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Earning Presentation

for Six months ended September 30, 2020

CITIZEN WATCH CO., LTD.

November 12, 2020

This is Toshiyuki Furukawa, in charge of PR and IR.
Thank you for participating in the financial results briefing.
I would like to explanation the financial results based on the PowerPoint materials, so please refer to them.

Key Notes

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- Financial Results for 1H of FY 2020
  Both sales and profits decreased
  Watches: The extent of the fall in sales decreased in 2Q, in comparison to 1Q.
  Machine Tools: Orders received bottomed out and started to recover moderately.

- FY2020 Forecast

Calculated based on information available as of the date of announcement on the assumption that restrictions and other factors significantly limiting economic activities will not increase.

A substantial year-on-year decline is expected in our core businesses, Watches and Machine Tools segments.

- FY2020 Dividends Forecast
  Total ¥5.0
  (Interim dividend ¥2.5, Year-end dividend ¥2.5)

2

These are the main points of our financial results for the first half of the current fiscal year.
In terms of the second quarter cumulative financial results, both sales and profits declined YoY significantly. However, the decline in sales in the Watches Business narrowed from the YoY decline of 64% in the first quarter to a decline of 33% in the second quarter. In addition, in the Machine Tools segment, although sales were sluggish, orders bottomed out in the first quarter and were on a recovery track.

We also announced our full-year earnings forecast for FY2020. In the second half of the fiscal year, the situation of COVID-19 remains uncertain. The Company calculated its earnings forecast based on currently available information on the assumption that the restrictions and other factors that significantly limit economic activities will not increase. Although both of the mainstay Watches and Machine Tools segments are on a recovery trend, the improvements are expected to remain moderate.
We also announced a dividend forecast. Although we expect to record net loss, we plan to pay annual dividends of JPY5 per share after comprehensively assessing our policy of securing liquidity on hand and returning profits to shareholders.

Financial Results for 1H of FY 2020

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(Unit : billion yen)	1H19 Result	1H20 Result	YoY Change %	YoY Change Amount
Net sales	144.4	88.9	▲38.4%	▲ 55.4
Operating profit	5.7	▲ 8.2	-	▲ 13.9
Operating margin	4.0%	▲9.3%	-	-
Ordinary Profit	5.8	▲ 6.1	-	▲ 12.0
Profit attributable to owners of parent	3.5	▲ 21.5	-	▲ 25.1
Exchange rate	¥109/USD ¥122/EUR	¥107/USD ¥121/EUR	-	

- Sales decreased, particularly in the mainstay Watches Segment, despite a gradual recovery in the market environment.
- Reduced SG&A expenses 14 billion yen, for instance by cutting advertising expenses.
- Reversed part of deferred tax assets and posted 10.7 billion yen in income taxes - deferred.

3

Next, I would like to explain the outline of our first-half results. Please see page three. Net sales were JPY88.9 billion, down 38.4% YoY. The two mainstays, the Watches Business and the Machine Tools Business, recorded substantial declines in sales.

Regarding the operating balance, we curbed advertising and other expenses and reduced SG&A expenses by approximately JPY14 billion. However, this was not enough to compensate for the sales falls in the mainstay businesses, resulting in operating loss of JPY8.2 billion and ordinary loss of JPY6.1 billion.

We incurred loss attributable to owners of the parent worth JPY21.5 billion due to reversal of deferred tax assets.

1H20 Result by Business Segments

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Net sales (Unit: billion yen)	FY2019 1H Result	FY2020 1H Result	YoY Change %	YoY Change Amount
Watches	72.3	38.1	▲47.3%	▲ 34.2
Machine Tools	30.8	20.7	▲32.8%	▲ 10.1
Devices and Components	29.3	21.3	▲27.3%	▲ 8.0
Electronic and Other Products	11.8	8.8	▲25.5%	▲ 3.0
Consolidated Total	144.4	88.9	▲38.4%	▲ 55.4

