



Watts Co., Ltd.

(2735; Tokyo Stock Exchange Standard Market)

Operating Results for the Six Months of the Fiscal Year Ending August 2024 and Progress of the Full-Year Plan

Friday, April 12, 2024

Fumio Hiraoka, President and CEO

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Consolidated Operating Results for the Six Months of the Fiscal Year Ending August 2024



(Millions of yen)

Financial highlights	FY8/23 Q2		FY8/24 Q2 (Period under review)			
		Ratio to sales		Ratio to sales	YoY	Ratio to forecast
Sales	29,550	—	30,255	—	102.4%	101.8%
Gross profit	11,169	37.8%	11,629	38.4%	104.1%	—
Selling, general and administrative expenses	10,897	36.9%	10,886	36.0%	99.9%	—
EBITDA	635	2.1%	1,096	3.6%	172.6%	—
Operating profit	271	0.9%	743	2.5%	273.4%	309.8%
Recurring profit	270	0.9%	749	2.5%	276.6%	394.3%
Net income attributable to owners of parent	292	1.0%	436	1.4%	149.2%	363.5%
Net income per share (Yen)	21.53		32.90		152.8%	—

- ✓ **Sales increased by 2.4% YoY**, reaching 101.8% of the plan, mainly due to solid performance in the 100-Yen Shop business. ➡P3,9
- ✓ **The gross margin improved by 0.6 ppt.** due to a lower cost-of-sales ratio resulting from a higher proportion of sales from products priced above 100 yen. **Operating profit was 273.4% YoY.** This growth was driven by cost reductions achieved through the closure of unprofitable shops. ➡P4,5
- ✓ **Net income attributable to owners of parent was 149.2% YoY** due to the recording of income taxes-deferred (gain) related to the reorganization among our consolidated subsidiaries in the same period of the previous fiscal year.

Sales by Business Type



(Millions of yen)

Sales by Business Type		FY8/23 Q2		FY8/24 Q2 (Period under review)		
			Ratio to sales		Ratio to sales	YoY
100-Yen shops	Directly managed	26,377	89.3%	27,254	90.1%	103.3%
	Wholesale, Other	1,017	3.4%	938	3.1%	92.2%
	Subtotal	27,394	92.7%	28,192	93.2%	102.9%
Overseas Business	Directly managed	128	0.4%	76	0.3%	59.6%
	Wholesale	518	1.8%	395	1.3%	76.2%
	Subtotal	647	2.2%	471	1.6%	72.9%
Domestic Other Business	Buona Vita					
	Real	1,508	5.1%	1,591	5.3%	105.5%
	Tokino:ne ,etc.					
Total		29,550	100.0%	30,255	100.0%	102.4%

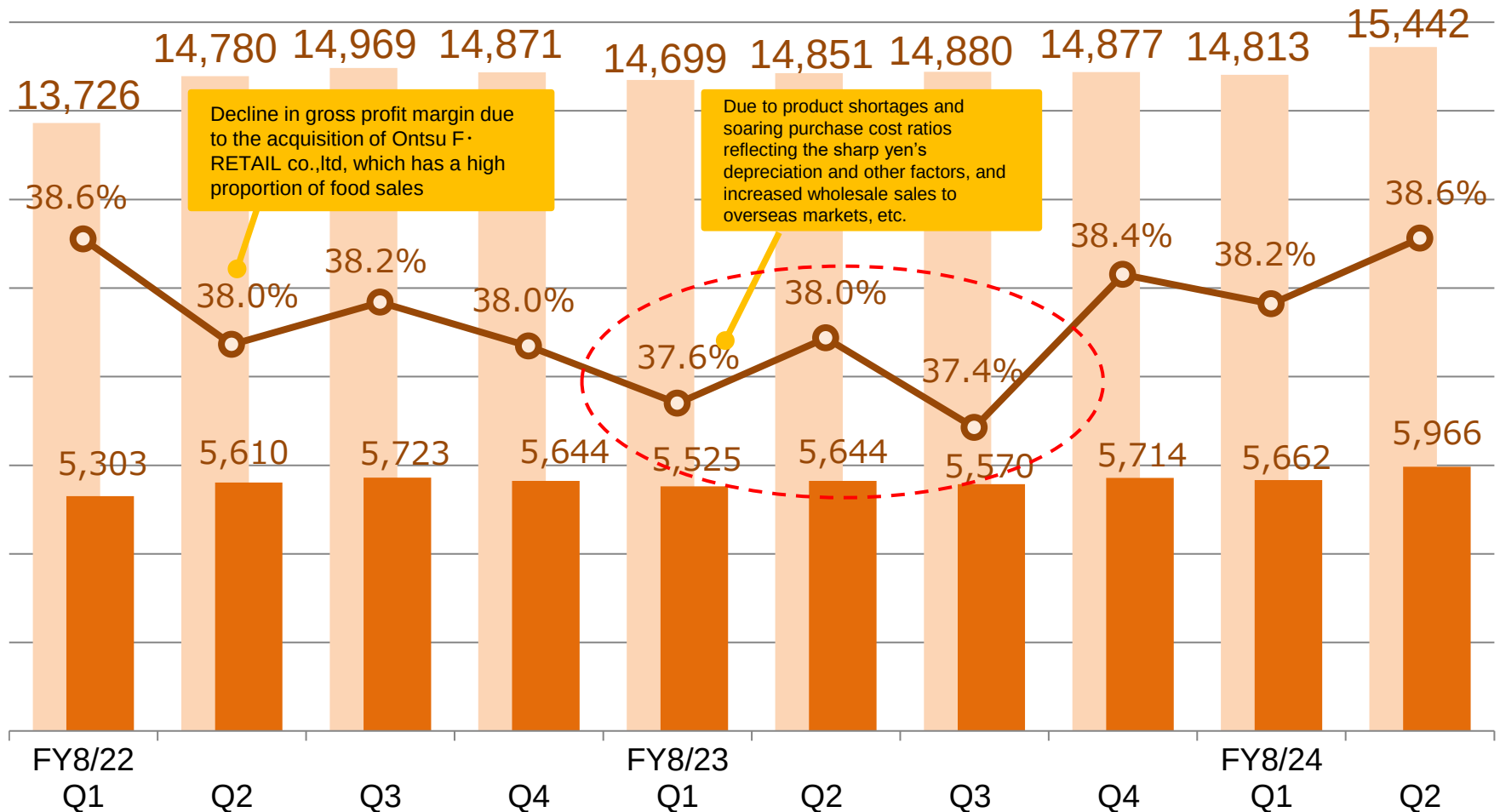
- ✓ The proportion of sales from the domestic 100-Yen Shop business grew by 0.5 ppt. (up 0.8 ppt. for directly-managed shops and down 0.3 ppt. for wholesale and other businesses)
- ✓ Overseas sales remain below pre-COVID levels, with their proportion of sales declining 0.6 ppt.

