

Date: 10/18/2017

## Watts (2735, JP)

Exchange: TSE 1

Sector: Retail

Market Cap: JPY16.1 billion

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

Recommendation: OUTPERFORM

Share Price: JPY1,152 (10/18/2017)

Target Price: JPY1,597

P/E: 16.9x (8/17 CE)

Div. Yield: 1.3% (8/18 CE)

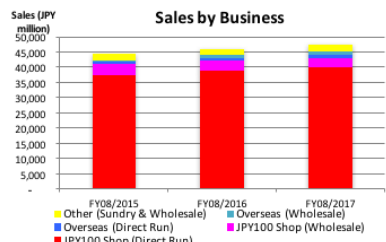


### Highlight –*Slower growth but undervaluation increased* -

METRICAL raised Watts (2735, JP) to OUTPERFORM from HOLD for 12-month horizon. Target price has been revised upward slightly to JPY1,597 from JPY1,590 of the previous report on July 16<sup>th</sup> 2017. On valuation, the share price increased upside potential in the short run, as it plunged from the year high of JPY1,500 on August 7<sup>th</sup> 2017. However, its overall environment has been intact primarily and its earnings are expected to grow at moderate pace, in line with company guidance for FY8/2018 and FY8/2019. Watts posted its earnings guidance to gain 4.4% YoY in sales and +20% YoY in OP for ongoing FY8/2019 but simultaneously revised down its Mid-Term Management Plan (MTP) right now at this moment.

### 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 Mexico. 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 JPY420 billion sale from 3,150 stores, Seria (2783, JP) sells JPY145 billion at 1,369 stores, Cando (2698, JP) also earns JPY69 billion revenue from 982 stores for FY2015. Watts sells JPY47 billion at 1,083 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)	420,000	145,328	68,900	47,494
# of Stores	3,150	1,369	982	1,083
Sales/Store (JPY million)	133	106	70	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.

# METRICAL INC.

corporate governance, investment research & solutions



## 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 1,049 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.



#### Basic Business Strategy



#### 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 boost 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

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 stores in large cities where it is not easy to hire part-time workers due to labor shortage. Installing POS will add a few hundred million Yen for the investment.

#### 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 each business strategy, competitive positioning is analyzed further below.

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

Higher 'Watts' brand store development cost pulled SGA/Sales up to 35.7% 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 to 34.8% and 35.0% in 3Q and 4Q FY08/2016. But it remained slightly higher at 35.8% in 1Q and 34.3% in 2Q FY08/2017, compared with 35.7% in 1Q and 34.1% in 2Q FY08/2016. Store design necessarily became a part of important factor for maintaining competitiveness for 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 maintains current floor and wall design at lower renovation cost but looks very nicely. Such investment seems to be inevitable, as there are 6,000 JPY100 stores in this country and necessarily 3 or 4 stores competes each other in a area. 'Watts' stores widens customer base from 40s and 50s to 30s



women due to new store design. Reviewing FY08/2017 result, OP margin inched down to 2.6% from 2.5% a year ago after improved to 3.4% and 3.0% for 2Q and 3Q but dropped to 1.7% for 4Q due to opening cost of Søstrene Grene. The Table below shows comparison of 3 companies in SGA/Sales and COGS/Sales. On COGS/sales, the ratio mostly depends on sales volume, as the larger sale of the company is the lower COGS/Sales is. On SGA/Sales, Watts is doing well, maintaining low-cost store operation compared with larger sale of Cando, but Seria benefits from large sale volume. All 3 companies run 1,000 outlets and will have to spend renovation expense in future for keeping competitiveness. , although Watts has accelerated renovation to Watts' or 'Watts with' from 'meets' and "SILK" store to 257 outlets of 1,087 stores as of August 2017. As a result, SGA/Sales of Watts is less likely to decrease significantly due to such renovation cost, unless the sales increase more rapidly, while the company forecasts 3% annual growth for the domestic JPY100 shop business. 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 locked up.