Operating Profit (Unit: billion yen, %:operating margin)	FY2019 1H Result	FY2020 1H Result	YoY Change %	YoY Change Amount
Watches	3.4 (4.8%)	▲ 5.3 (▲14.1%)	–	▲ 8.8
Machine Tools	4.5 (14.8%)	0.5 (2.9%)	▲87.0%	▲ 3.9
Devices and Components	0.7 (2.6%)	▲ 1.0 (▲5.1%)	–	▲ 1.8
Electronic and Other Products	0.0 (0.6%)	▲ 0.1 (▲2.1%)	–	▲ 0.2
Eliminations or general corporate	▲ 3.1	▲ 2.1	–	+0.9
Consolidated Total	5.7 (4.0%)	▲ 8.2 (▲9.3%)	–	▲ 13.9

4

This is a breakdown of the results by segment. Please turn to page four.

In the Watches Business, net sales decreased 47.3% YoY to JPY38.1 billion, and operating loss was JPY5.3 billion.
In the Machine Tools Business, net sales decreased 32.8% YoY to JPY20.7 billion, and operating profit decreased 87% YoY to JPY500 million.

In the Devices and Components Business, net sales decreased 27.3% YoY to JPY21.3 billion and operating loss was JPY1 billion.
In the Electronic and Other Products Business, net sales decreased 25.5% YoY to JPY8.8 billion, and operating loss was JPY100 million. Though the Electronic Equipment Business was in the black due to good performance of healthcare devices, Other Businesses were in the red.

FY2020 Forecasts for 2H and the Full-Year

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(Unit: billion yen)	FY2019 Result		FY2020 Forecast		Change	
	2H	Full Year	2H	Full Year	2H	Full Year
Net sales	134.1	278.5	113.0	202.0	▲ 21.1	▲ 76.5
Operating profit	0.4	6.1	▲ 5.7	▲ 14.0	▲ 6.1	▲ 20.1
Operating margin	0.3%	2.2%	▲5.1%	▲6.9%	–	–
Ordinary Profit	1.6	7.5	▲ 3.8	▲ 10.0	▲ 5.4	▲ 17.5
Profit attributable to owners of parent	▲ 20.2	▲ 16.6	▲ 8.4	▲ 30.0	+11.8	▲ 13.4
Exchange rate	¥109/USD ¥120/EUR	¥109/USD ¥121/EUR	¥105/USD ¥125/EUR	¥106/USD ¥123/EUR	–	–

- Sales are expected to fall in all segments although the extent of the declines has been decreasing.

5

Page five shows our consolidated earnings forecast for the full year of FY2020.

Full-year net sales are expected to decrease by JPY76.5 billion YoY to JPY202 billion. We forecast that we will incur operating loss of JPY14 billion and ordinary loss of JPY10 billion.
We forecast full-year loss attributable to owners of parent at JPY30 billion due to the reversal of deferred tax assets and extraordinary loss.

The exchange rates assumed for the second half of the fiscal year are JPY105 to USD and JPY125 to EUR.

FY2020 Forecast by Business Segment

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Net sales (Unit: billion yen)	FY2019 Result 2H	FY2019 Result Full Year	FY2020 Forecast 2H	FY2020 Forecast Full Year	Change 2H	Change Full Year
Watches	69.2	141.6	57.8	96.0	▲ 11.4	▲ 45.6
Machine Tools	27.6	58.5	23.2	44.0	▲ 4.4	▲ 14.5
Devices and Components	26.5	55.9	23.1	44.5	▲ 3.4	▲ 11.4
Electronic and Other Products	10.6	22.4	8.6	17.5	▲ 2.0	▲ 4.9
Consolidated Total	134.1	278.5	113.0	202.0	▲ 21.1	▲ 76.5