Quarterly Changes in Gross Margin



Sales Gross profit Gross margin

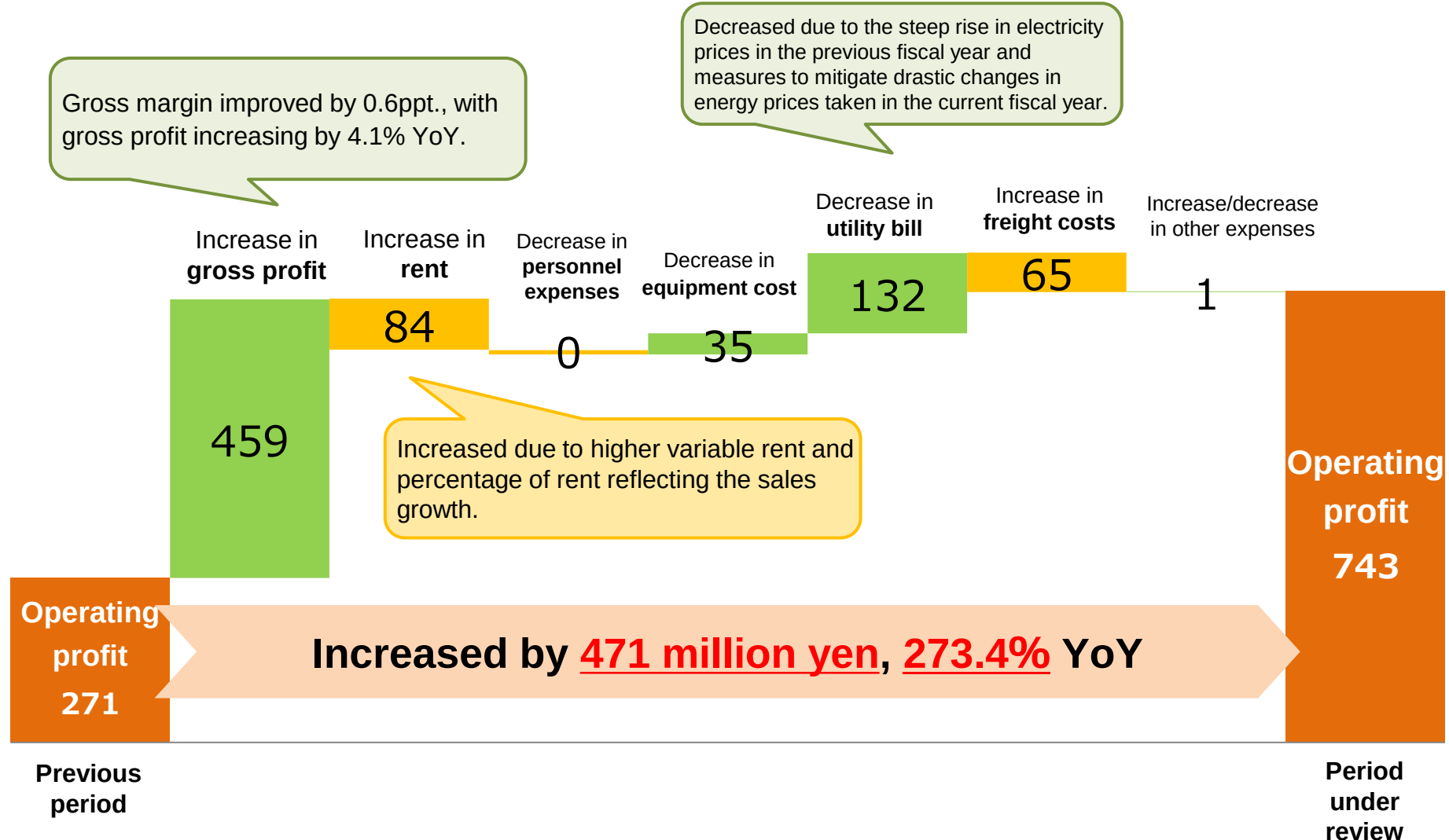
(Millions of yen)



Factors for Changes in Operating Profit



(Millions of yen)



Consolidated Balance Sheet and Consolidated Cash Flows



(Millions of yen)

Consolidated balance sheet	FY8/23		FY8/24 Q2 (Period under review)	
		Pct. change		Pct. change
Cash and deposits	5,646	Up 8.4%	5,996	Up 6.2%
Merchandise and finished goods	9,719	Up 17.5%	10,416	Up 7.2%
Other current assets	3,553	Up 28.2%	2,998	Down 15.6%
Property, plant and equipment	2,011	Up 38.9%	2,015	Up 0.2%
Other non-current assets	4,557	Up 30.6%	4,287	Down 5.9%
Total assets	25,489	Up 20.0%	25,715	Up 0.9%
Liabilities	13,524	Up 35.1%	13,700	Up 1.3%
Net assets	11,964	Up 6.3%	12,014	Up 0.4%

- ✓ Shareholders' equity ratio was 46.7%, down by 0.2ppt from the end of the previous period.
- ✓ Merchandise & finished goods and cash and deposits increased by 696 million yen and 350 million yen, respectively.
- ✓ The decrease in other current assets was mainly due to a 233 million yen decrease in deposits held with trust banks for the acquisition of treasury stock. This was attributable to a decrease in deposits at the time of the acquisition of treasury stock and the return of the remaining balance upon completion of the acquisition.