	Cando (2698, JP)	Watts (2735, JP)	Seria (2782, JP)
Sales	68,900	47,494	145,328
COGS/Sales	61.5%	62.1%	57.1%
SGA/Sales	35.3%	35.3%	32.5%
# of Stores	982	1,083	1,369

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

(Note) COGS/Sales and SGA/Sales of Can Do are F3Q Y11/2017.

(Note) COGS/Sales and SGA/Sales of Seria are FY03/2017.

#### Low cost operation (key: Inventory control)

Finally, Watts installed POS 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 instead, 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 of 3 companies. Reduction of inventory is the best way of low cost operation. Watts needs further improvement on this point, 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	5,551	6,534	13,562
COGS	31,773	29,499	82,940
Inventory/COGS	2.10	2.66	1.96
total # of items	20,000	20,000	20,000

Great value daily goods (key: Combination of daily items and women items)  
 Due to POS installation, GPM of Watts improved to 37.9% for FY8/2017 from 37.5% for FY8/20176, as 'Watts' stores sell more value-added goods increasing sundry goods replacing foods from shelves. 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 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.

## Business Outlook

### Monthly Store Sale

The company improved existing store sale to grow +1.5% YoY compared with company projection remaining flat at 0% YoY for FY08/2018. Improving store sale is likely to continue due to renovation to 'Watts' store and POS installation. METRICAL keeps conservative store sale for FY8/2018 at flat compared with company projection of +1% YoY (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	FY2021/8
9	4.3	0.0	1.3	-1.0	0.2	1.3	0.6	0.0	0.6	0.0
10	4.2	-1.1	0.1	-1.2	2.8	1.8	0.3	0.3	0.3	0.3
11	1.9	0.4	3.1	-2.5	-1.8	3.2	-1.1	1.7	-1.1	1.7
12	3.0	-0.7	1.7	-1.7	1.3	1.9	0.2	0.4	0.2	0.4
1	0.5	-1.3	1.2	-3.5	1.6	3.2	-1.1	1.7	-1.1	1.7
2	2.5	-3.7	-0.7	0.8	3.4	-0.5	2.6	-2.0	2.6	-2.0
3	-4.9	-0.1	12.3	-12.5	1.3	1.5	0.6	0.0	0.6	0.0
4	-1.5	-2.0	-2.7	2.0	2.3	1.8	0.3	0.3	0.3	0.3
5	-0.8	0.1	-0.4	1.4	0.9	0.8	1.3	-0.7	1.3	-0.7
6	-2.0	1.7	-2.3	-1.6	1.5	1.0	1.1	-0.5	1.1	-0.5
7	-0.5	-0.8	-2.0	0.2	3.8	-0.1	2.2	-1.6	2.2	-1.6
8	0.1	1.1	0.3	0.5	-0.2	1.8	0.3	0.3	0.3	0.3

1Q	3.5	-3.8	1.5	-1.6	0.4	2.1	-0.1	0.7	-0.1	0.7
2Q	2.0	-1.9	0.7	-1.5	2.1	1.5	0.5	0.1	0.5	0.1
3Q	-2.4	2.4	3.1	-3.0	1.5	1.4	0.7	-0.1	0.7	-0.1
4Q	-0.8	2.9	-1.3	-0.3	1.7	0.9	1.2	-0.6	1.2	-0.6
YR	0.2	3.8	-0.1	-1.6	2.8	1.5	0.6	0.0	0.6	0.0

(Source) Watts, METRICAL

CE 2.0 0.0 1.0

## Company Outlook for Full Year FY08/2018

The company posted full year outlook. Sale will be up 4.4% YoY to JPY49,600 million and OP, RP and NP are expected to gain 19.9% YoY to JPY1,450 million, 19.5% YoY to JPY1,520 million and 10.2% YoY to JPY925 million respectively.

