



## 1. Business Results

### (1) Overview

During the nine-month period ended December 31, 2020, the world economy faced a severe environment due to the spread of the novel coronavirus. From around February 2020, governments in various countries placed restrictions on activities in order to combat the spread of the novel coronavirus. From May onward, these restrictions began being lifted, and economic activities were heading toward recovery. However, second and third waves of infection then occurred in many countries and regions worldwide. They continued to try to balance controlling the spread of infection with continuing economic activities. The U.S. economy has continued to recover from June onward. However, improvements in personal consumption and employment environment came to a temporary lull due to the spread of infection again. In Europe, economic activities resumed from May onward, and economies were gradually recovering. However, a second wave of infection, combined with the discovery of a new virus variant, before Christmas led to resumptions of lockdowns in the U.K., France, Germany, and other European countries, and retightened regulations on economic activities. The economy of China, which has contained the novel coronavirus since around March 2020, recovered steadily. From October onward, ongoing economic stimulus measures and the recovery of foreign demand supported the economic recovery. In other parts of Asia, economies recovered in many countries, such as Taiwan, which has kept the infection under control and for which both domestic demand and foreign demand have continued to recover. However, from October onward, there were economic downturns in some countries, such as Malaysia, where restrictions on activities were tightened again.

The Japanese economy also shrunk rapidly due to the closure of most of the commercial facilities such as department stores and retail stores following the government's declaration of a state of emergency in April. After the state of emergency was lifted, economic activities resumed, with care taken to prevent the spread of infection, and the economy gradually began to recover. However, the recovery was not a powerful one due to rising concerns over economic downturns caused by a third wave of infection.

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(Millions of yen)

	9M19	9M20	Variance	Variance %
Net sales	184,728	145,998	(38,730)	(21.0)%
Operating profit (loss)	8,115	692	(7,422)	(91.5)%
%	4.4%	0.5%	-	-
Ordinary profit (loss)	9,357	(878)	(10,235)	-
%	5.1%	-	-	-
Profit attributable to owners of parent	6,375	2,297	(4,077)	(64.0)%
%	3.5%	1.6%	-	-
Exchange rate (v. JPY)				
USD	108.7	106.1	(2.6)	(2.4)%
EUR	121.0	122.4	1.4	1.2%

Amid these circumstances, the Company's performance has also gradually recovered since June, when the lockdowns and state of emergency that continued from the previous fiscal year were lifted. However, net sales were sluggish in the Watches Business, the Clocks Business, the Wako Business and others as a result of a loss of inbound demand from foreign tourists to Japan due to global movement restrictions, and the frequent restrictions on activities caused by second and third waves of infection. Meanwhile, the Systems Solutions Business performed steadily, owing to the success of efforts to diversify the business and expand the stock business. As a result, for the nine-month period ended December 31, 2020, the Group reported consolidated net sales of 145.9 billion yen, a year-on-year decrease of 21.0%.

On an overall consolidated basis, domestic net sales came to 81.1 billion yen (a year-on-year decrease of 23.1%), and overseas net sales were 64.8 billion yen (a year-on-year decrease of 18.1%). Overseas net sales comprised 44.4% of net sales overall.

Although the policies of the Seventh Mid-Term Management Plan have not changed significantly, the Group revised the timing and methods of investment for growth, due to changes in the environment accompanying the spread of the novel coronavirus. As a result, advertising and promotion expenses for the ninth-month period ended December 31, 2020 fell by approximately 18% year on year. Other expenses also decreased year on year mainly due to reductions resulting from lower net sales and a transfer of fixed costs during closures, which occurred mainly in the three-month period ended June 30, 2020, to extraordinary losses. Operating profit for the third quarter of the fiscal year ending March 31, 2021 (from October to December) came to 2.2 billion yen, which is a significant improvement from operating losses of 2.1 billion yen in the first quarter (from April to June) and operating profit of 0.6 billion yen in the second quarter (from July to September). As a result, operating profit for the nine-month period ended December 31, 2020 came to 0.6 billion yen (a year-on-year decrease of 91.5%). Non-operating income and expenses

