



Watts Co., Ltd.

(2735; Tokyo Stock Exchange Prime Market)

# **Operating Results for the Six Months of the Fiscal Year Ending August 2022 and Progress of the Full-Year Plan**

Thursday, April 14, 2022

Fumio Hiraoka, President and CEO

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# Consolidated Operating Results for the Six Months of the Fiscal Year Ending August 2022



(Millions of yen)

Financial highlights	FY8/21 2Q		FY8/22 2Q (Current period)			
		Ratio to sales		Ratio to sales	YoY	Ratio to forecast
Sales	25,618	—	<b>28,506</b>	—	111.3%	97.1%
Gross profit	9,881	38.6%	<b>10,914</b>	38.3%	110.4%	—
Selling, general and administrative expenses	8,796	34.3%	<b>10,276</b>	36.0%	116.8%	—
EBITDA	1,244	4.9%	<b>959</b>	3.4%	77.1%	—
Operating profit	1,085	4.2%	<b>637</b>	2.2%	58.7%	135.6%
Recurring profit	1,066	4.2%	<b>678</b>	2.4%	63.6%	161.6%
Net income attributable to owners of parent	800	3.1%	<b>361</b>	1.3%	45.2%	168.1%
Net income per share (Yen)	59.72		<b>26.89</b>		—	—

✓ **Sales increased by 11.3% YoY** owing to the consolidation of Otsu F Retail Co., Ltd. (“OFR”) and Nippan Co., Ltd. (“NPN”) as of October 1, 2021.

✓ **Operating income was 58.7% YoY** due to the weak 100-Yen shop same-store sales, amortization of goodwill from M&A, and the amortization burden associated with the renewal of the core system for the company’s 100-yen shop business. ➔P3

✓ **Net income attributable to owners of parent** largely decreased to **45.2% YoY**, due to a gain on debt exemption of consolidated subsidiary Hilmer Japan Co., Ltd during previous fiscal year. ➔P5,9

✓ Although sales fell short of plan, SG&A expenses, including personnel costs, equipment costs related to store openings and renovations, and commissions, were lower than planned, resulting in an **operating profit of 135.6% compared to the plan.**

# Sales by Business Type



(Millions of yen)

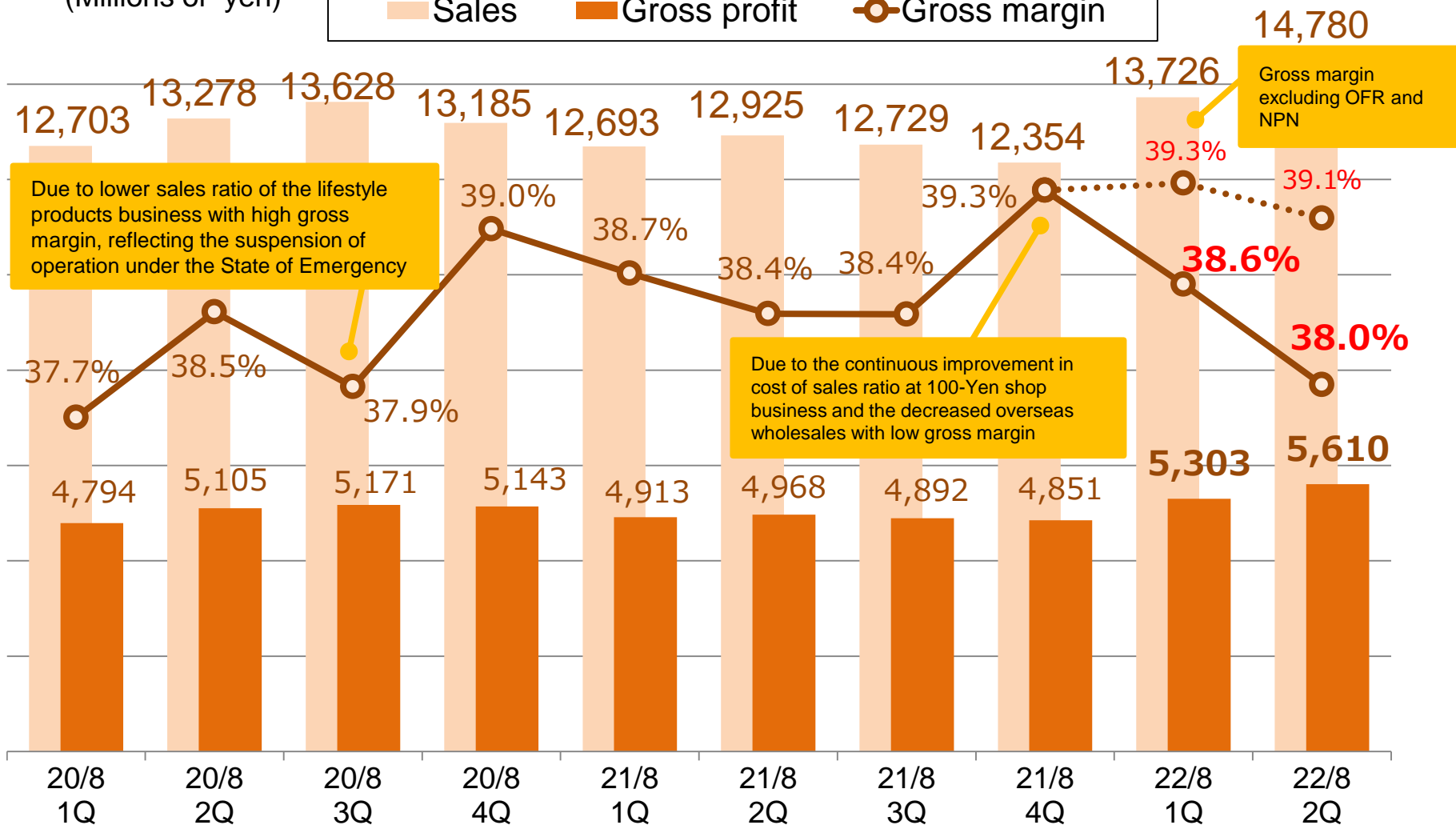
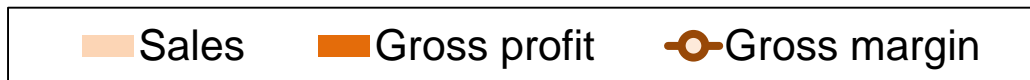
Sales by Business Type		FY8/21 2Q		FY8/22 2Q (Current period)		
			Ratio to sales		Ratio to sales	YoY
100-Yen shops	Directly managed	22,119	86.3%	<b>25,314</b>	88.8%	114.4%
	Wholesale, Other	883	3.4%	<b>1,071</b>	3.8%	121.3%
	Subtotal	23,003	89.8%	<b>26,385</b>	<b>92.6%</b>	<b>114.7%</b>
Overseas Business	Directly managed	145	0.6%	<b>164</b>	0.6%	113.3%
	Wholesale	712	2.8%	<b>486</b>	1.7%	68.3%
	Subtotal	857	3.3%	<b>650</b>	<b>2.3%</b>	<b>75.9%</b>
Lifestyle products business	Buona Vita	499	1.9%	<b>268</b>	<b>0.9%</b>	<b>53.8%</b>
	Søstrene Grene					
Real, etc.		1,258	4.9%	<b>1,201</b>	<b>4.2%</b>	<b>95.5%</b>
Total		25,618	100.0%	<b>28,506</b>	<b>100.0%</b>	<b>111.3%</b>

