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Earning Presentation

for the nine months ended December 31, 2019

CITIZEN WATCH CO., LTD.

February 12, 2020

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 joining me in our conference call for reporting the results for the nine months ended December 31, 2019.

I will start by giving you an overview of the results for the third quarter.

Key Notes

■ Financial Results for 1Q-3Q of FY2019

- Watches segment

Finished products:

Sales in the mainstay markets of Japan and North America were sluggish.

Movements:

No sign of recovery in demand for high value-added products was seen.

- Machine Tools segment

Many companies had a wait-and-see attitude regarding capital expenditures, and the slowdown continued.

■ Revision of FY2019 Full-year Consolidated Financial Forecasts

Forecasts were revised downward due to sluggish results in the Watches and Machine Tools segments and the posting of an extraordinary loss.

■ Revision of Dividend Forecast

The full-year dividend forecast was reduced from 24 yen to 12 yen.

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First, one of the key points in the results for the quarter is a decrease in sales of finished products in the Watches segment mainly due to the reorganization of physical store distribution in our mainstay North American market. The other point is a decrease in sales from the domestic market that had been strong in the past. This was caused by a prolonged decline in consumer confidence after the consumption tax hike, and the third-quarter sales fell in below our plan. Sales of movements decreased due to ongoing sluggish demand particularly for high value-added quartz movements despite strong demand for mechanical movements.

Sales and profit decreased in the Machine Tools segment due to the lingering trend of the slowdown, which caused the wait-and-see attitude regarding capital expenditures taken by many companies.

We have revised our fiscal 2019 full-year consolidated financial forecasts downward due to sluggish sales in our mainstay segments of Watches and Machine Tools, and the prospect of an extraordinary loss incurred for structural reforms underway in the Devices and Components segment and Other segment. I will explain these structural reforms later.

We have also revised our full-year dividend forecast from 24 yen to 12 yen as a result of comprehensive assessment, taking into account the revision of our financial forecasts.

Financial Results for 3Q of FY2019

(Unit : billion yen)	FY2018 1-3Q Result	FY2019 1-3Q Result	YoY Change	
			%	Amount
Net sales	247.7	224.9	▲9.2%	▲ 22.8
Operating profit	20.7	11.2	▲45.9%	▲ 9.5
Operating margin	8.4%	5.0%	-	-
Ordinary Profit	23.2	12.4	▲46.6%	▲ 10.8
Profit attributable to owners of parent	14.3	7.0	▲51.2%	▲ 7.3
Exchange rate	¥111/USD ¥130/EUR	¥109/USD ¥121/EUR	-	

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

(1 weaker yen, Annual)

Now, I will explain the results for the nine months ended December 31, 2019. Net sales decreased overall, particularly in the Watches and Machine Tools segments, by 9.2% year on year to 224.9 billion yen.

Both operating profit and ordinary profit decreased. Operating profit fell 45.9% year on year to 11.2 billion yen, and ordinary profit fell 46.6% year on year to 12.4 billion yen. Profit attributable to owners of parent decreased 51.2% year on year to 7.0 billion yen, largely due to an extraordinary loss posted for the structural reforms.

Net Sales by Business Segments

(Unit: billion yen)	FY2018	FY2019	YoY change	
	1-3Q Result	1-3Q Result	%	Amount
Watches	127.0	118.3	▲6.9%	▲ 8.7
Machine Tools	54.2	45.1	▲16.7%	▲ 9.0
Devices and Components	47.4	43.9	▲7.3%	▲ 3.4
Electronic Products	14.6	13.0	▲10.5%	▲ 1.5
Other Products	4.4	4.3	▲1.1%	▲ 0.0
Consolidated Total	247.7	224.9	▲9.2%	▲ 22.8

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Next, I will describe net sales by business segments.

Net sales in the Watches, Machine Tools, and Devices and Components segments decreased. Net sales in the Watches segment dropped 6.9% year on year to 118.3 billion yen, net sales in the Machine Tools segment fell 16.7% year on year to 45.1 billion yen, and net sales in the Devices and Components segment declined 7.3% year on year to 43.9 billion.

Net sales in the Electronic Products segment decreased 10.5% year on year to 13.0 billion yen, due to an overall low level of orders received despite solid sales in North America.

Net sales in the Other segment fell 1.1% year on year to 4.3 billion yen.