deteriorated year on year owing to a decrease in share of profit of entities accounted for using equity method mainly due to the transfer of shares of a semiconductor company that was an affiliated company accounted for using equity method, as well as a deterioration in the business results of an affiliated company accounted for using equity method. Accordingly, ordinary profit decreased by 10.2 billion yen year on year to ordinary losses of 0.8 billion yen (ordinary profit of 9.3 billion yen in the same period of the previous fiscal year). A gain on transfer of shares of the semiconductor company of 7.6 billion yen, a gain on sales of non-current assets of 0.5 billion yen, and subsidy income of 0.6 billion yen were posted as extraordinary income. A loss of 3.3 billion yen relating to the novel coronavirus was posted as extraordinary losses. As a result, profit attributable to owners of parent minus income taxes and profit attributable to non-controlling interests were 2.2 billion yen (a year-on-year decrease of 64.0%).

The average exchange rates for the nine-month period ended December 31, 2020 were 106.1 yen to 1 US dollar and 122.4 yen to 1 euro.

### Results by Segment

Results for each segment are as follows:

#### a. Watches Business

Net sales under the Watches Business came to 77.0 billion yen, a year-on-year decrease of 30.9 billion yen, or 28.7%. Net sales of completed watches in Japan fell substantially for two months in April and May due to the closure of retail stores and commercial facilities following the government's declaration of a state of emergency and a loss of inbound demand from foreign tourists to Japan. From June onward, when the state of emergency was lifted, net sales gradually recovered from regions where the effects of the novel coronavirus were weak. Net sales in September fell significantly compared to net sales in the same month of the previous fiscal year, which included a surge in demand before the consumption-tax hike. However, net sales in September generally recovered to the same level as two years prior, excluding inbound demand from foreign tourists to Japan. A third wave of infection began in November, bringing the recovery to a standstill. In terms of individual brands, net sales for all brands during the nine-month period from April to December failed to reach those of the same period of the previous fiscal year. However, during the three months of the third quarter, from October to December, net sales of Grand Seiko, which was driven by the 60th Anniversary commemorative models, and Seiko Prospex, which commemorates the 55th Anniversary of Seiko's diver's watch, increased year on year. On a distribution channel basis, mass retailers operating primarily in the Tokyo metropolitan area were affected significantly by the novel coronavirus, and sales suffered as a result. Meanwhile, e-commerce performed steadily.

Net sales of completed watches overseas were sluggish until around June due to the lockdowns that continued from the fourth quarter of the previous fiscal year around the world. However, net sales

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began to recover in many countries and regions from July onward. Net sales for the three-month period from October to December increased year on year in all months. In the U.S., physical stores began to reopen in July onward, in addition to online sales promotions, and net sales recovered steadily. Net sales of Grand Seiko and Seiko Prospex, especially commemorative models, grew favorably, driving overall net sales in the U.S. In Europe, the third wave of the novel coronavirus infection from around November led to resumptions of lockdowns in several cities. Although a recovery of watches in the affordable price range lagged in some countries, such as the U.K., sales of Global Brands, especially Seiko Prospex and Grand Seiko, grew strongly. In many countries, net sales for the three-month period from October to December increased year on year. In China, e-commerce continued to post strong performance. Furthermore, net sales in China increased year on year in all months from July onward, as a result of increased sales of Grand Seiko in physical stores, including Grand Seiko Boutiques. Net sales in other areas also increased year on year for the third quarter of the fiscal year ending March 31, 2021. This was thanks to Taiwan, where a Grand Seiko Boutique opened in Taipei in September, Thailand, where sales, mainly of Grand Seiko and Seiko Prospex, grew for the three months of the third quarter, and Australia, where there were lockdowns in some cities in October onward and where digital measures were enhanced. All three markets experienced a second consecutive quarter of net sales growth. As a result of strong sales in various countries, especially of Grand Seiko, overall overseas net sales of Global Brands increased year on year for the nine-month period ended December 31, 2020.

