Seiko Group Corporation

FY24 Q4 Consolidated Results Presentation - Q&A

◆ Date : Wednesday, May 14, 2025, 10:30 - 11:40
◆ Location : JP TOWER Hall & Conference (hybrid style: real + virtual)
◆ Participants : Shinji Hattori, Director, Chairman, Group CEO and CCO
Shuji Takahashi, Director, President
Akio Naito, Director, Senior Executive Vice President
Jun Sekine, Director, Senior Executive Vice President
Taku Yoneyama, Director, Executive Vice President
Yoichi Endo, Executive Vice President

Summary of Q&A

[Consolidated Overview]

Q1. In this quarter, the Emotional Value Solutions (EVS) business saw a slight decrease in the MVP (Moving, Valuable, and Profitable) ratio for the Watch business compared to the previous period, while the gross profit (GP) margin improved significantly. On the other hand, both the Device Solutions (DS) and System Solutions (SS) businesses saw an increase in the MVP ratio, but their GP margins have stagnated. What factors contributed to the GP margins for each business?

A1. Although the MVP ratio for the Watch business decreased slightly in overseas markets, the overall GP margin for the EVS business improved significantly due to ongoing cost reductions, such as our rethinking of the global manufacturing system, as well as the effects of the weaker yen.
Unfortunately, the GP margin for the DS business has stagnated due to struggles with precision devices. We have taken measures to respond to this situation, and we expect to see improvements in precision devices in the new fiscal year.
Regarding the SS business, Computer Science Corporation, which joined our Group in January 2024, primarily focuses on the low-margin SI business. In addition, the SS business has been affected by Japan's termination of ISDN lines, which depressed sales of certain high-margin communication equipment (protocol converters). In the new fiscal year we will be taking steps to improve the GP margin for the SS business.

[Watch Business]

Q2. In the Watch business, the year-on-year growth rate of domestic sales turned negative in Q4. Could you explain the factors behind this decline and give us some idea of what you expect in the future?

A2. Overall, the domestic business performed very well during the full year. However, as you pointed out, in Q4, the year-on-year growth rate turned negative. This was due to an announced GS price increase which took effect in April 2024. This led to a sudden surge in sales at the end of the previous fiscal year, as customers rushed to buy GS quality at the old price. In short, the dip in this term’s Q4 yoy growth rate was due to an anomalous rise during FY2023 Q4, not a significant decline in this term.
Inbound demand was quite strong in the first half of fiscal 2024, but settled into a normal growth rate in the second half. Nevertheless, we see inbound demand continuing to show a robust uptrend.

Q3. The external environment for the Watch business looks difficult, what with the appreciation of the yen, the impact of U.S. tariffs, and the global downturn in the luxury market. In such a challenging environment, how do you plan to achieve revenue and profit growth in FY2025?

A3. As you noted, the luxury goods market has faced a challenging global environment for a few years now. However, since it became an independent brand back in 2017, Grand Seiko (GS) has continued to grow both its domestic and international sales steadily year after year. We are aware that some Swiss brands with sales volumes similar to GS have suffered a sales decline over the past two years, but we believe GS can still continue to grow.
In April, we unveiled a new Spring Drive caliber at Watches and Wonders Geneva, the world's largest watch fair. Along with a Rolex offering, the new Spring Drive was widely praised by the media as one of the most noteworthy models at the show.
Over the past two years, we have seen a significant increase in GS purchases by American customers, particularly those visiting Japan. In the new fiscal year, we will focus on expanding sales of our Spring Drive models, especially in Europe and the United States.

Q4. What is the regional outlook for the Watch business in FY2025?

A4. As we just noted, the luxury market is suffering worldwide. This generally weak environment has also affected GS, which has been struggling for the past two years. We see Europe, the US, and China, as the key to re-igniting profitability. We expect the difficult conditions in these regions to continue for about another year, but we still expect a positive performance in our Watch business compared to the previous year.

Despite uncertainties such as U.S. tariffs and unpredictable inbound demand, we expect the domestic market to remain stable in the immediate future.

This past fiscal year also saw very strong global performance for Seiko Global Brands (GB) other than GS. For example, Seiko Presage and Seiko 5 Sports were particularly successful worldwide. We believe this is because these lines respond to customer desires for slightly lower-priced, yet high-quality products amid the sluggish luxury business.

We expect Seiko GB to continue performing well in the new fiscal year. Additionally, with an increase in Seiko GB mechanical products, which are manufactured in-house, we anticipate improved profitability through both rigorous production management and increasing sales volumes.

Q5. What is the timeline for your plan to promote Credor internationally, and what will be the scale of the business development?

A5. Credor was established in 1974 as a dress brand, and has been sold exclusively in Japan to a dedicated customer base. Our long-term global strategy has always been to use the GS brand to establish Seiko as a luxury maker, then build on top of that reputation. Now that GS is gaining worldwide recognition, we want to introduce and develop Credor as a refined luxury brand separate from GS.

In the new fiscal year, we plan to start selling Credor at directly managed GS boutiques in cities such as New York and Paris, positioning it as an even higher-priced, niche luxury brand. Once we establish a solid foothold in overseas markets, we intend to expand Credor further in the years to come.

In the 1970s, Gerald Genta, a legendary designer in the luxury watch industry, provided us with a design called Locomotive. We released a revival of this design last year, and it was very well received. Based on this success, we plan to make this model a regular offering in the Credor line and build a collection centered on models that highlight the brand's unique value.

[Systems Solutions (SS) Business]

Q6. Regarding the newly introduced Facility Solutions business, how much collaboration has there been between Seiko Solutions (SSOL), which oversees the SS domain, and Seiko Time Creation (STC), which manages the Facility

Solutions business? Additionally, with the organizational restructuring and SSOL President Sekine now directly overseeing STC, what upside do you expect?

A6. Historically, SSOL and STC have had minimal collaboration. STC has been engaged in hardware businesses such as large display boards, signage, and facility clocks. With the organizational restructuring, a new team will be established to incorporate software concepts. For example, SSOL will combine its demand forecasting software with STC's signage products to provide additional value to customers through an integration of hardware and software. In addition, we aim to shift the business model from a flow business to a stock business to ensure stable revenue.

[Devices Solutions (DS) Business]

Q7. Looking at your targets for the final year (FY2026) of the SMILE145 mid-term management plan, your operating profit target for the DS business seems unrealistic based on current performance. Do you still think you can achieve this figure?

A7. The OP targets in SMILE145 were all based on the best information available at the time we created this five-year plan. The target for the DS business (7.5 to 8 billion yen) was based on that segment's performance in the fiscal year ending March 2021, which saw rising demand following the COVID-19 pandemic. Of course, many things have changed since then, and as you pointed out, in our current situation this target is no longer realistic. However, on the macro level, we believe that the strong performance of other businesses, especially Watch, will sufficiently cover the decline in the DS business. We are already implementing reforms in the DS segment, and while we may not achieve the initial target, we do expect to increase DS growth from the FY2024 result to something closer to our FY2025 plan.