



CITIZEN WATCH

Consolidated Financial Statements
for the Three Months Ended June 30, 2020

These financial statements have been prepared for reference only in accordance with accounting principles and practices generally accepted in Japan. All figures in these statements which are less than 1 million yen have been rounded down. (English translation)

August 14, 2020

CITIZEN WATCH CO., LTD.

Code No.: 7762

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Scheduled start of dividend payment: -

Scheduled release of fiscal 2019 Quarterly Business Report: August 14, 2020

Listings: First section of Tokyo Stock Exchange

(URL <https://www.citizen.co.jp>)**1. Results for the Three months ended June 30, 2020 (April 1, 2020 to June 30, 2020)****(1) Consolidated operating results**

(Millions of yen; Percentages represent changes over the previous fiscal year)

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent	
Three months ended June 30, 2020	36,858	(47.3)	(5,651)	-	(4,904)	-	(6,755)	-
Three months ended June 30, 2019	69,916	(6.2)	1,815	(59.9)	2,018	(66.1)	910	(76.8)

Note: Comprehensive income:

Three months ended June 30, 2020: ¥ (7,034) million (-%)

Three months ended June 30, 2019: ¥ (2,851) million (-%)

	Earnings per share (Yen)	Fully diluted earnings per share (Yen)
Three months ended June 30, 2020	(21.61)	-
Three months ended June 30, 2019	2.87	-

(2) Consolidated financial position

(Millions of yen)

	Total assets	Net assets	Equity ratio	Net assets per share (Yen)
Three months ended June 30, 2020	358,784	223,242	59.8	685.70
March 31, 2020	369,575	230,791	60.0	709.21

Reference: Shareholders' Equity:

As of June 30, 2020: ¥ 214,377 million As of March 31, 2020: ¥ 221,725 million

2. Dividends

	Dividends per share (Yen)				
	End of the three-month period	End of the six-month period	End of the nine-month period	End of the year	Full year
March 31, 2020	-	12.00	-	0.00	12.00
March 31, 2021	-				
March 31,2020(E)			-		

Note : No decision has been made at present with respect to dividends for the fiscal year ending March 31, 2021.

3. Projected Consolidated Results for the Year ending March 31, 2021

The Company has decided to leave forecasts for financial results for the fiscal year ending March 31, 2020 undecided, because it has difficulty making reasonable calculations at the present time due to the rising impact of the COVID-19 coronavirus pandemic. When the Company is ready to disclose results forecasts, it will announce them promptly.

4. Others

- (1) Important changes of subsidiaries during the term (change of specified subsidiaries that lead to a change in the scope of consolidation): None
- (2) Adoption of simplified accounting method and special accounting methods: None
- (3) Changes in principles, procedures and classifications of accounting standards associated with the preparation of consolidated financial statements.
- (i) Changes associated with revised accounting standards: None
 - (ii) Changes other than those in (i) above: None
 - (iii) Changes in accounting estimate: None
 - (iv) Restatements: None

(4) Number of shares issued and outstanding (common stock)

	shares		shares	
(i) Number of shares issued and outstanding at the end of term (including treasury stock)	June 30, 2020	314,353,809	March 31, 2020	314,353,809
(ii) Number of treasury stock at the end of term	June 30, 2020	1,714,568	March 31, 2020	1,714,407
(iii) Average number of common stocks	June 30, 2020	312,639,320	June 30, 2019	317,643,589

** The consolidated financial statements are not included in the scope of the audit.*

** Explanation about the proper use of financial forecasts and other important notes*

Statements above relating to financial forecasts are based on information available to the Company and certain assumptions the Company considers reasonable as of the date of the announcement of these statements. Actual results may differ materially from these forecasts, depending on a variety of factors.

Please refer to the attached "Qualitative data on the consolidated earnings forecasts" on page 7 for assumptions underlying the above forecasts and precautions regarding their use.

(Attached Documents)

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1. Qualitative Information on the Consolidated Financial Results for the Three Months Ended June 30, 2020

(1) Qualitative data on the consolidated financial results

During the first quarter of the consolidated fiscal year under review, the Japanese economy declined significantly due to a fall in inbound demand following restrictions on entry into the country caused by the spread of the COVID-19 coronavirus and a slowdown in consumer activities associated with the declaration of a state of emergency by the government and voluntary stay-at-home practices. In the United States, exports and corporate demand for capital expenditures also declined sharply amid the rapidly deteriorating employment environment, and European economies fell sharply due to large-scale lockdowns. Consumer spending was still weak in the Chinese market although a recovery had been expected, and other Asian economies also lost momentum.

