

# Watts Co., Ltd. (TSE Standard, 2735) FY8/24 Q3 Operating Results

**The Q3 performance already achieved the full-year forecasts.  
Targeting a new customer base through new product development.**

## <Brief summary>

### Overview of FY8/24 Q3 results

- Watts announced its Q3 performance on July 10. Sales were 45,604 million yen (+2.6% YoY) and operating profit was 1,054 million yen (+184.6%), generally maintaining the strong first-half performance. Thanks to the favorable same-store sales continuing from Q2, sales for both the nine-month period and Q3 alone reached record highs. Profits also significantly increased YoY, driven by the various cost reduction efforts.
- New store openings and closures progressed smoothly. The Company opened 124 new stores at the end of Q3, achieving 78% of the full-year plan of 160 stores. It closed 79 stores, achieving 66% of the full-year plan of 120 stores. New store openings have progressed under the annual theme of “opening consignment-type stores with high profitability,” with approximately 90% of new stores being consignment-type models.
- Gross margin improved year-on-year to 38.5% for the nine-month period, maintaining the highest level since the COVID-19 crisis, consistent with the results in the first half. Amid the unchanged environment of soaring raw materials and the yen's depreciation, the Company has enacted the following three cost measures, leading to improved profit margins: (1) increasing the ratio of higher-priced products; (2) expanding lineups of low-cost 100-yen items to cope with the yen's depreciation; and (3) increasing the ratio of household items at stores with a high proportion of low-margin food items.
- No major progress has been made in its other businesses in Japan and overseas. While developing new formats to adapt to rapid changes in the external environment, the Company has also closed unprofitable stores and shifted to more profitable models.
- A notable topic is the launch of collaborative products with renowned Japanese celebrities, including Miki Fujimoto. The Company aims to attract a new customer base through this initiative.

### The full-year forecasts kept unchanged

- As of the end of Q3, the progress rate towards full-year business forecasts was 75.8% for sales and 100.4% for operating profit. Although all profit metrics exceeded their full-year targets, the Company kept its profit forecasts unchanged at the Q3 performance announcement, reflecting anticipated expenses for investments in systems and renovations of large-scale stores.

### Stock price data (July 23, 2024 closing price)

Stock price	737 yen
Shares issued	13,458,800 shares
Market cap	9,919 million yen
PER (est.)	15.72 times
PBR (actual)	0.79 times
Dividend yield forecast %	2.04%



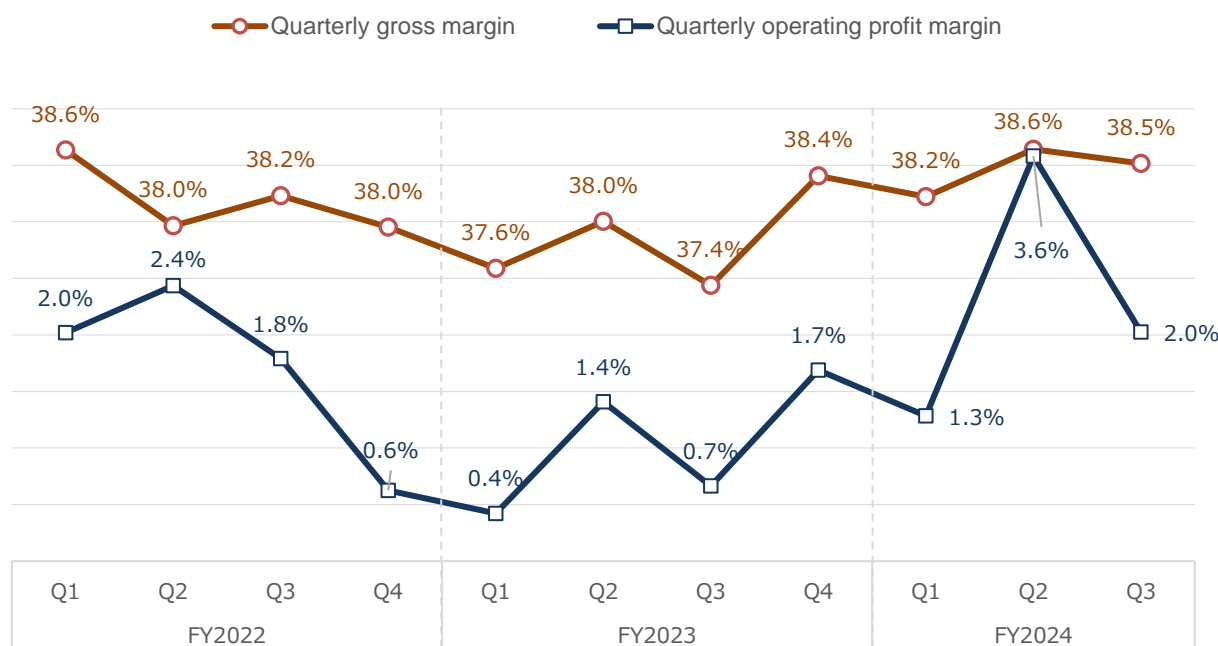
### Performance (Figures for FY8/24 are the Company's estimates)

