

Seiko Group Corporation

FY24 Q1 Consolidated Results Presentation - Q&A

- ◆ Date : Wednesday, August 14, 15:00 - 16:00, Tokyo, Japan
- ◆ Respondent : Taku Yoneyama, Director, Executive Vice President

Summary of Q&A

Q1. What is the status of the Watches Business in overseas markets?

A1. Let's start with global brands other than Grand Seiko, what we call Seiko GB. Europe showed strong performance for GB, largely driven by Seiko Prospex and Seiko Presage. In the Americas, Seiko Presage was again a strong performer. In Asia, particularly in Taiwan, Thailand, and Singapore, some domestic demand was lost due to tourists from those countries shopping in Japan and taking Seiko products home with them.

Turning to Grand Seiko (GS), the brand is continuing to grow well overall, although there are regional differences. For example, the European markets continue to stagnate due to economic uncertainty, and the U.S. is still recovering from last year's downturn. In other regions, sales at the GS boutique in Singapore slightly missed our target, but sales to Singaporeans visiting Japan have increased noticeably. In China, we established a GS sales company to promote a business model transformation, but at the moment we see more Chinese customers purchasing high-end products in Japan than in China.

Overall, we expect global sales to pick up once the economic sentiment in North America and Europe stabilizes.

Q2. Regarding the Watches Business, I understand that China is problematic due to the structural reforms you carried out in the previous fiscal year. Could you explain the sales situation this term compared to the previous fiscal year, and also give us an idea when we can expect to see the effects of the restructuring?

A2. Overall, sales have decreased year to year due to the reorganization and streamlining of distribution, which is aimed at expanding GS sales. However, we see this as a necessary phase in the transformation of our business model.

As to when we will see results from those structural reforms, that ultimately depends on the recovery of the Chinese economy as a whole. Consumer sentiment is key. In order to achieve stable sales growth in China, we need to promote in-store sales of high-end products, especially GS. It is crucial for us to build trust with retailers. Another point may sound paradoxical at first, but expanding GS's brand recognition in Europe is also important for boosting sales in the Chinese market. We are taking a long-term view in our China strategy, and that certainly applies to the recovery of our retail business there. It may not

happen right away, but we are certain that we will achieve our desired results in time.

Q3. You mentioned the indirect impact that Asian tourists' purchases in Japan are having on various Asian markets. How big is that impact on your Watches Business, and where does most of the demand come from?

A3. The inbound tourist ratio is only an estimate, but during the first quarter of the previous fiscal year, when inbound demand first began to recover, it accounted for around 10% of total domestic sales. From the second quarter of that fiscal year, it continued to increase, rising to approximately 15% in the current term. While the majority of inbound tourist demand continues to come from Europe and the Americas, during the past year, there has been a significant increase in demand from China as well.

Q4. There is a considerable price difference between watches sold in the domestic and overseas markets. Is this price gap affecting the performance of the Watches Business? Please explain the measures being taken to address this gap.

A4. Yes, there is a price difference between domestic and overseas markets, which does affect sales. The weaker yen has also led to a further increase in inbound tourist demand. Interestingly, inbound tourist demand tends to have a higher average unit price compared to domestic demand.

We are actively working to correct the price difference, especially for GS. We raised domestic prices for GS both last year and again this year, but the yen continued to weaken even faster than expected this year. In effect, the weak yen offset our price hikes, resulting in a continuing gap between domestic and overseas prices. Going forward, we will keep a close eye on the forex market and on domestic sales trends. When the exchange rate stabilizes, we will respond accordingly.

Q5. We understand that the external movement business in the Watches segment is performing well. Is there a risk of production adjustments in the future?

A5. Yes, I am happy to say that this business is doing well. Mechanical movements had been sluggish due to economic conditions in China, but in the first quarter of this fiscal year, all three types of movements — standard analog quartz, high-value-added quartz, and mechanical — began recovering. As for production adjustments, we've actually been adjusting production of standard analog quartz movements for about a year and a half, focusing instead on high-value-added quartz movements to improve profitability. Of course, we are hoping that the across-the-board recovery in this segment continues.

- Q6. I am wondering about the upward revision in your forecast for the Watches Business. Could you explain what has improved since your initial forecast at the beginning of the period?
- A6. This revision stems from an improvement in our domestic business. We are revising our full-year outlook upwards due to the strong performance of both inbound tourist demand and organic domestic demand.
- Q7. For the overseas Watches Business, are sales and operating profit expected to recover from the second quarter onwards?
- A7. Overseas, Seiko GB's performance has been above last year's levels, so the real issue is a recovery of GS sales in both the European and American markets. Inventory adjustments at retail stores have progressed, and sell-through rates at some stores have started to recover. From the second quarter onwards, we plan to invest strategically to strengthen GS marketing worldwide, but our main focus is to achieve a quick recovery in Europe and the Americas.
- Q8. With that in mind, do you expect advertising investment in the Watches Business to increase significantly from the second quarter?
- A8. As I said, overall the Watches Business is performing well. We plan to invest in advertising and promotion, particularly for GS, but not to an extent that would impact either the business structure or profitability.
- Q9. I'd like to talk about the Device Solutions (DS) business. Although this segment has recovered on a year-to-year comparison, its performance declined from the previous quarter. Could you explain the reasons for this decline?
- A9. Of course. In Q4 of the previous term, inkjet printheads, one key part of the printing devices segment, performed particularly well, but in Q1 they declined, mainly due to customers' inventory adjustments. That situation was temporary, and we expect to see a recovery from Q2 onwards.
- Q10. Again, regarding the DS business, high-performance metals for semiconductor manufacturing equipment seem to be recovering. We have heard that demand for semiconductor manufacturing equipment in China is still strong. Is that the key factor supporting your recovery?
- A10. Indeed. Semiconductor manufacturing equipment for China is recovering, and demand for our high-performance metals is recovering slightly ahead of schedule. We believe this trend will continue for the time being, barring any external factors such as geopolitical risks.

Q11. Regarding the forecast for the DS Business, could you explain why you revised the sales estimate upward but the operating profit remains unchanged?

A11. The reason is that the product mix has changed from our initial plan. The two main factors for this change are the recovery of quartz, which was stronger than initially expected, and customers' purchase adjustments of high-profit inkjet printheads.

Simply put, strong sales of quartz crystals more than compensated for the decline in sales of inkjet printheads, so total sales figures were revised upwards. However, inkjet printheads are quite profitable, so the decline in that area resulted in our operating profit forecast remaining unchanged.
