CITIZEN

Earning Presentation

for the Year ended March 31, 2020

CITIZEN WATCH CO., LTD.

May 14, 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.

I would like to explain to you our financial results for FY2019.

Index

- Summary of Financial Results for FY2019
- Watches Segment: Priority Strategies for FY2020
- Reference data

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Summary of Financial Results for FY2019

Key Notes on Financial Results for FY2019

■ Full-year financial results for FY2019

・Watches segment

Sales and profit decreased for both finished products and movements, reflecting a sharp downturn due to the spread of COVID-19 and sluggish market conditions.

・Machine Tools segment

Results were in line with the forecasts that were revised downward. Meanwhile, uncertainty grew.

・Extraordinary losses amounting to 24.5 billion yen were posted.

An impairment loss was recognized as a result of the review of production structure, mainly in the Watches segment.

■ Forecast for full-year financial results for FY2020

Undecided for now in consideration of the situation in which reasonable calculations are difficult with respect to the impact from the spread of COVID-19.

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Let me start by explaining the main points of our latest financial results.

In the Watches segment, sales decreased, with growth in domestic sales of medium-priced models and other positive signs of recovery during the first half offset by a prolonged slump in domestic demand after the consumption tax hike during the second half, sluggish sales during the sales season in the United States and a sharp downturn due to the COVID-19 pandemic.
Sales of movements also fell, as continued challenging market conditions were compounded by the impact of the COVID-19 pandemic.

In the Machine Tools segment, results were mostly in line with the forecasts, despite the effects of COVID-19 such as postponement of machine installation mainly in Europe. However, the level of orders was lower than anticipated and uncertainty about the timing of a future recovery grew.

Extraordinary losses of 24.5 billion yen were posted but this mainly reflects recognition of impairment losses on risks assets, mainly in the Watches segment, in addition to business structure reforms in the Devices and Components business and other businesses implemented to date. As a result, a net loss attributable to owners of parent of 16.6 billion yen was recorded.

Our earnings forecast for FY2020 has yet to be determined because it is difficult to reasonably calculate the impact of the COVID-19 pandemic at present.

Our dividend forecast has also yet to be determined. The Company is facing challenging conditions but our policy is to attach importance to the stability of dividends rather than to link dividends to performance.

Financial Results for FY 2019

(Unit : billion yen)	FY2018 Result	**FY2019 Result**	YoY Change	
			%	Amount
Net sales	321.6	278.5	▲13.4%	▲ 43.1
Operating profit	22.4	6.1	▲72.6%	▲ 16.2
Operating margin	7.0%	2.2%	-	-
Ordinary Profit	26.6	7.5	▲71.7%	▲ 19.0
Profit attributable to owners of parent	13.3	▲ 16.6	-	▲ 30.0
Exchange rate	¥111/USD ¥129/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)

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I would now like to give an overview of our financial results for FY2019.

Net sales were 278.5 billion yen, falling 13.4% year on year.

Operating profit was 6.1 billion yen, a decrease of 72.6% year on year, due to decreased sales in the core Watches and Machine Tools segments.

The operating margin was just 2.2%.

Ordinary profit was 7.5 billion yen, a drop of 71.7% from the previous fiscal year.

We posted a net loss attributable to owners of parent of 16.6 billion yen, due to the recording of extraordinary losses.

I will give more details of the extraordinary losses later in the presentation.

Financial results by Business Segments

Net sales

(Unit: billion yen, %:operating margin)	FY2019 2/12E Full Year	FY2019 Result Full Year	Increase (Decrease) %	Increase (Decrease) Amount
Watches	150.0	141.6	▲5.6%	▲ 8.3
Machine Tools	58.0	58.5	+0.9%	+0.5
Devices and Components	56.0	55.9	▲0.1%	▲ 0.0
Electronic Products	17.5	16.8	▲3.6%	▲ 0.6
Other Products	6.0	5.5	▲7.6%	▲ 0.4
Consolidated Total	287.5	278.5	▲3.1%	▲ 8.9

