

Seiko Holdings Corporation

FY21 Consolidated Results & 8th Mid-Term Management Plan Presentation Summary of Q&A

- ◆ Date : Wednesday, May 11, from 10:30 a.m.-12:00 p.m.
- ◆ Place : <Web conference>
- ◆ Respondent : Shinji Hattori, Chairman & Group CEO, Group CCO
Shuji Takahashi, President
Akio Naito, President of Seiko Watch Corporation
Takahiro Naito, President of Seiko Instruments Inc.
Jun Sekine, Director, President of SEIKO Solutions Inc.
Kenji Hagiwara, President of SEIKO Time Creation Inc.
Shuntaro Ishii, President of WAKO Co., Ltd.
Shimesu Takizawa, Executive Director; Kiyoko Niwasaki, Executive Director; Makoto Ichimura, Director; Tetsu Kobayashi, Director

◆ Summary of Q&A :

<Watches Business>

Q1. Could you break down the comparative ratio for domestic and overseas Global Brands (GB) targets in the Eighth Mid-Term Management Plan?

A1. We do not disclose separate domestic and overseas targets, but in general, we expect the overseas ratio to be higher than that for Japan. Since the ladies' model Lukia accounts for a certain percentage of the product composition in Japan, the domestic GB ratio is roughly 10 percentage points lower than the overseas GB ratio. Despite the pandemic, sales of GB products, including Grand Seiko (GS), are growing in Japan. If this pace continues, we expect the GB ratio to be higher than the current level within five years.

Q2. What kinds of factors contribute significantly to improving the gross profit margin? With respect to unit price trends, in particular, do you have any plans for increases in specific years, and if so, what are they?

A2. With respect to our product mix, mechanical watches are manufactured in-house, so their profit margins are particularly high. The increase in the composition ratio of those products has contributed to our recent improvement in gross profit margin. With respect to our distribution mix as well, distribution ratios are rising overseas for independent specialist stores and directly operated boutiques, which have high profit margins.

As for unit prices, we have not yet decided on annual price hikes, but we plan to do so in the immediate future, all the while keeping a close eye on exchange rate trends, raw material prices, and other factors.

Q3. In the domestic market, isn't the growth in e-commerce sales producing competition with existing retail stores?

A3. The proportion of e-commerce sales has risen in almost every market as a result of the pandemic. Even luxury products are now selling through e-commerce outlets. We

expect this trend to continue long after the pandemic has abated. However, we will continue to strengthen our relationships with key local retailers, with whom we have longstanding business relationships, and we will provide active sales support, including sponsoring in-store events.

Q4. Do you foresee inbound tourism to be a factor in the FY22 forecast and the Eighth Mid-Term Management Plan?

A4. Inbound tourism consumption accounted for 10% to 15% of domestic sales before the pandemic, which made it a significant contributing factor. Now, that consumption has disappeared, and we cannot predict how quickly it will return. Consequently, neither the FY22 forecast nor the Eighth Mid-Term Management Plan includes inbound tourism sales. If Japan were to reopen to international tourism (as now seems likely), and that reignited tourist-related sales, that would boost business results above our current plan.

Q5. With regard to the Watches Business, could you please explain what, specifically, the MVP products in the Eighth Mid-Term Management Plan are?

A5. For the Watches Business alone, we consider MVP products and GB products to be synonymous. Within the Emotional Value Solutions (EVS) domain, in addition to watches, there are clocks, time systems, and the WAKO business. Each company has calculated its MVP ratios based on its own standards. Based on those figures, we arrived at the figure of 60% for EVS as a whole.

Q6. Please explain your thoughts on profit contributions of the after-sale service business for watches, primarily GS. One gets the impression that after-sale service prices are reasonable compared to those of Seiko's competitors. As the share of mechanical watches rises going forward, will the increase in demand for after-sale service squeeze profits?

A6. As part of our brand's longstanding commitment to its customers, Grand Seiko extended its warranty period from three years to five years last year. In setting after-sale service fees, we do take competitors' prices into consideration, and we set appropriate fees that enable us to ensure optimal quality. We do not believe that an increase in requests for maintenance or repairs would squeeze profits. On the contrary, because of our dedication to selling sustainable products, we would like to extend our after-sale service so that we can repair even older products. We have been receiving an increasing number of requests from customers in this regard. We would like to make exceptional after-sale service not only a brand differentiator, but also a source of revenue.