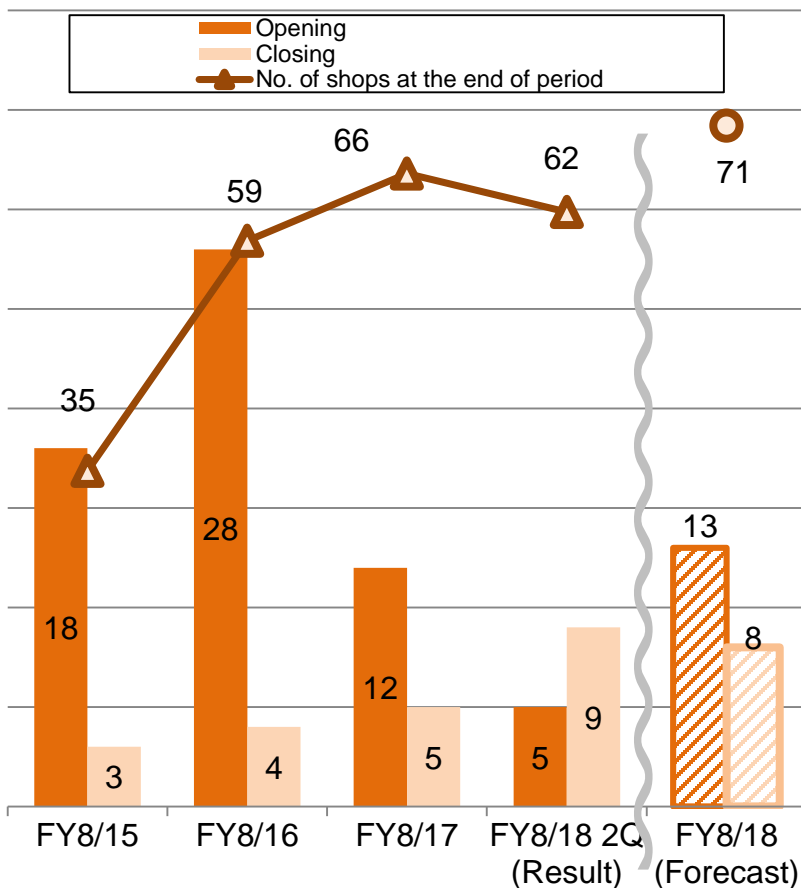
The number of own-brand shops was 62.  
Including shops of local partners, there are more than 100 retailers dealing our items.



**KOMONOYA**  
OSAKA JAPAN



小物家园  
KOMONOYAEN



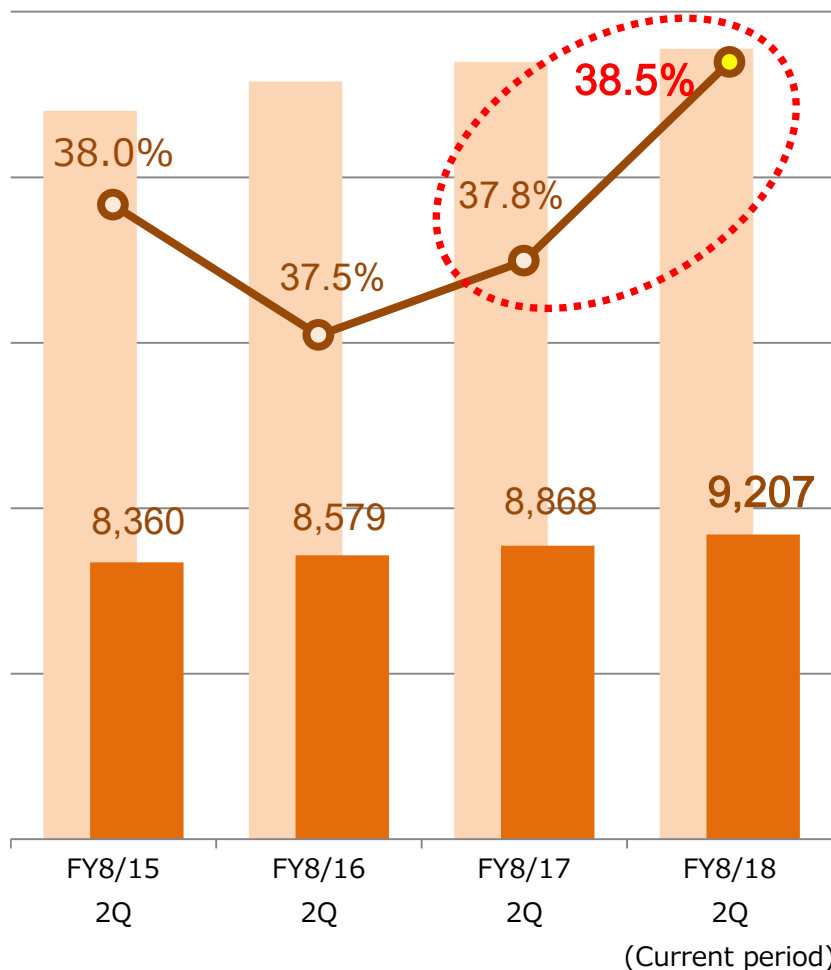
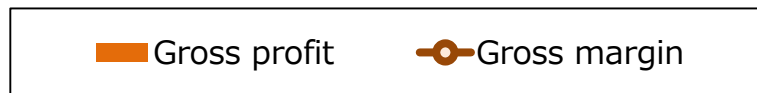
	Opening	Closing	Number of shops (End-Feb. 2018)
Thailand	3	1	33
China	-	5	4
Malaysia	-	1	4
Vietnam	-	2	12
Peru	2	-	9
<b>Total</b>	<b>5</b>	<b>9</b>	<b>62</b>

- ✓ 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. As the main market, the Company will continue to expand mainly wholesales.
- ✓ 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 fiscal year.



