

Summary of Financial Results for the Second Quarter Ended February 28, 2021 [Japan GAAP] (Consolidated)

April 12, 2021

Company **Watts Co., Ltd.** Listed on the TSE
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 Expected date of filing of quarterly report: April 12, 2021 Expected starting date of dividend payment: -
 Preparation of quarterly supplementary financial document: Yes
 Quarterly results briefing: Yes (for institutional investors)

(Rounded down to million yen)

1. Consolidated business results for the six months ended February 2021 (September 1, 2020 through February 28, 2021)

(1) Consolidated results of operations (% change from the previous corresponding period)

	Sales		Operating profit		Recurring profit		Net income attributable to owners of parent	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%
Six months ended Feb. 2021	25,618	-1.4	1,085	38.0	1,066	36.2	800	90.2
Six months ended Feb. 2020	25,982	1.3	786	114.5	783	132.4	420	306.6

(Note) Comprehensive income

Six months ended February 2021: 766 million yen (82.1%)

Six months ended February 2020: 421 million yen (-%)

	Net income per share	Diluted net income per share
	Yen	Yen
Six months ended Feb. 2021	59.72	-
Six months ended Feb. 2020	31.39	-

(2) Consolidated financial position

	Total assets	Net assets	Shareholders' equity ratio
	Million yen	Million yen	%
As of Feb. 2021	22,785	11,046	48.5
As of Aug. 2020	21,544	10,481	48.7

(Reference) Shareholders' equity:

As of February 2021: 11,046 million yen

As of August 2020: 10,481 million yen

2. Dividends

	Annual dividend				
	End of 1Q	End of 2Q	End of 3Q	Year-end	Total
	Yen	Yen	Yen	Yen	Yen
Year ended Aug. 2020	-	0.00	-	15.00	15.00
Year ending Aug. 2021	-	0.00	-	-	-
Year ending Aug. 2021 (forecast)	-	-	-	15.00	15.00

(Note) Revisions to dividend forecast for the current quarter: None

3. Forecast of consolidated business results for the fiscal year ending August 2021

(September 1, 2020 through August 31, 2021) (% change from the previous corresponding period)

	Sales		Operating profit		Recurring Profit		Net income attributable to owners of parent		Net income per share
	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Yen
Year ending Aug. 2021	50,960	-3.5	1,850	4.6	1,780	2.8	1,150	48.5	85.83

(Note) Revisions to business forecast for the current quarter: Yes

For more information on the revisions to the consolidated business forecasts, please refer to the "Notice Concerning Revision to Business Forecasts" released on April 5, 2021.

***Notes**

(1) Changes in significant subsidiaries during the period (changes in specified subsidiaries accompanying changes in the scope of consolidation): None

(2) Application of accounting procedures specific to preparation of the consolidated quarterly financial statements: None

(3) Changes in accounting policies, accounting estimates and restatement

- | | |
|--|--------|
| ① Changes in accounting policies associated with revision of accounting standards: | : None |
| ② Changes in accounting policies other than ① | : None |
| ③ Changes in accounting estimates | : Yes |
| ④ Restatement | : None |

(4) Shares outstanding (common stock)

① Number of shares outstanding at the end of period (treasury stock included)

As of February 2021 13,958,800 shares

As of August 2020 13,958,800 shares

② Treasury stock at the end of period

As of February 2021 560,874 shares

As of August 2020 560,874 shares

③ Average number of stock during period (quarterly cumulative period)

Six months ended February 2021 13,397,926 shares

Six months ended February 2020 13,397,926 shares

(Note) The number of treasury stock at the end of period includes the Company's shares held by the share issuance trust for directors (FY8/21 2Q: 60,000 shares, FY8/20: 60,000 shares). In addition, the Company's shares owned by the share issuance trust for directors are included in treasury stock deducted for calculation of the average number of shares during period (FY8/21 2Q: 60,000 shares, FY8/20: 60,000 shares).

***Quarterly financial summary is not subject to auditing procedures by certified public accountants or auditing firms.**

***Explanation regarding appropriate use of business forecasts and other special instructions**

(Caution concerning forward-looking statements)

The forward-looking statements regarding future performance in this material are based on information currently available to the company and certain assumptions that the company deems to be reasonable at the time this report was prepared. Therefore, the company does not make promises about the achievements. Actual results may differ significantly from the forecasts due to various factors.

