

Main Questions and Answers (Summary)
at the Presentation for the Medium-Term Management Plan and
Earnings Presentation for the Nine Months Ended December 31, 2018

- ✓ Date:
4:30 p.m. to 6:00 p.m., Wednesday, February 13, 2019
- ✓ Participants from the Company:
Toshio Tokura, President & CEO, Toshihiko Sato, Senior Managing Director, Norio Takeuchi,
Managing Director and Toshiyuki Furukawa, Director

[General]

Q) Regarding the time when replacing the president was decided: What about operations from April 2019?

A) As the medium-term management plan 2018 is finished, we considered that the new medium-term management plan should be executed by the next president, and the decision was made after consultation with the Nomination Committee.

The operations will shift to the new system completely from April, and the chairman will be involved in management only as an advisor.

Q) Have you assumed any specific exchange rate for the medium-term management plan?

A) We referred to prevailing currency movements in preparing the plan, but as in the previous medium-term management plans, what we aim at is achieving the targeted absolute amount and so have not set any exchange rate assumption.

Q) The Company has set the ratio of return to shareholders at 60% or more, but what do you think about the balance between dividends and the share buy-back scheme? What is the background to the significant raise to 60%?

A) In the previous medium-term management plan, we set an aggressive growth target in the watch business, acquired Frederique Constant and entered into a business tie-up with Fossil. We will continue to place a high priority on the investment for growth, but at the same time, we are going to secure a balance with the return to shareholders. Investment in streamlining to boost manufacturing innovation may increase, but it will never decrease. With regard to the dividends and share buy-back scheme, the Company will appropriately consider a share buy-back on the basis of providing stable dividends.

[Watches]

Q) What are your thoughts about the manufacturing system in the future?

A) The Company has adopted a tripolar system of Japan, China and Thailand, in which the manufacturing of high-end product lines is exclusively conducted in Japan. We take steps to promote automatization in the manufacturing system for many kinds in small quantities. In China and Thailand, low-range products and some mid-range products including a wide range of common components are manufactured, where some processes depending on manual operations have room for rationalization. By FY2021, we would like to establish the optimum supply chain, including the lead time. We feel that manufacturing innovation is one of our important missions and objectives, so that we will devote ourselves to innovation.

Q) What did you achieve by focusing on the multi-brand strategy in the watch business? In the course of accelerating this strategy under the new medium-term management plan, will you make any changes?

A) The growing sales of BULOVA was a significant result of the multi-brand strategy. In particular, sales have grown in the North American market, where mid-range products are not necessarily strong, and positive results have been achieved in the Italian market as well. On the other hand, the integration of Frederique Constant in the United States was delayed by about one year from the planned schedule, but we are looking to rebound in 2019 and beyond, in view of subsequent markets such as Japan and China in addition to the North American market.

Q) The watch business was struggling in the first half of this fiscal year. Did it recover in the third quarter? Do you think the strong sales can be maintained in the fourth quarter?

A) In the third quarter, the domestic and North American markets rallied. In the North American market, the multi-brand and segmentation strategies became successful while the input of special models to respond to the Internet marketing and distribution channels also contributed to the good results that exceeded market growth. As BULOVA has established its position as a traditional brand, it achieved particularly strong sales growth as watches in the different category from smart watches. Moreover, the fact that a decrease in sales in the second quarter caused by factors attributed to the Company was able to be reversed in the third quarter also contributed to the growth. In the domestic market, mid-range products such as xC and PROMASTER drove sales more strongly than we expected.

In the fourth quarter, the outlook for the North American market is unclear. However, the results in January were not bad, and the domestic market was also solid.

Partly because the fourth quarter of FY2017 saw a decline due to special factors, it is projected that at least the year-on-year results will grow significantly, which is expected to be within a certain achievable range. Despite the risk of a decline in production of the movement, we do not believe it will be serious enough to justify revising the forecast.

[Machine Tools]

Q) A decrease in the machine tool business in the third quarter seems to have been caused by a temporary increase in costs. Could it recover in the fourth quarter?

A) The number of orders placed fell in the third quarter, but looking at sales this term, we have already received strong orders. Therefore, it depends on what manufacturing output we can achieve and how many installations we can do. The target for the fourth quarter has become higher due to the unachieved amount in the third quarter, but we also have some factors to increase sales and we intend to continue our efforts to achieve the goal.