## Financial Results

Measures to reduce procurement costs began to bear fruit and gross margin improved by 0.7 percentage points YoY



### In the 100-Yen shop business

- ✓ Gradually replace stock of higher value-added products mainly in the Watts brand shops.
- ✓ Reduce high cost rate food 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 margin).

### In the overseas business

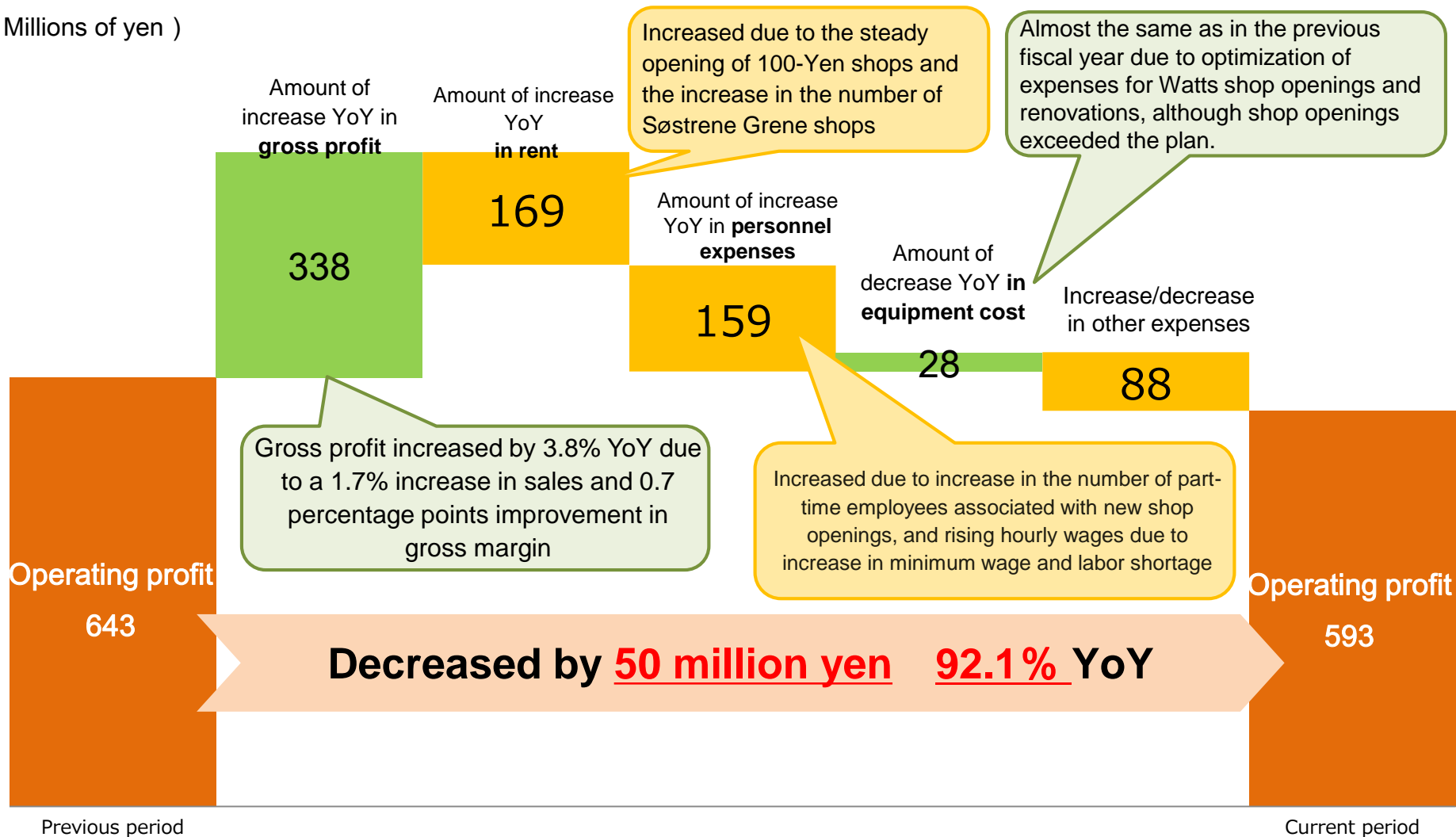
- ✓ Recently, because the wholesale with low markup rate compared with directly-managed shops is expanding, the Company will carefully assess appropriate gross margin.

# Financial Results

Gross profit increased by 3.8%, but it was not enough to offset the increase in SG&A expenses, and operating profit was 92.1% YoY.



( Millions of yen )



Increased due to the steady opening of 100-Yen shops and the increase in the number of Søstrene Grene shops

Almost the same as in the previous fiscal year due to optimization of expenses for Watts shop openings and renovations, although shop openings exceeded the plan.