Please refer to "(3) Future forecast information including consolidated business forecasts" of "1. Results of operations" on page 3 for the suppositions that form the assumptions for business forecasts and cautions concerning the use of business forecasts.

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1. Results of Operations

(1) Analysis of operating results

During the six months ended February 2021, the Japanese economy experienced positive growth for two consecutive quarters, with the domestic real GDP growth rate for October-December 2020 (second preliminary report) at an annualized rate of +11.7% compared to the previous quarter. This growth is mainly because consumer spending recovered due to a slowdown in the expansion of COVID-19 and the government's GO TO Campaign that began in July. In addition, in the corporate sectors goods exports were strong due to increased consumption in Japan and abroad, supported by strong increases in demand for semiconductors and other products, and the capital investment has bottomed out as a result, although inbound tourist demand remains almost disappeared. Meanwhile, consumer spending declined again following the declaration of the second State of Emergency for Tokyo and 10 prefectures at the beginning of the year. However, unlike the first emergency declaration in April last year, only restaurants were asked to shorten operating hours, and its negative impact was limited. Other factors include the solving of the face mask shortage and the establishment of infection control measures when going out among people. Although it is a bright side that the vaccination started in mid-February, starting with medical personnel, there is a concern that the negative effects may last long depending on the speed of vaccination to the general public and the spread of the new variant of COVID-19.

Given this environment, in addition to the 100-Yen shop business in Japan, the Company, which operates the "Watts", "Watts with", "meets.", "silk", etc., has been working on diversifying its revenue sources by undertaking other domestic businesses, centering on the sale of life-style goods and discount goods as well as overseas business.

In the domestic 100-Yen shop business, the Company has been continuing to promote the introduction of products with prices higher than 100 yen (from 200 yen to 1,000 yen) and actively adding these products to consignment-type shops. In addition, we are working to strengthen synergies among the Group's businesses by opening 100-Yen shops with a Buona Vita section. Furthermore, the Company opened the Watts official YouTube channel on February 22, 2021.

As for the new shop openings, the Company opened 74 shops to the full-year plan of 144 shops. There were 21 shop closings, including certain unprofitable shops and unpredictable closing of shops where the Company's shops were located in. As a result, the total number of 100-Yen shops at the end of the second quarter was 1,293, which includes 1,268 directly managed shops (net increase of 53), and 25 franchised/other shops (unchanged). Of these, the number of "Watts" and "Watts with", the Watts brand shops, was 715 (net increase of 76), accounting for 55.3% of the total.

As for the number of the domestic other shops at the end of the fiscal year, "Buona Vita," a life-style goods shop offering comfortable life, was 19 shops (net decrease of 2). The Company is working on reviewing the product mix according to the characteristics of each shop and sales promotion activities via the official LINE account. "Søstre Grene", a Denmark's life-style variety shop, was 2 shops (decreased by 2). It was decided to withdraw from this business, and all shops were closed as of the end of March. "Value- 100," the fresh-foods supermarket collaboration, continues with 1 shop (unchanged). "Real", a discount shop, was 6 shops (unchanged).

Regarding the overseas operation, the Company operates "KOMONOYA", a fixed-price shop mainly in Southeast Asia. At the end of the current fiscal year, "KOMONOYA" operates 48 shops in Thailand (net decrease of 2), 2 shops in Malaysia (unchanged), 4 shops in Vietnam (net decrease of 1), and 20 shops in Peru (unchanged).

In China, a fixed price shop "小物家园"(KOMONOKAEN) was 6 shops (unchanged). The total number of own-brand shops "KOMONOYA" and "小物家园"(KOMONOKAEN) was 80 (decreased by 3).

Due to the transfer of the Chinese subsidiary in the previous fiscal year and the impact of the spread of COVID-19, sales in the overseas business and Buona Vita declined.

In addition, the domestic 100-Yen shop business performed well, but its sales figure remained at the same level as the previous fiscal year due to the reaction to the increase in demand for hygiene products in February of the previous fiscal year. As a result, for the six months ended February 2021, sales were 25,618 million yen (down 1.4% YoY, 101.0% to the plan).

On the other hand, operating profit was 1,085 million yen (up 38.0% YoY and 141.0% to the plan) and recurring profit was 1,066 million yen (up 36.2% YoY and 142.3% to the plan), owing to progress in withdrawal from unprofitable businesses and reduction of expenses for new shop openings and renovations.

