

CITIZEN

Earning Presentation
for the Nine months ended December 31, 2020

CITIZEN WATCH CO., LTD.

February 10, 2021

This presentation contains forward looking statements that are based on current expectations and assumptions. Actual results could differ materially due to risks and uncertainties, which includes, but not limited to, currency fluctuation and competitive activity.

My name is Toshiyuki Furukawa, in charge of the Public & Investor Relations Department.

Thank you for taking the time out of your busy schedules to participate in the financial results briefing for the nine months ended December 31, 2020 today.

Financial Results for 3Q(Oct.-Dec.) of FY 2020

- Restored profitability in all segments.
- Results in the mainstay Watches and Machine Tools Segments were better than expected.

FY 2020 Forecasts Revised upward

- Net Sales 204.0 billion yen (Change +2.0 billion yen)
- Operating profit ▲10.5 billion yen (Change +3.5 billion yen)
- Ordinary profit ▲6.5 billion yen (Change +3.5 billion yen)
- Profit attributable to owners of parent remains unchanged

Cash flow from operating activities

- Cash flows from operating activities turned positive in the nine-month period under review.

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Let me begin my presentation by explaining the key points of our financial results for the nine months ended December 31, 2020.

In the third quarter (October to December), both sales and profits declined, but results in our mainstay Watches and Machine Tools Businesses were better than forecast, and all segments, including the Devices and Components and the Electronic and Other Products Businesses, returned to profitability.

In addition, with results in the third quarter beating expectations, we have revised our full-year earnings forecasts upward.

We have revised net sales, operating profit and ordinary profit upward by JPY2 billion, JPY3.5 billion and JPY3.5 billion, respectively.

Cash flows from operating activities have also turned positive for the nine months under review, partly due to the effect of progress in inventory reduction, in addition to the recovery of results.

Financial Results for 3Q(Oct.-Dec.) of FY 2020

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(Unit : billion yen)	3Q 2019	3Q 2020	YoY Change	
	Result	Result	%	Amount
Net sales	80.5	62.1	▲22.8%	▲ 18.3
Operating profit	5.4	2.1	▲60.2%	▲ 3.3
Operating margin	6.8%	3.5%	-	-
Ordinary Profit	6.5	3.4	-	▲ 3.0
Profit attributable to owners of parent	3.4	▲ 0.4	-	▲ 3.8
Exchange rate	¥109/USD ¥120/EUR	¥105/USD ¥124/EUR	-	

- Following the recovery trend, results in Watches and Machine Tools Segments were better than expected, despite the impact of the COVID-19 pandemic.
- Posted extraordinary income of 1.7 billion yen, including a gain on sales of investment securities.
- Posted extraordinary losses of 4.6 billion yen, including extra retirement payments and losses due to the COVID-19 pandemic.

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Next, let me provide an outline of results for the third quarter (October to December).

Net sales declined 22.8% YoY to JPY62.1 billion, but the rate of decline was smaller than in the second quarter.

In the Watches Business, results were better than expected because it performed solidly in North America where stagnation had been a concern, in addition to a strong performance in China. In the Machine Tools Business, results also exceeded the forecast as the profit margin improved thanks to growth in sales in Europe, in addition to higher sales in China.

As a result, operating profit amounted to JPY2.1 billion, returning to profitability, and ordinary profit came to JPY3.4 billion partly thanks to subsidy income.

We recorded extraordinary income of JPY1.7 billion, including a gain on sales of investment securities, as well as extraordinary losses of JPY4.6 billion, including extra retirement payments and losses related to COVID-19. As a result, we recorded a loss attributable to owners of parent of JPY400 million.