Gross profit increased by 3.8% YoY due to a 1.7% increase in sales and 0.7 percentage points improvement in gross margin

Increased due to increase in the number of part-time employees associated with new shop openings, and rising hourly wages due to increase in minimum wage and labor shortage

# Financial Results

**Fixed assets gradually increased as a result of new shop openings and renovation of existing shops.  
Shareholders' equity ratio slightly increased from 49.7% to 51.6%.**



(Millions of yen)

Consolidated Balance Sheet	FY8/17	FY8/18 2Q (Current)	Change	Pct. change
Total assets	20,084	19,717	-367	Down1.8%
Current assets	15,276	14,717	-559	Down3.7%
Cash and deposits	5,727	5,473	-253	Down4.4%
Notes and accounts receivable-trade	2,201	1,911	-289	Down13.1%
Merchandise and finished goods	6,506	6,684	178	Up2.7%
Other current assets	842	647	-194	Down23.1%
Fixed assets	4,807	4,999	191	Up4.0%
Land	257	257	-	-
Buildings and structures	683	741	58	Up8.6%
Tools, furniture and fixtures	590	651	61	Up10.4%
Investment securities	453	486	33	Up7.4%
Guarantee deposits	2,488	2,515	27	Down1.1%
Other fixed assets	334	345	11	Up3.3%
Total liabilities	10,210	9,674	-536	Down5.3%
Current liabilities	8,824	8,269	-554	Down6.3%
Notes and accounts payable-trade	6,325	6,288	-36	Down0.6%
Current portion of long-term loans payable	648	653	4	Up0.7%
Accrued income tax	349	241	-108	Down31.0%
Consumption tax payable	252	86	-165	Down65.6%
Other current liabilities	1,249	999	-249	Down20.0%
Fixed liabilities	1,386	1,404	18	Up1.3%
Liabilities relating to retirement benefits	187	199	11	Up6.1%
Other fixed liabilities	1,198	1,205	7	Up0.6%
Net assets	9,873	10,042	168	Up1.7%
Shareholders' equity	9,969	10,144	175	Up1.8%
Equity	440	440	-	-
Retained equity	1,637	1,637	-	-
Retained earnings	8,029	8,204	175	Up2.2%
Treasury stock	-137	-137	-	-
Accumulated other comprehensive income	4	36	31	Up639.9%
Non-controlling interests	-100	-138	-37	-

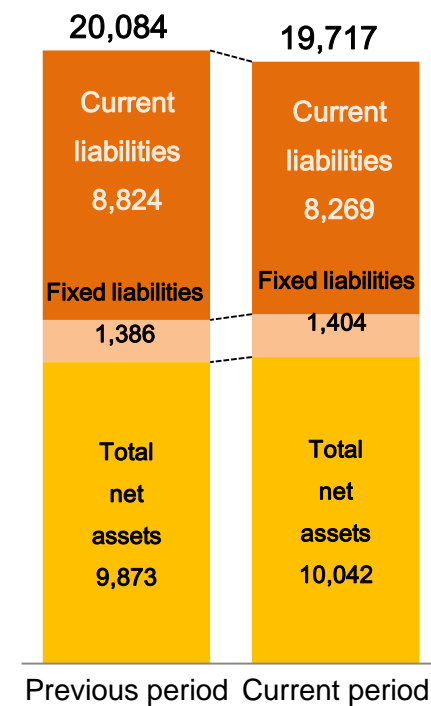
- ✓ Merchandise and finished goods increased by 178 million yen due to aggressive shop openings and renovations of 100-Yen shops, while optimizing inventories of Søstrene Grene.
- ✓ Retained earnings increased by 175 million yen.
- ✓ Shareholders' equity ratio was 51.6%.

## Assets

(Millions of yen)



## Liabilities and net assets





# Investment C/F increased due to aggressive shop openings and renovations

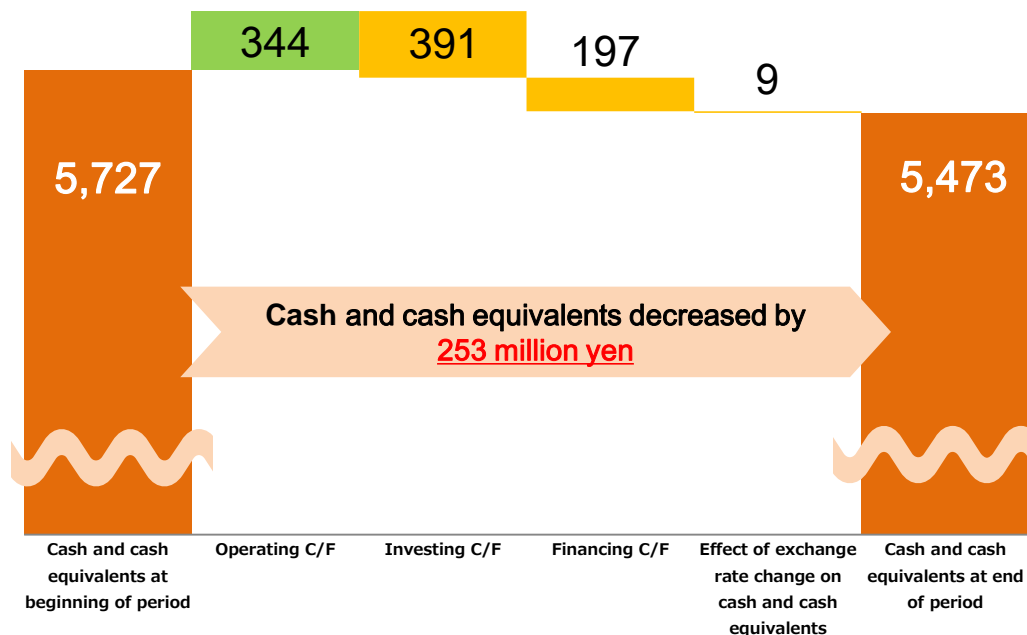
## Operating C/F secured 344 million yen



(Millions of yen)