## METRICAL forecast for FY08/2018

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 4.4% YoY to JPY49,579 million and OP, RP and NP are expected to gain 20.7% YoY to JPY1,460 million, 14.7% YoY to JPY1,460 million and 16.4% YoY to JPY955 million respectively (see Table on appendix).

## Mid-Term Outlook

Mid-term outlook is projected based on modest existing store sale of +0.6% YoY for FY8/2019 and 0% YoY for FY8/2020. Based on stable sale of domestic JPY100 shop and moderate expansion of overseas and other business, the earnings are expected to gain at mild pace for the mid-term (see Table of Sales by Segment and Income Statement in Appendix). Sales and profits for FY8/2018 and FY8/2019 are expected to gain in line with the company is very likely to miss company projection, although the company has revised its downward.

## Valuation

There would be some room of revaluation for the share price. On Sum-of-the-Parts valuation, NAV is estimated to be JPY1,597 for FY08/2018 (E) and JPY1,762 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 peers. This is because profit margin such as OPM is expected to fallow to recover to 3.1% for FY8/2020 (E) from 2.5% for FY8/2017.

## 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 FY08/2018(E), added to net cash and long-term investment securities and land. SOTP value is estimated to be JPY1,597 a share (28% higher than closing price of October 13<sup>th</sup> 2017) for FY08/2018 (E) and is estimated to be JPY1,782 a share (35% discount of closing price of October 13<sup>th</sup> 2017) for FY08/2020(E), 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.

NAVs:			NAVs:		
Sum of the parts NAV FY08/2017 (E):			Future NAV FY08/2020 (E):		
Retail	1,246	30x FCF	Retail	1,386	30x FCF
	-			-	
Cash	424	1x Book	Cash	469	1x Book
Investment	24	0.75x Book	Investment	24	0.75x Book
Land	14	0.75x Book	Land	14	0.75x Book
Debt	(111)	1x Book	Debt	(111)	1x Book
Minority	-	1x Book	Minority	-	1x Book
Total SOTP NAV	JPY 1,597	72.1%	Total Future NAV	JPY 1,782	64.7%

## **Investment Risks**

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

### **Competition in industry (Very 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 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 currency (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.

