

# CITIZEN

## Medium-term Management Plan 2021

*Sense the Time and Create an Impression for the Future*

**Innovation for the next**

**CITIZEN WATCH CO., LTD.**

February 13, 2019

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- Promotion of Sustainable Development Goals (SDGs)
- Enhancement of Compliance in Quality
- Shareholder Return Policy

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## **Citizen Global Plan 2018 Review**

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# Citizen Global Plan 2018 Business Portfolio

From the previous announcement

Watches

Re-positioned as  
**the core of the Citizen Group's growth**

Machine Tools

Has grown to be  
the second core segment after watches

Small Precision  
Components

To be the next growth business

Devices, Electronics, and  
Other Products

Stable business achieved through  
profit growth

1. Strengthen financial position
2. Concentrate on products that can win
3. Improve alliances with other companies

# Citizen Global Plan 2018 General Overview

## Step 1

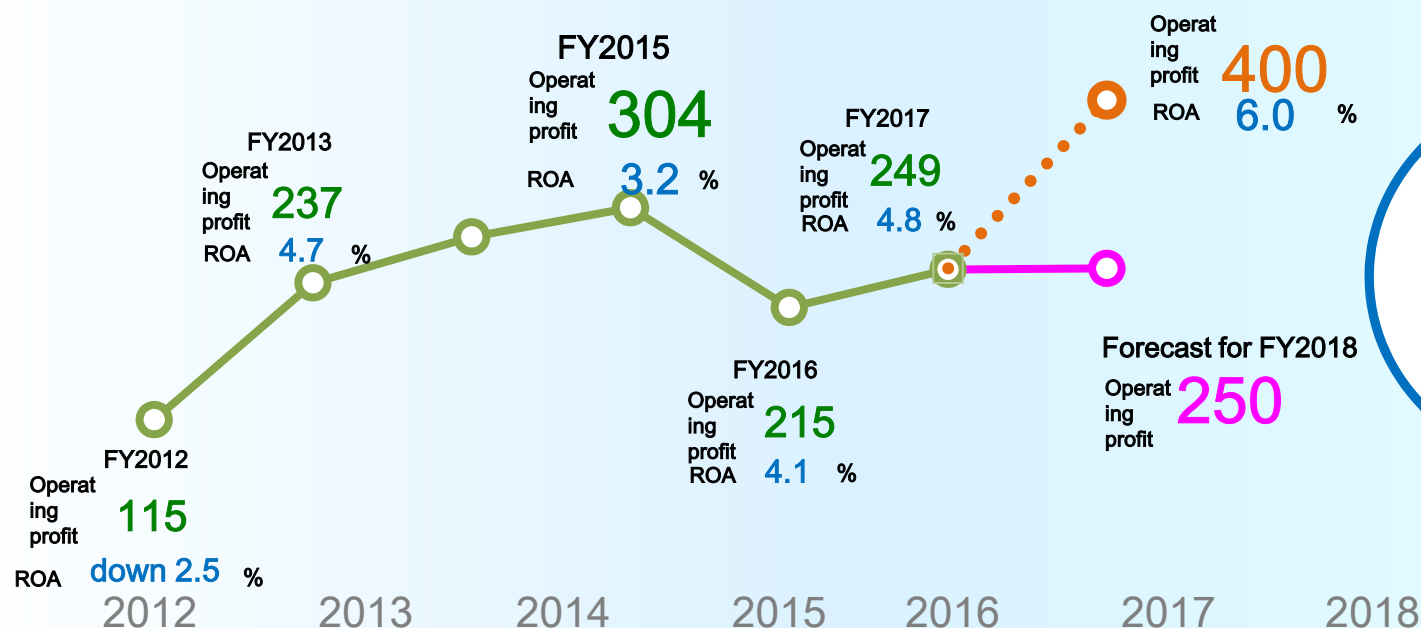
Build a foundation for growth through comprehensive structural reform and increased financial strength

## Step 2

Achieve financial growth through active investment

## Step 3

Achieve a desirable state of business



Become a true global company that will win the global competition

Watches: Did not reach the target set in the medium-term management plan, due partly to changes in the external environment despite the consistent implementation of strategy.

Machine Tools: Achieved the target set in the medium-term management plan ahead of schedule through the steady implementation of strategies and the market environment. Has grown to be the second core segment after watches.

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## Medium-term Management Plan 2021

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*Sense the Time and Create an Impression for the Future*