(Millions of yen)

Consolidated cash flows	FY8/23 Q2		FY8/24 Q2 (Period under review)	
		Pct. change		Pct. change
Cash flows from operating activities	596	△318	630	33
Cash flows from investing activities	△425	144	△254	171
Cash flows from financing activities	△220	△221	△40	180
Effect of exchange rate change on cash and cash equivalents	△3	△13	14	18
Cash and cash equivalents at end of period	6,633	109	5,996	△637
Free cash flows	170	△174	375	205

- ✓ Cash flows from investing activities: decreased by 90 million yen due to the purchase of property, plant and equipment.
- ✓ Cash flows from financing activities: Proceeds from long-term loans payable increased by 300 million yen.
- ✓ Free cash flows increased by 205 million yen.

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Domestic 100-Yen Shop business

	Opening/closing	Number of shops: 1,803 (as of February 29, 2024) 87 openings and 53 closings (net increase of 34) vs. full-year forecasts (160 openings and 120 closings) ➡P10
	Watts brand shops	Increased by 88 shops to 1,335 shops through openings and renovations. <u>The Watts brand shops accounted for 74.0% of the total 100-yen shops.</u>

Overseas Business

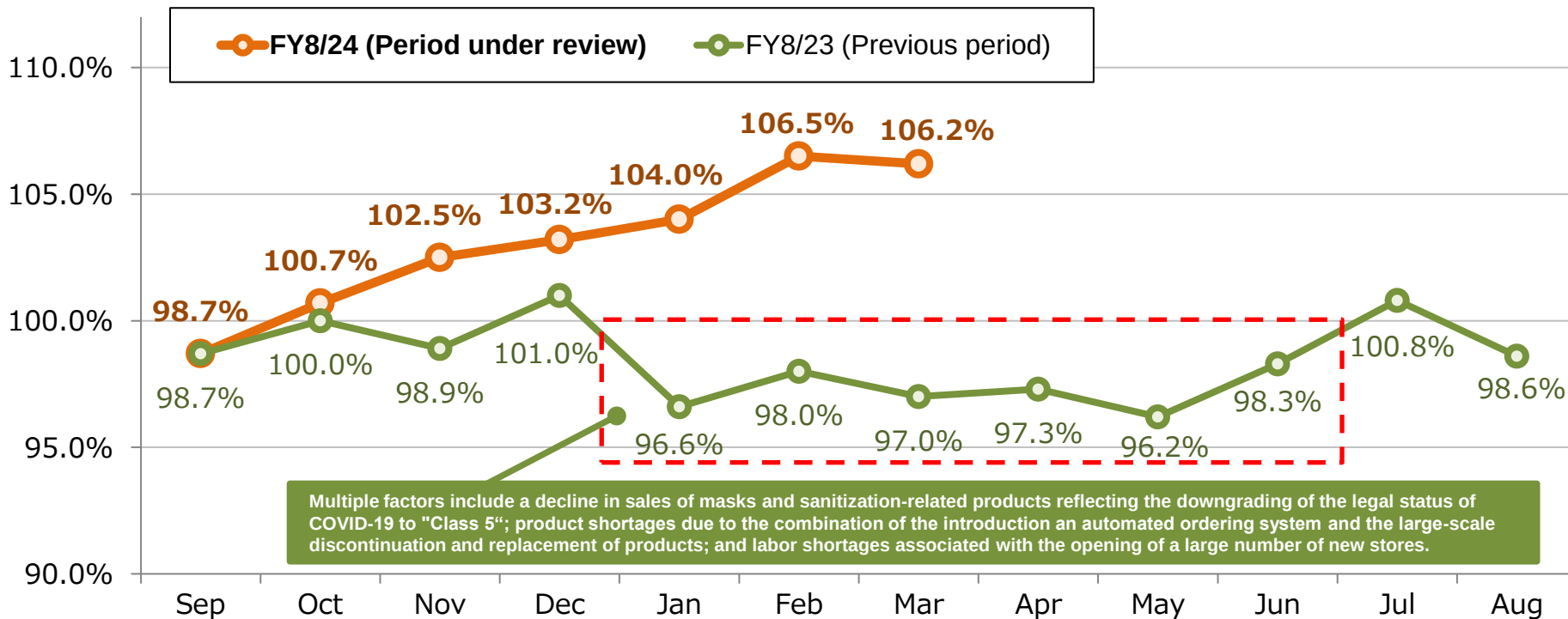
	Overseas shops	31 shops sell our product in our group, down 8 from the previous period. ➡P12
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Domestic Other Business

	Buona Vita	A lifestyle goods shop offering a comfortable and joyful life. Operate 13 shops, and the same-store sales performed well at 104.5% YoY. ➡P13
	Real	Community-based discount shop. Operate 6 shops. Aim to create synergies with the 100-Yen Shop business. ➡P14

100-Yen Shop Business (1)