\* The Company withdrew 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 2.8 percentage points.

# Quarterly Changes in Gross Margin

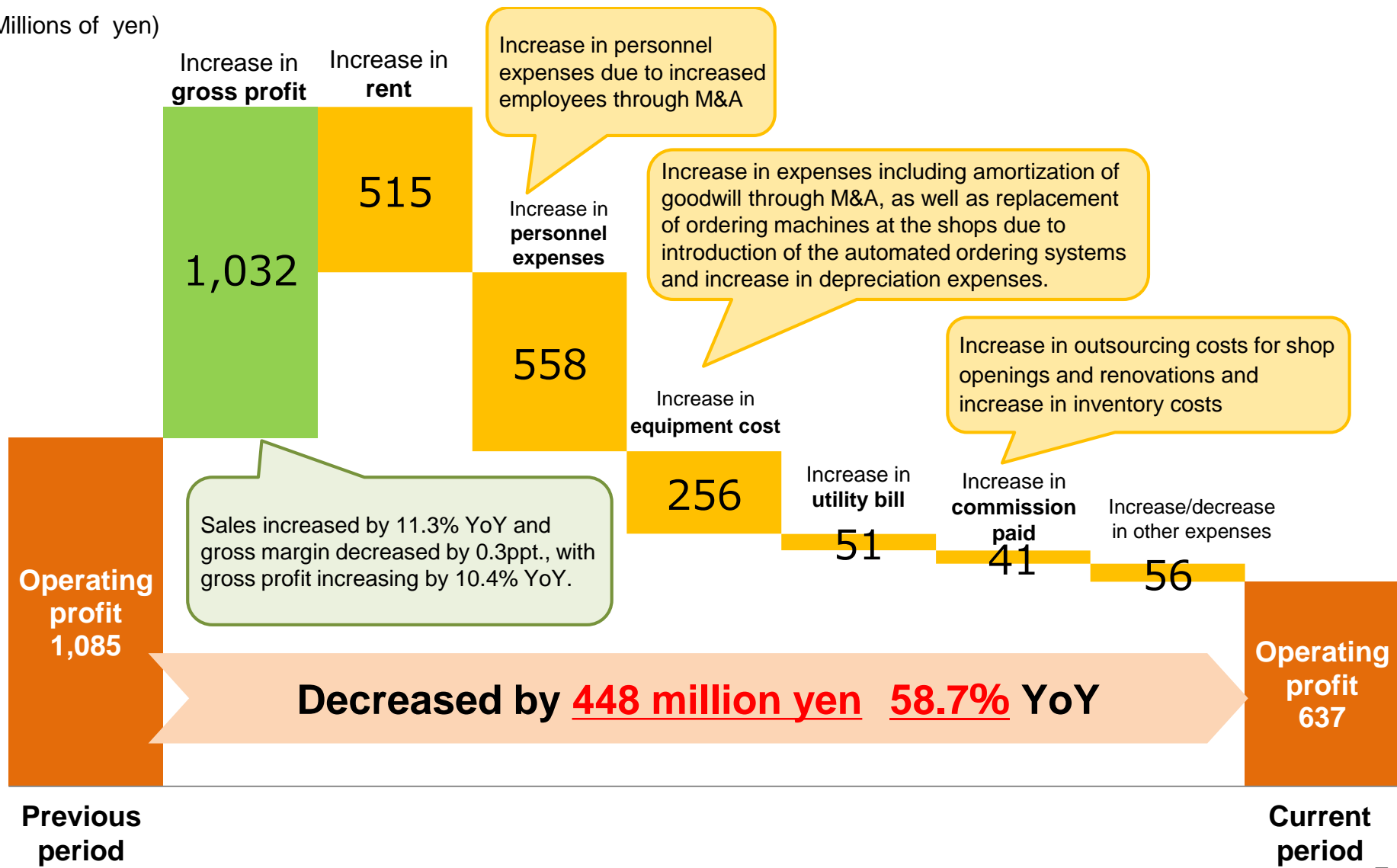
(Millions of yen)