3Q(Oct.-Dec.) 20 Result by Business Segments

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	Net sales (Unit: billion yen)	FY2019	FY2020	YoY Change	
		3Q Result	3Q Result	%	Amount
■ Watches		45.9	33.6	▲26.8%	▲ 12.3
■ Machine Tools		14.3	11.7	▲17.8%	▲ 2.5
■ Devices and Components		14.5	11.9	▲18.2%	▲ 2.6
■ Electronic and Other Products		5.6	4.7	▲15.2%	▲ 0.8
Consolidated Total		80.5	62.1	▲22.8%	▲ 18.3
	Operating Profit (Unit: billion yen, %:operating margin)	FY2019	FY2020	YoY Change	
		1-3Q Result	1-3Q Result	%	Amount
■ Watches		4.8 (10.5%)	1.5 (4.6%)	▲67.9%	▲ 3.2
■ Machine Tools		1.6 (11.6%)	0.8 (7.6%)	▲46.3%	▲ 0.7
■ Devices and Components		0.5 (3.7%)	0.3 (2.8%)	▲37.6%	▲ 0.2
■ Electronic and Other Products		▲ 0.0 (▲0.9%)	+0.3 (7.0%)	—	+0.3
Eliminations or general corporate		▲ 1.4	▲ 0.9	—	+0.5
Consolidated Total		5.4 (6.8%)	2.1 (3.5%)	▲60.2%	▲ 3.3

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Page four shows a breakdown of results for the third quarter by segment.

In the Watches Business, net sales decreased 26.8% YoY to JPY33.6 billion, and operating profit declined 67.9% YoY to JPY1.5 billion.

In the Machine Tools Business, net sales decreased 17.8% YoY to JPY11.7 billion, and operating profit declined 46.3% YoY to JPY800 million.

In the Devices and Components Business, net sales decreased 18.2% YoY to JPY11.9 billion and operating profit declined 37.6% YoY to JPY300 million.

In the Electronic and Other Products Business, net sales decreased 15.2% YoY to JPY4.7 billion mainly due to the withdrawal from the jewelry product business, which offset a strong performance by healthcare products. However, operating profit was JPY300 million.

Financial Results for 1-3Q of FY 2020

CITIZEN

(Unit : billion yen)	1-3Q 2019	1-3Q 2020	YoY Change	
	Result	Result	%	Amount
Net sales	224.9	151.1	▲32.8%	▲ 73.8
Operating profit	11.2	▲ 6.0	-	▲ 17.2
Operating margin	5.0%	▲4.0%	-	-
Ordinary Profit	12.4	▲ 2.6	-	▲ 15.0
Profit attributable to owners of parent	7.0	▲ 21.9	-	▲ 28.9
Exchange rate	¥109/USD ¥121/EUR	¥106/USD ¥122/EUR	-	

- Sales declined particularly in the mainstay Watches Segment, although the market environment continued to be on a recovery trend.
- Reduced SG&A expenses by 18.8 billion yen by cutting expenses centering on advertising expenses.
- Reversed part of deferred tax assets.

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Next, I will explain the consolidated results for the nine months of the current fiscal year (April to December 2020).

Net sales decreased 32.8% YoY to JPY151.1 billion.

We recorded an operating loss of JYP6 billion because the reduction of SG&A expenses by JPY18.8 billion was not enough to make up for the profit decrease caused by smaller sales.

The ordinary loss was JPY2.6 billion.

The loss attributable to owners of parent was JPY21.9 billion due to the reversal of part of deferred tax assets in the second quarter.

1-3Q 20 Result by Business Segments

CITIZEN

	Net sales (Unit: billion yen)	FY2019	FY2020	YoY Change	
		1-3Q Result	1-3Q Result	%	Amount
■ Watches		118.3	71.7	▲39.4%	▲ 46.5
■ Machine Tools		45.1	32.5	▲28.1%	▲ 12.6
■ Devices and Components		43.9	33.2	▲24.3%	▲ 10.6
■ Electronic and Other Products		17.4	13.5	▲22.1%	▲ 3.8
Consolidated Total		224.9	151.1	▲32.8%	▲ 73.8
	Operating Profit (Unit: billion yen, %:operating margin)	FY2019	FY2020	YoY Change	
		1-3Q Result	1-3Q Result	%	Amount
■ Watches		8.2 (7.0%)	▲ 3.8 (▲5.3%)	-	▲ 12.1
■ Machine Tools		6.2 (13.8%)	1.4 (4.6%)	▲76.2%	▲ 4.7
■ Devices and Components		1.2 (2.9%)	▲ 0.7 (▲2.3%)	-	▲ 2.0
■ Electronic and Other Products		0.0 (0.1%)	+0.1 (1.1%)	+993.9%	+0.1
Eliminations or general corporate		▲ 4.5	▲ 3.1	-	+1.4
Consolidated Total		11.2 (5.0%)	▲ 6.0 (▲4.0%)	-	▲ 17.2