Operating Profit (Unit: billion yen, %:operating margin)	FY2019 Result 2H	FY2019 Result Full Year	FY2020 Forecast 2H	FY2020 Forecast Full Year	Change 2H	Change Full Year
Watches	0.4 (0.7%)	3.9 (2.8%)	▲ 4.1 (▲7.1%)	▲ 9.5 (▲9.9%)	▲ 4.5	▲ 13.4
Machine Tools	2.6 (9.7%)	7.2 (12.4%)	0.5 (2.2%)	1.1 (2.5%)	▲ 2.1	▲ 6.1
Devices and Components	0.1 (0.7%)	0.9 (1.7%)	▲ 0.2 (▲0.9%)	▲ 1.3 (▲2.9%)	▲ 0.3	▲ 2.2
Electronic and Other Products	▲ 0.2 (▲2.6%)	▲ 0.2 (▲1.0%)	0.1 (2.1%)	0.0 (0.0%)	+0.3	+0.2
Eliminations or general corporate	▲ 2.6	▲ 5.7	▲ 2.1	▲ 4.3	+0.5	+1.4
Consolidated Total	0.4 (0.3%)	6.1 (2.2%)	▲ 5.7 (▲5.1%)	▲ 14.0 (▲6.9%)	▲ 6.1	▲ 20.1

- Watches: The North American market is expected to cautious given distribution stocks due to closed physical stores.
- Machine Tools: Operation profit is expected to remained almost unchanged in comparison to 1st half due to an increase in operating expenses, although the volume of orders received is expected to increase moderately.

6

Page six shows our consolidated earnings forecast by segment for the second half and the full year.

Both sales and profits are expected to decrease in all three major segments.
We took a careful stance on the Watches Business. In the largest North American market, there is concern that it will take time to liquidate distribution inventories associated with the closure of physical store distribution.

In the Machine Tools Business, although orders are on a gradual recovery trend, operating profit in the second half is expected to be flat from the first half due to an increase in expenses resulting from an increase in production and other factors.

Watches (1H20 Result)

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< Watch sales >

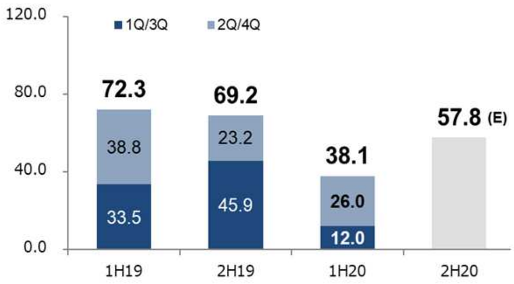
- Overseas market: Sales decreased given sluggish sales at physical stores, despite the gradual recovery associated with the business resumption.
- Domestic market: Sales decreased in response to a sharp decline in demand for inbound tourism and appetite for consumption.

< Movement sales >

- Sales decreased given a worldwide decline in consumption, despite signs of a recovery beginning to appear.

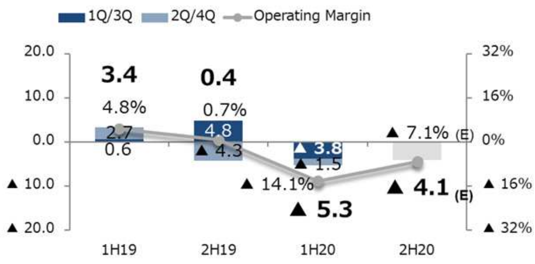
Net sales

(billion yen)



Operating profit

(billion yen)



7

I will explain the overview of each business in more detail. Page seven shows the Watches Business.

Sales of finished products began to recover gradually after the reopening of physical stores in various countries. However, sales declined due to weak recovery in demand in the mainstay North American market and the domestic market.

In the second half of the current fiscal year, as I mentioned earlier, we forecast a slight improvement for North America compared to the first half, due to the adjustment of distribution inventories and a lack of prospects for recovery in travel distribution.
Domestic demand is expected to head toward recovery, but sales are expected to decline due to the absence of inbound demand. The recovery trend is expected to continue in Europe and China and Asia.

Sales of movements remained at a low level despite a recovery trend that started in the second quarter. Although mechanical movements are relatively firm, demand for analog quartz movements has been slow to recover. Nevertheless, there are recent signs that demand for analog quartz movements will rise, particularly for value-added products, so we forecast that sales will increase YoY.