Operating profit

(Unit: billion yen, %:operating margin)	FY2019 2/12E Full Year	FY2019 Result Full Year	Increase (Decrease) %	Increase (Decrease) Amount
Watches	7.0 (4.7%)	3.9 (2.8%)	▲43.7%	▲ 3.0
Machine Tools	7.3 (12.7%)	7.2 (12.4%)	▲1.2%	▲ 0.0
Devices and Components	0.8 (1.4%)	0.9 (1.7%)	+15.9%	+0.1
Electronic Products	▲ 0.2 (▲1.1%)	▲ 0.2 (▲1.5%)	-	▲ 0.0
Other Products	0.2 (3.3%)	0.0 (0.8%)	▲79.0%	▲ 0.1
Eliminations or general corporate	▲ 6.1	▲ 5.7	-	+0.3
Consolidated Total	9.0 (3.1%)	6.1 (2.2%)	▲31.8%	▲ 2.8

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This shows financial results by business segment compared to the announced forecasts and I will now explain the differences between the forecasts and the actual results.

As you can see, the difference between our actual results and forecasts is mostly attributable to the Watches segments.

The Watches segment was severely impacted by restrictions on going out and store closures due to COVID-19.

The difference between the actual and forecast sales of the Watches segment is 8.3 billion yen, and we believe that this amount, at the very least, is due to COVID-19.

While the effects of the pandemic are evident in all regions, sales of watches in North America and Japan as well as movement sales were heavily hit.

Operating profit fell short of the forecast by 3 billion yen despite efforts to reduce expenses.

However, in other segments besides the Watches segment, we managed to keep results more or less within range of the announced forecasts despite the impact of the COVID-19 pandemic.

Financial results by Business Segments

Net sales

(Unit: billion yen, %:operating margin)	FY2018 Result	FY2019 Result	YoY change %	YoY change Amount
Watches	163.5	141.6	▲13.4%	▲ 21.9
Machine Tools	72.1	58.5	▲18.9%	▲ 13.6
Devices and Components	60.8	55.9	▲8.0%	▲ 4.8
Electronic Products	19.3	16.8	▲12.7%	▲ 2.4
Other Products	5.8	5.5	▲4.8%	▲ 0.2
Consolidated Total	321.6	278.5	▲13.4%	▲ 43.1

Operating profit

	FY2018 Result	FY2019 Result	YoY change %	YoY change Amount
Watches	12.4 (7.6%)	3.9 (2.8%)	▲68.3%	▲ 8.5
Machine Tools	13.0 (18.1%)	7.2 (12.4%)	▲44.5%	▲ 5.8
Devices and Components	2.5 (4.2%)	0.9 (1.7%)	▲63.6%	▲ 1.6
Electronic Products	0.4 (2.3%)	▲ 0.2 (▲1.5%)	-	-0.6
Other Products	0.1 (2.5%)	0.0 (0.8%)	▲71.3%	▲ 0.1
Eliminations or general corporate	▲ 6.2	▲ 5.7	-	+0.4
Consolidated Total	22.4 (7.0%)	6.1 (2.2%)	▲72.6%	▲ 16.2

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Next, I will explain changes year on year by business segment.

Allow me to read out the figures.
In the Watches segment, net sales were 141.6 billion yen, down 13.4% year on year.

Operating profit was 3.9 billion yen, a decrease of 68.3% year on year.

In the Machine Tools segment, net sales fell 18.9% from the previous year, to 58.5 billion yen.

Operating profit was 7.2 billion yen, falling 44.5% year on year.

In the Devices and Components segment, net sales dropped 8.0% year on year, to 55.9 billion yen.

Operating profit was 0.9 billion yen, a decline of 63.6%.

In the Electronic Products segment, net sales were 16.8 billion yen, down 12.7% year on year.

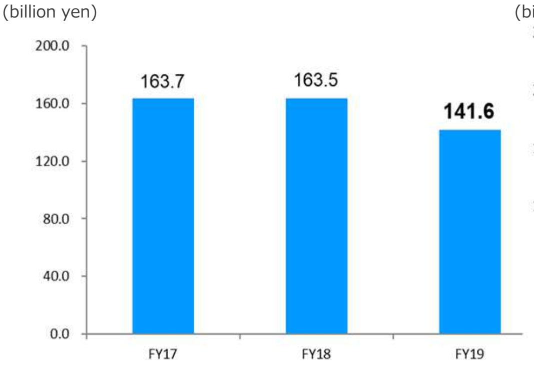
The segment reported an operating loss of 0.2 billion yen.