Aki Matsumoto, CFA  
akimatsumoto@metrical.co.jp



# METRICAL INC.

corporate governance, investment research & solutions

## Appendix

Sales by Segment (6 month period)		JPY100 Shop										Overseas					Other					Total
		Direct Run					Wholesale					Direct Run				Wholesale						
		Sales	change	Existing Store	# of Outlets	Yearly Sale/Outlet	Sales	change	# of Outlets	Yearly Sale/Outlet	Sales	change	# of Outlets	Yearly Sale/Outlet	Sales	Sales	change	Existing Store	# of Outlets			
		JPY (million)	(YoY)	Sale (YoY)			JPY (million)	(YoY)	JPY (million)		(YoY)	JPY (million)	(YoY)		JPY (million)	JPY (million)	(YoY)	Sale (YoY)				
FY2013/8	2Q	17,034	-1.1%		794	43	1979		53	75	0		9		0	1,486			17	20,499		
	4Q	17,958		0.0%	848	42	2036		53	77	0		8		0	1,231			18	21,225		
FY2014/8	2Q	18,227	7.0%	1.2%	889	41	2026	2.4%	52	78	38	NA	28	3	187	1,064	-28.4%		24	21,542		
	4Q	18,791	4.6%	0.7%	908	41	2015	-1.0%	51	79	74	NA	35	4	208	1,068	-13.2%		29	22,156		
FY2015/8	2Q	18,569	1.9%	-1.6%	943	39	1939	-4.3%	50	78	149	292.1%	22	14	270	1,082	1.7%		30	22,009		
	4Q	18,881	0.5%	-1.8%	958	39	1882	-6.6%	50	75	228	208.1%	35	13	411	1,050	-1.7%		25	22,452		
FY2016/8	2Q	19,073	2.7%	1.2%	979	39	1764	-9.0%	49	72	320	114.8%	51	13	645	1,090	0.7%		23	22,892		
	4Q	19,001	0.6%	1.6%	981	39	1748	-7.1%	47	74	387	69.7%	59	13	529	987	-6.0%		21	22,652		
FY2017/8	2Q	19,670	3.1%	1.8%	1,005	39	1655	-6.2%	44	75	459	43.4%	66	14	623	1,076	-1.3%	-3.8%	25	23,483		
	4Q	20,154	6.1%	1.1%	1,045	39	1583	-9.4%	42	75	466	20.4%	66	14	748	1,057	7.1%	-2.6%	28	24,008		
FY2018/8	1Q	10,272		-0.1%	1,066	39	791		42	75	240		68	14	385	567		-2.5%	27	12,254		
	2Q	10,400		0.5%	1,073	39	758		40	75	251		71	14	415	567		-2.5%	27	12,389		
	3Q	10,485		0.7%	1,080	39	721		38	75	261		74	14	451	499		-2.0%	27	12,418		
	4Q	10,562		1.2%	1,083	39	705		37	75	268		76	14	483	499		-2.0%	27	12,518		