- Changes in Same-store sales YoY

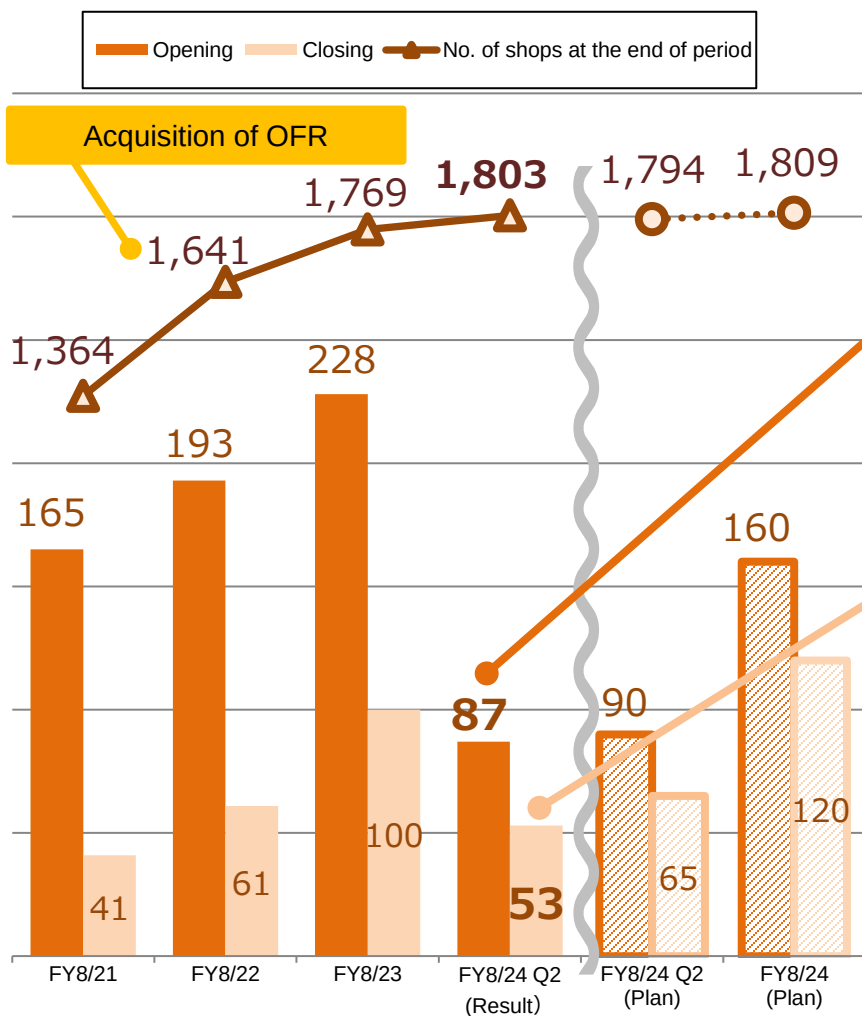


H1	Sales	Number of customers	Spending per customer
Previous period	102.6%	100.3%	102.8%
Period under review	99.0%	97.8%	101.2%

- ✓ Same-store sales recovered to 102.6% YoY as some negative issues from the previous fiscal year have been resolved.
- ✓ Sales of the Watts brand shops were 103.6% YoY.

100-Yen Shop Business (2)

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



Opening/closing plan and results

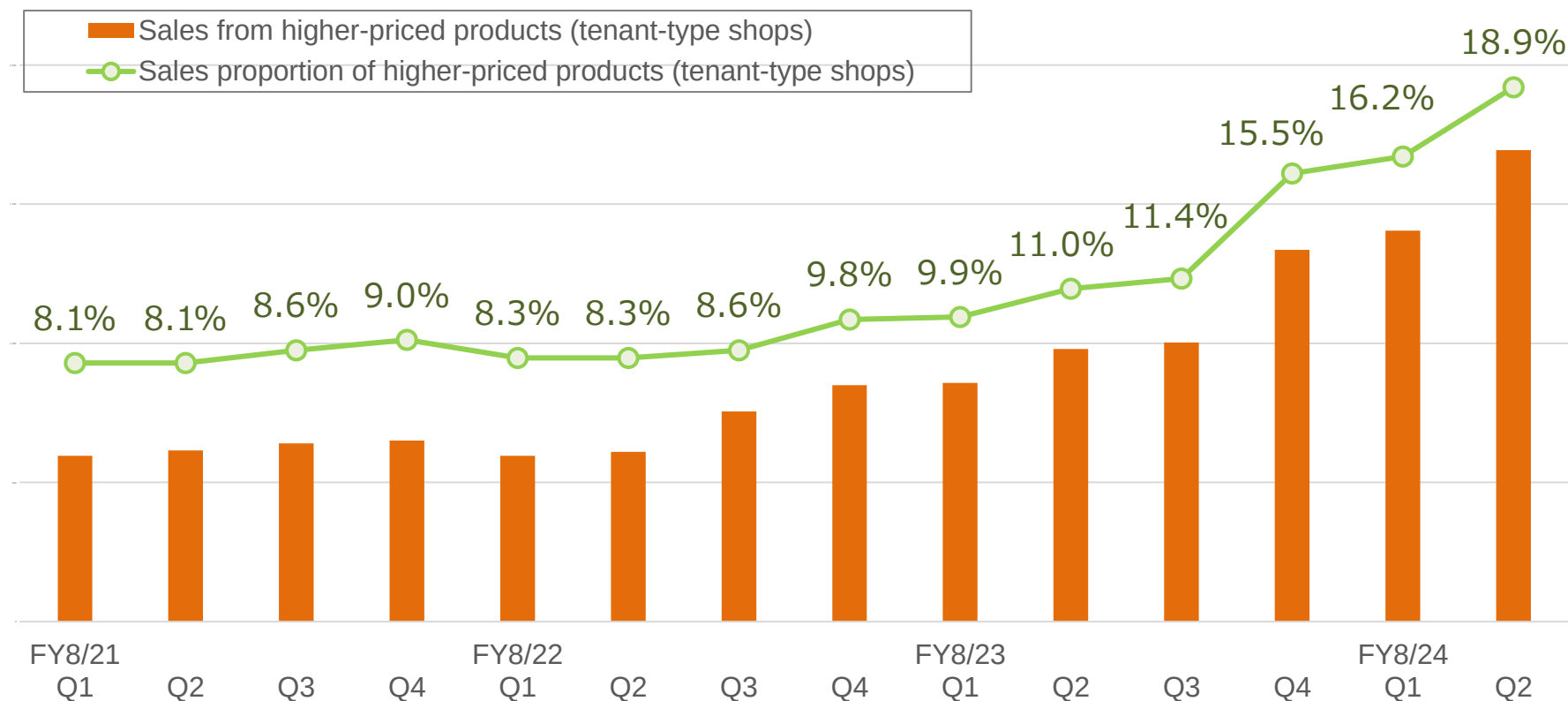
Q2
Opening plan
90 shops
→ Opened **87 shops**
(Full-year progress rate: 54.4%)

Q2
Closing plan
65 shops
→ Closed **53 shops**
(Full-year progress rate: 44.2%)

- ✓ Net increase of 34 shops vs. the planned 25 shops.
- ✓ Opened 7 tenant-type shops and 80 consignment-type shops. The majority of new shops were consignment-type.
- ✓ Out of the total 1,803 shops, we have 1,335 WATTS brand shops (a net increase of 88 shops).

