



Watts Co., Ltd.

(2735; Tokyo Stock Exchange Prime Market)

Operating Results for the Six Months of the Fiscal Year Ending August 2023 and Progress of the Full-Year Plan

Friday, April 14, 2023

Fumio Hiraoka, President and CEO

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Consolidated Operating Results for the Six Months of the Fiscal Year Ending August 2023

(Millions of yen)

Financial highlights	FY8/22 Q2		FY8/23 Q2 (Current period)			
		Ratio to sales		Ratio to sales	YoY	Ratio to forecast
Sales	28,506	—	29,550	—	103.7%	99.7%
Gross profit	10,914	38.3%	11,169	37.8%	102.3%	—
Selling, general and administrative expenses	10,277	36.1%	10,897	36.9%	106.0%	—
EBITDA	959	3.4%	635	2.1%	66.2%	—
Operating profit	637	2.2%	271	0.9%	42.7%	71.6%
Recurring profit	678	2.4%	270	0.9%	39.9%	79.7%
Net income attributable to owners of parent	361	1.3%	292	1.0%	80.9%	132.9%
Net income per share (Yen)	26.89		21.53		—	—

- ✓ **Sales** were generally in line with the plan, up by 3.7% YoY and 99.7% of the plan. →P3
- ✓ **Operating profit** decreased to 42.7% YoY and fell short of the plan at 71.6%. This was mainly due to the high cost of sales ratio and rising utility costs, as well as the proactive renovation of large-scale shops and FLET'S brand shops acquired through M&A in the previous fiscal year. →P4, 5
- ✓ **Net income attributable to owners of parent** decreased to 80.9% YoY but exceeded the plan at 132.9%. This was mainly owing to the recording of an income taxes - deferred (gain) following a reorganization between consolidated subsidiaries.

Sales by Business Type



(Millions of yen)

Sales by Business Type		FY8/22 Q2		FY8/23 Q2 (Current period)		
			Ratio to sales		Ratio to sales	YoY
100-Yen shops	Directly managed	25,314	88.8%	26,377	89.3%	104.2%
	Wholesale, Other	1,071	3.8%	1,017	3.4%	95.0%
	Subtotal	26,385	92.6%	27,394	92.7%	103.8%
Overseas Business	Directly managed	164	0.6%	128	0.4%	78.4%
	Wholesale	486	1.7%	518	1.8%	106.7%
	Subtotal	650	2.3%	647	2.2%	99.5%
Domestic Other Business	Buona Vita					
	Real	1,470	5.2%	1,508	5.1%	102.6%
	Tokino:ne etc.					
Total		28,506	100.0%	29,550	100.0%	103.7%

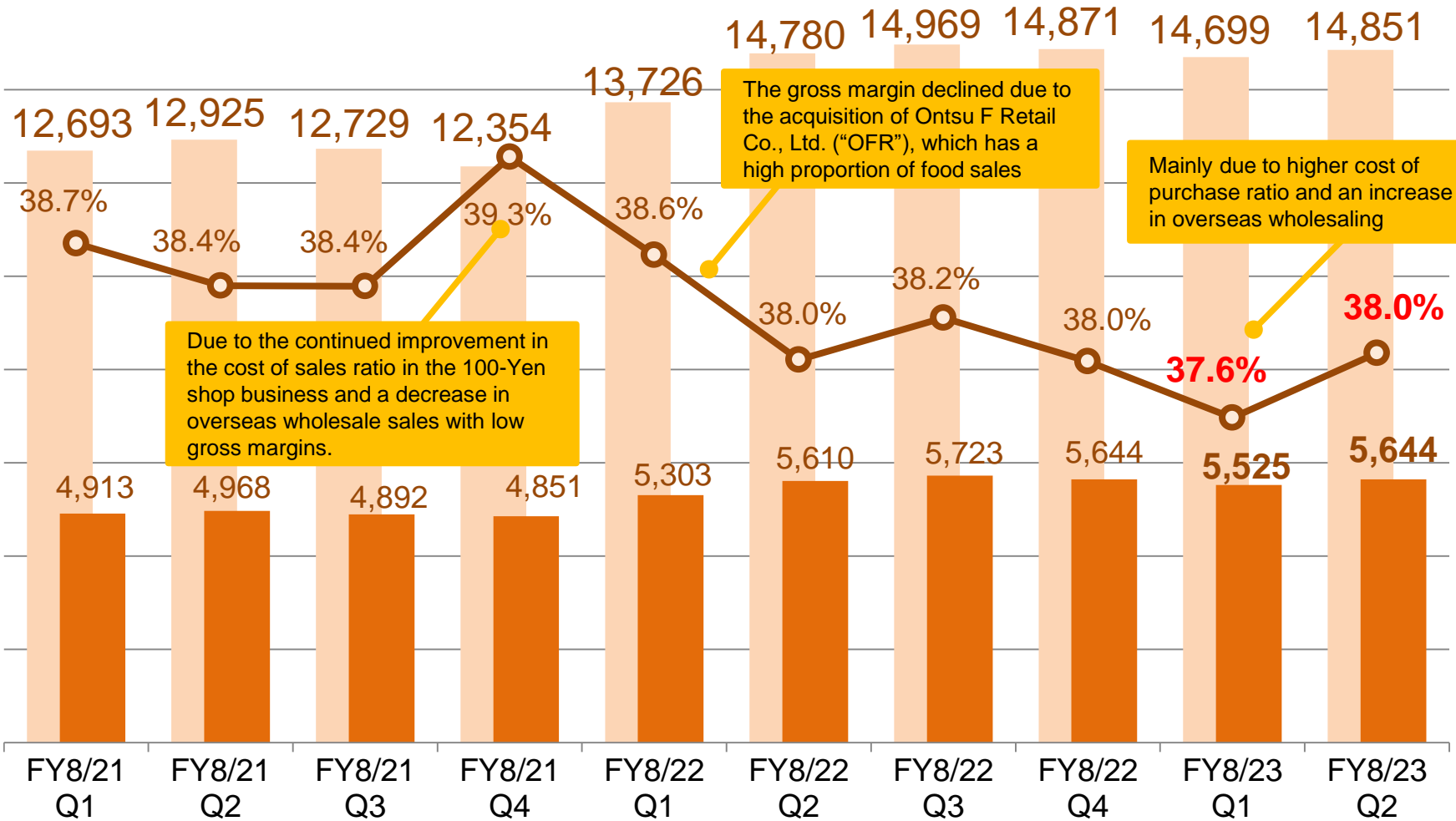
- ✓ The proportion of directly-managed 100-Yen shop sales to total sales increased by 0.5ppt., reflecting an increase in the number of directly-managed shops. However, due to a decrease in wholesale and other sales, the proportion of overall domestic 100-Yen shop sales only increased by 0.1ppt.

