

Seiko Holdings Corporation

2Q21 Consolidated Results Presentation
Summary of Q&A

- ◆ Date : Wednesday, November 10, from 3:00-4:00 p.m.
- ◆ Place : Seiko Holdings Corporation, Head Office and 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. The gross profit margin (GP%) improved in 1H21 thanks to the recovery of the Watches Business. Are the domestic Watches Business and the growth of overseas businesses contributing to the increase in GP%? If domestic businesses recover, could GP% deteriorate?

A1. In the past, overseas businesses had rather low profitability because they had a higher proportion of affordable-priced products than domestic businesses. However, the growth of Global Brands (GB) has raised the profitability of overseas businesses to the same level as domestic businesses. Since domestic profitability is not lower, a recovery in Japan will not reduce GP%. We believe that the recovery of the domestic market will raise the domestic GP% as well.

Q2. Was demand in the Chinese watches market rather weak in 2Q21?

A2. Moves by the Chinese government to reduce wealth disparities and promote common prosperity have changed the sales methods of some e-commerce distributors, which have affected sales in some areas.

Q3. Grand Seiko (GS) has three movement types: mechanical, spring drive, and quartz. Even watches with similar designs have different prices depending on the caliber of the movement. Will this strategy hinder sales of high-end products going forward?

A3. Because the design is of crucial importance for high-end watches, it is essential to develop products with one design and one voice. While affordable-priced watches also use quartz movements, GS uses special quartz movements with torque that is as strong as mechanical movements, which can rotate thick hands like those used in mechanical watches. This enables us to offer a variety of designs to customers. Quartz models will not hinder sales of mechanical or spring drive models.

Q4. Please tell us about measures to regain strength in the domestic watches market in 2H21.

A4. High-priced products such as GS and Credor are recovering. As for mid-priced products, many customers have traditionally purchased them around bonus times and Christmas. So We believe that if the coronavirus pandemic has subsided by Christmas or the end of the year, we can recover a good portion of sales.

Q5. Are you controlling expenses in the domestic Watches Business in line with net sales?

A5. We are assuming that inbound demand from visitors from overseas will not recover in Japan. We are planning to grow with a focus on one-to-one marketing and e-commerce. We believe this will be more effective than our conventional marketing approach of mass advertisements.

Q6. What are your thoughts on GB growth in 2H21, FY22 and beyond?

A6. We will continue to grow GB in 2H21, FY22 and beyond. In particular, we are aiming to grow GB in the large market of high-end mechanical watches.

<Electronic Devices Business>

Q7. The risk of raw material shortages has been factored into the profits of the Electronic Devices Business. Is this risk also factored into net sales?

A7. It is factored into net sales to some extent. However, we think that the impact on profits is greater.

Q8. Currently, market conditions for high-performance metals for semiconductor production equipment are highly favorable. How long do you think this situation will continue?

A8. We believe that it will continue for FY21. Although some risks are expected

in FY22 and beyond, we expect the trend of steady demand to continue in IoT and 5G-related businesses.

Q9. Please tell us about expected risks in 2H21 and countermeasures.

A9. We are planning to counter the risk of raw material shortages mainly by expanding our supplier base and the risk of electricity shortages in China mainly by revising our operating schedules and purchasing our own power generators.

<Other>

Q10. Why has the inter-segment adjustment of operating profit increased?

A10. Transactions between the Electronic Devices Business and the Watches Business increased because production sites of electronic devices began to manufacture watch components. This increase will not continue going forward.

Q11. How will you grow the Watches Business as well as the Electronic Devices Business and the Systems Solutions Business in 2H21, FY22 and beyond? Please tell us about the Group's management.

A11. Although the Watches Business will continue to be the main pillar of our business, it is highly susceptible to economic fluctuations. On that point, the Electronic Devices Business and the Systems Solutions Business are coming to play a complementary role. Our next Mid-Term Management Plan will advance a strategy of these three businesses complementing each other to further strengthen profitability.