In this environment, the Citizen Group's consolidated results for the first quarter under review showed decreases in sales and profits, with net sales of 36.8 billion yen (down 47.3% year on year) and an operating loss of 5.6 billion yen (compared with operating profit of 1.8 billion yen in the same period of the previous fiscal year), due mainly to a decline in its core businesses, Watches and Machine Tools. Ordinary profit and profit attributable to owners of parent also decreased to a loss of 4.9 billion yen (compared with ordinary profit of 2.0 billion yen in the same period of the previous fiscal year) and a loss of 6.7 billion yen (compared with profit attributable to owners of parent of 0.9 billion yen in the same period of the previous fiscal year), respectively.

The categories of reportable segments have been partially changed in the first quarter under review, and the year-on-year comparison is calculated by reclassifying figures in the first quarter of the previous fiscal year into those for the categories of reportable segments after the change.

Watches

In the domestic market, sales of CITIZEN brand watches decreased significantly as the Group faced severe challenges with the sharp fall in inbound demand as well as the suspension of business and shorter business hours of physical stores, although the Group took steps to bolster sales by strengthening e-commerce business.

In overseas markets, the North American market became more severe due to restricted economic activities associated with the spread of the COVID-19 coronavirus, and sales at physical stores were sluggish in general. In the European market, sales also declined substantially given the cautious stance among sales outlets, reflecting seesawing consumer spending. In the Asian market, sales decreased as resilience in the economy in China and other countries was still weak, although moves toward the resumption of economic activities were taken.

In the multiple brand segment, sales of the BULOVA brand watches fell significantly in the main North American market, and sales for other brands also decreased.

Sales of movements declined sharply, reflecting the worldwide contraction of demand for analog quartz movements following the difficult market conditions and a global fall in consumption.

As a result, the watches segment posted a decline in sales with net sales of 12.0 billion yen (down 64.1% year on year), reflecting a worldwide fall in consumption, despite accelerated efforts to strengthen e-commerce sales. Operating profit decreased to a loss of 3.8 billion yen (compared with operating profit of 0.6 billion yen in the same period of the previous fiscal year), profoundly affected by the fall in sales, despite efforts to secure profit by reducing expenses.

Machine Tools

In the domestic market, revenues decreased due to the significant contraction of demand for capital expenditures in many industries following the declaration of a state of emergency by the government. In overseas markets, while there were signs of recovery in demand in some countries including China, revenues declined overall as a result of sluggish growth in orders due to the stagnation of the main automobile industry and the continued decelerating trend of production affected by adjustments in output due to lockdowns.

As a result, the machine tools segment as a whole posted a decrease in sales with net sales of 10.0 billion yen (down 36.0% year on year). Operating profit fell to 0.3 billion yen (down 85.8% year on year) due to a substantial decrease in sales associated with the worldwide stagnation of economic activities, although the Group bolstered preparations in anticipation of a sales expansion in the recovery phase, including work on the relocation and expansion of a new plant in China.

Devices and Components

With respect to auto parts as part of precision machining components, sales of components related to brakes and engines remained weak following a sharp fall in new car sales, and sales of switches were also affected by sluggish sales of those for smartphones. Consequently, overall revenues from precision machining components decreased.

In opto-devices, sales of LED chips decreased due to sluggish sales of LED for automobiles, reflecting the weak market, in addition to a fall in demand particularly in the North American and the European markets amid the continued severe price competition in LED for lighting products.

In other products, demand for quartz devices for communication devices such as smartphones increased, but overall sales of other products decreased, reflecting a fall in demand associated with the spread of the COVID-19 coronavirus.

As a consequence, net sales of the devices and components segment as a whole decreased to 10.4 billion yen (down 28.1% year on year). An operating loss was 0.7 billion yen (compared with operating profit of 0.3 billion yen in the same period of the previous fiscal year), despite the Group's efforts to increase profitability, including a review of product focus through structural reforms.

Electronic and Other Products

Among information equipment, capital expenditure demand for barcode printers as well as photo printers and POS printers, our mainstay products, declined significantly, following the impact of the spreading COVID-19 coronavirus. Consequently, revenues in the overall information equipment sector decreased.

Revenues from healthcare products increased due mainly to significant growth in demand for thermometers in the domestic market.

In addition, sales declined significantly in jewelry products, a business from which the Company had been taking steps to withdraw.

