

Summary of Financial Results for the Second Quarter Ended February 28, 2023 [Japan GAAP] (Consolidated)

April 10, 2023

Company **Watts Co., Ltd.** Listed on the TSE
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 Expected date of filing of quarterly report: April 10, 2023 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 2023 (September 1, 2022 through February 28, 2023)

	(% 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. 2023	29,550	3.7	271	-57.3	270	-60.1	292	-19.1
Six months ended Feb. 2022	28,506	11.3	637	-41.3	678	-36.4	361	-54.8

(Note) Comprehensive income

Six months ended February 2023: 277 million yen (-23.2%)

Six months ended February 2022: 361 million yen (-52.9%)

	Net income per share	Diluted net income per share
	Yen	Yen
Six months ended Feb. 2023	21.53	-
Six months ended Feb. 2022	26.89	-

(2) Consolidated financial position

	Total assets	Net assets	Shareholders' equity ratio
	Million yen	Million yen	%
As of Feb. 2023	25,401	12,014	47.3
As of Aug. 2022	25,600	11,931	46.6

(Reference) Shareholders' equity:

As of February 2023: 12,005 million yen

As of August 2022: 11,927 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. 2022	-	0.00	-	15.00	15.00
Year ending Aug. 2023	-	0.00	-	15.00	15.00
Year ending Aug. 2023 (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 2023 (September 1, 2022 through August 31, 2023)

	(% 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. 2023	60,500	3.7	920	-7.9	850	-26.0	530	-32.2
								39.04

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

***Notes**

(1) Changes in significant subsidiaries during the period (changes in specified subsidiaries accompanying changes in the scope of consolidation): Yes
Excluded: 1 (Ontsu F.RETAIL Co., Ltd.)

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

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

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

(4) Shares outstanding (common stock)

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

As of February 2023 13,898,800 shares

As of August 2022 13,898,800 shares

② Treasury stock at the end of period

As of February 2023 317,692 shares

As of August 2022 323,487 shares

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

Six months ended February 2023 13,578,154 shares

Six months ended February 2022 13,439,316 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 (FY8/23 Q2: - shares, FY8/22 Q2: 56,354 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 2023, the Japanese economy saw a recovery in consumer spending, thanks in part to the slowing down of the COVID-19 pandemic, the year-end and New Year holidays with no restrictions on activities, and the government's intermittent national travel subsidy program and subsidies for utility bills. However, price rises were announced every month, especially for food, and consumer confidence has not yet fully recovered. In the corporate sector, the recovery in the service sector, which benefited from increased tourism demand following the easing of border control measures, slower semiconductor shortages, and a downward trend in resource prices, had a positive effect on the economy. On the other hand, the environment remained unchanged with concerns about a decline in external demand due to the expected slowdown in overseas economies and labor shortages due to tight labor supply and demand.

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, “Watts Online Store” introduced products from “Buona Vita” and “Tokino:ne”, as well as products exclusive to the online store, and the number of products listed on the store significantly increased to more than 19,000 items.

In addition, we are introducing self-checkout POS registers for cashless payments to improve in-store productivity through a more efficient purchase process. We are also working to introduce and renew handmade tools and materials sections to further develop existing shops.

As for new shop openings, the Company opened 104 shops to the full-year plan of 236 shops. There were 53 shop closings (including 2 franchised shops), 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 1,692, which includes 1,671 directly managed shops (net increase of 53), and 21 franchised/other shops (net decrease of 2). Of these, the number of the Watts brand shops “Watts” and “Watts with” was 1,131 (net increase of 102), accounting for more than 66.8% 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 15 shops (net decrease of 8). The decline is due to the fact that Watts Connection, which operates “Buona Vita”, was absorbed into Watts East Japan Sales, a 100-Yen shop operator, effective September 1, 2022, and 6 “Buona Vita” shops (consignment-type shops in the Company's 100-Yen shops) was excluded from the figure.

“Tokino:ne”, a household items shop under the theme of “time”, operates 2 directly-managed shops (unchanged). In addition, “Tokino:ne” began selling its products in 200 of the Company's 100-Yen shops. “Value- 100,” the fresh-foods supermarket collaboration, continues with 1 shop (unchanged). “Real”, a discount shop, was 5 shops (net decrease of 1).