# Factors for Changes in Operating Profit



(Millions of yen)



Previous period

Current period

# Consolidated Balance Sheet and Consolidated Cash Flows



(Millions of yen)

Consolidated balance sheet	FY8/21		FY8/22 (Current period)	
		Pct. change		Pct. change
Cash and deposits	6,169	Down 6.4%	<b>6,524</b>	<b>Up 5.8%</b>
Merchandise and finished goods	7,431	Up 4.5%	<b>8,766</b>	<b>Up 18.0%</b>
Other current assets	2,448	Down 9.6%	<b>2,532</b>	<b>Up 3.4%</b>
Tangible fixed assets	1,552	Down 3.5%	<b>2,097</b>	<b>Up 35.1%</b>
Other fixed assets	3,739	Up 6.2%	<b>4,843</b>	<b>Up 29.5%</b>
<b>Total assets</b>	<b>21,340</b>	<b>Down 0.9%</b>	<b>24,763</b>	<b>Up 16.0%</b>
<b>Liabilities</b>	<b>10,118</b>	<b>Down 8.5%</b>	<b>13,342</b>	<b>Up 31.9%</b>
<b>Net assets</b>	<b>11,222</b>	<b>Up 7.1%</b>	<b>11,421</b>	<b>Up 1.8%</b>

- ✓ Shareholders' equity ratio was 46.1%, down by 6.5ppt. from the end of the previous period.
- ✓ In other current assets, goodwill increased by 592 million yen and guarantee deposits increased by 464 million yen, mainly due the acquisition of OFR.
- ✓ In liabilities, long-term loans payable increased by 2,158 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)	
		Pct. change		Pct. change
Net cash provided by (used in) operating activities	1,802	+959	<b>915</b>	<b>△886</b>
Net cash provided by (used in) investing activities	△409	△92	<b>△570</b>	<b>△160</b>
Net cash provided by (used in) financing activities	△392	△356	<b>0</b>	<b>393</b>
Effect of exchange rate change on cash and cash equivalents	△4	△19	<b>9</b>	<b>14</b>
Cash and cash equivalents at end of period	7,586	+1,007	<b>6,524</b>	<b>△1,061</b>
Free cash flows	1,392	+867	<b>345</b>	<b>△1,047</b>

- ✓ Cash flows from investing activities: decrease of 1,047 million yen in notes and accounts payable-trade due to the fact that the last day of the previous fiscal year was a holiday.
- ✓ Cash flows from investing activities: increase of 451 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><b>Opened 97 shops</b> against the full-year plan of 230 shops and <b>closed 27 shops</b> against 86 shops. The number of shops at the end of the period was <b>1,579</b>. <span style="float: right;">→P10</span></p>
 	Watts brand shops	<p>Increased by 107 shops to <b>932 shops</b> through openings and renovations. The share to total number of 100-Yen shops was 59.0%.</p>
 	M&A	<p>Made OFR a subsidiary as of October 1, 2021. Working to promptly complete post-merger integration process. <span style="float: right;">→P19</span></p>

## Overseas Business

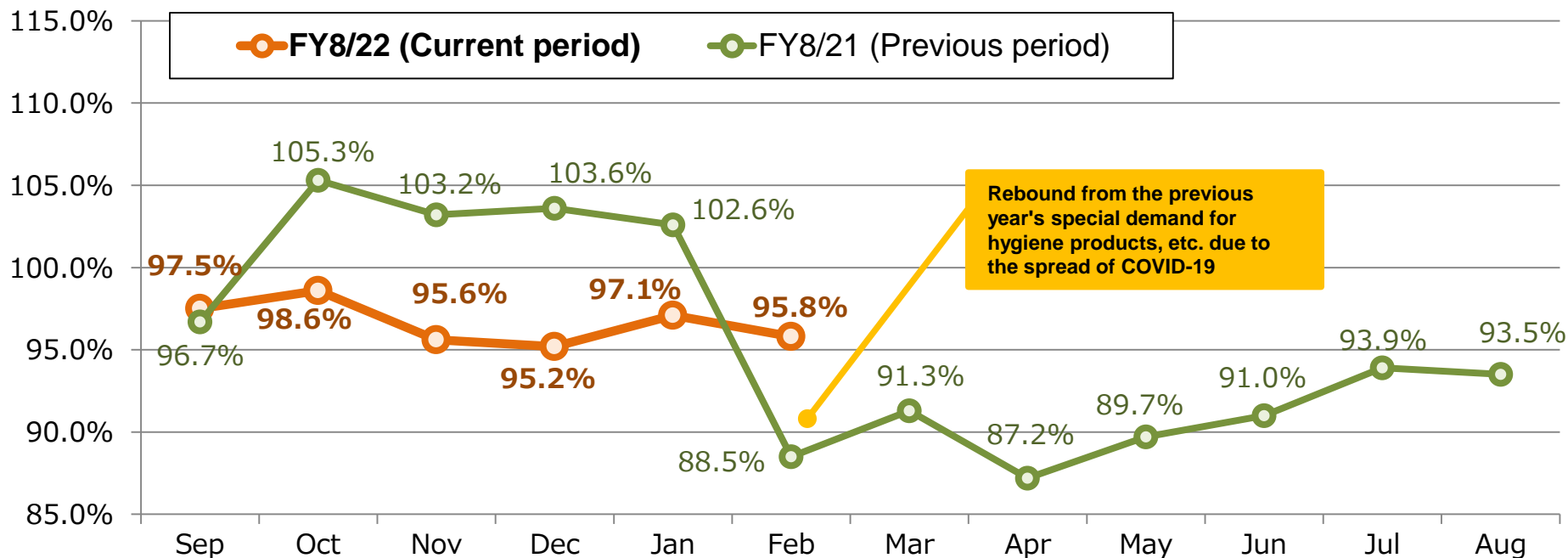
 	Overseas shops	<p>The number of shops that are selling WATTS products was <b>58</b> (down 11 from the end of the previous fiscal year), and more than 100 shops including local partners' shops. <span style="float: right;">→P12</span></p>
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## Domestic Other Business