Net income attributable to owners of parent was 800 million yen (up 90.2% YoY and 129.1% to the plan) as Hilmer Japan Co., Ltd., a consolidated subsidiary of the Company, recorded a debt exemption gain due to the exemption of loans from a joint venture company upon its withdrawal from the business. (*Year on year: comparison with the results for the same period of the previous fiscal year. Ratio to plan: ratio to the business forecasts for the six months ended February 2021 which were announced in the "Notice Concerning Revision to Consolidated Business Forecasts for the First Half" on January 12, 2021.)

Since the Group operates under a single segment consisting of the operation of 100-Yen shops associated business, segment information is omitted.

(2) Analysis of financial position

① Assets, liabilities and net assets

(Assets)

As of the end of the current second quarter of the fiscal year, current assets stood at 17,439 million yen, increased by 1,023 million yen from the end of the previous fiscal year. This was mainly due to increases of 995 million yen in cash and deposits and 203 million yen in merchandise and finished goods despite a decrease of 129 million yen in notes and accounts receivable- trade.

Fixed assets stood at 5,345 million yen, increased by 217 million yen from the end of the previous fiscal year. This was mainly due to an increase of 287 million yen in software in progress included in other intangible assets following the core system renewal, while deferred tax assets decreased by 51 million yen.

As a result, total assets stood at 22,785 million yen, increased by 1,241 million yen from the end of the previous fiscal year.

(Liabilities)

As of the end of the current second quarter of the fiscal year, current liabilities stood at 10,384 million yen, increased by 722 million yen from the end of the previous fiscal year. This was mainly due to increases of 577 million yen in electronically recorded obligations and 467 million yen in notes and accounts payable-trade, and a decrease of 265 million yen in accrued consumption taxes.

Fixed liabilities stood at 1,354 million yen, a decrease of 46 million yen compared with the end of the previous fiscal year. This was mainly due to an increase of 207 million yen in asset retirement obligations, and a decrease of 268 million yen in long-term loans payable.

As a result, total liabilities stood at 11,738 million yen, increased by 675 million yen from the end of the previous fiscal year.

(Net assets)

As of the end of the current second quarter of the fiscal year, net assets stood at 11,046 million yen, increased by 565 million yen compared with the end of the previous fiscal year. This was mainly because retained earnings increased by 598 million yen. As a result, shareholders' equity ratio stood at 48.5% (48.7% at the end of the previous fiscal year).

② Cash flows

Cash and cash equivalents (hereinafter referred to as "cash") at end of the current second quarter of the fiscal year amounted to 7,586 million yen, increased by 995 million yen from the previous fiscal year.

Details and breakdown of each cash flow in the second quarter are as follows.

(Cash flows from operating activities)

Net cash provided by operating activities was 1,802 million yen (842 million yen was provided in the same period of the previous fiscal year). Cash was provided mainly by income before income taxes and minority interests of 1,223 million yen and an increase in notes and accounts payable-trade of 1,045 million yen. Cash was used mainly for gain on debt exemption of 291 million yen.

(Cash flows from investing activities)

Net cash used in investing activities was 409 million yen (317 million yen was used in the previous fiscal year). This was mainly due to purchase of intangible fixed assets of 289 million and purchase of property, plant and equipment of 133 million yen for new shop openings.

(Cash flows from financing activities)

Net cash used for financing activities was 392 million yen (36 million yen was used in the previous fiscal year). This was mainly due to repayments of long-term loans payable of 255 million yen and dividends paid of 201 million yen.

(3) Future forecast information including business forecasts

In view of recent trends in business results, the Company revised its full-year business results, which were announced in the Summary of Financial Results on October 13, 2020.

For details, please refer to the "Notice Concerning Revision to Business Forecasts" announced on April 5, 2021.

2. Quarterly Consolidated Financial Statements

(1) Quarterly Consolidated Balance Sheets

(Thousands of yen)