Quarterly Changes in Gross Margin



(Millions of yen)

■ Sales ■ Gross profit ○ Gross margin



Factors for Changes in Operating Profit

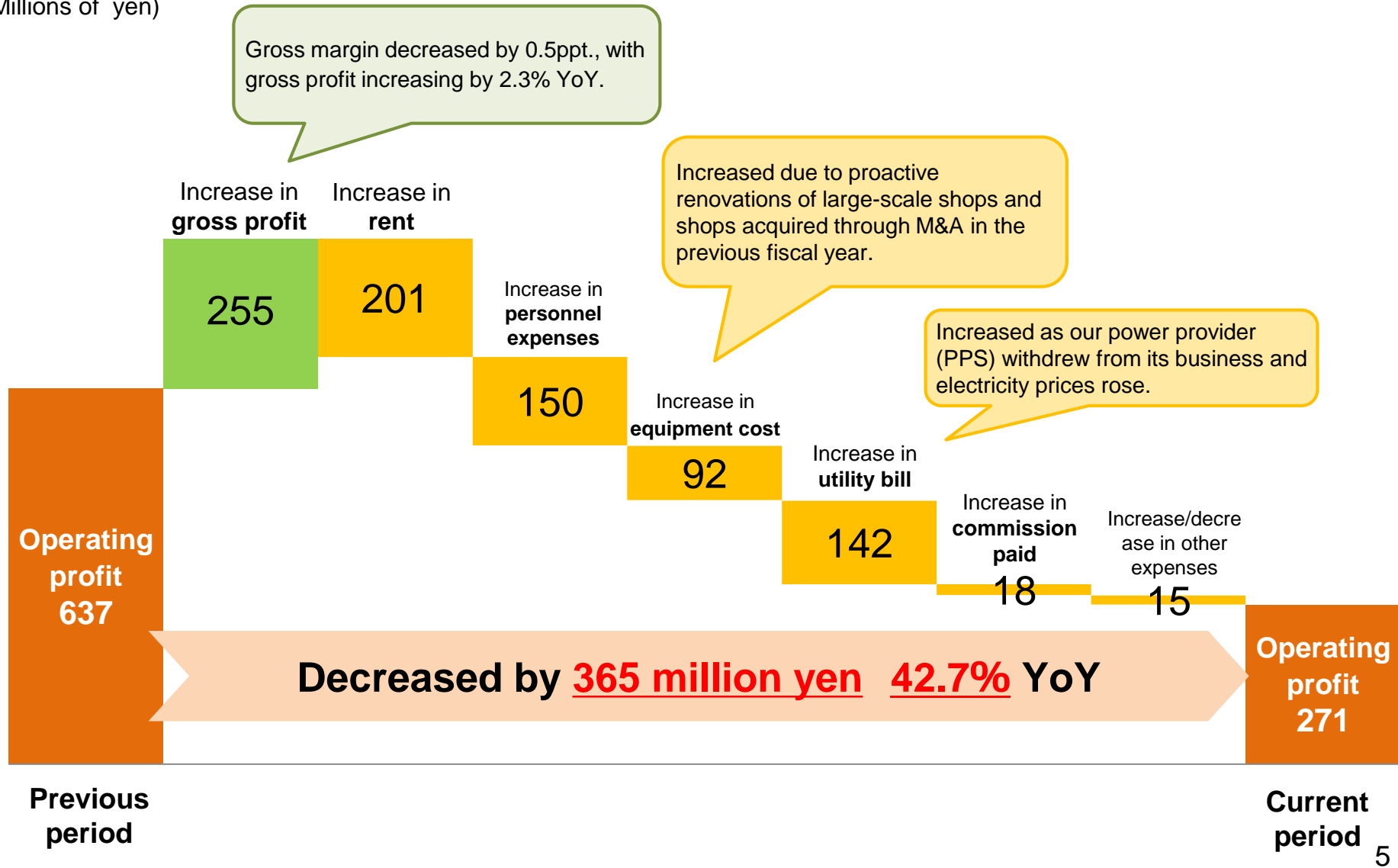


(Millions of yen)

Gross margin decreased by 0.5ppt., with gross profit increasing by 2.3% YoY.

Increased due to proactive renovations of large-scale shops and shops acquired through M&A in the previous fiscal year.

Increased as our power provider (PPS) withdrew from its business and electricity prices rose.



