



Watts Co., Ltd.

(2735; Tokyo Stock Exchange First Section)

Operating Results for the Fiscal Year Ended August 2020 and Business Forecasts for the Fiscal Year Ending August 2021

October 19, 2020 (Monday)

Fumio Hiraoka, President and CEO

Contents



Financial Overview

Operating Results for the Fiscal Year Ended August 2020

P2 – P6

By Business

Situation of Each Business for the Fiscal Year Ended August 2020

P8 – P17

Business Plan

Business Forecasts for the Fiscal Year Ending August 2021 and Efforts toward Each Business

P19 – P23

Reference

About Watts Group

P25 – P32

Consolidated Operating Results for the Fiscal Year Ended August 2020



(Millions of yen)

Financial highlights	FY8/19		FY8/20 (Current period)			
		Ratio to sales		Ratio to sales	YoY	Ratio to forecast
Sales	51,399	—	52,795	—	102.7%	100.9%
Gross profit	19,337	37.6%	20,215	38.3%	104.5%	—
Selling, general and administrative expenses	18,620	36.2%	18,446	34.9%	99.1%	—
EBITDA	1,157	2.3%	2,186	4.1%	188.9%	—
Operating profit	716	1.4%	1,768	3.4%	246.7%	119.5%
Recurring profit	656	1.3%	1,731	3.3%	263.9%	121.1%
Net income attributable to owners of parent	70	0.1%	774	1.5%	1097.3%	133.5%
Net income per share (Yen)	5.26		57.80		—	—

※ Comparison with the FY8/20 consolidated business forecasts announced on July 10, 2020 in "Notice Concerning Revision to Business Forecast"

- ✓ **Sales increased by 2.7% YoY** as a result of the strong performance of the 100-Yen shop business thanks to the effect of introducing products in a price range other than 100 yen and the special demand for stay-at-home products during pandemic. →P3, P9
- ✓ **Gross profit increased by 4.5%**, as the gross margin improved by 0.7 percentage points. →P4
- ✓ Despite an increase in personnel expenses for premium benefits to part-time employees who continue to work under the COVID-19 crisis due to COVID-19, **operating profit was 246.7% YoY, increasing significantly**, mainly due to a decrease in travel expenses reflecting restrictions on business trips and commuting and self-restraint, and reduced expenses related to shop openings due to fewer large-scale shop openings. →P5

Sales by Business Type



(Millions of yen)

Sales by Business Type		FY8/19		FY8/20 (Current period)		
			Ratio to sales		Ratio to sales	YoY
100-Yen shops	Directly managed	42,529	82.7%	45,468	86.1%	106.9%
	Wholesale, Other	2,368	4.6%	2,106	4.0%	88.9%
	Subtotal	44,897	87.4%	47,573	90.1%	106.0%
Overseas Business	Directly managed	762	1.5%	444	0.8%	58.4%
	Wholesale	1,714	3.3%	1,311	2.5%	76.5%
	Subtotal	2,476	4.8%	1,756	3.3%	70.9%
Lifestyle products business	Buona Vita					
	Søstrene Grene	1,697	3.3%	904	1.7%	53.3%
	AMANO*					
Real, etc.		2,328	4.5%	2,561	4.9%	110.0%
Total		51,399	100.0%	52,795	100.0%	102.7%

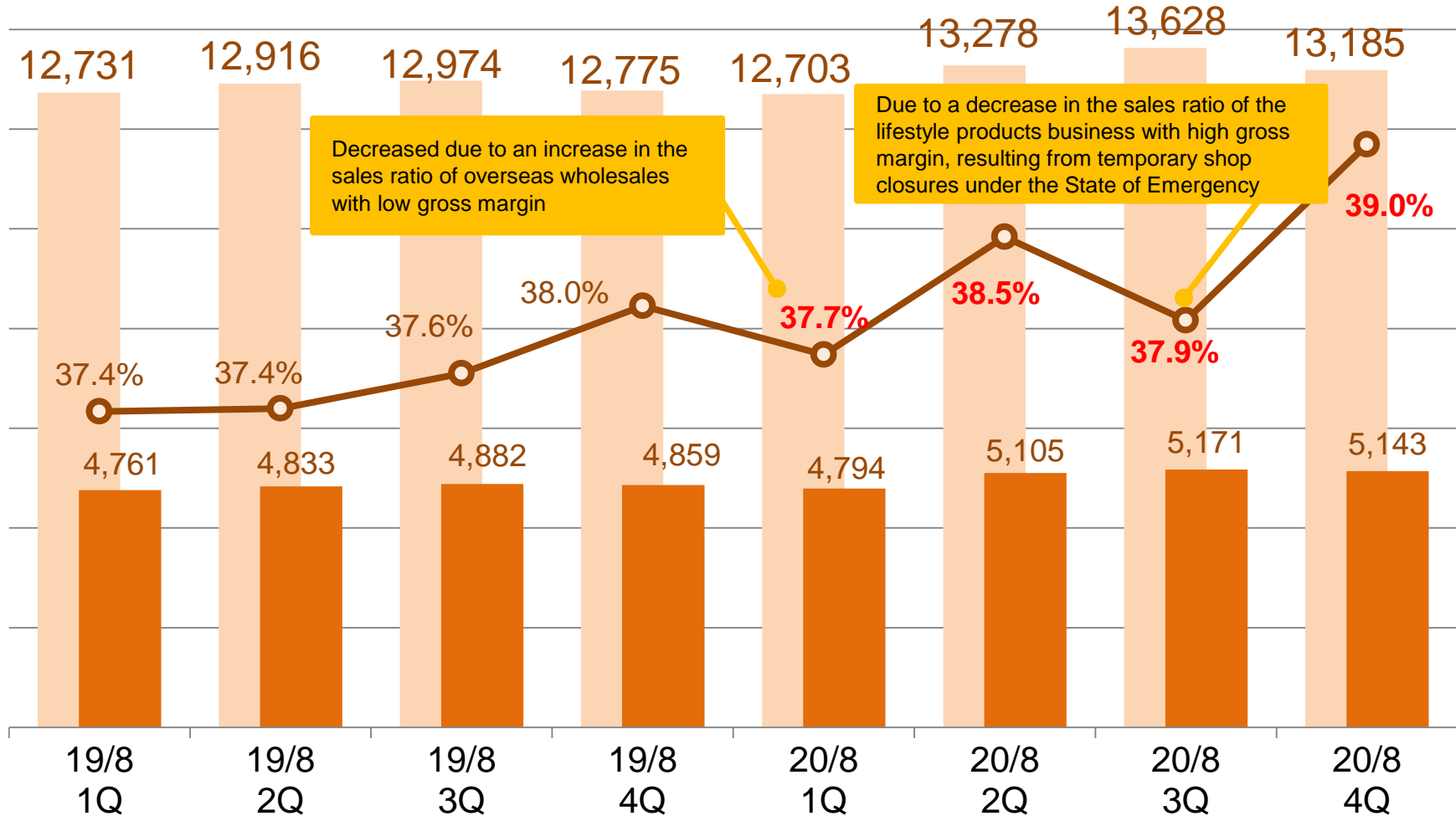
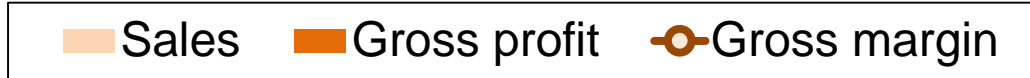
*The Company withdrew from the Amano business at the end of November 2019.

