

Seiko Holdings Corporation

FY2018 2<sup>nd</sup> Quarter Consolidated Results Presentation  
Summary of Q&A

- ◆ Date : Thursday, November 15, 2018, from 3:00-3:55 p.m.
- ◆ Place : Seiko Holdings Corporation, Head Office
- ◆ Summary of Q&A :

Q1. Year-on-year growth in the Watches Business weakened slightly in the 2nd quarter compared to the 1st quarter. Could you tell us about the situation by region for the Watches Business in the 2nd quarter?

A1. Watches in Japan performed strongly in the first half, progressing faster than planned.

Looking overseas, while Seiko brand remained strong in the 2nd quarter as well, sales were sluggish for affordable-priced watches that are in below price range compared to Seiko brand, particularly in Europe and the U.S. Some of the shipments to customers in Asia were ahead of schedule and completed in the 1st quarter.

Q2. How do you think watch consumption will progress in the second half going into the Christmas sales season, amid risks such as the trade friction between the U.S. and China?

A2. In Japan, consumption has progressed without any problems, and we expect strong performance by high-end watches because unit prices have been rising up to the 2nd quarter.

Overseas, there are some concerns about the European economy, while in Asia, in addition to U.S.-China trade friction, there is a sense that personal consumption has slowed down in China. While it is becoming difficult to expect the kind of growth we have seen previously, we believe that we can achieve sales on the same level with the previous year overall.

Both in Japan and overseas, we think that mid- to high-end products with a solid concept can grow steadily.

Q3. The current situation for low-priced watches continues to be tough. What kind of measures are you taking? And when do you expect the decline to stop?

A3. Rather than recovering sales of low-priced watches, we are taking

measures to strengthen mid- to high-end products that have a solid concept and are performing favorably. Although we do not believe that low-priced watches will continue to decline further in this fiscal year, we think it will be difficult to head for a recovery.

Q4. Regarding the revised structure of the U.S. sales company announced in October, could you explain the reasons for adding "Grand Seiko" to the company name? Also, please tell us about rollout to other regions.

A4. Seiko has a strong image as an affordable-priced brand in the U.S., so the "affordable" image gets attached to the high-end Grand Seiko as well. We changed the company name to "Grand Seiko Corporation of America" in order to send a strong message that we will be rolling out high-end watches going forward. We will also bolster Grand Seiko in a similar way in other regions, including Europe and Asia.

Q5. What is the future outlook regarding the slowdown in the Chinese market?

A5. We believe that the trade friction between the U.S. and China has had an impact. The figures are also showing a decline in areas such as personal consumption and GDP, and we are currently seeing a trend to hold off on purchasing and a shift to lower prices. We are also hearing that the number of e-commerce accesses is decreasing, but we do not know whether this situation will continue.

We are cautious about the Chinese economy as it impacts Japan's component business and others. While we do not anticipate a dramatic drop in sales of our watches in China, constant growth of the kind we have seen thus far is not likely to continue.

Q6. In the movements business during the first half, income improved year on year mainly due to the effects of cost-cutting efforts during the previous fiscal year. Are these factors considered not to be there in the second half? Could you tell us your views regarding the second half?

A6. The special factors of the first half will be absent in the second half. The situation was tough for analog quartz movements in the first half, and we do not believe this trend will change in the second half. On the other hand, mechanical movements are performing strongly and are contributing to earnings. In light of these factors, we are aiming for second half income on the same level as the previous year in the Watches Business as a whole including completed watches.

Q7. Please share your thoughts with regard to smartwatches.

A7. We have made preparations to respond without delay if the market environment becomes more receptive to smartwatches, but at this point we are still keeping an eye on the situation.

We have heard that smartwatches are making considerable inroads in the low-priced watches market, but since we are shifting our focus to high-end watches, we do not expect smartwatches to have very much impact.

Q8. Operating income of 0.6 billion yen is forecast for the Electronic Devices Business in the second half. How is the balance between the first half and second half in the Electronic Devices Business?

A8. We do not think there is very much seasonal fluctuation, but each fiscal year, some deviation occurs owing to factors such as the timing of new products. In addition, there may be some impact in the 4th quarter due to the suspension of production by some clients for Chinese New Year and so on.

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