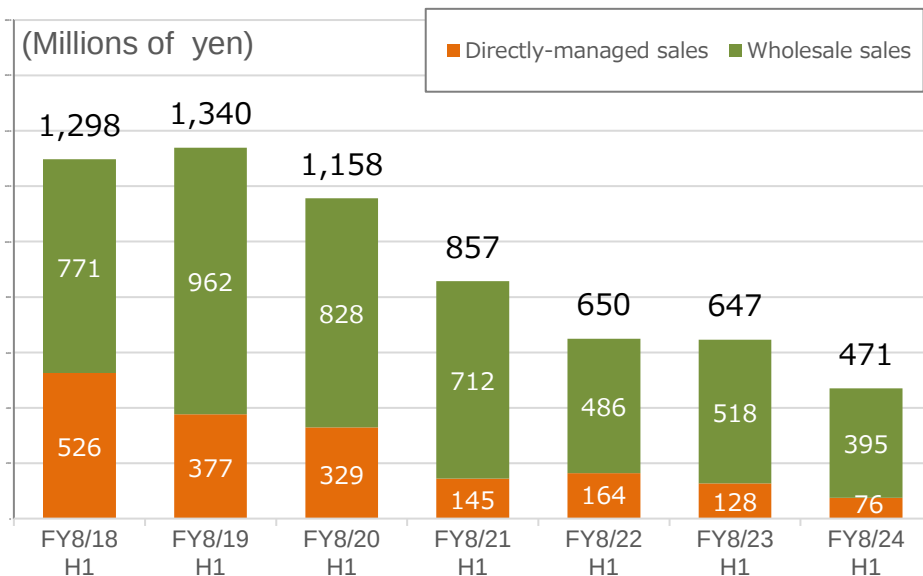
100-Yen Shop Business (3)

- Number of tenant-type shops selling higher-priced products and its sales share



- ✓ We currently sell 4,266 higher-priced products.
- ✓ Increase the number of higher-priced products through product replacement, targeting 20.0% of sales from these products.

By Business Overseas Business



KoMoNoYA
OSAKA JAPAN

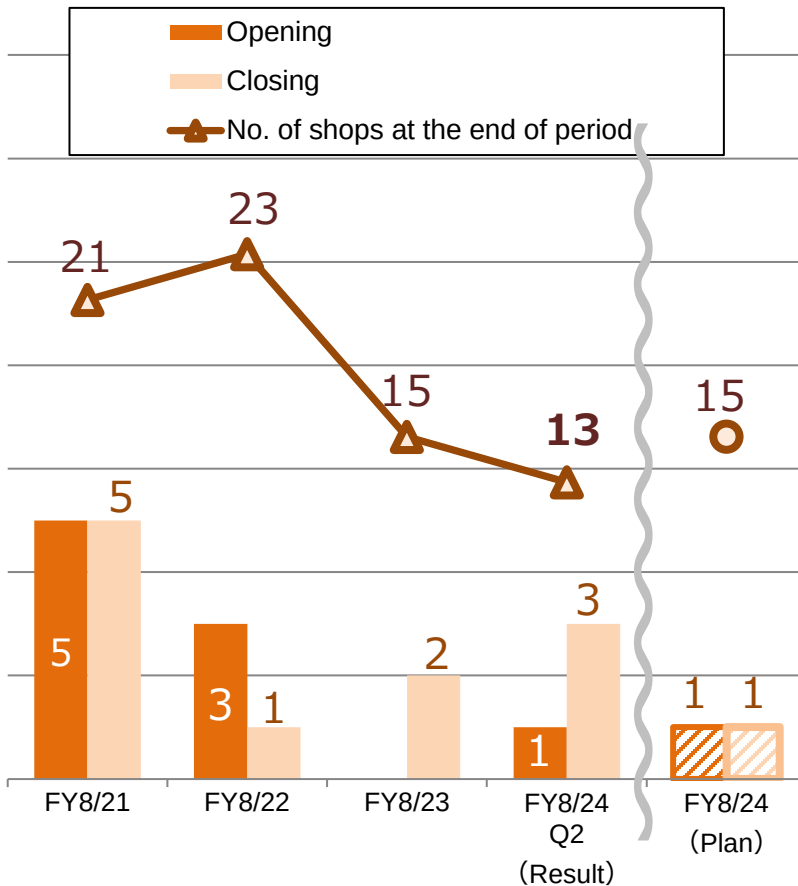


Country	Format	Open	Close	No. of shops (Feb. 29, 2024)
Thailand	FC	—	5	20
China	FC	—	—	4
Peru	Directly-managed	—	3	7
Total		—	8	31



Watts.up+ Central Rama 2 (Thailand)

- ✓ 20 shops in Thailand, decreased by 5 shops YoY.
We currently have 1 store of the new brand "Watts.up+", which focuses on higher-priced products.
- ✓ 7 shops in Peru, decreased by 3 shops YoY.
- ✓ Total overseas sales decreased since international shipment volumes have not yet fully recovered to pre-COVID levels.



Buona Vita AEON TOWN Yūkarigaoka (Chiba)

- ✓ As of September 1, 2022, Watts Connection, the operator of Buona Vita, was merged into Watts East Japan Sales.
- *The number of Buona Vita shops excludes 6 consignment-type shops located in our 100-Yen shops.
- ✓ **13 shops** as February 29, 2024.
- ✓ The same-store reached 104.5% of the previous fiscal year result, 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, generating synergistic effects.
- ✓ Operate **6 shops** as of February 29, 2024.



- ✓ 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.
- ✓ These products are offered in 200 of our 100-Yen shops, generating synergistic effects.

