

# Summary of Financial Results for the Second Quarter Ended February 29, 2016 [Japan GAAP] (Consolidated)

April 13, 2016

Company **Watts Co., Ltd.** Listed on the TSE  
 Stock Code 2735 URL: <http://www.watts-jp.com/>  
 Representative Fumio Hiraoka, President and CEO  
 Contact Hidehito Mori, Director, General Manager of Corporate Planning Office TEL: +81-6-4792-3280  
 Expected date of filing of quarterly report: April 13, 2016 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 2016

(September 1, 2015 through February 29, 2016)

(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. 2016	22,895	4.0	586	-26.7	585	-27.0	347	-29.6
Six months ended Feb. 2015	22,011	2.2	799	-11.8	800	-11.6	493	2.5

(Note) Comprehensive income

Six months ended February 2016: 259 million yen (-54.6 %)

Six months ended February 2015: 573 million yen (13.8 %)

	Net income per share		Diluted net income per share	
	Yen	Yen	Yen	Yen
Six months ended Feb. 2016	25.62	-	-	-
Six months ended Feb. 2015	36.40	-	-	-

## (2) Consolidated financial position

	Total assets		Net assets		Shareholders' equity ratio	
	Million yen	Million yen	Million yen	Million yen	%	%
As of Feb. 2016	17,689	8,996	8,996	50.9		
As of Aug. 2015	17,877	8,966	8,966	50.2		

(Reference) Shareholders' equity:

As of February 2016: 8,996 million yen

As of August 2015: 8,966 million yen

## 2. Dividends

	Annual dividend				
	End of 1Q	End of 2Q	End of 3Q	Year-end	Total
Year ended Aug. 2015	-	0.00	-	17.00	17.00
Year ending Aug. 2016	-	0.00	-	15.00	15.00
Year ending Aug. 2016 (forecast)	-	-	-	15.00	15.00

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

Year-end dividend for the fiscal year ended August 2015 is including 2 yen of dividend to commemorate the company's 20<sup>th</sup> anniversary.

## 3. Forecast of consolidated business results for the fiscal year ending August 2016

(September 1, 2015 through August 31, 2016)

(% 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	Yen
Year ending Aug. 2016	46,100	3.7	1,360	8.1	1,370	8.4	870	24.1	64.22	

(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): 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: | : Yes  |
| ② Changes in accounting policies other than ①                                      | : None |
| ③ Changes in accounting estimates  | : None |
| ④ Restatement  | : None |

(4) Shares outstanding (common stock)

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

As of February 2016 13,958,800 shares

As of August 2015 13,958,800 shares

② Treasury stock at the end of period

As of February 2016 410,825 shares

As of August 2015 410,825 shares

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

Six months ended February 2016 13,547,975 shares

Six months ended February 2015 13,547,975 shares

**\*Implementation status of quarterly review procedures**

At the time of disclosure of this report, the procedures for review of consolidated financial statements pursuant to the Financial Instruments and Exchange Act have been completed.

**\*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.

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## 1. Results of Operations

### (1) Analysis of operating results

During the six months ended February 2016, the Japanese economy saw the additional monetary easing through the Japan's first negative interest policy implemented by the Bank of Japan, to cope with the decline in real GDP in the period from Oct. to Dec. and the concern over the slowdown of the economies of emerging countries, including China, from the beginning of this year. However the performance of exporting companies was estimated to decline, as share prices nosedived and the weaker yen was curbed.

In Japan's retail industry, personal consumption did not recover significantly, because consumers have been saving-oriented since the consumption tax hike last year, and the sales of winter clothes were sluggish due to the unusually warm winter.

Given this environment, the WATTS Group, which operates the 'Watts', 'meets.', 'silk' and other 100-yen shops, have started restructuring its business model from the previous consolidated fiscal year.