In the watch movements business, demand for analogue quartz movements remained sluggish due to a prolonged downturn in the fashion watch market, as well as the spread of the novel coronavirus. Net sales of mechanical movements were also sluggish due to partial restrictions of manufacturing activities based on government requests.

Operating profit decreased by 6.6 billion yen year on year, resulting in operating profit of 4.0 billion yen (a year-on-year decrease of 62.4%). The decline was despite expenses falling year on year due to such factors as a review on investments in line with the external environment and a curtailment of expenses following restrictions on economic activities.

## **b. Electronic Devices Business**

Net sales under the Electronic Devices Business came to 34.8 billion yen, a year-on-year decrease of 9.4%. Operating profit was 16 million yen, a year-on-year decrease of 97.5%. Sales in the printer-related business recovered from October onward for industrial inkjet print heads, while the business remained sluggish for the retail market due to the effects of the spread of the novel coronavirus. Furthermore, sales of products such as precision components for automobiles and high-performance metals for semiconductor production equipment were steady.

## **c. Systems Solutions Business**

Net sales under the Systems Solutions Business came to 25.1 billion yen, a year-on-year increase of

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1.2 billion yen, or 5.1%. Operating profit was 2.5 billion yen, a year-on-year increase of 0.3 billion yen, or 16.1%. Although some businesses were affected by the spread of the novel coronavirus, such as mobile communication equipment and solutions for the food service industry, in addition to COSMO CO., LTD. being made into a subsidiary in April, sales grew in cashless-related businesses, application performance management software and other areas, improving profitability.

## **d. Others**

Net sales under Others amounted to 17.3 billion yen, a year-on-year decrease of 22.8%. Operating losses were 0.4 billion yen (compared to operating profit of 0.1 billion yen in the same period of the previous fiscal year). Net sales for the three-month period ended June 30, 2020 fell significantly in the Wako Business, which closed its stores for about two months following the government's declaration of a state of emergency in Japan due to the spread of the novel coronavirus, as well as in the Clocks Business, with many of its distribution channels, such as department stores and mass retailers, having been shut down. Although the businesses have recovered since June, when the state of emergency was lifted, net sales were still down year on year due to a third wave of infection in Japan that began around November.

## **(2) Financial Condition**

### **-Assets-**

Total assets at the close of the nine-month period ended December 31, 2020 amounted to 320.4 billion yen, an increase of 20.4 billion yen from the close of the previous fiscal year. Total current assets came to 152.9 billion yen, an increase of 14.8 billion yen from the close of the previous fiscal year. This was due to increases of 4.6 billion yen in inventories, 11.0 billion yen in cash and deposits, and 0.5 billion yen in notes and accounts receivable - trade, offsetting a decrease of 1.9 billion yen in accounts receivable - other. Total non-current assets came to 167.4 billion yen, an increase of 5.6 billion yen from the close of the previous fiscal year. This was due to an increase of 9.2 billion yen in total property, plant and equipment, and decreases of 63 million yen in intangible assets and 3.5 billion yen in investments and other assets.

### **-Liabilities-**

For liabilities, total borrowings came to 129.8 billion yen, due to an increase of 25.1 billion yen in short-term borrowings, current portion of long-term borrowings roughly equal to the level at the close of the previous fiscal year, and a decrease of 4.9 billion yen in long-term borrowings. In addition, current liabilities and non-current liabilities increased by 0.2 billion yen and 0.6 billion yen due to adopting ASU No. 2016-02 "Leases" at the consolidated subsidiaries in the U.S. from the three-month period ended June 30, 2020. Furthermore, notes and accounts payable - trade decreased by 0.5 billion yen, provision for bonuses decreased by 1.3 billion yen, and accounts payable - other decreased by 2.3 billion yen. As a result, total liabilities amounted to 213.6 billion yen, an increase

of 17.9 billion yen from the close of the previous fiscal year.