Watches (Operating Performance)

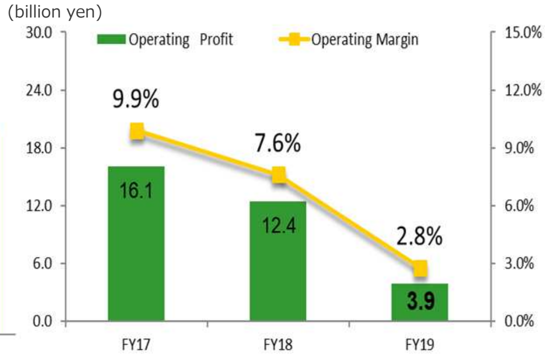
Full-year status: The domestic market experienced a downturn due to sluggish demand following the consumption tax hike. In the overseas market, sales remained slow mainly in North America. Sales of movements declined due to the sluggish growth of analog quartz movements, mainly in the high value-added product line.

4Q status: Due to the global impact of COVID-19, demand for movements further declined and sales of finished products fell sharply in Japan and North America.

Net sales



Operating profit



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I will now give an overview of each segment, starting with the Watches segment.

Watch sales fell due to inevitable deterioration in sales generally from the fourth quarter, despite firm demand in the domestic, European and Chinese markets which offset struggling sales in the North American market during the first three quarters.
Movement sales declined, as recovery in demand for quartz movements remained weak despite firm sales of mechanical movements. Low production operation ratios for movements throughout the year also helped push operating profit down.

I will now give more details of performance by region on a local currency basis.
In North America, amid ongoing scaling back of jewelry chains and other physical stores and slowdown in travel distribution, efforts to save the situation by strengthening EC sales were made. However, fourth-quarter sales fell sharply mainly due to the closure of physical stores and full-year sales also declined.
In Europe, new products such as PROMASTER contributed to sales despite lingering uncertainty. However, March sales dropped sharply and full-year sales also showed a slight downturn.
Similarly in Asia, sales during the first three quarters held firm, especially in Vietnam, Thailand, and Singapore. However, the dramatic slump in China and other Asian countries from the start of the year resulted in sales decline on a full-year basis.
In Japan, sales grew at a sluggish pace due to weak consumer sentiment after the consumption tax hike and then the COVID-19 outbreak further dampened consumption, leading to decreased sales.

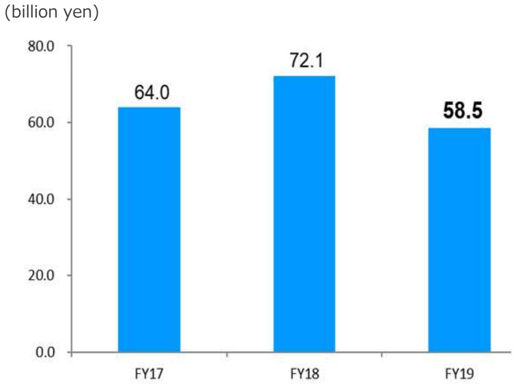
In FY2020, consumption is expected to be lackluster due to COVID-19. Against this backdrop, we will radically reduce expenses and seek to expand sales through greater focus on EC. We plan to concentrate our efforts on China in particular.

Machine Tools (Operating Performance)

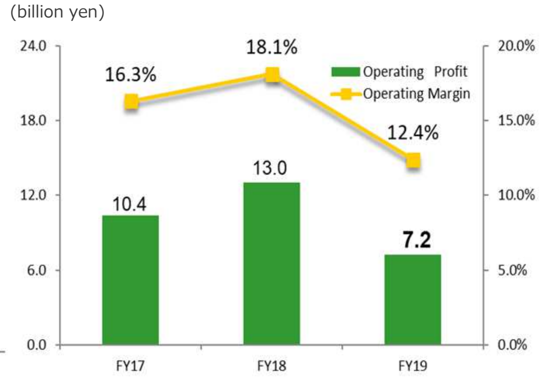
- Overseas market :
Sales decreased, reflecting the deterioration of the global market environment despite solid sales of healthcare-related products in China.

- Domestic market :
Sales declined, reflecting weak sales of automobile-related products and a sharp fall in appetite for capital expenditures.

Net sales



Operating profit



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I will now move on to Machine Tools.

Although results were in line with forecasts, capital investment demand was generally weak and the market environment also took a turn for the worse due to the slump in economic activity from the start of the year.

