CITIZEN

Earning Presentation

for the Year ended March 31, 2019

CITIZEN WATCH CO., LTD.

May 13, 2019

This presentation contains forward looking statements that are based on current expectations and assumptions.
Actual results could differ materially due to risks and uncertainties, which includes, but not limited to, currency fluctuation and competitive activity.

Thank you for attending our financial results briefing today.

I will start the briefing by explaining the results for the fiscal year ended March 31, 2019.

Key Notes on Financial Results for FY2018

- **Watches segment**

  Demand for finished products recovered.
  Growth in movement sales remained sluggish.

- **Machine tools segment**

  Sales and operating profit increased despite growing concerns over economic slowdown in certain areas.

- **Posting of extraordinary losses**

  - Related to Frederique Constant: 4.9 billion yen
  - Related to the restructuring of a Chinese factory: 2.3 billion yen
  - Related to the integration of overseas sales companies: 0.9 billion yen

First, I will outline the key points of the results.

Sales in the Watches segment increased thanks to the recovery of demand for finished products in the second half of the fiscal year. However, the increase was unable to offset the slowdown at the beginning of the fiscal year and the sluggish sales of movements, and net sales decreased slightly from last year and profit also declined.

The Machine Tools segment achieved a significant increase in sales and profit thanks to a high level of orders received from the beginning of the fiscal year, despite a recent slowdown in orders received.

The consolidated result for all segments was an increase in sales and a decrease in profit.

The net result was a decrease due to the impact of extraordinary losses.

We posted an impairment loss of 4.9 billion yen in goodwill and intangible assets for the Frederique Constant brand. This was caused mainly by delays in the establishment of sales channels in North America, where we had expected sales growth. This resulted in a difference between our plan at the time of the acquisition of the brand and the actual result. Although we are behind our initial plan, the preparations for including the Frederique Constant brand in our sales networks are mostly completed, and we will accelerate sales growth from the next fiscal year.

In addition, we incurred a loss of 2.3 billion yen on the restructuring of the watch manufacturing factory in China, which we announced in the previous announcement of financial results. Also including the expenses for the integration of overseas sales companies and other factors, we posted a total of 10.1 billion yen as extraordinary losses.

Financial Results for FY 2018

(Unit : billion yen)	FY2017 Result	**FY2018 Result**	YoY Change %	YoY Change Amount
Net sales	320.0	321.6	+0.5%	+1.6
Operating profit	24.9	22.4	▲10.1%	▲ 2.5
Operating margin	7.8%	7.0%	-	-
Ordinary Profit	26.6	26.6	▲0.2%	▲ 0.0
Profit attributable to owners of parent	19.3	13.3	▲30.7%	▲ 5.9
Exchange rate	¥111/USD ¥129/EUR	¥111/USD ¥129/EUR	-	

Effect of exchange	Net sales	Operating profit
USD	+1.30	+0.30
EUR	+0.20	+0.07

(1 weaker yen, Annual)

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I will now provide an overview of the full-year financial results.

Net sales increased 0.5% year on year, to 321.6 billion yen. Operating profit was 22.4 billion yen. Although profit increased in the Machine Tools segment, it decreased in other segments, and the result was a year-on-year fall of 10.1%.

The operating margin was 7.0%.

Ordinary profit was 26.6 billion yen. In addition to foreign exchange gains, dividend income and equity in earnings of affiliates increased; as a result, ordinary profit remained at almost the same level as the previous year, with a 0.2% decrease.

Profit attributable to owners of parent decreased 30.7% year on year, to 13.3 billion yen, due to the increase in extraordinary losses as I have just explained, despite a gain on sale of investment securities of 2.1 billion yen.

As a whole, sales increased but profit declined.

