Seiko Group Corporation

FY25 Q4 Consolidated Results Presentation - Q&A

- Date: Wednesday, May 15, 2026, 10:30 - 11:45
- Location: JP TOWER Hall & Conference (hybrid style: virtual + real)
- 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, Senior Executive Vice President
  Yoichi Endo, Executive Vice President

Summary of Q&A

[Consolidated Overview]

Q1. Based on your earnings forecast, SG&A expenses appear to be increasing by approximately ¥10.0 billion. What are the main factors driving this increase?

A1. While overall SG&A expenses are on the rise, advertising and promotional expenses are the largest factor behind the increase. We have increased the advertising and sales promotion budget by more than 10% annually over the past 2-3 years, and we plan to maintain a similar rate of growth for the current fiscal year. In addition to investing in corporate branding, we will strengthen promotional activities for the watches business across global markets.
System investments at our corporate headquarters were relatively moderate in the recent term, but we intend to reinforce them in the new fiscal year. Given the sharp rise in security incidents in recent years, both here and abroad, we have decided to further strengthen security measures across the entire Group. Needless to say, there will be a corresponding increase in related costs.
Finally, we project an increase in HR expenses, including for wage hikes and other compensation adjustments stemming from our commitment to rewarding our employees.

Q2. Regarding growth investments, is it correct to understand that the investment figure for the new fiscal year represents the difference between the five-year growth investment plan and actual cumulative investments over the past four years?

A2. Yes, that is correct. In principle, we will continue our investment plan as an extension of our current initiatives. However, in the new fiscal year we will also step up strategic investments in multiple areas. These include supporting growth investments, branding investments, and capital expenditures during the new fiscal year in line with the next mid-term management plan.
With regard to branding investments, we plan to build on our global partnership with Shohei Ohtani and expand that program over the next five years. Capital expenditures were relatively restrained in the previous term, but we aim to strengthen manufacturing capabilities in the new fiscal year as one key to supporting growth over the next five years and beyond.

Q3. I would like to ask about the risks associated with the current Middle East conflict. While we understand that there is little direct impact on your operations, aren't there risks of spillover effects on your business performance?

A3. Of course, we are paying close attention to the situation in the Middle East. No one knows how things will develop, but we must make certain assumptions in order to proceed with our business. We see the risk scenario falling into three main areas.

First is the logistics aspect. Flight cancellations in and around the region have resulted in reduced transportation capacity. However, because Middle East sales make up a relatively small part of our global sales ratio, we do not see any major impact on our business at present.

Second is the cost aspect. The impact of the conflict on the raw materials market has been significant. Prices for silver, rare earths, and other materials have risen significantly. We have already factored these changing costs into our plan for the new fiscal year. However, if crude oil prices continue to rise, the impact could become more serious. In preparation for that scenario, we will double-down on our cost-reduction activities and share information among our manufacturing companies to help minimize the impact.

The third risk involves the difficulty in procuring certain critical materials. If supplies of materials essential to manufacturing, such as naphtha-derived cleaning agents, continue to tighten, we will face increased risk of disruption to our production processes. We are already taking countermeasures, including procuring alternative materials and using our global supply chain network to reroute procurement.

At present, the Mideast conflict has not seriously impacted our business operations, and we do not expect it to do so. However, we are taking proactive steps to ensure resilience even in a worst-case scenario. We will continue monitoring the situation closely and respond quickly if things change.

Q4. Under the current mid-term management plan, strong business performance has led to a steady reduction in interest-bearing debt. If this trend continues, the Company could move from a net debt position to a net cash position during the next mid-term management plan, which may in turn slow the pace of ROE improvement. Could you share your current leverage policy and your thinking with regard to improving capital efficiency going forward?

A4. Over the past four years, we have generated more cash than originally anticipated. As a result, over the five-year period of our SMILE145 mid-term management plan, we now expect growth investments to increase by ¥10.0 billion, interest-bearing debt to decrease by approximately ¥25.0 billion, and shareholder returns to exceed ¥20.0 billion. This has raised our equity ratio to over 45%.

While we prioritized reducing interest-bearing debt during the past five years, we believe the next five-year period will represent a new phase. One of our key discussion points going forward is how much capital to allocate to growth investments, while at the same time reviewing our approach to shareholder returns.

During the coming year we will carefully consider our current equity ratio and net D/E ratio, and establish a forward-looking policy regarding our optimal capital structure—one that prioritizes business growth through a greater allocation to growth investments. That policy will become part of the next mid-term management plan.

Q5. Looking ahead to the next mid-term management plan, does CEO Hattori intend to remain at the forefront of management? Also, could you explain Mr. Sekine's new role? We gather that he will be appointed Vice President following the General Meeting of Shareholders in June.

A5. As I'm sure you know, the Company will celebrate its 150th anniversary in 2031, and the next mid-term management plan will cover the critical period leading up to that milestone. The matter of Mr. Hattori's tenure as CEO will be decided through consultations with President Takahashi, as well as the views of our independent outside directors. At this point, it is safe to say that Mr. Hattori intends to continue serving as CEO through the 150th anniversary.