Regarding the production outlook, we expect to continue drastic production cuts for both movements and finished products through the end of the current fiscal year. This is a factor behind the declines in profits. Movement inventories began to decline in July and are expected to return to an appropriate level by the end of the fiscal year.
In the first half of the current fiscal year, we halved advertising expenses, but in the second half we plan to spend a certain amount on advertising, in part for the purpose of promoting sell-through and improving the soundness of our distribution inventories.

Watches Sales Conditions by Region

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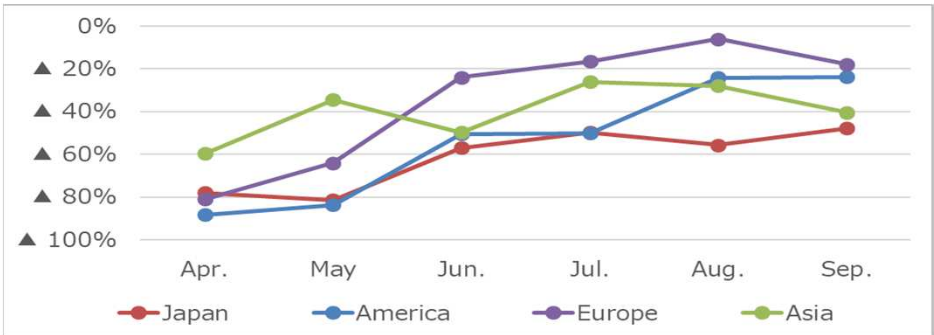
■ Rate of change year on year (CITIZEN/BULOVA brands, on a local-currency basis)



■ Rate of change year on year (CITIZEN/BULOVA brands, on a local-currency basis)

	1Q	2Q	
● Japan	▲72%	▲51%	Sales recovered moderately thanks to the resumption of physical store operations, and the extent of the fall has been decreasing.
● America	▲73%	▲30%	Uncertainty about the future grew despite being support from online sales.
● Europe	▲57%	▲15%	Sales remained strong in countries such as Germany despite the lingering uncertainty about the future.
● Asia	▲48%	▲33%	A recovery trend remained despite stagnant sales from a reactionary fall from large orders received in the previous year.

8

Next, I would like to explain the sales conditions by region in the first half. Page eight shows the rates of YoY changes in monthly sales.

Domestic sales expressed by a red line show slow recovery partly due to the high proportion of inbound demand.
Sales in North America in a blue line recovered in August, due to the progress in sell-in after the reopening of physical stores and strong e-commerce sales.
Sales in Europe are shown in a purple line. Sales in Germany, Italy, and other countries have recovered sharply since June.
Asia saw a relatively firm recovery, driven by China. Looking at the green line, the rate of sales decline deteriorated in September, but this was due to reaction to large shipments for online events last year. Since this year's sell-in was made in October, monthly sales in China in October jumped 70% YoY, and we expect sales in the second half will increase.

Initiatives for Watches

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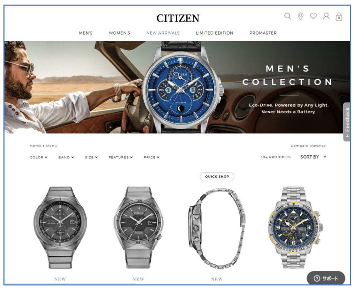
Restructuring of movement business

- Analog quartz movements
  Rationalize the production scale.
- Mechanical movements
  Implemented cost reduction through rationalization and automation of manufacturing to meet strong demand.

Reinforced online sales

- Ratio of online sales by region
  China: 2Q slightly less than 70%
  North America: 2Q mid-20%
  Japan: mid-10%
- Received an award in the watch section of Newsweek Best Online Shops 2021 in the US.



* Best Online Shops 2021
Newsweek of the US and Statista, a global data research company, ranked 1,000 online stores in the US in 39 categories.

