

## Watts (2735, JP)

Exchange: TSE 1

Sector: Retail

Market Cap: JPY15.7 billion

P/B: 1.6x (8/16 act)

Recommendation: HOLD

Share Price: JPY1,119 (1/20/2017)

Target Price: JPY1,696 (mid-term)

P/E: 16.7x (8/17 CE)

Div. Yield: 1.3% (8/17 CE)

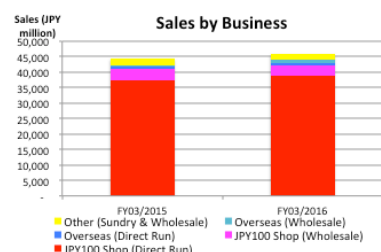


### Highlight

Titlis issues Watts (2735, JP) as HOLD for 12-month horizon at this time. On valuation, the share price seems to have upside potential in mid-term horizon as TP of JPY1,696 of its SOTP NAV for FY08/2020 (E) based on 30x of FCF on peer average. But applying 30x multiple to the company whose profit margin is lower than Seria and Cando would not be reasonable for 12 month horizon. On competitive positioning, improvement in profitability is underway, as 'Watts' brand store and POS system started just a year ago. Its rating should be upgraded when a sign is confirmed that its profit margin grows, well managing higher renovation cost of developing 'Watts' stores. This is a catalyst of the share price.

### Business Description

Watts was founded 1995 in Osaka and has grown to the 4<sup>th</sup> largest JPY100 shop in Japan, acquiring JPY100 shop operators such as Saitama based O-Three in 2007 and Okayama based Daisen in 2013 and an import sundry wholesaler Amano in 2010. Watts has expanded its JPY100 shop business to overseas market such as Thailand, China, Malaysia, Vietnam, Peru and etc. but most of revenue comes from domestic business as shown the bar Chart on left. Watts has set its basic business strategies such as low cost operation, low cost store development and great value of daily life goods in differentiation from other 3 competitors. In short, Watts runs low cost operation at small outlets of 230 square meters on average and providing great value daily items to customers, whereas competitors operate larger stores of 330-1,000 square meters. Daiso (privately owned) makes JPY395 billion sale from 3,000 stores, Seria (2783, JP) sells JPY130 billion at 1,352 stores, Cando (2698, JP) also earns JPY68 billion revenue from 976 stores for FY2015. Watts sells JPY46 billion at 1,059 outlets at store brand name as 'Silk', 'meets' and newly launched "Watts" and "Watts With."



	Daiso (Private)	Seria (2782, JP)	Cando (2698, JP)	Watts (2735, JP)
Sales (JPY million)	395,000	130,983	65,241	46,176
# of Stores	3,000	1,352	976	1,059
Sales/Store (JPY million)	132	97	67	44
Sale Space (sq meter)	330-1,000	330-1,000	330-1,000	230

## Industry Overview and Competitive Positioning

### Industry Overview

#### *History of JPY100 shops*

##### 1990s

JPY100 shops rapidly grew in mid-1990s as Japan's economy deteriorated after bubble economy collapsed. Consumers that strengthened budget mind highly supported the emerging retailers in depression. Meantime, China's production increasingly improved and stronger JPY rates helped the retailers' cost of goods sold lower.

##### 2000s

JPY100 shop was no longer niche business. Sales of Daiso increased from JPY48 billion for FY1997 to JPY281 billion for FY2003 but slowed to grow to single digit pace from FY2004. Tailwind of deflation economy and consumer's budget mind continued but customers come to buy goods more selectively, while other retailers such as super market, discount stores and DIY retailers developed private brand selling at low price. Low price goods were not selling at only JPY100 shops. JPY100 operators started to find differentiation strategy. Some JPY100 operators sold goods not only at JPY100 but multi prices. It was 2004 Seria introduced real time POS for the first time in this sector. Daiso, Cando and Watts followed far later after 2012.



##### 2010s

JPY100 shops are expanding to shopping malls. Developers consider JPY100 shops as featured store that collect many consumers. In fact, food court and JPY100 shops are the most popular sites. Developers are very likely to lease shopping space to a shop that is anticipated to gather more consumers. GMS and Super Market chain are losing costumers and many of them make revenue from property leasing revenue like a developer. They also expect JPY100 shops to call customers into their stores. In this market trend, Seria has expanded stylish stores to bring young customers. Competitors are following the store development.



#### *Change in Environment*

##### Customer Value

Any goods were sold out easily at JPY100 shop in 1990s if just put price tag of JPY100. But low price commodities are not special after tons of private brand goods arrive at stores in mid-2000s. Customer value seems to be changing and diversified. Just cheap goods remain unsold at store. Conversely, 'premium' private brand at convenience stores are highly supported in these days. Customers are more likely to visit not only to buy daily items and expendables but to expect to find something new or something different goods even at JPY100 shop rather than. In fact, sale in months holding event such as Halloween, Christmas, Valentine Day is increasing year by year. Customers are expecting to buy special goods for their extraordinary event.