Operating Profit by Business Segments

(Unit: billion yen, %:operating margin)	FY2018	FY2019	YoY change	
	1-3Q Result	1-3Q Result	%	Amount
Watches	12.3 (9.7%)	8.2 (7.0%)	▲32.7%	▲ 4.0
Machine Tools	9.8 (18.1%)	6.2 (13.8%)	▲36.5%	▲ 3.5
Devices and Components	2.8 (6.0%)	1.2 (2.9%)	▲54.5%	▲ 1.5
Electronic Products	0.3 (2.6%)	▲ 0.1 (▲1.3%)	▲145.8%	▲ 0.5
Other Products	0.0 (2.2%)	0.1 (4.3%)	+97.2%	+0.0
Eliminations or general corporate	▲ 4.7	▲ 4.5	-	+0.1
Consolidated Total	20.7 (8.4%)	11.2 (5.0%)	▲45.9%	▲ 9.5

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This slide shows operating profit by business segment.

Operating profit in the Watches segment decreased 32.7% year on year to 8.2 billion yen, the Machine Tools segment declined 36.5% year on year to 6.2 billion yen, the Devices and Components segment dropped 54.5% year on year to 1.2 billion yen, and an operating loss of 0.1 billion yen was posted by the Electronic Products segment. In general, the results were extremely poor.

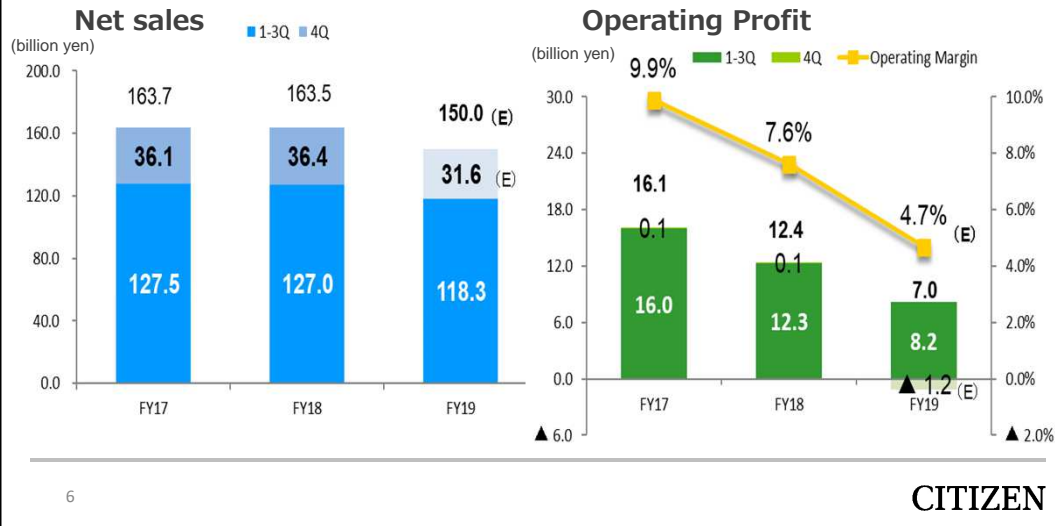
Watches (1-3Q Result)

<Watch sales>

- Overseas market: Sales decreased due to the impact of the shrinkage of physical store distribution, particularly in North America.
- Domestic market: Sales remained mostly unchanged, partly due to a decline in consumer confidence despite steady sales of high-priced products.

<Movement sales>

- Sales slowed, particularly of high value-added models of analog quartz movements, resulting in lower sales of movements.



Now, I will move on to the overall condition of each business segment. First is the Watches segment.

Sales of finished products in Europe, China, and Asia remained in line with our plan. However, sales in our mainstay markets in North America and Japan decreased, causing a fall in the overall results.

By region, we made an improvement in online sales in North America, which was unable to compensate for the reduction of physical stores, such as jewelry chain stores, and the stagnation of travel-related distribution (such as duty-free shops), led to a decrease in sales.

In Europe, sales in local currencies were maintained at the level of the previous year thanks in part to the effect of Promaster and other new products, despite uncertainties remaining in the business environment, but net sales declined due to the impact of exchange rate.

In Asia, while sales rose in countries such as Vietnam, Thailand, and Singapore, consumption in regions such as Hong Kong and Taiwan decreased. In China, there was a reactionary fall from large orders received in the second quarter, and overall sales in Asia remained mostly unchanged from the previous year.

In the Japanese market, products such as The Citizen and Promaster remained strong. A fall in consumer confidence after the consumption tax hike, however, lingered longer than we had expected, and sales began falling in the third quarter. Sales in the nine months ended December 31, 2019, remained flat year on year.

Sales of movements decreased due to the condition lacking momentum remained particularly for high value-added models in mainstay quartz movements despite the maintained strong demand for mechanical movements.