Consolidated Cash Flows	FY8/17 2Q	FY8/18 2Q (Current)	Pct. change
Cash and cash equivalents at beginning of period	5,030	5,727	696
Net cash provided by (used in) operating activities	588	344	-244
Income before income taxes and minority interests	649	591	-58
Depreciation and amortization	170	169	0
Decrease (increase) in accounts receivable- trade	233	291	57
Decrease (increase) in inventories	-230	-160	69
Increase (decrease) in accounts payable-trade	-14	2	16
Income taxes paid	-177	-329	-151
Other cash flows from operating activities	-43	-219	-176
Net cash provided by (used in) investment activities	-259	-391	-132
Payments for acquisition of tangible fixed assets	-181	-320	-139
Payments for lease and guarantee deposits	-63	-78	-15
Proceeds from collection of lease and guarantee deposits	61	45	-15
Purchase of investment securities	-48	-	48
Other cash flows from investment activities	-27	-37	-10
Net cash provided by (used in) financing activities	0	-197	-197
Proceeds from long-term loans payable	599	400	-199
Repayment of long-term loans payable	-396	-394	2
Cash dividends paid	-202	-203	0
Effect of exchange rate change on cash and cash equivalents	14	-9	-24
Cash and cash equivalent at the end of period	5,375	5,473	98
* Free cash flows	329	-244	-573

( Millions of yen )

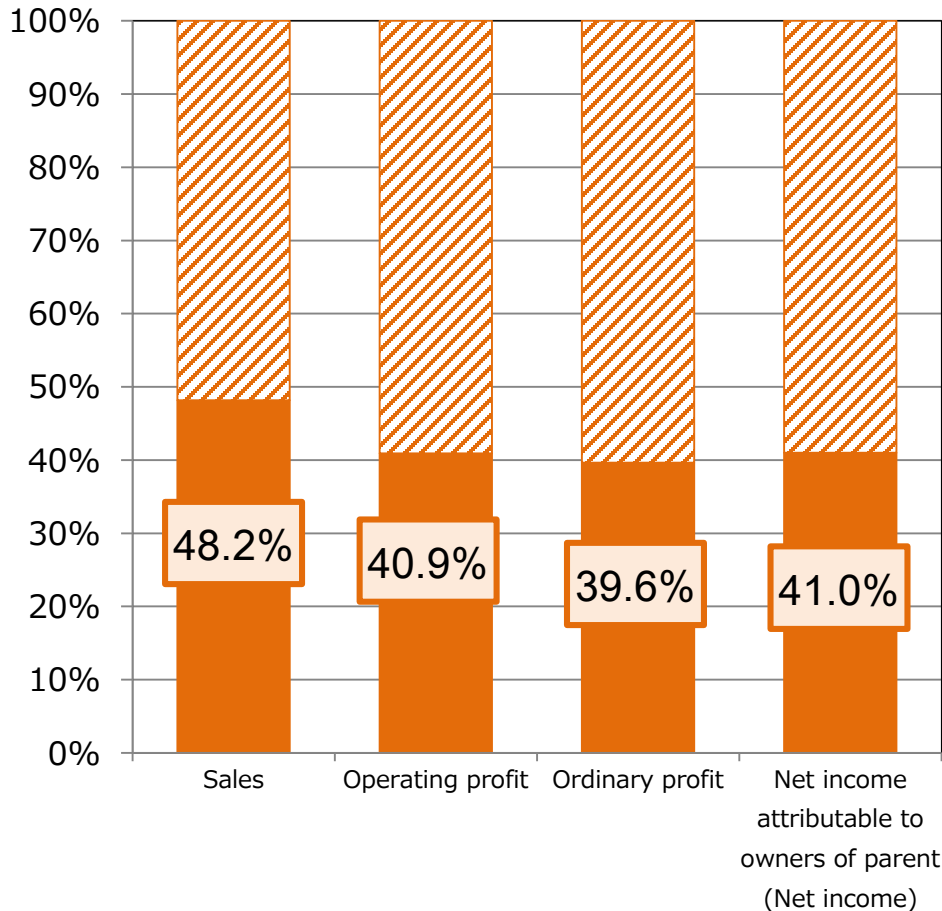


- ✓ Due to shop openings and renovation, inventory assets increased by 160 million yen. 320 million yen was used for acquisition of tangible fixed assets and 78 million yen was used for lease and guarantee deposits.
- ✓ Operating C/F was 344 million yen due to income taxes paid of 329 million yen and decrease in other deposits of 158 million yen. Decreased by 244 million yen from 2Q of the previous fiscal year

Both sales and profits did not reach the 1H plan  
Aiming to achieve full-year targets through solid growth measures



Progress rate to full-year forecasts



100-Yen shop business

- ✓ Establishing shop model that will be able to overcome competitors in urban areas. Brush up Watts brand from the launch of Watts Namba Marui and Watts Kobe Marui in March.
- ✓ Enhancing products by leveraging procurement know-how of Real Co., Ltd.

Other domestic business

- ✓ Buona Vita : Reviewing price ranges at some shops to promote sales strategies tailored to their locations
- ✓ Søstrene Grene : Aiming to enhance brand recognition by proactively using SNS. Accelerating the development of multiple shop

Overseas business

- ✓ The company in Malaysia, which had been an unprofitable area, was transferred to a local partner company. Enhancing management guidance and product follow-up as a franchisor.
- ✓ Improved product procurement capability by reforming logistics networks. Expanding the popular product line-up to boost sales

New subsidiary

- ✓ On April 2, 2018, acquired all shares of Real Co., Ltd. and made it a consolidated subsidiary. Real operates four shops in Osaka and Hiroshima, which are community-based discount shops. Their strength is its extensive line-up of daily necessities. Expectations for synergies with the 100-Yen shop business.