The Group has fostered know-how for achieving both greater customer satisfaction and higher earnings at shop by developing and selling ranges of private brand items under the 'WATTS SELECT' brand consisting of reasonably priced, best value for money products, mostly daily-use household items, and carrying out low-cost opening and closing of shops and low-cost shop operations. Restructuring its business model means that the Group is to carry out a complete revision of both its hardware side through development of shop packages and merchandise and the introduction of POS systems, and of its software side, which covers shop management and operations and employee training etc, for creating new brand value to meet diversifying customer needs with use of the fostered know-how.

The new 100-Yen shop "Watts" is expanding steadily through the opening of new shops and the remodeling of existing shops, and the number of shops as of the end of the second quarter of this consolidated fiscal year is 47. At present, the sales have been favorably, but the company will keep efforts to make the shops and products more attractive, streamline business operation, and control expenses.

Consignment shops were opened under the name of "Watts with" with a new model that reduces equipment investment compared with "Watts" shops. As of the end of the second quarter of this consolidated fiscal year, the number of the "Watts with" shops is 10.

In the core 100-yen shop business in Japan, Watts opened 49 shops with the full-year plan of opening 98 shops although there were many relatively small size shops. There were 29 shop closings (including 1 franchised shop), including certain unprofitable shops and unpredictable closing of stores where the company's shops were located in. As a result, the total number of 100-yen shops at the end of the six months ended February 2016 was 1,028, which includes 979 directly managed shops (net increase of 21), and 49 franchised/other shops (net decrease of 1).

As for the number of the other shops as of the end of the six months ended February 2016, 'Buona Vita,' which sells natural taste lifestyle goods, opened 2 shops and closed 3 shops, with an end result of 22 shops (including 1 franchised shop). 'Value-100,' the fresh-foods supermarket collaboration, continues with 1 shop.

Regarding the Group's overseas operation, Watts operates 'KOMONOYA', a fixed-price shop mainly in Southeast Asia. At the end of the six months ended February 2016, 'KOMONOYA' opened 5 shops in Thailand (Total number of shops: 27) opened 3 shops in Malaysia (7), opened 5 shops in Vietnam (8), and opened 1 shop in Peru (3). In China, there are 6 '小物家園' shops, including 1 shop opened through an agent contract, as 2 directly-managed shops were opened. Furthermore, performance of pop-up shops at local Japanese department stores remained favorable.

As a result, sales for the end of the six months ended February 2016 were 22,895 million yen (up 4.0% year on year, 100.9% to the plan), operating profit was 586 million yen (down 26.7% year on year, 102.8% to the plan), recurring profit was 585 million yen (down 27.0% year on year, 102.6% to the plan) and net income attributable to owners of parent was 347 million yen (down 29.6% year on year, 96.4% to the plan). (Year on year change is the comparison with result for the corresponding consolidated quarter, and ratio to plan is the comparison with the consolidated business forecast for the second quarter of the fiscal year ending August 2016, which was announced in the summary of financial results as of October 9, 2015.)

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

### a. Assets, liabilities and net assets

#### (Assets)

As of the end of the current second quarter of the consolidated fiscal year, current assets stood at 13,152 million yen, a decrease of 314 million yen compared with the end of the previous consolidated fiscal year. This is mainly because merchandise and finished goods increased 360 million yen. While notes and accounts receivable-trade decreased 164 million yen and cash and deposits decreased 410 million yen.

Fixed assets stood at 4,537 million yen, an increase of 127 million yen compared with the end of the previous consolidated fiscal year. This is mainly because buildings and structures increased 36 million yen, tools, furniture and fixtures increased 110 million yen due to new store openings.

As a result, total assets stood at 17,689 million yen, a decrease of 187 million yen compared with the end of the previous consolidated fiscal year.

#### (Liabilities)

As of the end of the current second quarter of the consolidated fiscal year, current liabilities stood at 7,720 million yen, a decrease of 205 million yen compared with the end of the previous consolidated fiscal year.

Fixed liabilities stood at 973 million yen, a decrease of 11 million yen compared with the end of the previous consolidated fiscal year.

