November 11, 2019
Citizen Watch Co., Ltd.

Main Questions and Answers (Summary) at the Earnings Presentation for the First Six Months Ended September 30, 2019

- ✓ Date:
  5:00 p.m. to 6:00 p.m., Friday, November 8, 2019
- ✓ Participants from the Company
  Toshihiko Sato, President & CEO; Norio Takeuchi, Managing Director; and Toshiyuki Furukawa, Director

[General]

Q) The full-year forecast remains unchanged, but how will you catch up if the Company misses the 1H forecast?

A) The Watches segment and the Machine Tools segment fell short of the forecast for 1H. The Watches segment was mainly affected by a fall in movements. Finished products posted higher revenue and profit. As we enter the shopping season in 2H, we would like to make up for the shortfall. We think we will also be able to recover the shortfall in the Machine Tools segment.

Q) What is the breakdown of the increase in inventory?

A) The sales shortfall is increasing in each segment. In the Watches segment, the inventory rose for an assumed portion of higher revenue in North America. Overall the inventory of movements is decreasing because the production adjustment is underway, but excess inventory or under-inventory are seen depending on the model. Revenue from Machine Tools declined, so the inventory increased. As for the ratio of the increase in inventory, at least half comes from the Watches segment while some 20% comes from the Machine Tools segment.

[Watches]

Q) Describe the present situation of the Watches segment and its outlook in 2H and onward.

A) By region, in North America, sales in jewelry chain stores are sluggish, but sales in department stores are growing and the consumption trend is positive. Moreover, distribution on the Internet is expanding. Although we did not see as much growth in the 2Q results as expected, the 1H results were on par with a year ago. In the domestic market, there was a slight last-minute demand before the hike in consumption tax and the backlash, but when we look at the average of September and October, it is in positive territory with a good impression. In China, revenue was 30% higher year on year for 2Q, and both online and offline sales were strong. We increased the number of directly managed stores and enhanced stores, and such initiatives succeeded. Ice skater Yuzuru Hanyu, our brand ambassador, appeared at the store, which contributed to strong sales.

As for the outlook for 2H and beyond, we expect revenue in North America to grow toward the biggest shopping season. In the domestic market, collaboration products with Disney are well received, which we also expect will add momentum to the shopping season. We have no negative assumptions for China, but we do not expect significant growth for 2H. Moreover, improvements on profitability of movements has been progressing in 2Q and onward. Therefore, we will seek to rationalize production and aim to hit our targets as expected.

Q) Regarding the sales expansion strategy for high-end products, will you increase the premium doors in the future?

A) We are currently operating a sales floor specializing in high-end brands, such as CITIZEN, CAMPANOLA, Eco-Drive One, and Premium Doors at about 20 stores. The number of such stores is expected to increase to 30 stores in FY2019 and 50 stores through FY2021. It may not be good to increase them excessively for high-end brands, so the figures are just for reference.

Q) Regarding the production adjustment of movements, what was the situation in 2Q?

A) Production cutbacks are underway and we are making adjustments by about 10%, on par with a year ago. We were reducing production by about 20% in 1Q, and operations improved. Inventory has improved, but channel inventories have not yet. While we plan to return to a reduced production rate at about the previous year's level in 2H, we will be monitoring the market environment closely.

[Machine Tools]

Q) Regarding the Machine Tools segment, are there any regions or industries for which you feel a sense of bottoming out?

A) There was a big drop in 2Q, but we expect 2H to return to the 1Q level. We do not think that there will be another drop, but there is not yet a prospect in sight for the reversal. We will see a full-scale recovery in the next fiscal year and beyond. Signs of improvement seem to be seen in semiconductors partially, but we cannot expect to benefit from it in 2H.

Q) Why were the 2Q results for the Machine Tools segment significantly lower than 1Q in terms of operating margin?

A) The main reason is a change in the mix, with advanced nations in decline and strong Asian markets.

Q) Will you pursue the production of LFV (Low Frequency Vibration Cutting) technology from advanced countries to Asia?

A) Incorporating LFV technology in the L series, which helps to bolster profit margins, is progressing. Going forward, we will also incorporate LFV technology in popularly priced items, setting the target for Asia/China, and will expand net sales and operating profit.