✓ Sales in the domestic 100-Yen shop business increased by 6.0% YoY. Overseas business and lifestyle products business were forced to suspend operations for an extended period of time due to the spread of COVID-19 in Japan and overseas, resulting in a significant decrease in both sales and its composition. As a result, the ratio of sales in the domestic 100-Yen shop business to consolidated sales increased by 2.7 percentage points. In particular, the ratio of sales from directly managed shops, excluding wholesale and others, which is gradually declining, increased by 3.4 percentage points.

Quarterly Changes in Gross Margin



(Millions of yen)

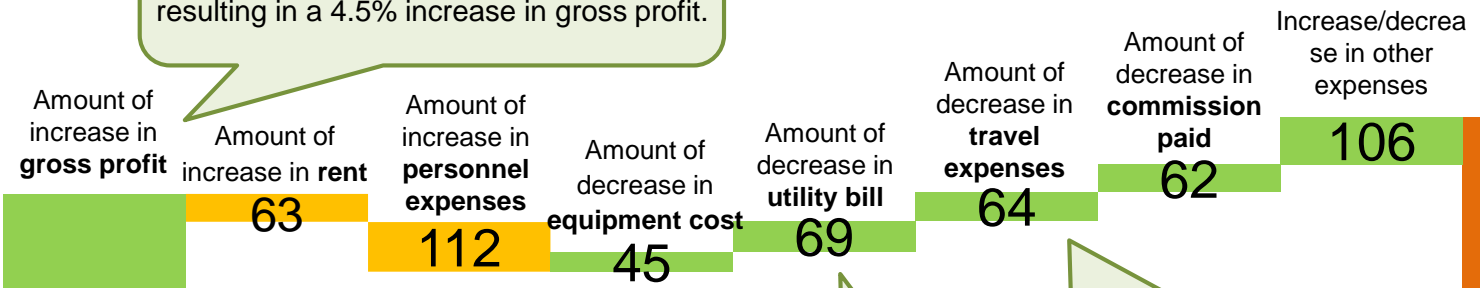


Factors for Changes in Operating Profit



(Millions of yen)

Sales increased by 2.7% and gross margin improved by 0.7 percentage points, resulting in a 4.5% increase in gross profit.



Increased due to payment of premium benefits to part-time employees who continue to work under the COVID-19 crisis and extra bonuses to employees, etc.

Decreased due to the switch to LED lighting and the temporary closures of shops and shortened operation hours for COVID-19 countermeasures

Decreased due to voluntary restraint on domestic and overseas business trips and commuting

Increased by 1,051 million yen 246.7% YoY

Operating profit 716

Operating profit 1,768

Previous period

Current period

Consolidated Balance Sheet and Consolidated Cash Flows



(Millions of yen)

Consolidated balance sheet	FY8/19		FY8/20 (Current period)	
		Pct. change		Pct. change
Cash and deposits	6,075	Up 18.0%	6,591	Up 8.5%
Merchandise and finished goods	7,081	Up 4.0%	7,114	Up 0.5%
Other current assets	2,942	Up 11.2%	2,710	Down 7.9%
Tangible fixed assets	1,780	Up 1.2%	1,608	Down 9.7%
Other fixed assets	3,677	Up 2.7%	3,519	Down 4.3%
Total assets	21,557	Up 8.1%	21,544	Down 0.1%
Liabilities	11,690	Up 20.4%	11,062	Down 5.4%
Net assets	9,867	Down 3.6%	10,481	Up 6.2%

- ✓ Shareholders' equity ratio was 48.7%, up by 1.6 percentage points from the end of the previous period.
- ✓ In tangible fixed assets, tools, furniture and fixtures decreased by 105 million yen due to progress in depreciation, etc.
- ✓ In liabilities, trade notes and accounts payable decreased by 1,217 million yen, consumption tax payable increased by 289 million yen, and current portion of long-term debt increased by 249 million yen.

(Millions of yen)

Consolidated cash flows	FY8/19		FY8/20 (Current period)	
		Pct. change		Pct. change
Net cash provided by (used in) operating activities	2,279	1,592	922	△1,357
Net cash provided by (used in) investing activities	△832	△216	△526	305
Net cash provided by (used in) financing activities	△510	147	106	616
Effect of exchange rate change on cash and cash equivalents	△8	△14	14	23
Cash and cash equivalents at end of period	6,075	928	6,591	516
Free cash flows	1,447	1,375	395	△1,052

- ✓ In the cash flows from operating activities, income before income taxes and minority interests increased by 717 million yen while trade payables decreased by 2,892 million yen due to the last day of the previous fiscal year being a holiday.
- ✓ In the cash flows from financing activities, proceeds from long-term loans payable increased by 238 million yen.

Contents



Financial Overview

Operating Results for the Fiscal Year Ended August 2020

P2 – P6

By Business

Situation of Each Business for the Fiscal Year Ended August 2020

P8 – P17

Business Plan

Business Forecasts for the Fiscal Year Ending August 2021 and Efforts toward Each Business

P19 – P23

Reference

About Watts Group

P25 – P32



Domestic 100-Yen Shop Business

	Opening/closing	<p>Opened 129 shops against the full-year plan of 140 shops and closed 81 shops against 82 shops. The number of shops at the end of the period was 1,240 (net increase of 48 shops) ➡P10</p>
	Watts brand shops	<p>Increased by 119 shops to 639 shops due to openings and renovations. The share to total number of 100-Yen shops increased to 51.5% ➡P11</p>

Overseas Business

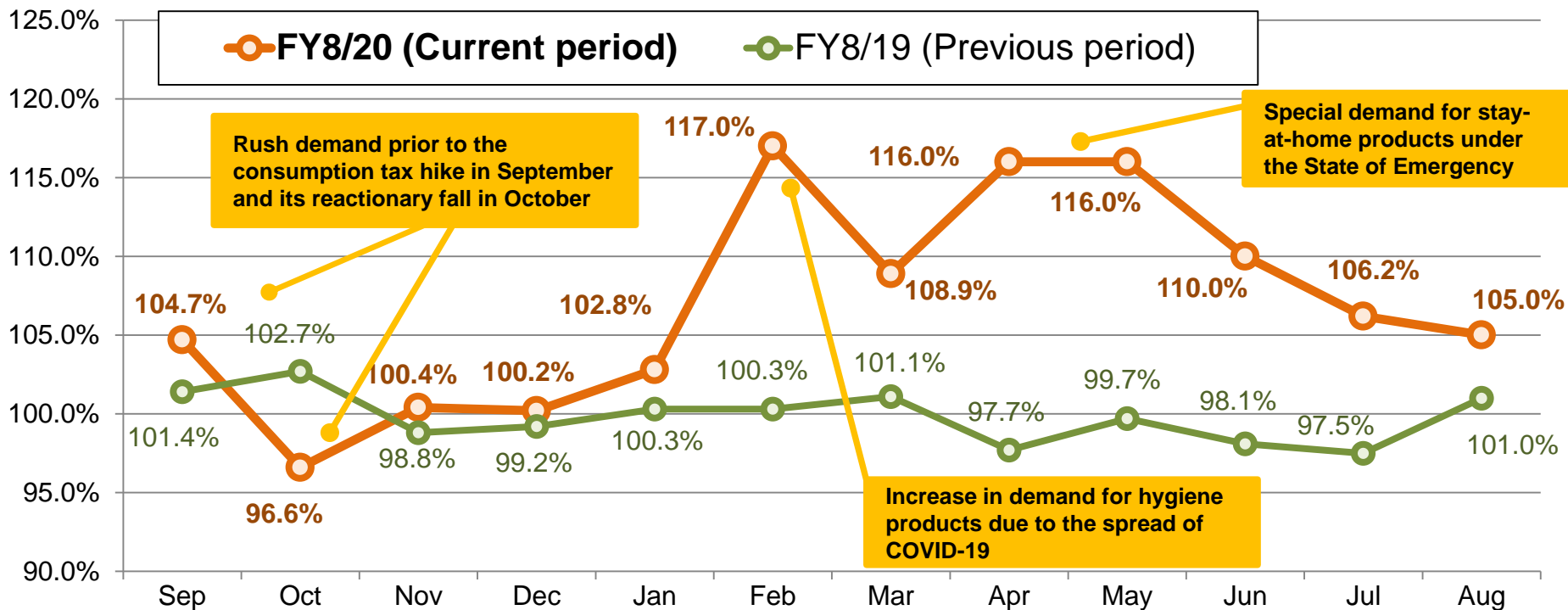
	Overseas shops	<p>The number of shops that are selling WATTS products was 83 (down 5 from the end of the previous fiscal year), and more than 120 shops including local partners' shops. ➡P14</p>
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Domestic Other Business

