

Main questions and answers at the earnings presentation for the first quarter ended June 30, 2022

Date and time: August 12 (Friday), 2022, 16:00 to 17:00

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

Main questions and answers:

[General]

Q) Which segments resulted in the substantial upswing in operating profit?

A) It is mostly due to the increase in profit in the Watches business. The effect of the weaker yen on the profit increase is included, but the actual increase in operating profit contributed more significantly.

Q) What factors resulted in the increase in inventories?

A) The increase mainly reflects the effect of the foreign exchange rates. Regarding the Machine Tools business, parts inventory and in-process inventory are increasing, and an actual increase has also been seen. However, they are linked to orders received, so we don't think that there is a risk factor.

[Watches]

Q) What were the first quarter domestic market results? What is the current market situation?

A) There was a recovery in April and May, but the conditions have become tough due to the impact of the Omicron variant. The flow of people reduced significantly, also reflecting the extreme heat, and this put the brakes on sales. As for results by price range, The CITIZEN and CAMPANOLA, the high-priced brands, were strong. Among mid-priced products, products with relatively high prices had favorable sales. On the other hand, the situation was tough for popularly priced products. We expect that the situation will recover in the full year.

Q) What is the situation in the North American market? The market will grow weaker due in part to rising interest rates, yes?

A) The market remained strong in the first quarter, and sales grew more strongly than we expected. On the other hand, there are many uncertainties because there are a range of concerns about the market, including inflation. We believe that we will have to take a somewhat cautious view from the second quarter onward.

Q) What is the background behind the strong sales in the European market?

A) Sales of watches grew more than we expected despite many concerns, such as inflation and the situation in Ukraine. Most notably, the growth seen in the U.K., Germany, Spain, France and other

places was remarkable. In France, there were also new stores.

Q) What can you tell us about the outlook for the Chinese market?

A) The market is expected to remain weak because of the zero-COVID policy. The market is heading toward recovery, moving toward the resumption of economic activity, including a shorter self-isolation period and the easing of movement restrictions. However, it is expected to be difficult for the Chinese market to recover within the first half.

[Machine Tools]

Q) What about the shortage of parts and materials?

A) The delays in the procurement of parts and materials have yet to be improved. The lockdowns in the Chinese market have made it even more difficult than ever to procure electronic parts. The order backlog has been increasing, so the momentum has remained unchanged. The lead time has become even longer, being around ten months for standard products. It is longer for special optional items.

[Devices and Components]

Q) What improvement measures are you considering regarding the struggling Devices and Components business?

A) It was affected significantly by the decline in sales of LEDs for lighting. Inventory adjustment by customer will take a long time, so the situation is expected to remain tough in the first half. We need to see how fast the situation will recover from the second half onward. Regarding automotive parts, sales of parts for customers in Japan are in a slump. Highly profitable parts, such as engine parts, experienced negative growth, which put pressure on profits. We will wait for sales to recover from the second half onward while holding down costs.