

Seiko Group Corporation

FY24 Q3 Consolidated Results Presentation - Q&A

- ◆ Date : Tuesday, February 13, 15:30 - 16:15, Tokyo, Japan
- ◆ Respondent : Taku Yoneyama, Director, Executive Vice President

Summary of Q&A

[Consolidated Overall]

- Q1. Regarding your full-year forecast, you revised operating profit upward to 20 billion yen, although you expect the operating profit for Q4 to be negative. While I understand that in the past it has been generally difficult to generate OP in Q4, in recent fiscal years you have managed to do so. With that background, could you explain what factors led to this term's Q4 deficit?
- A1. One reason is that, as you may have guessed, our forecast is normally conservative. The projected exchange rate is set at 145 yen to the dollar, but in light of the current forex situation, there is a possibility of an upward revision in profitability due to the weaker yen. We tend to have both weaker sales and higher expenses in Q4, and this term is no exception: we anticipate recording higher overall expenses in Q4. In addition, we expect to invest aggressively during the next fiscal year in advertising and promotional expenses, especially overseas, to support further growth in our Global Brands.
- Furthermore, looking at external sales of watch movements, the market environment for standard analog quartz (AQ) movements is becoming more difficult. Thus, we plan to optimize inventory by adjusting the production of standard AQ movements.
- We have also factored into our Q4 results the impact of substantial water damage at the Grand Seiko (GS) boutique in Manhattan and of wildfires in Los Angeles, where another GS boutique is located. These unforeseen problems prevented both GS boutiques from operating at full capacity.
- Of course, we will continue working to increase profits, including taking potential gains from exchange rate fluctuations.
- Q2. Your performance this fiscal year has been strong, but we need to look at next year. Could you explain the outlook for each segment in the next fiscal year, and in particular discuss whether your success in the Watches business will be sustainable?
- A2. Of course. We are now planning for further growth in the Watches business. As we have explained before, we need to grow the GS business globally, but we were late getting started in overseas markets. So, from the next fiscal year onwards, we are determined to

grow GS internationally. The global luxury market is huge, and we are confident that our Watches business will continue to grow. And yes, as we further develop overseas markets, we believe that growth will be sustainable.

The Devices Solutions Business is finally emerging from a difficult period. We believe that micro batteries will continue to perform well in the next fiscal year, and orders for precision components for AI servers are also increasing, which is a positive sign for this segment. The European automotive industry is currently facing a stagnant environment, but new products will require high-precision components. We are working to develop our business in this area. Turning to inkjet heads, sales to China were strong in the previous fiscal year, which led to sluggishness this fiscal year, but new products are doing fairly well. Therefore, we are planning to achieve a turnaround in the coming fiscal year.

The Systems Solutions Business is strong in IoT-related areas. We aim to further expand our IoT-related business to help address ongoing labor shortages. Additionally, since Computer Science Corp. joined our Group in the previous fiscal year, we can more easily offer a full range of services on our DX platform. Our security-related services now provide total solutions, including overall operational support for security, and this has led to strong growth. We will continue to focus our efforts in this area, as there is growing demand for this business, not only in the Greater Tokyo Metropolitan area, but in rural areas as well. By leveraging these growth opportunities, we believe the System Solutions Business can achieve a higher level of growth.

In short, we have good reason to expect further growth in all three domains during the next fiscal year.

Q3. You are on track to achieve the operating profit target of 20 billion yen stated in your SMILE145 mid-term management plan during this term, which is well ahead of your projected schedule of FY2026. Are there any plans to update the target figures for SMILE145?

A3. Of course, we are happy to be able to achieve this target ahead of schedule. However, it is important to note that SMILE145 includes various KPIs, not only operating profit. For example, we have not yet achieved our targets for ROIC, ROE, and gross profit margin, and our basic policy remains to accomplish our MVP strategy over the next five years. However, since we are on track to achieve the operating profit target, we will discuss this particular KPI during our announcement of the current full-year results, at which time we will also present plans for the next fiscal year.

[Watches Business]

Q4. I would like to ask about the strong domestic performance of the Watches business. In your competitors' earnings announcements, there were comments that the demand from

inbound tourists was slightly weaker than expectations. Could you discuss your inbound ratio and the future outlook for inbound sales?

A4. I can't speak for our competitors, but our domestic inbound ratio has remained relatively stable at around 15%, without significant fluctuations. We see demand from inbound tourists transitioning from the sudden, post-COVID boom to a more stable phase. In general, inbound demand has been growing since the autumn of the previous term, although the number of inbound tourists decreased slightly in the summer of 2024, then recovered again. The growth rate at the beginning of this fiscal year was about 50% above that in the previous year, but by December it dropped down to the 20% range. Recently, we have seen an increase in demand from Chinese tourists, with a high ratio of inbound sales at mass retailers, particularly for souvenir purchases. However, during the Lunar New Year period, many Chinese tourists tend to visit regional areas in Japan, so we do not expect to see a significant uptick, as our major outlets are in urban areas.

Q5. Will the production adjustment for external sales of watch movements be implemented in Q4? How will the production adjustment impact profits?

A5. Our external movements include low-priced standard AQ movements, high-value-added AQ movements, and mechanical movements. On the whole, market conditions are not bad. In particular, high-value-added AQ movements and mechanical movements are performing well. However, the volume of standard AQ movements is decreasing due to market contraction. Thus, we are taking this opportunity to adjust the production of standard AQ movements and optimize our inventory. The impact on profits is not highly significant, but it is one of many factors contributing to the watch business being in the red in Q4.