	Buona Vita	<p>A life-style goods shop offering comfortable life. The number of shops at the end of period was 21. Launched a sales promotion using LINE official accounts. ➡P15</p>
	Søstrene Grene	<p>Denmark's life-style goods shop. Operate <u>4 shops</u>. Decided to withdraw from this business after determining that it would be difficult to early achieve profitability on a business basis. ➡P16</p>
	AMANO	<p>Withdrew from this business as of the end of November 2019.</p>
	Real	<p>Community-based discount shop. Operates <u>6 shops</u> at the end of August 2020. Aim to create synergies with 100-Yen shop business. ➡P17</p>

Situation of 100-Yen Shop Business①

— Changes in Same-store sales YoY —



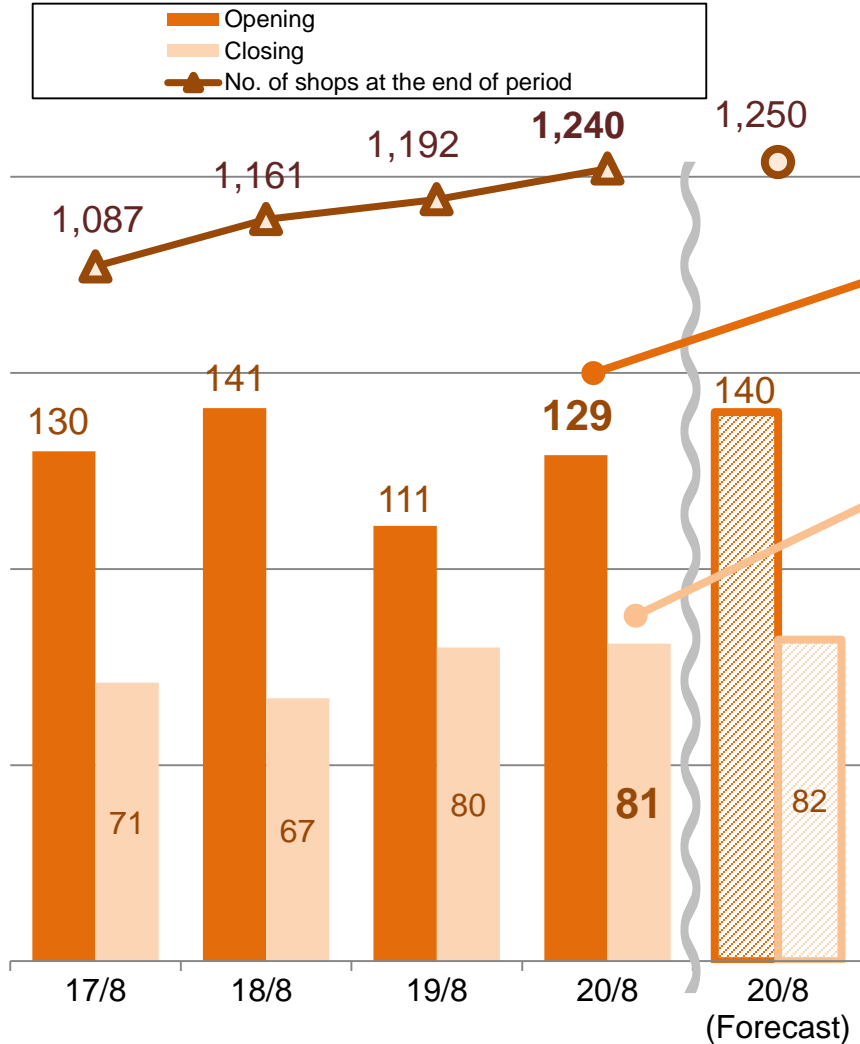
Full-year total	Sales	No. of customers	Spending per customer
YoY	99.7%	98.8%	100.9%
Current period	107.0%	101.5%	104.4%

- ✓ Same-store sales were strong due to increased demand for handicraft products for handmade masks and growth in sales of confectionery products reflecting the special demand for stay-at-home products during pandemic.
- ✓ Sales of Watts brand shops were 108.4% YoY.

