

Main questions and answers at the earnings presentation for the first quarter ended June 30, 2023

Date/Time: August 14, 2023 (Monday) 16:00-17:00

Participants from the Company: Toshiyuki Furukawa, Managing Director; Yoshitaka Oji, Managing Director

Main questions and answers:

[General]

Q) Regarding the differences from expectations

A) The results were slightly above expectations due in part to the effect of the weaker yen. The results of the Watches business exceeded expectations, even excluding the effect of foreign exchange rates, but the results of the Machine Tools business were below expectations, the results of the Devices and Components business were slightly above the forecast and the results of the Electronic and Other Products business were almost in line with expectations.

[Watches]

Q) Factors that increase operating profit

A) The factors that contributed to the increase in operating profit were the increased sales of finished watches for the European market and sales of movements, a rise in unit prices due to price revisions, an increase in marginal profit attributed to the improvement of the product mix, and the effect of the weaker yen.

Q) Regarding the current situation of inbound tourist demand

A) In the first quarter of FY2023, the percent of demand that was inbound tourist demand in the domestic market was around 15%. This was slightly above 20% in FY2019, before the COVID-19 pandemic, which means it has recovered around half of what it lost. While tour groups from China have yet to recover, the number of tourists from Asian countries other than China, Europe and the United States has been increasing, and the products and price ranges accepted by them are different from those that were accepted when tourists from China were the majority.

Q) Regarding the status of sales in the North American market by distribution channel

A) Regarding the sales situation in the first quarter of FY2023, jewelry chains and department stores showed a cautious attitude toward purchases but e-commerce sales and sales via tourism distribution channels remained strong. Above all, e-commerce sales remained firm, supporting overall sales.

Q) What is the background behind the strong sales in the European market?

A) Sales have been strong since FY2022. Brands of traditional watches, which can be used for a long time, are attracting attention, and among them, CITIZEN watches are selected. Above all, we succeeded in increasing the number of dealers in France.

Q) Regarding the status of sales of movements

A) In the first quarter of FY2023, we were able to achieve numerical results that were better than expected. Sales of mechanical movements were on a trend toward recovery. Regarding analog quartz movements, the inventories of some models seem to be somewhat excessive, but visible stock has been minimized and production has been stable.

[Machine Tools]

Q) We understood that you have abundant order backlog. Why didn't sales grow?

A) Progress was not made as expected in eliminating the order backlog. It may be difficult to achieve a recovery by the end of the first half because the second quarter of FY2023 includes a summer holiday period. However, we expect to achieve a recovery in the full year.

Q) What are your thoughts on the impact of the shift to EVs?

A) Products for automobiles account for around 40% of the Machine Tools business. While it will not be affected in the short term, we are expanding the business into healthcare-related fields and other fields in anticipation of factor that may have an impact in the future, such as a decrease in the number of parts resulting from progress in the shift to EVs.