

Seiko Holdings Corporation

1Q21 Consolidated Results Presentation
Summary of Q&A

- ◆ Date : Wednesday, August 11, from 3:00-4:00 p.m.
- ◆ Place : <Web conference>
- ◆ Respondent : Shuji Takahashi, President
Shimesu Takizawa, Executive Director and CFO
Hiromi Nakagawa, General Manager, Corporate Planning Department

◆ Summary of Q&A :

<Watches Business>

Q1. Given the delay in the recovery of the domestic market, what strategy will you adopt to aim at making a recovery?

A1. In terms of products by price range, high-priced products tend to be relatively favorable. As such, we will promote the Global Brand strategy focused mainly on Grand Seiko. Furthermore, we will enhance digital marketing, including one-to-one marketing.

Q2. I understand that the profit margin for the Watches Business in 1Q21 was rather low. Can you tell us the factors behind this trend and the profit margin forecast?

A2. If domestic market conditions, which have been slow to recover, make a recovery, the profit margin will also recover. Although we believe that harsh conditions will persist in the domestic market in 2Q21 due to the current spread of the infection, we hope to return to normal levels, excluding inbound sales, from 3Q21 onward as vaccinations progress.

Q3. Investments in advertising were kept down based on the judgment that 4Q20 was not the time to make investments. What was the situation in 1Q21?

A3. Overseas, we actively conducted investment activities in line with the recovery in market conditions. However, in Japan, advertising expenses were rather restrained, because the market environment had not recovered,

mainly due to the prolonged impact of the infection.

If we see signs of a recovery from the infection, we will promptly make investments and respond to a return of pent-up demand.

Q4. Sales in China were strong in FY20 as well. Is this strength continuing in FY21?

A4. Sales continued to show strong growth, increasing by roughly 1.5-fold year on year in 1Q21.

Q5. In the U.S. and China, where sales are growing, which distribution channel is showing sales growth: e-commerce or physical stores?

A5. In the U.S., sales through e-commerce grew in FY20, and the level of growth has not changed considerably from this level in 1Q21. Similarly, the e-commerce ratio in China has not changed substantially from FY20. Although sales at physical stores also grew, we believe that we can further increase sales at physical stores, if the impact of the infection is reduced as vaccinations and other measures progress.

Q6. Although the resale market is vital for nurturing Grand Seiko as a high-end watch, I think that Grand Seiko still lags behind European high-end brands. What initiatives are you considering, going forward?

A6. We consider the resale market to be an important issue that needs to be addressed over the medium to long term. We will further reinforce high-unit price products and launch products with resale value.

Q7. Can you tell us about the initiatives of the GS9 Club?

A7. Having recently exceeded 20,000 members, the GS9 Club holds various events. Given the current difficulty in holding in-person events, the GS9 Club offered online tours of Grand Seiko Studio Shizukuishi and demonstrations of craftsmanship, and is stepping up activities even amidst the coronavirus pandemic.

The GS9 Club also exists in the U.S. and China, and is scheduled to soon be launched in Europe, as well.

<Electronic Devices Business>

Q8. Can you tell us the businesses that performed well with respect to the plan?

A8. In 1Q21, inkjet printheads performed better than expected. In addition, high-performance metals and quartz crystals also performed well. Since the business for automobiles is stable and easy to forecast, it progressed as planned.

Q9. Is the improvement in the profit margin mainly due to withdrawal from unprofitable businesses?

A9. Profitability improved as a result of growth in net sales and an improvement in the product mix.

Amidst a shortage of raw materials and components, there are some products that appear to be overheated. The impact has been factored in, by assuming that some of these products will be adjusted during FY21.

<Financial Forecast>

Q10. How much impact do you think risk factors, such as a spread of the infection and a decline in manufacturing activities due to soaring prices and a shortage of raw materials, will have?

A10. Regarding the risk of a spread of the infection, we believe that it will be difficult for consumption to recover in 2Q21 as well, due to recent signs of the spread of the delta variant, etc. in Japan. Although this risk exists overseas as well, we are not assuming a further deterioration, either in Japan or overseas due to the progress of vaccinations, and expect a prolongation of the present situation. Although there was a delay in the recovery of some manufacturing operations, the situation improved from August onward.

Although risks such as shortages of raw materials and semiconductors had a slight impact on the Electronic Devices Business in 1Q21, we believe that the impact on 2Q21 will be more substantial. However, we expect such impact to be resolved from the latter half of 3Q21 to 4Q21.