Regarding overseas operation, the Company operates “KOMONOYA”, a fixed-price shop mainly in Southeast Asia. At the end of the fiscal year under review, “KOMONOYA” operates 32 shops in Thailand (net decrease of 5), and 15 shops in Peru (net increase of 1). In China, there were 4 shops (unchanged) named “小物家园”(KOMONOKAEN), a fixed price shop. The total number of own-brand shops “KOMONOYA” and “小物家园”(KOMONOKAEN) was 51 (net decrease of 4).

As a result, for the six months ended February 2023, sales increased to 29,550 million yen (up 3.7% YoY, 99.7% to the plan).

Gross margin was lower than expected, mainly due to higher purchase costs and an increase in the proportion of food sales. In addition, operating profit was 271 million yen (down 57.3% YoY, 71.6% to the plan) and recurring profit was 270 million yen (down 60.1% YoY, 79.7% to the plan), mainly due to the opening and renovation of relatively large-scale shops, and an increase in utility expenses.

In addition, net income attributable to owners of the parent was 292 million yen (down 19.1% YoY and 132.9% to the plan), mainly due to the recording of income taxes-deferred (gain) due to the reorganization among its consolidated subsidiaries. (*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 2023 which were announced in the Summary of Financial Results on October 11, 2022.)

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 second quarter of the current fiscal year, current assets stood at 18,315 million yen, decreased by 245 million yen from the end of the previous fiscal year. This was mainly due to decreases of 456 million yen in notes and accounts receivable-trade and 53 million yen in cash and deposits, and an increase of 303 million yen in merchandise and finished goods.

Fixed assets stood at 7,085 million yen, increased by 46 million yen from the end of the previous fiscal year. This was mainly due to increases of 155 million yen in deferred tax assets and 56 million yen in tools, furniture and fixtures, and decreases of 82 million yen in software included in other intangible assets and 65 million yen in goodwill.

As a result, total assets stood at 25,401 million yen, a decrease of 199 million yen from the end of the previous fiscal year.

(Liabilities)

As of the end of the second quarter of the current fiscal year, current liabilities stood at 9,761 million yen, decreased by 171 million yen from the end of the previous fiscal year. This was mainly due to decreases of 382 million yen in notes and accounts payable-trade, 129 million yen in accounts payable-other included in other current liabilities, and 62 million yen in income taxes payable, and an increase of 422 million yen in electronically recorded obligations.

Fixed liabilities stood at 3,625 million yen, a decrease of 110 million yen compared with the end of the previous fiscal year. This was mainly due to a decrease of 127 million yen in long-term loans payable.

As a result, total liabilities stood at 13,387 million yen, a decrease of 282 million yen from the end of the previous fiscal year.

(Net assets)

As of the end of the second quarter of the current fiscal year, net assets stood at 12,014 million yen, increased by 83 million yen compared with the end of the previous fiscal year. This was mainly due to an increase of 88 million yen in retained earnings.

As a result, shareholders' equity ratio stood at 47.3% (46.6% 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 6,633 million yen, decreased by 53 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 596 million yen (915 million yen was provided in the same period of the previous fiscal year). Cash was provided mainly by a decrease in notes and accounts receivable-trade of 455 million yen, depreciation and amortization of 297 million yen, and income before income taxes of 182 million yen. Cash was used mainly for an increase of 309 million yen in inventories.

(Cash flows from investing activities)

Net cash used in investing activities was 425 million yen (570 million yen was used in the same period of the previous fiscal year). This was mainly due to purchase of property, plant and equipment of 347 million yen and payments for lease and guarantee deposits of 75 million yen.

(Cash flows from financing activities)

Net cash used for financing activities was 220 million yen (0 million yen was provided in the same period of the previous fiscal year). This was mainly due to 413 million yen in repayment of long-term loans payable, 203 million yen in cash dividends paid, 300 million yen in proceeds from long-term loans payable, and 100 million yen in net increase in short-term loans payable.

(3) Future forecast information including business forecasts

The Company made no change to the full-year business forecasts announced in the summary of financial results dated October 11, 2022.