**Innovation for the next**

# Environment Surrounding the Citizen Group

|                      |   |
|----------------------|---|
| Macro environment    | <p data-bbox="539 237 1977 304" style="text-align: center;"><b>Changes in lifestyle</b></p> <ul data-bbox="539 325 1977 534" style="list-style-type: none"><li>• <b>Rapid development of digital innovation, including IoT and AI</b></li><li>• Social changes due to environmental regulations and super aging</li><li>• Changes and diversification in lifestyle</li><li>• Labor force in Japan will peak in 2021, resulting in a serious labor shortage</li></ul>  |
| Business environment | <p data-bbox="539 619 1977 699" style="text-align: center;"><b>Changes and diversification in business environment</b></p> <ul data-bbox="539 715 1977 986" style="list-style-type: none"><li>• <b>Changes and diversification in distribution due to the development of EC</b></li><li>• <b>Need for sustainable management, including SDGs and ESG</b></li><li>• Intensified global competition environment and diversified axis of competition</li><li>• End of labor-intensive manufacturing</li></ul>  |
| Market environment   | <p data-bbox="539 1018 1977 1098" style="text-align: center;"><b>Changes in drivers of growth</b></p> <ul data-bbox="539 1114 1977 1358" style="list-style-type: none"><li>• <b>Deceleration trend for the growth rate in North America, Europe and China in the medium term</b></li><li>• <b>Negative economic impact of trade war between the U.S. and China</b></li><li>• Countries in Asia emerging as a growth center</li><li>• Demand in Japan will change significantly due to the consumption tax hike and hosting of the Olympic Games</li></ul> |

# Citizen Group Corporate Philosophy

**Loved by citizens, working for citizens**

Loved by citizens, working for the lives of people worldwide through manufacturing



**For the next 100 years,  
the Citizen Group will work together to make  
further progress**



# Medium-term Management Vision 2021

Sense the Time and Create an Impression  
for the Future

## **Innovation for the next**

Sensitive to changes over time, Citizen will take on the challenge of creating new, unique value, not merely continuing manufacturing as in the past, and moving toward a sustainable future.

# Medium-Term Management Plan Target (FY2021)

|                         |                          |
|-------------------------|--------------------------|
| <b>Net Sales</b>        | <b>370.0 billion yen</b> |
| <b>Operating Profit</b> | <b>30.0 billion yen</b>  |
| <b>ROE</b>              | <b>8.0%</b>              |

\*ROE = Annual net profit / net worth

# Concept of a Business Portfolio

|                              |  |   |
|------------------------------|--|---|
| Core                         | Watches  | Actively invest in the Group's management resources to <b>promote the growth</b> of the Citizen Group   |
|                              | Machine Tools  | <b>Increase growth</b> through continued investment in line with the expansion of the market  |
| Generation of profit         | Automotive-use related business<br>(metal parts and LED) | <b>Generation of profit in parts processing business</b> for automotive use market<br>Achieve <b>top manufacturing capacity</b> in the category |
| Improvement of profitability | Devices/Electronics and Other Products                   | <b>Selection and concentration</b> of business/products   |

# Key Strategy to Achieve the Citizen Group's Management Vision

1

Promotion of growth in Watch and Machine Tools

2

Promotion of Sustainable Development Goals (SDGs)