(Million yen)	Sales	YoY (%)	Operating profit	YoY (%)	Recurring profit	YoY (%)	Net income	YoY (%)	EPS (¥)	Dividend (¥)	ROE (%)
FY8/23	59,309	1.6	621	-37.7	648	-43.5	250	-67.9	18.46	15.0	2.1
FY8/24(E)	60,200	1.5	1,050	68.9	1,000	54.2	620	147.4	46.77	15.0	-
FY8/23(Q3)	44,431	2.2	370	-59.1	372	-62.3	306	-40.9	22.55	-	-
<b>FY8/24(Q3)</b>	<b>45,604</b>	<b>2.6</b>	<b>1,054</b>	<b>184.6</b>	<b>1,069</b>	<b>186.9</b>	<b>760</b>	<b>148.4</b>	<b>57.51</b>	-	-

## <FY8/24 Q3 Results Overview: Strong performance continues from H1>

- The Company reported sales of 45,604 million yen (+2.6% YoY) and operating profit of 1,054 million yen (+184.6%), showing YoY growth in both sales and profits. Thanks to favorable same-store sales continuing from Q2, both the nine-month period and Q3 alone saw record-high sales. Each profit metric also increased significantly, supported by effective cost control measures, such as the introduction of higher-priced products and the expansion of the low-cost 100-yen item lineup to address the weak yen.
- The Q3 performance was generally strong similar to the first half, with no significant changes in the overall trend. While sales are outperforming expectations, the Company mentioned that it is still recovering from the operational difficulties caused by rapid exchange rate fluctuations in the previous fiscal year. The company is adapting to these external changes through successful cost control measures.
- This report focuses on major profit margins. For both the nine-month period and Q3 alone, the gross margin was 38.5%, with growth rates of 0.8 percentage points YoY for the nine-month period and 1.1 percentage points for Q3 alone. As shown in the table below, the quarterly gross margin has been improving from Q1 through Q3 compared to the previous fiscal year.
- Operating profit has also been trending upward as SG&A expenses are controlled (SG&A to sales: 36.2% for this period; 36.8% for the previous fiscal year) due to the strategic closure of unprofitable stores and government energy subsidies. The operating profit margin was 2.0% for Q3 alone, compared to 0.7% in the same period last year. It also outperformed the Q3 FY8/22 result of 1.8%, indicating the end of the period of turmoil.
- The Company's profit margins are improving; however, it should be noted that its profit structure has changed from what it was before the COVID-19 pandemic. A positive factor is that the Company's various measures, such as the introduction of higher-priced products and the opening of consignment-type stores, are fundamentally improving its profit margins. On the other hand, a negative factor is the expectation that government energy subsidies are temporary, and utility costs are anticipated to increase in the future, along with continued demands for wage increases due to rising prices.

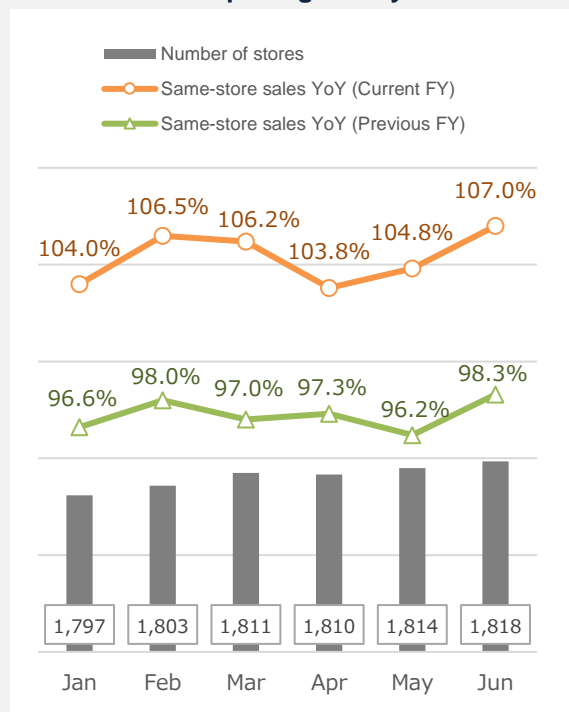
### Gross margin and operating profit margin are improving supported by various cost control measures