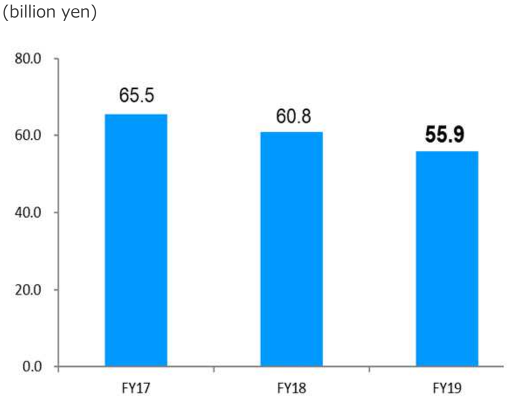
On the domestic market, sales fell, reflecting an increased sense of stagnation in the automotive industry, which is the main customer in this segment.
Looking at overseas markets, uncertainty about the outlook for the Chinese market suddenly increased due to the COVID-19 pandemic despite signs of activity in healthcare- and IT-related sectors, and sales in Europe, the U.S. and other parts of Asia were sluggish.

Looking at recent trends, sales in China are comparatively firm and the slump in domestic sales does not appear to be worse than anticipated. However, orders received in Europe and the U.S. during lockdown have fallen sharply. We will carefully monitors the orders trend from this month onwards.

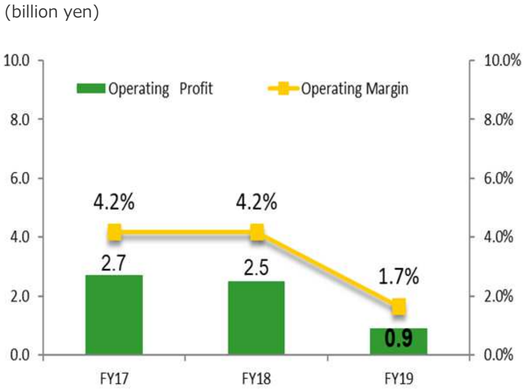
Devices and Components (Operating Performance)

- Precision machining components:
  Sales decreased due to poor sales of auto parts following the decline in new car sales.
- Opto-devices:
  Sales decreased due to the implementation of initiatives with a focus on profitability and a fall in demand, particularly for LEDs for automobiles.

Net sales



Operating profit



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Next, I will explain operating performance in the Devices and Components Segment.

Among precision-machining components, sales of automotive parts fell due to decline in new car sales and sales also started to be affected by the COVID-19 pandemic.
Sales of switches to China struggled from the start of the fourth quarter, offsetting a good performance in switches for Chinese smartphones during the first three quarters.

In opto-devices, tenacious efforts to reduce unprofitable models in LED for lighting products resulted in improved profitability despite decreased sales.
Sales of LED for vehicle use and use in electronic devices were weak, resulting in declines in revenue and profit.

Sales of quartz devices rallied in the second half due to an increase in demand for communication devices such as smartphones and sales on a full year basis remained almost unchanged.

Recognition of Extraordinary Losses

Segment	Extraordinary loses recorded in FY2019	Summary
Watches segment-related	16.7 billion yen	Manufacturing facilities for movements, hybrid smartwatches-related, and others
Devices and Components segment-related	5.7 billion yen	Expenses for or related to early retirement and the closure of Funehiki factory with respect to Citizen Electronics Co., Ltd and other factors
Others	1.9 billion yen	Jewelry business transfer-related, the dissolution of Citizen Plaza Co., Ltd, and others
Total	24.5 billion yen	

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Moving on, I will now explain the extraordinary losses recognized in FY2019.

The extraordinary losses recognized at the end of the fiscal year mainly related to the Watches segment and there was also an increase in losses in other areas such as the Devices and Components segment.

Extraordinary losses in the Watches segment amounted to 16.7 billion yen. This mainly consists of 9.3 billion yen in manufacturing equipment-related impairment losses due to a deterioration in performance in the movements business, 3.4 billion yen in impairment losses on intangible assets related to license fees with FOSSIL due to delays in the creation of demand for hybrid smartwatches and a further 1.4 billion yen in impairment losses on intangible losses related to Frédérique Constant.

Impairment losses in the Devices and Components segment and Other Products segment were 5.7 billion yen and 1.9 billion yen respectively.