As a result, total liabilities stood at 8,693 million yen, a decrease of 216 million yen compared with the end of the previous consolidated fiscal year.

#### (Net assets)

As of the end of the current second quarter of the consolidated fiscal year, net assets stood at 8,996 million yen, an increase of 29 million yen compared with the end of previous consolidated fiscal year. Retained earnings increased by 116 million yen.

As a result, shareholders' equity ratio was 50.9% (50.2% at the end of the previous consolidated fiscal year).

### b. Cash flows

Cash and cash equivalents (hereinafter referred to as "cash") at the end of the second quarter of the current consolidated fiscal year amounted to 4,739 million yen, a decrease of 410 million yen compared with the previous consolidated fiscal year.

Details and main reasons for increases and decreases of each cash flow in the current consolidated fiscal year are as follows.

#### (Cash flows from operating activities)

Net cash provided by operating activities was 182 million yen (301 million yen was provided in the same period of the previous fiscal year). Cash was provided mainly for income before income taxes of 554 million yen and depreciation and amortization of 171 million yen and decrease in accounts receivable-trade of 161 million yen. Cash was used mainly for increase in inventory assets of 379 million yen, decrease in accrued consumption taxes of 131 million yen and income taxes paid of 118 million yen.

(Cash flows from investing activities)

Net cash used in investing activities was 365 million yen (244 million yen was used in the same period of the previous fiscal year). Cash was used mainly for property, plant and equipment of 411 million yen for opening of new shops, payments for lease and guarantee deposits of 123 million yen and proceeds from collection of lease and guarantee deposits of 144 million yen.

(Cash flows from financing activities)

Net cash used in financing activities was 198 million yen (189 million yen was used in the same period of the previous fiscal year). Cash was used mainly for proceeds from long-term loans payable of 400 million yen, repayment of long-term loans payable of 369 million yen and dividend paid of 229 million yen.

(3) Future forecast information including consolidated business forecasts

Watts made no revisions to its full-year consolidated business forecasts announced in the summary of financial results on October 9, 2015, as the results for the current second quarter of the consolidated fiscal year were generally according to the plan.

## 2. Notes

### (1) Changes in significant subsidiaries during the period

None

### (2) Accounting methods specific to preparation of quarterly consolidated financial statements

None

### (3) Changes in accounting principles and estimates, retrospective restatements

#### Changes in accounting policies

(Application of Accounting Standard for Business Combination)

“Accounting Standard for Business Combinations” (ASBJ Statement No. 21 of September 13, 2013),

“Accounting Standard for Consolidated Financial Statements” (ASBJ Statement No.22 of September 13, 2013),

“Accounting Standard for Business Divestiture” (ASBJ Statement No. 7 of September 13, 2015) and related

standards have been applied, effective from the first quarter of the current consolidated fiscal year. Under this

new application of these standards, differences caused by change in the company’s equity in the subsidiaries

with controlling interests shall be now adjusted in paid-in capital, and acquisition-related expenses shall be all

reported as expenses accruing during the consolidated fiscal year in which said acquisition takes place. As to a

business combination to take place after the beginning of the first quarter of the current consolidated fiscal year,

appraisal of purchase price allocation, pursuant to the final determination of provisional accounting treatments,

shall now be changed to be reflected in the quarterly consolidated financial statements where the date of the

business combination falls. In addition, changes in the method of presentation include quarterly net income etc.

and the change from minority interests to non-controlling interests. Concerning the first half and fiscal year

consolidated financial statements for the previous consolidated fiscal year, the quarterly consolidated financial

statements are restated in order to reflect these changes in presentation.

The implementation of Accounting Standards for Business Combinations and its related standards is subject to

the transitional treatments stipulated in the provisions of Article 58-2 (4) of Accounting Standard for Business

Combinations, Article 44-5 (4) of Accounting Standard for Consolidated Financial Statements, and Article 57-4

(4) of Accounting Standard for Business Divestiture, and has been and will be under way since the beginning

of the first quarter of the current consolidated fiscal year and going forward.