Previous period

Current period 5

Consolidated Balance Sheet and Consolidated Cash Flows



(Millions of yen)

Consolidated balance sheet	FY8/22		FY8/23 Q2 (Current period)	
		Pct. change		Pct. change
Cash and deposits	6,687	Up 8.4%	6,633	Down 0.8%
Merchandise and finished goods	8,734	Up 17.5%	9,037	Up 3.5%
Other current assets	3,139	Up 28.2%	2,645	Down 15.7%
Tangible fixed assets	2,155	Up 38.9%	2,222	Up 3.1%
Other fixed assets	4,883	Up 30.6%	4,862	Down 0.4%
Total assets	25,600	Up 20.0%	25,401	Down 0.8%
Liabilities	13,669	Up 35.1%	13,387	Down 2.1%
Net assets	11,931	Up 6.3%	12,014	Up 0.7%

- ✓ Shareholders' equity ratio was 47.3 %, up by 0.7 ppt. from the end of the previous period.
- ✓ In other current assets, notes and accounts receivable-trade decreased by 456 million yen.
- ✓ In liabilities, notes and accounts payable-trade and long-term loans payable decreased by 382 million yen and 127 million yen, respectively, while electronically recorded obligations-operating increased by 422 million yen.

(Millions of yen)

Consolidated cash flows	FY8/22 Q2		FY8/23 Q2 (Current period)	
		Pct. change		Pct. change
Net cash provided by (used in) operating activities	915	△886	596	△318
Net cash provided by (used in) investing activities	△570	△160	△425	144
Net cash provided by (used in) financing activities	0	393	△220	△221
Effect of exchange rate change on cash and cash equivalents	9	14	△3	△13
Cash and cash equivalents at end of period	6,524	△1,061	6,633	109
Free cash flows	345	△1,047	170	△174

- ✓ Cash flows from operating activities: Net income before income taxes and minority interests decreased by 454 million yen.
- ✓ Cash flows from investing activities: The main components were 347 million yen for purchases of property, plant and equipment and 75 million yen for payments for lease and guarantee deposits.

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Domestic 100-Yen Shop Business

	Opening/closing	<p>Opened 104 shops against the full-year plan of 236 shops and closed 53 shops against 90 shops. The number of shops at the end of the period was 1,692. ➔P10</p>
	Watts brand shops	<p>Increased by 102 shops to 1,131 shops through openings and renovations. The share to total number of 100-Yen shops was 66.8%.</p>
	Reorganization	<p>OFR absorbed into Watts East Japan Sales Co., Ltd. and Watts West Japan Sales Co., Ltd. The process of integration has been almost completed.</p>

Overseas Business

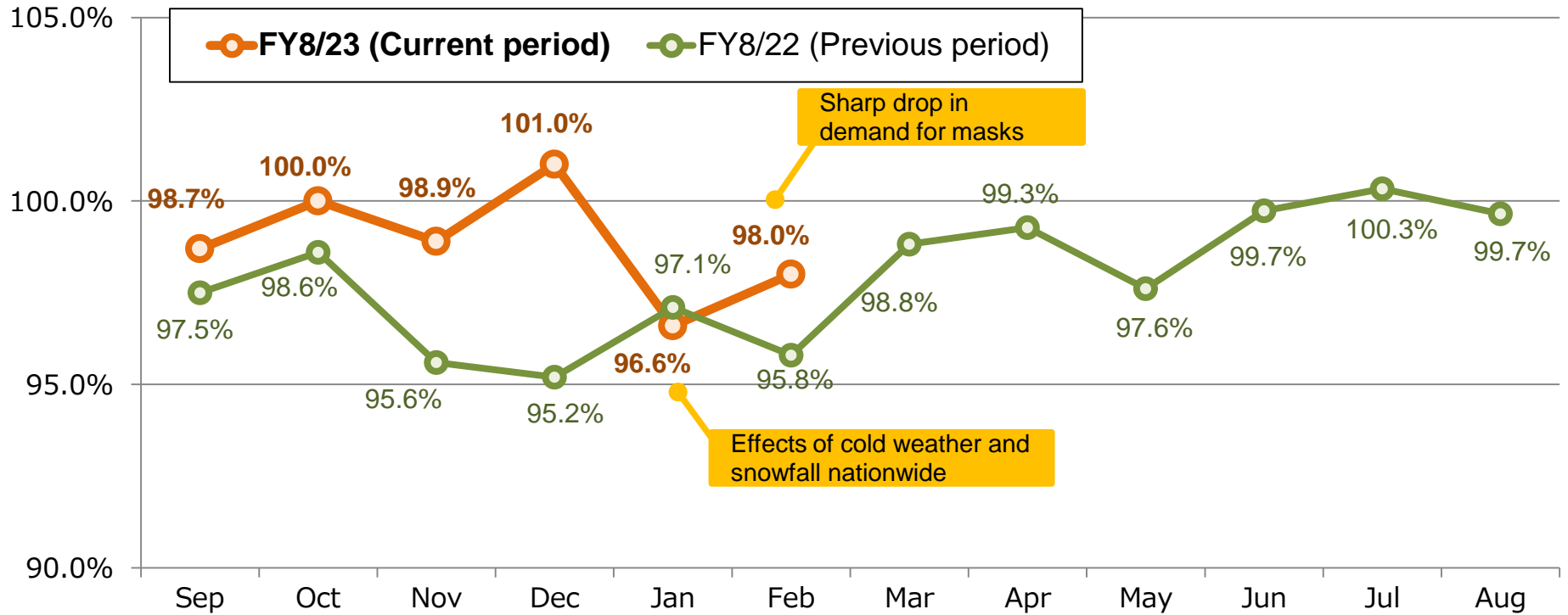
	Overseas shops	<p>The number of shops selling WATTS products was 51 in the Group, down 4 from the end of the previous fiscal year. Including local partners' shops, there were approximately 80. ➔P12</p>
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Domestic Other Business

	Buona Vita	<p>A life-style goods shop offering comfortable and joyful life. Operate 15 shops, and the same-store sales performed well at 110.4% YoY. ➔P13</p>
	Real	<p>Community-based discount shop. Operate 5 shops at the end of February 2023. Aim to create synergies with 100-Yen shop business. ➔P14</p>

Situation of 100-Yen Shop Business (1)