As a result, the electronic and other products segment overall recorded decreases in sales and profits, with net sales of 4.2 billion yen (down 29.8% year on year) and an operating loss of 0.3 billion yen (compared with operating profit of 0 billion yen in the same period of the previous fiscal year).

(2) Qualitative data on the consolidated financial position

Total assets at the end of the first quarter under review stood at 358.7 billion yen, a decrease of 10.7 billion yen from the end of the previous consolidated fiscal year. Current assets decreased by 9.8 billion yen, reflecting a 9.2 billion yen decrease in cash and deposits and a 6.6 billion yen decrease in notes and accounts receivable – trade, partially offset by a 7.3 billion yen increase in inventories. Non-current assets decreased by 0.8 billion yen, reflecting a 1.5 billion yen decrease in investment securities and a 0.9 billion yen decrease in tools, furniture and fixtures, partially offset by a 0.7 billion yen increase in deferred tax assets and a 0.4 billion yen increase in buildings and structures.

Liabilities totaled 135.5 billion yen, a decrease of 3.2 billion yen from the end of preceding consolidated fiscal year, reflecting a 1.6 billion yen decrease in notes and accounts payable – trade, a 1.4 billion yen decrease in short-term borrowings, and a 0.6 billion yen decrease in retirement benefit liability, partially offset by a 2.1 billion yen increase in provision for bonuses.

Net assets decreased by 7.5 billion yen from the end of the previous consolidated fiscal year, to 223.2 billion yen, reflecting a 7.2 billion yen decrease in retained earnings and a 0.3 billion yen decrease in foreign currency translation adjustment, partially offset by a 0.1 billion yen increase in valuation difference on available-for-sale securities.

(3) Qualitative data on the consolidated earnings forecasts

With respect to the economic outlook, the Group has decided that it is difficult to reasonably calculate the impact of the spreading COVID-19 coronavirus on its financial results for the current fiscal year, given that demand has fallen significantly due to the spread of the COVID-19 coronavirus and that it is impossible as of this moment to predict when the pandemic will end. Therefore, the Group has not yet determined its earnings forecasts for the fiscal year ending March 31, 2021. The Group will announce them as soon as it becomes possible to disclose them.

2. Consolidated Financial Statements and Primary Notes**(1) Consolidated Balance Sheet**

(Millions of yen)

As of March 31, 2020 As of June 30, 2020

	As of March 31, 2020	As of June 30, 2020
Assets		
Current assets		
Cash and deposits	80,168	70,893
Notes and accounts receivable - trade	43,254	36,627
Electronically recorded monetary claims - operating	1,395	1,199
Merchandise and finished goods	58,708	64,624
Work in process	20,563	21,050
Raw materials and supplies	21,920	22,877
Consumption taxes receivable	2,586	1,253
Other	8,090	8,299
Allowance for doubtful accounts	△1,033	△1,065
Total current assets	235,655	225,759
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	40,222	40,675
Machinery, equipment and vehicles, net	17,014	16,979
Tools, furniture and fixtures, net	6,162	5,186
Land	10,164	10,251
Leased assets, net	1,264	1,251
Construction in progress	3,704	3,941
Total property, plant and equipment	78,532	78,286
Intangible assets		
Software	3,830	3,850
Leased assets	11	20
Other	710	1,078
Total intangible assets	4,552	4,950
Investments and other assets		
Investment securities	33,449	31,860
Long-term loans receivable	408	408
Deferred tax assets	14,604	15,310
Other	2,657	2,489
Allowance for doubtful accounts	△239	△233
Allowance for investment loss	△46	△46
Total investments and other assets	50,833	49,789
Total non-current assets	133,919	133,025
Total assets	369,575	358,784

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(Millions of yen)

