



CONSOLIDATED FINANCIAL STATEMENTS FOR THE THREE MONTHS ENDED JUNE 30, 2019 [Japanese GAAP]

August 9, 2019
Stock Listing: Tokyo

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(Note) Amounts under one million yen have been rounded down.

1. Consolidated financial results for the three months ended June 30, 2019 (From April 1, 2019 to June 30, 2019)

(1) Consolidated financial results (% represents the change from the corresponding period of the previous fiscal year)

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
Three months ended June 30, 2019	58,539	(1.4)	2,831	16.5	3,315	(4.3)	2,153	(29.8)
June 30, 2018	59,367	(6.5)	2,431	(10.5)	3,463	11.3	3,068	155.9

Note: Comprehensive income
 Three months ended June 30, 2019: 946 million yen (81.2) %
 Three months ended June 30, 2018: 5,037 million yen 25.8 %

	Basic earnings per share	Diluted earnings per share
	Yen	Yen
Three months ended June 30, 2019	52.26	52.25
June 30, 2018	74.45	74.45

(2) Consolidated financial position

	Total assets	Net assets	Equity capital ratio
	Millions of yen	Millions of yen	%
As of June 30, 2019	303,401	109,814	35.8
March 31, 2019	303,036	110,415	36.0

(Reference) Shareholder's equity
 As of June 30, 2019: 108,537 million yen
 As of March 31, 2019: 109,221 million yen

2. Dividends

	Dividends per share				
	1st quarter-end	2nd quarter-end	3rd quarter-end	Year-end	Total
Fiscal year ended March 31, 2019	Yen	Yen	Yen	Yen	Yen
ended March 31, 2019	-	37.50	-	37.50	75.00
ending March 31, 2020	-				
ending March 31, 2020 (Forecast)		37.50	-	37.50	75.00

(Note) Revision of the latest announced dividends forecast: None

3. Consolidated financial forecast for the fiscal year ending March 31, 2020 (From April 1, 2019 to March 31, 2020)

(% represents the change from the previous fiscal year)

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent		Basic earnings per share
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%	Yen
Fiscal year ending March 31, 2020	255,000	3.1	9,500	1.1	11,500	0.8	9,500	2.7	230.49

(Note) Revision of the latest announced financial forecast: None

Business Results

1. Overview

During the three-month period ended June 30, 2019, in the world economy, the U.S. economy saw steady personal consumption, although growth was only moderate due to factors including signs of slowing growth in capital investment on concerns about trade friction and sluggish global growth. In Europe, the U.K. economy decelerated due to the impact of the protracted BREXIT issue. The Eurozone saw a moderate expansion as the unemployment rate continued to fall. In Asia, growth slowed in many countries due to the impact of trade friction between the U.S. and China. The real GDP growth rate in China declined from the previous quarter, while exports and private sector investment in non-current assets also stagnated. However, the effects of some government measures to spur the economy and mitigation measures were seen, including a pickup in public investment and accelerated growth in retail sales.

Meanwhile, there was a growing sense of stagnation in the Japanese economy. The factors included continuing weakness in overseas demand, mainly from China, and the impact of renewed tensions in U.S.-China trade friction after the announcement of a fourth round of additional tariffs in May.

For the three-month period ended June 30, 2019, the Company reported consolidated net sales of 58.5 billion yen, a year-on-year decrease of 1.4%. On a per-segment basis, sales under the Watches Business remained at the same level as the previous fiscal year and the Systems Solutions Business also performed steadily, although sales under the Electronic Devices Business decreased year on year. On an overall consolidated basis, domestic net sales came to 33.5 billion yen (a year-on-year decrease of 0.8%), and overseas net sales were 24.9 billion yen (a year-on-year decrease of 2.2%). Overseas net sales comprised 42.7% of net sales overall.