## External Environment

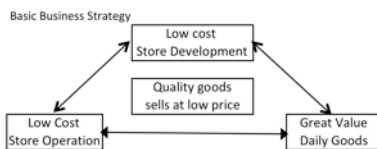
Currency rates are one of the factors that have greatly influenced the profitability of JPY100 shop operators, as the retailers import many of goods from China. USD/JPY hit the bottom at 75 in 2011 and moved higher due to massive quantitative easing by Bank of Japan. When USD/JPY gets stronger, JPY100 shop chains try to make goods smaller or change to lower cost material (i.e. from glass to plastic). No one can expect the direction of currencies but company management should not run a company on optimistic view of further appreciation of JPY rates.

## **Competitive Positioning**

### ***Basic Business Strategy***

#### Low cost store development

Watts expanded to 1,059 stores, most of which are smaller size stores of 230 sq meter on average. Its low cost store development system enables the company to run a small size site selling JPY3.6 million per month on average. A smaller site tends to lower rent, as competitors need larger site for larger sale. Low opening cost benefits to low closing cost, too. Lighter opening/closing cost enables quick decision of scrup and build and this helps flexible store expansion for growing to more than 1,000 outlets.



#### Low cost operation

Its store operation aims at a completely low cost operation. By eliminating waste work, store staff can focus on more customer service than other work. Watts standardized store works enable part-time employees to operate a store for themselves. A supervisor manages normally 6-7 stores in a area.

#### Great value daily goods

Above 2 lower cost operations boosts product development. Watts has been promoting private brand goods named 'Watts Select' since 2010. 'Watts Select' appeals customers its great value, showing its more volume or made of higher quality than a similar product. Watts aims at increasing loyal customers, offering great value goods.



Watts has expanded business on its basic business strategy, but revised the strategy to meet change in market environment.

### ***Revised Business Strategy***

#### Low cost store development

Watts has focused on developing small size stores, which would benefit to differentiate from competitors. However, not only shopping mall but also super market is more likely to rent a tenant who calls more customers and different category of customers into its store, as super market cannot stop losing customers. While competitors are developing stylish outlets recently, competitive store design becomes a factor of renewing leasing and new rent contract. Due to this environment, Watts decided to develop more fashionable stores as 'Watts' store in August 2015. Performance of 'Watts' stores is so far so good, increasing approximately 20% sales for a year. Renovation of a new



brand store is higher but positive sale and store design would be positive effect on leasing contract with landlord as company expected.

### Low cost operation

So far its 'Silk' and 'meets' stores have been well operated by part-time employees without POS. As its hot-seller items were normally regular items, even part-time staff could easily predict how many they should order. This saved IT system expenses. However, as customer need is diversified, in-store inventory was getting higher. POS data and automated order system help store staff to reduce workload at particular stores in large cities where it is not easy to hire part-time workers due to labor shortage. POS investment will add a few hundred million.

### Great value daily goods

Watts has mainly targeted at a homemaker who lives in neighborhood and frequently buys daily items and expendables. To increase loyal customers, the company has promoted great value goods as 'Watts Select' from 2010 but the number of the private brand items decreased to 100 items in 2016 from its peak of 220 items in 2014 in line with depreciation of JPY rates. 'Watts Select' is like a bargain good for highly appealing customers, but has to decrease the number of items if profit margin comes under pressure on weaker JPY rates. OP margin of the company decreased to 2.6% in FY03/2016 from 5% in FY08/2012. In order to enhance profit margin, Watts is gradually to move to data based merchandizing helped by POS data, which collects customer need.

### ***Competitive Positioning***

In its each business strategy, competitive positioning is analyzed below.

#### Low cost store development (key: Sales growth)

Higher 'Watts' brand store development cost pulled SGA/Sales up to 35.8% in 1Q FY08/2016 from 34.4% in 1Q FY08/2015. After rebuilding development cost of a new store that is classified in cost/benefit, SGA/Sales came to stabilize slightly to 34.8% and 35.0% in 3Q and 4Q FY08/2016. But it turned up again to 35.8% in 1Q FY08/2017. Store design necessarily became a part of important factor for maintaining competitiveness in both of store sale and sale space leasing with landlord. In renovation plan of 'Silk' and 'meets' stores that is located in super market, "Watts With" brand has been launched, which maintain current floor and wall design at lower renovation cost. Such investment seems to be inevitable, as there are 6,000 JPY100 stores in this country and necessarily 3 or 4 stores compete each other in a area. 'Watts' stores widens customer base from 40s and 50s to 30s women due to new store design. Reviewing 1Q FY-8/2017 result, OP margin improved but remained low at 2.0% although sales were up 3.6% YoY and COGS/Sales lowered by 0.8pt YoY. This was due to higher SGA/Sales at 35.8% in 1Q FY08/2017, compared with that for 34.4% in 1Q FY08/2015 and 32.9% in 1Q FY08/2014 before opening 'Watts'. The Table below shows comparison of 3 companies in SGA/Sales and COGS/Sales. Both financial ratios of Watts and Cando are compared for the same period from September to December. Interestingly, Watts that states low cost operator shows higher numbers in



SGA/Sales and COGS/sales. All 3 companies run 1,000 outlets and will have to spend renovation expense in future, although Watts does not plan to replace all stores to Watts' or 'Watts with.' The issue is top line growth how 'Watts' and 'Watts With' push sale higher. 'Watts' and 'watts with' accounts for only 15% at this moment and should accelerate total sale of the company from 2.5% YoY growth for 1Q, as the number of the new brand store are increasing. In addition, when I visited stores of all 4 companies, display furniture of 'Watts' store was the tallest. These days, a number of large retailers set lower furniture, as Shimamura (8227, JP) replaced shorter display and performs well. Female customers can not reach items that are displayed at the top of it and feel lock up.