	Buona Vita	<p>A life-style goods shop offering comfortable life. The number of shops was <b>22</b>, mainly opening consignment shops in our 100-Yen shop. <span style="float: right;">→P13</span></p>
	Real	<p>Community-based discount shop. Operates <b>6 shops</b> at the end of February 2022. Aim to create synergies with 100-Yen shop business. <span style="float: right;">→P14</span></p>

# Situation of 100-Yen Shop Business①

## — Changes in Same-store sales YoY —



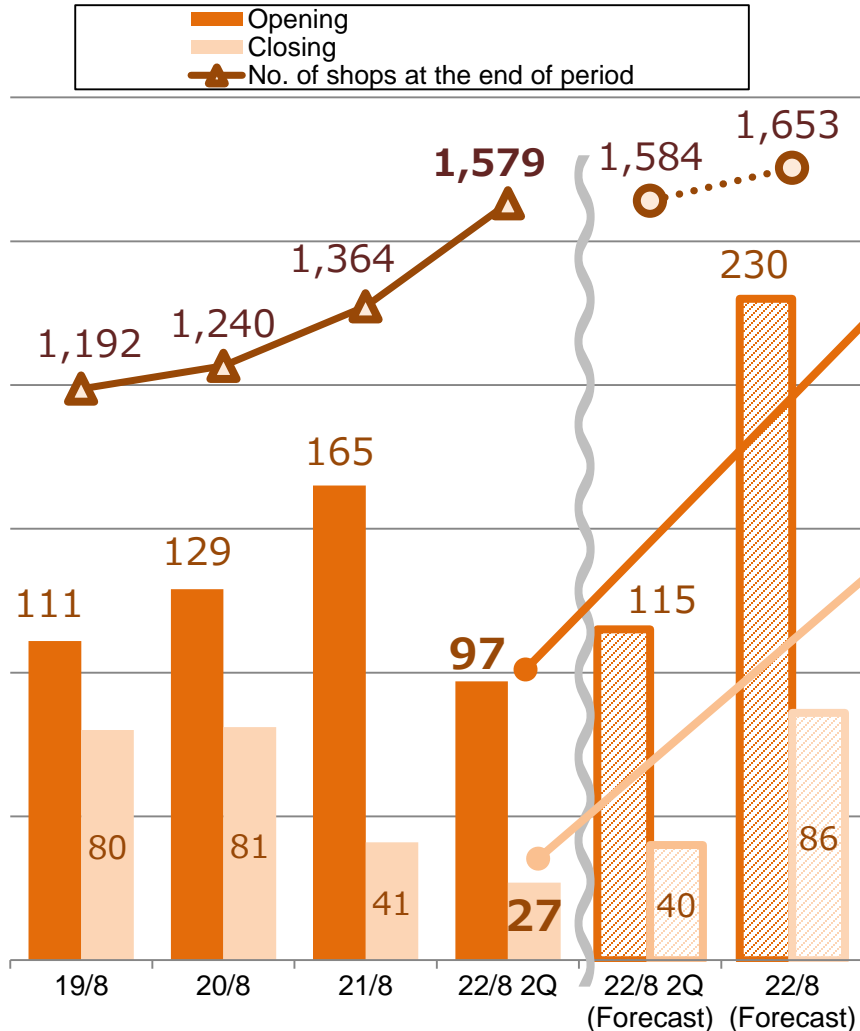
Pct. change of Same-store	Sep	Oct	Nov	Dec	Jan
Previous period (A)	-3.3%	+5.3%	+3.2%	+3.6%	+2.6%
Current period (B)	-2.5%	-1.4%	-4.4%	-4.8%	-2.9%
<b>A+B</b>	<b>-5.8%</b>	<b>+3.9%</b>	<b>-1.2%</b>	<b>-1.2%</b>	<b>-0.3%</b>

- ✓ In 1H, sales were 96.6% YoY, number of customers was 95.5%, and spending per customers was 100.1%.
- ✓ Sales of Watts brand shops were 98.2% 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 Business②

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



## Opening/closing plan and results

2Q  
Opening plan  
115 shops  
→ Opened **97 shops**  
(Full-year progress rate: 42.2%)