- Changes in Same-store sales YoY

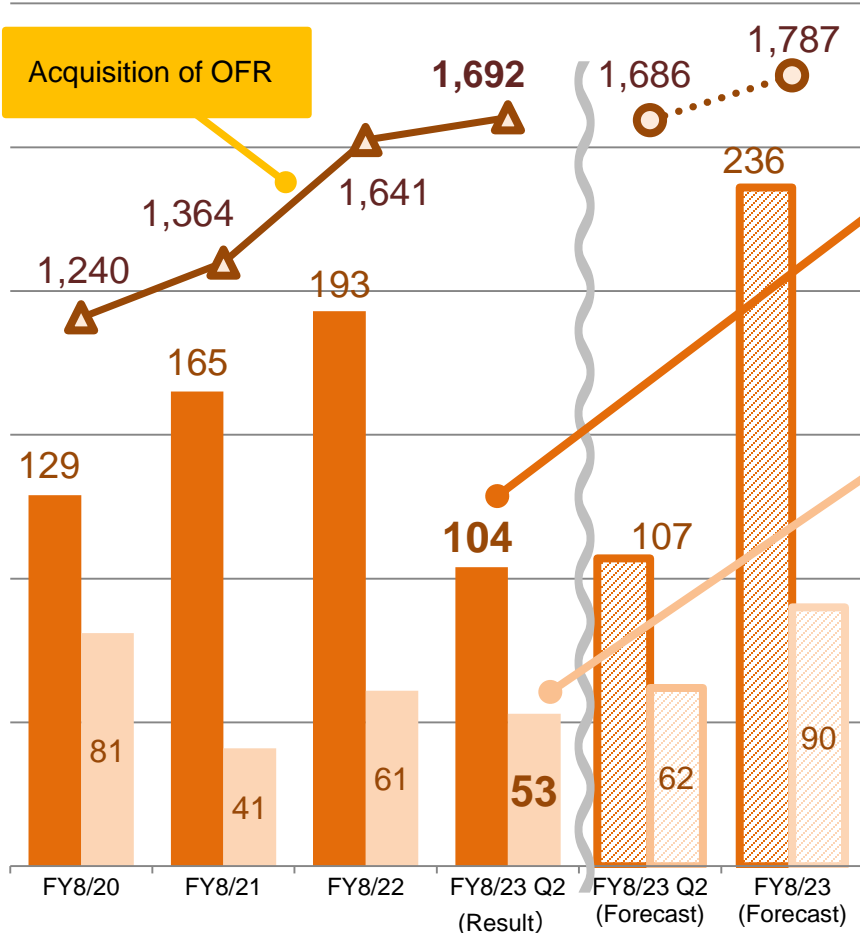
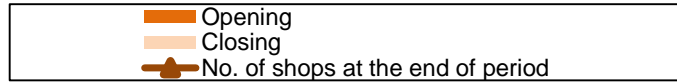


1H	Sales	Number of customers	Spending per customer
Previous period	96.6%	95.5%	100.1%
Current period	99.0%	97.8%	101.2%

- ✓ Same-store sales was 99.0% YoY, despite our efforts to improve customers' in-store experience with new products and renovation of some existing shops.
- ✓ On the other hand, sales of Watts brand shops were 100.7% YoY.

Situation of 100-Yen Shop Business (2)

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



Opening/closing plan and results

Q2
Opening plan 107 shops → Opened **104 shops**
(Full-year progress rate: 44.1%)

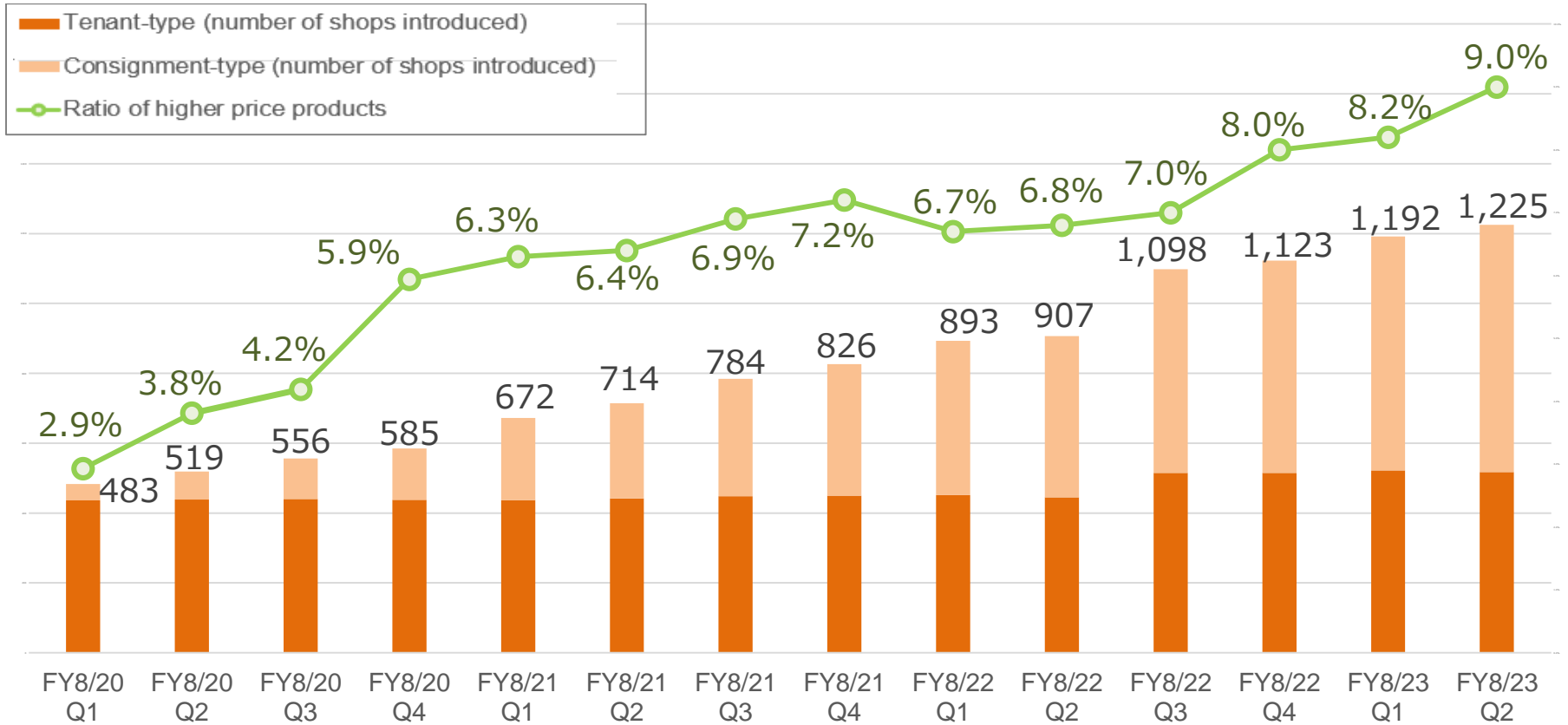
Q2
Closing plan 62 shops → Closed **53 shops**
(Full-year progress rate: 58.9%)

