



Watts Co., Ltd.

(2735; Tokyo Stock Exchange Prime Market)

Operating Results for the Fiscal Year Ended August 2023 and Business Forecasts for the Fiscal Year Ending August 2024

Friday, October 13, 2023

Fumio Hiraoka, President and CEO

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Consolidated Operating Results for the Fiscal Year Ended August 2023



(Millions of yen)

Financial highlights	FY8/22		FY8/23 (Current period)			
		Ratio to sales		Ratio to sales	YoY	Ratio to forecast
Sales	58,347	-	59,309	-	101.6%	100.5%
Gross profit	22,281	38.2%	22,454	37.9%	100.8%	-
Selling, general and administrative expenses	21,282	36.5%	21,832	36.8%	102.6%	-
EBITDA	1,690	2.9%	1,369	2.3%	81.0%	-
Operating profit	998	1.7%	621	1.0%	62.3%	155.4%
Recurring profit	1,148	2.0%	648	1.1%	56.5%	162.2%
Net income attributable to owners of parent	781	1.3%	250	0.4%	32.1%	167.1%
Net income per share (Yen)	57.83		18.46		-	-

- ✓ **Sales increased by 1.6% YoY**, supported by more than 200 new store openings, despite the slower same-store sales growth at 100-Yen shops. ➡P9,10
- ✓ Although the higher sales proportion of products priced above 100 yen partially reduced the cost-of-sales ratio, **the gross margin decreased by 0.3ppt**. In addition, **the operating profit was 62.3%** of the previous fiscal year, primarily due to rising utility and transportation costs. ➡P4,5
- ✓ Meanwhile, **sales reached 100.5% of the plan** due to the ongoing recovery in same-store sales since July. **Operating profit far exceeded the target at 155.4%**, as we were able to mitigate the impact of higher procurement costs and utility expenses, etc.

Sales by Business Type

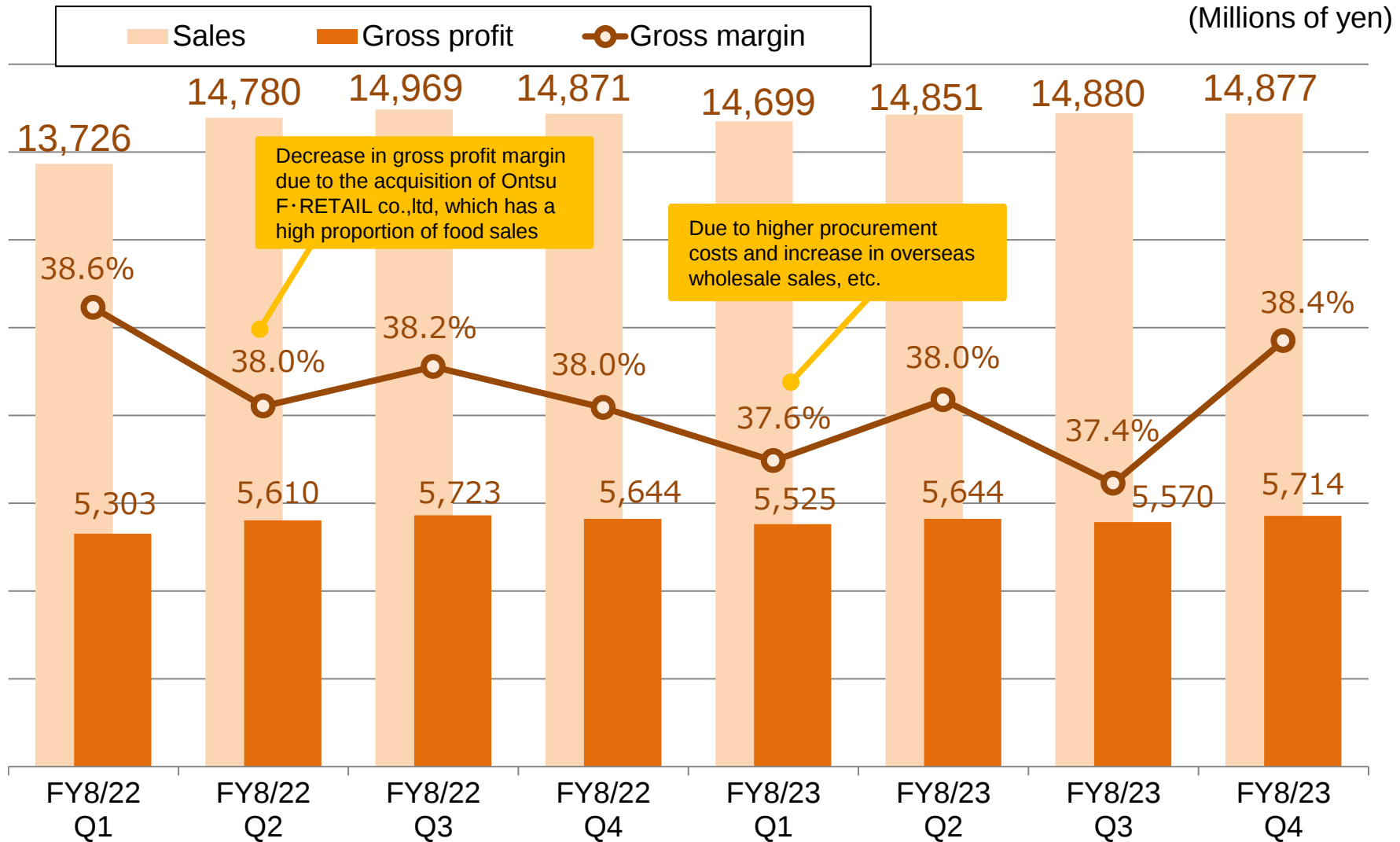


(Millions of yen)