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# Customer needs for 100-Yen shops continue to diversify and remain firm while overseas market will become even more important



\* Information as of the time the medium-term management plan was formulated

## Japan

- Due to hourly wage hikes resulting from improvement in employment situation, recovery in consumer confidence is expected but inflation is likely to remain limited.
- There are risk factors such as the Bank of Japan's exit strategy but the price of crude oil is expected to remain stable and the foreign exchange market looks less likely to swing towards one direction unless there is an emergent event.
- There will be rush demand before the consumption tax rate hike planned in October 2019 and the subsequent downturn.
- Toward the Tokyo Olympics in 2020, infrastructure-related investment is likely to become much more lively. Demand for reconstruction of facilities of high economic growth period (60's & 70's) is also expected.

Slowly begin to realize that the economy is recovering  
Needs for 100-Yen shops is growing despite greater diversification

## Overseas

- The United States economy is expected to continue to slowly expand, but there may be a sense of uncertainty depending on how the policies of administration are executed.
- European economy except United Kingdom is expected to be strong. The negotiations over the withdrawal of the United Kingdom from the European Union might become a destabilizing factor.
- In Asian economies, there are concerns over a slower rate of growth in the Chinese economy, which is expected to have a ripple effect on other emerging economies.
- However, there is concern that geopolitical risks have been revealed in East Asia and the Middle East.

Overseas market is important, while the size of the domestic market is  
unlikely to grow significantly

# The growth strategy for the domestic 100-Yen shop is the brushing up of Watts brand



## Growth strategy

- ✓ 100-Yen shop business strategy      Recover profitability by promoting business models of both type of tenancy and consignment
- ✓ Overseas business strategy      Formulate and deploy country-specific business models to quickly achieve a 10% share of sales
- ✓ Other businesses strategy      Cultivate businesses that complement the domestic 100-Yen shop business, including by tapping into M&A needs

### Growth strategy for domestic 100-Yen shop business

- Tenant shops strategy  
Brush up Watts brand by revising both facilities and operations.  
For facilities:  
Renovate shop package and expand “Watts” and “Watts with” shops and “WATT’S new” proposal type sales floors.  
Develop a more sophisticated order placement support system using POS system and reflect merchandising.
- For operations:  
Renovate shop operations to create invigorated atmosphere and work to improve productivity.  
Review employee training in pursuit of higher levels of customer satisfaction.
- Consignment shop strategy  
Review shop packages to achieve better value for money and replacements with attractive merchandise.
- Strengthen competitiveness of products to meet customer needs.

## Overseas business: adopt a steady and stable stance towards each of the countries Domestic and other businesses: being careful and bold



### Growth strategy for overseas business

- Thailand: Steady shop openings and improvement in sales of existing shops
- Vietnam: Development of new locations of shops and improvement in sales of existing shops
- Malaysia: Fundamental review of business model
- China: Focus on conducting pop-up shops and opening shops operated through an agent contract, not on directly managed shops
- Peru: Active opening of directly-managed shops and development of markets in other Latin American countries
- Reduction of procurement cost by using distribution system in China
- Development of new target areas based on the thorough market research

### Growth strategy for other business

- Buona Vita  
Select locations of shops to create more profitable businesses.
- Søstrene Grene  
Establish brand strength and open 30 shops in Japan early by dispatching information using SNS and increasing media exposure.
- Develop M&A projects that are likely to generate synergies with the core 100-Yen shop business.

# The trinity of 100 yen shops, overseas business, and other domestic business to drive the growth of the group



## Continue to pursue Structure to Sell Better Products at Lower Prices

- ✓ Low-cost opening and closing of shops
- ✓ Low-cost operation
- ✓ Best value-for-money daily-use household items

## 100-Yen Shop business

## Brush up of **Watts** brand

- ✓ Shops and product lineups that add more style to one's life
- ✓ Establish shop opening model of "Watts" and "Watts with"
- ✓ Utilize POS system and improve reordering support system

## Establish business model for each country

- ✓ Expand directly managed shops by fully owned local subsidiaries
- ✓ Establish joint venture company with local partners
- ✓ Develop new shops by franchisee system

## Overseas business



## Other businesses

## Expand business and Enlarge source of earnings

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



# The basis of the 100-Yen shop does not change: polishing up a “Structure to sell better products at lower prices”



Best value-for-money practical-use household items

- ✓ Profit obtained from low-cost opening and closing of shops and low-cost operation is invested into the development of best value-for-money products.
- ✓ A private brand “Watts Select” offers an overwhelming value-for-money household items

- Open many small-to-medium shops
  - ✓ Development of shops with average size of 230㎡
  - ✓ For properties which have less competition with other companies, Watts can open shops with favorable conditions.
  - Aggressive closing of unprofitable shops
  - ✓ Holding minimum assets in shops and having conditions conducive to closing shops in leasing contracts enable quick shop closing.
- ⇒ Achieve profitability even in locations where other companies are unable to launch shops

Low-cost opening and closing of shops

Structure to sell better products at lower prices

- Eliminate unreasonable, useless and irregular matters
- Simplify and standardize  
⇒ Put in manual
- ✓ Part-time worker runs daily operation
- ✓ Supervisor (corporate staff) manages multiple shops
- ✓ Shop operations focus on good customer service rather than routine operations

Low-cost operation

# - Business Model Restructuring Initiatives New shop format "Watts Brand Shops"



## Expansion of Watts brand shops



- ✓ The names of shops are "Watts" and "Watts with"
- ✓ Increased at a pace of 100 shops per year with new shop openings and renovations
- ✓ Plan both to improve customer satisfaction and to maximize sales and profit by establishing a shop model to suit the location and customer base, 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".



### Revitalization of sales floors



- ✓ Increase the number of fashionable items, switching from the standard lineup of consumables and general merchandises.
- ✓ Implement headquarter-led sales promotional campaign that each store displays and features specific items along with a theme for each month
  - \*The photo on the left shows an example.
- ✓ Implement creative ideas at shops that reflect their respective locations, customer segments and other characteristics.

