

CITIZEN

Earning Presentation

for Three months ended June 30, 2019

CITIZEN WATCH CO., LTD.

August 8, 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 conference call for the first quarter financial results briefing today. I will start the briefing by providing an overview of the results for the three months ended June 30, 2019.

Key Notes

■ Financial Results for 1Q of FY 2019

Both sales and profits decreased

- Watches segment

Finished products: Revenues increased in Japan, but were stagnant in North America and China.

Movements: Sluggish growth continued.

- Machine tools segment

Both revenues and profits declined due to the global spread of slower economic growth.

■ FY2019 Forecast

- Revised downward, reflecting exchange rate trends and deteriorated market conditions in the Watches segment and the Machine tools segment.

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

Let me touch upon the results for the first quarter.

Sales of finished products in the Watches segment increased in Japan. However, sales were stagnant in North America and China. Moreover, both revenues and profits declined, affected by the slow progress of sales in the Movements segment.

Orders received declined due to the global spread of slower economic growth around autumn last year in the Machine Tools segment. As a result, both sales and profits declined.

Operating performance in the Devices and Components segment and other segments was generally in line with our expectations, but overall sales and profits decreased.

We revised our full-year forecast downward because the operating results of the major businesses are expected to fall short of our previous forecast, in addition to the higher than anticipated appreciation of the yen.

I will go into the details later on.

Financial Results for 1Q of FY 2019

(Unit : billion yen)	1Q18 Result	1Q19 Result	YoY Change	
			%	Amount
Net sales	74.5	69.9	▲6.2%	▲ 4.5
Operating profit	4.5	1.8	▲59.9%	▲ 2.7
Operating margin	6.1%	2.6%	-	-
Ordinary Profit	5.9	2.0	▲66.1%	▲ 3.9
Profit attributable to owners of parent	3.9	0.9	▲76.8%	▲ 3.0
Exchange rate	¥108/USD ¥130/EUR	¥111/USD ¥124/EUR	-	

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

(1 weaker yen, Annual)

3

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I will now provide an overview of the first quarter financial results.

Net sales decreased 6.2% year on year, to 69.9 billion yen, chiefly due to the slump of the Watches segment and the Machine Tools segment.

Operating profit declined 59.9% year on year, to 1.8 billion yen.

The operating margin was 2.6%.

Ordinary profit dropped 66.1% year on year, to 2.0 billion yen.

Quarterly net profit before income taxes decreased 76.8% year on year, to 0.9 billion yen.

1Q19 Result by Business Segments

Net sales (Unit: billion yen)	FY2018	FY2019	YoY Change	
	1Q Result	1Q Result	%	Amount
Watches	35.8	33.5	▲6.5%	▲ 2.3
Machine Tools	17.1	15.7	▲7.8%	▲ 1.3
Devices and Components	15.5	14.5	▲6.6%	▲ 1.0
Electronic Products	4.5	4.5	▲0.9%	▲ 0.0
Other Products	1.3	1.5	+9.8%	+0.1
Consolidated Total	74.5	69.9	▲6.2%	▲ 4.5

Operating Profit (Unit: billion yen, %:operating margin)	FY2018	FY2019	YoY Change	
	1Q Result	1Q Result	%	Amount
Watches	2.3 (6.7%)	0.6 (2.0%)	▲71.6%	▲ 1.7
Machine Tools	3.1 (18.7%)	2.6 (16.7%)	▲17.8%	▲ 0.5
Devices and Components	0.7 (4.5%)	0.3 (2.4%)	▲51.1%	▲ 0.3
Electronic Products	▲ 0.0 (▲0.9%)	▲ 0.0 (▲1.2%)	-	▲ 0.0
Other Products	0.0 (2.8%)	0.1 (8.1%)	+218.5%	+0.0
Eliminations or general corporate	▲ 1.7	▲ 1.9	-	▲ 0.1
Consolidated Total	4.5 (6.1%)	1.8 (2.6%)	▲59.9%	▲ 2.7

4

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Next, I will review the results in each business segment.

In the Watches segment, net sales decreased 6.5% year on year, to 33.5 billion yen, and operating profit decreased 71.6% year on year, to 0.6 billion yen.

In the Machine Tools segment, net sales decreased 7.8% year on year, to 15.7 billion yen, and operating profit decreased 17.8% year on year, to 2.6 billion yen.

