

Seiko Group Corporation

FY23 Q3 Consolidated Results Presentation - Q&A

- ◆ Date : Wednesday, February 15, 15:00 - 15:45, Tokyo, Japan
- ◆ Respondent : Taku Yoneyama, Director, Executive Vice President

**Summary of Q&A**

Q1.-Compared with the first half, you seem to have been better able to control advertising expenses in Q3. It looks as if adjustments will increase in Q4. Will company-wide expenses increase?

A1. Our advertising expenses in Q3 in the Watches Business were right on target, and the increase in those expenses was more than offset by increased sales. We believe our efforts have been successful.

Expenses in Q4 appear to be higher than in Q3 chiefly due to two reasons: First, compared to the previous fiscal year, we have allocated a larger portion of branding investment (which is included in adjustments) to Q4 compared to Q3; and second, other SG&A expenses in Q4 are slightly higher than in Q3.

Q2. I have a question about your dividend policy. You recently announced a dividend increase. Could you clarify whether this increase is a part of your plan to return more than 15.0 billion yen to shareholders over the five-year period of the SMILE145 Mid-term Management Plan, or if it is based on the payout ratio?

A2. We have stated that our dividend policy is to maintain a consistent payout. Going forward, we may consider increasing dividends in line with strong performance. We are also looking at a management approach that takes into consideration the payout ratio. In fact, we are reviewing our dividend policy now, and will discuss it when we present our yearend results in May. At that time, we will also explain our capital policy, which includes the payout ratio, and other initiatives for the last three years of the SMILE145 period.

Q3. In the Watches Business, what percentage of so-called domestic demand was actually inbound-tourism demand?

A3. Inbound-tourism demand comprised between 10% and 15% of total domestic demand. It appears that this percentage increased slightly in Q3, and if the number of Chinese tourists increases, this percentage should continue to rise. Pure domestic demand is also strong. We expect that both inbound-tourism demand and pure domestic demand will continue to increase in the foreseeable future.

Q4. Overall, domestic demand is strong in the Watches Business. How do you see this developing in the future?

A4. I'm happy to say that sales in our domestic retail business are quite strong. Barring unforeseen negative factors in Japan, we are confident that the current trend will continue. Our watches are selling well in all the usual sales channels — department stores, watch retailers, watch chain stores. In particular, domestic sales of Grand Seiko (GS) and other Global Brands (GB) are rising. In addition, unit sale prices are rising. We believe we can further strengthen this trend by enhancing CRM and customer service, two areas that we are now emphasizing.

Q5. How has Shohei Ohtani's transfer to the Dodgers impacted your sales? Have there been any temporary effects?

A5. Of course, we cannot quantify the impact precisely, but we believe that Ohtani's transfer to the Dodgers has given a significant temporary boost to sales of the Shohei Ohtani model, which was already selling well before the transfer. We expect to magnify this effect through our marketing, which has capitalized on the fact that this transfer is big news throughout Japan and overseas as well.

Our business is based on manufacturing, and is sustained by support from our customers. While continuing to focus on high-quality manufacturing, we will emphasize increasing the sales of Seiko Prospex and Seiko Astron.

Q6. After a long period of struggle in the Devices Solutions (DS) Domain, there seems to be good news, and you expect that business will continue to improve in Q4. What are the major factors contributing to this improvement?

A6. Sales of silver oxide batteries for medical purposes are very strong. We have been manufacturing high-quality silver oxide batteries that provide a stable voltage for a long time. This has earned us a good reputation, and there are indications of further growth based on our proven track record in this field. In addition, the market for quartz crystals has bottomed out and is now recovering. Although inkjet print heads have been affected by the sluggish Chinese economy, we are developing new sales channels and new uses for these products outside China. We expect that a recovery of inkjet print heads will raise profits in Q4.

Q7. You acquired Computer Science Corporation (CSC) in January 2024 in the Systems Solutions (SS) Domain, which was a rather large acquisition. I assume that the upward revision of the sales forecast for the SS domain is attributable to the acquisition of CSC. How will the acquisition impact finances, including profit and goodwill?

A7. Yes, the acquisition was relatively large compared to our previous M&A activities. CSC, which has about 450 employees, is performing well, and its projected sales results have been added to the SS domain's sales forecast for Q4. However, CSC's real contribution to profit will only emerge from the next fiscal year due to various related expenses and the amortization of goodwill. CSC has considerable expertise in systems operation and security. It is generating synergies with IIM, which operates in the security sector, where demand is firm. We anticipate those synergies will continue to grow in the next fiscal year.