- ✓ The pace of new shop openings was generally in line with the plan, and the number of shop closures was within the plan. As a result, net increase of 51 shops compared to a plan of 45 shops.
- ✓ Of the total 1,692 shops, 1,131 are Watts brand shops (net increase of 102 shops).

Situation of 100-Yen Shop Business (3)



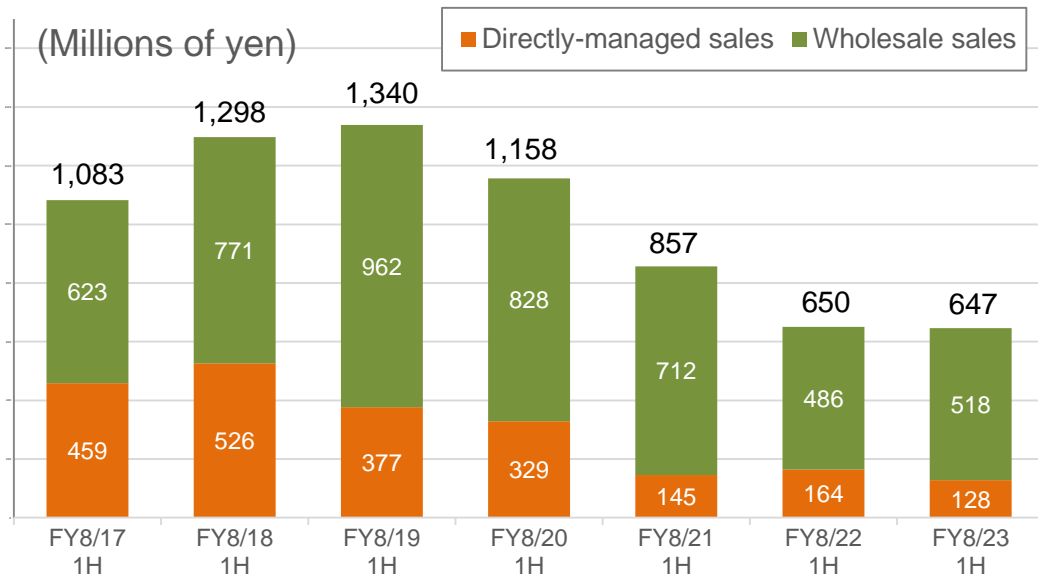
- Changes in the number of shops introducing higher-priced products and its sales share



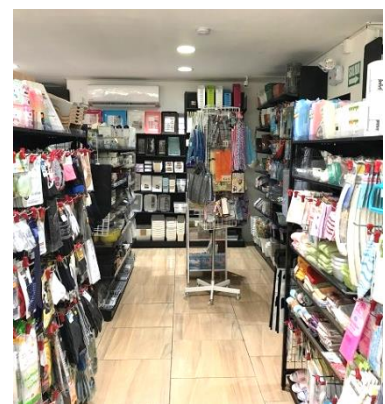
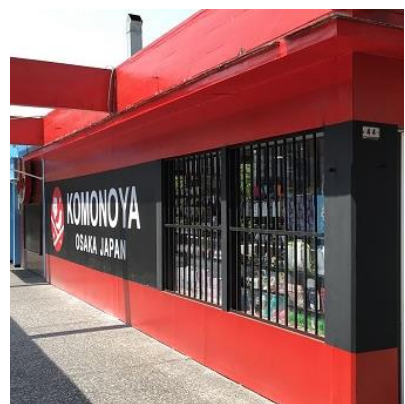
*Including OFR stores since FY8/22 Q3

- ✓ We currently sell 2,169 higher-priced products.
- ✓ Continue to introduce more higher-priced products, with a target of 20.0% sales proportion to total sales.