## **-Net assets-**

With regard to net assets, total net assets increased by 2.5 billion yen over the close of the previous fiscal year to become 106.7 billion yen, owing to increases of 0.3 billion yen in retained earnings and 2.6 billion yen in valuation difference on available-for-sale securities, offsetting a decrease of 0.5 billion yen in foreign currency translation adjustment.

## **(3) Financial Forecast for the Year Ending March 31, 2021 (FY2020)**

The Company has revised its net sales forecast, because domestic net sales of the Watches Business were sluggish due to the novel coronavirus. Although net sales fall, the Company has not changed its operating profit from the previous forecast due to efforts such as reducing selling, general and administrative expenses. Meanwhile, the Company has also revised its ordinary profit, due to a greater-than-expected deterioration in share of loss of entities accounted for using equity method. The revised consolidated financial forecast and results by segment are as shown below.

The fiscal year ending March 31, 2021 is the second year of the Seventh Mid-Term Management Plan. The plan's progress has been delayed due to the novel coronavirus, which was not predicted in the Mid-Term Management Plan. However, the basic policies remain unchanged, and the Group believes it is of utmost importance for the Company's growth to further accelerate the strategies of the Mid-Term Management Plan in each business.

Furthermore, the Group will make investments that anticipate a world with and then without the novel coronavirus, such as by cultivating new demand and promoting Digital Transformation (DX) in marketing and sales activities. In addition, the Group will proactively work toward solving newly emerging social issues.

Note that the exchange rates for the financial forecast from the fourth quarter are as follows: 1 US dollar = 105.0 yen; 1 euro = 120.0 yen.

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## ■ Forecast for the consolidated business results for the year ending March 31, 2021 (FY2020)

(Billions of yen)	Current forecast (as of Feb. 9, 2021)	Year-on-year change (%)	Variance v. previous (%)	Previous forecast (as of Nov. 10, 2020)
Net sales	<b>205.0</b>	(14.3)	(2.4)	210.0
Operating profit	<b>0.2</b>	(96.7)	-	0.2
Ordinary profit (loss)	<b>(1.6)</b>	-	-	(1.3)
Profit attributable to owners of parent	<b>1.0</b>	(70.5)	-	1.0
Earnings per share	<b>24.26 yen</b>			

## ■ Forecasted results by segment for the year ending March 31, 2021 (FY2020)

(Billions of yen)	Net Sales		Operating Profit	
	Current	Previous	Current	Previous
Watches Business	<b>105.0</b>	110.0	<b>4.5</b>	4.5
Electronic Devices Business	<b>50.0</b>	50.0	<b>0.8</b>	0.8
Systems Solutions Business	<b>35.0</b>	35.0	<b>3.5</b>	3.5
Total for reported segments	<b>190.0</b>	195.0	<b>8.8</b>	8.8
Others	<b>25.0</b>	25.0	<b>0.0</b>	0.0
Consolidated total	<b>205.0</b>	210.0	<b>0.2</b>	0.2

Note: Consolidated total represents figures after consolidation adjustment such as the elimination of inter-segment sales.

*The forecasted results which appear in this report have been prepared based solely on the information which was available to us as of the date on which the report was released. As a result, actual results may differ from the forecasted figures due to a number of factors, such as changes in the business environment in the future.*



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## 2. Consolidated Financial Statements and Major Notes