Sales by Business Type		FY8/22		FY8/23 (Current period)		
			Ratio to sales		Ratio to sales	YoY
100-Yen shops	Directly managed	51,829	88.8%	52,996	89.4%	102.3%
	Wholesale, Other	2,126	3.6%	2,013	3.4%	94.7%
	Subtotal	53,955	92.5%	55,010	92.8%	102.0%
Overseas Business	Directly managed	304	0.5%	226	0.4%	74.4%
	Wholesale	1,123	1.9%	987	1.7%	87.9%
	Subtotal	1,428	2.4%	1,214	2.0%	85.0%
Domestic Other Business	Buona Vita	2,963	5.1%	3,084	5.2%	104.1%
	Real					
	Tokino:ne etc.					
Total		58,347	100.0%	59,309	100.0%	101.6%

- ✓ Overseas sales have continued to be lower than pre-COVID levels, with its proportion of total sales decreasing by 0.4ppt. Meanwhile, the sales proportion of domestic 100-Yen shops increased by 0.3ppt, reflecting the increase of directly-managed shops.

Quarterly Changes in Gross Margin

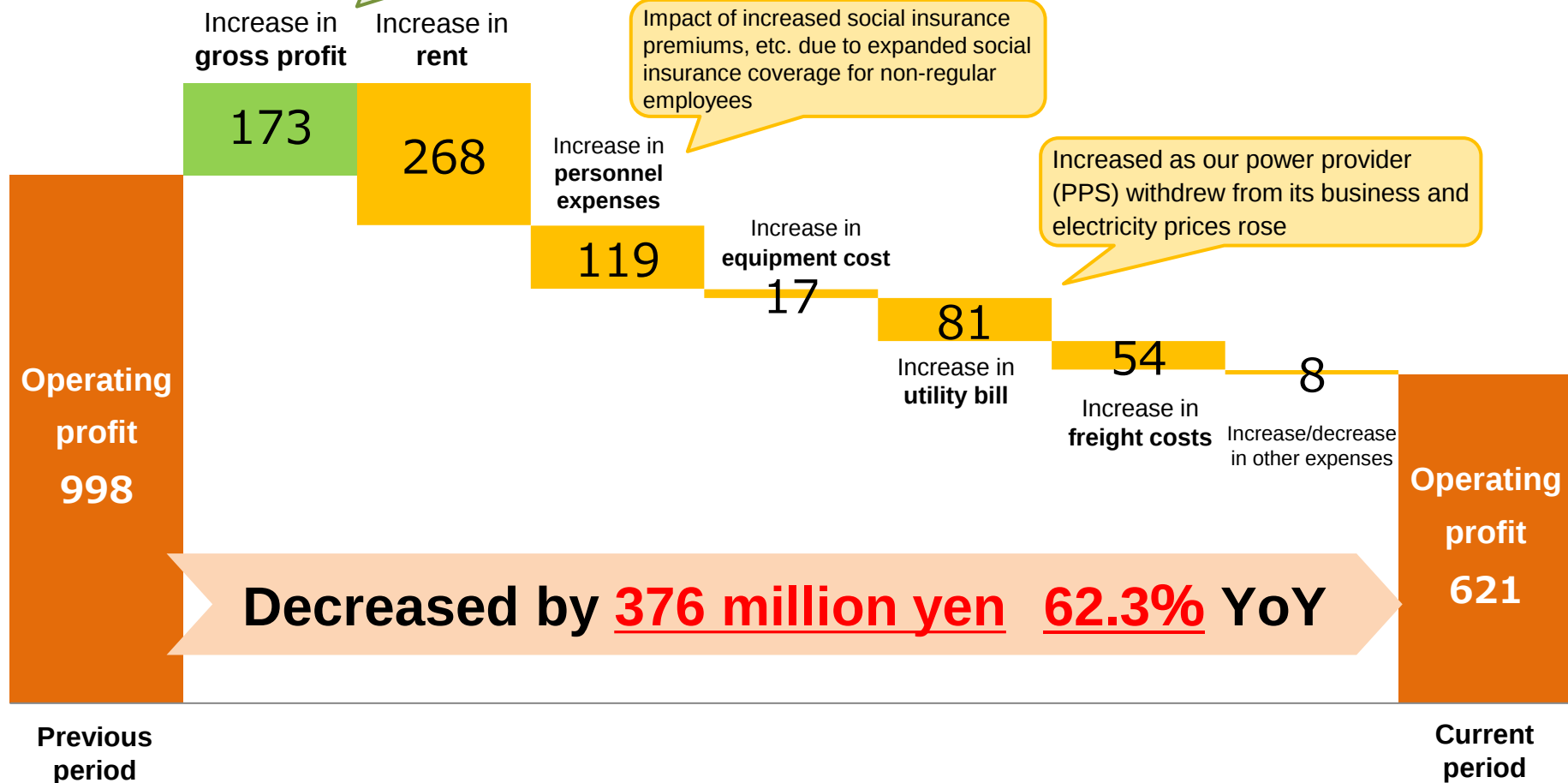


Factors for Changes in Operating Profit



(Millions of yen)

Gross margin decreased by 0.3ppt,
with gross profit increasing by 0.8%
YoY.