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Business Forecasts for FY8/24

(Revised on March 28, 2024)

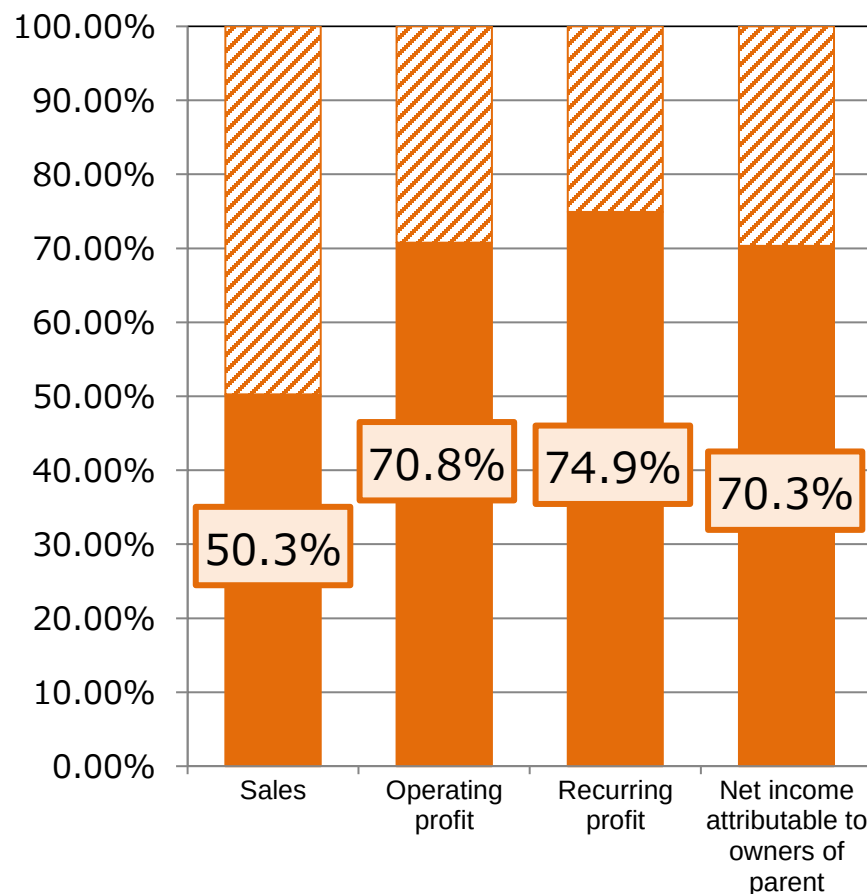


(Millions of yen)

Business forecasts (revised)	FY8/24 (Forecast)		
		Ratio to sales	YoY
Sales	60,200	—	101.5%
Operating profit	1,050	1.7%	168.9%
Recurring profit	1,000	1.7%	154.2%
Net income attributable to owners of parent	620	1.0%	247.4%
Net income per share (yen)	46.77		253.4%

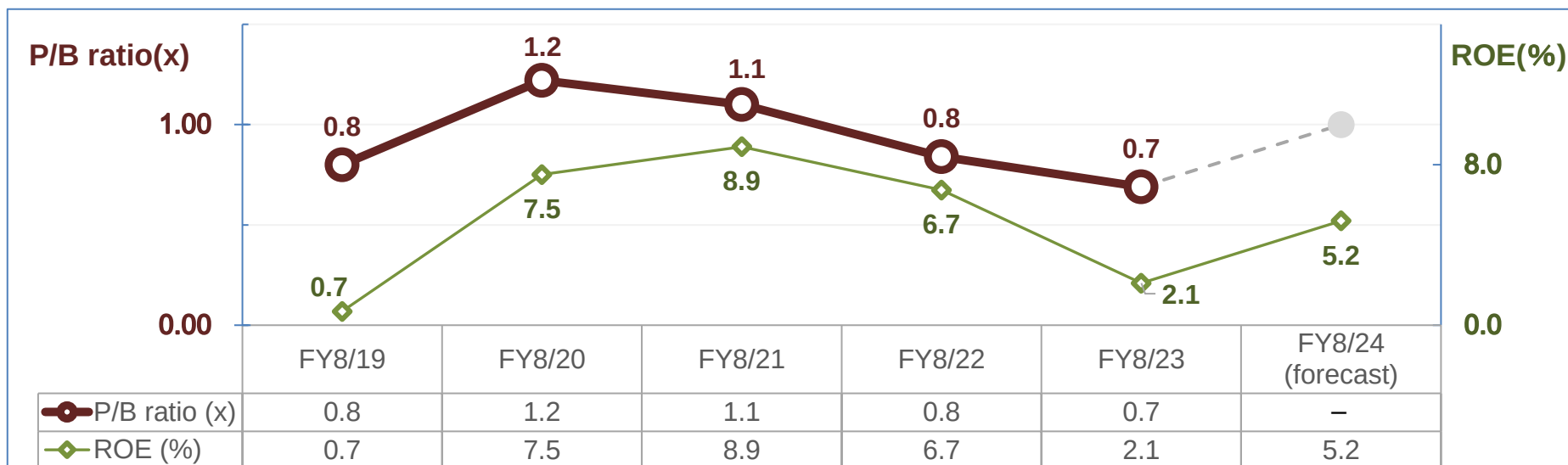
- ✓ Sales are expected to increase driven by steady sales in the 100-Yen Shop business.
- ✓ Operating profit, recurring profit, and net income attributable to owners of parent are expected to increase. This is attributed to the expected improvement in gross margin compared to the previous fiscal year, resulting from initiatives to increase the sales proportion of household items and products priced above 100 yen.

Progress rate to the full-year forecasts



Initiatives for Sustainable Value Enhancement

- Changes in P/B Ratio/ROE



Status quo analysis

[P/B ratio]

5-year average: 0.9x

Below 1x for 2 consecutive years

[ROE]

5-year average: 5.1%

Above the cost of equity

Response

Improve P/B ratio

- Achieve sustainable corporate value enhancement

Improve ROE

- Maintain and improve ROE above the cost of equity

Increase P/E ratio

- Improve P/E ratio while maintaining ROE

Initiatives for Sustainable Value Enhancement

- Measures to improve ROE/P/E ratio

Status quo analysis/Issues

[ROE] 5-year average: 5.1%

The level exceeds the cost of equity, but remains sluggish at 2.1% in FY8/23. Aiming for a stable 10.0% level.

(WACC: 3-4%
Cost of equity: 4-5%)

[P/E ratio] 5-year average: 17.9x

33.4x in FY8/23
Higher than normal period due to deterioration in profit margin

Response/Measures

➤ Maintain and improve ROE above the cost of equity

● Implementation of financial measures

● Optimization of shareholders' equity

➤ Improve P/E ratio while maintaining current ROE level

● Reduction of cost of equity

● Improvement in growth expectations

◆ Improve gross margin

- Increase the sales proportion of products priced above 100 yen.