	Cando (2698, JP)	Watts (2735, JP)	Seria (2782, JP)
Sales	65,241	46,176	130,983
COGS/Sales	61.5%	62.2%	57.6%
SGA/Sales	35.2%	35.8%	33.2%
# of Stores	976	1,059	1,352

(Note) COGS/Sales and SGA/Sales of Watts are 1Q FY08/2017.

(Note) COGS/Sales and SGA/Sales of Can Do are 4Q FY11/2016.

(Note) COGS/Sales and SGA/Sales of Seria are full year of FY03/2016.

## Low cost operation (key: Inventory control)

POS has been installed in 342 stores for FY08/2016 and is projected to complete installation in total 409 stores (38% of current total stores) for FY08/2017. The rest of 60% stores that are consigned to super market will not use Watts POS system. Although the company uses POS data of a similar store, location or same area in stead, it takes some time to construct precise analysis on the operation. Another Table below shows inventory turnover of 3 companies for the latest full year period. Apparently, the number of Watts is the highest in Inventory/COGS. Reduction of inventory is the best way of low cost operation. Watts needs further improvement on this issue, including inventory control of 60% of stores that are in-super market with consignment sale contract and need indirect data analysis.

	Cando (2698, JP)	Watts (2735, JP)	Seria (2782, JP)
Inventory	5,790	5,884	11,566
COGS	42,424	28,844	75,480
Inventory/COGS	1.64	2.45	1.84
total # of items	20,000	20,000	20,000

Great value daily goods (key: Combination of daily items and women items)  
Seria has superior more than 10-years experience in using POS data analysis. It would not easy to catch up with the IT aid merchandiser, although the software system and device are much improved than those in 10 years ago. Cando employed POS in 2012 that updated data overnight, and switched in 2015, whereas Watts newly adopted real-time POS in 2015. It takes some time to gather data and construct accurate analysis. Watts's customer base remains senior ages (mainly 40s-50s even slightly widened to 30s women) that buy

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daily items. If weaker JPY rates continue, the number of items and profitability of “Watts Select” will come under pressure. Seria enriches craftwork items and interior goods and Cando is selling beauty or cosmetic goods for young women by using Instagram. For instance, Cando lost 0.3% sale from male customers but increased sale from female customers by 5.4% YoY and overall sales and OP margin raised 4.3% YoY and 1.4pt for FY11/2016, as items for female customers are generally higher gross profit margin. If Watts aims at raising profit margin, the company should reinforce items for younger women. Watts is likely to reinforce women items. Pictures on left are St. valentines Day promotion in stores of 4 companies (Watts, Cando, Daiso, Seria: from top to bottom).

## Investment Summary

### Business Outlook

Full year earnings are very likely to be inline with the company forecast, assuming its positive existing store sales. In mid-term view, higher cost of ‘Watts’ store development is likely to put pressure on SGA expense, but if the new stores successfully expand sale, profit margin would move higher led by POS data. At this time Titlis does not includes contribution by POS in mid-term projection but includes SGA/Sales decreases 0.1pt a year a year alongside sales expansion by 4% a year.

### Competitive Positioning and Risks

Watts has expanded its business on its basic strategy such as low cost store development, low cost operation and great value daily goods. However, the strategy has been revised recently in order to meet change in market environment. On peer comparison, it would not clearly say Watts is a low cost operator. Strategic reform has just started and should be closely watched how it is working.

### Valuation

Examining EV/EBITDA, the share price does not look clearly undervalued in historical basis and peer comparison. EV/EBITDA is likely to decline from 8.5x for FY08/2017 (E) to 7.2x for FY08/2020 (E), but relatively higher than 6.3x and 5.9x for FY08/2013 and FY08/2014, and higher than that of Cando but lower than Seria. On Sum-Of-The-Parts valuation, applying 30x of FCF would be reasonable, as the earnings of the company is likely to improve in mid-term basis through its strategy reform. In case of mid-term projection for FY08/2020 (E), SOTP NAV is estimated to increase to JPY1,696 a share.

### Financial Stability

Watts has strong balance sheet and positive free cash flow as well as positive net working capital. The company is financially stable.

## Business Outlook

### Monthly Store Sale

The company projects existing store sale to remain flat 0% YoY for FY08/2018, but actual sale grows more than company's projection to +2.1% YoY for 1Q. Positive growth maintains led by renovation to 'Watts' store at this moment. Titlis expects existing store sale to increase +1.6% YoY for FY08/2017 (E), +1.2% YoY for FY08/2018 (E), +0.9% YoY for FY08/2019 (E) and +1.2% YoY for FY08/2020 (E) (see Table below).