3

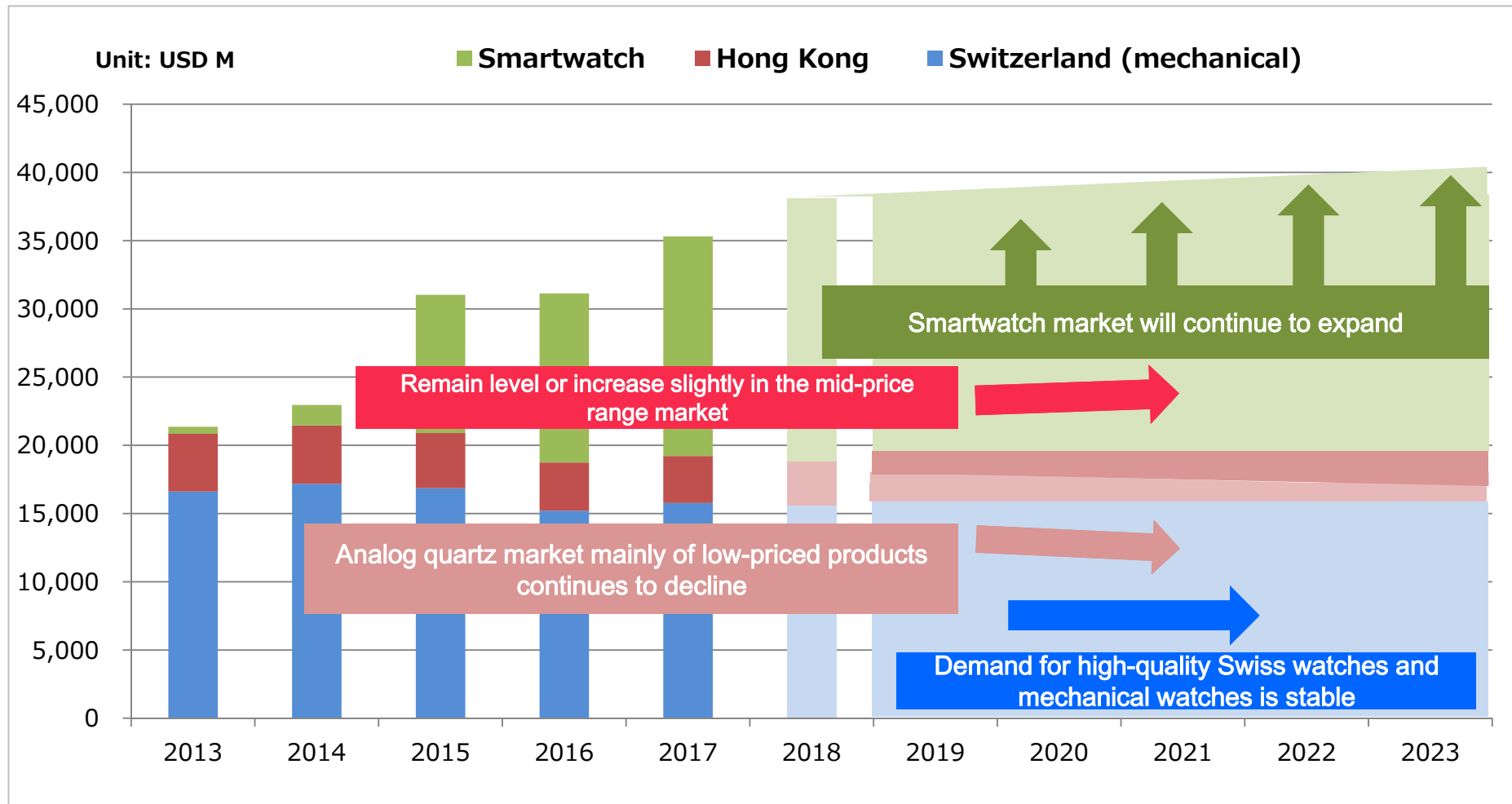
Enhancement of Compliance in Quality

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**Efforts of Each Business  
- Watches -**

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# Forecast for the Watch Market



Source: Hong Kong/Switzerland (mechanical alone): Export statistics  
 smartwatch: IDC estimated by Citizen

## Business Vision

**Create new value and experience over time**

Value of goods  
Essential value of watch  
High-quality functional value

+

Value of experience  
Moving customer experience  
Various lifestyles (time experience)

# Create new value and experience over time



Riiver



Using a variety of devices including watches as the starting point, Citizen jointly developed with VELDT the IoT platform Riiver, which connects people, goods, and experiences.

- Through Riiver, users connect not only to a watch, but a variety of IoT devices including an AI speaker and IT appliances based on their lifestyle or needs, to **create and share an original time experience** (lifestyle).
- With the new smartwatch compatible with Riiver, users can **install their desired functions to customize the watch**.



# Business Vision

**Create new value and experience over time**

Value of goods  
Essential value of watch  
High-quality functional value

+

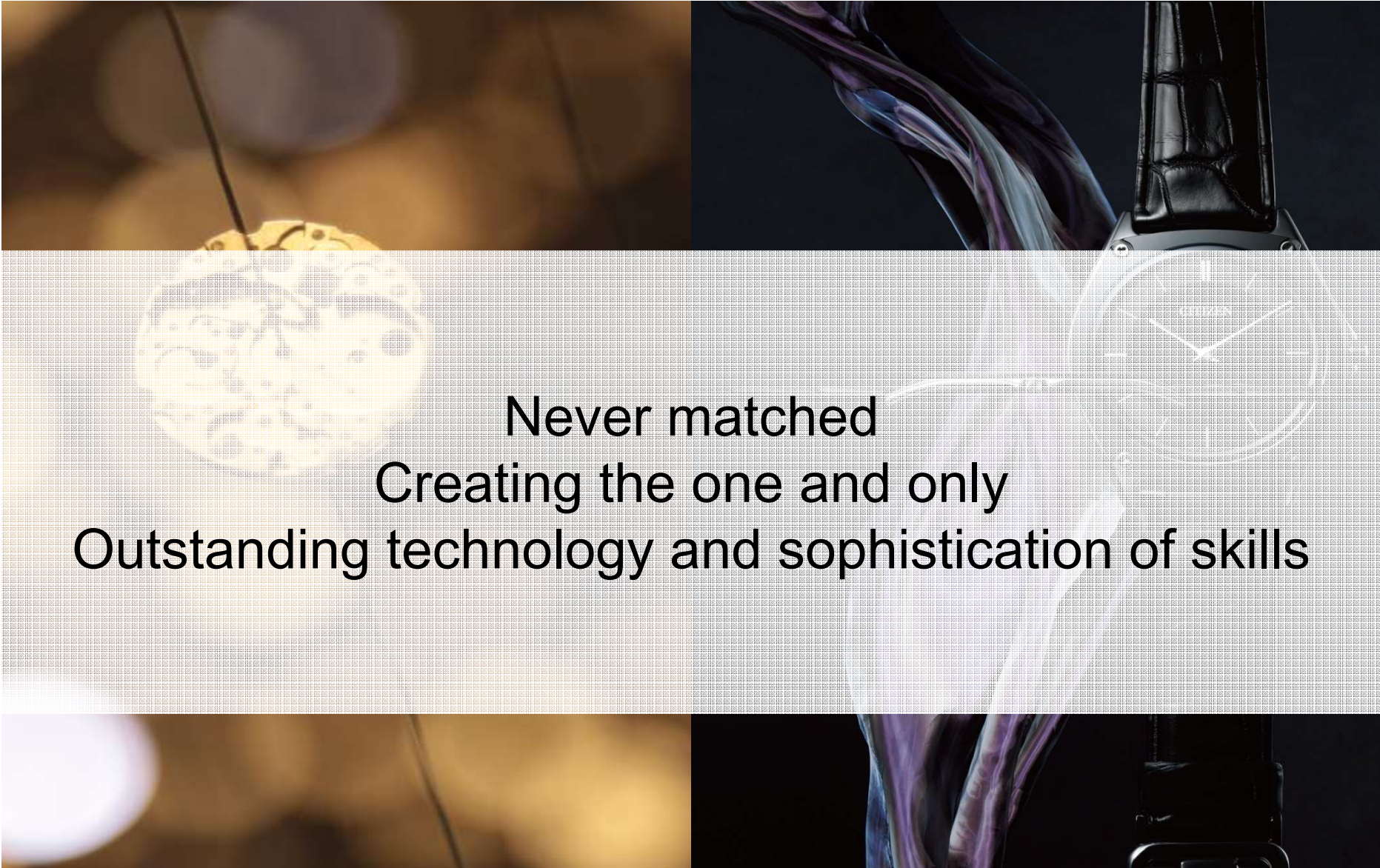
Value of experience  
Moving customer experience  
Various lifestyles (time experience)