Mr. Sekine brings extensive expertise in IT and AI, as well as a strong perspective on diversity. We believe that he can help to create new businesses and further advance our transformation into a "solutions company."

As Vice President, Mr. Sekine will help to formulate the next mid-term management plan and play a key role in driving new Group initiatives. Our System Solutions (SS) business will be a core engine of that evolution. The SS business has a solid customer base of approximately 6,000 companies, which we will leverage, together with the Group's wide-ranging technological capabilities, to create new value.

[Watches Business]

Q6. Can you talk a little about tariffs imposed by the US and the impact on that market? For example, in the fiscal year under review, many Swiss watch brands raised prices in the US due to the impact of reciprocal tariffs. To what extent did the price differential vis a vis Swiss brands contribute to your performance? Also, if tariffs are lifted in the future, do you expect that price gap to narrow?

A6. Let's look at the luxury segment, where Grand Seiko (GS) competes directly with Swiss rivals. Due to the reciprocal tariffs, Swiss brands were subject to higher duty rates than Japanese brands. While our price increases averaged only around 5% to 6%, Swiss brands were forced to raise prices in double digits. So, if we look only from a purely price perspective, this worked in our favor. However, as you know, luxury segment purchases are not driven solely by price; brand image and reputation have a much stronger influence on purchasing decisions.

The tariff situation remains fluid, and there is uncertainty regarding the timing of duty refunds and whether or not they may be reflected in future pricing. We consider it unlikely that Swiss luxury brands would resort to broad-based price cuts. Therefore, although this is not a market where volume grows purely on price, we believe our relative pricing advantage is likely to remain a positive factor, although its influence will be limited.

Q7. Regarding your revenue growth assumptions for FY2026, which is expected to be a more significant growth driver: GS or Seiko Global Brands (Seiko GB)?

A7. In principle, we aim for both segments to be growth engines. While GS has always been a strong driver of growth, GB is also growing impressively. Of course, both segments have their own challenges to deal with.

For GS, overseas demand remains somewhat uncertain, partly due to geopolitical risks.

However, our strategy in the term under review year proved effective, and we intend to maintain that momentum in FY2026. In the domestic market, inbound demand has become increasingly important for GS, and the extent of its contribution will be a key factor in the new term. Overall, we expect to see significant growth in both domestic and overseas markets.

Seiko GB, meanwhile, delivered even higher growth than GS in FY2025, driven in large part by overseas expansion. Paradoxically, one big factor behind this was the steady rise in GS brand image, providing a “halo effect” that elevated the entire Seiko brand. For example, GS sales in the U.S. have grown by approximately 15 times over the past decade. With GS now firmly established as a luxury watch brand, we are seeing positive impacts that are supporting the performance of Seiko GB.

The key challenge for Seiko GB is supply constraints for mechanical models. Production capacity is approaching its upper limit, so accelerating capacity expansion will be critical to sustaining future growth.

Q8. I would like to clarify the risks related to production capacity. You mentioned that production capacity for mid-priced mechanical watches (Seiko GB) is nearing its upper limit. If demand in the new fiscal year remains as strong as it was in the previous term, is there a risk that revenue growth could be limited due to supply constraints?

A8. With respect to production capacity, we believe we can achieve our earnings forecast with our current capacity. To prepare for a potential increase in demand, we are actively working to expand capacity, not only by boosting our in-house manufacturing capabilities, but also by outsourcing the production of certain components through collaborations with external partners.

To answer your question, if demand were to surge as rapidly as it did in the previous term, we might not be able to completely avoid product shortages. However, we are seriously addressing the issue of capacity constraints, and are confident that we can deliver sufficient product to meet our stated goals in the new fiscal year.

Q9. On page 41 of *Toward the Next Mid-term Management Plan* presentation, you refer to “Meeting the Challenges of the Next Stage” in the Emotional Value Solutions (EVS) domain. What specific initiatives are you considering to support further growth? In particular, with respect to your goal of “balancing increased investment with profitability,” which areas do you see as priorities for incremental investment?

A9. Over the past five years, we have been driving our business transformation through our GB strategy. We believe our strong performance has been supported primarily by three factors: First, we have strengthened brand value. In particular, thanks to the success of GS, our presence in the luxury segment has grown significantly.

Second, we have strengthened coordination between manufacturing and sales. By clearly defining what we should prioritize selling—such as our “core models”—and concentrating resources and promotional activities on those products, we have improved efficiency across the business.

Third, we have optimized our distribution strategy. Focusing on higher-tier channels has proven effective.

We believe that our continued growth has been a direct result of these three elements working synergistically.

In the next phase, we will maintain and further strengthen this three-pronged approach. Within that context, our investment priorities fall broadly into two areas. The first is distribution. While we have been increasing the number of directly operated stores, both in domestic and overseas markets, we see further room to expand, particularly in Europe. We will make prudent investments to continue expanding our directly operated store network for both GS and Seiko GB.

The second is manufacturing. As we discussed before, we are approaching the upper limit of our production capacity for mechanical watches. To achieve further growth, capital investment will be essential. However, as expanding production capacity also increases fixed costs, we believe it is important to further refine the production and sales coordination framework that we have built over time and carefully manage the demand–supply cycle to avoid overcapacity.