The effect of these changes on the consolidated financial statement for the first half and for the fiscal year is

immaterial.



### 3. Quarterly Consolidated Financial Statements

#### (1) Quarterly Consolidated Balance Sheets

	(Thousands of yen)	
	Previous consolidated fiscal year (August 31, 2015)	Current second quarter (February 29, 2016)
Assets		
Current assets		
Cash and deposits	5,149,822	4,739,144
Notes and accounts receivable-trade	2,052,047	1,887,124
Merchandise and finished goods	5,634,254	5,994,436
Raw materials and supplies	8,970	11,167
Deferred tax assets	237,046	227,451
Consumption taxes receivable	23,567	39,150
Other	383,606	274,046
Allowance for doubtful accounts	-22,151	-19,800
Total current assets	13,467,162	13,152,720
Fixed assets		
Property, plant and equipment		
Buildings and structures	1,092,539	1,162,401
Accumulated depreciation and impairment loss	-675,268	-709,033
Buildings and structures, net	417,270	453,368
Vehicles	5,120	4,939
Accumulated depreciation and impairment loss	-2,585	-2,945
Vehicles, net	2,535	1,993
Tools, furniture and fixtures	2,756,720	2,935,259
Accumulated depreciation and impairment loss	-2,208,831	-2,276,537
Tools, furniture and fixtures, net	547,889	658,722
Land	257,800	257,800
Total property, plant and equipment	1,225,495	1,371,884
Intangible assets		
Other	54,945	59,890
Total intangible assets	54,945	59,890
Investments and other assets		
Investment securities	384,556	351,688
Deferred tax assets	124,803	141,106
Guarantee deposits	2,532,536	2,524,427
Other	117,907	120,123
Allowance for doubtful accounts	-30,298	-31,894
Total investments and other assets	3,129,504	3,105,452
Total fixed assets	4,409,945	4,537,227
Total assets	17,877,107	17,689,948

(Thousands of yen)

	Previous consolidated fiscal year (August 31, 2015)	Current second quarter ( February 29, 2016)
<b>Liabilities</b>		
Current liabilities		
Notes and accounts payable-trade	5,842,811	5,903,757
Short-term loans payable	100,000	100,000
Current portion of long-term loans payable	565,620	591,400
Income taxes payable	137,910	234,450
Accrued consumption taxes	148,465	33,489
Provision for bonuses	139,148	152,712
Other	991,260	704,231
Total current liabilities	7,925,215	7,720,040
Fixed liabilities		
Long-term loans payable	468,441	473,655
Liabilities relating to retirement benefits	156,184	160,796
Provision for directors' retirement benefits	106,193	85,419
Asset retirement obligations	62,442	62,371
Other	191,656	191,083
Total fixed liabilities	984,918	973,326
Total liabilities	8,910,133	8,693,366
Net assets		
Shareholders' equity		
Capital stock	440,297	440,297
Capital surplus	1,583,816	1,583,816
Retained earnings	6,905,180	7,021,984
Treasury stock	-84,123	-84,123
Total shareholders' equity	8,845,171	8,961,976
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	10,735	5,728
Foreign currency translation adjustment	111,066	28,877
Total accumulated other comprehensive income	121,802	34,606
Total net assets	8,966,973	8,996,582
Total liabilities and net assets	17,877,107	17,689,948