Consolidated Balance Sheet and Consolidated Cash Flows



(Millions of yen)

Consolidated balance sheet	FY8/22		FY8/23 (Current period)	
		Pct. change		Pct. change
Cash and deposits	6,687	Up 8.4%	5,646	Down 15.6%
Merchandise and finished goods	8,734	Up 17.5%	9,719	Up 11.3%
Other current assets	3,139	Up 28.2%	3,553	Up 13.2%
Tangible fixed assets	2,155	Up 38.9%	2,011	Down 6.7%
Other fixed assets	4,883	Up 30.6%	4,557	Down 6.7%
Total assets	25,600	Up 20.0%	25,489	Down 0.4%
Liabilities	13,669	Up 35.1%	13,524	Down 1.1%
Net assets	11,931	Up 6.3%	11,964	Up 0.3%

- ✓ Shareholders' equity ratio was 46.9%, up by 0.3ppt from the end of the previous period.
- ✓ Merchandise and finished goods increased by 985 million yen, while cash and deposits decreased by 1,041 million yen.
- ✓ The increase in other current assets was due to a 233 million yen increase in deposits held with trust banks in connection with the acquisition of treasury stock.

(Millions of yen)

Consolidated cash flows	FY8/22		FY8/23 (Current period)	
		Pct. change		Pct. change
Net cash provided by (used in) operating activities	1,721	1,343	221	△1,500
Net cash provided by (used in) investing activities	△975	△196	△667	307
Net cash provided by (used in) financing activities	△328	△276	△633	△304
Effect of exchange rate change on cash and cash equivalents	101	70	38	△62
Cash and cash equivalents at end of period	6,687	518	5,646	△1,041
Free cash flows	746	1,146	△446	△1,193

- ✓ The decrease in cash flows from operating activities was due to a 638 million yen decrease in income before income taxes and an increase in inventories and accounts payable reflecting an increase in sales of products priced above 100 yen.

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Domestic 100-Yen Shop Business

	Opening/closing	Compared to the full-year plan of opening 236 shops and closing 90 shops, we opened 228 shops and closed 100 shops . The total number of shops was 1,769 at the end of the fiscal year. ➡P10
	Watts brand shops	Increased by 218 shops to 1,247 shops through openings and renovations. The share of Watts brand shops to the total number of 100-Yen shops was 70.5%.
	M&A	OFR absorbed into Watts East Japan Sales Co., Ltd. and Watts West Japan Sales Co., Ltd. in September 2022. The post-merger integration process has been completed.

Overseas Business

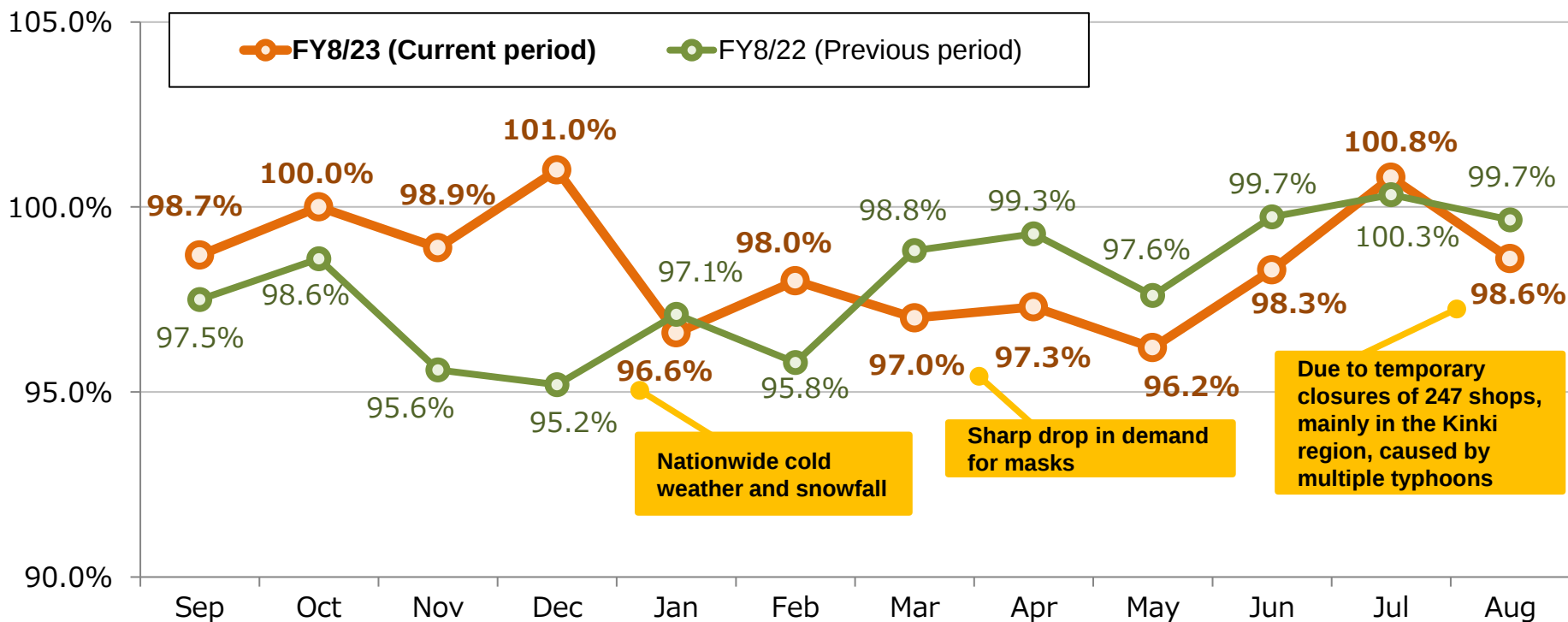
	Overseas shops	The number of shops selling WATTS products was 39 in the Group, down 16 from the end of the previous fiscal year. The new shop brand “Watts.up+” was launched. ➡P12
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Domestic Other Business