9

Next, please turn to page nine, which shows the progress made in our initiatives to improve the profitability in the Watches Business. Since President Sato gave an explanation at the beginning, I will explain the situation briefly.

In the restructuring of the Movement Business, we are working to optimize the scale of production in order to respond to shrinking demand. In addition, we are trying to streamline and automate the manufacturing of mechanical movements. We are putting in place a system that can steadily generate profits in the sale of mechanical movements, for which stable demand is expected in the future.

In addition, online sales are becoming increasingly important. We plan to conduct the full-fledged development of ecommerce according to the characteristics of each region. In China, we have taken measures like launching products for young people, holding online events, and selling products by way of live streams.
In North America, in addition to expanding sales through ecommerce channels, we are strengthening our own direct online sales site, which is playing an important role in sales. As a topic, the online shop operated by our selling subsidiary in the US was ranked first in the watch section of Newsweek Best Online Shops 2021.

Machine Tools (1H20 Result)

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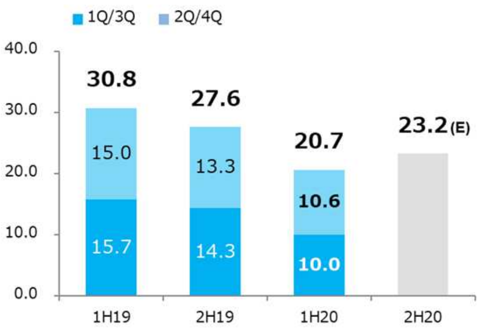
- Domestic market: Sales decreased due to a fall in overall demand for capital investment.
- Overseas market: Despite the continuing recovery of the Chinese market, sales decreased due to sluggish markets in Europe, the US, and other Asian countries.

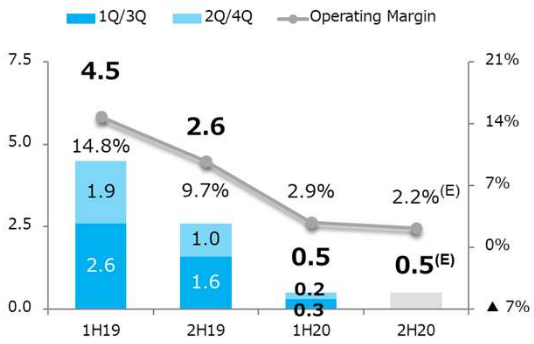
Net sales

(billion yen)



Operating profit

(billion yen)



10

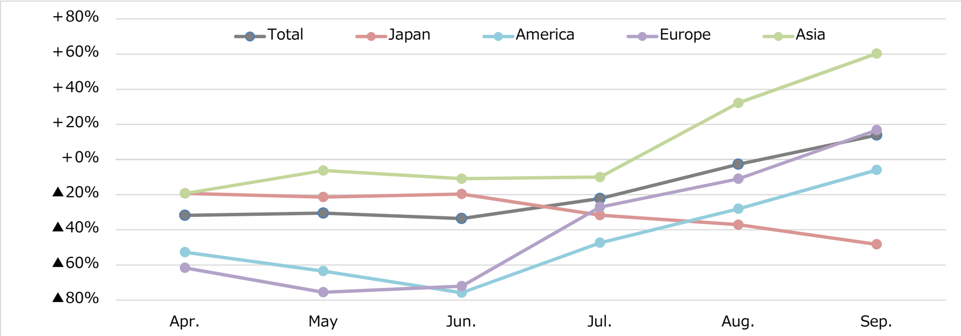
Page 10 shows the Machine Tools Business.

Domestic sales decreased due to a very cautious stance on capital investment among automobile-related companies and others.
Overseas, sales in China maintained its recovery trend as IT-related products performed well, but Europe and the US saw declines in sales, despite a recovery in orders received starting in the second quarter.
Regarding the outlook for the second half, the pace of recovery in orders is expected to be moderate, though orders received bottomed out in the first quarter.

Although sales in the second half are expected to increase from the first half, expenses will also increase as a result of an increase in production and stepped-up sales activities, so we expect operating profit to be flat from the first half.