Net Sales by Business Segments

(Unit: billion yen)	FY2017 Result	FY2018 Result	YoY change %	YoY change Amount
Watches	163.7	163.5	▲0.1%	▲ 0.1
Machine Tools	64.0	72.1	+12.7%	+8.1
Devices and Components	65.5	60.8	▲7.3%	▲ 4.7
Electronic Products	20.5	19.3	▲6.1%	▲ 1.2
Other Products	6.1	5.8	▲4.5%	▲ 0.2
Consolidated Total	320.0	321.6	+0.5%	+1.6

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Next, I will review the net sales in each business segment.

Net sales in the Watches segment decreased 0.1% year on year, to 163.5 billion yen.

Net sales in the Machine Tools segment increased 12.7% year on year, to 72.1 billion yen.

Net sales in the Devices and Components segment fell 7.3% year on year, to 60.8 billion yen.

Net sales in the Electronic Products segment declined 6.1% year on year, to 19.3 billion yen. Net sales in this segment decreased due to a fall in sales of photo printers and the withdrawal from the large printer business, despite strong sales of POS printers and barcode printers.

Net sales in the Other Products segment were 5.8 billion yen, a year-on-year decrease of 4.5%, mainly due to a decrease in sales of jewelry products in response to sluggish demand.

Operating profit by Business Segments

(Unit: billion yen, %:operating margin)	FY2017 Result	FY2018 Result	YoY change %	YoY change Amount
Watches	16.1 (9.9%)	12.4 (7.6%)	▲23.1%	▲ 3.7
Machine Tools	10.4 (16.3%)	13.0 (18.1%)	+25.3%	+2.6
Devices and Components	2.7 (4.2%)	2.5 (4.2%)	▲8.6%	▲ 0.2
Electronic Products	0.5 (2.5%)	0.4 (2.3%)	▲14.6%	▲ 0.0
Other Products	0.3 (5.1%)	0.1 (2.5%)	▲53.0%	▲ 0.1
Eliminations or general corporate	▲ 5.3	▲ 6.2	-	▲ 0.9
Consolidated Total	24.9 (7.8%)	22.4 (7.0%)	▲10.1%	▲ 2.5

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I will now describe our operating profit in each segment.

Operating profit in the Watches segment decreased 23.1% year on year, to 12.4 billion yen.

Operating profit in the Machine Tools segment increased 25.3% year on year, to 13.0 billion yen.

Operating profit in the Devices and Components segment was 2.5 billion yen, a year-on-year fall of 8.6%.

Operating profit in the Electronic Products segment was 0.4 billion yen after decreasing 14.6% year on year.

FY 2019 Forecast

(Unit: billion yen)	FY2018 Result	FY2019 Forecast	YoY Change %	YoY Change Amount
Net sales	321.6	318.0	▲1.1%	▲ 3.6
Operating profit	22.4	20.0	▲10.8%	▲ 2.4
Operating margin	7.0%	6.3%	-	-
Ordinary Profit	26.6	22.0	▲17.3%	▲ 4.6
Profit attributable to owners of parent	13.3	14.5	+8.5%	+1.2
Exchange rate	¥111/USD ¥129/EUR	¥110/USD ¥120/EUR	-	-

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I will now move on to the descriptions of our consolidated financial forecasts for the fiscal year ending March 31, 2020.

We expect that net sales will decrease 1.1% year on year, to 318.0 billion yen. While we expect sales growth in the Watches segment, sales in the Machine Tools, Devices and Components, and other segments are likely to fall.

Our forecast for operating profit is a year-on-year decrease of 10.8%, to 20.0 billion yen. The main cause is likely to be a decrease in profit in the Machine Tools segment due to the sales decline.

We forecast that ordinary profit will decrease 17.3% year on year, to 22.0 billion yen.

Profit attributable to owners of parent is expected to be 14.5 billion yen after increasing 8.5% due to a decrease in extraordinary losses.

We are assuming that the exchange rates will be 110 yen to one US dollar and 120 yen to one euro.