FY2019/8	1Q	10,591	3.1%	0.7%	1,091	39	702	-11.2%	37	75	275	14.7%	78	14	509	599	5.8%	-1.5%	29	12,677		
	2Q	10,613	2.1%	0.1%	1,100	39	698	-7.9%	37	75	286	14.1%	81	14	542	599	5.8%	-1.5%	29	12,739		
	3Q	10,693	2.0%	-0.1%	1,110	39	697	-3.4%	37	75	297	13.5%	84	14	584	547	9.4%	-1.5%	30	12,816		
	4Q	10,750	1.8%	-0.6%	1,121	39	693	-1.7%	37	75	304	13.2%	86	14	620	547	9.4%	-1.5%	30	12,914		
FY2020/8	1Q	10,512	-0.7%	-0.1%	1,091	39	697	-0.8%	37	75	314	14.1%	89	14	657	651	8.7%	-1.5%	32	12,831		
	2Q	10,665	0.5%	0.5%	1,100	39	701	0.5%	37	75	321	12.3%	91	14	695	672	12.1%	-1.5%	33	13,054		
	3Q	10,780	0.8%	0.7%	1,110	39	702	0.8%	37	75	332	11.9%	94	14	734	610	11.6%	-1.5%	34	13,158		
	4Q	11,303	5.1%	1.2%	1,159	39	705	1.8%	37	75	339	11.6%	96	14	775	628	14.9%	-1.5%	35	13,751		

(Source) Watts, METRICAL

Financial Ratios:	Aug-12	Aug-13	Aug-14	Aug-15	Aug-16	Mar-17	Aug-18(E)	Aug-19(E)	Aug-20(E)
ROE	15.21%	14.55%	11.77%	8.05%	7.78%	8.77%	9.55%	9.88%	10.16%
Gross Margin	38.25%	38.30%	38.06%	38.98%	37.53%	37.89%	38.24%	38.24%	38.25%
EBITDA Margin	5.73%	5.54%	4.68%	3.46%	3.42%	3.30%	3.76%	3.84%	3.91%
EBIT Margin	5.04%	4.97%	4.09%	2.83%	2.61%	2.55%	2.94%	3.04%	3.14%
Return on Assets	6.46%	6.18%	5.00%	3.92%	3.84%	4.18%	4.61%	4.78%	4.93%
Return on Fixed Asset:	158.20%	150.94%	109.85%	72.31%	60.91%	65.50%	74.54%	79.37%	84.48%
Revenue / Assets	223.70%	229.56%	229.62%	248.74%	249.82%	236.50%	239.57%	240.20%	240.32%
Depreciation / Capex	51.29%	102.16%	38.40%	39.52%	54.34%	81.74%	47.66%	47.66%	47.66%
Depn / Sales	0.68%	0.57%	0.59%	0.63%	0.81%	0.75%	0.82%	0.80%	0.77%
Capex / Sales	1.33%	0.56%	1.52%	1.60%	1.50%	0.92%	1.72%	1.67%	1.62%
Depn / Net FA	37.37%	31.85%	29.55%	29.03%	32.30%	27.95%	31.77%	31.77%	31.76%
Asset / Equity	2.35	2.36	2.25	1.99	2.00	2.03	2.04	2.04	2.02
Equity / Asset	42.48%	42.34%	44.37%	50.15%	50.12%	49.16%	48.95%	49.13%	49.42%
Total Debt / EBITDA	0.85	0.86	0.70	0.91	0.96	0.99	0.83	0.79	0.75