Evolution of Manufacture  
d'horlogerie  
Technology and skills to create the best  
items that others cannot

Innovation of value chain  
Response to diversifying customer needs  
New challenge to move each customer

# Evolution of Manufacture d'horlogerie

Creation of value of goods

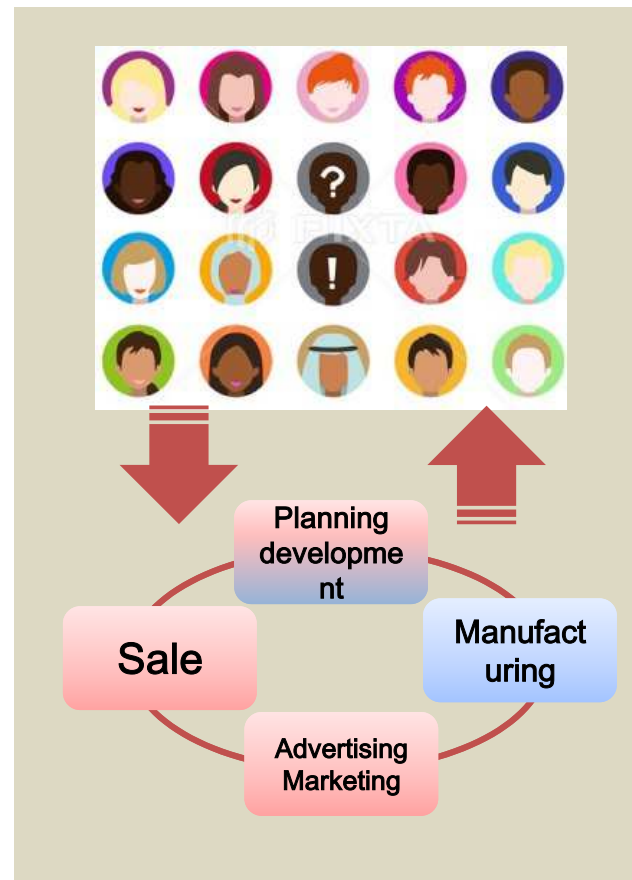


# Innovation of value chain

Providing new value and experiences in the entire value chain using digital technology

## Marketing

- Segmentation and targeting by obtaining, analyzing, and utilizing consumer data
- Enhancement of personalized response through flexible development
- Expansion of communication using cross media
- Provision of a seamless purchase experience by integrating the store and EC direct sale



## Development/manufacturing

- Promotion of open innovation
- IT utilization for:
  - high-mix, low-volume production to meet diversifying needs
  - Reduction of process and cost

## Indirect operation

- Efficiency and sophistication utilizing digital technology

# Watches Key Measures and Target Index

Create new value and experience over time

- 1 Promotion of digital marketing
- 2 Expansion of product range
- 3 Achieve results of the multi-brand strategy centering on Citizen brand
- 4 Movement by manufacturing innovation and improving cost competitiveness of finished products

**Target index  
(FY2021)**

|                  |                   |
|------------------|-------------------|
| Net Sales        | 187.0 billion yen |
| Operating Profit | 17.0 billion yen  |

# 1. Promotion of digital marketing

**Provision of new value and experience through digital marketing**

**Segmentation and targeting**

by obtaining, analyzing and utilizing consumer data

**Enhancement of personalized response through flexible development**

**Expansion of communication using cross media**

**Provision of a seamless purchase experience through the integration of store and EC direct sale**

## 2. Expansion of product range

**Full-scale entry into the smartwatch business that is expected to grow  
Medium-/long-term development of mechanical/luxury products**

### Smartwatch

- Establish an advantageous position from movements and finished products through collaboration with another company
- Development of Riiiver ecosystem and increase sales of products

### Mechanical

- Enhancement of competitiveness in the standard price range and the challenge of continued investment in luxury mechanical products
- Use of CITIZEN/Prothor/Frederique Constant technology

### Luxury products

- Enhancement of unique high-added value products and features, including CITIZEN Eco-Drive One and annual equation within  $\pm 1$  second
- Enhancement of Frederique Constant

