Seiko Holdings Corporation

FY2019 1st Quarter Consolidated Results Presentation
Summary of Q&A

- Date : Tuesday, August 13, 2019, from 3:00-4:00 p.m.
- Place : Seiko Holdings Corporation, Head Office
- Summary of Q&A :

Q1. How did net sales in the Watches Business progress by region and by brand in the 1st quarter of FY2019 compared to the same period of the previous fiscal year?

A1. In Japan, both unit prices and sales volume improved. Unit prices for Global Brands grew, while overall sales volume also increased year on year due to strong sales of affordable-priced products. During the three months of the 1st quarter, an increase in retailer purchasing was seen before the Golden Week. However, actual consumption did not grow, leading to slight adjustments in May, followed by a recovery in June.

In North, Central and South America, mid- to high-end watches performed steadily. However, distribution declined in some channels such as department stores due to factors including restricting launches of new products in the affordable price range, and overall net sales declined year on year. This was as expected, and we do not think there will be a major retreat.

In Europe, sales on a local currency basis were up slightly compared to the same period of the previous fiscal year.

In other regions, net sales increased year on year.

Sales of the Retail division in Japan were mostly at the same level as in the previous year. However, net sales in the watch movement business were lower than those for the same period of the previous fiscal year.

Q2. Could you tell us about trends in Global Brands in Japan and overseas and the growth rate for Global Brands?

A2. In Japan and overseas, Grand Seiko is performing favorably, and Prospex is also contributing to the increase in net sales. While sales of some brands have been sluggish, Global Brands are the ones that have been driving the year-on-year increase in earnings in the Watches Business. Their growing weight has also led to improvement in profitability.

Q3. Operating profit in the Watches Business improved by 1.1 billion yen year on year. Can you give us a breakdown of the 0.9 billion yen, excluding the 0.2 billion yen impact from a change in the allocation method for headquarter expenses?

A3. Changes in product composition of watches and watch movements as well as the effect of the associated increase in production were significant. Our continuous cost reduction efforts were among other factors for the improvement.

Q4. The operating profit ratio in the Watches Business was 11%, which is the same level as in the 3rd quarter of the previous fiscal year. Does this mean that there are no longer quarterly seasonal differences in the profit ratio? Or can we expect the same level of improvement as in the 1st quarter to continue in the 2nd quarter and after?

A4. Regarding the profit ratio in the Watches Business, profitability has been improving since around the previous fiscal year due to growth in Global Brands and other products that we have been focusing on. The results of efforts such as deciding on the policy of focusing on Global Brands and putting in place a system to increase production began to appear around the second half of the previous fiscal year. We believe that improving profitability is still possible going forward, but it would be difficult to expect the same level of improvement as in the 1st quarter. As we are not concentrating solely on Global Brands, improvement is expected to stop at some point in the future.

Q5. Please give us the details about watch movements in the 1st quarter and their current status. Profitability has not worsened. Is the profit structure such that consideration of structural reforms, etc. is unnecessary for the time being?

A5. In contrast to the previous fiscal year, added value watch movements performed well, while standard movements fell behind in the 1st quarter. However, that may change in the future.
While we cannot say for certain what lies ahead, we do not have any major grounds for concern on the profit front in the current business environment.

Q6. Please tell us what kind of elements are expected in order to recover from the 2nd quarter onward in the Electronic Devices Business.

A6. We believe that new product launches, etc. that we are planning will lead to growth if they meet market needs. We are therefore closely watching the market situation, while moving ahead with preparations.

The businesses that are currently sluggish show no signs of getting any worse. Meanwhile, special procurements are expected for some products, and there is room for growth for some of our products due to factors including stimulus of domestic demand in China. Therefore, we believe that the situation will improve gradually going forward.

Q7. Please tell us about selling, general and administrative expenses. Advertising and promotion expenses increased during the 1st quarter, and other expenses were reduced. Can we expect the same for the full year?

A7. The 7th Mid-Term Management Plan explains that we will be increasing advertising and promotion expenses. While we cannot say so unconditionally, given that there are other matters such as systems development that must be addressed, our basic direction of aiming to reduce costs has not changed.

Q8. Could you describe the progress of research and development, capital investment and depreciation in comparison to the target listed in the plan?

A8. We do not consider capital investment to be too far behind the plan. Depreciation is also progressing according to the plan.

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