Machine tools　Changes in monthly orders received (units)　CITIZEN

■ Year-on-year percent change (three-month moving average of the numbers of units in orders received)



■ Year-on-year percent change (three-month moving average of the numbers of units in orders received)

	1Q	2Q	
● Total	▲32%	▲5%	Sluggish in1Q due to the spread of COVID-19. A recovery trend since 2Q.
● Japan	▲20%	▲39%	The cautious stance on capital investment remained despite some activity in automobile-related business.
● America	▲63%	▲26%	The extent of the decline has been decreasing since 2Q despite a sluggish medical market.
● Europe	▲70%	▲8%	In particular, the medical-related business has been strong since 2Q.
● Asia	▲13%	+24%	The IT-related business in particular saw steady growth in China.

11

Page 11 shows changes in monthly orders by region.

We published this for the first time, and this graph shows the three-month moving averages of monthly YoY percentage changes in units.
The changes in orders generally bottomed out in the first quarter.
Overseas, the scale of the declines in orders shrank in North America and Europe. In Asia, orders increased YoY due to growth in IT-related sales in China.

In Japan, there was a strong wait-and-see stance on capital investment up to the second quarter, but orders are expected to gradually recover from the third quarter, partly due to recovery in automobile-related production.

Devices and Components (1H20 Result)

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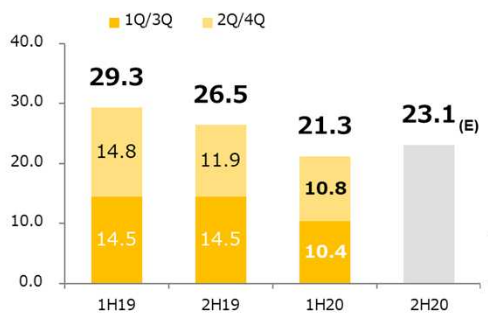
- Precision machining components: Sales of auto parts for Europe and American are recovering despite the overall market decline. Sales of switches decreased due to sluggish sales for smartphones.
- Opto-devices: Sales decreased given low sales of LED products for lighting and automobiles.

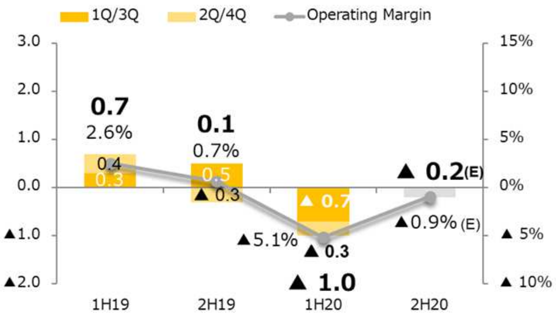
Net sales

(billion yen)



Operating profit

(billion yen)



12

Finally, I will explain the Devices and Components Business.

Among precision machined parts, sales of automotive parts were sluggish in the first quarter due to a drop in the number of new vehicles sold. However, from the second quarter onward, sales began to recover, mainly in those for Europe and the US. For the second half, we expect a slight YoY increase in sales.
Sales of switches declined due to sluggish sales for smartphones, but orders are currently on an uptrend.

In optical devices, sales of LEDs for lighting were down due to weak demand in Europe, the US, and China. Sales of LEDs for automotive applications also fell sharply, resulting in a decrease in sales.
With regard to optical devices, sales are expected to remain sluggish in the second half.
Among other components, sales of quartz crystal devices increased due to an increase in demand for communications equipment.
My explanation is over.

