

Seiko Holdings Corporation

3Q20 Consolidated Results Presentation
Summary of Q&A

- ◆ Date : Wednesday, February 10, 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. Global Brands (GB) appear to be performing favorably. In your analysis, what is the reason for their growth? What percentage of net sales of completed watches does GB account for?

A1. This growth is primarily overseas. Sales have been particularly strong for Grand Seiko (GS) and Seiko Prospex (Prospex). GS sales have grown in all regions, namely, the U.S., Europe, and Asia. In the U.S., our efforts have been focused on digital marketing over the past four to five years. Even during the coronavirus situation, we have enjoyed an advantageous position with users that can be reached through digital means. Another factor is that we have released many attractive models in FY20, such as the GS 60th Anniversary limited edition models. Prospex sales have also grown in the U.S., Europe, and other areas, as a result of numerous promotions carried out during FY20 that commemorated the 55th Anniversary of Seiko's diver's watch. In the past, we reported GB as accounting for roughly 60% of net sales of completed watches in Japan and roughly 40% overseas. The sales composition ratio for GB has changed very little in Japan, but overseas it has rapidly risen to over 50% for FY20.

Q2. There has been discussion on the phenomenon of "stay-at-home demand," where instead of spending money on overseas travel, people are spending money in other ways, such as on home appliances. Is there stay-at-home demand for Seiko watches?

A2. This type of change in consumption behavior has not appeared prominent in Japan. E-commerce sales of watches in Japan have not grown much in comparison to overseas growth. We feel that many customers would rather purchase products in stores. Meanwhile, sales overseas recovered quickly

in 2Q20 to 3Q20, with sales for 3Q20 exceeding those of FY19, due to the amount of effort placed in e-commerce in each country's distribution activities.

Q3. In the Watches Business, there appear to have been regional disparities with regard to recoveries in Japan. In your analysis, what factors have led to these disparities, and how do you plan to address them?

A3. The age range of users in Japan is wider than in other countries. The recovery of demand among senior customers in urban areas has been particularly slow. Furthermore, for the industry as a whole, the shift to e-commerce has been faster overseas, in regions such as the U.S. and Europe, than in Japan.

To address these issues, we are promoting online sales, online concierge services, and the like in Japan as well, and we aim for improvements by firmly establishing these measures. We also expect consumer behavior to be stimulated as vaccinations become more widespread and will engage in marketing activities.

Q4. For the Watches Business, why are you forecasting the Watches Business for 4Q20 to be profitable, while the net sales forecast is not particularly high in comparison to the past?

A4. We plan to reduce expenses by more than usual.

Reducing expenses during 4Q20 may have a slight impact on sales for 1Q21. However, we are resolved to achieve profitability on a consolidated basis in FY20 and will engage in strategic expense reductions that have a minimal impact on 1Q21.

In addition, the profitability of the Watches Business is increasing, due in part to the effort that has been focused on GB for roughly the past two years. This is another factor driving improvements in performance in comparison to the past.

Q5. How have sales been in China, where digitalization has made great progress?

A5. In the "Asia and Other" region, which includes China, we saw growth of roughly 15% on a local currency basis (slightly above 10% on a yen-denominated basis) during 3Q20. This growth could be fairly characterized as being driven by China. Net sales on Singles' Day (November 11) increased significantly compared to FY19. Furthermore, sales have grown by a large amount, not only through e-commerce but also in physical stores, led by GS sales.

Q6. What direction do you anticipate for watch movements from 4Q20 to FY21?

A6. Sales of watch movements have recovered compared to 1Q20 and 2Q20. However, sales in 3Q20 were still roughly 20% lower year on year on a local currency basis. This is because the analogue quartz (AQ) movement market has not yet recovered to the FY19 level, and mechanical movement factory lines were stopped during 1Q20 due to the novel coronavirus, so we were unable to meet customer orders. (These lines are now in full operation.)

We believe it is unlikely the AQ movement market (with retail prices of roughly 30,000 to 50,000 yen) will recover to its original size during FY21. Meanwhile, we expect progress to be strong, due in part to the favorable performance of the Chinese market, which is a major customer of our mechanical movements.

