

Seiko Holdings Corporation

FY2019 2nd Quarter Consolidated Results Presentation Summary of Q&A

- ◆ Date : Wednesday, November 13, 2019, from 3:00-4:00 p.m.
- ◆ Place : Seiko Holdings Corporation, Head Office
- ◆ Summary of Q&A :

Q1. To what extent has a surge in demand before a consumption-tax hike augmented net sales and profits?

A1. Net sales are estimated to have risen by around 2.0 billion yen, with growth mainly from the Watches and Wako businesses. We estimate that profit gained by an amount roughly equal to the amount of increased sales multiplied by the profit ratio.

Q2. What is the situation of the Watches Business, not counting the demand surge?

A2. The 2nd quarter saw strong domestic and overseas trends in Global Brands, as in the 1st quarter. We believe Global Brands would have performed strongly even if there had been no consumption-tax hike in Japan. The shift to high-end products has proceeded, so in conjunction with product-mix improvements, profitability was better. Profitability also benefited from mechanical-watch production increases and ongoing manufacturing-cost reduction, among other measures.

Q3. Which watch brands saw noticeable growth overseas and which were weak?

A3. Overall, growth centered on Global Brands. In Europe, growth was seen in France, Germany and other countries. Asia was led by a good growth in China.

Q4. In the Electronic Devices Business, what products do you see recovering in the second half and the ones not recovering? Also, what countermeasures will you take against the weak market environment?

A4. We feel that quartz and batteries have embarked upon a near-term recovery

trend, while automobile components and hard disk-related products are still facing a tough environment. Nor do we see much strength in printer-related products.

As a countermeasure, we will strive to cut costs as much as possible until the market environment recovers. Going forward, we will go ahead with preparing inventories according to detailed plans aimed at not missing the market's recovery.

Q5. For the first half, you increased advertising and promotion investment as planned, while simultaneously pursuing improvement in the overall profit ratio. At present, what are your views about profitability directions in the next fiscal year and beyond? Do you plan to substantially increase investment in the current fiscal year and see the next fiscal year and beyond as a period when the beneficial consequences will be reflected in your business results?

A5. As explained in the 7th Mid-Term Management Plan, policy calls for a renewed shift to more advertising and promotion investment over these three years. The shift has not quite yet yielded results in the current fiscal year, which is the plan's first year, but we are confident that this fiscal year's investment will be linked to results in the second and third years.

We will continue to build up investment in and after the next fiscal year and expect to see the effects in parallel with that.

Q6. How much of an effect did the surge in demand before the consumption-tax hike have on the Watches and Wako Businesses?

A6. Please allow us to withhold comments on specific numbers concerning the effect on the Watches and Wako Businesses. Nevertheless, we can say that growth in "Others," which includes the Wako Business, includes an effect of about 500 million to 600 million yen in conjunction with changes in the commercial distribution of clocks in the U.S. In addition, we see this year as one of very high demand for sports-related investment, as it is the year before the Tokyo Olympics and Paralympics, with higher net sales in the Time Systems Business included in "Others." The effect you mentioned was an increase in earnings within the range excluding the above positive factors and excluding the demand surge. This time, the surge appeared in the latter half of September and subsided sooner than the previous time the tax was hiked. We made substantial investments in advertising, including in newspapers, in September, and we believe that the results have finally

arrived.

Q7. Will advertising and promotion investment in the second half maintain the level of the initial forecast? Or, will it increase from the initial plan in line with the first half's strong performance?

A7. The forecast for advertising and promotion investment in the second half will be the level as initially planned.

Q8. The 2nd quarter performance in watch movements was sluggish. How is the earnings situation changing? Despite lower net sales, is the slight improvement trend in earnings continuing? And will this continue in the future as well?

A8. The situation that lasted until the 1st quarter has continued in the 2nd quarter as well. We think that countermeasures will be necessary in the second half as the market environment is poor.

Q9. Regarding net sales growth for watches, please comment separately on sales volume and unit price.

A9. In Japan, unit prices rose in the three months of the 2nd quarter. Global Brands, in particular, posted large unit-price gains, and sales volume also increased. In Japan as a whole, it was broadly flat year on year, and higher unit prices led to higher net sales. In overseas as well, a higher proportion of Global Brands pushed up unit prices.

Q10. In advance of the consumption-tax hike, what specific measures were taken to capture the demand surge?

A10. New products centering on Grand Seiko and other high-end products were launched earlier than in normal years. Also, advertising and promotion including TV commercials, which are usually concentrated before Christmas, were implemented earlier.

Q11. What is the situation with watches in China?

A11. The Chinese market environment in the same period of the previous fiscal year was not that strong, and compared to it, net sales rose by a double-digit percentage.

Q12. What are your thoughts on the decision of not participating in Baselworld

2020?

A12. We made this judgement because Baselworld 2020 had been postponed from the usual end-of-March to end-of-April, meaning that our timing for rolling out new products would have been delayed, raising concerns about having a weaker impact. Details are undecided, but in light of Baselworld's usual scheduling, we are considering launching our principal new products.

Q13. The forecast for capital investment has been revised downward from 12 billion yen to 10 billion yen. Will the difference in the amount be used to repay borrowings?

A13. The lower capital investment amount is not because we have discontinued any plans but because of deferred investment timing due to a later-than-expected recovery of the market environment for electronic devices and other products and delays in goods deliveries.

Q14. How are various countries reacting to the relaunch of Seiko 5 Sports?

A14. The new Seiko 5 Sports is highly rated in various countries.

Q15. In Global Brand overseas deployment, measures taken in the U.S. seem to be successful. Will you be launching similar measures in other regions? And in those other regions, are there synergies with the U.S. or any differences? What kind of awareness of the issues do you have?

A15. Our measures in the U.S. are successful, and Global Brands, especially Grand Seiko, have achieved good ratings. Naturally, we are hoping to achieve the same results for other regions as well, but there are multiple countries in other regions, each with distinctive market characteristics. Therefore, we do not think we can make exactly the same progress as in the U.S. While taking the U.S.s successful experience into account, we will move ahead with measures to expand Global Brands in other regions as well.