Situation of Overseas Business



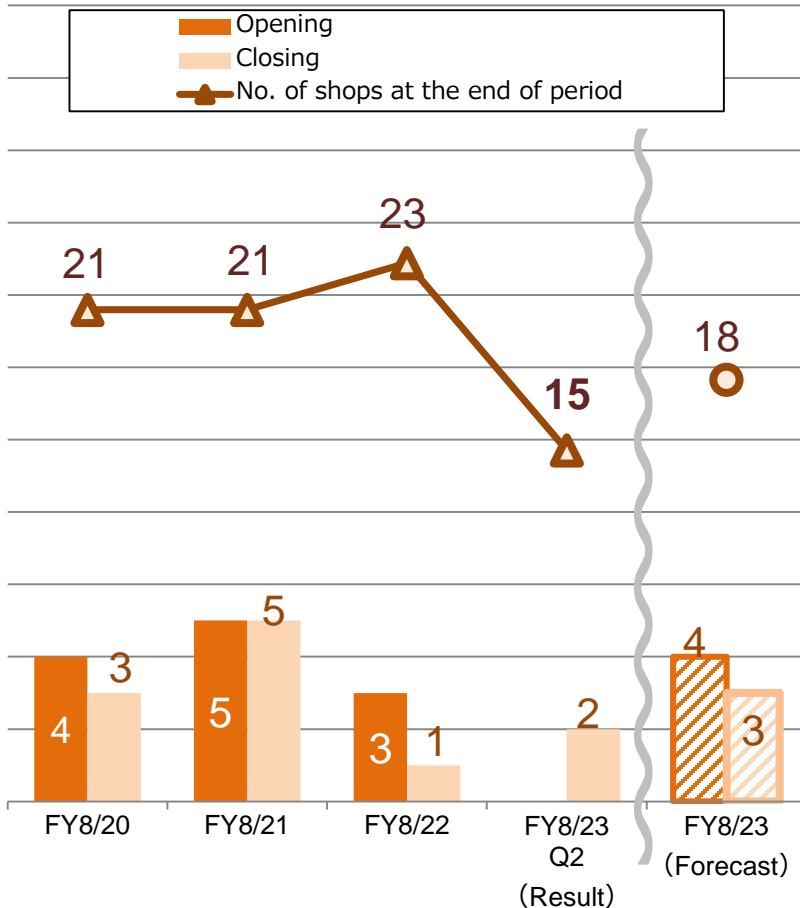
Country	Format	Open	Close	No. of shops (FY8/23 1H)
Thailand	FC	—	5	32
China	FC	—	—	4
Peru	Directly-managed	1	—	15
Total		1	5	51



San Felipe Shop (Peru)

- ✓ In Thailand, there are 32 shops (down 5 from the end of the previous fiscal year). There are 11 Watts brand shops through new openings and renovations.
- ✓ In Peru, sales decreased due to deteriorating domestic environment.
- ✓ Overseas sales remained at the same level as in the same period of the previous fiscal year, thanks to the wholesale sales to new suppliers.

Situation of “Buona Vita”



Buona Vita Grand Emio Tokorozawa (Saitama)

- ✓ On September 1, 2022, Watts Connection, which operated Buona Vita, was merged into Watts East Japan Sales.
- ✓ **15 shops** as of the end of February 2023.
*6 consignment shops in our 100-Yen shop are not included.
- ✓ The number of customers has recovered to the pre-COVID level, and the same-store sales performed well at 110.4% YoY.



- ✓ Offer a wide range of value-for-money products with utilizing their strength in procurement capability.
- ✓ Operate collaborative shops with the Company's 100-Yen shops to create synergies.
- ✓ Operate **5 shops** at the end of February 2023.



- ✓ Operate 2 “Tokino:ne” shops, a household items brand.
- ✓ 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.
- ✓ Started selling its products in 200 of our 100-Yen shops.

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Business Forecasts for FY8/23

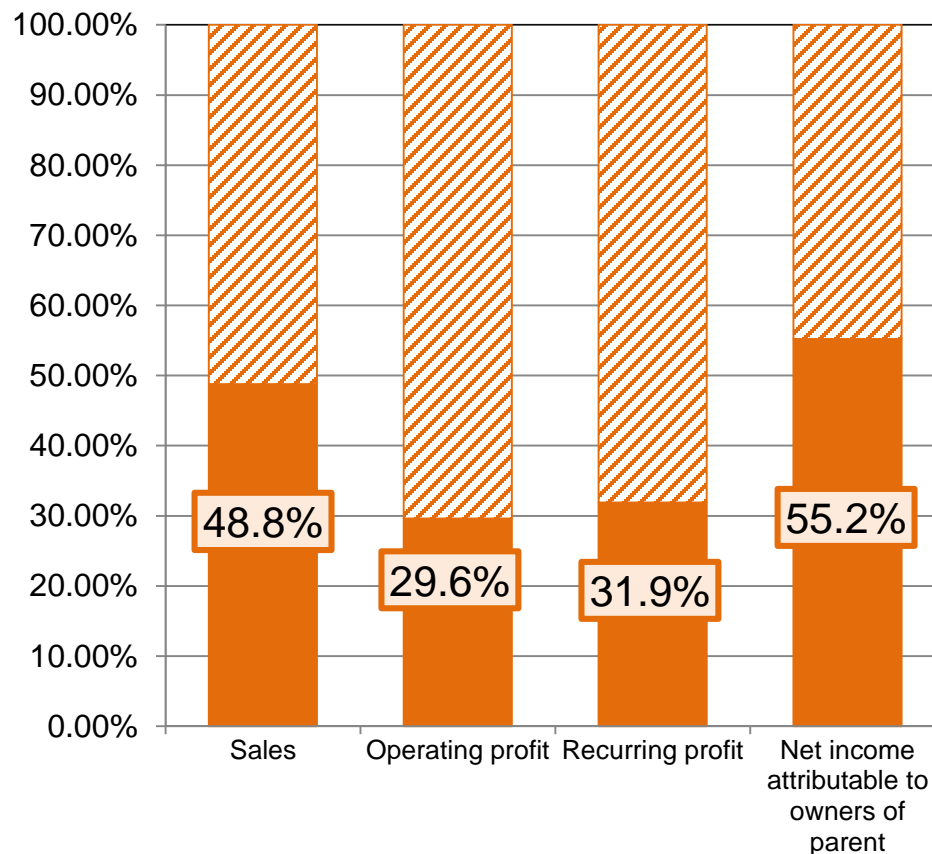


(Millions of yen)

Business forecasts	FY8/23 (Forecast)		
		Ratio to sales	YoY
Sales	60,500	-	103.7%
Operating profit	920	1.5%	92.1%
Recurring profit	850	1.4%	74.0%
Net income attributable to owners of parent	530	0.9%	67.8%
Net income per share (yen)	39.04		-

- ✓ Although SG&A expenses were within the plan, operating profit and recurring profit were below the plan due to the lower-than-expected gross margin.
- ✓ On the other hand, net income attributable to owners of parent has exceeded the plan at this moment, mainly due to the recording of income taxes-deferred (gain).
- ✓ 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

Offer higher-priced products



- ✓ Increase the number of higher-priced products (price ranges other than 100 yen) to enhance the product lineups and revitalize sales floors.
- ✓ Actively introduce to consignment-type shops, leading to an improvement in gross margin for the entire group.
- ✓ Plan to reach 20.0% of sales composition ratio in FY8/23 with 4,000 lineups.