FY 2019 Forecast

Net sales and Operating income by business segments

Net sales (Unit: billion yen)	FY2018 Result	FY2019 Forecast	YoY Change	
	Full Year	Full Year	%	Amount
Watches	163.5	167.0	+2.1%	+3.5
Machine Tools	72.1	67.0	▲7.2%	▲ 5.1
Devices and Components	60.8	59.0	▲3.0%	▲ 1.8
Electronic Products	19.3	19.0	▲1.7%	▲ 0.3
Other Products	5.8	6.0	+3.0%	+0.2
Consolidated Total	321.6	318.0	▲1.1%	▲ 3.6

Operating Profit (Unit: billion yen, %:operating margin)	FY2018 Result	FY2019 Forecast	YoY Change	
	Full Year	Full Year	%	Amount
Watches	12.4 (7.6%)	13.0 (7.8%)	+4.5%	+0.6
Machine Tools	13.0 (18.1%)	10.5 (15.7%)	▲19.7%	▲ 2.5
Devices and Components	2.5 (4.2%)	2.1 (3.6%)	▲17.4%	▲ 0.4
Electronic Products	0.4 (2.3%)	0.5 (2.6%)	+14.1%	+0.1
Other Products	0.1 (2.5%)	0.3 (5.0%)	+104.9%	+0.2
Eliminations or general corporate	▲ 6.2	▲ 6.4	-	▲ 0.2
Consolidated Total	22.4 (7.0%)	20.0 (6.3%)	▲10.8%	▲ 2.4

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This shows our forecasts for full-year net sales and operating profit in each segment.

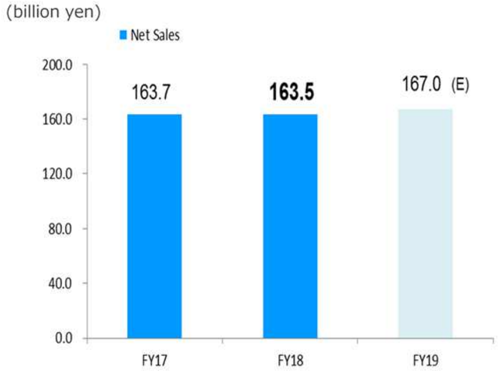
We forecast that both sales and profit will grow in the Watches segment, and both sales and profit will decline in the Machine Tools and Devices and Components segments.

Next, I will describe the condition of our core segments.

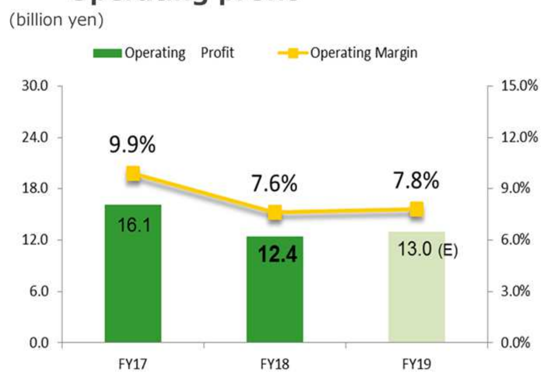
Watches (Operating Performance)

<Sales of finished products>
Overseas market : Revenues increased due to increases in sales in the North American/Asian markets, which offset sluggish sales in the European market.
Domestic market : Revenues remained flat because weak sales at the beginning of the fiscal year were recovered by subsequent solid sales that were driven by mainstay products such as xC, ATTESTA, and PROMASTER.
<Sales of movements>
Revenues declined due to sluggish growth of analog quartz movements, mainly in the high value-added product line.