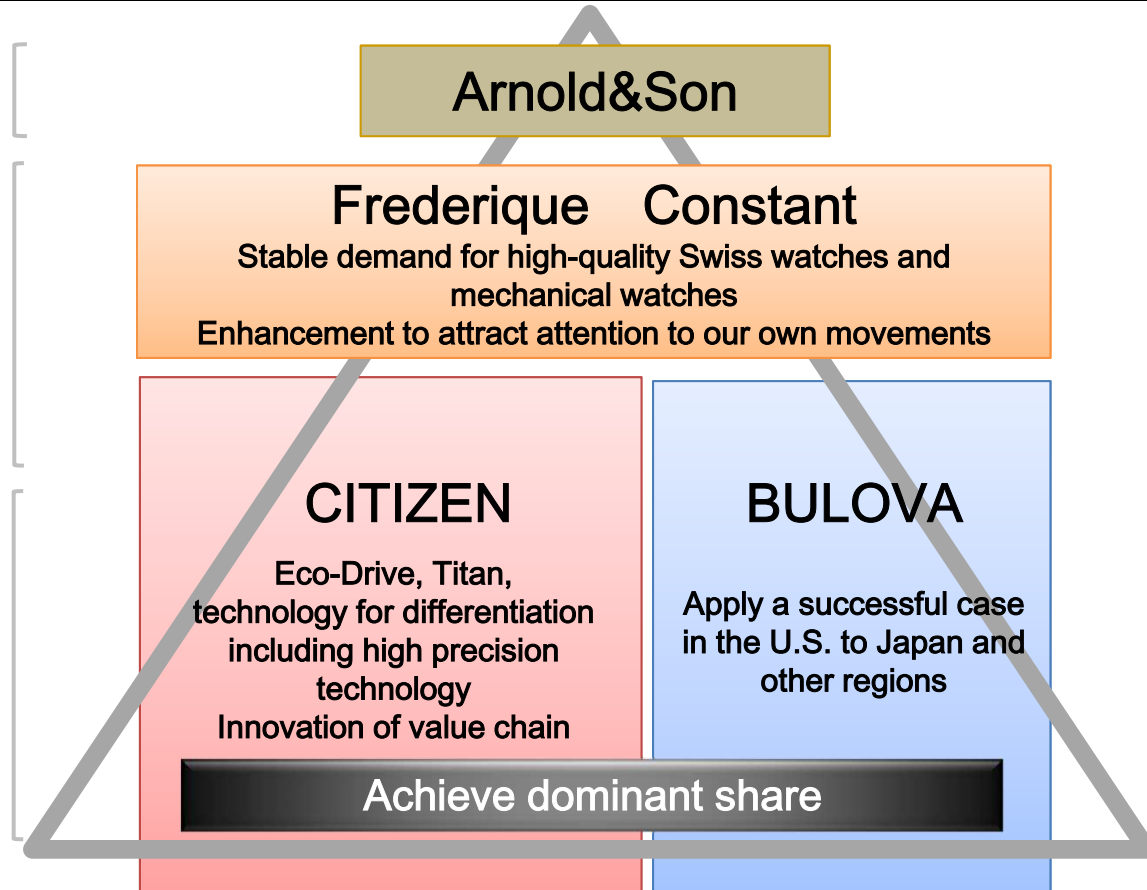
# Achieve results of the multi-brand 3. strategy centering on Citizen brand

**Maximize the use of multiple brands to diversify value**

Luxury range  
(from 1 million yen)

High-price range (about 1 million yen)

Mid-price range  
(about 0.2 million yen)



**Movement** by manufacturing innovation **and**  
**4. improving cost competitiveness of finished products**

**Thorough implementation of rationalization and automation as well as the succession of master craftsmanship (Takumi)**

Improvement of productivity through the implementation of rationalization and automation

Enhancement of capacity to respond to high-mix, low-volume production

Development of optimal production system in Japan and overseas  
(Japan, China and Thailand)



# CITIZEN Brand Efforts

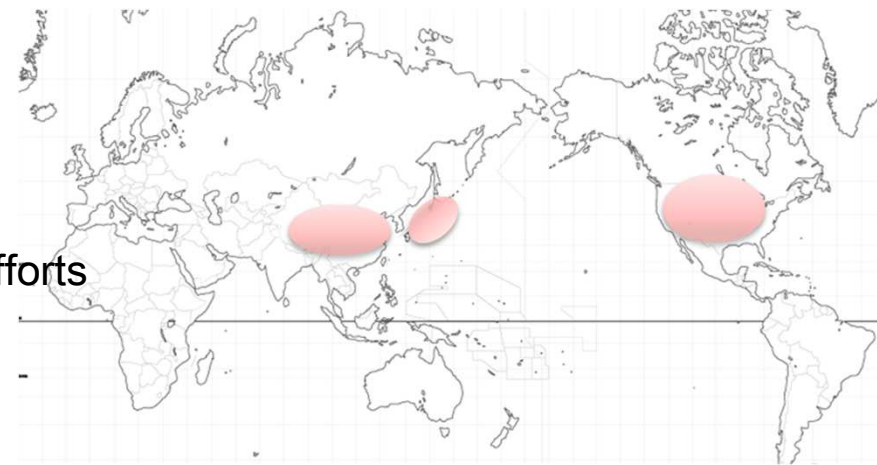
## Innovation of value chain and creation of value by expanding product domains