### (1) Consolidated Balance Sheets

	(Millions of yen)	
	As of March 31, 2020	As of December 31, 2020
<b>Assets</b>		
Current assets		
Cash and deposits	26,112	37,152
Notes and accounts receivable - trade	34,397	34,981
Inventories	65,734	70,400
Accounts receivable - other	5,406	3,451
Other	7,790	8,325
Allowance for doubtful accounts	(1,317)	(1,335)
Total current assets	138,123	152,975
Non-current assets		
Property, plant and equipment		
Buildings and structures	72,189	74,510
Machinery, equipment and vehicles	78,307	76,803
Tools, furniture and fixtures	32,278	33,647
Other	7,183	8,630
Accumulated depreciation	(146,873)	(147,395)
Land	48,522	54,525
Construction in progress	2,434	2,582
Total property, plant and equipment	94,044	103,304
Intangible assets		
Goodwill	7,430	7,575
Other	8,572	8,364
Total intangible assets	16,003	15,939
Investments and other assets		
Investment securities	38,759	38,106
Deferred tax assets	4,441	2,479
Other	8,734	7,770
Allowance for doubtful accounts	(115)	(109)
Total investments and other assets	51,820	48,245
Total non-current assets	161,867	167,489
<b>Total assets</b>	299,990	320,464

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(Millions of yen)

	As of March 31, 2020	As of December 31, 2020
<b>Liabilities</b>		
<b>Current liabilities</b>		
Notes and accounts payable - trade	21,869	21,290
Electronically recorded obligations - operating	6,495	7,221
Short-term borrowings	59,140	84,323
Current portion of bonds payable	-	350
Current portion of long-term borrowings	16,843	16,848
Accounts payable - other	11,739	9,346
Income taxes payable	1,282	1,006
Provision for bonuses	3,477	2,124
Other provisions	1,367	1,127
Asset retirement obligations	13	7
Other	13,929	14,592
<b>Total current liabilities</b>	<b>136,158</b>	<b>158,238</b>
<b>Non-current liabilities</b>		
Bonds payable	-	550
Long-term borrowings	33,637	28,696
Deferred tax liabilities	1,929	2,396
Deferred tax liabilities for land revaluation	3,614	3,614
Other provisions	1,555	1,306
Retirement benefit liability	10,453	10,348
Asset retirement obligations	908	728
Other	7,460	7,806
<b>Total non-current liabilities</b>	<b>59,558</b>	<b>55,447</b>
<b>Total liabilities</b>	<b>195,717</b>	<b>213,686</b>

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(Millions of yen)

	As of March 31, 2020	As of December 31, 2020
Net assets		
Shareholders' equity		
Share capital	10,000	10,000
Capital surplus	7,245	7,245
Retained earnings	74,418	74,731
Treasury shares	(328)	(315)
Total shareholders' equity	91,335	91,661
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	5,486	8,122
Deferred gains or losses on hedges	11	(227)
Revaluation reserve for land	8,190	8,190
Foreign currency translation adjustment	(804)	(1,346)
Remeasurements of defined benefit plans	(1,169)	(976)
Total accumulated other comprehensive income	11,714	13,761
Non-controlling interests	1,223	1,355
Total net assets	104,273	106,778
Total liabilities and net assets	299,990	320,464

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## (2) Consolidated Statements of Income and Consolidated Statements of Comprehensive Income

### a. Consolidated Statements of Income

(Millions of yen)

	9M19	9M20
Net sales	184,728	145,998
Cost of sales	110,089	88,360
Gross profit	74,639	57,637
Selling, general and administrative expenses	66,523	56,945
Operating profit	8,115	692
Non-operating income		
Interest income	131	42
Dividend income	763	770
Share of profit of entities accounted for using equity method	1,150	-
Other	1,097	1,010
Total non-operating income	3,142	1,823
Non-operating expenses		
Interest expenses	739	701
Share of loss of entities accounted for using equity method	-	1,878
Other	1,161	813
Total non-operating expenses	1,900	3,394
Ordinary profit (loss)	9,357	(878)
Extraordinary income		
Gain on sales of investment securities	-	7,603
Subsidy income	-	605
Gain on sales of non-current assets	346	537
Total extraordinary income	346	8,746
Extraordinary losses		
Loss on the spread of infectious disease	-	3,351
Retirement benefit expenses	158	-
Total extraordinary losses	158	3,351
Profit before income taxes	9,544	4,516
Income taxes	3,083	2,090
Profit	6,460	2,426
Profit attributable to non-controlling interests	85	129
Profit attributable to owners of parent	6,375	2,297

