

Main Questions and Answers (Summary)
at the Earnings Presentation for the Three Months Ended June 30, 2019

- ✓ Date:
5:30 p.m. to 6:30 p.m., Thursday, August 8, 2019
- ✓ Participants from the Company
Norio Takeuchi, Managing Director, and Toshiyuki Furukawa, Director

[General]

Q) Are there any impacts of the trade friction between the U.S. and China?

A) Some of our products are within the scope of the fourth imposition of tariffs on Chinese goods, but they only constitute a portion of our products. The direct impact of the trade friction is not factored in. However, we are likely to be subject to indirect impacts including declining consumer confidence due to a variety of actions.

Q) What are the reasons for the increase in inventory?

A) There has been a substantial decrease year on year in the inventory of movements whose production is being adjusted. Having said that, the inventory status varies from model to model, and there are some that are in excess. The inventory of finished products increased at sales bases due to a decline in sales in North America, and there was a rise in the inventory of work in progress as well. Further reasons for the increase in inventory include rising inventory due to a decrease in sales and longer delivery times for custom modifications in the Machine Tools segment as well.

[Watches]

Q) Financial results for the Watches segment in the first quarter

A) These were multiple sell-ins of finished products for March in China. Moreover, these were multiple sell-ins for July in North America. When we look at the financial results on a three-month basis like the first quarter, we take the view that the results were worse than the actual situation. In particular, jewelry chain stores have been closing down and channel inventories are becoming heavier in North America. The Japanese market remains strong, and we will be launching new products toward the year-end shopping season in anticipation of the hike in consumption tax.

As for movements, the situation through FY2018 has been ongoing. While mechanical movements remain favorable, no new trend has emerged.

Q) Outlook for the second quarter and thereafter for the Watches segment

A) Our outlook is that the production adjustment of movements will level off in the second half of the second quarter. As for finished products, the Japanese market will remain strong, and we will

take measures including the deployment of the MARVEL collection in collaboration with Disney in North America. We will focus on the Internet distribution in North America and China and will aspire to enhance the operating margin of finished products.

Q) What is the background of the downward revision in the Watches segment? What was different from the initial forecast?

A) The market environment is worsening compared to the time of the initial forecast. Although the In China, although sales on the Internet remained steady, sales at bricks-and-mortar stores weakened. In North America, channel restructuring, which seemed to have ended for a moment, is now back again and is advancing. As a result, we considered that we needed to take a stricter view, including the Christmas shopping season. The recovery of movements is taking longer than anticipated, and overall conditions are expected to remain challenging throughout the first half of the fiscal year.

[Machine Tools]

Q) In terms of orders received, when do you expect them to bottom out?

A) Orders received for the first quarter were down about 20% year on year, and a decline of about the same level is also anticipated for the full year. There is no change to our previous forecast (May 13) that a reversal of this trend is projected to take place in FY2020 and thereafter.

At the beginning of the term, orders received were expected to drop about 10% year on year. However, the outlook of the Japan Machine Tool Builders' Association was lowered. Likewise, we revised our outlook downward as well. Despite the lower outlook, there are no regions or industry types where there is a strong dependency, in particular. Accordingly, we do not believe that there will be a major collapse because the medical-related strong performance in North America and China will shore up the Machine Tool business. There is uncertainty as to whether our estimate for orders on this occasion is sufficient.

Q) The operating margin of the Machine Tools segment is declining. What are the reasons?

A) A lower operating profit due to a decrease in sales and the deterioration of the product mix are having an impact. The European and Japanese markets have been weakening, so the worsening operating margin has been factored in.