### Key strategies

- 1 Increase sales in existing businesses centering on eco-drive
- 2 Challenge of smartwatches, mechanical watches and high-quality products

### Key markets

- Japan, the U.S. and China are the key markets
- Position Asia as a growth market to enhance efforts there



# BULOVA Brand Efforts

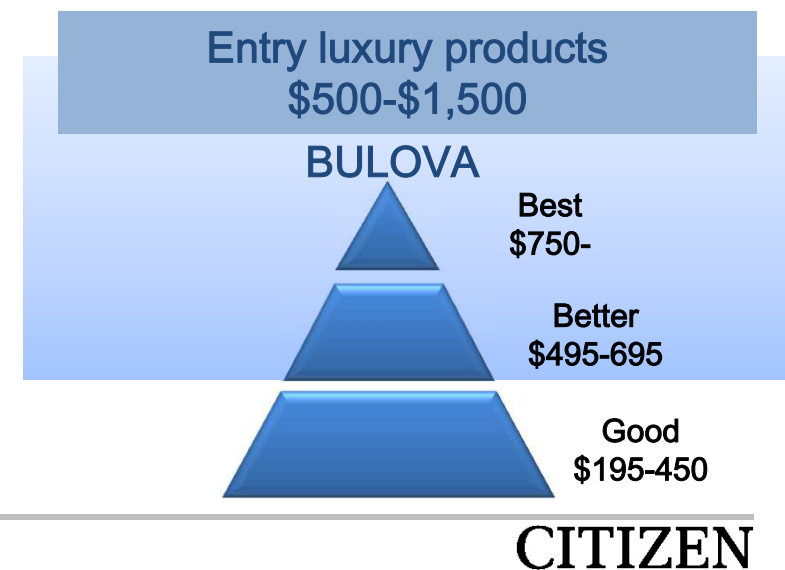
## Enhancement of Entry Luxury position

### Key strategies

- 1 Promotion of sales and increase in share by enhancing entry luxury products
- 2 Further enhance unique position through products with high added value

### Key markets

- North America is the key market
- Multi-brand strategies to expand into Europe and Japan



## Efforts on Movements Business

# Establishment of smartwatch business and enhancement of competitiveness

### Key strategies

#### 1 Establishment of smartwatch business

- Development, manufacturing and increase in sales of hybrid smartwatch movements through collaboration with Fossil
- Sale of smartwatch parts

**FOSSIL**  
GROUP

#### 2 Enhancement of sales for mechanical movements

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**Efforts of Each Business**  
**- Machine Tools -**

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# Machine Tools Key Measures and Target Index

Create the world's most advanced production innovation solution to establish the position as a new manufacturing (*monozukuri*) company

- 1 Establishment of firm business base through production innovation
- 2 Promotion of sales in existing businesses
- 3 Expansion of business in response to IoT (Solution business)

|                                  |                         |                         |
|----------------------------------|-------------------------|-------------------------|
| <b>Target index<br/>(FY2021)</b> | <b>Net Sales</b>        | <b>80.0 billion yen</b> |
|                                  | <b>Operating Profit</b> | <b>13.0 billion yen</b> |

# 1. Establishment of firm business base through production innovation

Achievement of production innovation to maximize the efficiency of existing management resources