(2) Quarterly 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, 2014 to February 28, 2015)	Current second quarter (from September 1, 2015 to February 29, 2016)
Sales	22,011,280	22,895,488
Cost of sales	13,650,608	14,315,713
Gross profit	8,360,671	8,579,774
Selling, general and administrative expenses	7,561,113	7,993,727
Operating profit	799,558	586,047
Non-operating revenues		
Rent income	11,653	11,256
Equity in earnings of affiliates	10,892	2,567
Reversal of allowance for doubtful accounts	3,574	-
Other	7,466	7,900
Total non-operating income	33,587	21,724
Non-operating expenses		
Interest expenses	2,988	2,579
Early-withdrawal penalty	20,361	1,581
Cost of lease revenue	5,403	5,327
Exchange loss	-	7,868
Loss on abandonment of inventory assets	-	3,973
Other	3,446	1,366
Total non-operating expenses	32,199	22,695
Recurring profit	800,945	585,076
Extraordinary income		
Gain on sales of fixed assets	223	734
Surrender value of insurance	229	-
Compensation income	336	16,949
Total extraordinary income	789	17,683
Extraordinary loss		
Loss on retirement of fixed assets	18,501	5,229
Impairment loss	14,746	43,286
Total extraordinary losses	33,248	48,515
Income before income taxes and minority interests	768,486	554,243
Income taxes-current	316,272	211,451
Income taxes-deferred	-40,904	-4,328
Total income taxes	275,368	207,123
Net income	493,118	347,120
Net income attributable to owners of parent	493,118	347,120

(Quarterly Consolidated Statements of Comprehensive Income)

(Second quarter)

	(Thousands of yen)	
	Previous second quarter (from September 1, 2014 to February 28, 2015)	Current second quarter (from September 1, 2015 to February 29, 2016)
Net income	493,118	347,120
Other comprehensive income		
Valuation difference on available-for-sale securities	3,498	-5,007
Foreign currency translation adjustment	51,622	-59,808
Share of other comprehensive income of associates accounted for using equity method	24,808	-22,380
Total other comprehensive income	79,929	-87,196
Comprehensive income	573,048	259,924
(Breakdown)		
Comprehensive income attributable to owners of parent	573,048	259,924

## (3) Quarterly Consolidated Statements of Cash Flows

(Thousands of yen)

	Previous second quarter (from September 1, 2014 to February 28, 2015)	Current second quarter (from September 1, 2015 to February 29, 2016)
Net cash provided by (used in) operating activities		
Income before income taxes and minority interests	768,486	554,243
Depreciation and amortization	127,351	171,201
Impairment loss	14,746	43,286
Increase (decrease) in allowance for doubtful accounts	-2,368	-755
Increase (decrease) in provision for bonuses	6,070	13,563
Increase (decrease) in liabilities relating to retirement benefits	7,515	4,612
Increase (decrease) in provision for directors' retirement benefits	-2,543	-20,773
Interest and dividends income	-1,614	-1,313
Interest expenses	2,988	2,579
Loss on retirement of fixed assets	18,501	5,229
Decrease (increase) in accounts receivable-trade	331,456	161,821
Decrease (increase) in inventories	-393,204	-379,633
Increase (decrease) in notes and accounts payable-trade	17,765	101,926
Increase (decrease) in accrued consumption taxes	-36,599	-131,876
Other	-265,437	-221,833
Subtotal	593,115	302,278
Interest and dividends income received	1,553	1,263
Interest expenses paid	-2,966	-2,603
Income taxes paid	-290,258	-118,010
Net cash provided by (used in) operating activities	301,443	182,928
Net cash provided by (used in) investing activities		
Purchase of property, plant and equipment	-207,214	-411,471
Proceeds from sales of property, plant and equipment	360	5,691
Payments for lease and guarantee deposits	-89,653	-123,458
Proceeds from collection of lease and guarantee deposits	66,588	144,148
Payments for asset retirement obligations	-5,575	-410
Other	-9,308	20,014
Net cash provided by (used in) investing activities	-244,803	-365,485
Net cash provided by (used in) financing activities		
Proceeds from long-term loans payable	500,000	400,000
Repayment of long-term loans payable	-459,635	-369,006
Cash dividends paid	-229,580	-229,725
Net cash provided by (used in) financing activities	-189,215	-198,731
Effect of exchange rate change on cash and cash equivalents	27,560	-29,389
Net increase (decrease) in cash and cash equivalents	-105,014	-410,677
Cash and cash equivalents at beginning of period	6,714,266	5,149,822
Cash and cash equivalents at end of period	6,609,251	4,739,144

(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