※ Sales for September 2020: 96.7%

Situation of 100-Yen Shop Business②

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



Opening/closing plan and results

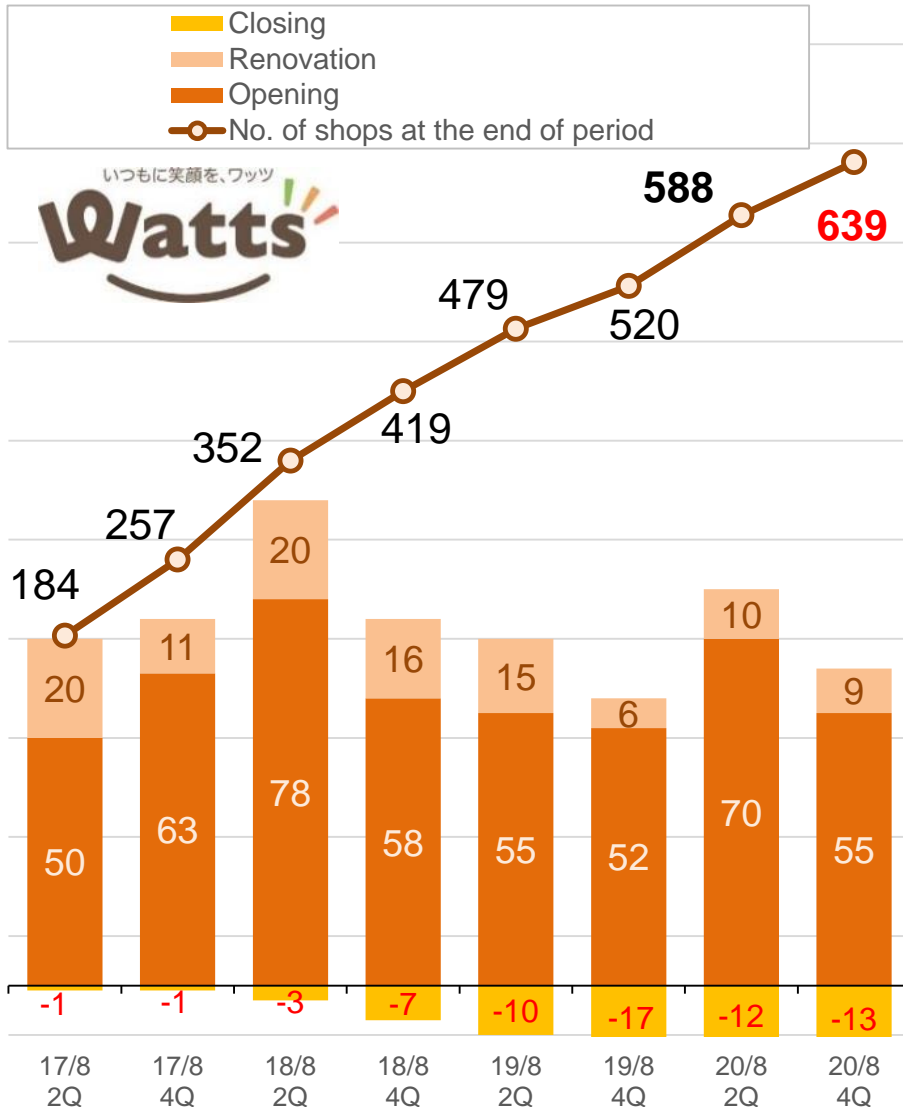
Opening plan 140 shops → Opened **129 shops**

Closing plan 82 shops → Closed **81 shops**

- ✓ Breakdown of shop openings: 14 tenant shops, 115 consignment shops. Total number of shops was 129.
- ✓ Breakdown of shop closings: 28 tenant shops and 50 consignment shops, and 3 FC shops. Total number of shops was 81.
- ✓ The number of new shops opened was slightly less than planned, with **net increase of 48 shops**. The number of shops was **1,240** at the end of period.

Situation of 100-Yen Shop Business③

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

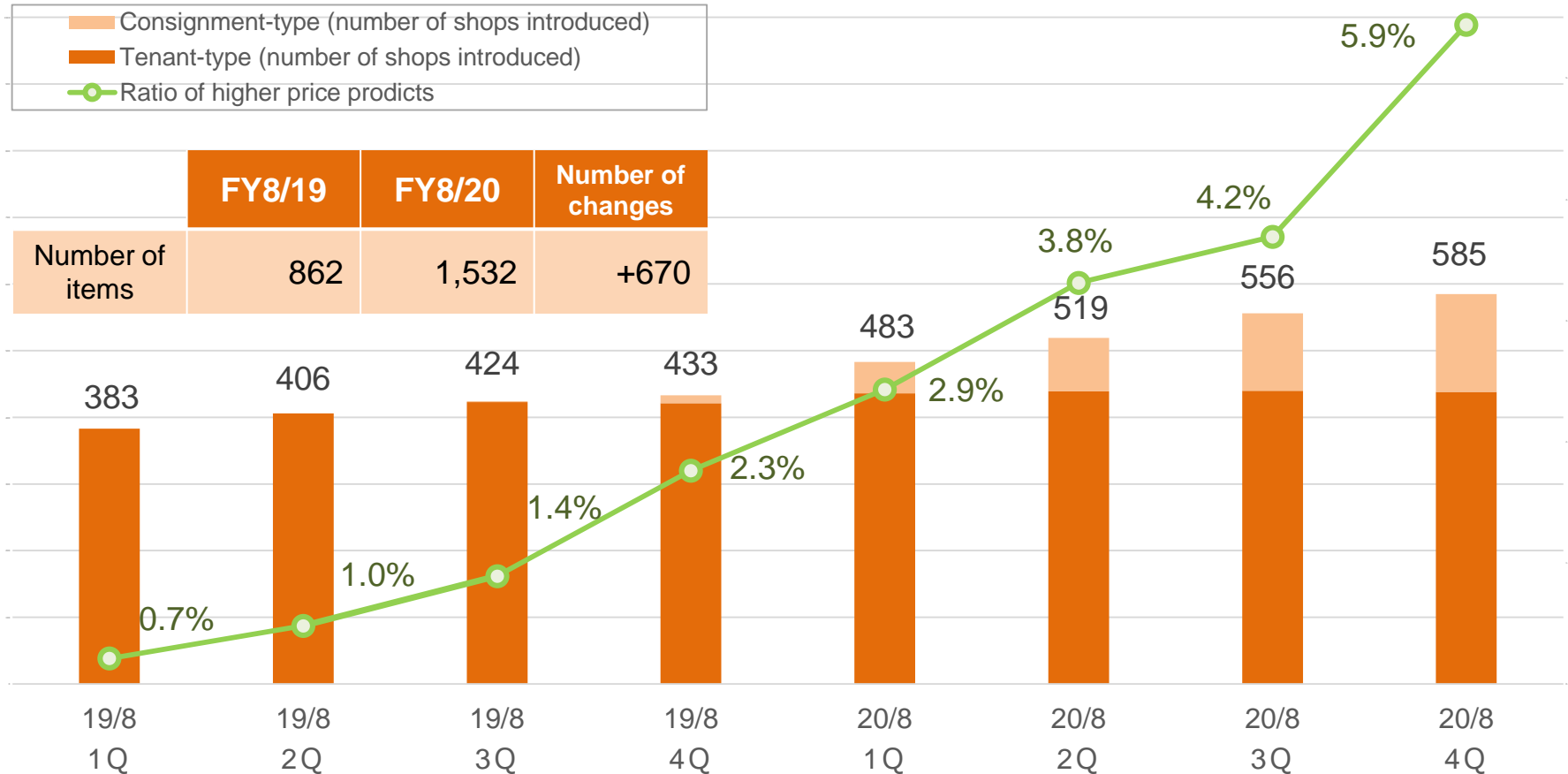


September 2020 Watts Moriyma molive Shop (Shiga)

- ✓ Increased by 119 shops from the end of the previous fiscal year. The share to total number of shops (1,240 shops) is **51.5%**.
- ✓ To open shops mainly Watts brand; renovations will be made by timing of shop contract renewal and through careful consideration of investment effect.