Net sales



Operating profit



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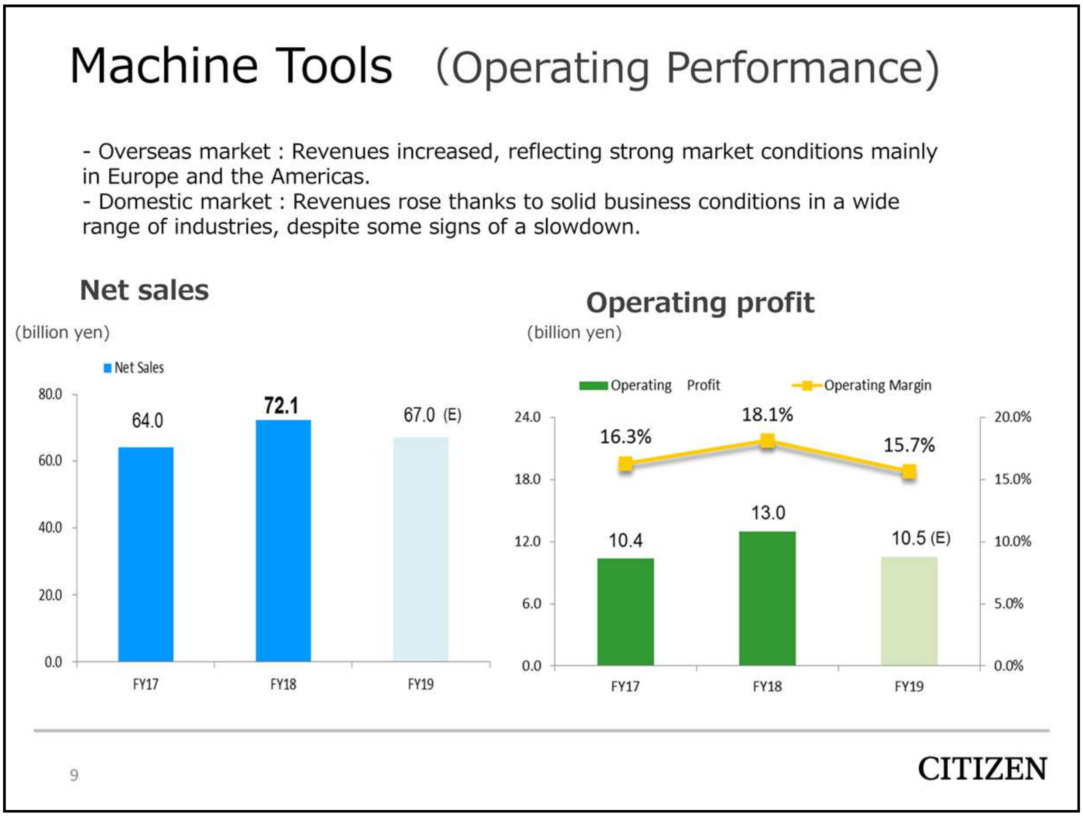
Let’s look at the Watches segment first.

Among the results for the fiscal year 2018, sales of finished products struggled in the first half of the fiscal year due to the sluggish recovery of demand for products in the middle price range. Sales started picking up in the third quarter, particularly in the North American and Japanese markets, which are the major markets for our products, resulting in an increase in net sales.
In the North American market, key distribution channels such as department stores showed a recovery trend. Meanwhile, online distribution continued to increase, and as a result, sales of both the CITIZEN and BULOVA brands grew.
Sales in the European market declined largely due to the impact of low sales in the UK, which was reorganizing distribution channels and struggling with low consumption, amid the increasing uncertainty due to prolonged political instability.
In the Asian market, sales decreased in the third quarter but picked up again in the fourth quarter and ended up increasing for the year.
In the Japanese market, mainstay products in the middle price range such as xC, ATTESA, and PROMASTER led sales from the third quarter, and the full-year result remained mostly unchanged from a year earlier.

Sales of movements decreased as the recovery of demand for the mainstay quartz movements remained weak, despite the strong sales of mechanical movements. The amount of the decrease, however, gradually became smaller, and sales began to grow in the fourth quarter.
Also in the fourth quarter, we continued to reduce the production of movements, which was one of the main causes of the decline in operating profit.