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Results for the nine months of the current fiscal year by segment are as shown in page six.

I will skip the detailed explanation.

FY2020 Forecasts for 2H and the Full-Year

CITIZEN

(Unit: billion yen)	FY2020 Forecast (11/12)		FY2020 Forecast (2/10)		Change	
	2H	Full Year	2H	Full Year	2H	Full Year
Net sales	113.0	202.0	115.0	204.0	+2.0	+2.0
Operating profit	▲ 5.7	▲ 14.0	▲ 2.2	▲ 10.5	+3.5	+3.5
Operating margin	▲5.1%	▲6.9%	▲1.9%	▲5.1%	–	–
Ordinary Profit	▲ 3.8	▲ 10.0	▲ 0.3	▲ 6.5	+3.5	+3.5
Profit attributable to owners of parent	▲ 8.4	▲ 30.0	▲ 8.4	▲ 30.0	+0.0	+0.0
Exchange rate	¥105/USD ¥125/EUR	¥106/USD ¥123/EUR	¥105/USD ¥124/EUR	¥106/USD ¥122/EUR	–	–

- Revised earnings forecasts for FY2020 upward centering on Watches and Machine Tools Segments, taking into account results for the nine-month period.

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Now, I will explain revisions to our full-year consolidated earnings forecasts for the current fiscal year.

We have revised net sales upward by JPY2 billion from the previous forecast, to JPY204 billion, and operating profit upward by JPY3.5 billion, to an operating loss of JPY10.5 billion, given that orders recovered more strongly than expected in the Machine Tools Business and that profits improved in the Devices and Components Business and the Electronic and Other Products Business, in addition to higher-than-expected results for the third quarter in the Watches Business.

We have also revised ordinary profit upward by JPY3.5 billion to an ordinary loss of JPY6.5 billion.

We have left loss attributable to owners of parent unchanged from the previous forecast of JPY30 billion, taking into account the possibility of impairment losses of manufacturing facilities, etc.

Our assumption for foreign exchange rates in the fourth quarter remains unchanged at JPY105 against the U.S. dollar and JPY125 against the euro.

FY2020 Forecast by Business Segment

CITIZEN

Net sales (Unit: billion yen)	FY2020 Forecast (11/12)		FY2020 Forecast (2/10)		Change	
	2H	Full Year	2H	Full Year	2H	Full Year
■ Watches	57.8	96.0	57.3	95.5	▲ 0.5	▲ 0.5
■ Machine Tools	23.2	44.0	24.7	45.5	+1.5	+1.5
■ Devices and Components	23.1	44.5	23.6	45.0	+0.5	+0.5
■ Electronic and Other Products	8.6	17.5	9.1	18.0	+0.5	+0.5
Consolidated Total	113.0	202.0	115.0	204.0	+2.0	+2.0
Operating Profit (Unit: billion yen, %:operating margin)	FY2020 Forecast (11/12)		FY2020 Forecast (2/10)		Change	
	2H	Full Year	2H	Full Year	2H	Full Year
■ Watches	▲ 4.1 (▲ 7.1%)	▲ 9.5 (▲ 9.9%)	▲ 2.6 (▲ 4.6%)	▲ 8.0 (▲ 8.4%)	+1.5	+1.5
■ Machine Tools	0.5 (2.2%)	1.1 (2.5%)	1.9 (7.7%)	2.5 (5.5%)	+1.4	+1.4
■ Devices and Components	▲ 0.2 (▲ 0.9%)	▲ 1.3 (▲ 2.9%)	0.0 (0.4%)	▲ 1.0 (▲ 2.2%)	+0.2	+0.3
■ Electronic and Other Products	0.1 (2.1%)	0.0 (0.0%)	0.3 (4.2%)	0.2 (1.1%)	+0.2	+0.2
Eliminations or general corporate	▲ 2.1	▲ 4.3	▲ 2.0	▲ 4.2	+0.1	+0.1
Consolidated Total	▲ 5.7 (▲ 5.1%)	▲ 14.0 (▲ 6.9%)	▲ 2.2 (▲ 1.9%)	▲ 10.5 (▲ 5.1%)	+3.5	+3.5