Situation of 100-Yen Shop Business④

- Changes in the number of shops introducing higher price products and its sales share



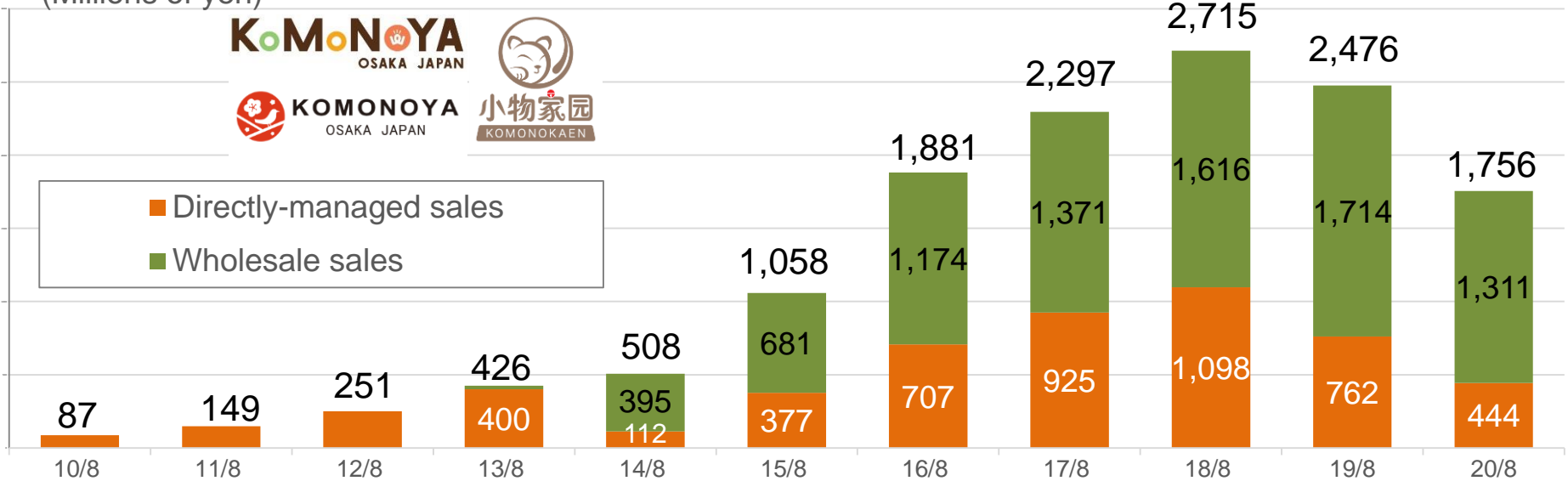
- ✓ The introduction of higher price products to the tenant type shops has been roughly completed, and we will continue to introduce to the consignment type shops.
- ✓ Sales of high price products increased by about 3.4 times YoY

Situation of Overseas Business①

—Changes in Sales (Directly-managed and Wholesale)—



(Millions of yen)



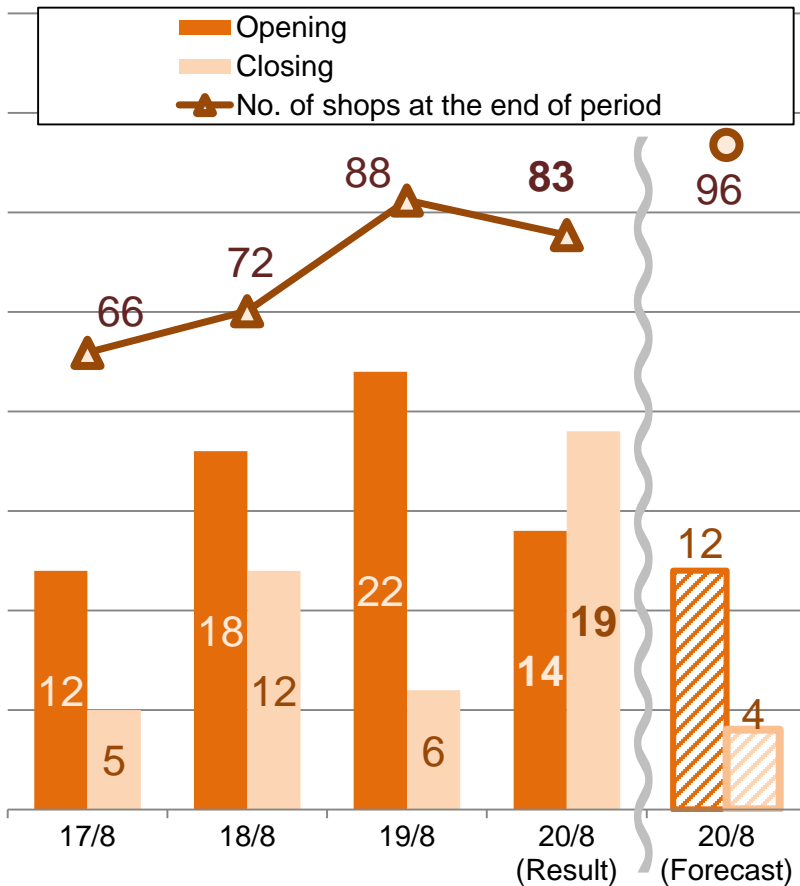
October 2019 Central Festival Phuket Shop (Thailand)

- ✓ Directly-managed shops gain foothold while focusing on wholesale sales to neighbor countries (collaboration with local partners).
- ✓ Due to the impact of COVID-19, most overseas shops were temporarily closed, resulting in a decrease of about 50% in sales in 2H.

Overseas business	FY8/19	FY8/20	YoY
Sales	2,476 million yen	1,756 million yen	70.9%

Situation of Overseas Business②

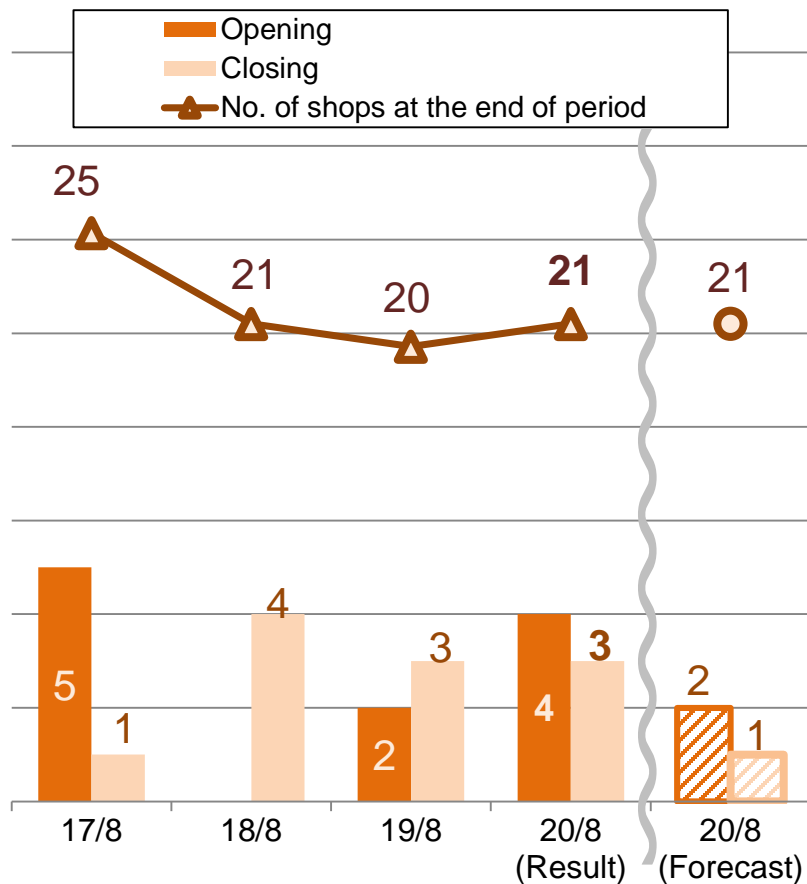
— Number of Shops (Opening/Closing Plan and Results) —



