

## Seiko Holdings Corporation

### FY2019 Consolidated Results Presentation Summary of Q&A

- ◆ Date : Wednesday, May 13rd, 2020, from 10:00-11:00 a.m.
- ◆ Place : <Telephone conference>
- ◆ Respondent : Yoshinobu Nakamura, President  
Shimesu Takizawa, Executive Director and CFO
- ◆ Summary of Q&A :

Q1. Could you describe the progress of the results of advertising and promotion expenses in FY2019 in relation to the plan? In addition, what are the plans for using advertising and promotion expenses for the current fiscal year (FY2020)? Please explain in relation to the Global Brands (GB) strategy.

A1. The results of advertising and promotion expenses in FY2019 increased by approximately 11% year on year, or approximately 1.9 billion yen annually. (Advertising and promotion expenses in FY2018 were 16.9 billion yen.) Advertising activities for the current fiscal year are based on two assumptions: that the activities must be reduced while sales activities cannot be performed; and that advertising and promotion expenses cannot be used even if we want to. It is difficult to determine when this situation will change. Even under such circumstances, some fixed costs, such as rent costs for boutique, are being incurred. However, since these costs are highly variable, including rent negotiations, it is difficult to determine what the outlook for the current fiscal year will be compared to the results for FY2019. Although the Group's GB strategy, in which we aim to expand Global Brands, will remain the same, advertising and promotion expenses may increase or decrease as a result of assessing measures in response to changes in the market or distribution.

Q2. Can you please comment on the status of the Watches Business by region and by product in April and May, to the extent possible?

A2. Regarding the results for the 4th quarter of FY2019, production and sales activities in China stagnated in February and March. In Japan, demand from tourists from abroad began to deteriorate from around February onward and consumption began to show signs of stagnation. In March, large-scale economic activities were suspended due to lockdowns in Europe and the U.S. In the latter half of March, activities were under voluntary restraint in Japan. Accordingly, net sales fell 4.7 billion yen year on year (compared to the 4th quarter of FY2018).

Many countries in Europe and the U.S. have continued to restrict activities beyond April, and we have suspended some shipments for a period. However, even in such circumstances, some sales activities continue through direct sales and e-commerce. Although it was possible to carry out activities until the beginning of April in Japan, store activities have almost stopped on a nationwide scale due to the government's declaration of a state of emergency. Our business continues in limited areas, centered on e-commerce. While the situation in Asia varies from country to country, in general we have not reached full operations. Only China has been seeing a comparative return of economic activities since March.

The possibility that the state of emergency will be gradually lifted in Japan began to emerge in May. There are signs that economic activities will resume in some countries in Europe and the U.S., albeit limited in scope. Accordingly, the business environment is very fluid, and it is still difficult to judge how the current situation will evolve.

Q3. You explained that branding activities proceeded smoothly. Can you explain how you are currently responding to the expansion of Global Brands for after the novel coronavirus outbreak has been contained?

A3. There is no change in the policy of the Mid-Term Management Plan. Once the pandemic ends, we will continue to invest actively. Currently, we are unable to invest even if we want to. Accordingly, once we see that the pandemic is coming to an end, we want to proceed with investment in accordance with the policy of the Mid-Term Management Plan. Specifically, we are currently making preparations, including the opening of a Grand Seiko Boutique in Place Vendôme, Paris.

Q4. While net sales in the Watches Business decreased, we understand that the gross profit margin (GP%) has been maintained. Please explain the profit ratio for the completed watches business and the watch movements business separately. We also understand that the profitability of watch movements has improved and contributed to profits. How was the watch movements business in the 4th quarter? Has production been adjusted in the 4th quarter?

A4. Although net sales have fallen, the GP% has improved by a few points. With regard to mechanical movements, sales are increasing for both external sales and in-house production, and profits are improving. Meanwhile, net sales of analog quartz movements are on a downward trend due to stagnant market conditions. While the movements business has also contributed to profits to some extent, it is the completed watches business, including in-house mechanical movements, that is driving the improvement in profitability. We did not adjust production in the 4th quarter. However, due to the impact

of the novel coronavirus outbreak, manufacturing plants in China could not be operated in February and production activities in Malaysia came to a halt due to the enforcement of an activity restriction order in March. Output fell as a result.

Q5. The Watches Business in China performed favorably in the 4th quarter. How much did it grow in relation to the plan? Please explain separately for e-commerce and physical stores.

A5. We cannot explain the specific numbers. The ratio of e-commerce sales is increasing due to the impact of the novel coronavirus. Meanwhile, not all physical stores have stopped operating, as certain levels of sales were reported at some physical stores for Grand Seiko (GS) in March. March of FY2018 was a month in which inventory adjustments to date were completed and business performance recovered. In comparison to that, it was not a bad result.

