Seiko Group Corporation

FY24 Q2 Consolidated Results Presentation - Q&A

◆ Date : Wednesday, November 13, 15:30 - 16:30, Tokyo, Japan

◆ Respondent : Taku Yoneyama, Director, Executive Vice President

Summary of Q&A

[Consolidated Overall]

Q1. Could you provide an update on consolidated financial results for the first half of fiscal year 2024, broken down by segment, and compare that to the latest projections in this fiscal year?

A1. The **Watches** business performed exceptionally well in Q2 (July-September). Although demand from inbound tourists decreased slightly due to the stronger yen, domestic demand remained robust. Sales of high-end Grand Seiko (GS) products were strong, and promotions for the 100th anniversary of the Seiko brand benefited Seiko Global Brands (Seiko GB) products. Additionally, the success of Shohei Ohtani, a star player in Major League Baseball who endorses our products, boosted sales of Otani-themed limited edition models, allowing us to significantly exceed our plan's projections.

The **Devices Solutions** (DS) business faced difficult challenges in Q2 of the previous fiscal year, but this year the electronic devices segment performed well. There were early orders for highly profitable high-performance metals due to rising market demand, which helped bring about a faster-than-expected recovery. The combination of these factors resulted in operating profit exceeding expectations.

The **Systems Solutions** (SS) business progressed roughly according to our initial plan.

In sum, business was good during the FY2024 1Hf, and we generally surpassed the projections in this fiscal year.

[Watches Business]

Q2. The inbound tourist ratio was significant in Q1. Were there any changes in Q2?

A2. The inbound tourist ratio in Q1 was 15%, but in Q2 it weakened slightly due to the strong yen, ending just below 15%. However, we observed a recovery in inbound demand at the beginning of Q3, and we are hopeful that will continue.

Q3. What were the reasons for strong domestic demand during August and September, despite the weakening demand from inbound tourists? Did you take any special steps to counteract declining inbound demand and strengthen domestic sales?

A3. We did not implement any strategies specifically in response to declining inbound demand.

Rather, our ongoing strategy has proved successful. For example, Seiko GBs benefited from strong sales of models commemorating the 100th anniversary of the Seiko brand. Additionally, we continued marketing activities for GS, such as exclusive events for affluent customers. We believe these ongoing efforts helped to capture strong domestic demand.

Q4. What has been the impact of domestic price increases?

A4. We implemented price increases for some GS products on November 5th, primarily to correct the price gap between domestic and overseas markets. While there was a slight uptick in demand in October, just before the change, the impact was not very significant.

Q5. Do you see this strong domestic demand as temporary, or do you expect it to continue?

A5. Domestic demand remained strong going into Q3, and we expect the cumulative effects of our marketing activities to support that trend in the future.

Q6. If that is the case, what is your outlook for inbound demand and domestic demand in the second half of this term and the next fiscal year?

A6. Demand from inbound tourists grew significantly from the summer of last year, and by October last year it had increased considerably. We are not expecting any further substantial rise in inbound demand, but we recognize that it is still possible. For example, economic conditions in China seem to have reduced the number of Chinese tourists, but if that situation were to change for any reason, and they were to return in large numbers, that could potentially boost demand once again.

More importantly, domestic demand has seen an increase in both units sold and average unit price, suggesting that Japanese customers are appreciating the added value of our watches.

As explained in our full-year financial results briefing in May, we are driving our strategy from a global perspective. For example, even if the yen were to strengthen and domestic sales were to decline, we would compensate by increasing sales overseas. We want to emphasize the importance of growing our sales globally.

Q7. You explained earlier that you aim to get back on a recovery track overseas from Q2 onwards. However, it seems that there has been a slight downturn compared to Q1. Please explain that situation and your outlook going forward.

A7. In general, the luxury goods market continues to stagnate, and GS has certainly been affected by that situation. On the other hand, GS's in-store sell-through is now recovering, and we believe that strengthening our marketing efforts will help us return to a growth trajectory.

Q8. In overseas markets, what are the regional differences in the recovery of in-store sell-through?

A8. In the United States, GS's sell-through is already on a recovery trend, while Europe is seeing a slower recovery due to geopolitical concerns, including effects of the Ukraine war.

Q9. You mentioned that marketing costs would increase in the second half of the year. Why are these expenses rising over your initial projections, and how do they compare to the same period last fiscal year?

A9. We initially planned to increase advertising and promotional expenses by about 10% over the previous fiscal year, but we may in fact exceed that estimate. We firmly believe that this is the right time to boost GS's overseas business. While monitoring market conditions, especially in the US and Europe, we aim to invest strategically in marketing to bring about a strong recovery for GS. In addition to direct promotions for GS products, we also plan to aggressively invest in brand marketing, leveraging our theme of *The Gift of Time*.

Q10. Are these increases in marketing costs in the second half aimed at short-term sales growth, or are you looking for enhanced brand value in the medium term?

A10. We aim to enhance GS's positioning globally. So, while we are certainly looking for immediate effects, we are also viewing brand growth from a medium-term perspective. Specifically, we will continue to work on enhancing brand value by strengthening digital marketing and conducting PR events.

Q11. While your external movement business performed well, it seems that your competitors are facing tough conditions. How do you explain this difference?

A11. Regarding mechanical movements, our inventory adjustments have progressed, and we are starting to recover. Our competitors recovered faster than we did, so it might be a difference in the timing of inventory adjustments. Looking at analog quartz movements, sales were sluggish in the previous fiscal year, so this term is performing better than the last.

Q12. Speaking of the external movement business, is there a possibility of production adjustments in the second half of the year?

A12. We believe we have moved past the adjustment phase. Although the market remains uncertain, high-value-added analog quartz movements for the North American market are relatively stable, and we do not anticipate significant fluctuations. While we are closely monitoring market trends for mass-market products, as they are harder to predict, at this time we do not see a need for further adjustments.

Q13. Why is the Watches business forecast for the second half more conservative than it was in the first half, especially in light of your first-half performance?

A13. We initially created our plan for the second half of the year based on an exchange rate of ¥140/US$ and ¥150/EUR. The weakening of the yen has led to a lower year-on-year forecast. In addition, we also plan to increase marketing costs, particularly for GS. The combination of the ongoing weakness of the yen and the planned increase in marketing expenses led us to take a more conservative outlook in the second half.

[Devices Solutions (DS) Business and Systems Solutions (SS) Business]

Q14. Although you revised down the performance forecasts for the DS and SS businesses, the Q2 performance doesn't look so bad. What revisions have you made in the plan for the second half of the year?

A14. In DS, the printing devices business, particularly inkjet heads, saw significant sales growth in Q4 of the previous fiscal year, but we do not expect the same level of growth in this term. Additionally, the demand for thermal printers remains uncertain, leading to changes in our Q4 assumptions. For these reasons, we decided to revise our projections.

Despite the fact that the SS business is on a growth trajectory, we revised our plan for the second half of the year due to a larger-than-expected slowdown in sales of some high-margin network equipment, influenced by the end of ISDN line services. In sum, we thought it prudent to revise down projections for both the DS and SS businesses.