<Overview by business: Strong 100-Yen shop business, targeting new customer base through new products>

- Same-store sales at 100-Yen shops were 103.4% YoY for the nine-month period (September-May) and 104.9% YoY for Q3 alone (March-May), both showing strong performance. This growth was partly due to a rebound from the previous year's figures, which fell below 100% caused by reduced demand for hygiene products, including masks. However, even when averaging the results of the current and previous fiscal years, monthly performance exceeded 100% YoY for all months last year except for September. Excluding the rebound effect, the trend still appears to be on the rise. Peers Seria and CAN DO also performed well, with average same-store sales from March to May at 104.5% and 104.1%, respectively. The results for June were also above 106% for all three companies, despite having several weekends. This suggests strong demand in the 100-Yen shop industry, likely driven by increased awareness of the need for budget-friendly options in response to rising living costs.
- Regarding 100-Yen shops, the Company opened 124 stores at the end of Q3, achieving about 78% of the full-year plan of 160 stores. It closed 79 stores, achieving 66% of the full-year plan of 120 stores. New store openings have progressed under the current fiscal year's theme of "opening consentment-type stores with high profitability," with approximately 90% of new stores being consentment-type models. These consentment-type stores are small and easy to expand, contributing to a record high total of 1,814 stores at the end of Q3 (May 31).
- The number of higher-priced products increased from 4,266 in the first half to 4,390 by the end of Q3. The sales proportion of these products reached 20.7% in Q3 alone, exceeding the initial target of 20%. The Company plans to continue increasing this ratio further.
- In February, the Company began selling collaboration products with Miki Fujimoto, a popular celebrity mom known for her TV and social media activities. The collection includes picnic items such as leisure sheets, targeting the same generation of parents as her to expand the Company's fan base. Additionally, as part of its strategy to appeal to younger consumers, the Company launched its original collection "fasmy," featuring trendy, budget-friendly cosmetics. The ambassador for this collection is HANAUTA, a popular influencer known for her live streaming services. These collaborations are aimed at attracting younger consumers, a demographic with which the Company previously had limited reach.
- For other domestic businesses, including Buona Vita, there were no major changes, with the number of stores remaining the same as in the first half of the year. Similarly, there were no significant changes in the overseas business. The Company continues to seek a store and business portfolio that adapts to the challenging external environment.

Highest same-store sales and number of store openings this year



Petit-price cosmetics "fasmy" and Miki Fujimoto collaboration products

↑New collection "fasmy"

↑Collaboration products with Miki Fujimoto

↑fasmy's ambassador HANAUTA

## <Progress towards full-year forecasts: No upward revision due to upfront investment, despite achieving forecasts as of Q3>

■ As of the end of Q3, the Company had achieved 75.8% of its full-year forecast for sales, 100.4% for operating profit, and 122.6% for net income attributable to owners of parent. The profit items already exceeded the full-year forecasts. Sales are also trending at a faster pace than anticipated in the first half of the year. However, it has not revised its business forecasts upward due to ongoing upfront investments, such as renovation costs for large-scale stores and other store investments.