In the Devices and Components segment, net sales decreased 6.6% year on year, to 14.5 billion yen, and operating profit decreased 51.1% year on year, to 0.3 billion yen.

I will explain the conditions of these three major businesses later on.

In the Electronic Products segment, net sales decreased 0.9% year on year, to 4.5 billion yen, and operating profit came to 0.0 billion yen, resulting in lower sales and profits. Net sales of photo printers increased due to strong sales of photo printers, but sales of healthcare equipment declined.

In the Other Products segment, net sales increased 9.8% year on year, to 1.5 billion yen, and operating profit increased 218.5% year on year, resulting in higher sales and profits.

FY 2019 Forecast

(Unit: billion yen)	FY2019 Forecast (5/13E)		FY2019 Forecast (8/8E)		Change	
	1H	Full Year	1H	Full Year	1H	Full Year
Net sales	152.0	318.0	146.3	305.0	▲ 5.7	▲ 13.0
Operating profit	9.0	20.0	7.2	16.0	▲ 1.8	▲ 4.0
Operating margin	5.9%	6.3%	4.9%	5.2%	-	-
Ordinary Profit	10.0	22.0	7.5	18.0	▲ 2.5	▲ 4.0
Profit attributable to owners of parent	7.0	14.5	5.0	11.5	▲ 2.0	▲ 3.0
Exchange rate	¥110/USD ¥120/EUR	¥110/USD ¥120/EUR	¥108/USD ¥122/EUR	¥106/USD ¥121/EUR	-	-

5

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Now, as I mentioned at the beginning, I will move on to the financial forecasts. We revised our financial forecasts downward because they are expected to fall short of our previous forecasts due to the deterioration of the market conditions of the Watches segment and the Machine Tools segment. At the same time, from the second quarter onward, we changed the assumption of the exchange rate for the US dollar from 110 yen to 105 yen.

I will now touch on the full-year estimates.

We expect that net sales will be 305.0 billion yen, a decrease of 13.0 billion yen from the previous forecast.

We expect that operating profit will be 16.0 billion yen, a decrease of 4.0 billion yen from the previous forecast.

The operating margin will be 5.2%.

We expect that ordinary profit will be 18.0 billion yen, a decrease of 4.0 billion yen from the previous forecast.

We expect that net profit will be 11.5 billion yen, a decrease of 3.0 billion yen from the previous forecast.

FY2019 Forecast by Business Segments

Net sales (Unit: billion yen)	FY2019 Forecast (5/13E)		FY2019 Forecast (8/8E)		Change	
	1H	Full Year	1H	Full Year	1H	Full Year
Watches	75.5	167.0	73.2	160.0	▲ 2.3	▲ 7.0
Machine Tools	35.0	67.0	32.0	62.0	▲ 3.0	▲ 5.0
Devices and Components	29.3	59.0	29.0	58.1	▲ 0.3	▲ 0.9
Electronic Products	9.3	19.0	9.2	18.9	▲ 0.1	▲ 0.1
Other Products	2.9	6.0	2.9	6.0	+0.0	+0.0
Consolidated Total	152.0	318.0	146.3	305.0	▲ 5.7	▲ 13.0

Operating Profit (Unit: billion yen, %:operating margin)	FY2019 Forecast (5/13E)		FY2019 Forecast (8/8E)		Change	
	1H	Full Year	1H	Full Year	1H	Full Year
Watches	5.0 (6.6%)	13.0 (7.8%)	4.2 (5.7%)	11.2 (7.0%)	▲ 0.8	▲ 1.8
Machine Tools	5.8 (16.6%)	10.5 (15.7%)	4.8 (15.0%)	8.8 (14.2%)	▲ 1.0	▲ 1.7
Devices and Components	1.0 (3.4%)	2.1 (3.6%)	1.0 (3.4%)	1.6 (2.8%)	▲ 0.0	▲ 0.5
Electronic Products	0.2 (2.7%)	0.5 (2.6%)	0.2 (2.7%)	0.5 (2.6%)	+0.0	+0.0
Other Products	0.1 (5.2%)	0.3 (5.0%)	0.1 (5.2%)	0.3 (5.0%)	+0.0	+0.0
Eliminations or general corporate	▲ 3.2	▲ 6.4	▲ 3.2	▲ 6.4	+0.0	+0.0
Consolidated Total	9.0 (5.9%)	20.0 (6.3%)	7.2 (4.9%)	16.0 (5.2%)	▲ 1.8	▲ 4.0

6

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This shows our forecasts for the operating results by business segments.