Country	Format	Opening	Closing	No. of shops (20/8)
Thailand	FC	9	8	50
China	FC	4	—	6
Malaysia	FC	—	6	2
Vietnam	FC	—	4	5
Peru	Directly-managed	1	1	20
Total		14	19	83

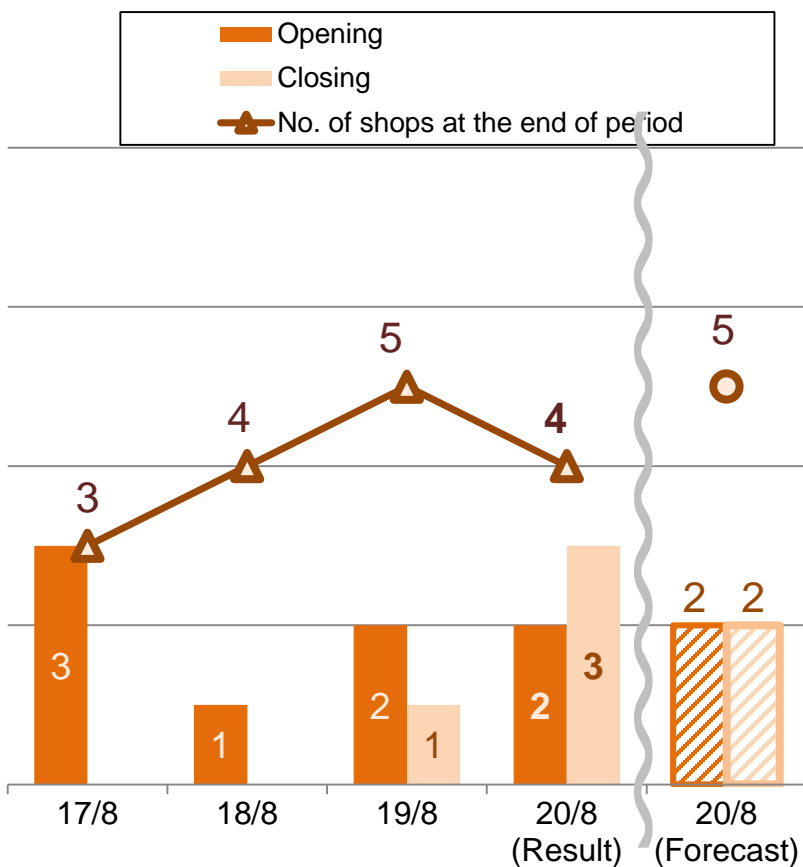
- ✓ In Thailand, there are 50 shops, with a net increase of only 1 shop. 12 "Watts" brand shops opened through new openings and renovations.
- ✓ Sales subsidiary in China was sold to Chinese company in April. Aiming to expand business through distributors and wholesalers
- ✓ There are about 40 fixed-price shops with sales floors consisting of the Company's products which include 17 shops in Myanmar, 8 shops in Mexico and other countries.

Situation of “Buona Vita”



September 2020 Buona Vita Grand Emio Tokorozawa (Saitama)

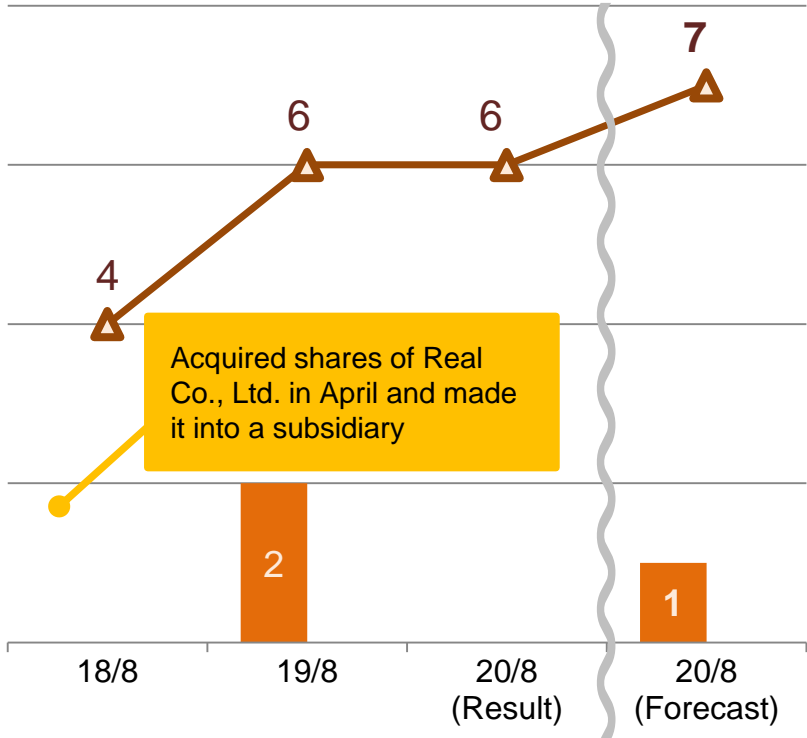
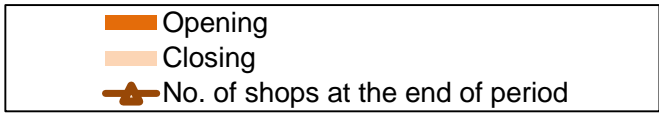
- ✓ Operate **21 shops** as of the end of August 2020
- ✓ Same-store sales remained sluggish at 90.1% YoY, despite a review of the product mix for each store characteristic and the special discount services for LINE friends, along with events at shops are located in.
- ✓ Under the declaration of the State of Emergency, most shops were forced to temporarily close, resulting in about 20% decrease in sales.



October 2019 Søstrene Grene Terrace Mall Matsudo Shop (Chiba)

- ✓ Operate **4 shops** as of the end of August 2020
- ✓ Although the opening of shops with the low-operating cost format have led to the prospect of profitability at shop basis, we have decided to withdraw from this business as it would be difficult to profitability as business basis within a short term period.
- ✓ Plan to withdraw from the business during FY8/21 with closing shops sequentially

By Business Situation of "Real"



- ✓ Offer a wide range of value-for-money products with utilizing their strength in procurement capability.
- ✓ Trial opening of 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 2020 (5 tenant shops and 1 consignment shop).

Contents



Financial Overview

Operating Results for the Fiscal Year Ended August 2020

P2 – P6

By Business

Situation of Each Business for the Fiscal Year Ended August 2020

P8 – P17

Business Plan

Business Forecasts for the Fiscal Year Ending August 2021 and Efforts toward Each Business

P19 – P23

Reference

About Watts Group

P25 – P32

Business Forecasts for FY8/21



(Millions of yen)

Business forecasts	FY8/19			FY8/20			FY8/21 (Forecast)		
		Ratio to sales	YoY		Ratio to sales	YoY		Ratio to sales	YoY
Sales	51,399	—	103.9%	52,795	—	102.7%	50,960	—	96.5%
Gross profit	19,337	37.6%	102.8%	20,215	38.3%	104.5%	—	—	—
SG&A	18,620	36.2%	104.6%	18,446	34.9%	99.1%	—	—	—
Operating profit	716	1.4%	71.6%	1,768	3.4%	246.7%	1,090	2.1%	61.6%
Recurring profit	656	1.3%	63.2%	1,731	3.3%	263.9%	1,040	2.0%	60.1%
Net income attributable to owners of parent	70	0.1%	11.1%	774	1.5%	1097.3%	740	1.5%	95.6%
Net income per share (yen)	5.26		—	57.80		—	55.23		—
ROE	0.7%		—	7.5%		—	6.9%		—

✓ 100-Yen shop opening/closing plan
 【Opening】1H:77, 2H:67, Total:144
 【Closing】1H:53, 2H:36, Total:89

➔ **Net increase: 55 shops**

✓ 100-Yen shop same-store sales are expected to be **96.0% YoY** due to a reactionary decline following the COVID-19 special demand, and consolidated sales are also expected to decrease.