As announced already, these were expenses related to early retirement at Citizen Electronics and subsidiaries and expenses related to closure of Citizen Electronics Funehiki Factory, as well as expenses related to withdrawal from the jewelry and leisure services businesses and impairment losses on equipment related to the Other Products business.

The extraordinary losses recognized in FY2019 will have the effect of improving consolidated profitability by around 5.2 billion yen in FY2020, with improvements of around 2.8 billion yen in the Watches segment and around 2.4 billion yen in the Devices and Components segment.

Given increasing future uncertainty amid the COVID-19 pandemic and the changing business environment in the Watches segment, such as the increase in digital smartphones and decline in distribution via physical stores, we needed to revamp our revenue structure and we recognized impairment losses on risk assets. We are also conducting a review of the scale of our manufacturing operations. This brings me to the end of my presentation.

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Watches Segment: Priority Strategies for FY2020

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Next, I will explain priority strategies for FY2020 in the Watches segment.

Recognized Changes in the Business Environment of the Watches Segment

- Rise of smartwatches
- Evolution of distribution structures from those based on physical stores to EC
- Growing uncertainty over the future due to geopolitical risks
- Global decline in consumer interest due to the spread of COVID-19.

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First, one of the factors that has caused the Watches segment to struggle is the business environment, which has changed more dramatically and more quickly than ever imagined.

We have long been aware of the growth of smartwatches, especially digital display-type smartwatches, but this growth has impacted not only sales of movements but also watch demand in North America, which is a key market, and the competition over market share with rival manufacturers has intensified.

Furthermore, the evolution of distribution structures away from those based on physical stores to e-commerce is a huge change which might bring about the demise of traditional retail.

Meanwhile, the growing uncertainty caused by geopolitical risks such the trade dispute between the U.S. and China and rising tensions in the Middle East has been compounded by weak consumer confidence globally as a result of the COVID-19 pandemic and we find ourselves in a situation where further deterioration in our business results in inevitable.

In light of this situation, we recognize that the Watches segment in particular needs to be fundamentally and urgently rebuilt and I would like to explain to you once again our future strategies.

Watches Segment: Priority Strategies for FY2020

Enhancement of profitability with a focus on the promotion of the CITIZEN brand without relying on movements

1. **Rebuilding of the movement business**
2. **Strengthening of the CITIZEN brand by spotlighting the Eco-Drive technology**
3. **Strengthening of online sales and digital marketing**

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Within the Watches segment, it is the movements business in particular that is facing difficulty.

Due to expansion of the digital display-type smartwatch market, the analog quartz watch market is shrinking and it is becoming difficult to generate revenue in the movements business, which used to be a driver of revenue in the Watches segment. The revenue structure must, therefore, be urgently rebuilt.

However, the market for luxury finished products and the market for mechanical movements are firm and we also need to strengthen initiatives for these markets.

Moving forward, we will implement three initiatives to reduce dependence on the movements business and achieve revenue growth in the finished products business focusing specifically on the CITIZEN brand.

Firstly, we will rebuild the movements business by reducing production of analog quartz movements to a reasonable scale and reducing costs through innovation of mechanical movement production.

Secondly, we will endeavor to strengthen the CITIZEN brand, spotlighting Citizen’s core Eco-Drive technology.

Thirdly, we will focus on strengthening EC and digital marketing alongside expansion in the EC market.

I will now briefly outline each strategy.

1. Rebuilding of the Movement Business

1	**Optimize the production level of analog quartz movements**
2	**Continue to streamline operations for cost reduction**
3	**Respond to solid demand for mechanical movements**