Existing Store Sales Growth (% YoY)

Month	FY2012/8	FY2013/8	FY2014/8	FY2015/8	FY2016/8	FY2017/8	FY2018/8	FY2019/8	FY2020/8
9	4.3	0.0	1.3	-1.0	0.2	1.3	0.8	1.3	0.8
10	4.2	-1.1	0.1	-1.2	2.8	1.8	0.3	1.8	0.3
11	1.9	0.4	3.1	-2.5	-1.8	3.2	-1.1	3.2	-1.1
12	3.0	-0.7	1.7	-1.7	1.3	1.9	0.2	1.9	0.2
1	0.5	-1.3	1.2	-3.5	1.6	0.5	1.6	0.5	1.6
2	2.5	-3.7	-0.7	0.8	3.4	-1.3	3.4	-1.3	3.4
3	-4.9	-0.1	12.3	-12.5	1.3	0.8	1.3	0.8	1.3
4	-1.5	-2.0	-2.7	2.0	2.3	-0.2	2.3	-0.2	2.3
5	-0.8	0.1	-0.4	1.4	0.9	1.2	0.9	1.2	0.9
6	-2.0	1.7	-2.3	-1.6	1.5	0.6	1.5	0.6	1.5
7	-0.5	-0.8	-2.0	0.2	3.8	-1.7	3.8	-1.7	3.8
8	0.1	1.1	0.3	0.5	-0.2	2.3	-0.2	2.3	-0.2
1Q	3.5	-3.8	1.5	-1.6	0.4	2.1	0.0	2.1	0.0
2Q	2.0	-1.9	0.7	-1.5	2.1	0.4	1.7	0.4	1.7
3Q	-2.4	2.4	3.1	-3.0	1.5	0.6	1.5	0.6	1.5
4Q	-0.8	2.9	-1.3	-0.3	1.7	0.4	1.7	0.4	1.7
YR	0.2	3.8	-0.1	-1.6	2.8	1.6	1.2	0.9	1.2

(Source) Watts, titlis

CE 2.0 0.0

### 1Q FY08/2017 Result

Sale was up 2.5% YoY to JPY11,609 million and OP, RP and NP surged 57.5% YoY to JPY235 million, 63.2% YoY to JPY258 million and 96.1% YoY to JPY218 million respectively.

### Company Outlook for Full Year FY08/2017

The company kept on hold its full year outlook. Sale will be up 4.0% YoY to JPY48,000 million and OP, RP and NP are expected to gain 13.6% YoY to JPY1,370 million, 13.2% YoY to JPY1,350 million and 26.7% YoY to JPY910 million respectively.

### Titlis forecast for FY03/2017

Based on positive outlook of monthly sale as shown Table above, earnings for the full year will be in line with company forecast. Sales are expected to rise 3.2% YoY to JPY47,646 million and OP, RP and NP are expected to gain 14.6% YoY to JPY1,382 million, 17.7% YoY to JPY1,405 million and 14.8% YoY to JPY905 million respectively (see Table on appendix).

### Mid-Term Outlook

Mid-term outlook is projected based on solid existing store sale, the sale is expected to maintain solid growth in the mid-term at +4.0% YoY for FY08/2018 (E), +3.7% YoY for FY08/2019 (E) and +4.0% YoY for FY08/2020 (E) led by "Watts' stores. Alongside sales grows at moderate rate, SGA/Sales is expected to improve 0.1pt a year, while COGS/Sales remains flat. On this

assumption, OP, RP and NP for FY08/2020 (E) are expected to grow to JPY1,713 million, JPY1,711 million and JPY1,124 million respectively. The mid-term projection does not fully include positive effect of employing POS data. If the IT technology helps the sales higher and COGS and inventory lower, profit margin will accelerate to improve further from current projection of rising to 3.2% for FY08/2020 (E) from 2.6% for FY08/2016. In case of positive outlook of benefit from POS data, Titlis will revise the earnings projection upward. The financial statements in the mid-term are shown on Appendix.

## Valuation

There would be some room of revaluation for the share price. On Sum-of-the-Parts valuation, NAV is estimated to be JPY1,551 for FY08/2017 (E) and JPY1,696 a share for FY08/2020 (E). On the other hand, EV/EBITDA does not clearly show cheap on historical multiples, although it is lower than Seria, but higher than Cando.

### Sum-of-the Parts Value

Sum-of-the-Parts (SOTP) value is business value of each business segment that uses normalized EBIT, EBITDA and FCF from FY08/2014 to FY08/2017(E), added to net cash and long-term investment securities and land. SOTP value for FY08/2017(E) is estimated to be JPY1,551 a share (27% higher than closing price of January 24<sup>th</sup> 2017). SOTP value for FY08/2020(E) is estimated to be JPY1,696 a share (34% discount of closing price of January 24<sup>th</sup> 2017), as shown table below. The business value was based on 30x of its normalized FCF for the period, as Market Cap/FCF is relatively similar of the 3 companies than Market Cap/EBIT and Market/EBITDA (see Table on Appendix).

NAVs:			NAVs:		
Sum of the parts NAV (ARJ):			Future NAV 2020/3E (ARJ):		
Retail	1,256	30x FCF	Retail	1,336	30x FCF
	-			-	
Cash	373	1x Book	Cash	438	1x Book
Investment	17	0.75x Book	Investment	17	0.75x Book
Land	14	0.75x Book	Land	14	0.75x Book
Debt	(109)	1x Book	Debt	(109)	1x Book
Minority	-	1x Book	Minority	-	1x Book
Total SOTP NAV	JPY 1,551	72.2%	Total Future NAV	JPY 1,696	66.0%

### EV/EBITDA

EV/EBITDA for FY03/2017(E) is estimated to be 8.5x that is lower than that of Seria (16.5x) but slightly higher than Cando (7.8x). Also, considering historical EV/EBITDA of the company, current multiple of 8.5x is higher than 6.3x and 5.9x for FY08/2012 and FY08/2013. (see Table below).