### Introduction of POS system



- ✓ Accurately identify successful and unsuccessful items
- ✓ Introduction of ordering support system to avoid losing sales opportunities due to shortage of products
- ✓ Create sales floors that match seasonal and regional characteristics by sharing sales data accumulated under the Watts brand with "meets." and "silk".



# Watts brand shops and new sales floor functions!

## Develop proposal type sales floor “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.
- Watts Namba Marui Shop and Watts Kobe Marui Shop, which opened in March 2018, are also displaying “WATT’S NEW” space.
- ✗ Also available in Watts Seibu Honkawagoe Pepe Shop and Watts with Kitaurawa Aeon Shop.



Started new initiatives using SNS  
Raising its recognition from many people and stimulate their buying intentions



# twitter

[https://twitter.com/watts\\_sns](https://twitter.com/watts_sns)



· Watts official twitter

Providing photos of recommended products and announcements of monthly sales promotion.  
Retweeting blogs and articles containing 100-Yen shop information.

# Instagram

[https://www.instagram.com/watts\\_sns](https://www.instagram.com/watts_sns)



· 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.

- ✓ 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



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.





# Try out a variety of business in Japan to diversify our revenue sources and operations



**Buona Vita**  
フオーナ・ビータ

Life-style goods shop proposing Buona Vita (comfortable life). Operates 21 shops as of the end of February 2018. Shown on the left is Sannomiya OPA2 shop opened in February 2017.



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



Collaboration shop between Daikokuten Bussan Company and Watts consisting of 100-Yen shop and grocery



Import and wholesale of European taste lifestyle goods

## Accelerate expansion by establishing optimal business models tailored to each of the countries



### ✓ KOMONOYA



#### ✓ Product supply by wholesale

Currently, wholesale operations were in the following countries: 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 **“100 shops”**

### ✓ 小物家园 “KOMONOKAEN”



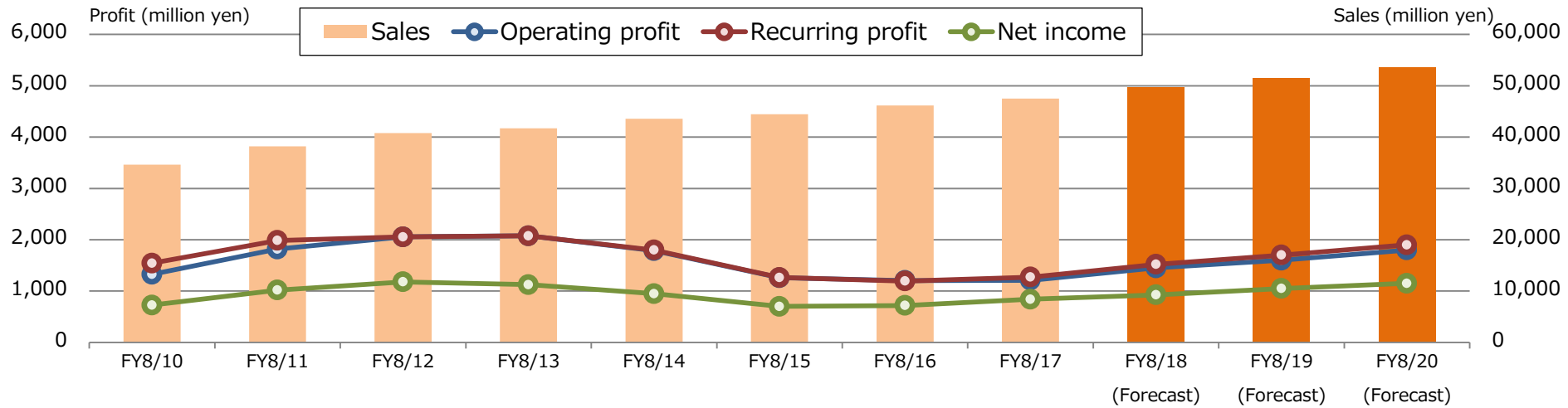
#### ✓ Number of shops (end-Feb. 2018)

Thailand (J/V, directly-managed)	33 shops
Malaysia (fully-owned, directly-managed)	4 shops
Vietnam (J/V FC)	12 shops
China (fully-owned, directly-managed, FC)	4 shops
Peru (fully-owned, directly-managed)	9 shops
<b>Total</b>	<b>62 shops</b>



## Forecasts Mid-term Plan

# 3-year target: sales of 53.5 billion yen, operating profit margin of 3.4%, and ROE of 9.6%



(Millions of yen)

3-year Plan	FY 8/16 (Result)			FY 8/17 (Result)			FY 8/18 (Forecast)			FY 8/19 (Forecast)			FY 8/20 (Forecast)		
		Ratio to sales	YoY		Ratio to sales	YoY		Ratio to sales	YoY		Ratio to sales	YoY		Ratio to sales	YoY
Sales	46,176	-	103.9%	47,494	-	102.9%	49,600	-	104.4%	51,500	-	103.8%	53,500	-	103.9%
Operating profit	1,205	2.6%	95.8%	1,209	2.5%	100.3%	1,450	2.9%	119.9%	1,600	3.1%	110.3%	1,800	3.4%	112.5%
Recurring profit	1,193	2.6%	94.4%	1,272	2.7%	106.6%	1,520	3.1%	119.5%	1,700	3.3%	111.8%	1,900	3.6%	111.8%
Net income attributable to owners of parent	718	1.6%	102.5%	839	1.8%	116.8%	925	1.9%	110.2%	1,050	2.0%	113.5%	1,150	2.1%	109.5%
ROE		7.9%	-0.2P		8.7%	0.8P		8.9%	0.2P		9.4%	0.5P		9.6%	0.2P
Plan assumptions															
100-Yen shop total at year-end (Shops)	1,028		20	1,087		59	1,120		33	1,155		35	1,190		35
Other shops total at year-end (Shops)	81		22	95		14	100		5	129		29	156		27
Other shops sales share	8.6%		1.4P	9.3%		0.7P	10.1%		0.8P	11.2%		1.1P	12.0%		0.8P
Of which overseas business total at year-end (Shops)	59		24	66		7	71		5	91		20	111		20
Overseas business sales share	4.1%		1.7P	4.8%		0.7P	5.9%		1.1P	6.0%		0.1P	6.7%		0.7P