- Watches: While sales are expected to weaken following the resurgence of COVID-19, profitability is expected to improve.
- Machine Tools: Given that orders are recovering better than expected, both net sales and operating profit are expected to deviate above the forecast.

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Page eight shows our full-year consolidated earnings forecasts by segment after revisions.

We have revised net sales in the Watches Business slightly downward, taking into consideration the impact of the spread of COVID-19 in the fourth quarter, despite higher-than-expected sales in the third quarter.

For operating profit, the effect of higher-than-expected sales in the third quarter has been taken into account.

In the Machine Tools Business, we have revised both net sales and operating profit in the fourth quarter upward following the expansion of orders.

In the Devices and Components Business and the Electronic and Other Products Business, we have revised net sales and operating profit slightly upward following results for the third quarter.

Watches (3Q Result)

CITIZEN

< Watch sales >

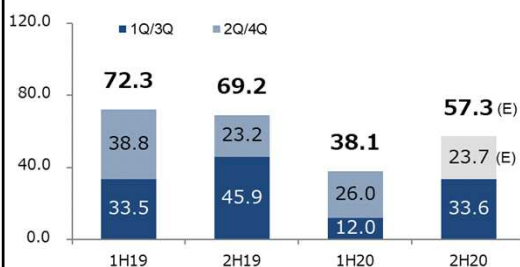
- Overseas market: Sales increased year on year in China, and sales also remained higher than expected in North America.
- Domestic market: The decline was shrinking although a sharp fall in inbound demand had an impact.

< Movement sales >

- Demand for mechanical movements was steady, analog quartz movements was also gradually recovering.

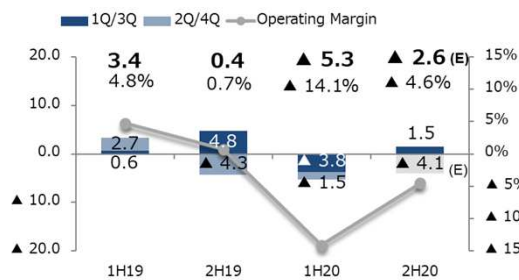
Net sales

(billion yen)



Operating profit

(billion yen)



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I will now provide an overview of each business for the third quarter (October to December) in more detail.

Page nine shows results in the Watches Business.

Sales of finished products exceeded the forecast, thanks to a significant increase in sales at e-commerce events in China, which drove overall sales, and smooth progress in sell-in in North America where a purchase adjustment in distribution was a concern, as sell-through remained strong. In Europe, our forecast figures were achieved despite the commencement of lockdowns.

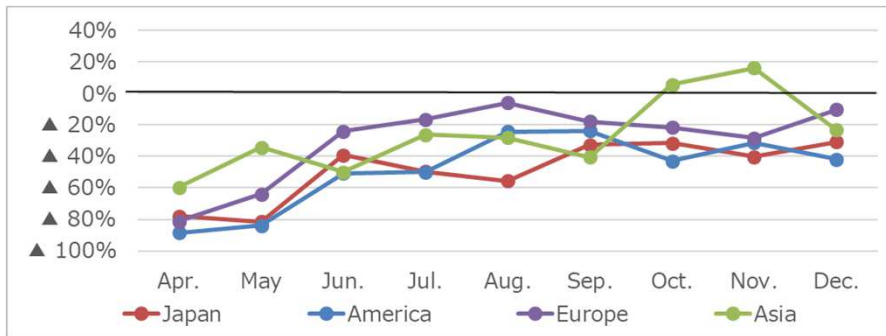
In Japan, results were slightly lower than the forecast due to weakening consumption along with the spread of COVID-19 although suburban stores performed well.