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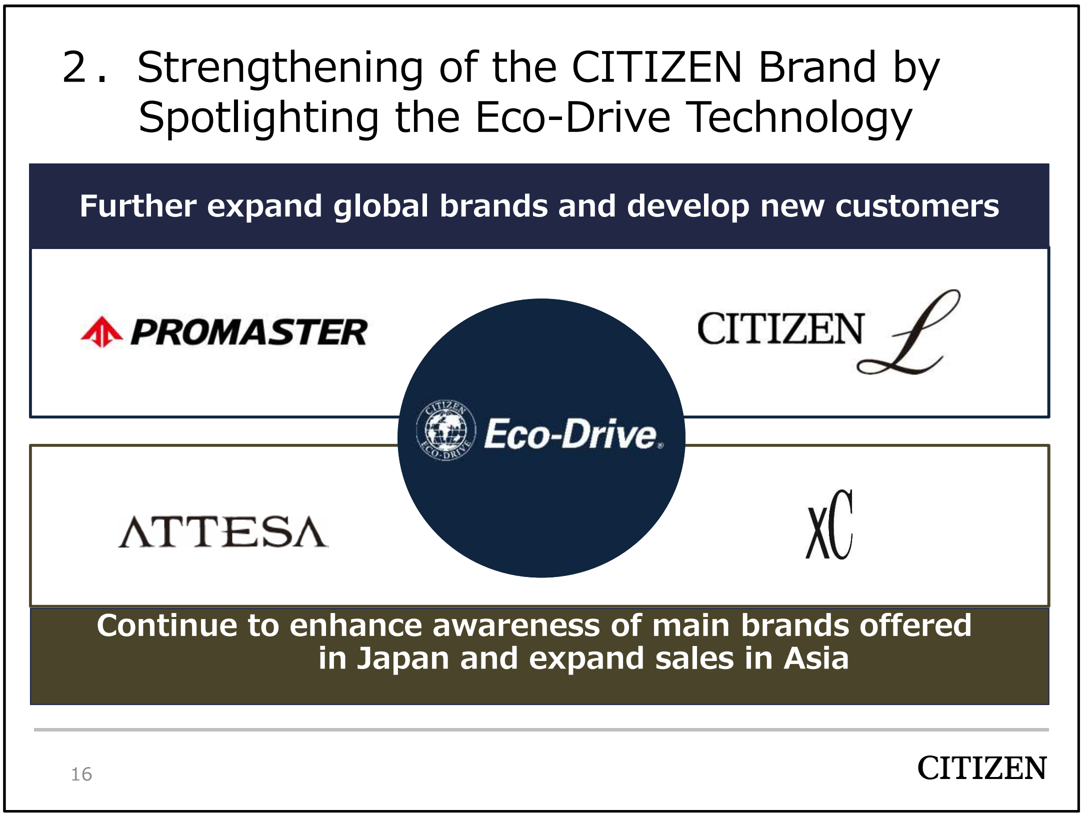
Let me first explain the rebuilding of the movement business.

This involves three strategies.

Firstly, downscale production of analog quartz movements and rebuild a production structure commensurate with demand.

Secondly, innovate movement production, streamline calibers and otherwise rationalize operations to reduce costs.

Thirdly, establish a stable revenue base by implementing a demand-based price strategy in order to tap into firm mechanical movement demand.



I would like to explain the second strategy - Strengthening of the CITIZEN Brand by spotlighting the Eco-Drive technology.

Moving forward, the specific focus of our efforts in the finished products business will be the CITIZEN brand spotlighting the Eco-Drive technology.

Eco-Drive is Citizen’s core technology that brings forth the full potential of power generation using light. Our efforts to date have been well received, with Eco-Drive becoming the first watch certified by Japan's Eco Mark in 1996.

Moving forward, we will seek further expansion in sales of the professional sports watch PROMASTER and the ethical watch CITIZEN L, which are sold as global brands.

Regarding ATESSA and xC, which have established themselves as major brands in Japan, we will further strengthen the domestic market and also expand sales to the Asia market.

3． Strengthening of Online Sales and Digital Marketing

Online sales

Facilitate the establishment of a platform for direct sales in addition to the promotion of existing online sales.

Digital marketing

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I would now like to explain the third strategy, Strengthening of online sales and digital marketing.

With the spread of COVID-19, the strengthening of e-commerce has become an urgent and important issue.

Currently, the share of online sales is trending higher, with e-commerce accounting for over 50% of total sales in China, just under 20% of total sales in North America and rising to just over 10% in Japan.

Moving forward, we will seek to strengthen EC sales by promoting existing online sales and rapidly extending the direct sales EC platforms which we established in the U.S. market first to Japan.

We will also further strengthen our existing digital marketing, that is, the Riiver platform, fine tuning service and AI-based recommendation service for watches, and translate this into revenue growth through the development of new customers and omnichannel marketing.

I would now like to explain our strategies for priority regions.

Previously, we positioned Japan and the North American market as our priority markets but in the future we aim to revitalize the Asian market, especially China.

We plan to expand product lines for young people and expand online sales to put the Chinese market back on the growth track. We expect that this will help expand sales to the Asia market as a whole.