	Aug-13	Aug-14	Aug-15	Aug-16	Mar-17(E)	Aug-18(E)	Aug-19(E)	Aug-20(E)
Avg. Mkt. Cap	JPY 14,606	JPY 12,105	JPY 12,701	JPY 12,884	JPY 15,187	JPY 15,187	JPY 15,187	JPY 15,187
EV	JPY 10,315	JPY 6,815	JPY 8,947	JPY 9,374	JPY 11,497	JPY 11,264	JPY 10,961	JPY 10,589
EV/EBITDA	6.32	5.94	8.26	8.15	8.49	8.01	7.59	7.16
*EV (LT Investm)	JPY 9,842	JPY 6,313	JPY 8,306	JPY 8,803	JPY 10,926	JPY 10,693	JPY 10,390	JPY 10,018
*EV/EBITDA	4.26	3.10	5.40	5.57	6.11	5.64	5.19	4.73
EV/EBIT	4.75	3.54	6.61	7.31	7.91	7.19	6.52	5.85
EV/FCF	3.88	5.52	-6.24	244.53	28.04	24.20	20.25	17.25



## Financial Analysis

As shown key financial ratios in Table below and financial statements summary on Appendix, Watts has strong balance sheet and maintains positive free cash flow and working capital, although lower profit margin reduced operating cash flow from FY08/2014 and inventory and account receivables are higher than competitors. (see cash flow statement on Appendix).

Financial Ratios:	Aug-12	Aug-13	Aug-14	Aug-15	Aug-16	Mar-17(E)	Aug-18(E)	Aug-19(E)	Aug-20(E)
ROE	15.21%	14.55%	11.77%	8.05%	7.78%	9.65%	10.15%	10.49%	10.84%
Gross Margin	38.25%	38.30%	38.06%	38.98%	37.53%	37.88%	37.88%	37.88%	37.88%
EBITDA Margin	5.73%	5.54%	4.68%	3.46%	3.42%	3.75%	3.82%	3.89%	3.96%
EBIT Margin	5.04%	4.97%	4.09%	2.83%	2.61%	2.90%	3.00%	3.10%	3.20%
Return on Assets	6.46%	6.18%	5.00%	3.92%	3.84%	4.78%	5.00%	5.17%	5.36%
Return on Fixed Assets	158.20%	150.94%	109.85%	72.31%	60.91%	77.72%	83.97%	89.76%	96.45%
Revenue / Assets	223.70%	229.56%	229.62%	248.74%	249.82%	251.47%	253.54%	254.40%	254.93%
Depreciation / Capex	51.29%	102.16%	38.40%	39.52%	54.34%	47.66%	47.66%	47.66%	47.66%
Depn / Sales	0.68%	0.57%	0.59%	0.63%	0.81%	0.85%	0.82%	0.79%	0.76%
Capex / Sales	1.33%	0.56%	1.52%	1.60%	1.50%	1.79%	1.72%	1.66%	1.60%
Depn / Net FA	37.37%	31.85%	29.55%	29.03%	32.30%	34.96%	34.95%	34.94%	34.93%
Asset / Equity	2.35	2.36	2.25	1.99	2.00	2.00	2.00	1.99	1.98
Equity / Asset	42.48%	42.34%	44.37%	50.15%	50.12%	50.09%	50.05%	50.22%	50.46%
Total Debt / EBITDA	0.85	0.86	0.70	0.91	0.96	0.85	0.80	0.76	0.72

## Investment Risks

3 middle-high risks are listed that are likely to hurt its earnings.

### Competition in industry (Likely, Middle-High Risk)

Watts has developed niche market, expanding small size stores. Competition is getting intense, as rivals are more likely to develop smaller size stores than before. Seria announces it plans to double its market share going forward. Also, Cando closed down its diversified business in the previous year and focuses on its core business. If the competitors really accelerate small size stores, it would be significant risk for the company.

### Weaker JPY rates (likely, Middle Risk)

As mentioned earlier, depreciation of JPY rates will hurt gross profit margin of 'Watts Select' items, although Watts tries to reduce negative impact on its earnings as much as possible. However, "Watts Select" is its major products and highly supported by frequent customers. Therefore, weaker JPY rates are very likely to put the earnings downward pressure for the company. Recently, the number of items of 'Watts Select' is decreasing and tries to change to data based merchandising by using POS data.

### Landlord (likely, Middle Risk)

In these days, business consolidation and scrap and build of super market chains are not surprised. In fact, shut down of a super market operator in the previous year dragged on the company's sales negatively. This is not cause by the company not landlord, but such risk would be possibly remained as Watts runs a lot of outlets in super market.