✓ SG&A expenses are expected to decrease due to the withdrawal from the business of Hillmar Japan, but this will not be sufficient to compensate for the decline in sales, and profits are forecast to decrease.



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

Initiatives for the 100-Yen Shop Business①



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
- ✓ 1,532 items as of the end of August. Aiming for the introduction of 2,000 items as of the end of August 2021.

Inter-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 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 accumulated POS data with all shops, not only at each shop.
- ✓ Trial management of single items is conducted from the 2H in some areas for inventory optimization and ordering support.



Moves toward cashless payments



- ✓ Cashless payment services currently available: **credit cards, electronic money, iD, nanaco, WAON, and Rakuten Edy, PayPay**, etc.
As of the end of August 2020, cashless payment is available at 432 shops among the 451 tenant-type shops.
*The payment system available at each store differ

Charge for plastic bags

レジ袋有料化のお知らせ

ワッツグループでは CO2 削減と環境保全のため

7月1日(水)より
レジ袋を有料化いたします。

ご理解とご協力をよろしくお願い申し上げます。

Watts

- ✓ Restructuring of shop operations and facilities including cash registers in response to the new rule to charge plastic bags and countermeasures against COVID-19.

E-commerce site

SNSで見かけて購入したいけど
近くにお店がないし困ったな...

そんなお客様の
「SNSで見たワッツの商品を今すぐ買いたい!」
の声にこたえ、この度オンラインショップをオープンしました。

RANKING		
1	【人気】ゼブラ サラサ ジェル ボールペン0.5 色	5 ¥110
2	カラフル おすわりヘア/MA- 93	¥110
3	【WEB限定】★< 小さめ> 接触冷感 マスク1枚入り (税込308円)	¥308

- ✓ Mainly offer SNS-listed products and Watts Select brand products
- ✓ Average spend per customer approximately 4 times that of physical shops
- ✓ Some products may not be much sold in the physical shops but are hot sellers on the online store, which helps to promote products to customers.



KoMoNoYA
OSAKA JAPAN



【Overseas Business】

- Plan to open 6 new shops, mainly in Thailand
- Focus on support for Thailand, Peru, Vietnam, the Philippines, and Myanmar as important markets
- Implementation of strategic renewal
- Replacement of products based on POS data
- Build an overseas supply chain in timely manner
- Develop products exclusively for overseas markets. Strengthen Japanese-made products and higher price products

Buona Vita
フオーナ・ビータ

【Buona Vita】

- Plan to open 2 new shops (tenant-type: 1, collaboration with our 100-Yen shop: 2) and aggressively close unprofitable shops.
- Implementation of effective sales promotion activities using LINE official accounts
- Proposal of stay-at-home products suited to the New Normal lifestyles with prevention of COVID-19

スーパーディスカウント

リアル

【Real】

- Plan to open 1 new shop
- Increase profitability by improving gross margin and reducing expenses
- Establish a structure that creates operation synergies with 100-Yen shops

Contents



Financial Overview

Operating Results for the Fiscal Year Ended August 2020

P2 – P6

By Business

Situation of Each Business for the Fiscal Year Ended August 2020

P8 – P17

Business Plan

Business Forecasts for the Fiscal Year Ending August 2021 and Efforts toward Each Business

P19 – P23

Reference

About Watts Group

P25 – P32

Brands of Watts Group



Domestic 100-Yen shop business



Overseas business



KOMONOYA
OSAKA JAPAN



小物家园
KOMONOKAEN

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 2020. The photo is Shin-Koshigaya Varie Shop which opened in February 2020



“Søstre Grene”, a joint venture in a life-style goods shop offering North European items. Operates 4 shops as of the end of August 2020



Collaboration shop between 100-Yen shop and grocery



Community-based small discount shop. Operates 6 shops as of the end of August 2020.



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.

- ✓ The number of Instagram followers has exceeded 120,000
- ✓ 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 to get more followers



