

Seiko Holdings Corporation

3Q21 Consolidated Results Presentation Summary of Q&A

- ◆ Date : Wednesday, February 9, from 3:00-4:00 p.m.
- ◆ Place : <Web conference>
- ◆ Respondent : Shimesu Takizawa, Executive Director and CFO
Hiromi Nakagawa, General Manager, Corporate Planning Department

◆ Summary of Q&A :

<General>

Q1. What is the background behind the high consolidated gross profit margin during 3Q21?

A1. Net sales of overseas subsidiaries tend to increase in this quarter of the year in the Watches Business, and it is easier for profit margins to improve during this period compared to other quarters. Furthermore, our efforts to improve profitability progressed in every business, and exchange rates were also favorable. As a result, the profit margin improved.

Q2. Could you please explain the direction that will be taken with respect to the next Mid-Term Management Plan, to the extent possible?

A2. We do not plan to make any major changes in the direction of the Watches Business. As our current strategy is producing results for the Electronic Devices Business as well as the Systems Solutions Business, we do not plan to make any major policy changes. However, we would like to explain what other needs to be integrated into the Mid-Term Management Plan in order to achieve greater sustainability.

<Watches Business>

Q3. Please explain the situation over the three months of 3Q21 on a year-on-year comparison, by region. Please discuss China in particular depth.

A3. Domestic businesses fell slightly below the previous year's levels. The

business in the U.S. performed steadily. Europe's results were generally in line with those of the previous year. Results for Asia and other regions fell slightly year on year. Chinese business struggled, and sales were particularly disappointing for W11 (Singles' Day) in November

Q4. Please tell us about the monthly trends in Japan during 3Q21.

A4. The recovery following the lifting of the declaration of a state of emergency in October was slower than expected. However, consumption trends improved in November, and store business was lively in December.

Q5. What was behind the weakness of the Chinese market performance? What measures, such as e-commerce, are you considering and how do you see the market environment?

A5. We believe that the Chinese government's "common prosperity" measures to reduce wealth disparities, together with relatively harsh measures aimed at foreign products, are the major factors. While the outlook appears dim, we do not expect to see any sudden changes.

Q6. Please tell us about the situation for Global Brands (GB) up through 3Q21, as well as the growth measures for 4Q21 and FY22.

A6. In the domestic watch market, high-end products showed favorable performance through 3Q21. Sales of high-priced products also grew at our company. The same trend was also evident overseas, and we believe there is great room for growth for Grand Seiko (GS).

GS products have been well received, with the white birch dial model winning the Men's Watch Prize at the Grand Prix d'Horlogerie de Genève in November. It was also decided that GS will participate as the first Asian brand in the "Watches and Wonders" watch exhibition in Switzerland, which will take place from the end of March to April. We would like to further expand sales through high-end stores in the U.S. and Europe.

We do not plan to change our policy of providing products with a strong storyline, primarily GS, in FY22 and onward.

Q7. The operating profit margin of the Watches Business has deteriorated year on year, and the forecast for 4Q21 is for an increase in revenue, but a decrease in profits. Were there any changes to your approach to investments in advertising in 3Q21?

A7. The actual net sales figures for 3Q21 include an increase in net sales

resulting from the application of Accounting Standard for Revenue Recognition. (Note that even without this factor, revenue would have increased.) One of the reasons for the decrease in profits was the decline in sales in China. Otherwise, there were no major changes, and both net sales and the scale of our activities were in line with those of the previous year.

Q8. GS and GB net sales have achieved significant growth overseas. What is their situation by region? What are the factors behind those results?

A8. GB net sales grew by an even greater amount in North America. Due to changes in the Chinese market, the amount of growth in Asia, including China, was limited.

Our measures in the U.S. are proving successful, and we believe there is even further room for growth.

Q9. Is distribution expanding for GB and GS outside of the U.S.?

A9. The number of stores carrying GB has grown not only in the U.S., but also in Europe and Asia.

Q10. Are there differences in profitability between domestic and overseas markets?

A10. The greater the GB ratio, the higher the profitability. While the recovery in Japan has been slow, there is a growing trend of profitability improvements overseas.

Q11. Tell us about the results for watches other than GB, and your future policy with regard to these watches.

A11. In Japan, there are brands other than GB with enduring popularity. Going forward, we will continue to use efficient marketing to produce constant sales and profits for these products. Overseas, the brand ratios of those other than the SEIKO brand are falling.

< Time Creation, WAKO and other Businesses >

Q12. During 3Q21, the Company posted an operating profit of 600 million yen in the Time Creation, WAKO and other Businesses. What was behind this strong performance?

A12. Similar to the domestic Watches Business, WAKO sales rose significantly in December. Furthermore, as we recently announced, under the “Seiko House Ginza Plan,” we reinforced our digital communications, changed the positioning and role of the Wako building to be more focused on providing a space for SEIKO brand communications, and changed our approach to how selling, general and administrative expenses are borne. As a result, profits improved by roughly 200 million yen.