Q7. Are distribution inventories of watches growing in Japan and overseas? What progress has been made with inventory adjustments?

A7. We have not heard anything from sales divisions indicating that distribution inventories are accumulating to a notable degree in Japan or overseas. We have adjusted production levels for some product groups in line with our purchasing adjustments, and we expect to continue doing so. The amount of raw materials purchased for use in production is increasing somewhat in our inventories. Going forward, we will reduce raw material purchasing, so we expect inventory quantities to fall. We expect our inventories to settle down during 1H21.

Q8. How do you envision a recovery in expenses for FY21, especially for advertising investment in the Watches Business? Can improvements to the product mix like those from FY20 also be expected for FY21?

A8. While the outlook for FY21 with regard to the novel coronavirus is somewhat unclear, we expect consumption activities to recover to some extent, and we will likely step up our marketing activities. Even before the pandemic, sales of affordable-priced products have been declining at an accelerating rate, so our marketing activities will focus even more on GB. Therefore, we do not expect the monetary amounts to recover to FY19 levels.

Overseas, the sales composition ratio of GB rose during FY20. There is still room for further marketing efforts in many countries, and profit earning power will improve in conjunction with a rise in the GB sales composition ratio.

<Electronic Devices Business>

Q9. It was stated that sales of high-performance metals for semiconductor production equipment were steady. Roughly how much of the Electronic Devices Business do they account for?

A9. In net sales of the Electronic Devices Business (c.50.0 billion yen/year), the high-performance metals business does not represent a significant weight and also the market itself is not a large one. But our products account for a large share of it, contributing significantly to our profit. While business was strong in this segment during 1Q20 and 2Q20, adjustments were made in 3Q20. We expect to see strong performance from 4Q20 into FY21.

<Systems Solutions Business>

Q10. Net sales of the Systems Solutions Business appear to have actually decreased, excluding an increase due to the M&A. What were the reasons for this?

A10. Net sales did not grow in 2Q20 or 3Q20, excluding the impact of COSMO CO., LTD., which was acquired at the beginning of FY20. Sales of mobile communication equipment by our customers to the general public slowed due to the coronavirus situation, which impacted our sales from 2Q20 onward, for this B2B2C business. The revenue downturn was also affected by sales to customers in industries struggling in FY20, such as food service and retail. Meanwhile, on the profit front, the stock business is increasing, primarily for existing businesses, so profitability is rising.

<Other>

Q11. The percentage of year-on-year decrease in advertising and promotion (A&P) expenses has fallen each quarter. What was the level of the expenses during 3Q20 in comparison to FY19? Have there been any changes to how the money was spent, such as advertising methods used?

A11. Compared to 1Q20, in which we had to significantly reduce expenses in the face of the coronavirus situation, expenses gradually recovered during 2Q20 and 3Q20, but they did not reach the levels of FY19. The reduction in expense amounts were roughly the same for 2Q20 and 3Q20.

With regard to the content of these expenses, there has been an ongoing shift to digital marketing over the past two to three years, so a significant

percentage was used in online communications.

Q12. I would like to ask about your approach to FY21 and beyond. I believe that the current Seventh Mid-Term Management Plan backcasts from “What We Aim to be in FY2025.” However, the environment has changed significantly from when it was created. Will there be any changes in strategic direction for the next Mid-Term Management Plan?

A12. It is difficult to say anything regarding the outlook for FY21 at this point in time, because consideration must be given to such factors as the state of the novel coronavirus vaccinations and the holding of the Olympics. That said, our current GB strategy in the Watches Business, research and development that leverages existing technologies in the Electronic Devices Business, diversification and a shift to the stock business in the Systems Solutions Business, and other efforts are progressing smoothly. Thus, we expect to further strengthen and accelerate these initiatives. This year will mark the 140th Anniversary of our company, and we have planned various initiatives with regard to our next Mid-Term Management Plan. The trajectory of this plan leads to “What We Aim to be in FY2025.” Therefore, we do not expect to make any changes to the fundamental direction of the plan. However, we will refine the plan to factor in societal changes, the acceleration of Digital Transformation (DX), and the like.