# METRICAL INC.

corporate governance, investment research & solutions

	Sales	Sales chg	COGS	COGS/S	GP	SGA	SGA/S	OP	OPM	RP	EBT	Tax	Minority	NP	EPS	Existing Store
FY2015/8 1Q	10,931	1.9%	-6,782	-62.0%	4,149	-3,764	-34.4%	383	3.5%	401	396	-89	0	307		-1.6%
2Q	11,080	2.4%	-6,868	-62.0%	4,212	-3,797	-34.3%	416	3.8%	399	372	-186	0	186		-1.5%
3Q	11,293	1.2%	-7,121	-63.1%	4,172	-3,840	-34.0%	333	2.9%	332	308	-147	0	161		-3.0%
4Q	11,158	2.7%	-6,963	-62.4%	4,195	-4,069	-36.5%	125	1.1%	131	98	-51	0	47		-0.3%
Full Year	44,462	2.0%	-27,734	-62.4%	16,728	-15,470	-34.8%	1,257	2.8%	1,263	1,263	1,193	-	701	51.73	-1.6%
FY2016/8 1Q	11,329	3.6%	-7,133	-63.0%	4,196	-4,046	-35.7%	149	1.3%	158	169	-57	0	112		0.4%
2Q	11,566	4.4%	-7,182	-62.1%	4,384	-3,947	-34.1%	437	3.8%	427	385	-150	0	235		0.0%
3Q	11,622	2.9%	-7,271	-62.6%	4,351	-4,048	-34.8%	303	2.6%	282	277	-107	3	173		0.0%
4Q	11,659	4.5%	-7,258	-62.3%	4,401	-4,085	-35.0%	316	2.7%	326	330	-137	6	199		0.0%
Full Year	46,176	3.9%	-28,844	-62.5%	17,332	-16,126	-34.9%	1,205	2.6%	1,193	1,190	-121	9	719	53.07	2.8%
FY2017/8 1Q	11,609	2.5%	-7,221	-62.2%	4,388	-4,153	-35.8%	235	2.0%	258	220	-121	33	132		2.1%
2Q	11,875	2.7%	-7,395	-62.3%	4,480	-4,071	-34.3%	409	3.4%	437	429	-87	14	356		0.0%
3Q	12,142	4.5%	-7,584	-62.5%	4,558	-4,189	-34.5%	369	3.0%	367	361	-145	25	241		0.0%
4Q	11,868	1.8%	-7,299	-61.5%	4,569	-4,372	-36.8%	196	1.7%	210	207	-125	28	110		0.9%
Full Year	47,494	2.9%	-29,499	-62.1%	17,995	-16,785	-35.3%	1,209	2.5%	1,272	1,217	-478	100	839	61.96	1.5%
Full Year (CE)	48,000	4.0%						1,370		1,350				910	67.17	0.0%
FY2018/8 1Q (E)	12,254	2.6%	-7,579	-61.8%	4,675	-4,384	-35.8%	291	2.4%	291	248	-81	0	167		-0.1%
2Q (E)	12,389	3.1%	-7,671	-61.9%	4,718	-4,247	-34.3%	470	3.8%	470	470	-153	0	317		0.5%
3Q (E)	12,418	3.2%	-7,712	-62.1%	4,705	-4,272	-34.4%	434	3.5%	434	434	-141	0	292		0.7%
4Q (E)	12,518	3.5%	-7,655	-61.2%	4,863	-4,599	-36.7%	264	2.1%	264	264	-86	0	178		1.2%
Full Year	49,579	4.4%	-30,618	-61.8%	18,961	-17,502	-35.3%	1,460	2.9%	1,460	1,417	-462	0	955	70.49	0.6%
Full Year (CE)	49,600	4.4%						1,450		1,520				925		
FY2019/8 1Q	12,677	3.2%	-7,840	-61.8%	4,836	-4,522	-35.7%	314	2.5%	314	267	-87	0	180		0.7%
2Q	12,739	2.7%	-7,888	-61.9%	4,851	-4,354	-34.2%	496	3.9%	496	496	-162	0	334		0.1%
3Q	12,816	2.6%	-7,960	-62.1%	4,857	-4,396	-34.3%	461	3.6%	460	460	-150	0	310		-0.1%
4Q	12,914	2.3%	-7,897	-61.2%	5,017	-4,731	-36.6%	285	2.2%	285	285	-93	0	192		-0.6%
Full Year	51,145	3.2%	-31,585	-61.8%	19,560	-18,004	-35.2%	1,556	3.0%	1,555	1,509	-492	0	1,017	75.06	0.0%
Full Year (CE)	51,500	3.8%						1,600		1,700				1,050		
FY2020/8 1Q	12,831	2.6%	-7,936	-61.8%	4,895	-4,565	-35.6%	331	2.6%	330	282	-92	0	190		-0.1%
2Q	13,054	3.1%	-8,083	-61.9%	4,971	-4,449	-34.1%	522	4.0%	522	522	-170	0	352		0.5%
3Q	13,158	3.2%	-8,172	-62.1%	4,986	-4,500	-34.2%	486	3.7%	486	486	-158	0	327		0.7%
4Q	13,751	3.5%	-8,409	-61.2%	5,342	-5,024	-36.5%	317	2.3%	317	317	-103	0	214		1.2%
Full Year	52,795	3.2%	-32,600	-61.7%	20,194	-18,538	-35.1%	1,656	3.1%	1,655	1,606	-523	0	1,083	79.90	0.6%
Full Year (CE)	53,500	3.9%						1,800		1,900				1,150		

