

Seiko Holdings Corporation

FY2018 Consolidated Results & 7<sup>th</sup> Mid-Term Management Plan Presentation  
Summary of Q&A

- ◆ Date : Thursday, May 16, 2019, from 3:00-4:15 p.m.
- ◆ Place : TCCI Grand Hall,  
the Tokyo Chamber of Commerce and Industry

◆ Summary of Q&A :

<FY2018 Results>

Q1. Please tell us about sales trends by region for watches in the 4th quarter of FY2018.

A1. The Watches Business achieved increases in earnings and profit for completed watches throughout FY2018. We believe we were able to achieve certain results amid the severe market environment in Japan and overseas.

Conditions in Japan were tough in the first half, as factors including typhoons and earthquakes had a significant impact on demand from visitors from overseas. However, the situation improved in the second half. Overseas, looking first at the U.S., Grand Seiko (GS) made it into the top 10 in a ranking of watch brands in the \$5,000 – \$10,000 price range. In the Asia region, we had a very strong first half, but trade friction between the U.S. and China began to have an impact on affordable watches in the 4th quarter. The pace dropped, particularly in China where price competition has become fiercer in the e-commerce market, which has grown considerably. Swiss watch brands are thought to be on a recovery track in the global market, but even those brands performed poorly in Europe. Seiko's situation in Europe is stable. Even so, we believe it is the most challenging of our markets, partly due to the impact of political factors.

Under the Seventh Mid-Term Management Plan, we will strengthen efforts in the U.S. and China, which are showing results.

Q2. Overseas net sales of GS tripled during the three years of the Sixth Mid-Term Management Plan. What features make it popular with consumers?

A2. Identity is the most important feature for high-end watches. We believe that GS is highly regarded for its made-in-Japan quality, design and brand

story, including Japanese craftsmanship and sense of beauty.

- Q3. The Electronic Devices Business posted a deficit in the 4th quarter of FY2018 due to the impact of the current slowdown in the Chinese economy. Do you see any signs that the situation will recover in the coming fiscal year?
- A3. The U.S.-China trade friction, which is a major factor behind the Chinese economy's slowdown, has intensified in May, and the outlook is extremely difficult to foresee.
- Q4. Regarding that trade friction, a fourth round of additional tariffs, which include watches, were announced on May 13. What impact do you expect this to have?
- A4. We might need to consider adjusting prices, reviewing manufacturing bases and other measures, while keeping an eye on the situation at our competitors. However, the U.S. tariff system is complex, so responding to it is not an easy matter. To begin with, we carefully monitor the situation.

#### <7<sup>th</sup> Mid-Term Management Plan>

- Q5. The Seventh Mid-Term Management Plan is positioned to take "an aggressive approach" that will lead to winning. What is your vision of "winning"?
- A5. Firstly, we will achieve an operating profit ratio of 5% in the third year of the new Mid-Term Management Plan. At the same time, we will further strengthen investment over the plan's three years. After that, we will realize our vision for FY2025 and make progress in cash collection to further reduce borrowings. In addition, we will develop and raise awareness of GS as a global brand, while making SEIKO a beloved and familiar sports brand.
- Q6. What are your investment plans under the Seventh Mid-Term Management Plan?
- A6. We will make capital investments of ¥12.0 billion during the first year, at a higher pace than depreciation expenses. We expect the level of investment to exceed depreciation expenses during the three years of the plan. We will be making investments for growth for some time to come. From the end of the three-year period, it will be time to prepare to steadily

grow the business into the next three years. So we believe the amount of investment will be higher in the plan's early phases.

- Q7. Are you going to increase capital investment and advertising and promotion expenses during FY2019? What kind and size of investment will you make in advertising and promotion?
- A7. Our product mix varies according to changes in market structure. We therefore need to enter the corresponding distribution channels. In Japan, products in the ¥100,000-and-over range already account for more than half of our sales. Going forward, we will invest in various channels including enlarging stores and strengthening Seiko-operated boutiques. As for overseas, in addition to these initiatives, considerable investment will be associated with the shift to different distribution channels as a result of changing the product mix to focus on global brands. We have already begun collaborating with luxury-watch distribution channels in the U.S. and China and plan to increase spending on sales promotion. We also intend to accelerate investment in digital media. In monetary terms, we will invest around two or three billion yen each fiscal year.
- Q8. Please tell us your perspective on the watch market overall during the three years of the Seventh Mid-Term Management Plan, and your views on high-end and affordable watches, smartwatches, and other products.
- A8. The watch market underwent major structural changes in FY2016. It later returned to a gradual recovery track. At first glance, the overall market appears to have entered a period of stable growth. However, the contraction of the market for affordable watches that began in FY2016 has continued. Meanwhile, the high-end watch market has started growing again, mainly for Swiss brands. The dramatically changed industry situation of FY2016 has become the new normal and is expected to continue. Smartwatches are expected to capture a certain amount of the affordable watch market. When formulating the plan, we also assumed that luxury watches would perform steadily.
- Q9. High-end watches will be strengthened under the Seventh Mid-Term Management Plan. What strategies will you implement for mid- and affordable watches?

A9. Although the market for affordable watches is shrinking worldwide, it is of some size for Seiko. In particular, we plan to expand our share by focusing efforts on launching products that target millennials and Generation Z.

Q10. How will you change the cost structure of the Systems Solutions Business under the Seventh Mid-Term Management Plan? Why is growth so low under the new plan?

A10. We will continue to enhance the three initiatives we have been working on, namely Amoeba Management, commitment management and high performance culture.

We will ensure that we achieve the target values of the new Mid-Term Management Plan and aim for further growth.

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