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# Brands of Watts Group



## Domestic 100-Yen shop business



## Overseas business



## Other domestic business

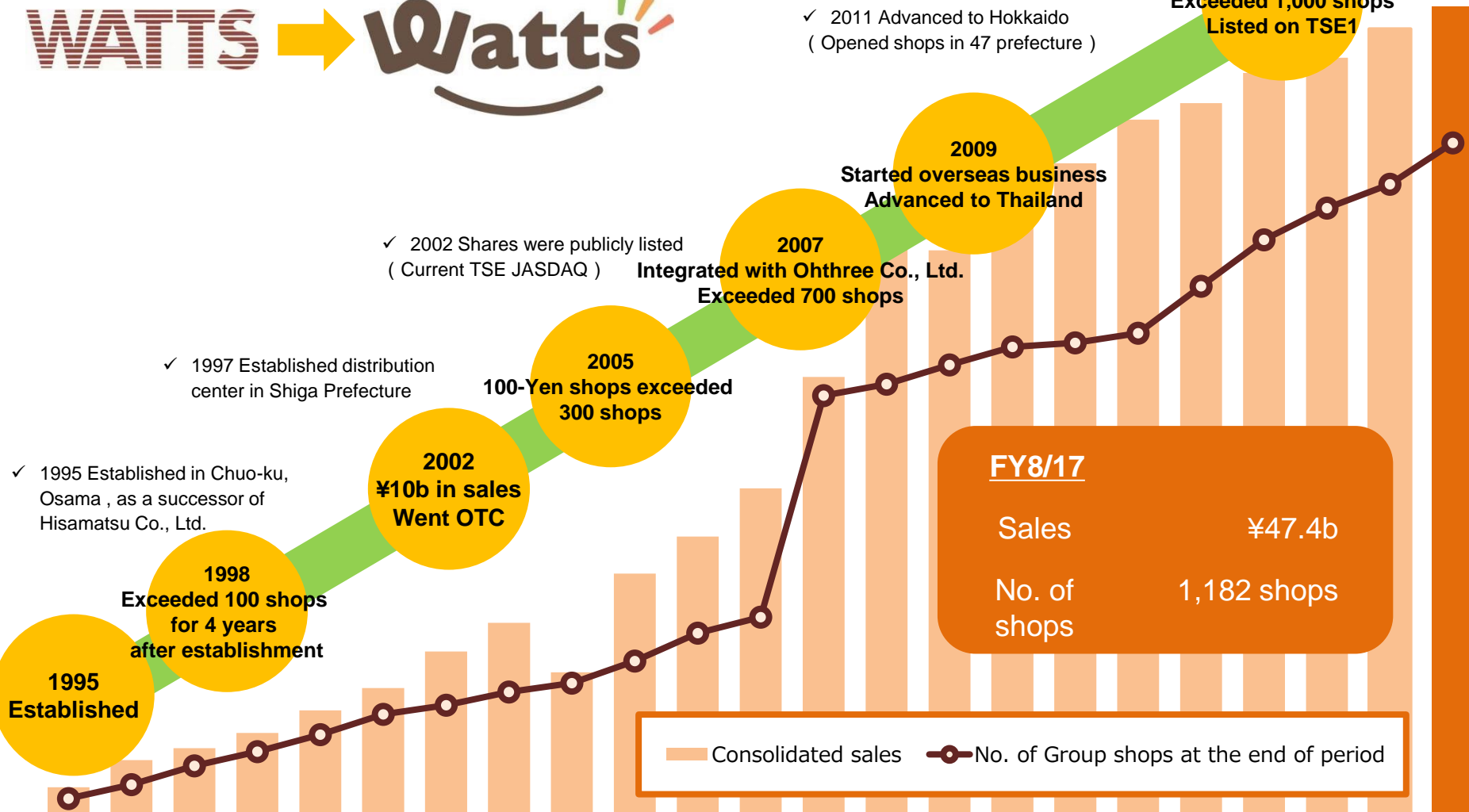




Establishment	February 22, 1995 (Currently the 24 <sup>th</sup> business term)
Meaning of the Company's name	Derived from "Wa! tto ikou" (Japanese catch cry to "go forth energetically")
Market listing	Tokyo Stock Exchange First Section (Securities code: 2735)
Capital stock	440.29 million yen (as of February 28, 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	3,187 employees (as of February 28, 2018) *Part-time workers included
Number of shops	1,224 shops (as of February 28, 2018) *Other shops included