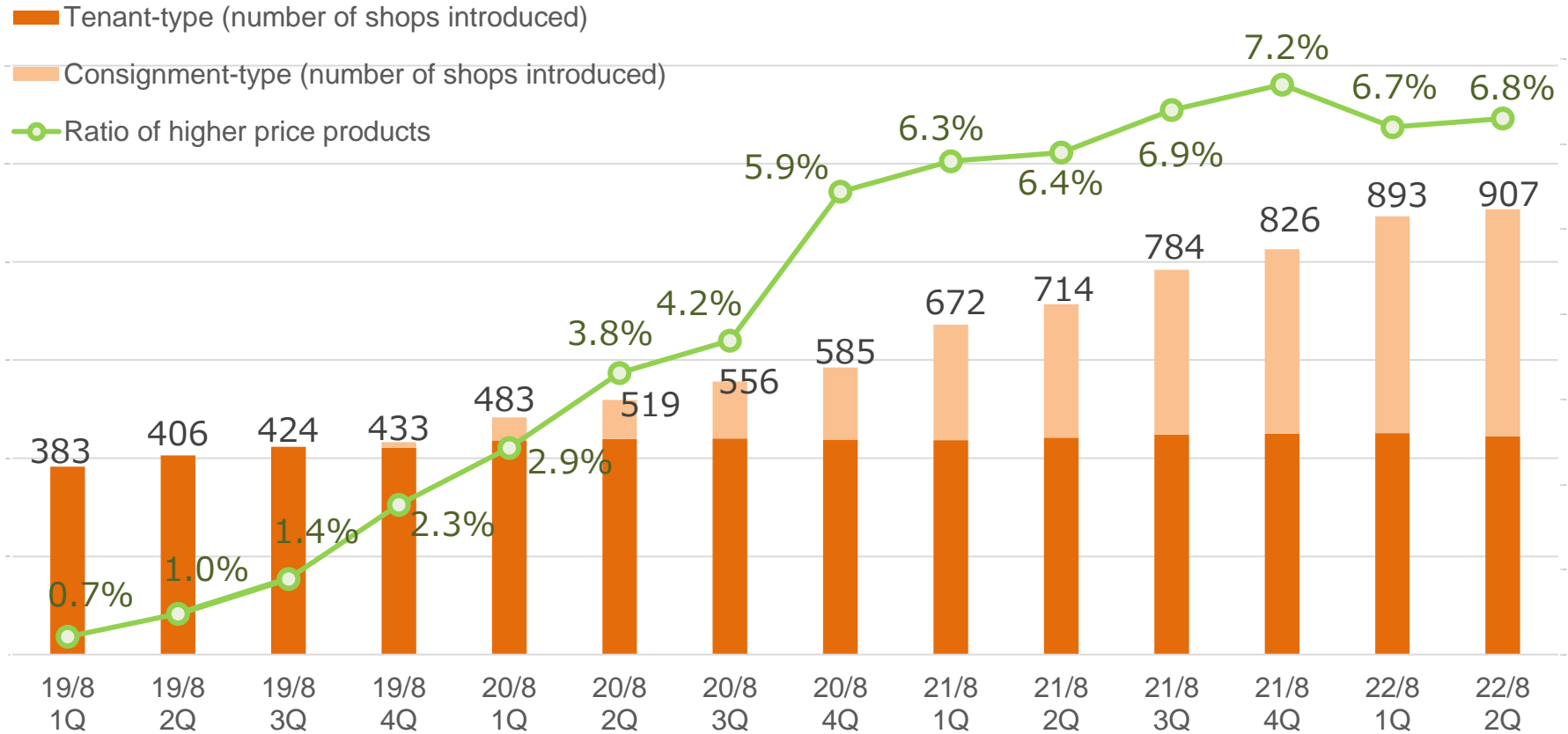
2Q  
Closing plan  
40 shops  
→ Closed **27 shops**  
(Full-year progress rate: 31.4%)

- ✓ Despite the slower-than-planned new shop openings, the number of shop closures was also less than expected, resulting in a **net increase of 215 shops** compared to the plan of 220 shops (net increase includes 145 shops of OFR acquired on October 1, 2021).
- ✓ Of the total 1,579 shops, 932 are Watts brand shops (net increase of 107 shops).

# Situation of 100-Yen Shop Business③

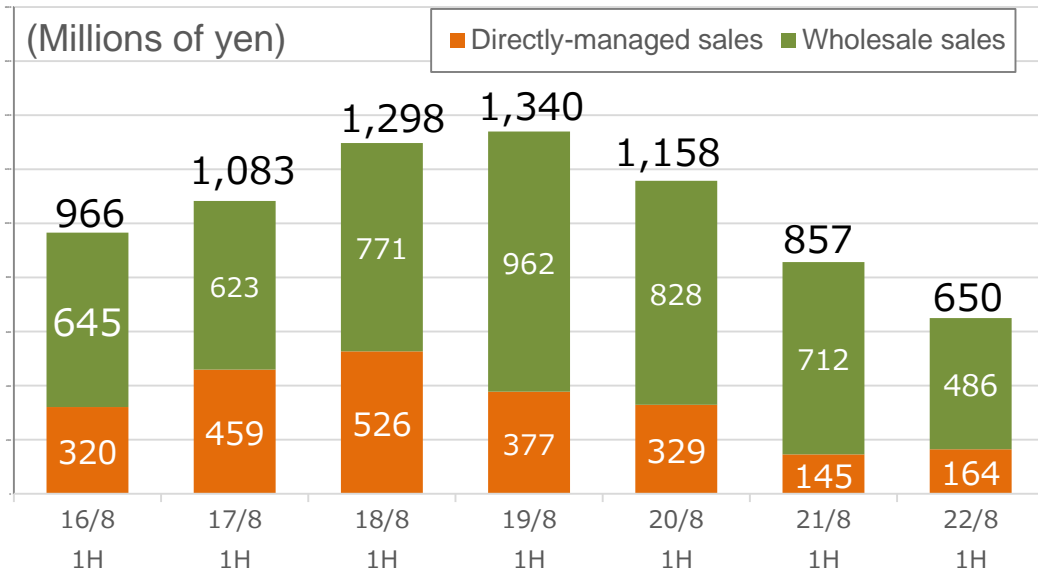


- Changes in the number of shops introducing higher price products and its sales share -



- ✓ We roughly completed the introduction of higher price products to the tenant-type shops and will continue to introduce them to the consignment-type shops.
- ✓ The number of higher price products handled is based on 2,000, we regularly review these items and replace poor-selling items with new items to keep the sales floor attractive.