As for the forecasts for the fiscal year ending March 2020, we expect an overall trend of moderate recovery while strengths and weaknesses vary in different markets, and we expect net sales to increase 2.1% year on year, to 167 billion yen. We forecast that operating profit will grow 4.5% year on year, to 13 billion yen, registering an increase in both sales and profit. In the domestic market, we expect that sales will continue to be strong, particularly of the mainstay products in the middle price range. In North America, too, we expect to grow sales with the aim of increasing our market share. The outlook for the European market is uncertain, and we expect sales to remain unchanged. Sales in the Asian market are expected to remain strong, led by China. While we do not expect a clear recovery in the sales of movements, we expect that sales will begin to pick up as demand for mechanical movements increases and the shipment of smartwatch movements is scheduled to start in the second half of the fiscal year. We plan to continue the adjustment of movement production until the first quarter of the fiscal year.



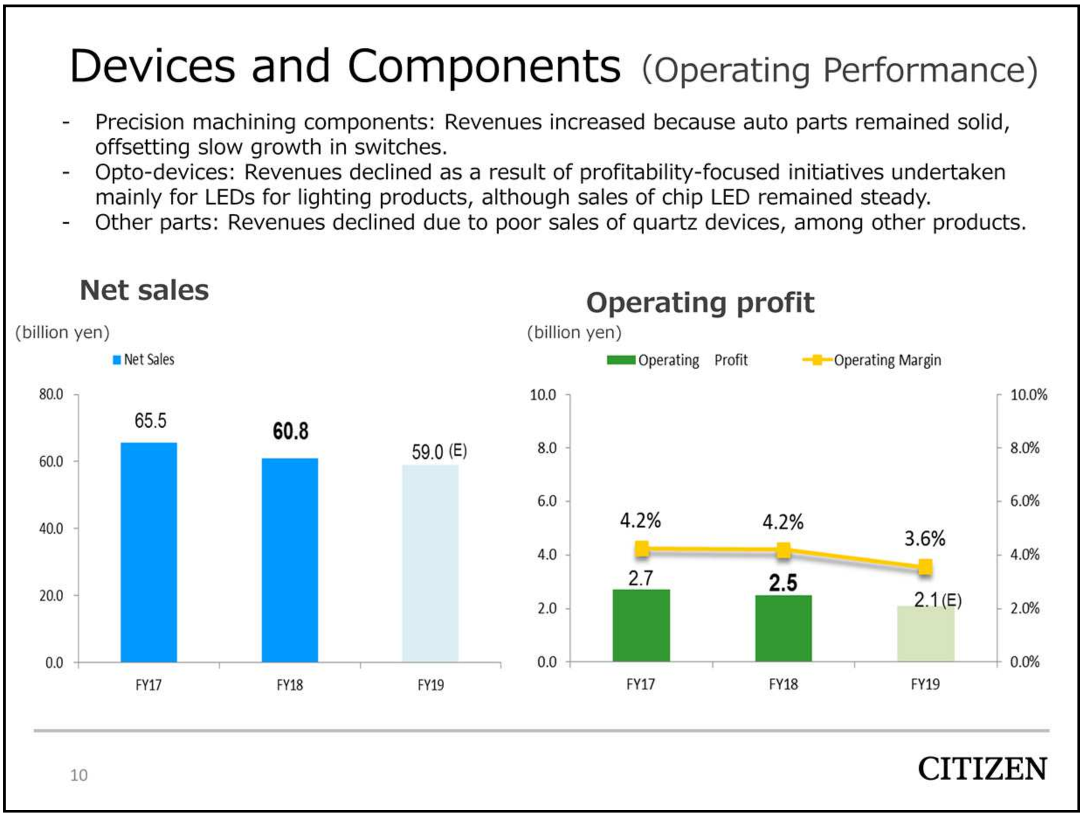
I am now moving on to the Machine Tools segment.

In addition to the high levels of orders received both in Japan and abroad, an increase in models equipped with our original low-frequency vibration-cutting (LFV) technology contributed to significant growth in both sales and profit in the fiscal year under review. Although production in the fourth quarter was generally steady, the output did not reach the planned level due to issues such as mounting capacity.