Intra-group collaboration

- ✓ Trial collaboration with lifestyle products business “Buona Vita” and a household items shop “Tokino:ne” to create synergies among Group businesses.





Self-checkout POS register



- ✓ As of the end of February 2023, self-checkout POS registers for cashless payments are in operation in 88 directly managed shops. Full function self-checkout machines that accept cash payments are also being tested in some shops.
- ✓ 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.
- ✓ Introduced an automatic ordering system to more than 450 shops, mainly directly managed shops. Improve the accuracy of automatic ordering and introduce it to former OFR shops.



Online Shop



ワッツオンラインでお買い物した商品を店舗にお届け

東京都・千葉県
埼玉県・大阪府

7 店舗限定

店舗受け取りサービス開始

税込 **3,300円** 以上のご注文で **送料無料**

店舗受け取りなら

- ✓ The product lineup is more than 19,000 items, and customers can order from one unit.
- ✓ Launched pick-up services at some shops.
- ✓ Handling not only 100-Yen shop items but also the group-wide brand items.

Social Media

twitter



Instagram



- Watts official YouTube channel



- ✓ Use as a tool to raise brand awareness



KoMoNoYA
OSAKA JAPAN



KOMONOYA
OSAKA JAPAN

【Overseas Business】

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



Buona Vita
ブォーナ・ビータ

【Buona Vita】

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



スーパーディスカウント



リアル

【Real】

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



NIPPAN
ニッパ

【Nippan】

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

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Brands of Watts Group



Domestic 100-Yen shop business



Overseas business

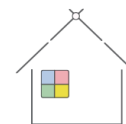


KOMONOYA
OSAKA JAPAN



小物家园
KOMONOKAEN

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. Operate 15 shops as of the end of February 2023.




Tokino:ne

Tokino:ne, a household items shop under the theme of “time”. Operates 2 shops.



Collaboration shop between 100-Yen shop and grocery.



Community-based small discount shop.

Operate 5 shops as of the end of February 2023.



Establishment February 22, 1995 (Currently the **29th business term**)

Meaning of the Company's name

**Derived from “Wa! tto ikou”
(Japanese catch cry to “go forth energetically”)**

Market listing

Tokyo Stock Exchange Prime Market
(Securities code: **2735**)

Capital stock

440 million yen

Head office

5F, Sumitomo OBP Plaza Building, 4-70,
Shiromi 1-chome, Chuo-ku, Osaka-shi, **Osaka Prefecture**

Main business

Wholesale and retail of daily-use and household items
(Mainly **operation of 100-Yen shops**)

Number of employees

3,567 employees (as of February 28, 2023) *Part-time workers included

Number of shops

1,766 shops (as of February 28, 2023) *Other shops included

Corporate History



✓ 2022 Transition to the Prime Market



2021 Acquired Ontsu F Retail Co., Ltd.

2014 Exceeded 1,000 shops

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

2009 Started overseas business Advanced to Thailand

2007 Integrated with 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

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





Environmental Initiatives

- ✓ Calculation of GHG emissions as an indicator for assessing climate-related risks.

	FY8/21	FY8/22
Scope 1	126t-CO2	136t-CO2
Scope 2 (location-based)	10,508t-CO2	10,312t-CO2
Scope 2 (market-based)	10,736t-CO2	10,540t-CO2

- ✓ Promote the use of LED lighting in shops to reduce electricity consumption. In FY8/22, switching to LED lighting was completed in 37 shops (investment costs of 59 million yen).

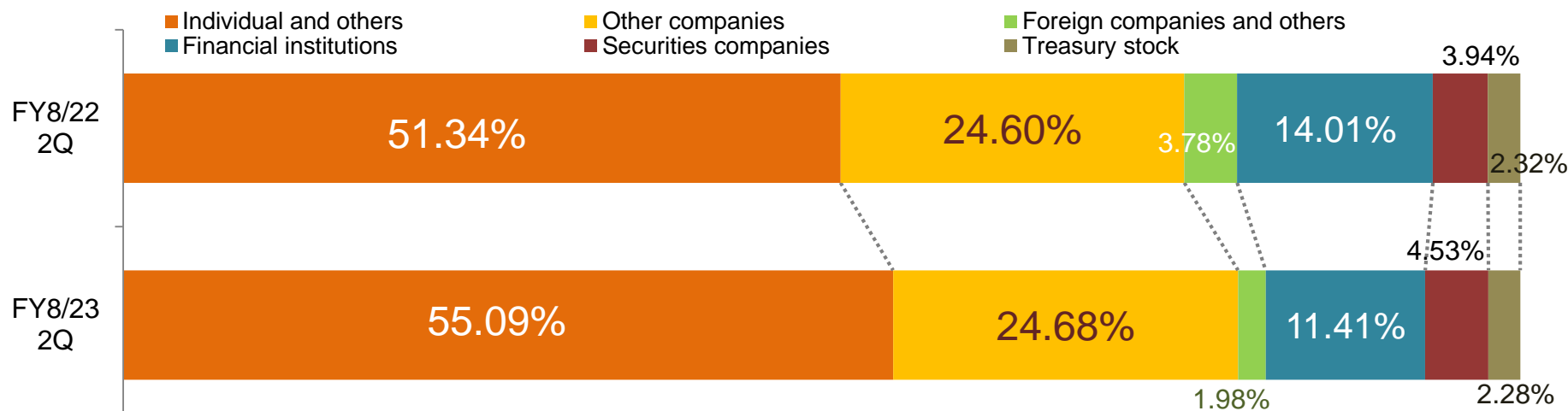
Human Resources Initiatives

- ✓ [Diversity]
Promote diversity by appointing personnel based on their abilities and aptitudes, regardless of gender, nationality, etc. Female managers accounted for 10% (FY8/22).
- ✓ [Work-Life Balance]
Encourage employees to take paid holidays and childcare leave, and create a comfortable work environment.

