Seiko Group Corporation

FY23 Q1 Consolidated Results Presentation - Q&A

- Date : Wednesday, August 9, 15:00 - 15:40, Tokyo, Japan
- Respondents : Taku Yoneyama, Director, Executive Vice President
  Hiromi Nakagawa, Senior Vice President

Summary of Q&A

Q1. You said that the domestic Watches Business performed very strongly in 1Q. What percentage of sales did inbound tourists account for? What is your forecast for inbound tourist demand going forward?

A1. We estimate that the percentage of sales to inbound tourists has rebounded to the low double-digit range (10% to 20%). We expect that China's continued easing of travel restrictions will lead to an increase in inbound tourists, which in turn will have a positive effect on sales. To put it simply, if the number of Chinese visitors to Japan increases, inbound demand for watches will also increase.

Q2. It is interesting that the number of Chinese visitors to Japan did not recover to the pre-COVID level in 1Q, but the percentage of sales to inbound tourists rebounded close to the pre-COVID level. What contributed to that recovery in sales to inbound tourists?

A2. Before the pandemic, watch sales to inbound tourists were mainly in the mass-market and middle price range. In the past few years, we have seen a global expansion of GS sales. Inbound tourists are now buying more luxury watches, particularly GS, and as a result, the average price of watches sold to inbound tourists has increased. This is the main factor supporting the recovery of 1Q sales figures.

Q3. Because your brand power in Japan is strong, sales volume was not significantly affected by this year's price increases. Was this strong showing due to increasing your brand positioning in recent years, or was it a reaction to the pandemic? And how should we view this from a long-term perspective?

A3. The post-pandemic recovery is of course one reason, but the most important factor is, as you mentioned, a significant change in brand positioning, particularly regarding GS. Let me give you an example. In June this year, we opened a new GS boutique on Namiki-dori, a posh shopping street in Ginza. The main GS boutique in Ginza 7-chome attracts many foreign customers, but the new one on Namiki-dori appeals to Japanese customers who are looking to buy a luxury watch.

Our business profile is changing. The quality of the GS brand is now recognized not only in Japan, but also around the world. It is beginning to be seen as a brand that can compete head-to-head with the Swiss brands. The global luxury watch market is very large, competition in the post-pandemic world may be quite different from what it was before, and we think we are just at the starting line. We are confident that we will continue to expand our share of the luxury watch market over the long term.

Q4. You have explained that overall profit margin improved in 1Q and the Watches Business contributed significantly to that. Of course external factors, such as exchange rates, also contributed to those results. However, it seems that some of the improvement in the Watches Business reflected factors connected with Seiko — changes in demand from inbound tourists, a change in the position of the brand, and so on. Is that analysis essentially correct?

A4. Yes, it is correct. In addition to external factors, Shohei Ohtani's success in MLB has helped our brand image, which has been a tailwind for us, and sales of Prospex were solid. In addition, products with new calibers contributed to stronger profits.

Q5. Results in the Devices Solutions Business (DS) remained very weak in 1Q, and you have revised the full-year forecast downward. When do you see DS beginning to recover?

A5. The DS business as a whole is slowing, but sales of a few select products are already starting to recover. For example, sales of crystals for personal computers are recovering, and demand for micro batteries, chiefly for medical equipment, is also recovering and looks solid. At the same time, printing devices and hard disk drive components are slow to recover, partly due to the slowdown of the Chinese economy. Beginning in the second quarter, we will strive to increase our share of the European and US markets. We expect year-on-year declines to narrow gradually, reflecting significant slowdowns in the latter half of last year.

Q6. External sales in DS declined from 4Q of the previous fiscal year and the segment fell into the red. However, profit improved significantly in 1Q of the current term. What were the main factors supporting that change? Why did the break-even point decline? Were there changes in DS costs between the FY22 4Q and FY23 1Q?

A6. In the previous year, the DS business slowed faster than we could reduce costs. However, once those cost reductions did kick in, they helped to boost profits in the 1Q. In addition, some product areas, such as crystals, micro batteries, and radiation-related products, showed significant improvement. The combination of these factors pushed profit back into the black in 1Q.

Q7. You noted that sales of crystals and micro batteries are recovering, but sales of hard disk drive components and printing devices remain weak. In short, some products are doing well and others are not. If this trend continues, or even worsens in 2Q and beyond, how will that affect the profitability of DS?

A7. On a value basis, the profit contribution of crystals and high-performance metals for IC manufacturing equipment is larger than the contribution of HDD components and printing devices. Therefore, if sales of crystals and high-performance metals continue to improve, overall profitability will improve.

Q8. How does actual 1Q operating profit compare with your internal projections?

A8. Consolidated operating profit has been in line with our plans. In fact, operating profit in the Emotional Value Solutions (EVS) Domain exceeded our forecast, and caused us to revise up the full-year forecast. The recovery of the DS business has been slower than we initially planned, and 1Q operating profit in that area fell short of our forecast.

Q9. You have said that external sales of movements has been weak, and I understand that you made a significant production adjustment in last term's 4Q. What did your capacity utilization look like in 1Q?

A9. Sales of movements were very weak in FY22 4Q, and we completed production adjustments. While some adjustments are still in effect, production is once again increasing. However, sales of movements to China have not recovered, so we still need to carefully examine our production plans in light of continuing slack demand in that key market.

Q10. Was the adjustment of movement production a contributing factor in the profit improvement from 4Q to 1Q?

A10. Yes, but perhaps even more significant was the structural reform that we carried out in 4Q. That structural reform was a key contributor to profit improvement in 1Q.