In the US, sales of products related particularly to medical services and job shops remained strong. In Europe, sales of products related particularly to automobiles remained strong in Germany, Italy, and other countries, which resulted in increased sales.
In Asia, strong sales were led by automobile-related products in the first half of the fiscal year, and the full-year result was mostly the same as the previous year.
In Japan, sales in a wide range of industries such as automobiles, construction equipment, and medical equipment remained strong.

Operating profit increased as a result of a rise in the profit margin thanks to growth in products equipped with LFV, in addition to the impact of the full operation of manufacturing facilities.

As for the performance in the fiscal year ending March 2020, we expect a decline in sales and profit as we have already passed the peak of orders received; however, we will minimize the amount of the decrease in sales with strong demand for products related to medical services and by further increasing LFV-equipped models.



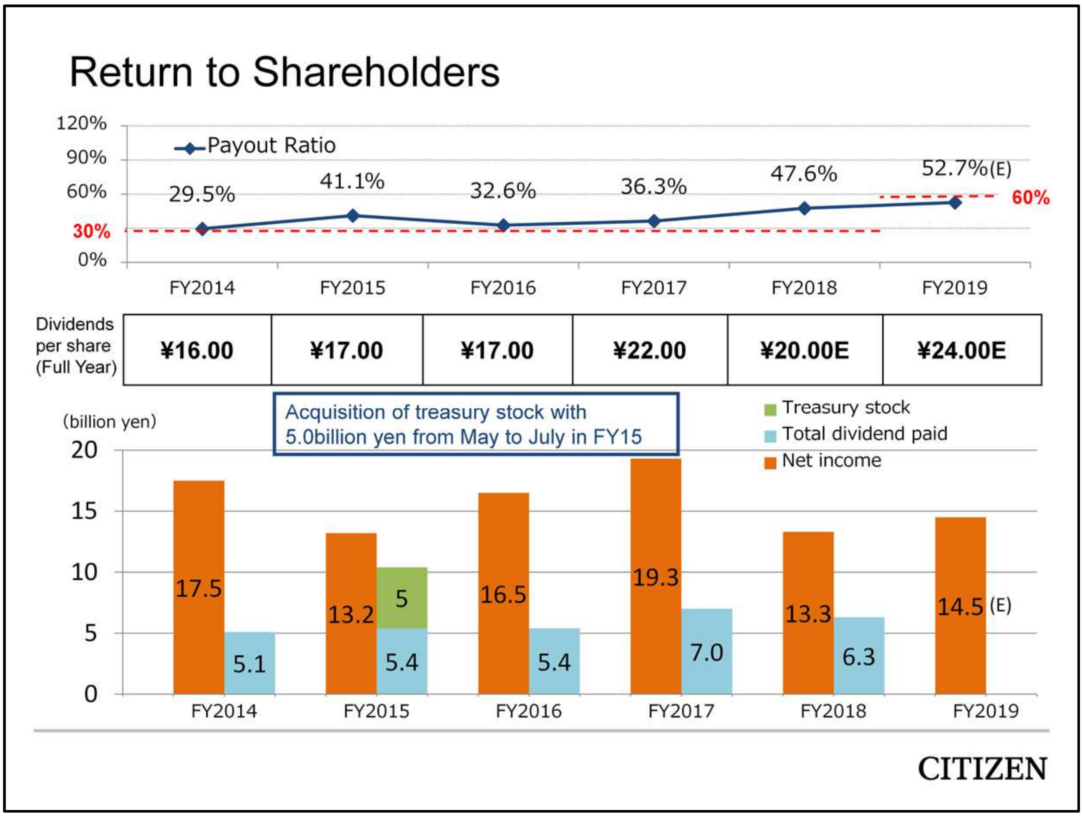
I will now review the Devices and Components segment.