(Source) Watts, METRICAL

METRICAL INC.

Suite 3113, 28-10 Ebisu 2 chome, Shibuya-Ku, Tokyo 150-0013 Japan

Phone: +81-3-4405-6223 Email: [akimatsumoto@metrical.co.jp](mailto:akimatsumoto@metrical.co.jp)

<http://www.metical.co.jp/>

# METRICAL INC.

## corporate governance, investment research & solutions

	2012/8	2013/8	2014/8	2015/8	2016/8	2017/8	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	5,727	5,921	6,203	6,546
Short-Term Investments	-	-	-	-	-	-	-	-	-
Notes and Accounts	1,812	2,320	2,318	2,052	2,163	2,201	2,298	2,370	2,447
Allowance for Doubtful	(21)	(24)	(24)	(22)	(20)	(22)	(23)	(24)	(24)
Inventories	4,642	4,975	5,233	5,642	6,126	6,534	6,821	7,036	7,263
Deferred Income Taxes	272	261	238	237	233	303	316	326	337
Other Current Assets	456	469	383	409	376	533	556	574	592
<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>15,276</b>	<b>15,889</b>	<b>16,486</b>	<b>17,160</b>
<b>Property, Plant and</b>									
Land	80	257	257	257	257	257	257	257	257
Buildings	773	879	944	1,092	1,208	1,454	1,454	1,454	1,454
Machinery and Equipment	2,208	2,366	2,587	2,761	2,975	3,098	3,098	3,098	3,098
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>4,809</b>	<b>4,809</b>	<b>4,809</b>	<b>4,809</b>
<b>Accumulated Depreciation</b>	<b>(2,284)</b>	<b>(2,501)</b>	<b>(2,668)</b>	<b>(2,885)</b>	<b>(3,019)</b>	<b>(3,271)</b>	<b>(3,271)</b>	<b>(3,271)</b>	<b>(3,270)</b>
<b>Net Property, Plant and</b>	<b>777</b>	<b>1,001</b>	<b>1,120</b>	<b>1,225</b>	<b>1,421</b>	<b>1,538</b>	<b>1,538</b>	<b>1,538</b>	<b>1,538</b>
<b>Software &amp; Other intangible</b>									
Goodwill	28	28	33	54	61	78	78	78	78
	44	-	-	-	-	-	-	1	2
	72	28	33	54	61	78	78	79	80
<b>Other Assets</b>									
Investments in and Advances	-	-	-	-	-	-	-	-	-
Investment Securities	84	216	245	384	314	453	453	453	453
Software & Others	(30)	(27)	(29)	(30)	(3)	(1)	(1)	(1)	(1)
Deferred Income Taxes	93	88	98	124	122	119	119	119	119
Other	2,560	2,589	2,647	2,651	2,661	2,619	2,619	2,619	2,619
<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>3,190</b>	<b>3,190</b>	<b>3,190</b>	<b>3,190</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>20,082</b>	<b>20,695</b>	<b>21,293</b>	<b>21,969</b>
<b>Liabilities and Stockholders'</b>									
<b>Current Liabilities</b>									
Bank Loans	140	140	100	100	100	100	100	100	100
Notes and Accounts Payable,	4,433	6,578	7,170	5,842	6,129	6,325	6,603	6,811	7,031
	-	-	-	-	0	0	0	0	0
Accrued Expenses	-	-	-	-	-	-	-	-	-
Income Taxes	782	346	448	285	261	601	627	647	668
Other Current Liabilities	816	1,302	1,248	1,133	1,026	1,150	1,200	1,238	1,278
Current Portion of Long-Term	1,267	957	679	565	626	648	648	648	648
<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>8,824</b>	<b>9,179</b>	<b>9,445</b>	<b>9,725</b>
Long-Term Debt	1,102	644	403	468	534	771	771	771	771
Deferred Income Taxes	-	-	-	-	-	-	-	-	-
Termination and Retirement	201	248	242	262	260	28	28	28	28
Other Long-Term Liabilities	247	266	267	255	284	587	587	587	587
	2,509	1,741	1,182	1,133	1,260	1,519	1,519	1,519	1,519
<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>10,210</b>	<b>10,565</b>	<b>10,831</b>	<b>11,111</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	1,637	1,637	1,637	1,637
Legal Reserve	4,783	5,716	6,434	6,905	7,393	8,029	8,775	9,582	10,455
Retained Earnings	-	1	1	1	1	-	-	-	-
Treasury Stock	(268)	(84)	(84)	(84)	(84)	(137)	(137)	(137)	(137)
<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>9,969</b>	<b>10,715</b>	<b>11,522</b>	<b>12,395</b>
Comprehensive Income	(15)	39	46	121	(67)	4	(584)	(1,060)	(1,538)
<b>Minority Interests in</b>									
	-	-	-	-	-	-	-	-	-
<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>9,973</b>	<b>10,130</b>	<b>10,462</b>	<b>10,857</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>20,082</b>	<b>20,695</b>	<b>21,293</b>	<b>21,969</b>

METRICAL INC.

Suite 3113, 28-10 Ebisu 2 chome, Shibuya-Ku, Tokyo 150-0013 Japan

Phone: +81-3-4405-6223 Email: [akimatsumoto@metrical.co.jp](mailto:akimatsumoto@metrical.co.jp)

<http://www.metical.co.jp/>