◆ Improve operating profit margin

- Close unprofitable shops
- Open shops mainly consignment-type
- Reduce personnel cost through self-checkout register and automated ordering systems

◆ Balancing shareholder returns and business investment

- Continue to pay stable dividends, purchase and retire treasury stock
- Make appropriate investments in personnel and business growth

◆ Strengthening IR/SR

- Promote communication with shareholders and share the information with the Board of Directors
- Hold various briefings
- Maintain and improve the Pages per Visit of our company's IR website

◆ Strengthening PR activities

- Provide more information through Watts Online Shop and Watts official apps, etc.

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 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 4,266 items as of February 29, 2024. Introduce more items with the target of 4,500 items (20% of sales proportion)

Intra-group collaboration

- ✓ Collaboration with lifestyle product brand Buona Vita and a household items brand Tokino:ne to generate 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 roadside shops





Introduction of self-checkout register



- ✓ We have full-function self-checkout registers accepting both cash and cashless payments at 50 shops as of February 29, 2024. (including cashless-only machines, self-checkout is available at 115 shops). Continue to introduce more full-function machines.
- ✓ 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.

Watts Online Shop



- ✓ Launched in-store pickup service nationwide
- ✓ Offering not only products from the 100-Yen shop, but also products from the Watts Group brand and items exclusive to the online shop.

Social Media



Instagram



- Watts official YouTube channel



- ✓ Increase our brand awareness through these media

**KoMoNoYA**
OSAKA JAPAN

[Overseas Business]

- Implement restructuring of operations in Thailand and measures to achieve profitability in Peru, including the closure of unprofitable shops and cost reduction initiatives.
- 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.



[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

[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



Overview of Other Businesses



Operate 13 shops as of February 29, 2024.

Buona Vita, a variety store that promotes a comfortable lifestyle.



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



Collaboration shop between 100-Yen shop and grocery



スーパーディスカウント

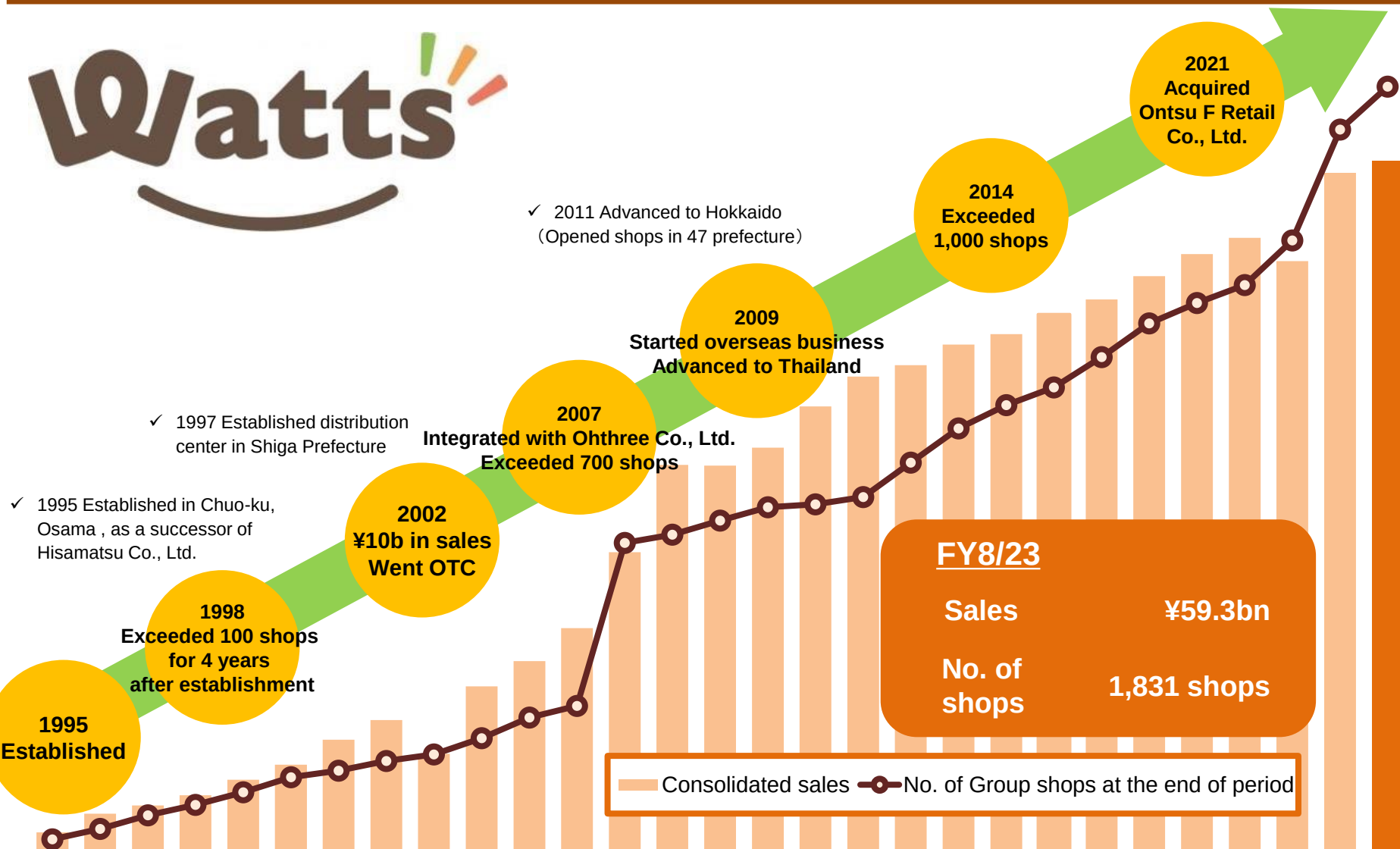
リアル

Community-based small discount shop. Operate 6 shops as of February 29, 2024.