In terms of income, operating profit increased 0.4 billion yen compared to the same period of the previous fiscal year to 2.8 billion yen (a year-on-year increase of 16.5%), mainly due to ongoing cost reductions and improvement in product composition, which offset active investment efforts at the start of the 7th Mid-Term Management Plan and an approximate 20% increase in advertising and promotion expenses from the same period of the previous fiscal year. Ordinary profit decreased 0.1 billion yen compared to the same period of the previous fiscal year to become 3.3 billion yen (a year-on-year decrease of 4.3%), due to deterioration in non-operating income and expenses mainly owing to a decrease in share of profit of entities accounted for using equity method and recording of foreign exchange losses. Retirement benefit expenses of 61 million yen associated with a revision of the legal system for retirement benefits overseas were posted as extraordinary losses. As a result, profit attributable to owners of parent minus income taxes and profit attributable to non-controlling interests were 2.1 billion yen (a year-on-year decrease of 29.8%).

The average exchange rates for the three-month period ended June 30, 2019, were 109.9 yen to 1 US dollar and 123.5 yen to 1 euro.

SEIKO HOLDINGS CORPORATION

Consolidated Financial Statements: 1Q FY2019

Page 3/13

Results by Segment

Results for each segment are as follows:

a. Watches Business

Net sales under the Watches Business came to 33.9 billion yen, a year-on-year increase of 0.1 billion yen, or 0.3%. Overall net sales of watches in Japan were driven by Grand Seiko, which saw favorable sales growth mainly for high-priced Spring Drive watches that marked the 20th anniversary of their launch and quartz products that marked 50 years since their launch. On a distribution channel basis, sales to department stores and others were steady due to favorable performance of high-priced products. On the overseas front, overall net sales of watches increased year on year due to sales expansion for Grand Seiko in global markets and sales growth for Prospex mainly in Asia and Europe.

Overall net sales of watch movements declined year on year due to continuing stagnant demand for analogue quartz movements despite stable demand for mechanical movements.

Operating profit was 3.7 billion yen, an increase of 1.1 billion yen, or 43.2%, mainly due to the effects of improved efficiency from increased production and continued cost-reduction efforts. The factor included an increase of 0.2 billion yen in operating profit resulting from a change in the allocation method of expenses related to headquarters for some consolidated subsidiaries and the effects of continued cost-reduction efforts.

b. Electronic Devices Business

Net sales under the Electronic Devices Business came to 12.8 billion yen, a year-on-year decrease of 1.2 billion yen, or 9.2%. Operating profit was 0.1 billion yen, a year-on-year decrease of 0.4 billion yen, or 69.2%. The external environment, including the slowdown in the Chinese economy and stagnant investment in semiconductor manufacturing equipment, did not change significantly from the previous quarter, and sales of precision components and high-performance metals for semiconductor manufacturing equipment were sluggish. A change in the allocation method of expenses related to headquarters for some consolidated subsidiaries resulted in an increase of 0.2 billion yen in operating profit.

c. Systems Solutions Business

Net sales under the Systems Solutions Business came to 7.7 billion yen, a year-on-year increase of 0.3 billion yen, or 4.3%. Operating profit was 0.7 billion yen, a year-on-year increase of 0.2 billion yen, or 47.8%. Business for the financial industry and the mobile communication equipment-related business for IoT continued to perform favorably. In addition, profit increased year on year mainly due to further progress in stabilizing profit for each product.

SEIKO HOLDINGS CORPORATION

Consolidated Financial Statements: 1Q FY2019

Page 4/13

d. Others

Net sales under Others amounted to 6.6 billion yen, a year-on-year increase of 0.4 billion yen, or 6.6%. Operating losses were 0.1 billion yen (compared to operating losses of 0.1 billion yen in the same period of the previous fiscal year). Although sales grew year-on-year for the Wako Business and others, expenses also increased, and operating losses improved only slightly year on year.

2. Financial Condition

-Assets

Total assets at the close of the three-month period ended June 30, 2019 amounted to 303.4 billion yen, an increase of 0.3 billion yen from the close of the previous fiscal year. Total current assets came to 137.4 billion yen, a decrease of 1.4 billion yen from the close of the previous fiscal year. This was due to decreases of 2.3 billion yen in cash and deposits and 2.9 billion yen in notes and accounts receivable - trade, offsetting an increase of 2.5 billion yen in inventories. Under non-current assets, total property, plant and equipment increased 2.9 billion yen from the close of the previous fiscal year due to an increase of 3.8 billion yen in property, plant and equipment as a result of adopting IFRS 16 “Leases” from the first quarter of the fiscal year ending March 31, 2020 at overseas subsidiaries, excluding those in the U. S., that have adopted IFRS. Meanwhile, decreases of 0.3 billion yen in intangible assets and 0.7 billion yen in investments and other assets resulted in total non-current assets of 165.9 billion yen, an increase of 1.8 billion yen relative to the close of the previous fiscal year.