We have primarily modified the forecasts for the Watches segment and the Machine Tools segment.

As for the Devices and Components segment and the Electronic Products segment, only the impacts based on a change in the assumed exchange rate are reflected.

Watches (1Q19 Result)

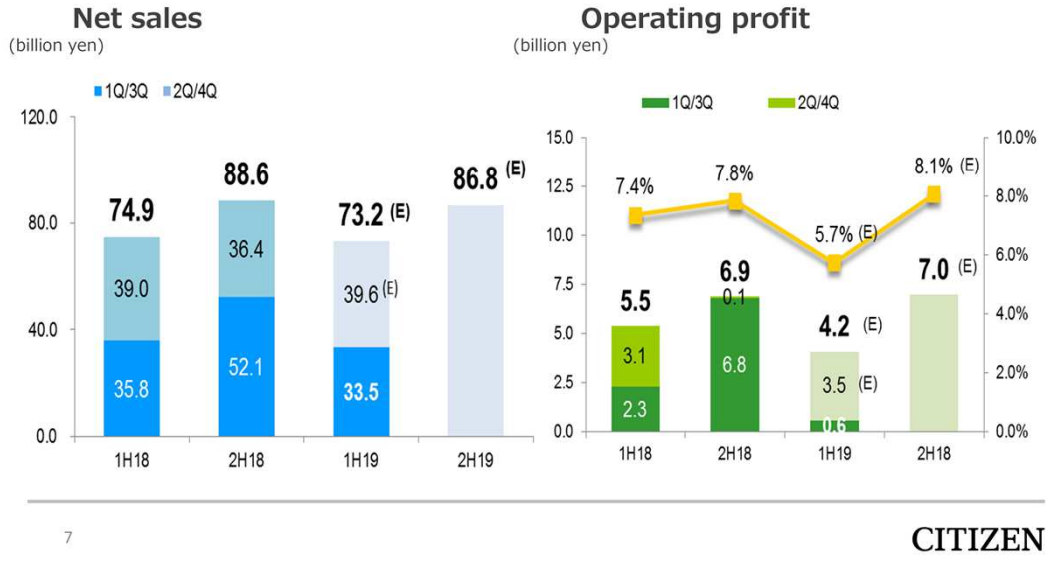
(Watch sales)

Overseas market: Revenues declined due to the effect of contracted sales at bricks-and-mortar stores in the North American market and the deceleration of the Chinese market.

Domestic market: Revenues increased thanks to the firm performance of both luxury items and mid-range products.

(Movement sales)

Sales declined as demand for high value-added products remained sluggish.



I will now move on to the overview of the businesses. Let's look at the Watches segment first.

A drop in sales in North America and China was not fully offset by increased sales of finished products in Japan, resulting in a decrease in sales. Our share in the mid-range market expanded amid a challenging market environment where sales at bricks-and-mortar stores contracted in the North American market, and sales declined.

In the European market, where there are uncertainties, the launch of new products including "PROMASTER" was successful. It pushed up sales in Germany, Italy, and Spain. Accordingly, sales increased in local currencies, but decreased due to the impact of exchange rates.

In the Asian market, sales increased in Hong Kong, Thailand, and Vietnam. Sales at bricks-and-mortar stores in China were sluggish, and there was a backlash against an increase in sales in the previous period. Sales declined as a result.

In the Japanese market, products in the high price range such as "The CITIZEN" and "Eco-Drive One" remained strong and sales of products in the medium price range such as "xC" and "PROMASTER" grew, and sales increased.

Sales of movements decreased as the mainstay quartz movements centered on high value-added products remained weak, despite the strong demand of mechanical movements.

Operating profit decreased substantially due to lower sales of movements and the effects of reduced production in addition to a drop in sales in the North American market, one of our main markets.

As for the forecasts for the fiscal year ending March 2020, we amended our forecast for full-year net sales to 160.0 billion yen, a decrease of 7.0 billion yen from the previous forecast, and we amended our forecast for full-year operating profit to 11.2 billion yen, a decrease of 1.8 billion yen from the previous forecast.