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## Appendix

FY2012/8	1Q	9,999	-6,205	-62.1%	3,794	-3,308	-33.1%	485	4.9%	485	482	-169	0	313	3.5%
	2Q	10,269	-6,310	-61.4%	3,959	-3,386	-33.0%	573	5.6%	577	577	-288	0	289	2.0%
	3Q	10,349	-6,429	-62.1%	3,920	-3,394	-32.8%	526	5.1%	519	531	-253	0	278	-2.4%
	4Q	11,108	-6,799	-61.2%	4,309	-3,818	-34.4%	490	4.4%	494	465	-221	0	244	-0.8%
	Full Year	41,725	-25,743	-61.7%	15,982	-13,906	-33.3%	2,074	5.0%	2,075	2,055	(931)	-	1,124	0.2%
FY2013/8	1Q	10,190	-6,294	-61.8%	3,896	-3,350	-32.9%	546	5.4%	549	567	-231	0	336	-3.8%
	2Q	10,310	-6,295	-61.1%	4,015	-3,345	-32.4%	669	6.5%	666	661	-272	0	389	-1.9%
	3Q	10,419	-6,449	-61.9%	3,970	-3,474	-33.3%	497	4.8%	499	496	-217	0	279	2.4%
	4Q	10,806	-6,705	-62.0%	4,101	-3,737	-34.6%	362	3.3%	361	331	-211	0	120	2.9%
	Full Year	41,725	-25,743	-61.7%	15,982	-13,906	-33.3%	2,074	5.0%	2,075	2,075	-	-	1,124	0.2%
FY2014/8	1Q	10,724	-6,665	-62.2%	4,059	-3,526	-32.9%	431	4.0%	441	447	-186	0	261	1.5%
	2Q	10,821	-6,693	-61.9%	4,128	-3,754	-34.7%	475	4.4%	464	455	-235	0	220	0.7%
	3Q	11,160	-6,951	-62.3%	4,209	-3,739	-33.5%	470	4.2%	482	479	-199	0	280	3.1%
	4Q	10,868	-6,680	-61.5%	4,188	-3,780	-34.8%	408	3.8%	412	364	-177	0	187	-1.3%
	Full Year	43,573	-26,989	-61.9%	16,584	-14,799	-34.0%	1,784	4.1%	1,799	1,799	1,263	-	948	-0.1%
FY2015/8	1Q	10,931	-6,782	-62.0%	4,149	-3,764	-34.4%	383	3.5%	401	396	-89	0	307	-1.6%
	2Q	11,080	-6,868	-62.0%	4,212	-3,797	-34.3%	416	3.8%	399	372	-186	0	186	-1.5%
	3Q	11,293	-7,121	-63.1%	4,172	-3,840	-34.0%	333	2.9%	332	308	-147	0	161	-3.0%
	4Q	11,158	-6,963	-62.4%	4,195	-4,069	-36.5%	125	1.1%	131	98	-51	0	47	-0.3%
	Full Year	44,462	-27,734	-62.4%	16,728	-15,470	-34.8%	1,257	2.8%	1,263	1,263	1,193	-	701	-1.6%
FY2016/8	1Q	11,329	-7,133	-63.0%	4,196	-4,046	-35.7%	149	1.3%	158	169	-57	0	112	0.4%
	2Q	11,566	-7,182	-62.1%	4,384	-3,947	-34.1%	437	3.8%	427	385	-150	0	235	0.0%
	3Q	11,622	-7,271	-62.6%	4,351	-4,048	-34.8%	303	2.6%	282	277	-107	3	173	0.0%
	4Q	11,659	-7,258	-62.3%	4,401	-4,085	-35.0%	316	2.7%	326	330	-137	6	199	0.0%
	Full Year	46,176	-28,844	-62.5%	17,332	-16,126	-34.9%	1,205	2.6%	1,193	1,190	-121	9	719	2.8%
FY2017/8	1Q	11,609	-7,221	-62.2%	4,388	-4,153	-35.8%	235	2.0%	258	220	-121	33	132	2.1%
	2Q (tE)	11,953	-7,333	-61.3%	4,620	-4,086	-34.2%	534	4.5%	534	534	-174	0	360	0.4%
	3Q (tE)	12,032	-7,516	-62.5%	4,516	-4,198	-34.9%	318	2.6%	318	318	-104	0	215	0.6%
	4Q (tE)	12,052	-7,528	-62.5%	4,524	-4,230	-35.1%	294	2.4%	294	294	-96	0	198	0.4%
	Full Year (tE)	47,646	-29,598	-62.1%	18,048	-16,667	-35.0%	1,382	2.9%	1,405	1,367	-495	33	905	1.6%
FY2018/8	1Q (E)	11,964	-7,442	-62.2%	4,522	-4,268	-35.7%	254	2.1%	254	217	-71	0	146	0.0%
	2Q (E)	12,480	-7,656	-61.3%	4,824	-4,254	-34.1%	570	4.6%	570	570	-186	0	385	1.7%
	3Q (E)	12,541	-7,834	-62.5%	4,707	-4,363	-34.8%	344	2.7%	344	344	-112	0	232	1.5%
	4Q (E)	12,581	-7,859	-62.5%	4,722	-4,403	-35.0%	319	2.5%	319	319	-104	0	215	1.7%
	Full Year (tE)	49,566	-30,791	-62.1%	18,776	-17,288	-34.9%	1,488	3.0%	1,488	1,451	-473	0	978	1.2%
FY2019/8	1Q	12,526	-7,792	-62.2%	4,735	-4,456	-35.6%	279	2.2%	278	237	-77	0	160	2.1%
	2Q	12,898	-7,912	-61.3%	4,986	-4,383	-34.0%	602	4.7%	602	602	-196	0	406	0.4%
	3Q	12,983	-8,110	-62.5%	4,873	-4,504	-34.7%	369	2.8%	369	369	-120	0	249	0.6%
	4Q	13,005	-8,124	-62.5%	4,881	-4,538	-34.9%	343	2.6%	343	343	-112	0	231	0.4%
	Full Year (tE)	51,413	-31,938	-62.1%	19,475	-17,881	-34.8%	1,594	3.1%	1,592	1,551	-506	0	1,046	0.9%
FY2020/8	1Q	12,910	-8,030	-62.2%	4,880	-4,580	-35.5%	300	2.3%	300	256	-83	0	172	0.0%
	2Q	13,467	-8,261	-61.3%	5,206	-4,563	-33.9%	642	4.8%	642	642	-209	0	433	1.7%
	3Q	13,533	-8,453	-62.5%	5,079	-4,681	-34.6%	399	2.9%	398	398	-130	0	268	1.5%
	4Q	13,575	-8,480	-62.5%	5,095	-4,724	-34.8%	372	2.7%	371	371	-121	0	250	1.7%
	Full Year (tE)	53,485	-33,225	-62.1%	20,260	-18,547	-34.7%	1,713	3.2%	1,711	1,667	-543	0	1,124	1.2%