# Situation of Overseas Business



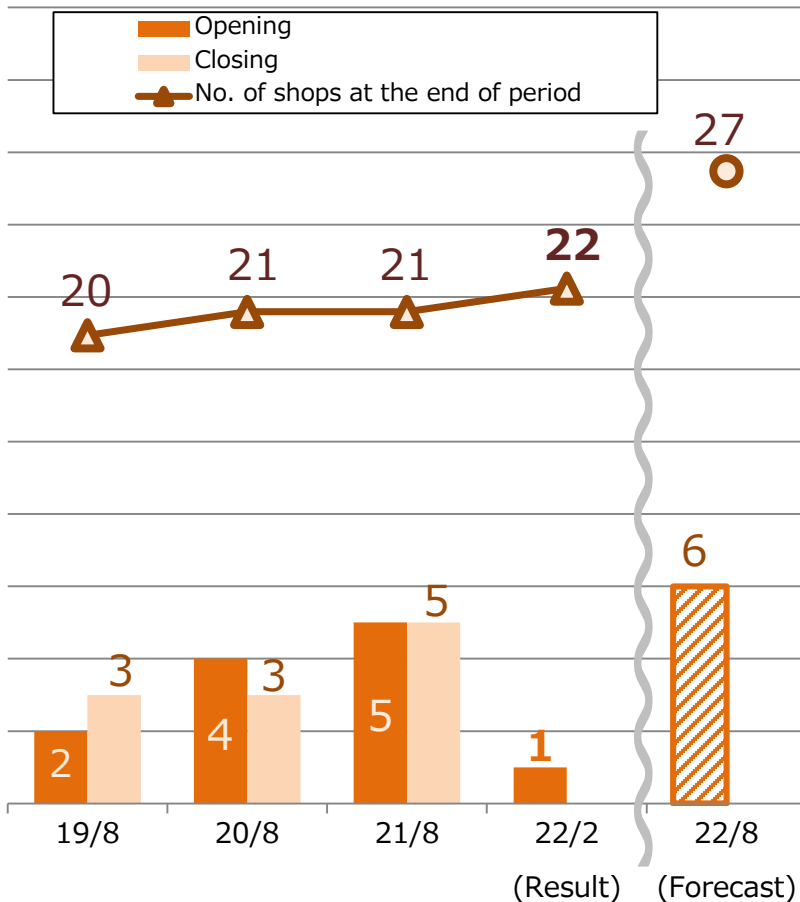
Country	Format	Opening	Closing	No. of shops (22/2)
Thailand	FC	–	1	40
China	FC	–	–	4
Malaysia	FC	–	2	–
Vietnam	FC	–	3	–
Peru	Directly-managed	–	5	14
<b>Total</b>		<b>–</b>	<b>11</b>	<b>58</b>



San Felipe Shop (Peru)

- ✓ In Thailand, there are 40 shops (down 1 from the end of the previous fiscal year). 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 Grand Emio Tokorozawa (Saitama)

- ✓ **22 shops** as of the end of February 2022. Operate 5 consignment shops in our 100-Yen shop.
- ✓ Sales of marks remained strong. Same-store sales have exceeded 100% YoY since December and are on a recovery trend; 96.4% in 1H.



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



- ✓ **Household items shop “Tokino:ne”.**  
The concept is “Create a pleasant me-time”.
- ✓ Opened the first shop in Kobe City, Hyogo Prefecture, in March 2021.
- ✓ 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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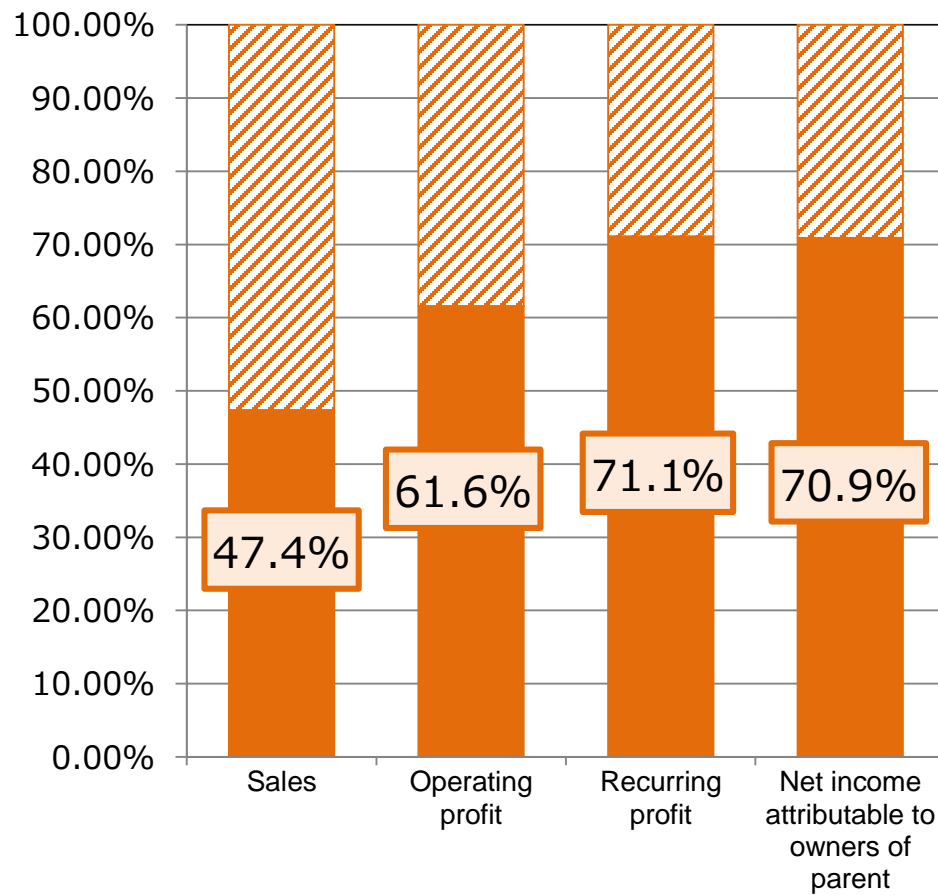