We also examined the status of finished products by region and amended our forecast.

Looking at sales of movements, we expect that it will be difficult to achieve higher sales for the full year, so we amended the figures.

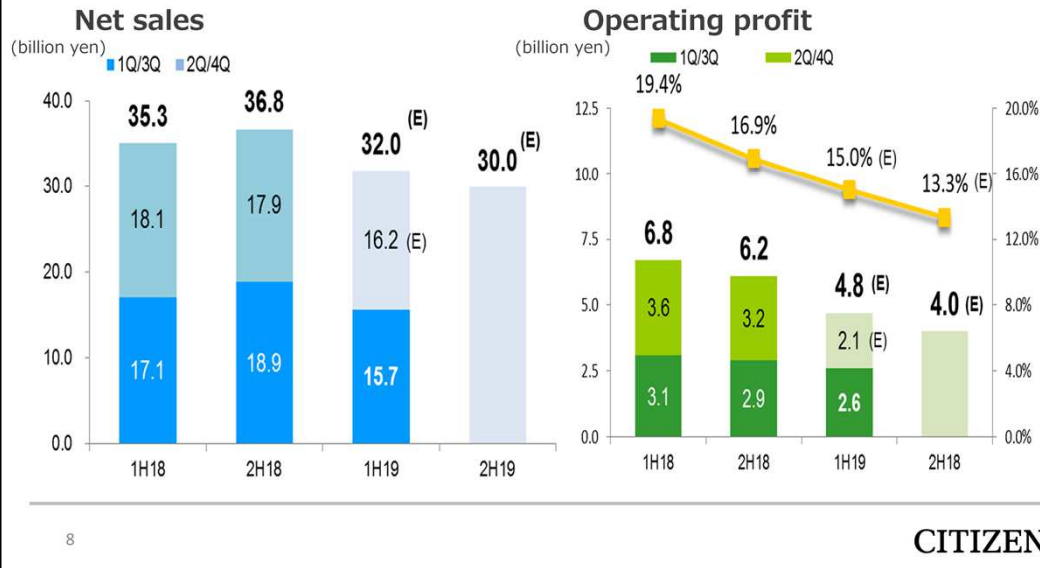
Production cutbacks will be eased, but production adjustment will continue to a certain extent through the second quarter.

The effects of exchange rates to the US dollar are ▲2.5 billion yen for net sales and ▲0.8 billion yen for operating profit.

Machine Tools (1Q19 Result)

Domestic market: Revenues decreased due to falling demand for semiconductors and automobile-related products.

Overseas market: Revenues declined, reflecting the global dip in investment demand, although revenues from medical-related products remained firm in China.



I will now touch upon the Machine Tools segment.

Uncertainty regarding the future is increasing, including the heating up of the trade friction between the US and China and the postponement of capital investment that has spread worldwide. Orders received for Q1 decreased by about 20% and fell short of the initial plan, although the decrease was not as extreme as the industry average.

In Japan, sales decreased due to the impact of a decline in demand for automobile-related machine tools, mainly in China, in addition to the slow semiconductors business. Moreover, longer delivery times due to an increase in special specifications also contributed to the decrease.

In the overseas market, sales decreased due to a drop in sales of automobile-related machine tools in the European market following sluggish demand in China. In the US, sales remained steady by focusing on the medical-related business in which stable demand was expected. In Asia, although the medical-related business was strong and sales increased in China, demand was slow in the ASEAN region. Overall sales for Asia remained unchanged.

Operating profit decreased due to the effects of a decrease in sales and the deterioration of the product mix as a result of lower sales in Europe and Japan where there are many high value-added products.