-Liabilities

For liabilities, total loans came to 105.0 billion yen, due to an increase of 5.5 billion yen in short-term loans payable, as well as decreases of 1.7 billion yen in current portion of long-term loans payable and 3.1 billion yen in long-term loans payable. In addition, accounts payable - other decreased by 3.5 billion yen, while current liabilities increased by 0.8 billion yen and non-current liabilities increased by 3.0 billion yen due to the adoption of IFRS 16 “Leases.” As a result, total liabilities amounted to 193.5 billion yen, an increase of 0.9 billion yen from the close of the previous fiscal year.

-Net assets

With regard to net assets, total net assets decreased by 0.6 billion yen over the close of the previous fiscal year to become 109.8 billion yen, owing to a decrease of 1.2 billion yen in total accumulated other comprehensive income mainly resulting from a decrease in foreign currency translation adjustment, despite an increase of 0.6 billion yen in shareholders’ equity.

SEIKO HOLDINGS CORPORATION

Consolidated Financial Statements: 1Q FY2019

Page 5/13

3. Financial Forecast for the Year Ending March 31, 2020 (FY2019)

As noted above, business performance during the three-month period ended June 30, 2019 progressed favorably with respect to the forecast. As initially assumed, the environment surrounding the business continues to require attention due to factors such as the protectionist trade policies of the U.S., the economic slowdown in China and Europe, and the increase in Japan's consumption tax. Thus, the Company currently has made no changes to the consolidated financial forecast for the year ending March 31, 2020 (FY2019) announced on May 14, 2019. If the consolidated financial forecast needs to be changed, the Company will announce the matter immediately.

Note that the exchange rates for the financial forecast from the second quarter onward are as follows: 1 US dollar = 110 yen; 1 euro = 125 yen.

The financial forecast announced on May 14, 2019 is as follows:

■ Forecast for the consolidated business results for the year ending March 31, 2020 (FY2019)

	Amount (Billions of yen)	Year-on-year change (%)
Net sales	255.0	103.1
Operating profit	9.5	101.1
Ordinary profit	11.5	100.8
Profit attributable to owners of parent	9.5	102.7
Earnings per share (yen)	JPY 230.49	

■ Forecasted results by segment for the year ending March 31, 2020 (FY2019)

	Net Sales (Billions of yen)	Operating Profit (Billions of yen)
Watches Business	148.0	11.5
Electronic Devices Business	55.0	2.5
Systems Solutions Business	32.0	2.5
Total for reported segments	235.0	16.5
Others	29.0	0.8
Consolidated total	255.0	9.5

Note: Consolidated total represents figures after consolidation adjustment such as the elimination of inter-segment sales.

SEIKO HOLDINGS CORPORATION

Consolidated Financial Statements: 1Q FY2019

Page 6/13

The forecasted results which appear in this report have been prepared based solely on the information which was available to us as of the date on which the report was released. As a result, actual results may differ from the forecasted figures due to a number of factors, such as changes in the business environment in the future.

SEIKO HOLDINGS CORPORATION

Consolidated Financial Statements: 1Q FY2019

Page 7/13

Balance Sheets

(Millions of yen)