Cash Flow Analysis	Aug-12	Aug-13	Aug-14	Aug-15	Aug-16	Mar-17(E)	Aug-18(E)	Aug-19(E)	Aug-20(E)
Net Income	1,177	1,123	948	700	709	905	978	1,046	1,124
Depreciation*	278	237	255	281	376	407	407	407	407
Amortization*	89	37	0	0	0	0	0	0	0
Other non-cash charges	290	(12)	226	(154)	(252)	0	0	0	0
Changes in WC	93	1,384	379	(1,448)	(105)	(68)	(89)	(86)	(96)
Operating Cash Flow	1,927	2,769	1,808	(621)	728	1,244	1,296	1,367	1,435
Per share	JPY 305.48	JPY 218.40	JPY 133.45	(JPY 45.84)	JPY 53.74	JPY 91.80	JPY 95.66	JPY 100.90	JPY 105.91
Capex	(542)	(232)	(664)	(711)	(692)	(854)	(854)	(854)	(854)
Free Cash Flow	1,385	2,537	1,144	(1,332)	36	390	442	513	581
Per share	JPY 219.56	JPY 200.10	JPY 84.44	(JPY 98.32)	JPY 2.66	JPY 28.77	JPY 32.62	JPY 37.87	JPY 42.87
Beginning Cash	3,039	4,086	6,280	6,714	5,149	5,030	5,210	5,443	5,747
Net cash used	1,047	2,194	434	(1,565)	(119)	180	233	304	371
Ending cash	4,086	6,280	6,714	5,149	5,030	5,210	5,443	5,747	6,118

# Titlis Group

corporate governance, investment research & solutions

	Daiso (Private)	Cando (2698, JP)	Watts (2735, JP)	Seria (2782, JP)
Market Cap		29,968	15,787	292,742
EV		26,115	12,017	272,148
Sales	395,000	68,041	46,176	130,983
EBIT		2,341	1,205	12,016
EBITDA		3,193	1,581	14,748
EV/EBITDA		8.2	7.6	18.5
OP Margin		3.4%	2.6%	9.2%
SGA/Sale		34.2%	34.9%	33.2%
ROE (CE)		9.8%	9.8%	22.2%
Annual Sales Growth (since FY2011)	3.9%	2.0%	5.2%	10.0%
# of Outlets	3,000	967	1,059	1,352
Existing Store Sale Growth (YoY)		100.8%	101.9%	103.8%
SGA		23,276	16,126	43,486
Cash		3,853	5,030	21,487
Debt		-	1,260	893
Dep		852	376	2,732
CapEx		(1,450)	(713)	(3,436)
Sales FY2011	341,500	63,019	38,188	93,634
MKTCAP/Sales		0.44	0.34	2.23
MKTCAP/EBIT		12.80	13.10	24.36
MKTCAP/EBITDA		9.39	9.99	19.85
MKTCAP/FCF		28.80	31.17	37.98
EV/EBITDA		7.77	8.49	16.51

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corporate governance, investment research & solutions