	Buona Vita	A lifestyle goods shop offering a comfortable and joyful life. Operate 15 shops , and the same-store sales performed well at 112.2% YoY. ➡P13
	Real	Community-based discount shop. Operate 5 shops at the end of August 2023. Aim to create synergies with 100-Yen shop business. ➡P14

Status of 100-Yen Shop Business (1)

—Changes in same-store sales YoY

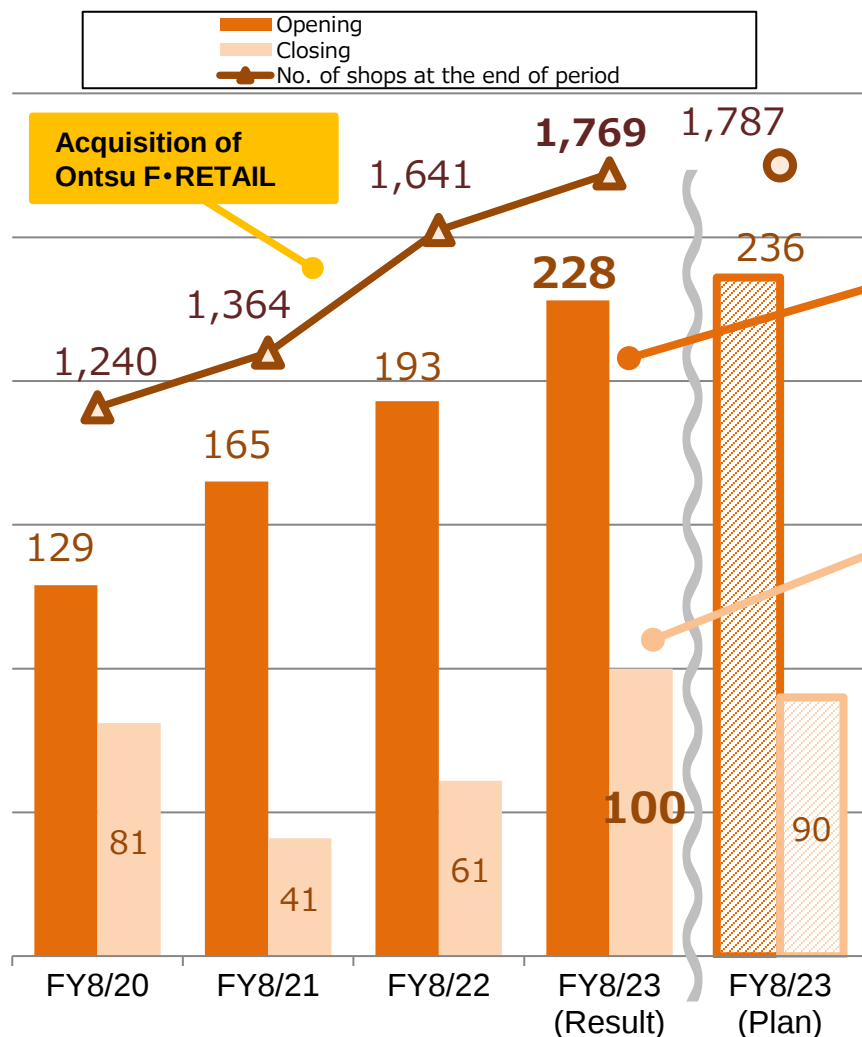


Full year	Sales	No. of customers	Spending per customer
Previous period	97.9%	96.5%	100.3%
Current period	98.5%	97.6%	101.4%

- ✓ The same-store sales slightly fell below the YoY figure at 98.5%, as many of our resources were allocated to mass shop openings and product replacement due to product discontinuation caused by soaring costs.
- ✓ On the other hand, sales of WATTS branded shops were 99.9% of the previous fiscal year.

Status of 100-Yen Shop Business (2)

—Number of shops (opening/closing plan and results)