	As of March 31, 2019	As of June 30, 2019
Assets		
Current assets		
Cash and deposits	33,844	31,486
Notes and accounts receivable - trade	37,456	34,527
Inventories	58,305	60,807
Accounts receivable - other	3,116	3,527
Other	7,419	8,316
Allowance for doubtful accounts	(1,153)	(1,175)
Total current assets	138,989	137,489
Non-current assets		
Property, plant and equipment		
Buildings and structures	71,913	71,471
Machinery, equipment and vehicles	81,388	78,905
Tools, furniture and fixtures	31,772	31,523
Other	1,820	5,995
Accumulated depreciation	(148,177)	(146,060)
Land	48,998	48,903
Construction in progress	924	858
Total property, plant and equipment	88,640	91,597
Intangible assets		
Goodwill	8,289	8,074
Other	8,957	8,858
Total intangible assets	17,247	16,933
Investments and other assets		
Investment securities	45,913	45,975
Deferred tax assets	4,243	3,386
Other	8,165	8,184
Allowance for doubtful accounts	(163)	(165)
Total investments and other assets	58,159	57,380
Total non-current assets	164,047	165,911
Total assets	303,036	303,401

SEIKO HOLDINGS CORPORATION

Consolidated Financial Statements: 1Q FY2019

Page 8/13

(Millions of yen)

	As of March 31, 2019	As of June 30, 2019
Liabilities		
Current liabilities		
Notes and accounts payable - trade	26,449	26,507
Electronically recorded obligations - operating	6,438	6,910
Short-term borrowings	49,610	55,166
Current portion of long-term borrowings	19,698	17,901
Accounts payable - other	12,402	8,856
Income taxes payable	1,281	1,054
Provision for bonuses	3,644	2,013
Other provisions	1,233	1,304
Asset retirement obligations	-	42
Other	12,213	14,756
Total current liabilities	132,972	134,514
Non-current liabilities		
Long-term borrowings	35,106	32,005
Deferred tax liabilities	2,451	2,198
Deferred tax liabilities for land revaluation	3,614	3,614
Other provisions	2,237	2,133
Retirement benefit liability	10,602	10,665
Asset retirement obligations	888	893
Other	4,748	7,560
Total non-current liabilities	59,647	59,072
Total liabilities	192,620	193,587

SEIKO HOLDINGS CORPORATION

Consolidated Financial Statements: 1Q FY2019

Page 9/13

(Millions of yen)

	As of March 31, 2019	As of June 30, 2019
Net assets		
Shareholders' equity		
Share capital	10,000	10,000
Capital surplus	7,245	7,245
Retained earnings	74,124	74,727
Treasury shares	(335)	(332)
Total shareholders' equity	91,034	91,640
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	10,099	10,062
Deferred gains or losses on hedges	(104)	(93)
Revaluation reserve for land	8,190	8,190
Foreign currency translation adjustment	878	(446)
Remeasurements of defined benefit plans	(876)	(815)
Total accumulated other comprehensive income	18,186	16,896
Non-controlling interests	1,194	1,276
Total net assets	110,415	109,814
Total liabilities and net assets	303,036	303,401

SEIKO HOLDINGS CORPORATION

Consolidated Financial Statements: 1Q FY2019

Page 10/13

Statements of Income

(Millions of yen)

	1Q FY2018	1Q FY2019
Net sales	59,367	58,539
Cost of sales	36,405	34,716
Gross profit	22,962	23,823
Selling, general and administrative expenses	20,530	20,991
Operating profit	2,431	2,831
Non-operating income		
Interest income	40	50
Dividend income	395	384
Foreign exchange gains	48	-
Share of profit of entities accounted for using equity method	448	336
Other	568	404
Total non-operating income	1,502	1,175
Non-operating expenses		
Interest expenses	274	247
Foreign exchange losses	-	143
Other	195	301
Total non-operating expenses	469	691
Ordinary profit	3,463	3,315
Extraordinary income		
Gain on sales of memberships	106	-
Total extraordinary income	106	-
Extraordinary losses		
Retirement benefit expenses	-	61
Total extraordinary losses	-	61
Income before income taxes	3,570	3,253
Income taxes	435	1,005
Profit	3,134	2,248
Profit attributable to non-controlling interests	65	94
Profit attributable to owners of parent	3,068	2,153

SEIKO HOLDINGS CORPORATION

Consolidated Financial Statements: 1Q FY2019

Page 11/13

Statements of Comprehensive Income

(Millions of yen)