We maintained growth in sales of auto parts despite a fall in net sales of parts for the Chinese market in the fourth quarter. Sales of switches were also sluggish in response to a slowdown in the smartphone market in the fourth quarter; however, a full-year increase was achieved.

Among opto-devices, although sales of in-vehicle chip LEDs recovered in the fourth quarter, sales of LEDs for lighting products decreased as a result of our focus on profitability amid the price competition.

Sales of other parts decreased due to a full-year slowdown in response to the sluggish market of quartz devices.

As for the financial forecasts for the fiscal year ending March 2020, we expect an increase in sales of auto parts, which will gradually recover in the second half, and the same level of switch sales as in the previous year.
We expect an increase in sales of chip LEDs, which will be led by products for PCs and other electronics. Sales of LEDs for lighting products will decrease, partly due to the reduction in the number of models and other activities that continue to focus on profitability. Profit from backlights is expected to fall due to a decrease in net sales.
Among other parts, we expect to maintain strong sales of motors and plan to increase sales of ceramic parts.



Finally, I will explain our shareholder returns.

We will not change the amount of dividends and plan to pay an annual dividend of 20 yen for the fiscal year ended March 2019.

For the fiscal year ending March 2020, we plan to pay an annual dividend of 24 yen per share based on our basic policy of maintaining the three-year average of dividend payout ratio in the fiscal years covered by the new medium-term management plan announced recently at 60% or higher, taking into account factors such as stable dividend payment and performance trends in the next fiscal year.

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This concludes my presentation.

Thank you.

Balance Sheet

Reference

(Unit: billion yen)	March 31, 2018	March 31, 2019	Change from end of previous fiscal year
Current assets	252.9	258.9	+5.9
Cash and deposits	92.0	86.8	▲5.2
Inventories	90.5	98.2	+7.6
Non-current assets	156.9	154.9	▲1.9
Property, plant and equipment	84.9	89.6	+4.6
Investment securities	46.0	39.9	▲6.0
Total assets	409.9	413.9	+4.0

(Unit: billion yen)	March 31, 2018	March 31, 2018	Change from end of previous fiscal year
Liabilities	146.1	146.3	+0.1
Interest-bearing debt	49.0	51.0	+2.0
Net assets	263.7	267.5	+3.8
Shareholders' equity	240.9	246.8	+5.9
Foreign currency translation adjustment	2.0	3.3	+1.2
Total liabilities and net assets	409.9	413.9	+4.0

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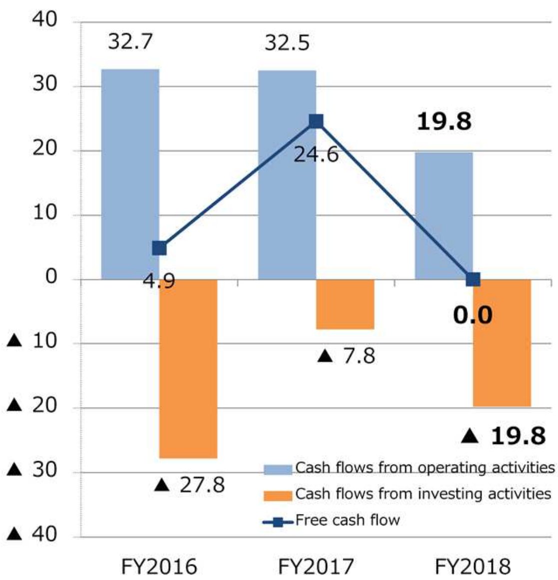
Statement of Cash Flow

Reference



(Unit: billion yen)	FY 2017	FY 2018	YoY change
Cash flow from operating activities	32.5	19.8	▲12.6
Cash flow from investing activities	▲7.8	▲19.8	▲11.9
Free cash flow	24.6	0.0	▲24.6
Cash flow from financial activities	▲11.7	▲5.8	+5.8
Balance of cash and cash equivalents	90.6	84.5	▲6.1