Opening/closing plan and results

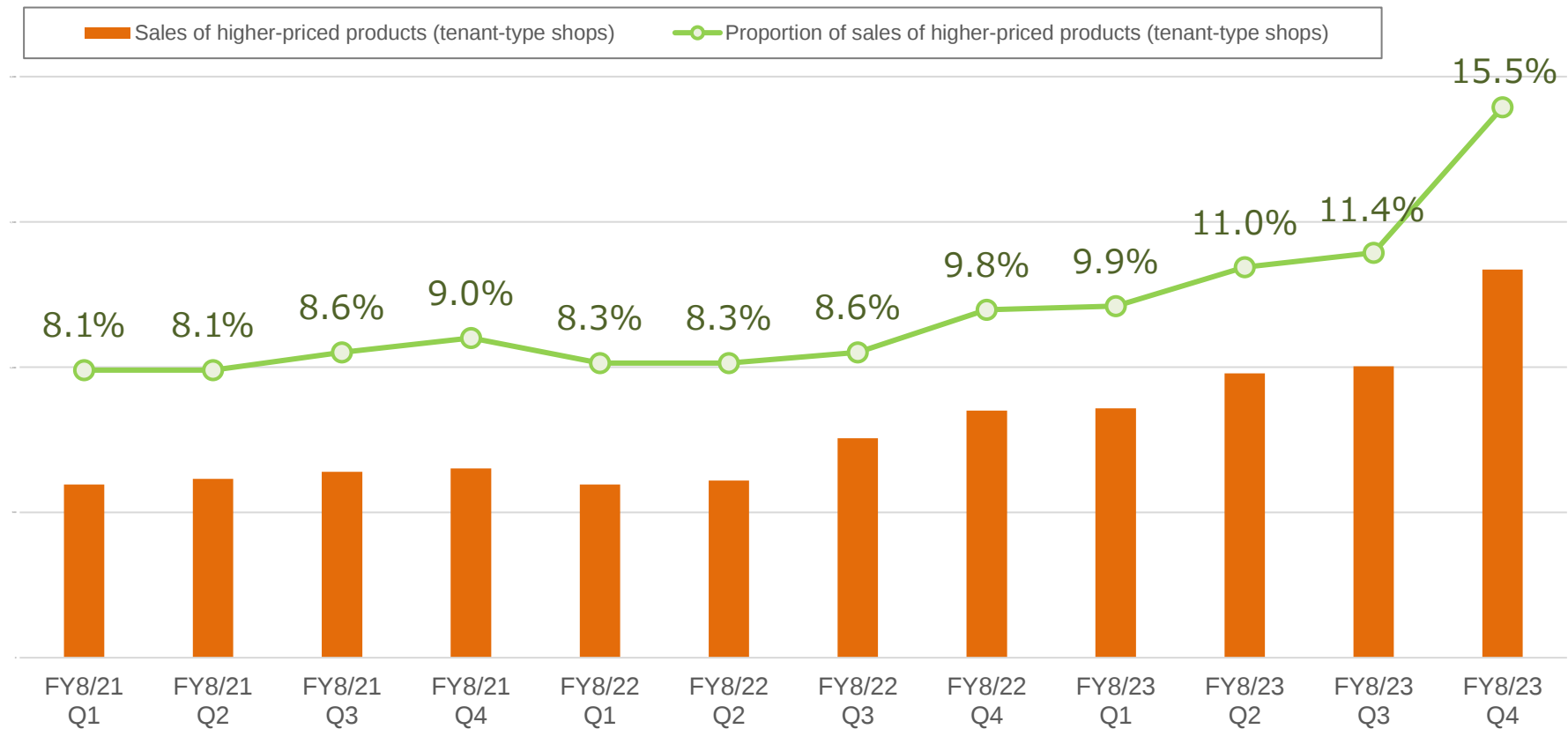
Opening plan 236 shops → Opened **228 shops**

Closing plan 90 shops → Closed **100 shops**

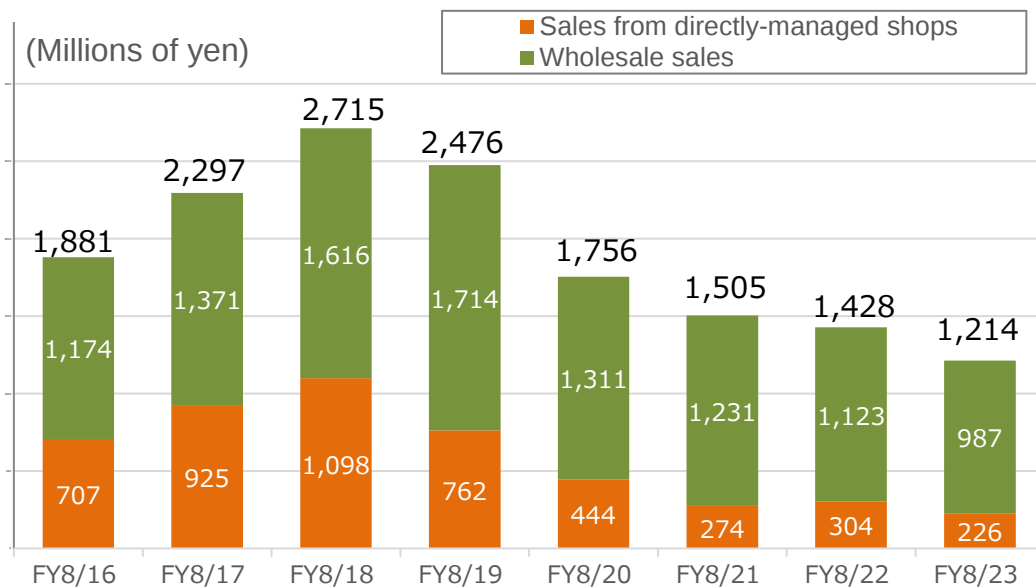
- ✓ Net increase of 128 shops vs. the planned 146 shops.
- ✓ The breakdown of new shop openings includes 22 tenant-type shops and 206 consignment-type shops, with the majority of openings being consignment-type shops.
- ✓ Out of the total 1,769 shops, we have 1,247 WATTS brand shops (a net increase of 218 shops).

Status of 100-Yen Shop Business (3)

—Number of tenant-type shops introduced higher price products and its sales mix



- ✓ We currently have 3,275 higher-priced products.
- ✓ We will continue to make efforts to increase the product lineups of higher-priced products, aiming for these product sales to account for 20.0% of total sales (it was 16.2% in August alone).