In sales of movements, sales of mechanical movements continued to remain firm. Demand for analog quartz movements was also recovering, albeit gradually, mainly in multifunctional products.

Watches Sales Conditions by Region

CITIZEN

■ Rate of change year on year (on a local-currency basis)



■ Rate of change year on year (on a local-currency basis)

	1Q	2Q	3Q	
■ Japan	▲69%	▲46%	▲35%	There was a delay in recovery due to a fall in inbound demand and weak domestic demand.
■ America	▲73%	▲30%	▲38%	There was a delay in recovery due to a fall in inbound demand and weak domestic demand.
■ Europe	▲57%	▲15%	▲22%	While sales remained firm mainly in Germany, sales in Europe were stagnant due to the re-implementation of lockdowns.
■ Asia	▲48%	▲33%	▲3%	Sales were on a recovery trend as sales for e-commerce events were booming in China.

• The rate of change in total sales of CITIZEN brand watches and BULOVA brand watches only for North America. For other regions, the rate of change only in sales of CITIZEN brand watches.

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Page 10 shows sales conditions by region.

Domestic sales expressed by the red line show that recovery was only moderate due to the disappearance of inbound demand and weak domestic demand.

Sales in North America are shown in the blue line. While sales at physical stores were stagnant, e-commerce sales, including those on direct sales sites, remained strong.

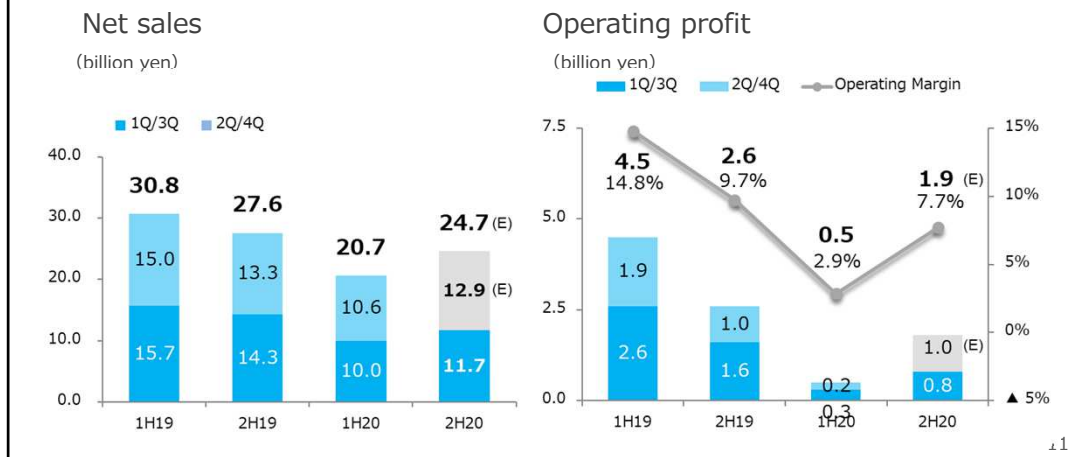
Sales in Europe are shown by the purple line. Sales in Germany, Italy and other countries performed well, limiting their falls to some extent, despite harsh conditions due to lockdowns imposed in many places.

Sales in Asia are shown by the green line. Sales in Asia as a whole recovered close to the level a year ago, thanks to booming e-commerce events in China, including the Singles' Day.

Machine Tools (3Q Result)

CITIZEN

- Domestic market: While a cautious stance on capital investment continued, a sense of bottoming out was observed.
- Overseas market: Performance remained strong in China, and the segment also performed solidly in Europe, showing a recovery trend.