Operating profit declined mainly as a result of slowdowns in North America and Japan and a fall in sales of movements.

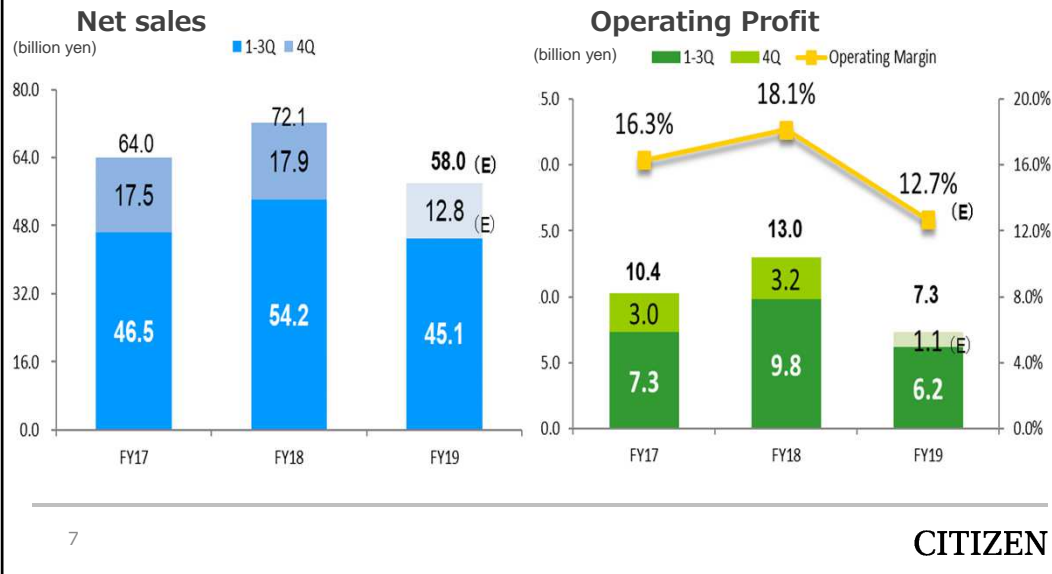
Machine Tools (1-3Q Result)

<Overseas market>

Sales decreased due to harsh market conditions worldwide, despite steady sales of medical-related products.

<Domestic market>

Sales decreased due to continuously weak appetite for investments, particularly in automobile-related products.



Now, I will describe the results for the Machine Tools segment.

Sales and profit for the segment decreased due to ongoing general weakness in demand for capital expenditure and a reactionary fall from strong sales in the previous year.

Sales in Japan decreased due to a weak appetite for investments, particularly for automobile-related products, and strong uncertainty about the future despite signs of recovery seen in sales of semiconductor-related products.

In overseas markets, sales in Europe decreased due to a sharp decline in sales of automobile-related products caused largely by the slowdown in demand from China.

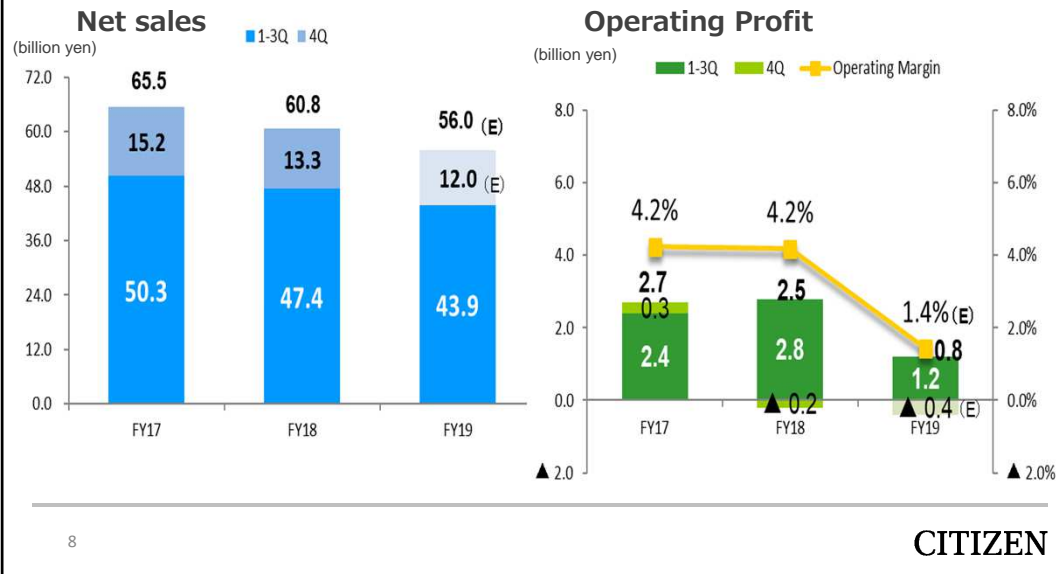
In the US and China, sales of medical-related products remained strong; however, sales of products for other industries were generally low, and the impact of the economic slowdown in other parts of Asia also proved strong, causing a fall in sales.

