November 14, 2022

Citizen Watch Co., Ltd.

Main questions and answers at the earnings presentation for Six months ended September 30, 2022

Date/Time: November 14, 2022 (Monday) 16:00-17:00

Participants from the Company: Toshihiko Sato, President and CEO; Toshiyuki Furukawa, Managing Director; Yoshitaka Oji, Managing Director

Main questions and answers:

[General]

Q) What factors are expected to result in cost increases in the second half?

A) We have been curbing expenses for business travel and exhibitions, among other expenses, due to the impact of the COVID-19 pandemic. Looking ahead to the second half, with sales activities expected to be normalized, a range of costs including advertising expenses are expected to rise. Energy prices and logistics expenses, which are also rising, are included in expected cost increases.

Q) What is the background behind the increase in dividends paid?

A) We set a target dividend payout ratio of around 50％ as our shareholder return policy in the Medium-Term Management Plan 2024. We took advantage of the earnings forecast revision and announced an increase in dividends according to the shareholder return policy.

[Watches]

Q) What can you tell us about the outlook for the second half?

A) For the time being, progress is generally in line with expectations, notably in Europe and North America, although there are concerns such as inflation and the Ukraine situation. In the North American market, sales for tourism distribution are recovering, while in the European market, progress is being made in the acquisition of new sales channels. These developments are expected to contribute favorably.

Q) What measure are you taking to facilitate unit price increases?

A) Taking the North American market for instance, we have been launching high value-added products while simultaneously implementing unit price adjustments by raising prices. In North America, customers are willing to purchase high value-added products, such as those sold in Japan, at our in-house online sales website and flagship stores.

Q) What is the level of channel inventories in North America?

A) Appropriate levels have been maintained in respective main distribution channels.

[Machine Tools]

Q) Is there another downward risk with respect to orders received which appear to be trending toward a decline?

A) Orders received in the second quarter decreased from the year-ago level, but we don't think that the situation is deteriorating to that extent. Orders decreased due to the impact of summer holidays in Europe and the decline in reaction to a surge in demand before price increases in North America. Still, they are in line with expectations. The environment for orders is expected to remain firm.

Q) What are factors for the lower forecast for operating profit?

A) Higher costs attributable chiefly to sharp rises in raw material and energy prices and transportation expenses constitute one of the factors for lower profit. In addition, net sales cannot be boosted as expected due to prolonged lead times. There are signs of deliveries being shortened with respect to certain raw materials. However, with lead times still long for many parts, a sharp recovery in sales, in our view, is unlikely.

Q) Are operating profit margins expected to be improved?

A) We are raising prices. The effects of such increases will start to be apparent in fiscal 2023. With work-in-process inventories increasing at this point, we will review production efficiency to recover high operating profit margins.

[Devices and Components]

Q) What is the background behind the significant fall in the Devices and Components business?

A) Decreased sales of automotive parts and opto-devices had a significant impact on the results for the second quarter. Automotive parts were affected by car manufacturers' production reductions. Regarding opto-devices, sales were sluggish for products such as LEDs, for which China accounts for a significant percentage of sales. In terms of profitability, we are not expecting a significant recovery even in the second half, although we believe it is improving thanks to structural reforms implemented to date.