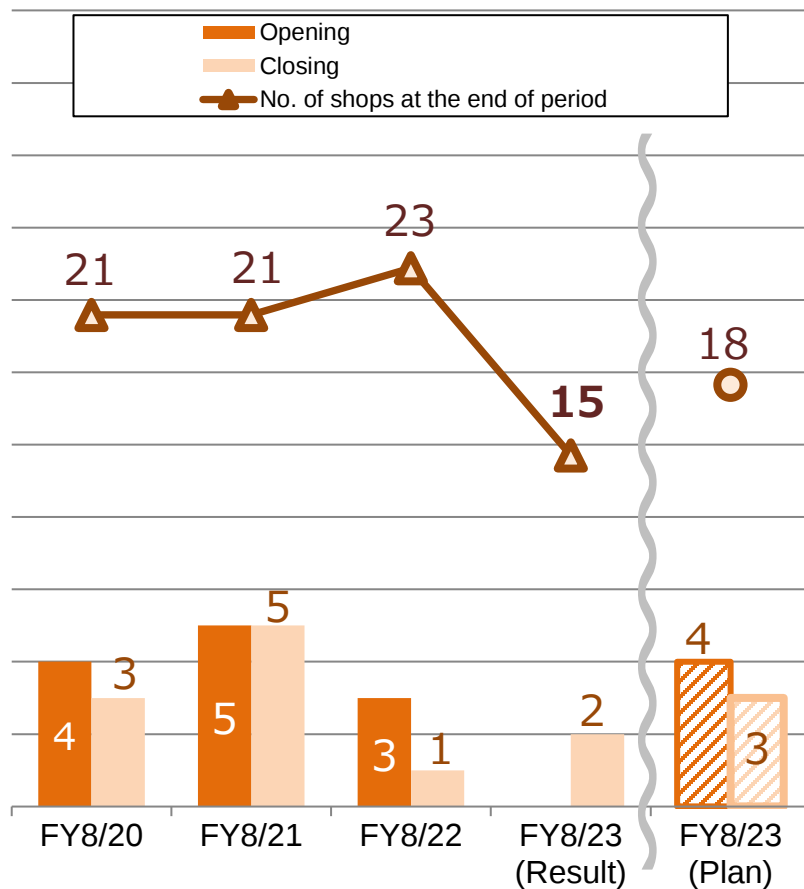
Country	Format	Opening	Closing	No. of shops (FY8/23)
Thailand	FC	-	12	25
China	FC	-	-	4
Peru	Directly-managed	1	5	10
Total		1	17	39



Wattsup+ Central Rama 2 (Thailand)

- ✓ In Thailand, there are currently 25 shops, decreased by 12 shops YoY. We have launched a new shop brand, Watts.up+, primarily focusing on offering higher-priced products.
- ✓ In Peru, sales decreased due to a challenging external economic environment.
- ✓ Overall, overseas sales have decreased because international shipment volumes have not yet fully recovered to pre-COVID levels.

Status of Buona Vita



Buona Vita Grand Emio Tokorozawa (Saitama)

- ✓ As of September 1, 2022, Watts Connection, the operator of Buona Vita, was merged into Watts East Japan Sales.
- ✓ **15 shops** as August 31, 2023.
*Excluding 6 consignment shops in our 100-Yen shops.
- ✓ The same-store reached 112.2% of the previous fiscal year, driven by robust sales of apparel, bags, and other items, reflecting increased demand for outings.



- ✓ Offer a wide range of value-for-money products, leveraging our robust procurement capabilities.
- ✓ We also run collaborative shops with our 100-Yen shops to create synergistic effects.
- ✓ Operate **5 shops** as of August 31, 2023.



- ✓ Operate 2 “Tokino:ne” shops, a household items brand.
- ✓ The store 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 their shopping experience while envisioning their daily routines.
- ✓ Expanded its product offerings in 200 of our 100-Yen shops."

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Business Forecasts for FY8/24



(Millions of yen)

Business forecasts	FY8/22			FY8/23			FY8/24 (Forecast)		
		Ratio to sales	YoY		Ratio to sales	YoY		Ratio to sales	YoY
Sales	58,347	-	115.1%	59,309	-	101.6%	59,100	-	99.6%
Gross profit	22,281	38.2%	113.5%	22,454	37.9%	100.8%	-	-	-
SG&A	21,282	36.5%	118.4%	21,832	36.8%	102.6%	-	-	-
Operating profit	998	1.7%	59.8%	621	1.0%	62.3%	500	0.8%	80.4%
Recurring profit	1,148	2.0%	72.4%	648	1.1%	56.5%	400	0.7%	61.7%
Net income attributable to owners of parent	781	1.3%	80.9%	250	0.4%	32.1%	270	0.5%	107.8%
Net income per share (yen)	57.83		-	18.46		-	20.05		-
ROE	6.7%		-	2.1%		-	2.3%		-

- ✓ 100-Yen shop opening/closing plan
【Opening】160 【Closing】120
Net increase: 40 shops
- ✓ 100-Yen shop same-store sales are expected to be **100.6% YoY** for the full-year.

- ✓ We anticipate a modest decrease in sales as we intend to proactively close unprofitable shops.
- ✓ Operating profit and recurring profit are also expected to decline. This is attributed to the increased expenses associated with store closures, as well as renovations of large-scale shops, the introduction of full-function self-checkout registers, and system-related investments.
- ✓ Conversely, net income attributable to the owners of the parent company is projected to remain on par with the previous year.



	FY8/21	FY8/22	FY8/23
PBR	1.06x	<u>0.82x</u>	<u>0.69x</u>
ROE	8.9%	6.7%	<u>2.1%</u>
Stock price	¥887	¥717	¥616
Operating profit margin	3.3%	1.7%	1.0%

*Stock price on the record date of the settlement of accounts.

【Current status】

- ✓ The cost of equity is perceived to be 4-5%.
- ✓ The Return on Equity (ROE) is below the cost of equity

【Our efforts】 (FY8/24)

- ✓ Improve profit margin
 - Improve profit margin by increasing the proportion of products priced above 100 yen.
 - Improve operating profit margin by primarily opening consignment-type shops, while proactively closing unprofitable shops (plan to open 150 consignment-type shops in FY8/24)
 - Sustain the optimal SG&A spending ratio through the introduction of self-checkout registers and automatic ordering systems.
- ✓ Enhance shareholder returns
 - Plan to enhance shareholder returns through dividend payments and the acquisition of treasury stock (Plan to acquire 440,000 shares of treasury stock between July 2023 and March 2024, with the intention of canceling these shares after the acquisition)
- ✓ Deepen interactions with shareholders
 - Information disclosure via Timely Disclosure System and our websites
 - Hold briefings for individual investors



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 above 100 yen) to expand the product range and keep the sales floor attractive.
- ✓ Actively introduce these items to consignment-type shops, leading to an improvement in gross margin for the entire group.
- ✓ We currently have 3,275 items as of August 31, 2023. Plan to reach 20.0% of sales proportion with 4,500 lineups as early as possible.