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Balance Sheet

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(Unit: billion yen)	March 31, 2020	September 30, 2020	Change from end of previous fiscal year
Current assets	235.6	247.6	+11.9
Cash and deposits	80.1	99.6	+19.5
inventories	101.1	101.6	+0.4
① Non-current assets	133.9	121.5	▲ 12.4
Property, plant and equipment	78.5	77.2	▲ 1.2
Investment securities	33.4	31.7	▲ 1.7
Total assets	369.5	369.1	▲ 0.4

(Unit: billion yen)	March 31, 2020	September 30, 2020	Change from end of previous fiscal year	
Liabilities	138.7	159.8	+21.0	
Interest-bearing debt	55.1	89.2	+34.1	②
Net assets	230.7	209.3	▲ 21.4	
Shareholders' equity	220.1	198.1	▲ 22.0	
Foreign currency translation adjustment	▲ 1.0	▲ 1.6	▲ 0.5	
Total liabilities and net assets	369.5	369.1	▲ 0.4	

① As a result of a careful examination of recoverability, deferred tax assets (non-current assets) was reversed.

② borrowed to ensure liquidity in hand

Statement of Cash Flow

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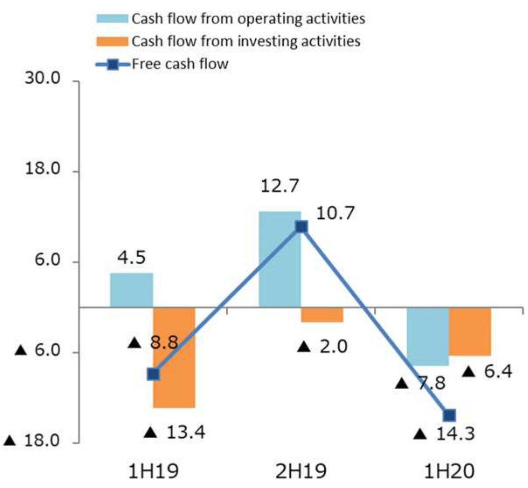
(Unit: billion yen)	1H19	1H20	YoY Change
Cash flow from operating activities	4.5	▲ 7.8	▲ 12.4
Cash flow from investing activities	▲ 13.4	▲ 6.4	+7.0
Free cash flow	▲ 8.8	▲ 14.3	▲ 5.4
Cash flow from financial activities	▲ 5.6	33.3	+39.0
Balance of cash and cash equivalents	68.6	97.6	+28.9



15

Capital expenditures/ Depreciation/ R&D expenses

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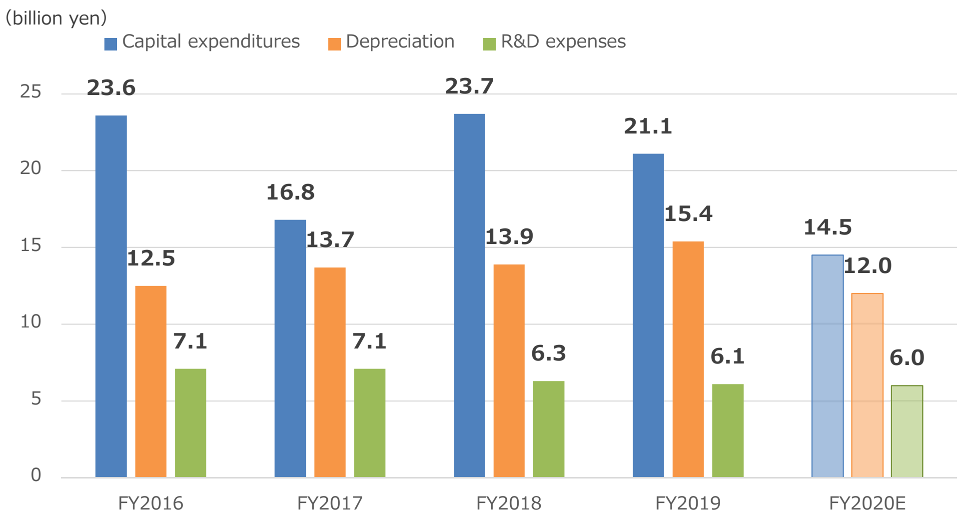

- Capital investment was reduced to projects with high priority and high importance.
  Watches: Building systems for rationalization and automation of production.
  Machine Tools: Raising production capacity largely through the construction of a new factory in China.

16