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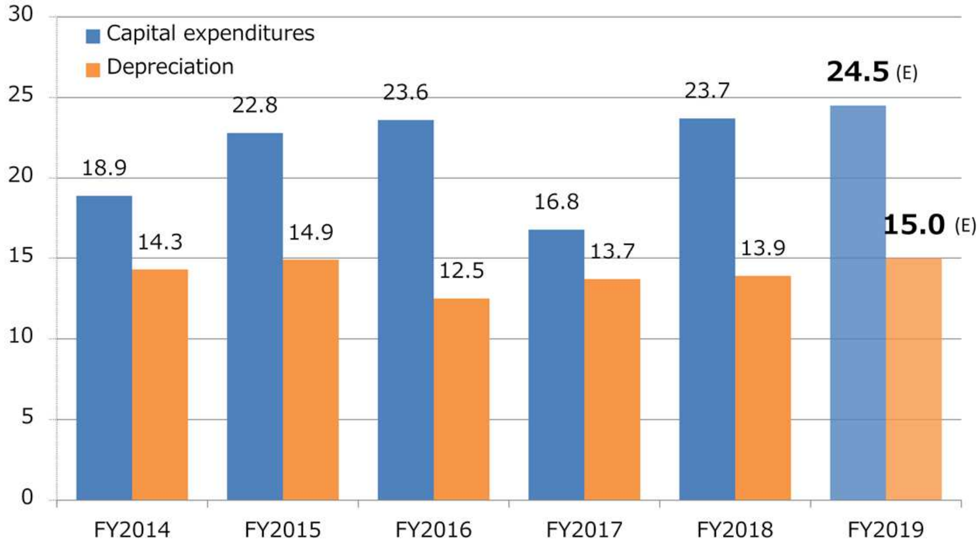
Capital Investment/Depreciation

Reference



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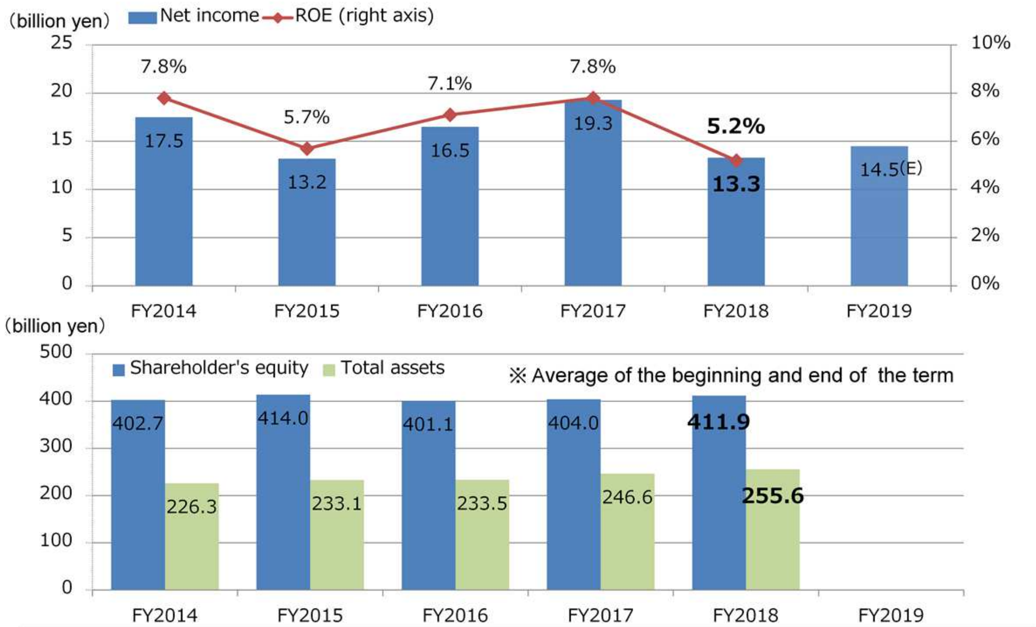

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