Intra-group collaboration

- ✓ Collaboration with lifestyle product brand Buona Vita and a household items brand Tokino:ne to create synergies within the group.



Renovation of FLET'S brand shops into WATTS

- ✓ Change floor layouts and increase the number of lifestyle products
- ✓ In some shops, the renovation has yielded positive effects such as an increase in the proportion of lifestyle product sales, leading to significant overall sales growth.
- ✓ Apply the successful cases for more shops to improve profitability for large-scale street-level shops





Introduction of self-checkout register



- ✓ Full-function self-checkout registers accepting both cash and cashless payments were introduced in 14 shops as of August 31, 2023. (including cashless-only self-checkout machines, these are available in 96 shops). In FY8/24, we plan to introduce them in an additional 100 shops.
- ✓ These machines are designed to enhance in-store productivity by streamlining the purchasing process and reducing labor requirements; use spare resources to improve customer satisfaction.
- ✓ Reduce waiting time to minimize peak-time queue (Reduce opportunity losses)

POS data analysis



- ✓ To enhance the freshness of our sales floor products, we are actively reducing slow-moving items and replacing them with popular and new products
- ✓ Utilize POS data for data analysis, creating store models that align with the specific shop location and customer demographics.
- ✓ Automatic ordering systems are introduced to nearly all tenant-type shops; currently, 70% of all shops place orders automatically. Further improvements are underway to enhance efficiency.

Online Shop



- ✓ To further expand the in-store pick-up service, we relaunched our online shop on September 1, 2023 (initially introducing the service in **180 shops**).
- ✓ Handling not only 100-Yen shop items but also the group-wide brand items.

Social Media



Instagram



- Watts official YouTube channel



- ✓ Increase our brand awareness through these media

 KOMONOYA
OSAKA JAPAN KOMONOYA
OSAKA JAPAN

【Overseas Business】

- Implement structural reforms for the Thailand business and measures for the Peruvian business. These measures include the closure of unprofitable shops and cost reduction initiatives, all aimed at achieving profitability.
- Expand our new overseas brand, Watts.up+.
- Explore new markets and revitalize existing markets.

 Buona Vita
ブォーナ・ビータ

【Buona Vita】

- Plan to open 1 new shop, with a target of 99.5% same-store sales YoY.
- Enhance the product sections within our 100-Yen shops to increase their appeal to customers.
- Optimize store layouts using POS data analysis.

 スーパーディスカウント
リアル

【Real】

- Plan to open 1 new shop, which is renovated from the FLET'S brand directly-managed shop.
- Enhance collaboration with our 100-Yen shops, aiming to improve the gross margin through optimization of sales balance between 100-yen items and Real's items.

 NIPPAN
ニッパシ

【Nippan】

- Ensure a consistent inventory supply for core products, especially for medical institutions, to prevent opportunity losses.

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Brands of Watts Group

Domestic 100-Yen shop business



Overseas business



KOMONOYA
OSAKA JAPAN



Other domestic business



ブォーナ・ビータ



Overview of Other Businesses



Buona Vita, a variety store that promotes a comfortable lifestyle. Operate 15 shops as of August 31, 2023.



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 August 31, 2023.



Establishment	February 22, 1995 (Currently the 29 th 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	3,492 employees (as of August 31, 2023) *Part-time workers included
Number of shops	1,831 shops (as of August 31, 2023) *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

2007
Integrated with Ohthree 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,
Osaka, as a successor of
Hisamatsu Co., Ltd.

1995
Established

FY8/23

Sales ¥59.3bn

No. of
shops 1,831 shops

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

Sustainability/ESG Initiatives



Environmental Initiatives

- ✓ Develop sustainable products made from environmentally friendly recycled materials



Human Resources Initiatives

- ✓ **【Diversity】**
Promote diversity by appointing personnel based on their abilities and aptitudes, regardless of gender, nationality, etc. Female managers accounted for 9.9% (FY8/23).
- ✓ **【Work-Life Balance】**
Encourage employees to take paid holidays and male childcare leave, and create a comfortable work environment.