Establishment	February 22, 1995 (Currently the 30 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 Standard 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	3,431 employees (as of February 29, 2024) *Part-time workers included
Number of shops	1,856 shops (as of February 29, 2024) *Other shops included

Corporate History





Environmental Initiatives

- ✓ Develop sustainable products made from environmentally friendly recycled materials



Governance

- ✓ Established the Sustainability Committee. 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.

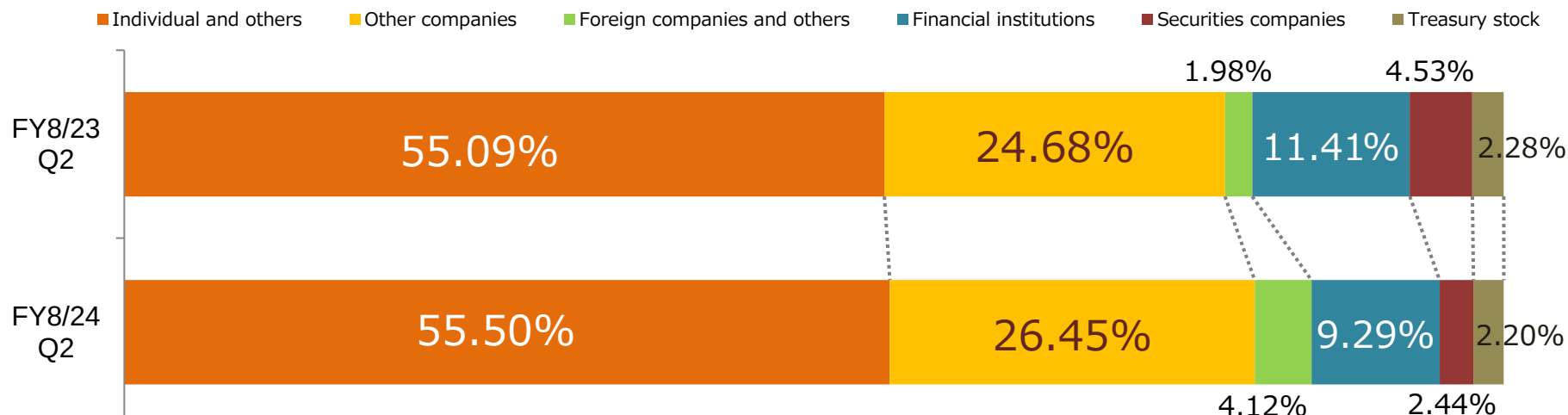
Human Resources Initiatives

- ✓ [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 to create a comfortable work environment.
- ✓ Investment in social bonds issued by the Japan Student Services Organization (72nd JASSO Bond)

What is Social Bond?

Bonds issued to finance projects that contribute to solving social issues

Shareholder Composition



	FY8/22 Q2	FY8/23 Q2	FY8/24 Q2	YoY
Total number of shares issued	13,898,800 shares	13,898,800 shares	13,458,800 shares	△440,000 shares
Number of shareholders	17,572	18,897	15,604	△3,293
Individuals and others	51.34%	55.09%	55.50%	+0.41P
Other domestic companies	24.60%	24.68%	26.45%	+1.77P
Foreign companies and others	3.78%	1.98%	4.12%	+2.14P
Financial institutions	14.01%	11.41%	9.29%	△2.12P
Securities companies	3.94%	4.53%	2.44%	△2.10P
Treasury stock	2.32%	2.28%	2.20%	△0.08P

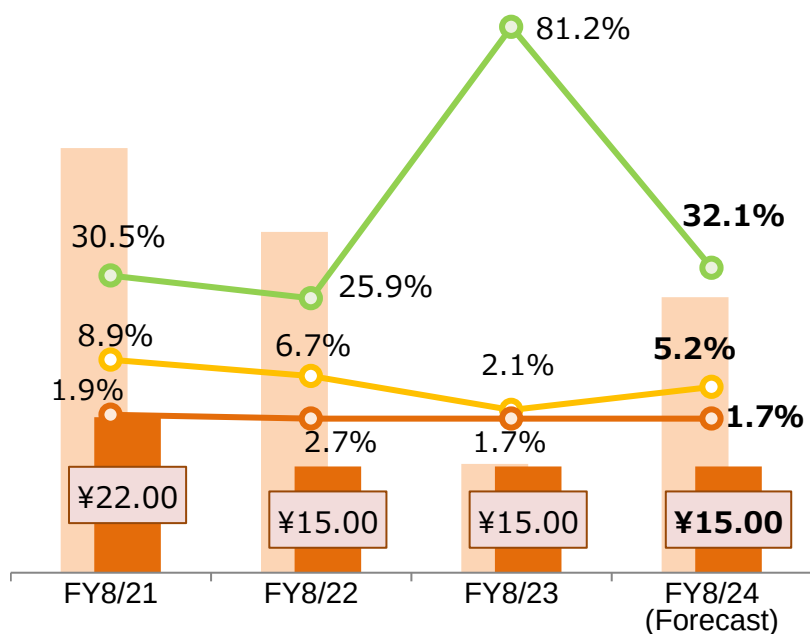
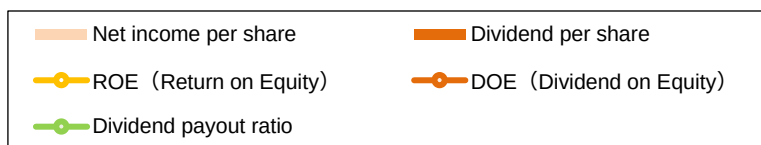
- ✓ Total number of shares issued decreased by 440,000 shares due to the cancellation of treasury stock.
- ✓ The number of shareholders decreased by 3,293 from the end of the same period of the previous fiscal year (the ratio of foreign companies ownership increased by 2.14 ppt.).

(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	¥46.77
Dividend per share (Yen)	¥22.00	¥15.00	¥15.00	¥15.00
Dividend payout ratio	30.5%	25.9%	81.2%	32.1%
Dividend yield	2.5%	2.1%	2.4%	2.4%
ROE (Return on Equity)	8.9%	6.7%	2.1%	5.2%
DOE (Dividend on Equity)	2.7%	1.8%	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 February 29, 2024.)



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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