Seiko Group Corporation

Q&A Summary from FY2025 Q1 Financial Results Briefing

Date: Tuesday, August 12, 2025, 10:30–11:30 (Held online)

Respondent: Taku Yoneyama, Director and Executive Vice President

Summary of Q&A

[Consolidated Overview]

Q1. Despite the impact of the yen appreciation, operating profit increased by ¥3 billion year-on-year. What are the main reasons for the improved OP margin in the Watch Business in Q1?

A1. The main factor was a significant improvement in the gross profit (GP) margin. There were five key contributing factors:
1. Price increases, especially in Japan
2. Cost reduction efforts
3. Newer inventory, leading to a better-than-expected reduction in valuation losses
4. The gross profits increased due to the impact of global consolidated accounting treatments.
Item 4 Q1-specific factors, with an impact of about ¥0.5 billion. This effect will not continue in Q2 and beyond, but price increases, cost reductions, and the strong performance of mechanical watches are expected to continue improving margins. The yen is also weaker than expected, so we do not anticipate any major negative impact on profit margins from Q2 onward.

Q2. How much did Q1 operating profit exceed internal expectations? Also, how much of your corporate expenses were deferred to Q2 and beyond?

A2. Operating profit exceeded our original forecast by about ¥2 billion. While there were deferred and reduced corporate expenses in Q1, the main factor was the significant improvement in GP in the Watch Business.
Regarding deferred expenses, the consolidated adjustments including corporate expenses came in ¥0.7 billion below initial Q1 forecast. A portion of these adjustments is expected to be deferred to Q2 and beyond. Corporate expenses are being reviewed and we're aiming for further reductions over the full year.

Q3. Speaking of tariffs, what was the impact of tariffs in Q1?

A3. Approximately ¥0.2 billion in the Watch Business and just under ¥0.1 billion in the Devices Solutions Business.

Q4. Although your earnings forecast has been revised upward, the outlook for Q2–Q4 in the Watch Business still seems rather conservative. Is there potential for additional upside?

A4. Our outlook is conservative due to risks such as fluctuating exchange rates and U.S. tariffs. For Q2 and onward, we have set exchange rates at ¥140/USD and ¥160/EUR, which is also conservative. If the yen continues to weaken, that will boost profits. We are working to reduce the impact of U.S. tariffs through negotiations with business partners. In addition, we may be able to further reduce corporate expenses, especially system-related costs, though we will maintain branding investments.
If the yen weakens, the Watch Business forecast could be revised upward. Another factor in our conservative forecast is that we anticipate a possible decline following last-minute demand in the U.S. However, if Swiss brands raise retail prices significantly, that could benefit Grand Seiko (GS), which would also add upside potential.

[Watch Business]

Q5. Seiko's Watch Business performed strongly in Q1, but Swiss watch export statistics show a strong April followed by a decline. What was the industry situation in Q1? How should we view the potential decline after July? Finally, has the increase in U.S. tariffs on Swiss products caused further disruption?

A5. In general, the luxury market is quite concerned with the tariffs, partly because the situation seems so uncertain. In the U.S. wholesale business, retailers engaged in last-minute buying prior to the tariffs taking effect. Clocks were also shipped early due to tariffs, resulting in a positive impact in the U.S. market. Sales in July were expected to decline, but performance remained strong. Some decline is expected in the near future, which is one reason for our conservative Q2 outlook.
The U.S. raised tariffs on Swiss products to 39%, and we believe Swiss brands will raise retail prices by about half that amount. We raised GS prices in the U.S. by roughly 5% in July, which is relatively modest. If the Swiss brands hike prices in line with our expectations, that could potentially benefit GS.

Q6. GS showed positive growth in both Japan and overseas in Q1. Could Japan have performed even better without the delay in new product launches? Was the overseas growth driven by last-minute demand due to U.S. tariffs?

A6. Domestic sales remained positive despite delays in new product launches. These products are shipping smoothly, which will be a positive factor in Q2. Inbound demand has stabilized, and domestic growth is expected to continue at a steady pace. As noted previously, the Swiss price hikes may benefit Seiko.
Overseas performance is mixed and uncertain. The U.S. saw last-minute demand, but overall sell-through is recovering. The U.S. economy remains strong, but Europe remains unsettled. We are continuing efforts to develop and improve distribution.

Q7. The Seiko Global Brand continues to perform very well. What is the market potential in this price range? Is the global presence of Japanese brands actually changing, or is this simply due to successful marketing?

A7. The Seiko Global Brand includes many mechanical watches. Inbound demand in Japan is growing for affordable mechanical watches. Globally, both entry-level and middle-range mechanical watches are growing, showing strong demand. With uncertainty in the high-end segment (including GS and Swiss brands), the previously underserved mid-range market is now expanding. As a result, we are strengthening production of middle-range mechanical watches.
In general, Japanese mechanical watches are performing well, and both Seiko Presage and Seiko Prospex are growing. Our products are recognized for quality and value, and the global market environment is also improving, creating a synergistic positive effect.

Q8. At your June Watch Business Strategy Briefing, it was mentioned that inventory—including your competitors'—should be carefully monitored. While Seiko's inventory is not a problem, could competitors' inventory situations, such as that of Swiss brands, affect the U.S. market?

A8. GS inventory in the U.S. has been streamlined, but whether luxury retailers allocate shelf space to GS depends on various factors, including Swiss price hikes. Spring Drive is highly valued in the U.S., and we plan to expand sales with new Spring Drive models. We hope retailers will continue to feature such high-value products.

[Devices Solutions (DS) Business]

Q9. Although the gross profit margin hasn't improved, the operating profit margin increased. Did last year's impairment contribute positively to SG&A expenses or fixed costs this year? Has the surge in silver prices affected Q1, or is it a future risk factor?

A9. Last year's impairment, which was related to precision devices, had a positive impact this year, but not significantly. Silver oxide batteries for medical equipment are expected to grow steadily, and we anticipate growth in printing devices. High-value thermal printers are beginning to sell well. We hope printing device growth will offset any silver price increases and exchange rate impacts.
Silver price hikes affected Q1 somewhat, but because there was still inventory, the impact will be greater from Q2 onward. We expect an impact of several hundred million yen from Q2 to Q4.

Q10. The DS Business performed well in Q1, enough to justify an upward revision to the full-year forecast. Why wasn't the forecast changed?

A10. The main reason is the assumption of a yen appreciation. Since silver oxide batteries for medical equipment are made in Japan, they are naturally affected by exchange rates. We also factored in rising silver prices, which could lower profitability. These factors led us to maintain our conservative forecast.