(Millions of yen)

Business forecasts	FY8/22 (Forecast)		
		Ratio to sales	YoY
Sales	60,200	—	118.7%
Operating profit	1,035	1.7%	62.0%
Recurring profit	955	1.6%	60.2%
Net income attributable to owners of parent	510	0.8%	52.8%
Net income per share (yen)	38.07		—

- ✓ While sales are falling short of the plan, profits are outperforming the plan. This is thanks to the steady improvement in cost of sales ratio of 100-Yen shop products and lower-than-expected personnel, new shop openings, and renovation expenses.
- ✓ We remain unchanged our full-year forecasts at this moment, but we will disclose information promptly if we deem it necessary to revise them in the future.

### Progress rate to the full-year forecasts



# Growth vision with the trinity of our business



## 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



## Medium-Term 3-Year Plan (FY8/22 – FY8/24)

(Millions of yen)

	FY8/22 (forecasts)	
		Ratio to sales
Sales	60,200	—
EBITDA	1,802	3.0%
Operating profit	1,035	1.7%
Net income attributable to owners of parent	510	0.8%
100-Yen Shop Business Sales Share	—	



	FY8/24 (forecasts)	
		Ratio to sales
Sales	70,000	—
EBITDA	3,100	4.4%
Operating profit	2,100	3.0%
Net income attributable to owners of parent	1,100	1.6%
100-Yen Shop Business Sales Share	86.8%	

- ✓ Progress against the mid-term plan will be disclosed within 3 months of the end of the fiscal year (end of August).



## Acquisition of Otsu F·Retail Co., Ltd.



**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. with 145 shops nationwide, and made them into subsidiaries
- ✓ Completed the integration of product master file and unification of unit prices. Increase profitability by reducing cost ratio reflecting increase in purchase volume.
- ✓ Transfer of administrative operations has roughly completed. Integration of personnel systems is on track.
- ✓ Some FLET'S shops were renovated to Watts shops. Share know-how and integrate operations by the end of FY8/22.
- ✓ In the future, we will build and strengthen a business model for stand-alone shops.



### Offer higher price products



- ✓ Increase the number of higher price products (¥200 to ¥1,000) to enhance the product lineups and revitalize sales floors.
- ✓ Actively introduce to consignment-type shops, leading to an improvement in gross margin for the entire group
- ✓ 2,048 items as of the end of February 2022. Maintain 2,000 lineups while reviewing these items.

### Intra-group collaboration

- ✓ Trial collaboration with discount shops "Real" and lifestyle products business "Buona Vita" to create synergies among Group businesses





### Self-checkout POS register



- ✓ Plan to introduce self-checkout POS registers **for cashless payment** at **100 shops** in FY8/22. Introduced in 21 shops as of the end of February 2022.
- ✓ 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.
- ✓ Plan to introduce an automatic ordering system to more than 300 shops, mainly tenant-type shops.  
As of the end of February 2022, about 100 shops had installed the system.



## Reopened online shop



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

## Social Media

twitter



Instagram



- Watts official YouTube channel



- ✓ Use as a tool to raise brand awareness



KoMoNoYA  
OSAKA JAPAN



### 【Overseas Business】

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

Buona Vita  
ブォーナ・ビータ

### 【Buona Vita】

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

スーパーディスカウント

リアル

### 【Real】

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



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# Brands of Watts Group



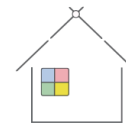
## Domestic 100-Yen shop business



## Overseas business



## Other domestic business



Tokino:ne



# Overview of Other Businesses



**Buona Vita**  
フオーナ・ビータ

“Buona Vita,” a variety store which proposes a comfortable life. Operates 22 shops as of the end of February 2022.



  
Tokino:ne

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



Collaboration shop between 100-Yen shop and grocery



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



Establishment	February 22, 1995 (Currently the <b>28<sup>th</sup> business term</b> )
Meaning of the Company's name	<b>Derived from “Wa! tto ikou” (Japanese catch cry to “go forth energetically”)</b>
Market listing	Tokyo Stock Exchange Prime Market (Securities code: <b>2735</b> )
Capital stock	440 million yen
Head office	5F, Sumitomo OBP Plaza Building, 4-70, Shiromi 1-chome, Chuo-ku, Osaka-shi, <b>Osaka Prefecture</b>
Main business	Wholesale and retail of daily-use and household items (Mainly <b>operation of 100-Yen shops</b> )
Number of employees	3,569 employees (as of February 28, 2022) *Part-time workers included
Number of shops	1,667 shops (as of February 28, 2022) *Other shops included

# Corporate History



✓ 2022 Transition to the Prime Market



2021  
Acquired  
Ontsuf Retail  
Co., Ltd.

2014  
Exceeded  
1,000 shops

2009  
Started overseas business  
Advanced to Thailand

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

2007  
Integrated with Ohtree 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,  
Osama , as a successor of  
Hisamatsu Co., Ltd.