Governance

- ✓ Established the Sustainability Committee to address sustainability, including climate-related issues. The Committee is chaired by the President, facilitating the decision-making and reporting process to the Board of Directors, as well as the integration of climate-related issues into management.

Shareholder Composition



	FY8/21 Q2	FY8/22 Q2	FY8/23 Q2	YoY
Total number of shares issued	13,958,800 shares	13,898,800 shares	13,898,800 shares	-
Number of shareholders	17,710	17,572	18,897	+1,325
Ownership ratio				
Individuals and others	50.82%	51.34%	55.09%	+3.75P
Other domestic companies	24.58%	24.60%	24.68%	+0.08P
Foreign companies and others	6.30%	3.78%	1.98%	△1.80P
Financial institutions	15.77%	14.01%	11.41%	△2.60P
Securities companies	2.51%	3.94%	4.53%	+0.59P
Treasury stock	3.58%	2.32%	2.28%	△0.04P

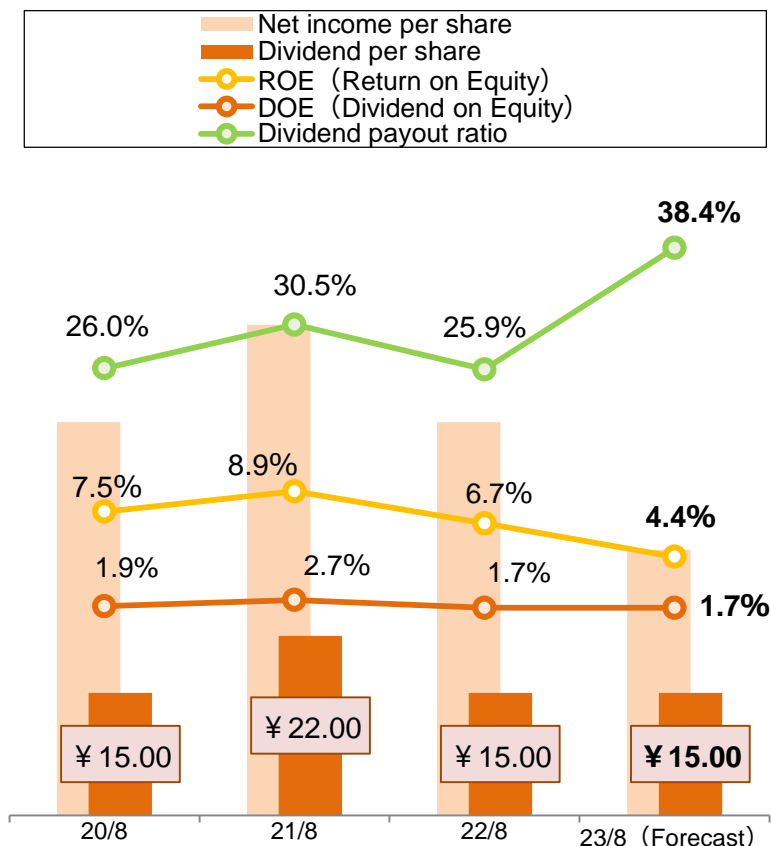
- ✓ Ownership of treasury stock decreased by 0.04ppt. due to the allotment of treasury stock to our directors as restricted stock remuneration.
- ✓ Individual shareholders increased by 3.75ppt. YoY.

(Note) The figures are rounded to the third decimal place and may not add up to 100% when adding the ratios of each section.

Dividend Policy



The Company's policy is **“to maintain a stable dividend payment,”** considering the return of profits to shareholders.



	FY8/20	FY8/21	FY8/22	FY8/23 (forecasts)
Net income per share (Yen)	¥ 57.80	¥ 72.09	¥ 57.83	¥ 39.04
Dividend per share (Yen)	¥ 15.00	¥ 22.00	¥ 15.00	¥ 15.00
Dividend payout ratio	26.0%	30.5%	25.9%	38.4%
Dividend yield	1.6%	2.5%	2.1%	2.2%
ROE (Return on Equity)	7.5%	8.9%	6.7%	4.4%
DOE (Dividend on Equity)	1.9%	2.7%	1.7%	1.7%

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

*Payout ratio for FY8/23 is calculated based on the stock price on February 28, 2023.)

Shareholder Benefit Program



Number of shares held	Outline of benefits
200 shares or more	Shareholder gift certificates available at our online shop: worth 2,200 yen (tax included)

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

*The benefits outlined above are for FY8/22.

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

*We will ship the products at our costs.

*The shareholder gift certificates are available only at our online shop, not at our physical shops



The data and future forecasts presented in this material are based on information that was available at the time this material was released. Changes in circumstances can occur due to a range of factors and the Company gives no guarantee regarding achievement of objectives and forecasts, or future operating results. Information contained herein may change without forewarning. When using this data and reference materials, please verify and confirm details against information that you have obtained by other methods and exercise your discretionary judgment. Watts Co., Ltd. will in no way be held liable for any loss resulting from the use of this material.

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