As of March 31, 2020

As of June 30, 2020

	As of March 31, 2020	As of June 30, 2020
Liabilities		
Current liabilities		
Notes and accounts payable - trade	16,485	14,849
Electronically recorded obligations - operating	9,223	9,205
Notes payable - facilities	508	342
Electronically recorded obligations - non-operating	784	1,531
Short-term borrowings	17,227	15,730
Income taxes payable	1,551	1,243
Accrued expenses	8,160	8,131
Provision for bonuses	4,855	7,026
Provision for bonuses for directors (and other officers)	170	68
Provision for product warranties	1,133	1,149
Provision for environmental measures	87	1
Provision for loss on reorganization	1,840	1,478
Other	9,242	7,870
Total current liabilities	71,271	68,630
Non-current liabilities		
Bonds payable	10,000	10,000
Long-term borrowings	27,929	28,213
Deferred tax liabilities	585	613
Provision for loss on reorganization	829	829
Retirement benefit liability	24,038	23,385
Asset retirement obligations	66	66
Other	4,061	3,802
Total non-current liabilities	67,511	66,911
Total liabilities	138,783	135,542
Net assets		
Shareholders' equity		
Share capital	32,648	32,648
Capital surplus	33,730	33,730
Retained earnings	154,855	147,593
Treasury shares	△1,069	△1,069
Total shareholders' equity	220,165	212,902
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	3,578	3,721
Foreign currency translation adjustment	△1,095	△1,419
Remeasurements of defined benefit plans	△921	△826
Total accumulated other comprehensive income	1,560	1,475
Non-controlling interests	9,066	8,864
Total net assets	230,791	223,242
Total liabilities and net assets	369,575	358,784

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(2) Consolidated Statement of Income and Consolidated Statement of Comprehensive Income

Consolidated Statement of Income for the three months ended June 30, 2020

(Millions of yen)

	Three months ended June 30, 2019	Three months ended June 30, 2020
Net sales	69,916	36,858
Cost of sales	43,682	27,049
Gross profit	26,233	9,808
Selling, general and administrative expenses	24,417	15,460
Operating profit (loss)	1,815	△5,651
Non-operating income		
Interest income	118	68
Dividend income	406	402
Share of profit of entities accounted for using equity method	321	14
Foreign exchange gains	—	4
Subsidy income	113	359
Other	133	72
Total non-operating income	1,093	921
Non-operating expenses		
Interest expenses	120	81
Foreign exchange losses	650	—
Other	120	92
Total non-operating expenses	890	174
Ordinary profit (loss)	2,018	△4,904
Extraordinary income		
Gain on sales of non-current assets	22	135
Other	10	9
Total extraordinary income	32	144
Extraordinary losses		
Loss on retirement of non-current assets	105	5
Loss on sales of non-current assets	1	13
Reorganization cost	203	22
Loss on valuation of investment securities	0	—
Extra retirement payments	—	207
Loss on COVID-19	—	2,034
Other	46	2
Total extraordinary losses	358	2,286
Profit (loss) before income taxes	1,692	△7,046
Income taxes	733	△107
Profit (loss)	959	△6,939
Profit (loss) attributable to non-controlling interests	48	△183
Profit (loss) attributable to owners of parent	910	△6,755

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Consolidated Statement of Comprehensive Income for the three months ended June 30, 2020

(Millions of yen)

	Three months ended June 30, 2019	Three months ended June 30, 2020
Profit (loss)	959	△6,939
Other comprehensive income		
Valuation difference on available-for-sale securities	△772	143
Foreign currency translation adjustment	△2,953	△298
Remeasurements of defined benefit plans, net of tax	14	95
Share of other comprehensive income of entities accounted for using equity method	△100	△34
Total other comprehensive income	△3,811	△95
Comprehensive income	△2,851	△7,034
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	△2,822	△6,841
Comprehensive income attributable to non-controlling interests	△29	△193

(3) Notes on the Consolidated Financial Statements

(Notes related to of going concern assumptions)

Not applicable

(Notes regarding significant changes in shareholders' equity accounts)

Not applicable

(Additional Information)

(Application of the Practical Solution on the Treatment of Tax Effect Accounting for the Transition from the Consolidated Taxation System to the Group Tax Sharing System)

For items for which transition to the group tax sharing system created in the Act for Partial Amendment of the Income Tax Act, etc. (Act No. 8 of 2020) was made and for which the non-consolidated taxation system was reviewed in step with transition to the group tax sharing system, the Company and some of its consolidated subsidiaries in Japan do not apply the provisions in Paragraph 44 of the Implementation Guidance on Tax Effect Accounting (Accounting Standards Board of Japan (ASBJ) Guidance No. 28, February 16, 2018) based on the treatment in Paragraph 3 of the Practical Solution on the Treatment of Tax Effect Accounting for the Transition from the Consolidated Taxation System to the Group Tax Sharing System (ASBJ Practical Issues Task Force (PITF) No. 39, March 31, 2020), and the amounts of deferred tax assets and deferred tax liabilities are based on the provisions of the Income Tax Act before amendment.

(Accounting estimate of the impact of the COVID-19 coronavirus)

The Group makes an accounting estimate of the impact of the spreading COVID-19 coronavirus by assuming that the impact will continue until around June 2020 .

