August 13, 2021

Citizen Watch Co., Ltd.

Main questions and answers at the earnings presentation for the first quarter ended December 31, 2021

Date and time: August 13 (Thursday), 2021, 16:00 to 17:00

Participants from the Company: Toshiyuki Furukawa, Director; Yoshitaka Oji, Director

Main questions and answers:

[General]

Q) What are your assumptions regarding advertising expenses?

A) We are investing in advertising, with a focus on the Watches business, at a rate commensurate with net sales. In the first quarter of FY2021, we implemented advertising initiatives as planned, and advertising expenses increased 80% year on year. However, net sales are growing faster than that, and the ratio of advertising expenses to net sales is declining.

Q) What was the inventory situation in the Watches business and the Machine Tools business?

A) Inventory is trending downward, mainly due to the Watches business. Inventories had been building up significantly until FY2020, but the effects of the production cutbacks are now being felt. Meanwhile, the Machine Tools business is in a phase of increasing orders, and its inventories are trending upward.

[Watches Business]

Q) In the Watches business, what is the background behind the particularly strong recovery in the North American market? I think there was a reactionary increase because the COVID-19 pandemic affected the same period of the previous year. That being said, isn't there a risk of inventory becoming excessive on the distribution side in the future?

A) Sales in North America have been quite sluggish for the past year, and we have been working to optimize our inventory. Currently, sell-through leads directly to sell-in. The Company has strong sales capabilities in the North American market, and this strength has been demonstrated in the expansion phase of brick-and-mortar store sales. In recent years, store reductions, especially in department stores and jewelry chains, have been progressing. This has caused sell-in that is not commensurate with sell-through. With the overall market recovering, the revival of the jewelry chain in particular, as it is our main distribution channel, contributed to a significant increase in sales. There is no excess inventory as of the end of June 2021.

Q) What is the status of operations regarding movements?

A) Factory operations are normal, as the Company implemented structural reforms in FY2020 to build a production system that meets demand. Normal operating conditions are expected to continue going forward.

[Machine Tools Business]

Q) What is the background behind the weak growth in the operating profit margin compared to the previous peak in FY2018, despite the strong performance of the Machine Tools business?

A) The moderation of the operating margin growth is due to changes in the product mix. This is due to the fact that the ratio of sales to China, for which orders were received in the second half of FY2020, is increasing, but orders from Europe are currently growing, and the operating margin is expected to improve in the future.

Q) Some machine tool manufacturers have said that orders are currently at their peak. What is your view on this?

A) Some customers seem to be accelerating their orders due to longer lead times. Given seasonal factors such as summer vacations in Europe, we do not expect orders in Q2 FY2021 to be higher than Q1 FY2021. At the same time, orders in Japan are still recovering, which is a positive factor.