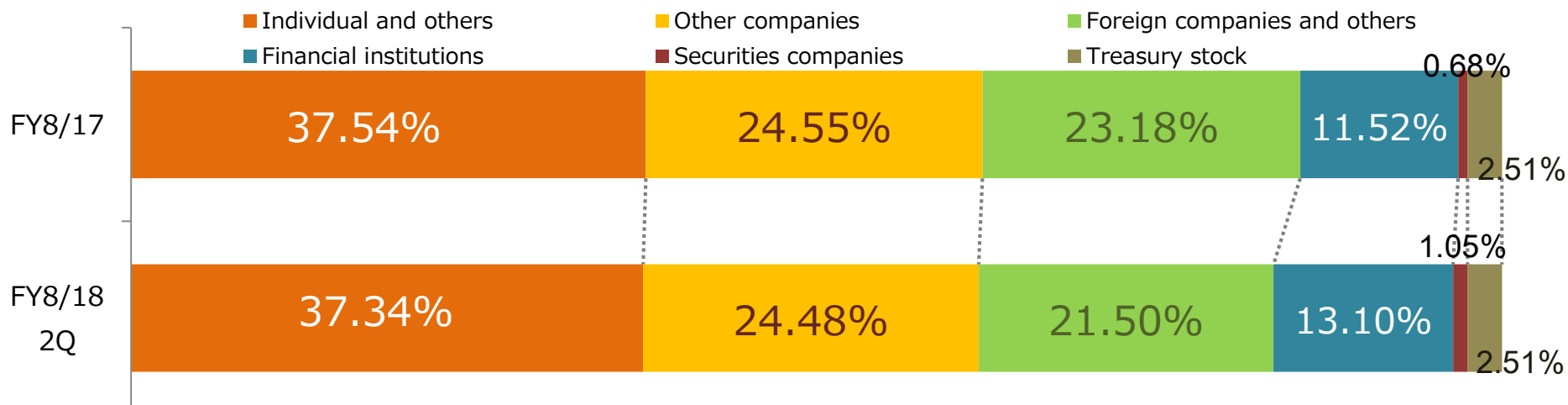
# Corporate History

Changed its corporate logo in 2015!



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

# Shareholder Composition



	FY8/17 2Q	FY8/17	FY8/18 2Q	YoY
Total number of shares issued	13,958,800 shares	13,958,800 shares	13,958,800 shares	-
Number of shareholders	5,060	8,316	7,212	-1,104
<b>Ownership ratio</b>				
Individuals and others	35.46%	37.54%	37.34%	-0.2P
Other domestic companies	24.37%	24.55%	24.48%	-0.07P
Foreign companies and others	22.72%	23.18%	21.50%	-1.68P
Financial institutions	14.11%	11.52%	13.10%	+1.58P
Securities companies	0.83%	0.68%	1.05%	+0.37P
Treasury stock	2.51%	2.51%	2.51%	—

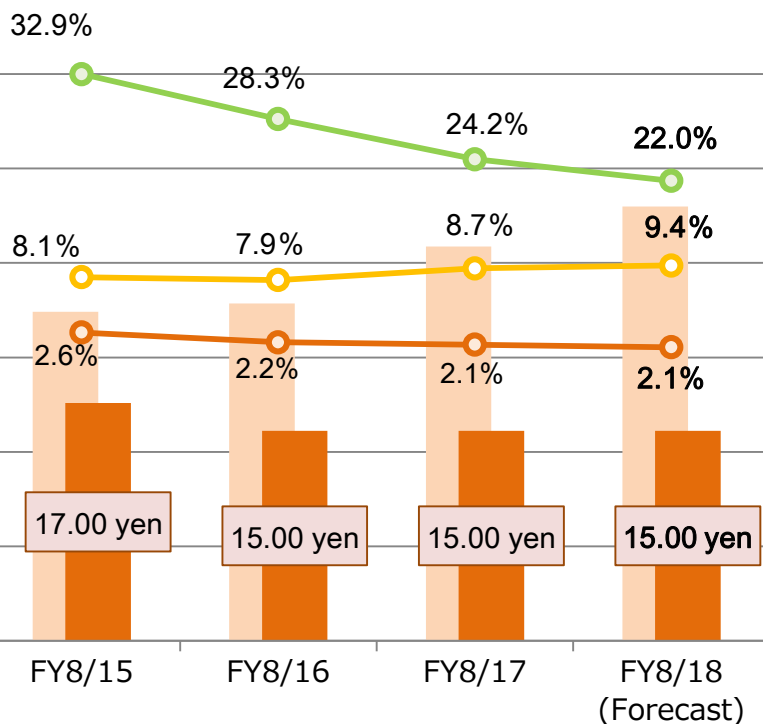
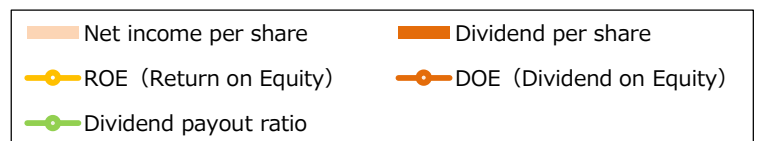
- ✓ Shareholder benefit program is conducted at the end of the fiscal year; the number of shareholders tends to decrease at 2Q.
- ✓ Watts will secure return capital for shareholders by achieving good results.

(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.



	FY8/15	FY8/16	FY8/17	FY8/18 (Forecast)
Net income per share (Yen)	51.73	53.04	61.96	68.28
Dividend per share (Yen)	17.00	15.00	15.00	15.00
Dividend payout ratio	32.9%	28.3%	24.2%	22.0%
Dividend yield	1.7%	1.6%	1.1%	1.4%
ROE (Return on Equity)	8.1%	7.9%	8.7%	8.9%
DOE (Dividend on Equity)	2.6%	2.2%	2.1%	2.0%

\*Dividend per share in FY8/15 includes a commemorative dividend of ¥2.00 for the Company's 20th anniversary of establishment.

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

(Dividend yield in FY8/18 is based on the stock price on February 28, 2018)



# Shareholder Benefit Program



Description	Number of shares held	
	100 to 999 shares	1,000 shares or more/ Holding 3 years or more
Package of our original products	A	B



- ✓ Shown above is products we delivered in FY8/17.
- ✓ 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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