	Previous fiscal year (August 31, 2020)	Current second quarter (February 28, 2021)
Assets		
Current assets		
Cash and deposits	6,591,348	7,586,464
Notes and accounts receivable-trade	2,340,081	2,211,030
Merchandise and finished goods	7,114,726	7,317,917
Raw materials and supplies	15,339	30,882
Consumption taxes receivable	57,652	69,897
Other	320,877	246,539
Allowance for doubtful accounts	-23,849	-22,932
Total current assets	16,416,177	17,439,798
Noncurrent assets		
Property, plant and equipment		
Buildings and structures	2,021,501	2,101,635
Accumulated depreciation and impairment loss	-1,290,640	-1,269,801
Buildings and structures, net	730,860	831,834
Vehicles	19,860	24,514
Accumulated depreciation and impairment loss	-14,252	-14,230
Vehicles, net	5,607	10,283
Tools, furniture and fixtures	3,637,146	3,667,537
Accumulated depreciation and impairment loss	-3,049,711	-3,118,925
Tools, furniture and fixtures, net	587,435	548,611
Land	257,800	257,800
Leased assets	27,623	27,623
Accumulated depreciation and impairment loss	-19,879	-22,789
Leased assets, net	7,744	4,833
Construction in progress	19,162	—
Total property, plant and equipment	1,608,611	1,653,364
Intangible assets		
Other	227,932	506,754
Total intangible assets	227,932	506,754
Investments and other assets		
Investment securities	436,438	406,946
Deferred tax assets	406,098	354,910
Guarantee deposits	2,316,365	2,300,839
Other	143,227	133,338
Allowance for doubtful accounts	-10,166	-10,163
Total investments and other assets	3,291,964	3,185,872
Total noncurrent assets	5,128,507	5,345,991
Total assets	21,544,684	22,785,790

(Thousands of yen)

	Previous fiscal year (August 31, 2020)	Current second quarter (February 28, 2021)
Liabilities		
Current liabilities		
Notes and accounts payable-trade	3,479,165	3,946,732
Electronically recorded obligations	3,686,438	4,263,896
Current portion of long-term loans payable	684,324	480,568
Income taxes payable	169,097	385,706
Accrued consumption taxes	399,903	134,127
Provision for loss on business liquidation	75,596	49,601
Provision for bonuses	203,687	184,782
Provision for directors' bonuses	17,900	—
Other	945,519	938,786
Total current liabilities	9,661,633	10,384,201
Noncurrent liabilities		
Long-term loans payable	569,688	301,634
Liabilities relating to retirement benefits	297,928	309,153
Provision for directors' retirement benefits	27,772	29,121
Provision for directors' stock-based benefits	65,245	82,123
Asset retirement obligations	192,735	399,867
Other	247,987	232,874
Total noncurrent liabilities	1,401,358	1,354,776
Total liabilities	11,062,992	11,738,977
Net assets		
Shareholders' equity		
Capital stock	440,297	440,297
Capital surplus	1,354,136	1,354,136
Retained earnings	8,965,680	9,563,943
Treasury stock	-273,120	-273,120
Total shareholders' equity	10,486,994	11,085,257
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	15,857	18,840
Foreign currency translation adjustment	-21,158	-57,285
Total accumulated other comprehensive income	-5,301	-38,444
Total net assets	10,481,692	11,046,812
Total liabilities and net assets	21,544,684	22,785,790

(2) Consolidated Statements of Income and Statements of Comprehensive Income
(Quarterly consolidated statements of income)
(Second quarter)

(Thousands of yen)

	Previous second quarter (from September 1, 2019 to February 29, 2020)	Current second quarter (from September 1, 2020 to February 28, 2021)
Sales	25,982,206	25,618,481
Cost of sales	16,081,752	15,736,583
Gross profit	9,900,453	9,881,897
Selling, general and administrative expenses	9,114,209	8,796,513
Operating profit	786,243	1,085,384
Non-operating revenues		
Interest income	4,477	779
Foreign exchange gains	12,153	1,346
Royalty income	3,144	2,040
Compensation income	24,677	1,442
Subsidy income	5,448	2,117
Other	10,158	5,419
Total non-operating income	60,060	13,146
Non-operating expenses		
Interest expenses	2,362	1,517
Early-withdrawal penalty	44,578	1,320
Equity in losses of affiliates	11,520	24,252
Other	4,649	4,525
Total non-operating expenses	63,111	31,615
Recurring profit	783,192	1,066,914
Extraordinary income		
Surrender value of insurance	1,260	4,974
Investment securities	—	3,403
Gain on sales of noncurrent assets	362	232
Insurance income	25,138	8,532
Gain on debt exemption	—	291,302
Total extraordinary income	26,761	308,446
Extraordinary loss		
Loss on retirement of noncurrent assets	2,376	1,651
Impairment loss	89,997	150,464
Loss on liquidation of business	107,007	—
Loss due to disaster	23,228	—
Total extraordinary losses	222,610	152,115
Income before income taxes and minority interests	587,343	1,223,245
Income taxes-current	353,314	375,190
Income taxes-deferred	-186,551	47,922
Total income taxes	166,762	423,112
Net income	420,580	800,132
Net income attributable to owners of parent	420,580	800,132