Q10. How should we evaluate the costs associated with the global partnership with Shohei Ohtani?

A10. This year marks the 10th year of our partnership with superstar athlete Shohei Ohtani. Until now, he served as a Seiko brand ambassador, but only in Japan. From April of this year, he was appointed as Seiko's global ambassador, and has also taken on the role of Global Partner for GS.

While for contractual reasons we cannot disclose the details of our arrangement, it is safe to say that our investment will increase as we transition from a domestic to a global agreement.

GS has gained strong recognition among watch enthusiasts, but has yet to achieve the same impact among the general public, and this remains a key priority. In this context, we view our partnership with Mr. Ohtani as highly effective, particularly in markets where baseball has a large fan base, such as the U.S., Japan, Korea, Taiwan, and Australia.

Although the scale of investment will increase, we expect returns that will more than justify that investment.

Mr. Ohtani hails from Iwate Prefecture, where GS has a production base, so we have a special connection in that regard. In addition, he has a distinctive philosophy regarding Time, which we believe aligns well with the GS brand.

For these and other reasons, we see Mr. Ohtani not merely as an endorser, but as a long-term partner, aiming to enhance GS brand value and drive sales growth into the future.

Q11. I would like to ask about Credor's global expansion. Your next mid-term management plan ends in 2031, the year of Seiko's 150th anniversary. How are you positioning Credor to grow during that time?

A11. As you know, Credor is not a new brand. It was established in 1974, but it was little known outside of Japan during the next 50 years. In April 2026, Credor exhibited for the first time at Watches and Wonders Geneva (W&W). We had a separate booth in the "Micro Maisons" area—where independent watchmakers exhibit—apart from GS.

The booth attracted strong interest from visitors and overseas media. Over two days, we hosted interviews with eight media outlets, and in most of those interviews we were asked questions specifically about Credor. As a result, we believe our participation in W&W significantly increased brand awareness.

The simple fact is that Credor is by definition a limited-production, high-end luxury watch. Its manufacture involves even more hand-craftsmanship than GS, making it difficult to upscale production. Accordingly, large volume expansion is neither physically possible nor strategically desirable. Credor is very much a luxury product. Its brand appeal will rest on the artisanship required to create each individual piece, and the consequent rarity of the finished product. For overseas sales, we will limit distribution to fewer than 10 stores for the time being.

While GS will continue to drive volume and revenue growth, Credor will deliver a different kind of brand value—an exclusive, handcrafted work of art, related to but distinct from GS.

[Devices Solutions (DS) Business]

Q12. The DS business appears to have struggled to meet the targets set out in your mid-term management plan, although recent performance seems more promising. How have you addressed the sharp rise in silver prices? In your presentation, you mentioned that quartz and high-performance metals have been performing well recently. Could you explain the drivers behind that?

A12. Yes, recent DS performance was significantly affected by the surge in silver prices in the last fiscal year. However, our countermeasures, such as spot purchases of silver and price negotiations with customers, were effective, and our efforts to pass along the higher costs have started to make progress.

For the new fiscal year, we expect to achieve some moderate cost pass-through. In particular, silver oxide batteries for medical equipment are expected to perform well.

As for quartz and high-performance metals, demand has been increasing alongside the recovery in the semiconductor market cycle. Rising demand for both notebook PCs and semiconductor manufacturing equipment has continued to support growth in that area.

Q13. One more question regarding quartz and high-performance metals: Are you capturing demand related to AI and data centers?

A13. Absolutely. For example, shipments of our high-performance metal products—specifically metal diaphragms—for use in leading-edge semiconductor manufacturing equipment have been increasing. This demand is clearly AI-related.

In our electronic devices business, we are capturing demand in areas such as AI servers and optical communications. Looking ahead, we believe we are well positioned to continue benefiting from the ongoing AI-related growth trend.

Q14. What is your current revenue mix for quartz by application? Also, within AI data center-related demand, how is the mix split between different types of computing areas?

A14. In terms of the revenue mix for quartz, the largest application is notebook PCs. Other applications include infrastructure-related uses, such as smart meters, as well as IoT-related uses, such as surveillance cameras.

Because our 32 kHz quartz crystal resonators are used in virtually all types of electronic devices, our revenue is not heavily dependent on any single application area. As a result, while we are generally affected by semiconductor market cycles, the broad applicability of our products tends to support solid demand growth when the cycle turns up. We expect a similar expansion in demand in the new fiscal year as well.

Q15. With demand for quartz remaining strong, have you seen any changes that differ from the past, such as additional room for price increases or efforts to strengthen customer retention?

A15. One notable change, particularly for 32 kHz quartz crystal resonators, is an increase in OEM manufacturing requests from other makers, including our competitors.
We believe this is driven by two factors: First, our reputation for quality is well known within the industry, and second, outsourcing to us allows those customers to avoid incremental investment in 32 kHz quartz crystal resonators and instead allocate resources to other areas.
The combination of these factors is contributing to continued strong demand.