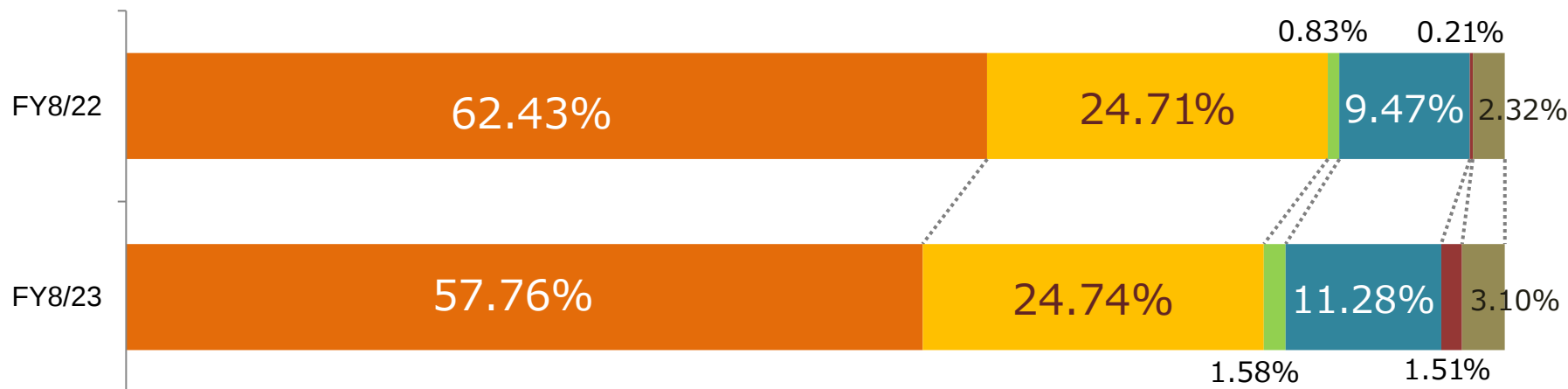
Governance

- ✓ 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



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



	FY8/21	FY8/22	FY8/23	YoY
Total number of shares issued	13,958,800 shares	13,898,800 shares	13,898,800 shares	-
Number of shareholders	22,290	23,704	18,504	△5,200
Individuals and others	54.49%	62.43%	57.76%	△4.67P
Other domestic companies	24.60%	24.71%	24.74%	+0.03P
Foreign companies and others	4.25%	0.83%	1.58%	+0.75P
Financial institutions	12.98%	9.47%	11.28%	+1.81P
Securities companies	0.08%	0.21%	1.51%	+1.30P
Treasury stock	3.58%	2.32%	3.10%	+0.78P

✓ The number of shareholders, mainly individual shareholders, decreased by 5,200 from the end of the same period last year (the percentage of individual shareholders decreased by 4.67ppt.)

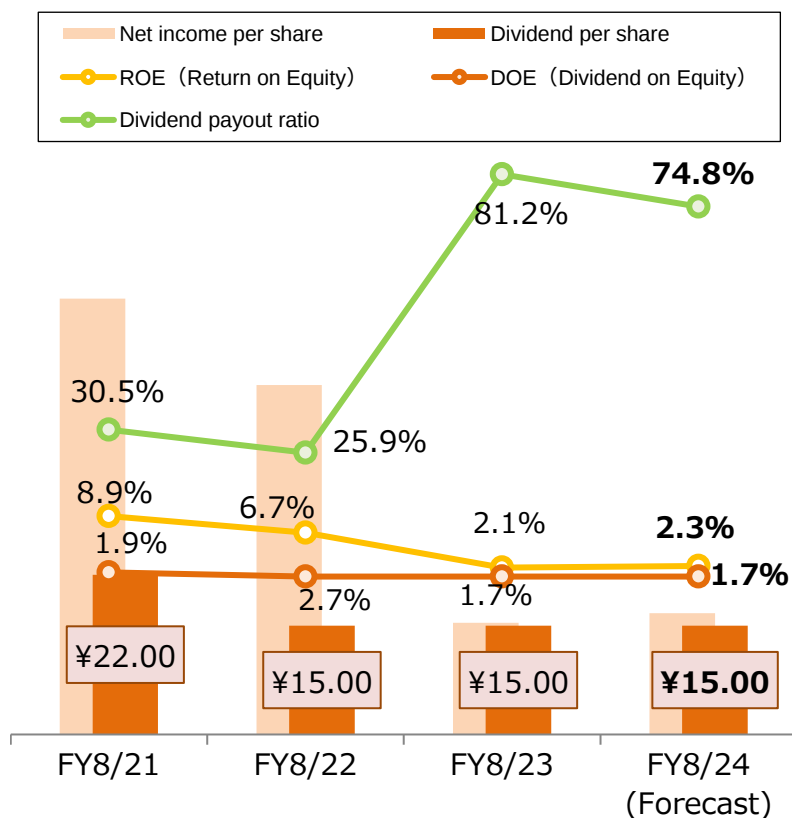
✓ The acquisition of treasury stock increased the Company's shareholding ratio by 0.78ppt. (the acquisition is still ongoing in the current period)

(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.



	FY8/21	FY8/22	FY8/23	FY8/24 (forecasts)
Net income per share (Yen)	¥72.09	¥57.83	¥18.46	¥20.05
Dividend per share (Yen)	¥22.00	¥15.00	¥15.00	¥15.00
Dividend payout ratio	30.5%	25.9%	81.2%	74.8%
Dividend yield	2.5%	2.1%	2.4%	2.4%
ROE (Return on Equity)	8.9%	6.7%	2.1%	2.3%
DOE (Dividend on Equity)	2.7%	1.7%	1.7%	1.7%

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

*The payout ratio for FY8/24 is calculated based on the stock price on August 31, 2023.)

Transition to the Standard Market



[Status of compliance with the continued listing criteria for the Prime Market]

	No. of Shareholders	No. of Tradable Shares	Tradable Share Market Cap	Tradable Share Ratio
Our status (As of Aug. 31, 2023)	18,504	67,955 units	¥4.51 billion	48.9%
Continued Listing Criteria for the Prime Market	800	20,000 units	¥10.00 billion	35.0%
Compliance status	Fulfilled	Fulfilled	Unfulfilled	Fulfilled

- ✓ We did not meet only the "Tradable Share Market Cap" criterion among the Prime Market listing maintenance criteria. Following the clarification of the end date for the relaxation of the Prime Market maintenance criteria, we reconsidered our position. As a result, we have decided to move to the Standard Market. This decision was made because we believe it is optimal to ensure an environment in which our shareholders can hold and trade our shares with confidence. (The market change will be effective as of October 20, 2023).
- ✓ Furthermore, **our company complies with all the listing maintenance criteria of the Standard Market**, and even after the transition, we will continue our efforts to enhance our corporate value."



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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