	2012/8	2013/8	2014/8	2015/8	2016/8	2017/8(E)	2018/8(E)	2019/8(E)	2020/8(E)
<b>Consolidated Balance Sheets</b>									
<b>Assets</b>									
<b>Current Assets</b>									
Cash and Cash Equivalents	4,086	6,280	6,714	5,149	5,030	5,210	5,443	5,747	6,118
Short-Term Investments	-	-	-	-	-	-	-	-	-
Notes and Accounts Receivable, Trade	1,812	2,320	2,318	2,052	2,163	2,232	2,322	2,408	2,505
Allowance for Doubtful Receivables	(21)	(24)	(24)	(22)	(20)	(21)	(21)	(22)	(23)
Inventories	4,642	4,975	5,233	5,642	6,126	6,321	6,576	6,821	7,096
Deferred Income Taxes	272	261	238	237	233	240	250	259	270
Other Current Assets	456	469	383	409	376	388	404	419	436
<b>Total Current Assets</b>	<b>11,247</b>	<b>14,281</b>	<b>14,862</b>	<b>13,467</b>	<b>13,908</b>	<b>14,371</b>	<b>14,973</b>	<b>15,631</b>	<b>16,401</b>
<b>Property, Plant and Equipment</b>									
Land	80	257	257	257	257	257	257	257	257
Buildings	773	879	944	1,092	1,208	1,208	1,208	1,209	1,209
Machinery and Equipment	2,208	2,366	2,587	2,761	2,975	2,975	2,975	2,975	2,975
Construction in Progress	-	-	-	-	-	(0)	(0)	(0)	(0)
<b>Total</b>	<b>3,061</b>	<b>3,502</b>	<b>3,788</b>	<b>4,110</b>	<b>4,440</b>	<b>4,440</b>	<b>4,440</b>	<b>4,440</b>	<b>4,440</b>
Accumulated Depreciation	(2,284)	(2,501)	(2,668)	(2,885)	(3,019)	(3,019)	(3,019)	(3,018)	(3,018)
<b>Net Property, Plant and Equipment</b>	<b>777</b>	<b>1,001</b>	<b>1,120</b>	<b>1,225</b>	<b>1,421</b>	<b>1,421</b>	<b>1,422</b>	<b>1,422</b>	<b>1,422</b>
Software & Other intangible assts	28	28	33	54	61	61	61	61	61
Goodwill	44	-	-	-	-	-	-	1	2
	72	28	33	54	61	61	61	62	63
<b>Other Assets</b>									
Associates	-	-	-	-	-	-	-	-	-
Investment Securities	84	216	245	384	314	314	314	314	314
Software & Others	(30)	(27)	(29)	(30)	(3)	(3)	(3)	(3)	(3)
Deferred Income Taxes	93	88	98	124	122	122	122	122	122
Other	2,560	2,589	2,647	2,651	2,661	2,661	2,661	2,661	2,661
<b>Total Other Assets</b>	<b>2,707</b>	<b>2,866</b>	<b>2,961</b>	<b>3,129</b>	<b>3,094</b>	<b>3,094</b>	<b>3,094</b>	<b>3,094</b>	<b>3,094</b>
<b>Total</b>	<b>14,803</b>	<b>18,176</b>	<b>18,976</b>	<b>17,875</b>	<b>18,484</b>	<b>18,947</b>	<b>19,549</b>	<b>20,209</b>	<b>20,980</b>
<b>Liabilities and Stockholders' Equity</b>									
<b>Current Liabilities</b>									
Bank Loans	140	140	100	100	100	100	100	100	100
Notes and Accounts Payable, Trade	4,433	6,578	7,170	5,842	6,129	6,324	6,579	6,824	7,099
	-	-	-	-	0	0	0	0	0
Accrued Expenses	-	-	-	-	-	-	-	-	-
Income Taxes	782	346	448	285	261	269	280	291	302
Other Current Liabilities	816	1,302	1,248	1,133	1,026	1,059	1,101	1,142	1,188
Current Portion of Long-Term Debt	1,267	957	679	565	626	626	626	626	626
<b>Total Current Liabilities</b>	<b>7,438</b>	<b>9,323</b>	<b>9,645</b>	<b>7,925</b>	<b>8,142</b>	<b>8,378</b>	<b>8,686</b>	<b>8,983</b>	<b>9,316</b>
Long-Term Debt	1,102	644	403	468	534	534	534	534	534
Deferred Income Taxes	-	-	-	-	-	-	-	-	-
Termination and Retirement Benefits	201	248	242	262	260	260	260	260	260
Other Long-Term Liabilities	247	266	267	255	284	284	284	284	284
	2,509	1,741	1,182	1,133	1,260	1,260	1,260	1,260	1,260
<b>Total Liabilities</b>	<b>8,988</b>	<b>10,481</b>	<b>10,557</b>	<b>8,910</b>	<b>9,220</b>	<b>9,456</b>	<b>9,764</b>	<b>10,061</b>	<b>10,394</b>
<b>Stockholders' Equity</b>									
Common Stock	440	440	440	440	440	440	440	440	440
Additional Paid-in Capital	876	1,583	1,583	1,583	1,583	1,583	1,583	1,583	1,583
Legal Reserve	4,783	5,716	6,434	6,905	7,393	8,088	8,857	9,693	10,608
Retained Earnings	-	1	1	1	1	1	1	1	1
Treasury Stock	(268)	(84)	(84)	(84)	(84)	(84)	(84)	(84)	(84)
<b>Total Stockholders' Equity</b>	<b>5,831</b>	<b>7,656</b>	<b>8,374</b>	<b>8,845</b>	<b>9,333</b>	<b>10,028</b>	<b>10,797</b>	<b>11,633</b>	<b>12,548</b>
Income	(15)	39	46	121	(67)	(537)	(1,012)	(1,485)	(1,961)
Minority Interests in Subsidiaries	-	-	-	-	-	-	-	-	-
<b>Total Stockholders' Equity</b>	<b>5,816</b>	<b>7,695</b>	<b>8,420</b>	<b>8,966</b>	<b>9,266</b>	<b>9,491</b>	<b>9,785</b>	<b>10,148</b>	<b>10,587</b>
<b>Total</b>	<b>14,804</b>	<b>18,176</b>	<b>18,977</b>	<b>17,876</b>	<b>18,486</b>	<b>18,947</b>	<b>19,549</b>	<b>20,209</b>	<b>20,980</b>

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