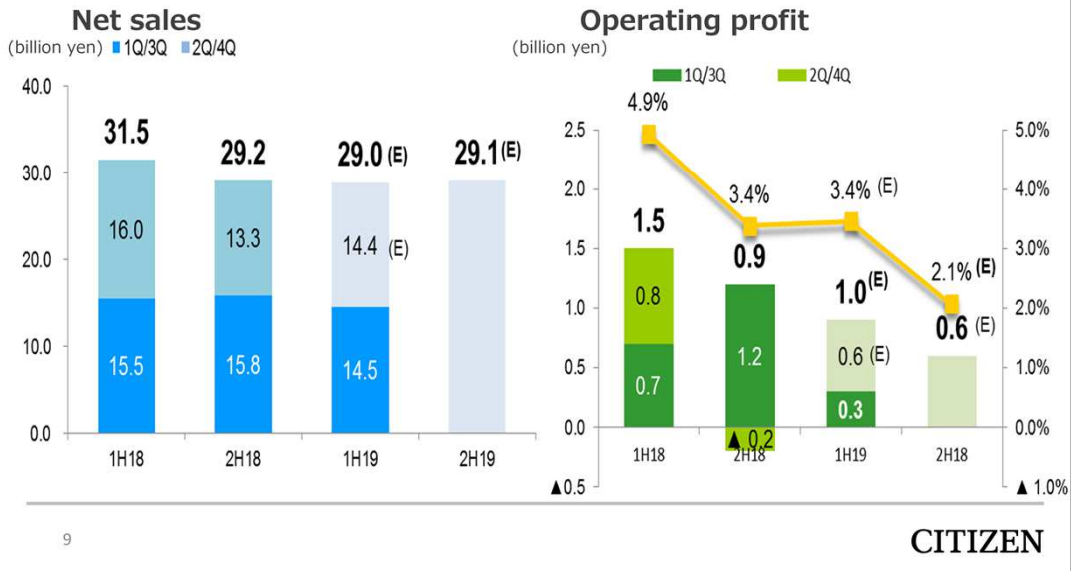
As for the forecast for the fiscal year ending March 2019, since the wait-and-see stance regarding capital investment is growing, we revised our forecast for full-year net sales downward to 62.0 billion yen, a decrease of 5.0 billion yen from the previous forecast, and we also revised our forecast for full-year operating profit to 8.8 billion yen, a decrease of 1.7 billion yen from the previous forecast.

Devices and Components (1Q19 Result)

Precision machining components: Revenues decreased due to low sales of auto parts following the decline in new vehicle sales.

Opto-devices: Revenues declined following decreased sales of back light units and efforts to focus on profitability in LEDs for lighting products.

Other parts: Sales of quartz devices, among other products, remained sluggish.



Next, I will review the Devices and Components segment.

Among precision processing components, sales of switches for electronic products grew and remained strong. However, sales of auto parts fell short of the plan due to a decrease in new car sales in China and Europe, resulting in decreased sales.

As for opto-devices, sales of LEDs for lighting products decreased, so we focused on eliminating unprofitable models. Sales increased as a result. Sales of general LEDs expanded for electronic products and game console application despite slow sales of automotive general LEDs. However, profits decreased slightly.

Operating profit decreased due to a decrease in sales of auto parts and crystal devices and the deterioration of backlight profitability despite a higher profit in switches.

As for the financial forecasts for the fiscal year ending March 2020, we revised our forecast for full-year net sales downward to 58.1 billion yen, a decrease of 0.9 billion yen from the previous forecast, and we revised our forecast for full-year operating profit downward to 1.6 billion yen, a decrease of 0.5 billion yen from the previous forecast, due to a change in the assumed exchange rate for the US dollar.

Topics

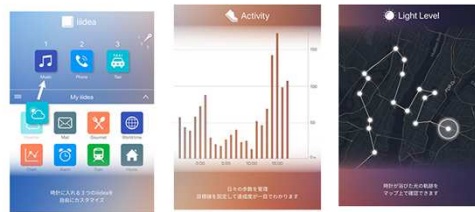
Eco-Drive Riiiver was listed on GREEN FUNDING and launched initial sales.

It was listed on GREEN FUNDING, a cloud funding site operated by CCC (TSUTAYA) Group, and simultaneously launched initial sales. The total amount of support exceeded 80 million yen.



Riiiver

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10

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Finally, I will explain the topics.

As we plan to launch the “Eco-Drive Riiiver” this autumn, we listed it on GREEN FUNDING, a cloud funding site, and launched initial sales.

Following the listing, we achieved the target amount within 28 minutes after the start of subscriptions.

The support has been growing.

We have 23 days left until the deadline of August 31. It is causing a sensation, with the total support amount topping 80 million yen.

We will launch a website for developers, and we will increase the number of developers by conducting a range of events going forward.

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This concludes my presentation.
Thank you.