1995  
Established

FY8/21

Sales ¥50.7bn

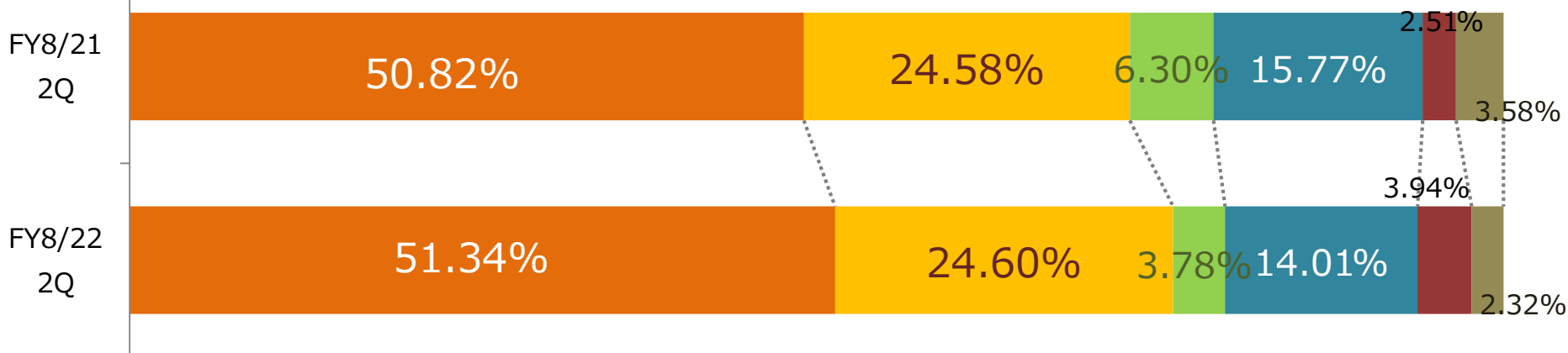
No. of shops 1,462 shops

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

# Shareholder Composition



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



	FY8/20 2Q	FY8/21 2Q	FY8/22 2Q	YoY
Total number of shares issued	13,958,800 shares	13,958,800 shares	13,898,800 shares	△60,000
Number of shareholders	16,029	17,710	17,572	△138
<b>Ownership ratio</b>				
Individuals and others	47.33%	50.82%	51.34%	+0.52P
Other domestic companies	24.58%	24.58%	24.60%	+0.02P
Foreign companies and others	8.76%	6.30%	3.78%	△2.52P
Financial institutions	14.39%	15.77%	14.01%	△1.76P
Securities companies	1.32%	2.51%	3.94%	+1.43P
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.

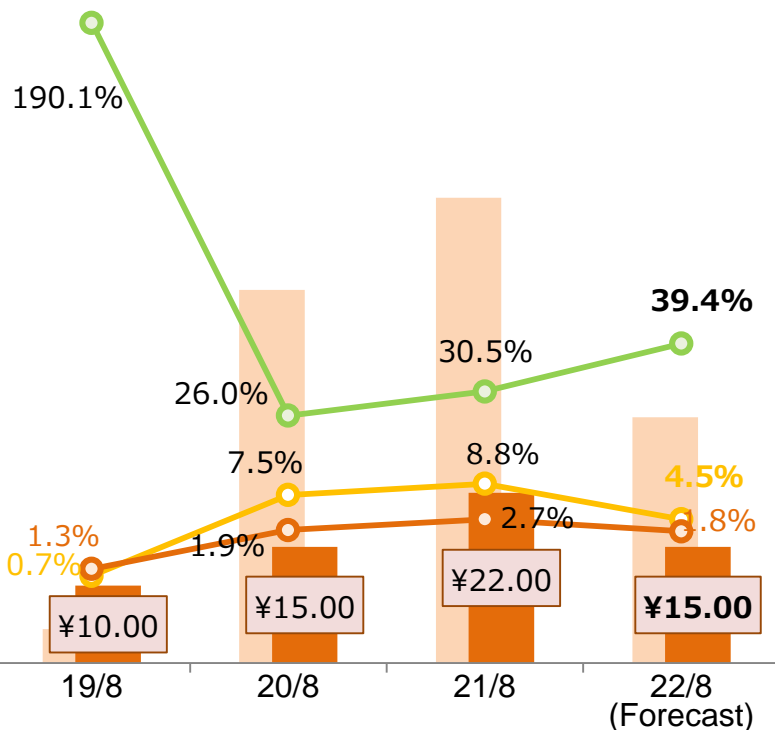
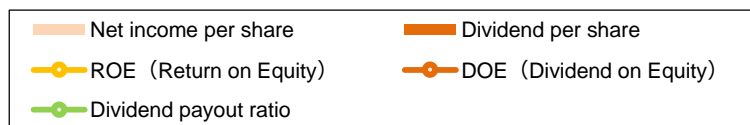
✓ Treasury stock was allocated to Watts Group executives and employees as restricted stock compensation, resulting in a 1.26ppt. decrease in treasury stock ownership.

(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.



	FY8/19	FY8/20	FY8/21	FY8/22 (forecasts)
Net income per share (Yen)	¥5.26	¥57.80	¥72.09	<b>¥38.07</b>
Dividend per share (Yen)	¥10.00	¥15.00	¥22.00	<b>¥15.00</b>
Dividend payout ratio	190.1%	26.0%	30.5%	<b>39.4%</b>
Dividend yield	1.6%	1.6%	2.5%	<b>2.1%</b>
ROE (Return on Equity)	0.7%	7.5%	8.9%	<b>4.5%</b>
DOE (Dividend on Equity)	1.3%	1.9%	2.7%	<b>1.8%</b>

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

\*Payout ratio for FY8/22 is calculated based on the stock price on February 28, 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)

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

\*The benefits outlined above are for FY8/21.

\*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.

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

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