Seiko Holdings Corporation

4Q20 Consolidated Results Presentation Summary of Q&A

- Date : Wednesday, May 12, from 3:00-4:20 p.m.
- Place : <Web conference>
- Respondent : Shinji Hattori, Chairman & Group CEO & Group CCO,

  Yoshinobu Nakamura, President,

  Shuji Takahashi, Director,

  Tetsu Kobayashi, Director (President of Seiko Instruments Inc.),

  Shimesu Takizawa, Executive Director and CFO

- Summary of Q&A :

Q1. I understand that SG&A expenses, such as advertising and promotion (A&P) expenses were restrained in FY20. What level of SG&A expenses do you expect to return to in FY21?

A1. While it will also depend on the recovery of net sales, we plan to continue with our aggressive approach, as indicated in the Mid-Term Management Plan. If sales proceed as planned, we hope to invest actively in advertising and other activities, and we believe that SG&A expenses will return to the level in previous years.

Q2. In the Watches Business, Global Brands (GB) grew at a high rate in FY20, as well. What pace do you expect this high rate of growth to reach in FY21 and beyond?

A2. First, let us explain our GB strategy, which was launched in 2017. In addition to shifting to mid- and high-priced products, this strategy aims to promote the brand story to enthusiasts who are highly attuned to watches. Moreover, by taking advantage of being a later entrant compared to Swiss companies, we have been focusing on digital and event marketing.
In FY20, these efforts generated results, especially overseas, and we were able to achieve steady results through various initiatives centered on Digital Transformation (DX).
Although the coronavirus pandemic is expected to continue in FY21,

especially in 1H21, we will continue to grow GB in terms of DX, and aim to maintain our double-digit growth rate overseas. In Japan, we had prepared a variety of real events in anticipation of the holding of the Olympics. However, since the underlying assumptions have changed significantly, in FY21 we will proceed with DX as we have done overseas, in order to increase sales.

Q3. Can you tell us the ratio of GB to net sales?

A3. As GB is growing, the sales composition ratio of GB is rising, partly due to a decrease of affordable-priced products as a result of the pandemic. Although the ratio varies from country to country, it is generally more than half, and in some areas has reached 60-70%. We believe that the GB sales composition ratio will rise further in the future.

Q4. How were overseas net sales of completed watches in 4Q20 year on year?

A4. 4Q19 was already significantly impacted by the coronavirus, so overseas net sales of completed watches have recovered on a year-on-year basis. The largest recovery was seen in the U.S. and Asia, and particularly in China, while Europe was largely unchanged year on year, due to significant impacts from the virus, including lockdowns. Unfortunately, in Japan, the progress of DX has not been as strong as overseas, and due to a heavy reliance on real stores, such sales are still at a level of roughly 90% year on year, despite a considerable recovery.

Q5. In FY20, the gross profit of the Company overall has improved in 3Q20 and 4Q20, so I assume that the gross profit margin of the Watches Business is improving. Can we expect that an increase in GB will improve the gross profit margin, as well?

A5. While the Watches Business posted a record high operating profit for 4Q20, we believe this is due to several special factors. The first is that while the 4Q is not normally a period of large business, the market was just recovering from the coronavirus, so there was rebound demand in the U.S., China, and Asia. The second is that we carried out thorough cost reductions, including investments in advertising. So, these two points have acted as special factors. In addition, the 4Q is the time when watch brands hold global trade shows and invest in advertising for products that will be available from April onward. However, in FY20, these initiatives became digitalized due to the pandemic. This has resulted in increased marketing efficiency.

The expansion of GB has contributed to improved profitability, and the gross profit margin has been improving strongly over the past few years.

Q6. In FY21, net sales in the Watches Business are expected to increase by 21.0 billion yen year on year. Please tell us what kind of growth you expect for each of the completed products, by region and movement.

A6. Recovery has been rapid in areas where the pandemic has been quickly contained. However, in areas where vaccinations have not progressed and the spread of the disease has been prolonged, as is the case in Japan, the recovery has been slow. Accordingly, we believe that the environment in Japan will remain severe. Especially in 1H21, we expect the market conditions to continue as they were in 2H20. Overseas, we will increase sales by making full use of digital technology in the U.S., China, and Asia, where sales have been strong. In Europe, we expect sales to be weaker than in the U.S. and Asia, due to the lingering significant influence of the pandemic.
Watch movements are often used in affordable-priced fashion watches, an area which is shrinking. Although there may be a rebound from the pandemic, the market is recovering in FY21 in the U.S., China, and other markets, and we expect it to bottom out, and enter a trend toward a recovery.

Q7. Both net sales and profits in the Electronic Devices Business were favorable in 4Q20. What were the reasons for the improvement in profitability?

A7. We are engaged in a wide range of businesses, from electronic components to precision processing components, and the profit margin varies depending on the product mix. In 4Q20, sales of relatively high-margin products were steady, which we believe was the reason for the high profit margin.

Q8. The Systems Solutions Business continues to perform favorably. Are you experiencing any special demand due to the coronavirus? What is its expected impact on FY21?

A8. With regard to special demand, there are some cases in which new needs that have arisen from the pandemic have led to an increase in sales. However, most still represent inquiries that will lead to future business, and we do not believe that they had a substantial impact on the results for FY20. Meanwhile, a negative impact was seen in the B2B2C mobile-related business, where net sales were affected from 2Q20

onward. In addition, sales to customers that were particularly strongly affected by the pandemic, such as the food service industry in Japan, were quite severe.
The Systems Solutions Business is a business that is capable of providing “solutions” to the issues that arise in society under the coronavirus situation. We regard this business as one which provides many “seeds” that can lead to business opportunities in the future, with the pandemic as a tailwind, such as computer performance management and digital time stamps for remote work, etc.

Q9. The dividend payout ratio for FY21 will be over 50%. While the Company wants to return its dividends to the previous level as soon as possible, I would like to confirm whether there will be any change in its approach to shareholder returns.

A9. Our basic policy on dividends is to pay stable dividends, while taking into account internal reserves and business performance. If the dividend payout ratio is used as the standard to determine dividends, for example, dividends may increase when extraordinary income is generated, and fall or not be distributed when extraordinary losses are incurred. We have not determined dividends based on a dividend payout ratio, as our basic policy is to avoid this kind of situation. Our goal is to maintain stable dividends, and we will strive to return to the previous level of 75 yen, as soon as possible.

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