	1Q FY2018	1Q FY2019
Profit	3,134	2,248
Other comprehensive income		
Valuation difference on available-for-sale securities	308	89
Deferred gains or losses on hedges	170	2
Foreign currency translation adjustment	314	(1,078)
Remeasurements of defined benefit plans, net of tax	40	51
Share of other comprehensive income of entities accounted for using equity method	1,068	(367)
Total other comprehensive income	1,902	(1,301)
Comprehensive income	5,037	946
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	4,982	863
Comprehensive income attributable to non-controlling interests	54	82

SEIKO HOLDINGS CORPORATION

Consolidated Financial Statements: 1Q FY2019

Page 12/13

Notes to the Financial Statements

1. Changes in significant accounting policies

The Company adopted IFRS 16 “Leases” at its consolidated subsidiaries overseas, excluding those in the U.S., from the first quarter of the fiscal year ending March 31, 2020. Accordingly, the Company recognizes right-of-use assets and lease obligations with regard to all leases, in principle, for lessees’ lease transactions.

When applying IFRS 16, the Company has adopted a method of recognizing the cumulative effect of application of this standard on the application start date, which is allowed as a transitional measure.

There is no impact on retained earnings at the beginning of the fiscal year.

The standard’s application resulted in increases of 3,898 million yen in property, plant and equipment, 870 million yen in current liabilities, and 3,035 million yen in non-current liabilities, respectively, in the balance sheets for the three months ended June 30, 2019. The impact of this standard on gains or losses or on segment information for the three-month period ended June 30, 2019 is immaterial.

Segment Information

I. For the Three Months Ended June 30, 2018

1. Information about Sales and Income (Loss) by Reported Segment

	Millions of yen	
	Sales 1Q FY2018	Operating Profit 1Q FY2018
Watches Business	33,826	2,620
Electronic Devices Business	14,100	627
Systems Solutions Business	7,423	514
Total for reported segments	55,350	3,762
Others	6,205	(169)
Subtotal	61,556	3,592
Adjustments	(2,188)	(1,160)
Consolidated total	59,367	2,431

- Notes:
1. The “Others” category denotes business segments not included among reported segments, such as the Clocks Business.
 2. Adjustments to segment income in the amount of -1,160 million yen include -141 million yen in the amortization of goodwill, -27 million yen that mainly consists of the elimination of inter-segment transactions, and -991 million yen in company-wide expenses not appropriated to each reported segment. Company-wide expenses primarily consist of expenses that fall under the parent company (holding company).
 3. Segment income has been adjusted for alongside operating profit on the consolidated statements of income.

SEIKO HOLDINGS CORPORATION

Consolidated Financial Statements: 1Q FY2019

Page 13/13

II. For the Three Months Ended June 30, 2019

1. Information about Sales and Income (Loss) by Reported Segment

	Sales 1Q FY2019	Operating Profit 1Q FY2019
Watches Business	33,929	3,752
Electronic Devices Business	12,803	193
Systems Solutions Business	7,742	760
Total for reported segments	54,475	4,706
Others	6,617	(124)
Subtotal	61,093	4,581
Adjustments	(2,554)	(1,749)
Consolidated total	58,539	2,831

- Notes:
1. The “Others” category denotes business segments not included among reported segments, such as the Clocks Business.
 2. Adjustments to segment income in the amount of -1,749 million yen include -141 million yen in the amortization of goodwill, 0 million yen that mainly consists of the elimination of inter-segment transactions, and -1,608 million yen in company-wide expenses not appropriated to each reported segment. Company-wide expenses primarily consist of expenses incurred at headquarters, unallocated to reported segments.
 3. Segment income has been adjusted for alongside operating profit on the consolidated statements of income.

2. Change in Evaluation Method of Profit / Loss of Reported Segments

In order to appropriately evaluate the results of each reported segment, the Company changed to a method of considering expenses related to headquarters for some consolidated subsidiaries that had previously been allocated to the Watches Business and Electronic Devices Business as adjustments to segment income, which are company-wide expenses, from the first quarter of the fiscal year ending March 31, 2020. As a result of this change, compared to the previous method, segment income for the Watches Business increased by 210 million yen, segment income for the Electronic Devices Business increased by 204 million yen, and adjustments to segment income (loss) decreased by 414 million yen for the three-month period ended June 30, 2019.