Meanwhile, in North America, we will optimize SG&A expenses through structural reforms and expand online sales more than ever before aiming to establish more profitable conditions.

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This concludes my presentation.

Thank you.

Balance Sheet

Reference

(Unit: billion yen)	March 31, 2019	December 31, 2019	Change from end of previous fiscal year
Current assets	258.9	235.6	▲ 23.3
Cash and deposits	86.8	80.1	▲ 6.7
inventories	98.2	101.1	+2.9
Non-current assets	154.9	133.9	▲ 21.0
Property, plant and equipment	89.6	78.5	▲ 11.1
Investment securities	39.9	33.4	▲ 6.5
Total assets	413.9	369.5	▲ 44.3

(Unit: billion yen)	March 31, 2019	December 31, 2019	Change from end of previous fiscal year
Liabilities	146.3	138.7	▲ 7.5
Interest-bearing debt	51.0	55.1	+4.0
Net assets	267.5	230.7	▲ 36.7
Shareholders' equity	246.8	220.1	▲ 26.7
Foreign currency translation adjustment	3.3	▲ 1.0	▲ 4.3
Total liabilities and net assets	413.9	369.5	▲ 44.3

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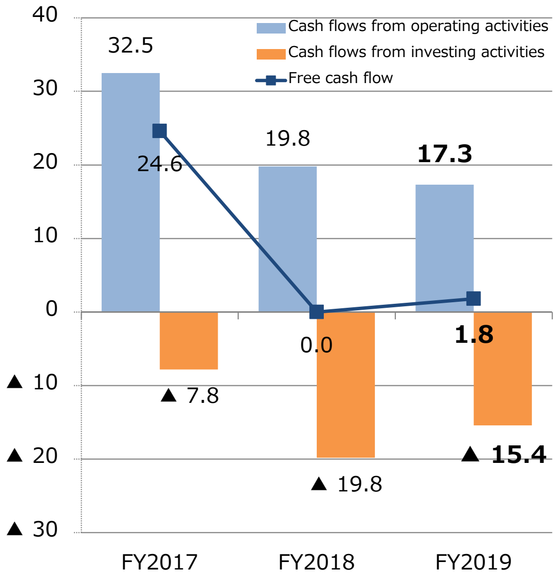
Statement of Cash Flow

Reference



(Unit: billion yen)	FY 2018	FY 2019	YoY change
Cash flow from operating activities	19.8	17.3	▲2.5
Cash flow from investing activities	▲19.8	▲15.4	+4.3
Free cash flow	0.0	1.8	+1.8
Cash flow from financial activities	▲5.8	▲7.0	▲1.1
Balance of cash and cash equivalents	84.5	77.9	▲6.5

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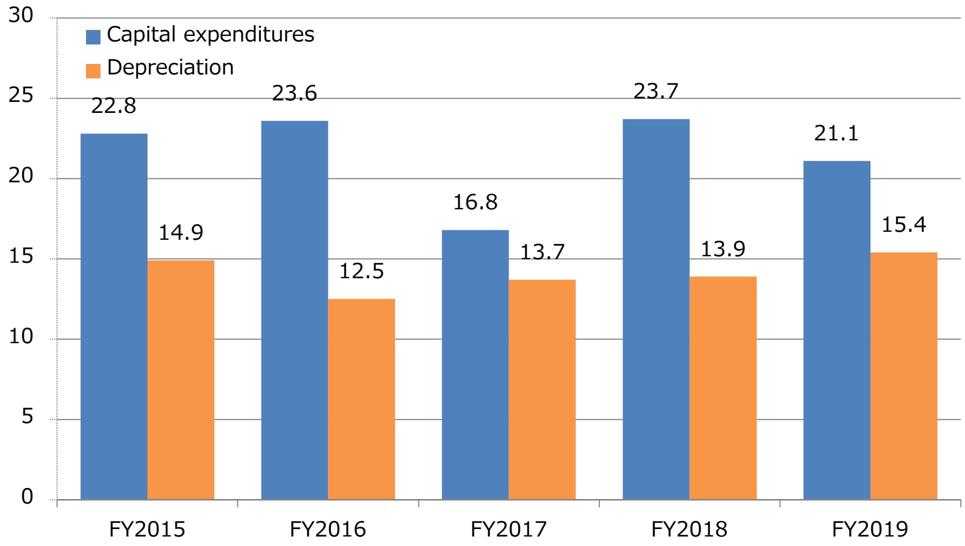
Capital Investment/Depreciation