Operating profit declined primarily due to a fall in net sales.

Devices and Components (1-3Q Result)

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

Opto-devices: Sales decreased due to a fall in demand, particularly for LEDs for automobiles, and sluggish sales of backlight units.



I will describe the results in the Devices and Components segment.

Sales of auto parts as part of precision machining components decreased due to a fall in the number of new cars sold particularly in China.

Sales of switches also declined because of a decrease in models equipped with side switches, despite some growth in switch sales in China. Profit, however, remained at the level of the previous year.

Despite a fall in sales, we secured a surplus from the sales of opto-devices by reducing unprofitable models of LEDs for lighting products.

Sales of general LED products decreased due to a fall in demand for those used for automobiles and sluggish demand for those used for electronics.

We strove to increase profit from backlight units and reduced deficits; however, this resulted in an operating loss.

As a result, operating profit decreased due to a fall in sales of auto parts, general LEDs, and especially products with high profitability.

FY2019 Forecasts for 2H and the Full-Year

(Unit: billion yen)	FY2019 Forecast (11/8E)		FY2019 Forecast (2/12E)		Change	
	2H	Full Year	2H	Full Year	2H	Full Year
Net sales	160.5	305.0	143.0	287.5	▲ 17.5	▲ 17.5
Operating profit	10.2	16.0	3.2	9.0	▲ 7.0	▲ 7.0
Operating margin	6.4%	5.2%	2.3%	3.1%	-	-
Ordinary Profit	12.1	18.0	4.6	10.5	▲ 7.5	▲ 7.5
Profit attributable to owners of parent	7.9	11.5	0.4	4.0	▲ 7.5	▲ 7.5
Exchange rate	¥105/USD ¥120/EUR	¥107/USD ¥121/EUR	¥108/USD ¥120/EUR	¥109/USD ¥121/EUR	-	-

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We have revised our full-year financial forecasts downward, including a reduction in net sales of 17.5 billion yen from the previous forecast to 287.5 billion yen, and in operating profit of 7.0 billion yen from the previous forecast to 9.0 billion yen. We have reduced our forecast for profit attributable to owners of parent by 7.5 billion yen to 4.0 billion yen, taking into account an extraordinary loss posted for structural reforms and a negative prospect.

Our assumptions for the foreign exchange rates in the fourth quarter are 108 yen against the U.S. dollar and 120 yen against the euro.

We are currently analyzing the impact of the COVID-19 outbreak, which is not included in these forecasts.

FY2019 Forecast by Business Segment

Net sales (Unit: billion yen)	FY2019 Forecast (11/8E)		FY2019 Forecast (2/12E)		Change	
	2H	Full Year	2H	Full Year	2H	Full Year
Watches	87.6	160.0	77.6	150.0	▲ 10.0	▲ 10.0
Machine Tools	31.1	62.0	27.1	58.0	▲ 4.0	▲ 4.0
Devices and Components	28.7	58.1	26.6	56.0	▲ 2.1	▲ 2.1
Electronic Products	10.0	18.9	8.6	17.5	▲ 1.4	▲ 1.4
Other Products	3.0	6.0	3.0	6.0	+0.0	+0.0
Consolidated Total	160.5	305.0	143.0	287.5	▲ 17.5	▲ 17.5

Operating Profit (Unit: billion yen, %:operating margin)	FY2019 Forecast (11/8E)		FY2019 Forecast (2/12E)		Change	
	2H	Full Year	2H	Full Year	2H	Full Year
Watches	7.7 (8.8%)	11.2 (7.0%)	3.5 (4.6%)	7.0 (4.7%)	▲ 4.2	▲ 4.2
Machine Tools	4.2 (13.6%)	8.8 (14.2%)	2.7 (10.3%)	7.3 (12.7%)	▲ 1.5	▲ 1.5
Devices and Components	0.8 (3.0%)	1.6 (2.8%)	0.0 (0.2%)	0.8 (1.4%)	▲ 0.8	▲ 0.8
Electronic Products	0.6 (6.3%)	0.5 (2.6%)	▲ 0.0 (▲0.8%)	▲ 0.2 (▲1.1%)	▲ 0.7	▲ 0.7
Other Products	0.1 (3.4%)	0.3 (5.0%)	0.0 (0.1%)	0.2 (3.3%)	▲ 0.1	▲ 0.1
Eliminations or general corporate	▲ 3.2	▲ 6.4	▲ 3.0	▲ 6.1	+0.2	+0.2
Consolidated Total	10.2 (6.4%)	16.0 (5.2%)	3.2 (2.3%)	9.0 (3.1%)	▲ 7.0	▲ 7.0

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Our full-year forecasts by business segment are presented in the slide.

