

Main questions and answers at the earnings presentation for Nine months ended December 31, 2022

Date/Time: February 13, 2023 (Monday) 16:00-17:00

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

Main questions and answers:

[General]

Q) What is behind your purchase of treasury shares?

A) We achieved a performance recovery following the COVID-19 pandemic earlier than expected. We can see some strength in the recovery of our mainstay Watches and Machine Tools segments, and the worldwide end of the pandemic is now in sight. In view of this, we judged that there are no major concerns about the future. We carried out repayments of interest-bearing debt for the purpose of swiftly improving capital efficiency. We determined the amount of purchases in consideration of the Tokyo Stock Exchange's policy on improving corporate value.

Q) Let me ask a question about cash allocation. What is your view on the balance between investment in growth and streamlining, improvement of your financial standing and shareholder return?

A) In the Watches segment, we are focusing on investment in automation and streamlining. Mainly for the Machine Tools segment, we are increasing production capacity and making positive investments in it. We will maintain the scale of investment in growth and streamlining specified in the medium-term management plan, namely in the range of 60 billion yen to 70 billion yen. Between improvements in our financial standing and shareholder returns, we will choose to strengthen shareholder returns.

[Watches]

Q) In the North American market, sales of some products are weak amid growing concern about a recession. Are the trends of Citizen's finished watch sales different from overall market trends?

A) December is the end of fiscal year in the North American market. In that period, customers severely reduce inventories. Our inventory level is appropriate. In North America, we operate the CITIZEN brand and the BULOVA brand. Both of them have a high presence in that region. As the pandemic is coming to an end, sales from travel distribution are rallying at a tremendous pace and achieving solid results. We are shifting to a price range in which our products will not compete with smartwatches. We believe that this action is producing a positive effect.

Q) Do watch sales vary depending on the price range?

A) Fashion brands that are said to be in the popular price range are struggling. They are affected by the rise of smartwatches. Movement sales are weak, since their main customers are fashion brands.

In contrast, CITIZEN's premium brands attained sales growth of slightly less than 40% year on year. Under the CITIZEN ATTESA brand, models priced 200,000 yen and higher are strong. In the North American market, we will make use of our online shop for direct sales to make the HAKUTO-R collaboration models, mainly sold for the Japanese market, one of the top five selling models. Sales of high-end models are active. With a view to increasing the unit sales price, we are introducing CITIZEN PROMASTER and other models and pursuing different initiatives for individual markets.

Q) What is the situation of inbound tourist demand in the Japanese market?

A) Japan reopened its borders to foreign tourists in October. Accordingly, sales grew at airport duty-free shops and other outlets. However, sales from foreign tourists still account for a minor share. Inbound tourist demand comes mainly from Chinese visitors. We have hopes for future developments.

[Machine Tools]

Q) It seems that orders are declining. What is your future outlook?

A) Orders have generally been decreasing, but we do not feel that they will continue to fall. We expect to have an order backlog for at least half a year at the beginning of fiscal 2023. We are preparing for full-capacity production at least until the first half of fiscal 2023.

Q) When do you expect the price hike to take effect? And what is the size of its effect you estimate?

A) The circumstances surrounding material procurement are improving. However, supply is still tight. We will take steps to gradually increase production output. We expect the effect of price increases to gradually emerge around the beginning of fiscal 2023.

[Devices and Components]

Q) What is your future outlook?

A) We forecast that the situation will continue to be challenging in the fourth quarter of fiscal 2022. Sales of automotive parts are impacted by prolonged production adjustments by automakers. We expect them to recover at a mild pace. We still have no prospect of a recovery in opto-devices sales. We will consider possible actions.