Enhancement and automation of plant

Enhancement of packaged custom option

## 2. Promotion of sales in existing businesses

### Promotion of sales in emerging countries, sales promotion of new/automatic board MC20

#### 1 Establishment of production/sales system in emerging countries

- Enhancement of sales system in Asia, including China

#### 2 Fostering of service engineers

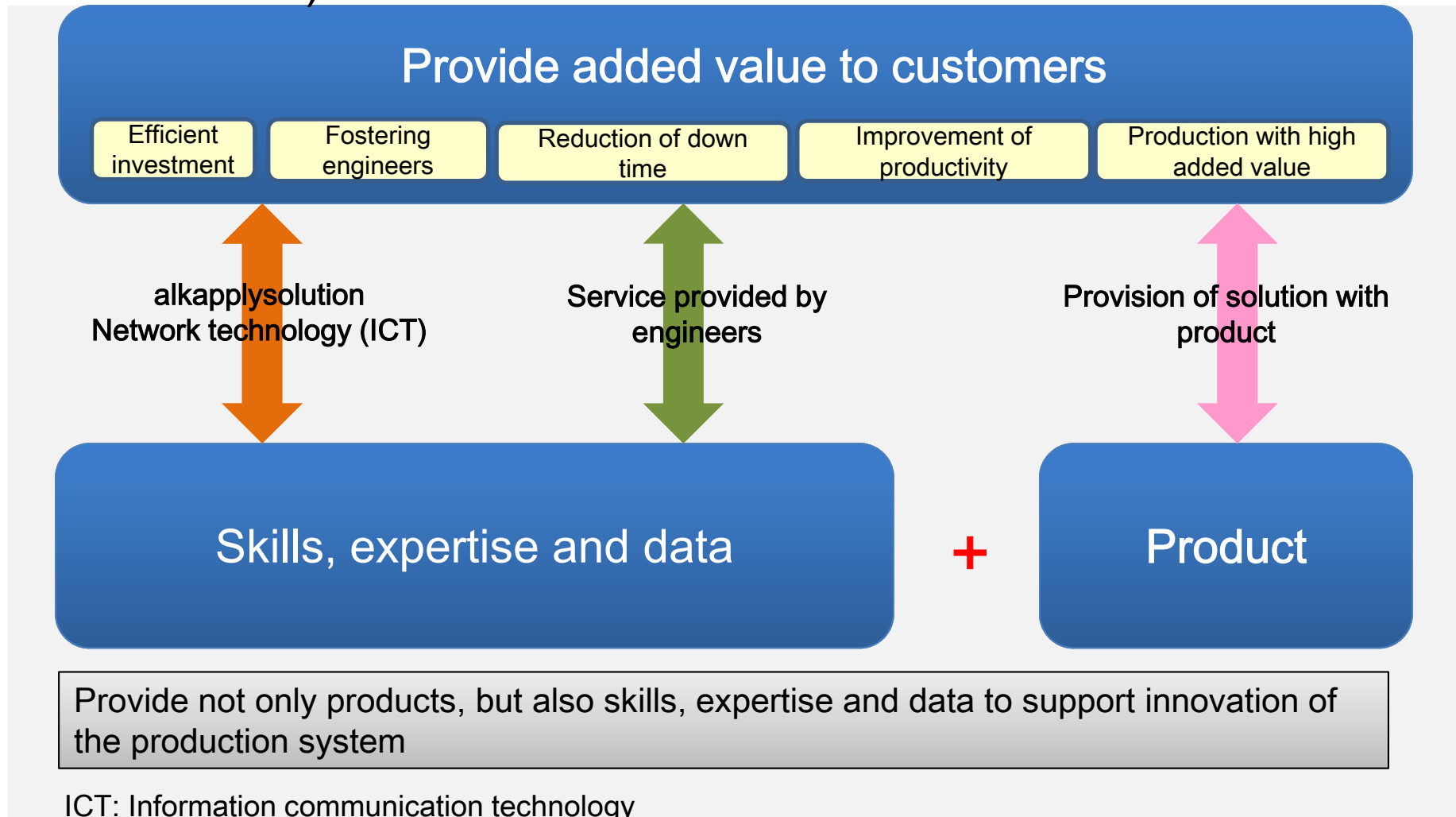
- Enhancement of technical functions and service support overseas

#### 3 Enhancement of sales system for MC20 and horizontal expansion

- Understand demand for automotive use to establish a global sales system and service system



### 3. Expansion of business in response to IoT (Solution business)





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**Efforts of Each Business**  
**- Devices -**

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# Devices Business Key Strategies

Establish the top position in a specific domain by proposing a product that creates differentiation  
Start next growth business

1

Develop a variety of automotive use-related products centering on the small metal processing business

- Establishment of competitive advantage centering on automotive parts business
- Promote high-added value products, volume-production and rationalization to expand into a business domain other than automotive use

2

Expansion of high-quality products and products with high-added value to respond to market changes

- Increase share by utilizing technology to differentiate, including LED and switches

3

Promotion of stable management by improving profitability

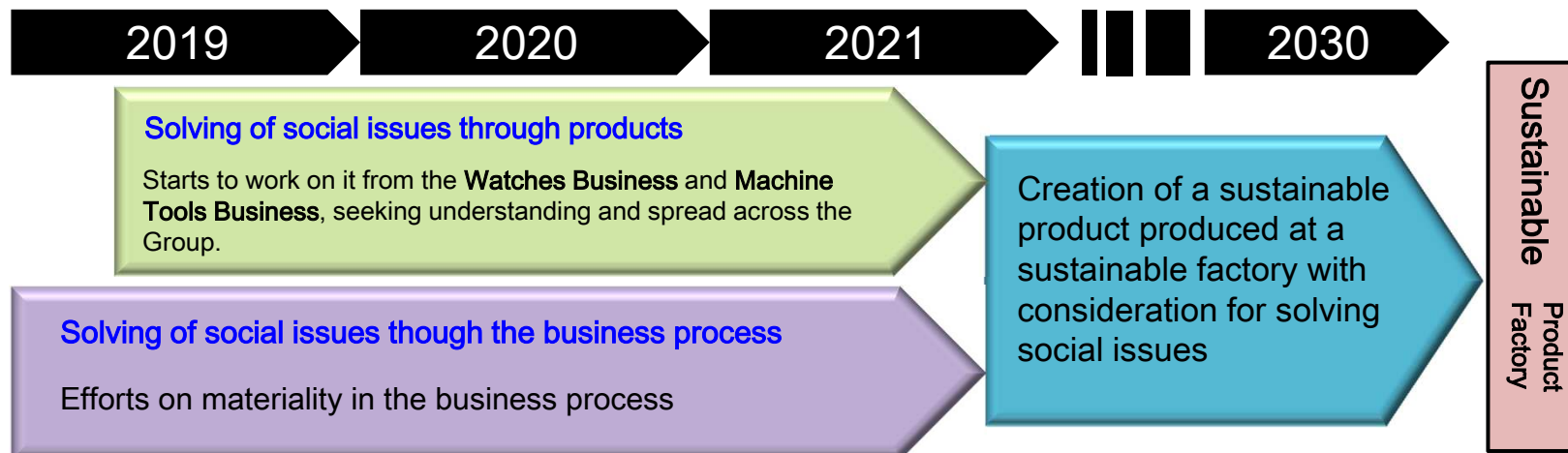
# Sustainable Management (Promotion of SDGs)

The Citizen Group utilizes innovation to solve social issues through its business to create a sustainable society and to achieve the SDGs, aiming to be a company that continues its business on a permanent basis.