For the Watches segment, domestic sales remained below our assumption amid the continuously low level of consumer confidence and sales declined in North America in our overseas markets, we have reduced our forecast for net sales by 10.0 billion yen from the previous forecast to 150.0 billion yen, and operating profit by 4.2 billion yen to 7.0 billion yen.

In the Machine Tools segment, orders received slowed down due to uncertainty about the future and the results are now expected to fall below our assumptions. Therefore, we have reduced the forecast for net sales by 4.0 billion yen from the previous forecast to 58.0 billion yen and the forecast for operating profit by 1.5 billion yen to 7.3 billion yen.

In addition, we have revised our forecasts for the Devices and Components segment and Electronic Products segment downward based on a decline in the market condition.

Structural Reforms in the Devices and Components Segment and Other Segment

Devices and Components

- Citizen's electronics-related segment
 - Disposition and reduction of unprofitable models
 - Factory reorganization
 - Transfer of manufacturing of switches and other products to overseas factories
 - Concentration of factories in Japan to Yamanashi
 - Personnel rationalization

Other

- Withdrawal from the jewelry business and partial transfer of the business
- Withdrawal from the leisure service business

Now, I will give you an overview of our structural reforms.

In our Medium-term Management Plan, the Devices and Components segment and Other segment plan to implement the selection and concentration of businesses and products.

As part of the activities, we decided to implement a structural reform of businesses related to Citizen Electronics.

First, we are reducing the number of registered models, particularly those that are unprofitable, by half to raise productivity, which is currently in progress.

In addition, we will raise efficiency by moving the production of products, such as switches facing intense cost competition, to overseas locations as part of factory reorganization, designating domestic factories for the production of high value-added products, closing the Funehiki factory, and concentrating manufacturing in Yamanashi Prefecture.

At the same time, we will rationalize personnel through voluntary retirement.

In the Other segment, we will withdraw from the jewelry business and sell part of it as well as withdraw from the leisure service business of Citizen Plaza operating an ice skating rink and other facilities.

Financial Impact and Effects of Structural Reforms

Structural Reforms	
	FY2019 Extraordinary loss to be posted
Devices and Components segment	3.4 billion yen (incl. 0.8 billion yen already posted)
Other segment	1.1 billion yen (incl. 0.3 billion yen already posted)

Focus on products that can make effective use of Citizen's strengths.

We are posting 3.4 billion yen in the Devices and Components segment as expenses related to the above structural reforms, of which 0.8 billion yen was posted in the settlement for the third quarter of fiscal 2019. The Other business is posting 1.1 billion yen, of which 0.3 billion yen was posted in the settlement for the third quarter of fiscal 2019. In total, we are expecting to post an extraordinary loss of 4.5 billion yen for the full year of fiscal 2019.

We expect that the effect of the structural reforms will gradually appear in and after fiscal 2020 and are assuming a profit increase of approximately 2.0 billion yen per year.

The business environment of opto-devices is increasingly harsh, however, and we do not expect that all of the effect will appear in the financial results.

Revision of Dividend Forecast

Shareholder Return Policy

Basic policy

Total payout ratio of 60% or higher as a three-year average

Dividend policy

Decision made by considering the balance between performance-linked and stable dividends

* Total payout ratio: Percentage of profit for the term after combining dividends and the purchase of treasury stock

	Dividend per Share		Payout Ratio	Purchase of Treasury
	Interim	Year-end		
FY2018	20 yen	10 yen	48%	-
FY2019	12 yen	12 yen	94%	Approx. 3.0 billion yen



The year-end dividend was revised to zero yen, taking into account the revision of the full-year financial forecasts.

Our basic shareholder return policy is to maintain a total payout ratio of 60% or higher as a three-year average between fiscal 2019 and fiscal 2021.

Because the payout ratio of the interim dividend is expected to reach 94% due to the downward revision of the full-year forecasts, we have decided, based on a comprehensive assessment, to make the year-end dividend per share zero yen and change the annual dividend forecast from 24 yen to 12 yen.

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This concludes my presentation.
Thank you.