(Segment information)

(i) Three months ended June 30, 2019 (April 1, 2019 to June 30, 2019)

Net sales and profit or loss by reporting segment

(Unit: Millions of yen)

	Watches	Machine Tools	Devices and components	Electronic and other products	Segment totals	Eliminations or general corporate (Note 1)	Totals on consolidated statement of income (Note 2)
Net sales							
Customers	33,522	15,772	14,549	6,072	69,916	-	69,916
Inter-segment	25	293	457	213	989	(989)	-
Total	33,547	16,065	15,006	6,285	70,905	(989)	69,916
Segment profit or loss	681	2,626	342	71	3,721	(1,905)	1,815

(Notes)

1. The 1,905 million yen negative adjustment to segment income (Operating profit) includes 42 million yen in inter-segment eliminations and 1,862 million yen in corporate expenses that could not be allocated to a particular segment.

2. Segment profits are adjusted with Operating profit on the consolidated financial statements.

(ii) Three months ended June 30, 2020 (April 1, 2020 to June 30, 2020)

Net sales and profit or loss by reporting segment

(Unit: Millions of yen)

	Watches	Machine Tools	Devices and components	Electronic and other products	Segment totals	Eliminations or general corporate (Note 1)	Totals on consolidated statement of income (Note 2)
Net sales							
Customers	12,046	10,089	10,458	4,264	36,858	-	36,858
Inter-segment	16	122	254	166	559	(559)	-
Total	12,063	10,212	10,712	4,430	37,418	(559)	36,858
Segment profit or loss	(3,829)	372	(761)	(306)	(4,523)	(1,128)	(5,651)

(Notes)

1. The 1,128 million yen negative adjustment to segment income (Operating profit) includes 39 million yen in inter-segment eliminations and 1,167 million yen in corporate expenses that could not be allocated to a particular segment.

2. Segment profits or loss are adjusted with Operating profit on the consolidated financial statements.

3. Matters concerning the change of reportable segments, etc.

Associated with the review of business management categories, the Group has integrated the "Electronic products" segment and the "Other products" segment in the past and changed their names to the "Electronic and other products" segment in the first quarter under review.

Segment information in the first quarter of the previous consolidated fiscal year is disclosed by preparing it based on the categories of reportable segments in the first quarter of the current consolidated fiscal year.

(Significant Subsequent Events)
 (Borrowing of large amounts of funds)

Based on a resolution passed at a meeting of the Board of Directors held on May 28, 2020, the Company made borrowings from multiple financial institutions as follows.

(1) Use of funds	Working capital	
(2) Lenders	Financial institutions with business relationship with the Company	
(3) Amount of funds borrowed	5,000 million yen	30,000 million yen
(4) Date of contract	July 15, 2020	August 5, 2020
(5) Date of borrowing	July 17, 2020	August 7, 2020
(6) Borrowing period	6 years	5 to 7 years
(7) Borrowing rate	Fixed rate	
(8) Security provided	None	

(Voluntary Retirement Program)

The Company resolved that Citizen Watch Manufacturing Co., Ltd., a consolidated subsidiary of the Company, will implement a voluntary retirement program at a meeting of the Board of Directors held on July 28, 2020.

1. Reasons for the voluntary retirement program

In recent years, the growth of smartwatch market, etc. has led to a contraction in the market for mid-range analog quartz watches. As a result, demand for analog quartz movement in the Company's external sales business is showing a downward trend. In response, Citizen Watch Manufacturing Co., Ltd., a consolidated subsidiary of the Company, has been working to improve operating results mainly by rationalizing the production of analog quartz movement and reducing costs.

However, given the increasingly severe conditions in the market for analog quartz movement in the Company's external sales business and no significant recovery of demand expected in the medium to long term, the Company resolved to introduce the voluntary retirement program in order to seek optimization of the personnel structure so that it matches the scale of production of analog quartz movement in the future.

2. Overview of the voluntary retirement program

(1) Subject company	Citizen Watch Manufacturing Co., Ltd.
(2) Subject person	Employees
(3) Number of persons to be solicited for application	550 (scheduled)
(4) Application period	October 14, 2020 – November 18, 2020
(5) Date of retirement	December 31, 2020
(6) Preferential treatment	Payment of career change support funds

3. Future outlook

With respect to the aggregate impact of the implementation of the voluntary program, the Company will promptly make an announcement once determined.