Q6. Please tell us the e-commerce ratio in the Watches Business.

A6. While we cannot tell you the specific figures, China has the highest ratio by country. We believe that the ratio has possibly risen from roughly 50% previously to roughly 70%, due mainly to the impact of the spread of the novel coronavirus. The next highest e-commerce ratio is in the U.S., which remains at a much lower level than China.

Q7. As the economic environment and people's lives are changing due to the impact of the novel coronavirus, is there any risk that watch sales trends will change following the end of the pandemic? Are you considering measures, such as cost reductions or strengthening the structure, in response to these unprecedented environmental changes?

A7. To be honest, we do not yet know what will happen in the post-coronavirus environment. For example, some people say that deflation will occur, and economic activities may not return after the end of the pandemic. However, we are aiming to expand mid- and high-priced products, and we believe that watch demand in this price range will gradually return. Although we must work on reducing costs as net sales are declining, at the very least we will continue to strengthen our structure without affecting employment.

Q8. While it was said that production adjustments were necessary for analogue quartz movements, is there any risk that the distribution stock of completed watches is accumulating? Will it not be necessary to adjust production of completed watches from the 1st quarter of the current fiscal year? In addition, will the production adjustments for analogue quartz movements affect profitability?

A8. We expect the production of movements for the current fiscal year to shrink slightly, due in part to the fact that production is not possible because plants have been closed due to the impact of the novel coronavirus. At present, we are not considering production adjustments for completed watches. Going forward, we will look at market trends and consider them if necessary.

Mechanical movements are performing favorably. We believe that once the novel coronavirus outbreak has been contained, the profits from movements overall will not deteriorate significantly.

Q9. How do you view the certainty of a recovery of business in China? Is sell-through returning in addition to sell-ins? Do you think China will return to the same level as the previous fiscal year at an early stage?

In addition, please tell us if you see the return of China as an indicator that suggests the return of Japan, Europe and the U.S., or if you think that the return of other Western countries is completely different.

A9. We think that e-commerce is growing through sell-through. We feel that sell-through is returning as physical stores have GS sales. We think that a return of consumer confidence in China is quite certain. Meanwhile, we think it includes a temporary reaction to the long-lasting activity restrictions to prevent the spread of the novel coronavirus, and that it will be necessary to pay attention to whether the recovery will be steady going forward.

While we think that the situation in other countries may recover in the same way, that cannot be said unconditionally because of the differing characteristics of each country. We think that the speed of recovery in China is also due to strong e-commerce. While recoveries in other countries may not be as fast as in China, e-commerce will be one of the key factors. We would like to respond after observing what kind of market changes will occur once the novel coronavirus outbreak has been contained.

Q10. Please tell us if there is any change in the positions of Swiss watches and Seiko due to the impact of the novel coronavirus.

A10. With regard to the balance between Seiko and Swiss watch brands, the Swiss brands are strong and Seiko is weak in China. Swiss brand watches also have a higher weighting in Hong Kong and Singapore. In

terms of product mix, the ratio of high-priced watches is high in Swiss brands, and it is difficult to determine what kind of changes will occur going forward in the post-coronavirus environment. We think it will depend on the speed of recovery of the market. While e-commerce is performing favorably, there are price ranges that suit it. The balance will also depend on Swiss brand marketing policy. We will flexibly respond to market changes under the GB strategy, without being overly conscious.

Q11. In addition to negative aspects, the novel coronavirus pandemic may also have positive effects on the Electronic Devices Business, the Systems Solutions Business and other areas. While the current sales situation in the Watches Business is tough, please tell us about any strategies that make use of this situation.

A11. The Systems Solutions Business sees the impact of the novel coronavirus as an opportunity. As working from home and e-commerce are expected to increase, demand for system construction and computer performance management is expected to rise, and we would like to focus our efforts on these. We are not specifically considering any major changes to the boutique strategy of the Watches Business.

Q12. What potential exists in the Systems Solutions Business amid the impact of the novel coronavirus?

A12. First, we recognize that the Systems Solutions Business has sufficient knowledge regarding cashless payments, which are expected to progress further. Going forward, it is expected that working styles will change, such as working from home, promoting web conferences, and relocating headquarters to rural areas. Accordingly, we think that having security management and performance management businesses in the Systems Solutions Business will be an advantage. We have roughly a 60% share of the time stamp market in Japan. We expect the market will become even larger if a public system is introduced. Going forward, we would like to greatly expand the business of making inconvenient things convenient, such as supporting digital contracts.

Q13. Please tell us about your approach on dividends.

A13. We place the highest priority on stable dividends. We would like to determine the dividend forecast while preparing the financial forecast.

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