

Seiko Holdings Corporation

FY2020 Q1 Consolidated Results Presentation Summary of Q&A

- ◆ Date : Wednesday, August 12, 2020, from 3:00-4:00 p.m.
- ◆ Place : <Web conference>
- ◆ Respondent : Shimesu Takizawa, Executive Director and CFO
Itsuko Akashi, General Manager, Finance & Corporate
Strategy Planning Department

- ◆ Summary of Q&A :

<Watches Business>

Q1. Can you please explain the status of Global Brands in the first quarter?

A1. Many overseas markets were driven by Grand Seiko (GS). Many GS customers overseas are of the relatively younger generations, due to the effect of digital marketing implemented through SNS and other media. In Japan, there are many senior customers as well. In the domestic market, we feel that sales to these customers are recovering somewhat slower, and the speed of the recovery in GS is close to that of the Watches Business overall.

Q2. When looking at monthly trends from March to June, are monthly decrease rates improving compared to the same month of the previous fiscal year? Are they recovering for June and July?

A2. In Japan, a state of emergency was declared in the first week of April and continued until May, mainly in metropolitan areas. Accordingly, the decreases in April and May were greater than in March. The decrease rates started to recover in June, and recovered further in July. For overseas, although there were differences in each country, the rates first improved in China from March. In Europe and the U.S., March and April were relatively sluggish, but gradual recoveries were seen in May and June. There was no deterioration from June to July. While some areas have clearly recovered, there are some areas that have not changed much.

Q3. For the current fiscal year, you had a plan to expand sales in Europe based on successful cases in the U.S. Is it possible to proceed with this plan even during the COVID-19 situation? Or will it be delayed?

A3. We have been pushing forward with the opening of a Grand Seiko Boutique in Place Vendôme, Paris, which was planned for launch in the spring, and the establishment of Grand Seiko Europe, despite the opening of the boutique being delayed in June. Although there may be a delay in terms of attracting large numbers of visitors to our stores to increase the number of customers, we are promoting efforts to spread GS by distributing news, such as the opening of GS Boutiques, directly to European consumers.

Q4. Please explain the first quarter and future outlook for China.

A4. Sales have grown favorably over the last three months in China. For GS, sales increased from the same month of the previous fiscal year for all months. As expected, sales grew mainly through e-commerce. The fact that GS is being sold through directly managed e-commerce was very effective at this time. In addition to GS, we also strengthened the digital promotion of Prospex. While there has been some improvisation due to the COVID-19 situation, many digital promotions were carried out in China, including those with a handmade feel.

Q5. How do you acknowledge the situation regarding distribution inventories of the Watches Business?

A5. We do not feel we are falling behind overseas. In Japan, since last year's sales were sluggish in the third quarter following a consumption tax hike, we believe that inventories were on the rise before the spread of the COVID-19. While economic activities have returned since June, we think that the pace is not quick and believe that there are some distribution channels with increasing inventories.

Q6. The net sales forecast for the nine months following the second quarter is only a slight decrease year on year. When assuming that net sales of the watch movements business will decline significantly, completed watches will be at the same level or higher year on year. This seems to be relatively aggressive. What are your thoughts?

A6. In the fourth quarter of the previous fiscal year, net sales declined and profits did not grow due to the impact of the novel coronavirus. Meanwhile, net sales in the fourth quarter of the current fiscal year are expected to return to the level of the fiscal year before the previous fiscal year. We think that the recovery in consumption among senior customers in Japan is currently slow and therefore believe a recovery may come a little later than overseas, as we target a wide range of Japanese users including many senior customers. In the watch movements business, while we assume that

the recovery of analogue quartz movements will be particularly slow, we believe that customer inventories will be adjusted by around Christmas, and the market will recover after January 2021.

Q7. Regarding the watch movements business, please tell us about trends in the demand for mechanical movements and the production for quartz movements going forward.

A7. In the first quarter, there was enough demand for mechanical movements to record the same level of sales as in the previous year. However, some production activities were still restricted due to the COVID-19. The restrictions began to be lifted from July, and operations are improving. We are not considering any particular changes to the production for analogue quartz movements.

Q8. While next fiscal year will be the final year of the Seventh Mid-Term Management Plan, achievement of the plan appears to be difficult due to the impact of the COVID-19. I would like to know whether you are aiming to achieve the current Mid-Term Management Plan, even at a late stage, or whether you need to change your current strategy to achieve it?

A8. There is no major change in the direction of the growth in Global Brands, centered on GS and Prospex, in Japan and overseas, especially starting from the U.S., followed by China and Europe, and we need to accelerate this growth further. We believe it is necessary to strengthen sales of watches that possess solid concepts and distinction. Meanwhile, it is also necessary to accelerate the digitalization of marketing and sales methods, such as Digital Transformation (DX). While we believe that some revisions will be made in order to create products that match our Global Brands and digital-marketing strategies, there is no major change in the basic direction.

<Systems Solutions Business>

Q9. Please tell us what kind of response you had during this COVID-19 situation in the Systems Solutions Business, which saw a strong performance.

A9. In addition to the growth in the first quarter, we have grasped and realized some new demands. For example, there was a need for cashless payments in various industries, under which a contactless environment had to be arranged. Meanwhile, in the stock business, we worked closely with our customers who were forced to suspend business to try to quickly identify new demands that have arisen, and we worked together with them

to create new environments with and then without the COVID-19. We receive many inquiries from a wide range of customers, especially with regard to time stamps and digital contracts. We would like to propose solutions that combine multiple functions, not just one.

<Other P/L-related inquiries>

Q10. In the first quarter, you have cut a large amount of advertising and promotion expenses. Given that the external environment is expected to normalize to some extent, can you explain how you will use the expenses during the current fiscal year?

A10. Considering the external environment, we believe that it is difficult for the full-year advertising and promotion expenses to exceed those of the previous fiscal year. There may be some costs in the future to strengthen the growing DX, but we think this may be less expensive than traditional investments.

Q11. What is the breakdown by segment of 3.0 billion yen of the “loss on the spread of infectious disease” posted as extraordinary losses in the first quarter?

A11. The losses related to the Watches Business account for more than half of the losses. The rest occurred in the Electronic Devices Business, Others, and center-related businesses. No losses have occurred in the Systems Solutions Business.
