

Seiko Group Corporation

FY23 Q2 Consolidated Results Presentation - Q&A

- ◆ Date : Wednesday, November 15, 15:00 - 15:45, Tokyo, Japan
- ◆ Respondent : Taku Yoneyama, Director, Executive Vice President

Summary of Q&A

Q1. There was a significant improvement in the overall gross profit ratio in your consolidated results. Is it correct to assume that this indicates an improvement in the gross profit ratio in the Watches Business? If so, is that coming only from overseas markets or is the domestic market also contributing?

A1. The gross profit ratio of the Watches Business is improving both in Japan and overseas. This is partly due to the effect of exchange rates, but other important factors are also at work, including strong sales of the Seiko Presage and Seiko 5 Sports lines and operation rate improvements following a review of manufacturing.

Q2. I assume that there is a tendency for operating profit ratios to be affected by external environments, especially in the Device Solutions (DS) Domain. Are you considering measures such as fixed cost reductions to respond to this?

A2. Looking ahead to the second half, we are in the process of examining each business in detail. Regarding precision components in particular, we think the current severe situation demands that we take appropriate measures.

Q3. Considering the recent yen weakness and the positive second quarter results in the Emotional Value Solutions (EVS) Domain, your forecast for the second half seems rather conservative. What negative factors are depressing your projections for the EVS? In contrast, DS Domain, which basically did not post any profit in the first half, is projected to recover in the second half. Please explain this turnaround, and outline what changes you foresee in the second half.

A3. For the EVS Domain, the impact of the weak yen is not as favorable as it might at first seem because of forward exchange contracts. In addition, surging raw material costs have led us to take a fairly conservative view for the second half. However, on the back of recent strong sales in Japan, we hope to see profitability continue to improve.

As for the DS Domain, we believe that sales bottomed out in the first half. Sales of batteries are beginning to recover, which actually reflects favorable views of our products rather than a general recovery in the market. One important factor will be printing devices

returning to profitability in the second half. Although market conditions in China are still weak, we are working towards a recovery in sales and increased profit in both the US and Europe. Sales systems in those markets will be enhanced and new print heads should be released there in the near future.

Q4. You have said that the market for high-end watches is slowing. Please describe what impact the recent market conditions will have on your Global Brand strategy for the second half of this term and for the following fiscal year.

A4. Sales in Japan, both to domestic buyers and inbound tourists, are solid. Since inbound tourists buy these watches in Japan instead of in their home countries, those sales have a negative impact on local markets close to Japan, such as Taiwan.

In North America, Grand Seiko (GS) sales have been growing rapidly in recent years. However, the GS brand is now well established in the market and the pace of new channel development, including luxury specialty stores, is slowing. Sales are now affected largely by economic conditions. Therefore, the most important thing is to continue to raise the position of GS in each market. We will tap into new demand by strengthening our product policy and CRM. Over the medium term, it is important to expand our product lineup.

In Europe, we are in the process of changing our sales policy. Since distribution channels there have not been sufficiently developed as yet, we are stepping up efforts in that area.

In Asia, we established a GS sales company in Singapore last year. We will continue to accelerate the growth of the GS brand, including into the Middle East.

Q5. While we're talking about the Watches Business, why do you see sales trending lower in the second half?

A5. As you noted, our forecast is conservative, but not because watches aren't selling — quite the contrary! However, we expect that external sales of movements and overall market conditions in North America will weaken. Of course, we will take all possible steps to try to boost sales, but we feel it is wise to be conservative in our estimates.

Q6. Regarding North America, is it correct to conclude that you have completed the broad development of distribution channels for high-end products and are now positioned to focus on responding to customer demand in the next few years?

A6. No, in fact, that is not correct. In fact, we have not completed the development of distribution channels, but rather, have moved to the next stage in which we will continue to develop those channels while also focusing more closely on customer needs. We are aware that we need to broaden our customer base. The price range of Grand Seiko has been rising, so we will expand the lineup of GS products to ensure that Grand Seiko is

prominently visible in the high-end market. We will continue to foster and respond to growing customer demand for high-end, aesthetically pleasing watches.

Q7. Given the continued difficult conditions surrounding external sales of movements, is it safe to assume that production adjustments will be made in the second half as well?

A7. While market conditions remain challenging, we are not planning to implement across-the-board adjustments. Having said that, you should also note that our initial plan already includes the possibility of production adjustments for quartz movements. Sales of mechanical movements are somewhat weaker than expected, but we don't believe they have fallen to such an extent that a significant production revision is necessary.