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## b. Consolidated Statements of Comprehensive Income

(Millions of yen)

	9M19	9M20
Profit	6,460	2,426
Other comprehensive income		
Valuation difference on available-for-sale securities	(57)	2,989
Deferred gains or losses on hedges	10	(239)
Foreign currency translation adjustment	11	(384)
Remeasurements of defined benefit plans, net of tax	319	172
Share of other comprehensive income of entities accounted for using equity method	(314)	(469)
Total other comprehensive income	(29)	2,068
Comprehensive income	6,431	4,494
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	6,325	4,343
Comprehensive income attributable to non- controlling interests	106	150

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## (Changes in accounting policies)

The Company adopted ASU No.2016-02 “Leases” at some consolidated subsidiaries in the U.S., from the first quarter of the fiscal year ending March 31, 2021. Accordingly, the Company recognizes right-of-use assets and lease obligations with regard to all leases, in principle, for lessees’ lease transactions.

When applying ASU No.2016-02, the Company has adopted a method of recognizing the cumulative effect of application of this standard on the application start date, which is allowed as a transitional measure.

The standard’s application resulted in increases of 773 million yen in property, plant and equipment, 235 million yen in current liabilities, and 591 million yen in non-current liabilities, respectively, in the balance sheets for the nine months ended December 31, 2020. The impact of this standard on retained earnings at the beginning of the fiscal year, gains or losses and segment information for the nine months ended December 31, 2020 is immaterial.

## (Segment Information)

### I. For the nine months ended December 31, 2019

#### Disclosure of sales and profit (loss) for each reported segment

	Reported segments				Others	Grand total	Adjustment	Figures in consolidated statements of income
	Watches Business	Electronic Devices Business	Systems Solutions Business	Total				
Sales								
Revenues from external customers	106,629	35,640	22,754	165,024	19,704	184,728	-	184,728
Transactions with other segments	1,402	2,848	1,144	5,395	2,803	8,198	(8,198)	-
Net sales	108,031	38,489	23,898	170,419	22,507	192,927	(8,198)	184,728
Segment profit	10,684	647	2,214	13,546	197	13,743	(5,628)	8,115

- Notes:
1. The “Others” category denotes operating segments not included among reported segments, such as the Clocks Business.
  2. Adjustments to segment profit in the amount of -5,628 million yen include -424 million yen in the amortization of goodwill, 225 million yen that mainly consists of the elimination of transactions with other segments, and -5,429 million yen in company-wide expenses not appropriated to each operating segment. Company-wide expenses primarily consist of expenses incurred at headquarters, unallocated to operating segments.
  3. Segment profit has been adjusted for alongside operating profit on the consolidated statements of income.

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## II. For the nine months ended December 31, 2020

### Disclosure of sales and profit (loss) for each reported segment

(Millions of yen)

	Reported segments				Others	Grand total	Adjustment	Figures in consolidated statements of income
	Watches Business	Electronic Devices Business	Systems Solutions Business	Total				
Sales								
Revenues from external customers	75,756	31,304	23,960	131,021	14,976	145,998	-	145,998
Transactions with other segments	1,324	3,571	1,159	6,054	2,393	8,448	(8,448)	-
Net sales	77,080	34,876	25,119	137,076	17,369	154,446	(8,448)	145,998
Segment profit (loss)	4,012	16	2,570	6,598	(447)	6,151	(5,458)	692

- Notes:
1. The "Others" category denotes operating segments not included among reported segments, such as the Clocks Business.
  2. Adjustments to segment profit (loss) in the amount of -5,458 million yen include -424 million yen in the amortization of goodwill, -342 million yen that mainly consists of the elimination of transactions with other segments, and -4,690 million yen in company-wide expenses not appropriated to each operating segment. Company-wide expenses primarily consist of expenses incurred at headquarters, unallocated to operating segments.
  3. Segment profit (loss) has been adjusted for alongside operating profit on the consolidated statements of income.

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