(Quarterly Consolidated Statements of Comprehensive Income)
(Second quarter)

(Thousands of yen)

	Previous second quarter (from September 1, 2019 to February 29, 2020)	Current second quarter (from September 1, 2020 to February 28, 2021)
Net income	420,580	800,132
Other comprehensive income		
Valuation difference on available-for-sale securities	-3,547	2,983
Foreign currency translation adjustment	-7,647	-31,403
Share of other comprehensive income of associates accounted for using equity method	11,815	-4,723
Total other comprehensive income	620	-33,143
Comprehensive income	421,200	766,988
(Breakdown)		
Comprehensive income attributable to owners of parent	421,200	766,988
Comprehensive income attributable to non-controlling interests	—	—

(3) Quarterly Consolidated Statements of Cash Flows

(Thousands of yen)

	Previous second quarter (from September 1, 2019 to February 29, 2020)	Current second quarter (from September 1, 2020 to February 28, 2021)
Net cash provided by (used in) operating activities		
Income before income taxes and minority interests	587,343	1,223,245
Depreciation and amortization	205,985	156,330
Impairment loss	89,997	150,464
Amortization of goodwill	2,860	2,860
Increase (decrease) in allowance for doubtful accounts	-3,673	-919
Increase (decrease) in provision for bonuses	-12,966	-36,804
Increase (decrease) in liabilities relating to retirement benefits	12,124	11,224
Increase (decrease) in provision for directors' retirement benefits	1,337	1,349
Increase (decrease) in provision for directors' stock-based benefits	4,128	16,878
Increase (decrease) in provision for loss on business liquidation	74,844	-25,994
Interest and dividends income	-4,562	-784
Interest expenses	2,362	1,517
Loss (gain) on sale of investment securities	—	-3,403
Loss on retirement of noncurrent assets	2,376	1,651
Gain on debt exemption	—	-291,302
Decrease (increase) in accounts receivable-trade	101,903	128,472
Decrease (increase) in inventories	-121,934	-234,227
Increase (decrease) in notes and accounts payable-trade	131,443	1,045,024
Increase (decrease) in accrued consumption taxes	130,445	-280,220
Other	-132,058	103,504
Subtotal	1,071,957	1,968,866
Interest and dividends income received	4,340	1,752
Interest expenses paid	-1,295	-8,971
Income taxes paid	-232,845	-159,508
Net cash provided by (used in) operating activities	842,156	1,802,138
Net cash provided by (used in) investing activities		
Purchase of property, plant and equipment	-242,135	-133,113
Proceeds from sales of property, plant and equipment	780	465
Purchase of intangible assets	-57,424	-289,586
Payments for lease and guarantee deposits	-34,233	-43,277
Proceeds from collection of lease and guarantee deposits	61,247	38,127
Payments for asset retirement obligations	-45,609	-40,992
Purchase of investment securities	-387	—
Proceeds from sales of investment securities	—	8,484
Other	300	50,300
Net cash provided by (used in) investing activities	-317,460	-409,592
Net cash provided by (used in) financing activities		
Proceeds from long-term loans payable	400,000	—
Repayment of long-term loans payable	-299,289	-255,810
Repayment of lease obligations	-3,143	-3,143
Cash dividends paid	-134,297	-201,472
Other	—	67,500
Net cash provided by (used in) financing activities	-36,729	-392,926
Effect of exchange rate change on cash and cash equivalents	15,334	-4,503
Net increase (decrease) in cash and cash equivalents	503,299	995,116
Cash and cash equivalents at beginning of period	6,075,315	6,591,348
Cash and cash equivalents at end of period	6,578,615	7,586,464

(4) Notes to consolidated financial statements

(Notes on going concern assumption)

None

(Notes if there is a significant change in the amount of shareholders' equity) None

(Change in accounting estimate)

(Changes in estimates of asset retirement obligations)

During the second quarter of the current fiscal year, the Company changed its estimates for asset retirement obligations that had been recorded as restoration obligations associated with real estate lease agreements, based on new information such as the most recent actual restoration costs. The increase of 220,100 thousand yen due to this change has been added to the balance of asset retirement obligations before the change.

Some of the property, plant and equipment recorded due to this change are accounted for as impairment losses. As a result of this change in estimate, income before income taxes and minority interests for the first half of the current fiscal year decreased by 68,100 thousand yen.