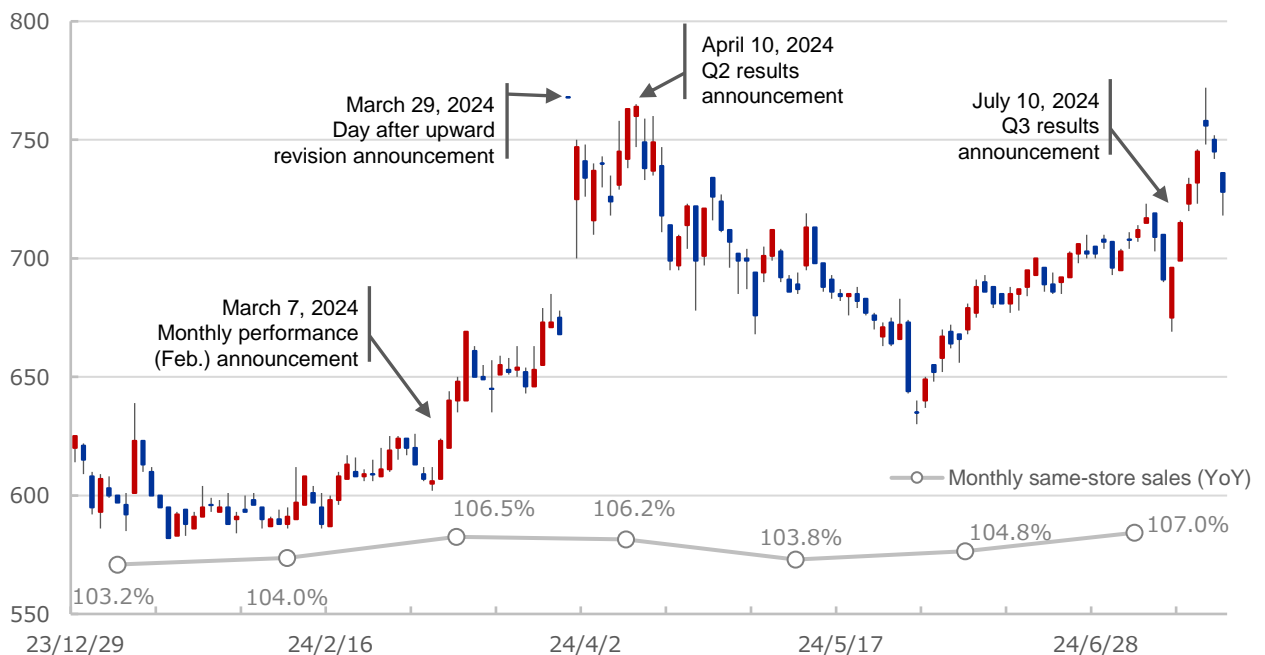
In the first half of the year, there were concerns that government energy subsidies for household electricity and gas would expire in June. However, the government announced that similar measures would continue for about three months starting in August as part of a new program to help people cope with the extreme heat. This measure alleviates one of the company's cost concerns. Given the strong monthly same-store sales mentioned above, there is no significant concern about achieving the full-year business forecasts, and we expect the Company to deliver a better-than-expected performance.

## <Stock Price: Upward trend linked to monthly and quarterly earnings releases, but P/B ratio remains below 1x>

■ The Company's stock price has been on an upward trend since the beginning of the year. As shown in the chart below, this movement appears to be closely linked to the disclosure of monthly figures and performance-related press releases. The stock price rose sharply to 768 yen the day after the upward revision of business forecasts on March 28. It then increased following the Q3 announcement on July 10 and formed a golden cross pattern around July 16, where the 25-day moving average crossed above the 75-day moving average. The stock reached its high for the year at 772 yen on July 18.

■ As of July 23, the closing price is 737 yen with an expected P/E ratio of 15.7x, actual P/B ratio of 0.79x, and dividend yield of 2.04%. The P/E ratios of its peers Seria and CAN DO were 25.1x and 1,534.0x, respectively, while the P/B ratios were 2.4x and 5.4x, respectively. Considering the possibility of achieving the full-year forecasts, the Company's stock, with its P/E ratio of less than 1x, can be considered undervalued compared to others in the same industry.

### Year-to-date Stock Price Chart/Major IR Events



## <Latest Press Releases>

The following are the major press releases disclosed by the Company during Q3 of FY8/24. (Click on the image below to check the news on the IRSTREET.)

07/29/2024	Notice Concerning Revision of Shareholder Returns Policy and Dividend Policy (Payment of Interim Dividend)
07/10/2024	Consolidated Financial Results for the Nine Months Ended May 31, 2024 (Under Japanese GAAP)
07/05/2024	Notice Regarding June 2024 Monthly YoY Change in Sales and Number of Shops
06/06/2024	Notice Regarding May 2024 Monthly YoY Change in Sales and Number of Shops
05/09/2024	[IR STREET REPORT]: Significant year-on-year profit increase, supported by effective cost control measures. Full-year forecasts upwardly revised reflecting continued strong performance.
05/08/2024	Notice Regarding April 2024 Monthly YoY Change in Sales and Number of Shops
04/12/2024	Operating Results for the Six Months of the Fiscal Year Ending August 2024 and Progress of the Full-Year Plan
04/10/2024	Consolidated Financial Results for the Six Months Ended February 29, 2024 (Under Japanese GAAP)
04/05/2024	Notice Regarding March 2024 Monthly YoY Change in Sales and Number of Shops
03/28/2024	Notice Concerning Revision to Business Forecasts for the First Half and the Full-Year
03/07/2024	Notice Regarding February 2024 Monthly YoY Change in Sales and Number of Shops

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#### Issuer: IR STREET (Finantec Co., Ltd.)

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