2. Quarterly Consolidated Financial Statements

(1) Quarterly Consolidated Balance Sheets

(Thousands of yen)

	Previous fiscal year (August 31, 2022)	Current second quarter (February 28, 2023)
Assets		
Current assets		
Cash and deposits	6,687,848	6,633,862
Notes and accounts receivable-trade	2,687,168	2,230,248
Merchandise and finished goods	8,734,082	9,037,098
Raw materials and supplies	25,847	19,427
Consumption taxes receivable	22,876	13,658
Other	431,169	405,307
Allowance for doubtful accounts	-27,599	-23,609
Total current assets	18,561,392	18,315,993
Noncurrent assets		
Property, plant and equipment		
Buildings and structures	4,008,560	4,078,468
Accumulated depreciation and impairment loss	-2,951,551	-3,003,734
Buildings and structures, net	1,057,009	1,074,733
Vehicles	32,337	33,761
Accumulated depreciation and impairment loss	-26,989	-28,394
Vehicles, net	5,348	5,367
Tools, furniture and fixtures	4,882,184	5,041,314
Accumulated depreciation and impairment loss	-4,061,385	-4,164,103
Tools, furniture and fixtures, net	820,798	877,210
Land	257,800	257,800
Leased assets	111,042	111,042
Accumulated depreciation and impairment loss	-101,363	-103,215
Leased assets, net	9,678	7,826
Construction in progress	5,000	-
Total property, plant and equipment	2,155,635	2,222,938
Intangible assets		
Amortization of goodwill	538,691	472,729
Other	567,785	485,133
Total intangible assets	1,106,477	957,862
Investments and other assets		
Investment securities	350,185	321,183
Deferred tax assets	523,698	679,308
Guarantee deposits	2,765,694	2,770,637
Other	144,709	141,401
Allowance for doubtful accounts	-7,238	-7,899
Total investments and other assets	3,777,048	3,904,630
Total noncurrent assets	7,039,161	7,085,431
Total assets	25,600,554	25,401,425

(Thousands of yen)

	Previous fiscal year (August 31, 2022)	Current second quarter (February 28, 2023)
Liabilities		
Current liabilities		
Notes and accounts payable-trade	3,943,822	3,560,830
Electronically recorded obligations	3,801,090	4,223,923
Short-term loans payable	-	100,000
Current portion of long-term loans payable	694,163	707,510
Income taxes payable	124,876	62,118
Accrued consumption taxes	170,774	109,429
Provision for bonuses	126,657	150,934
Other	1,071,372	846,330
Total current liabilities	9,932,757	9,761,077
Noncurrent liabilities		
Long-term loans payable	2,311,910	2,184,890
Retirement benefit liability	412,913	441,173
Provision for directors' retirement benefits	34,295	36,042
Asset retirement obligations	646,815	665,818
Other	330,844	298,054
Total noncurrent liabilities	3,736,777	3,625,978
Total liabilities	13,669,535	13,387,056
Net assets		
Shareholders' equity		
Capital stock	440,297	440,297
Capital surplus	1,348,550	1,350,605
Retained earnings	10,214,752	10,303,427
Treasury stock	-133,386	-130,420
Total shareholders' equity	11,870,213	11,963,910
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	4,962	2,800
Foreign currency translation adjustment	51,854	39,118
Total accumulated other comprehensive income	56,816	41,919
Stock acquisition right	3,989	8,539
Total net assets	11,931,019	12,014,368
Total liabilities and net assets	25,600,554	25,401,425

(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, 2021 to February 28, 2022)	Current second quarter (from September 1, 2022 to February 28, 2023)
Sales	28,506,628	29,550,968
Cost of sales	17,592,437	18,381,185
Gross profit	10,914,191	11,169,783
Selling, general and administrative expenses	10,277,039	10,897,801
Operating profit	637,151	271,981
Non-operating revenues		
Interest income	1,126	2,065
Foreign exchange gains	32,927	-
Royalty income	1,414	2,660
Compensation income	5,016	26,944
Subsidy income	15,247	1,789
Other	7,587	6,415
Total non-operating income	63,320	39,875
Non-operating expenses		
Interest expenses	4,979	5,444
Early-withdrawal penalty	5,760	9,143
Share of loss of entities accounted for using equity method	1,275	13,048
Compensation expenses	7,435	-
Exchange loss	-	9,231
Other	2,302	4,110
Total non-operating expenses	21,753	40,978
Recurring profit	678,718	270,879
Extraordinary income		
Surrender value of insurance	6,246	-
Gain on sale of investment securities	-	1,810
Provision for directors' stock-based benefits	29,777	-
Total extraordinary income	36,023	1,810
Extraordinary loss		
Loss on retirement of noncurrent assets	18,625	5,546
Impairment loss	56,992	84,198
Loss on disaster	1,248	-
Total extraordinary losses	76,866	89,744
Income before income taxes and minority interests	637,875	182,945
Income taxes-current	276,468	52,978
Income taxes-deferred	54	-162,337
Total income taxes	276,523	-109,359
Net income	361,352	292,304
Net income attributable to owners of parent	361,352	292,304