## Citizen Group Commitment

The Citizen Group has developed its business over 100 years, based on its corporate philosophy of "Loved by citizens, working for citizens." To sustainably develop with society, the Citizen Group will contribute to solving social issues, including the achievement of Sustainable Development Goals (SDGs) launched by the United Nations, through its Group's business to expand, aiming to be a company that continues business for the next 100 years. It identifies the social issues to work on in light of the corporate philosophy, behavior charter, sustainable strategy, Citizen Environmental Vision 2050, and relationship with each business, and proactively takes action to solve these issues and announce the progress outside the company.



# Enhancement of Compliance in Quality

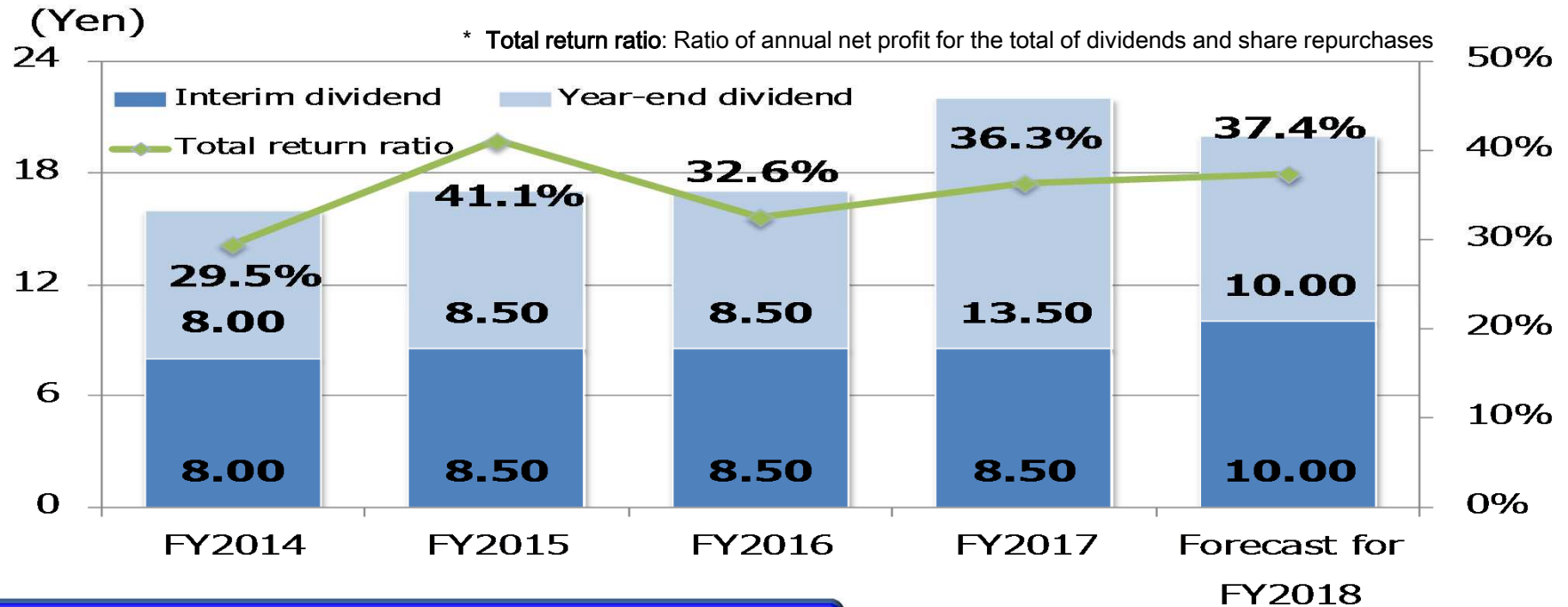
Enhance risk management related to quality compliance to identify a risk early, reduce the occurrence and prevent recurrence.

## Citizen Group Behavior Charter

Group risk management committee (management/supervision function over eight committees)



# Shareholder Return Policy



## Citizen Global Plan 2018

- Basic policy: Total return ratio of 30% or more on average for three years



## Medium-term Management Plan 2021

- Basic policy: Total return ratio of 60% or more on average for three years
- Dividend policy: Decided in consideration of the balance of performance-based and stable dividend

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Please understand in advance that the future forecasts presented in this presentation material have been prepared based on information available to Citizen Watch Co., Ltd. as of the date of the announcement, which may vary significantly from the actual results due to various factors. Figures less than 100 million yen are cut off.