友だちだからお得な情報届けます。

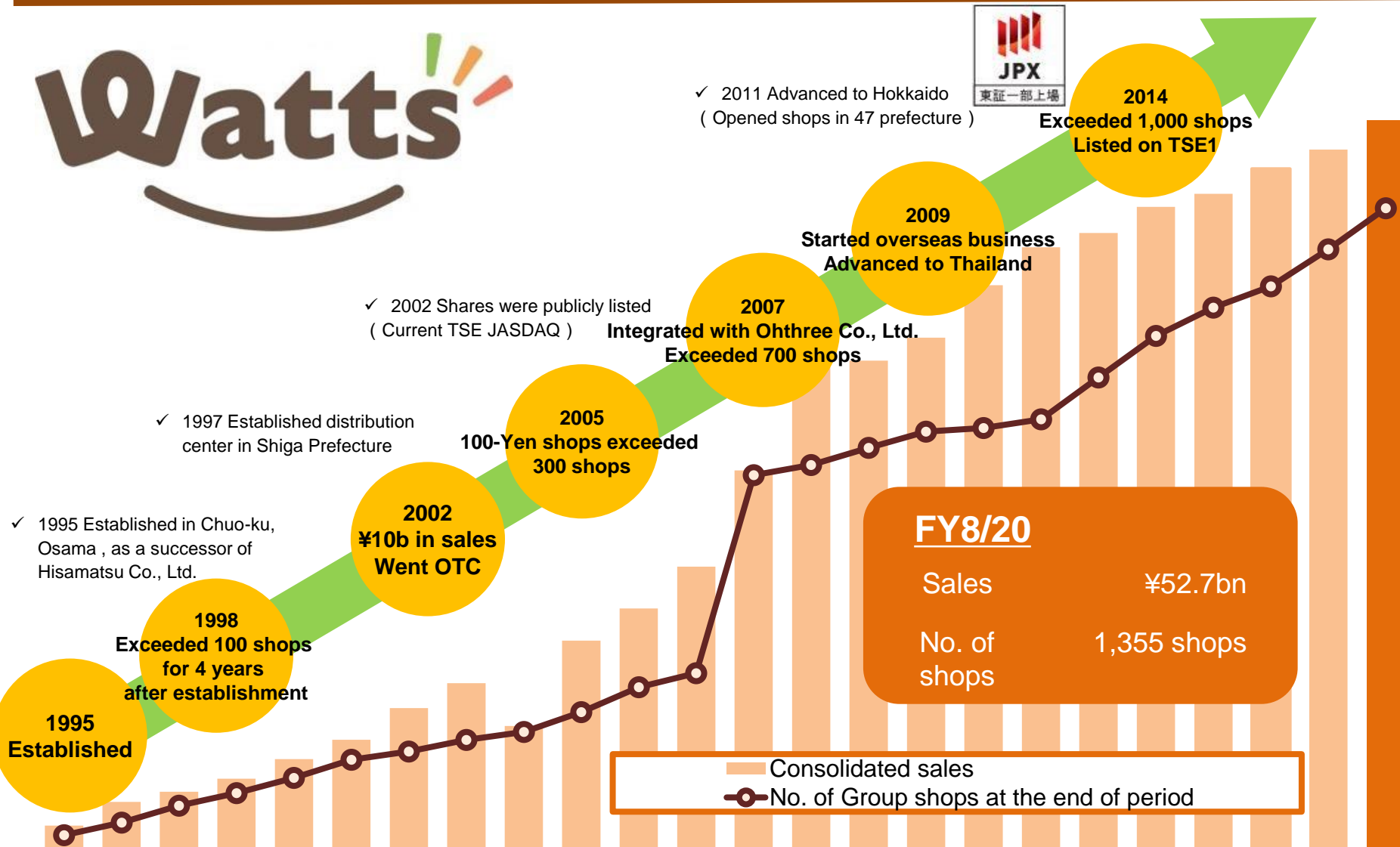
LINE@
友だち募集中。

LINE@ is also available at several shops, which users can get information when you become friend.



Establishment	February 22, 1995 (Currently the 27th 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, 2020)
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	3,146 employees (as of August 31, 2020) *Part-time workers included
Number of shops	1,355 shops (as of August 31, 2020) *Other shops included

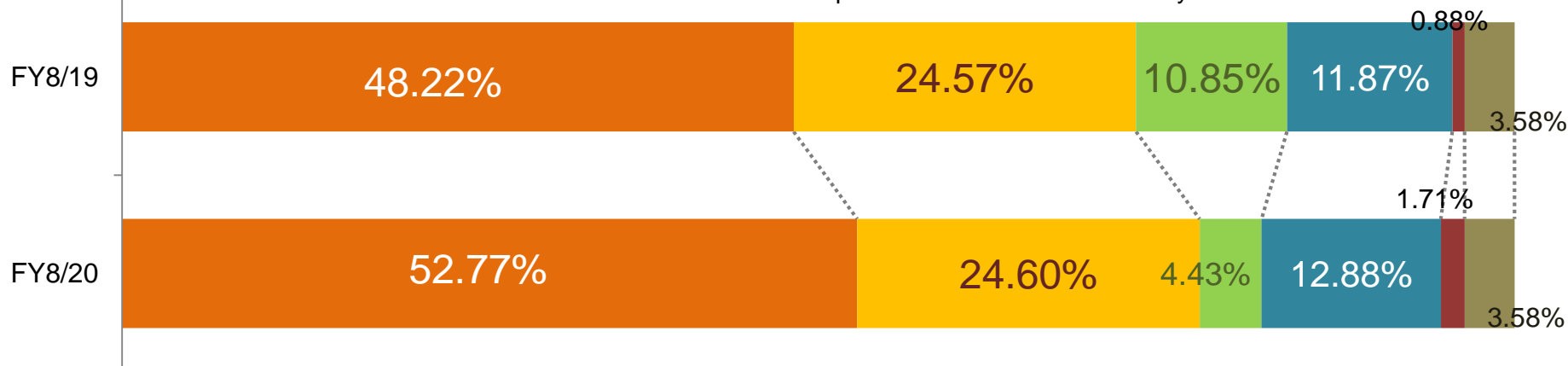
Corporate History



Shareholder Composition



■ Individual and others
 ■ Other companies
 ■ Foreign companies and others
■ Financial institutions
 ■ Securities companies
 ■ Treasury stock



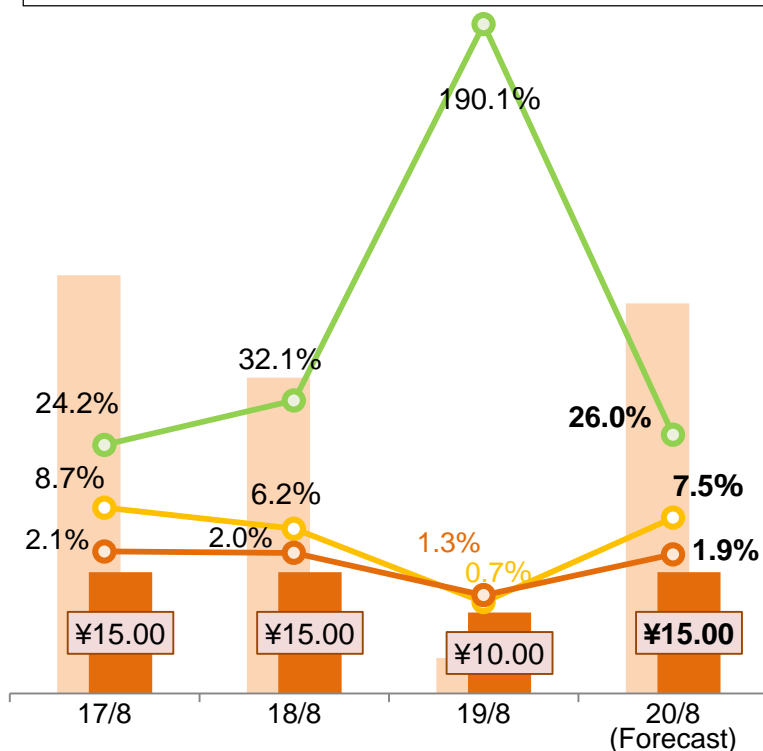
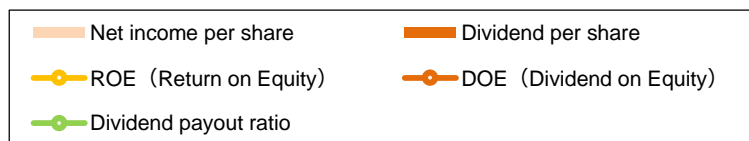
	FY8/18	FY8/19	FY8/20	YoY
Total number of shares issued	13,958,800 shares	13,958,800 shares	13,958,800 shares	—
Number of shareholders	15,225	17,590	23,454	+5,864
Ownership ratio				
Individuals and others	43.97%	48.22%	52.77%	+4.55P
Other domestic companies	24.55%	24.57%	24.60%	+0.03P
Foreign companies and others	16.93%	10.85%	4.43%	△6.42P
Financial institutions	11.72%	11.87%	12.88%	+1.01P
Securities companies	0.29%	0.88%	1.71%	+0.83P
Treasury stock	2.51%	3.58%	3.58%	—

- ✓ Number of shareholders increased by 5,864 from the previous fiscal year-end.
- ✓ Ownership ratio of individual shareholders increased by 4.55 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.



	FY8/17	FY8/18	FY8/19	FY8/20
Net income per share (Yen)	61.96	46.79	5.26	57.80
Dividend per share (Yen)	15.00	15.00	10.00	15.00
Dividend payout ratio	24.2%	32.1%	190.1%	26.0%
Dividend yield	1.1%	1.6%	1.6%	1.6%
ROE (Return on Equity)	8.7%	6.2%	0.7%	7.5%
DOE (Dividend on Equity)	2.1%	2.0%	1.3%	1.9%

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

*Payout ratio for FY8/20 is calculated based on the stock price as of today.



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.

Please contact us if you have any inquiry regarding this material.

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