(Quarterly consolidated statements of income)
(Second quarter)

(Thousands of yen)

	Previous second quarter (from September 1, 2021 to February 28, 2022)	Current second quarter (from September 1, 2022 to February 28, 2023)
Net income	361,352	292,304
Other comprehensive income		
Valuation difference on available-for-sale securities	-2,784	-2,161
Foreign currency translation adjustment	4,094	-9,369
Share of other comprehensive income of associates accounted for using equity method	-1,507	-3,365
Total other comprehensive income	-197	-14,896
Comprehensive income	361,154	277,407
(Breakdown)		
Comprehensive income attributable to owners of parent	361,154	277,407

(3) Quarterly Consolidated Statements of Cash Flows

(Thousands of yen)

	Previous second quarter (from September 1, 2021 to February 28, 2022)	Current second quarter (from September 1, 2022 to February 28, 2023)
Net cash provided by (used in) operating activities		
Income before income taxes and minority interests	637,875	182,945
Depreciation and amortization	267,581	297,398
Impairment loss	56,992	84,198
Amortization of goodwill	54,968	65,962
Increase (decrease) in allowance for doubtful accounts	-1,409	-3,329
Increase (decrease) in provision for bonuses	3,989	24,276
Increase (decrease) in liabilities relating to retirement benefits	79,665	28,260
Increase (decrease) in provision for directors' retirement benefits	2,091	1,747
Increase (decrease) in provision for directors' stock-based benefits	-93,938	-
Interest and dividends income	-1,219	-2,158
Interest expenses	4,979	5,444
Loss (gain) on sale of investment securities	-	-1,810
Loss on retirement of noncurrent assets	18,625	5,546
Decrease (increase) in accounts receivable-trade	435,247	455,204
Decrease (increase) in inventories	-156,019	-309,879
Increase (decrease) in notes and accounts payable-trade	-2,511	39,766
Increase (decrease) in accrued consumption taxes	48,566	-52,495
Other	-40,986	-177,317
Subtotal	1,314,498	643,758
Interest and dividends income received	1,199	2,170
Interest expenses paid	-4,787	-4,974
Income taxes paid	-395,619	-125,162
Income taxes refund	-	80,860
Net cash provided by (used in) operating activities	915,291	596,651
Net cash provided by (used in) investing activities		
Purchase of property, plant and equipment	-195,572	-347,742
Payments for retirement of property, plant and equipment	-14,520	-
Purchase of intangible assets	-83,485	-37,819
Payments for lease and guarantee deposits	-495,180	-75,794
Proceeds from collection of lease and guarantee deposits	31,618	50,436
Payments for asset retirement obligations	-5,174	-26,500
Proceeds from sale of investment securities	-	11,125
Proceeds from purchase of shares of subsidiaries resulting in change in scope of consolidation	191,877	-
Other	300	300
Net cash provided by (used in) investing activities	-570,138	-425,995
Net cash provided by (used in) financing activities		
Net increase (decrease) in short-term loans payable	-200,000	100,000
Proceeds from long-term loans payable	2,900,000	300,000
Repayment of long-term loans payable	-2,393,092	-413,459
Repayment of lease obligations	-10,192	-3,675
Cash dividends paid	-295,916	-203,713
Net cash provided by (used in) financing activities	798	-220,848
Effect of exchange rate change on cash and cash equivalents	9,658	-3,795
Net increase (decrease) in cash and cash equivalents	355,609	-53,986
Cash and cash equivalents at beginning of period	6,169,208	6,687,848
Cash and cash equivalents at end of period	6,524,818	6,633,862

(4) Notes to consolidated financial statements

(Notes on going concern assumption)

No items to report

(Notes if there is a significant change in the amount of shareholders' equity)

No items to report