Reference



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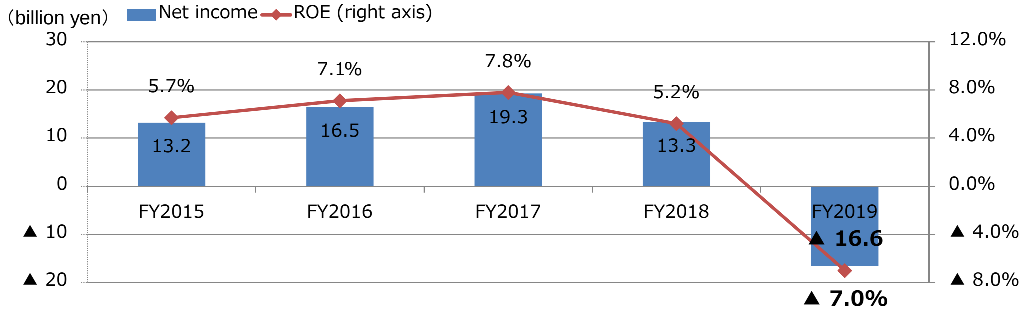

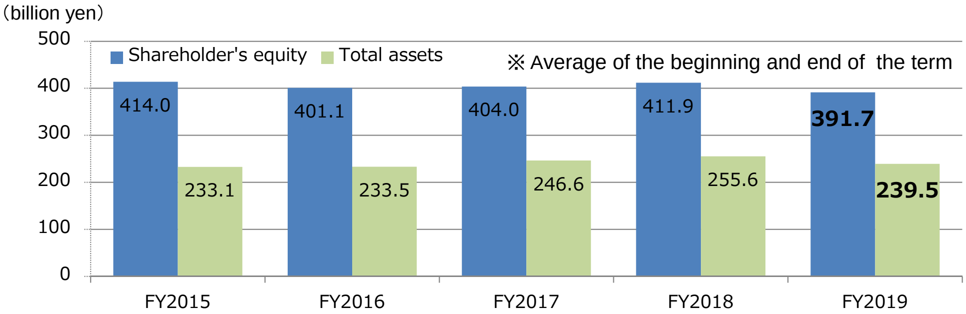

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Return to Shareholders

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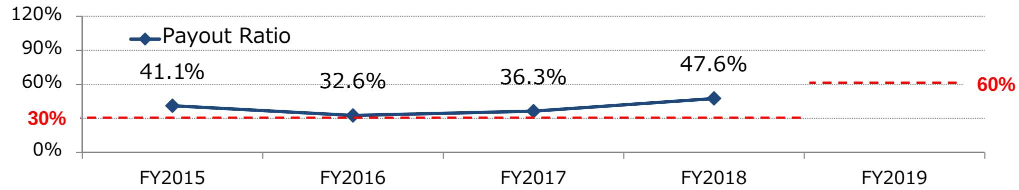
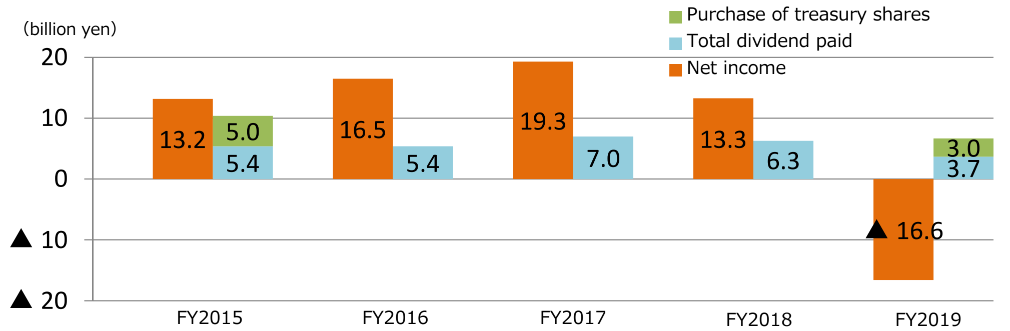


Dividends per share (Full Year)	¥17.00	¥17.00	¥22.00	¥20.00	¥12.00E



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