

Main Questions and Answers (Summary) at the Earnings Presentation for the Nine Months Ended
December 31, 2019

- ✓ Date:
5:30 p.m. to 6:30 p.m., Wednesday, February 2020
- ✓ Participants from the Company
Norio Takeuchi, Managing Director; and Toshiyuki Furukawa, Director

[General]

Q) What will be the effect of the current structural reforms from FY2020 onward?

A) While we expect to see an annual profit increase of 2.0 billion yen, particularly in the Devices and Components segment, harsh competition is likely to prevent us from fully enjoying this benefit. The effect will appear during or after 2Q FY2020, since we will continue implementing structural reforms until 1Q FY2020. Its contribution to financial performance in the next fiscal year is likely to be limited, however.

Q) You have announced a plan for structural reforms of the Devices and Components segment, the jewelry business, and the leisure service business, but do you plan to take any action for other segments such as Watches?

A) We are constantly considering the selection and concentration of businesses and products in all segments.

In the Watches segment, we will maintain conventional strategies such as the multiple-brand strategy. In the smartwatch business, there has been a delay in the business with Fossil Group, Inc., and the performance is falling below the forecast, but we will rebound from FY2020. The North American market on which we have been focusing is beginning to weaken, and we are considering a shift to the Chinese and other Asian markets.

Q) While you have maintained your capital expenditure forecast for FY2019 of 24.0 billion yen, you have decreased your advertising expenses forecast to 19.5 billion yen. What are your forecasts for the next fiscal year and thereafter?

A) We will maintain capital expenditure for our future activities including manufacturing innovation and make changes depending on the situation.

We have decreased advertising expenses, particularly in North America, due to the poor results expected for the fiscal year under review. For FY2020 and the following years, we will plan appropriate investment according to our financial results forecasts.

Q) Did you include the impact of the novel coronavirus outbreak in the recent downward revision?

A) We did not include it in the downward revision this time.

[Watches]

Q) What is the status of 3Q FY2019 in the Watches segment?

A) The results of finished products fell below the forecasts in the Japanese and North American markets.

In the North American market, sales at department stores were relatively strong despite the reorganization of distribution in progress. Meanwhile, jewelry chains suffered a sharp decline in sales, which did not grow in the Christmas shopping season from the level equivalent to the previous year that had been maintained until Q2. We strove to recover from the fall by increasing sales of new products through efforts such as online sales and the use of licensed products, however these did not prove successful.

Although we had initially expected that sales would hit the bottom in FY2019, the harsh situation is continuing, particularly for analog quartz watches. Demand for mechanical movements remains strong.

Q) I have the impression that the slowdown accelerated suddenly in 3Q. What was the reason for the downward revision of the full-year forecast?

A) The middle-price range market, which is the mainstay of the finished product business, has been shrinking, and our efforts to recover the fall through an increase in market share have not been adequate. Meanwhile, sales of high-priced products, which we aim to grow in the medium term, increased year on year and remain strong. In the recent downward revision, the forecast for net sales was affected primarily by a fall in the sales of finished products, and the forecast for operating profit was largely affected by a decrease in the sales of movements.

Q) The contribution of the business alliance with Fossil to the financial performance appears to be delayed. What is behind this delay?

A) Demand for hybrid smartwatches has not increased. The smartwatch market is dominated by full-digital watches, and the low-priced models of Chinese manufacturers also have momentum. Although we had expected to see sales in the latter half of FY2019, the outlook is now difficult and product releases will be delayed. We had hoped that sales of our smartwatches with beautiful hands (analog design) would grow, and we now aim to achieve this in FY2020 or FY2021.

In response to the delay in the process, we have revised the contract signed with Fossil. The initial agreement was to receive royalty payments separately for manufacturing and sales. We changed the multiple royalty payments to a lump-sum payment of license fees due to delay in the business and posted the license fees as intangible assets.

[Machine Tools]

Q) What was the status of orders received in 3Q FY2019? What is the outlook of orders received from now on?

A) Orders decreased by approximately 35% year on year. The decrease was larger than before. While we do not expect a further decline, the weakness is continuing. We will maintain our wait-and-see stance for the market for the time being.

Q) What was behind the downward revision?

A) A large decrease in orders received in 3Q forced us to revise the forecasts downward.