

Main Questions and Answers (Summary) at the Earnings Presentation for the Three  
Months Ended June 30, 2020

Date: 4:00 p.m. to 5:00 p.m., Friday, August 14, 2020

Participants from the Company: Norio Takeuchi, Managing Director; and Toshiyuki  
Furukawa, Director

Main Questions and Answers

[General]

Q) The forecast for FY2020 has not yet been published, but which business is the most unforeseeable?

A) Sales slumped dramatically in the North American and Japanese markets due to the impact of COVID-19. In particular, prospects are increasingly uncertain in the mainstay North American market. Consequently, it is difficult to make assumptions.

Q) Can you provide details of the reduction in fixed costs.

A) Thorough cost reduction was implemented from April to May. Fixed cost of roughly 12 billion yen was reduced on a consolidated basis, with advertising expenses accounting for slightly over 20%, labor costs accounting for 20%, and other expenses accounting for the rest. The labor cost reduction was mainly due to a decrease in the overseas workforce. Effects of the implementation of structural reform at Citizen Electronics Co., Ltd. will emerge from the second quarter.

Q) Structural reform measures for the Watches business were announced. Is there a possibility that additional measures will be taken in other businesses going forward?

A) Currently, structural reform at the Watches business is given the highest priority. With respect to other businesses, we have already taken the necessary steps including the implementation of structural reforms.

Q) Compared to the end of March 2020, the number of overseas employees decreased by nearly 1,000 people. What is the composition?

A) Natural attrition associated with a declining operating rate at a Chinese manufacturing plant accounts for about 500 people. The personnel reduction of some 300 employees was implemented at a manufacturing plant in Thailand. In addition, the number of employees at overseas sales companies was reduced.

Q) What is the background behind the borrowing of 35 billion yen from financial institutions?

A) The impact of the spread of COVID-19 is expanding and we cannot predict the trend. Bracing for the possibility that a lockdown may reoccur going forward, we moved forward with the borrowing.

[Watches]

Q) What is the factor behind the dramatic slump in Sales?

A) We were hit by the slump of core markets in North America and Japan. The North American market was affected by the implementation of the lockdown and contraction of distribution at physical stores, which reopened in June, and ecommerce sales that we focus on are growing. The Japanese market was substantially affected by the fall in inbound demand. We would like to accelerate our initiatives for the year-end shopping season, such as events and the launch of new products.

Q) Do you take initiatives for inventory reduction?

A) Because sell-through at physical stores is not advancing in the North American market, distribution inventory has been piling up. We are facilitating inventory reduction by holding events and using outlets to accelerate sell-through. The Japanese market is in a situation where sell-in can be seen commensurate with sell-through at mass retailers. Therefore, we expect the inventory to decline if customers return.

[Machine Tools]

Q) How were orders by region?

A) Compared to the Japanese and Asian markets, orders slumped dramatically in North America and Europe. Similar to the Watches business, prospects are increasingly uncertain in the North American market. The European market was impacted significantly due to a stoppage of order-receiving activities, but now economic activities reopened and Europe is moving toward recovery.