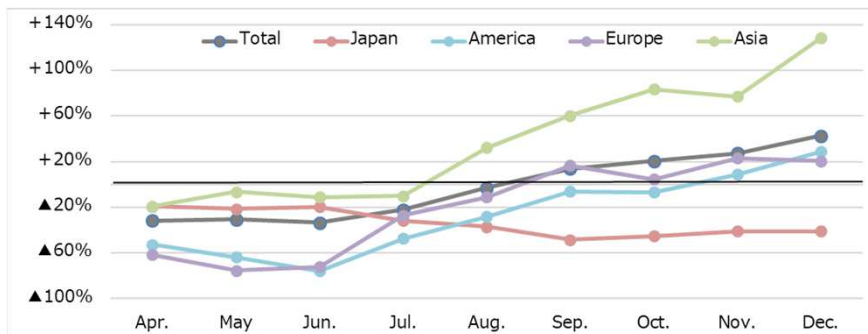
Now, I will provide an overview of results for the third quarter (October to December) in the Machine Tools Business.

In the domestic market, the capacity utilization rate in the automobile industry recovered, but a cautious stance on capital investment continued. As a result, sales growth was sluggish.

In the overseas market, the performance remained strong in China mainly driven by the IT industry, and sales increased in Europe. As a result, the product mix improved, and operating profit deviated above the forecast.

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 (Quarterly number of units in orders received)

	1Q	2Q	3Q	
● Total	▲34%	+14%	+43%	The upward momentum continued mainly in the Chinese market. Orders were also on an upward trend in Europe and the Americas.
● Japan	▲20%	▲48%	▲41%	A cautious stance on capital investment continued, although inquiries began emerging in the automobile-related business.
● America	▲76%	▲6%	+29%	Remained firm because medical-related demand recovered, which had been shelved due to the impact of the COVID-19 pandemic.
● Europe	▲72%	+17%	+20%	While the automobile-related business remained weak, medical- and hydraulic machinery-related businesses were firm.
● Asia	▲11%	+60%	+128%	IT- and automobile-related businesses grew mainly in China. Other Asian regions also showed a recovery trend.

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Page 12 shows changes in monthly orders by region. Orders received overseas recovered rapidly.

The green line shows orders received in China and Asia, where automobile-related orders, in addition to smartphone- and 5G-related orders, increased. The purple line shows orders received in Europe. Orders increased significantly as a result of the resumption of capital investment in a wide range of industries, although automobile-related investments are yet to show momentum. The light blue line shows orders received in the Americas. Orders recovered rapidly toward the end of the year, given that inventory adjustment at sales companies had run its course and that medical-related orders turned for the better associated with the resumption of surgeries. The red line shows orders received in Japan. Japan is the only region where the pace of recovery was slow, and a wait-and-see attitude toward investment continued, although the capacity utilization rate at customers was rising. However, the amount of orders turned upwards, compared with the second quarter.

Following the higher-than-expected orders as described above, we have revised our forecast for orders in the fourth quarter upward.

Initiatives in Machine Tools Segment

CITIZEN

Low Frequency Vibration-Cutting (LFV) Technology¹

- Started selling machine tools products equipped with LFV technology in 2013, and cumulative shipments reached 2,500 units in October 2020.
- To start selling "ANX42SYY," the first Miyano product equipped with LFV technology, in July 2021.
- LFV-compatible models: To increase to 10 models.



Miyano "ANX42SYY"

¹ Low Frequency Vibration-Cutting (LFV) Technology: Using CITIZEN's proprietary control technology, a processing technology to divide chips by making the servo axis vibrate in the cutting direction and setting the timing for "missing" so that the blade does not hit during cutting. This will help solve issues about chips and contribute to improved productivity.

Friction bonding technology²

- Started selling Cincom "L32" equipped with the residual material reduction function using friction bonding technology in November 2020.
- Received the Manufacturing Award of the 63rd Ten Greatest New Products Award sponsored by the Nikkan Kogyo Shimbun, Ltd. (for the fifth time and its first in four years since 2016 when it received the award for "L20-LFV").



Cincom "L32"

² Friction bonding technology: CITIZEN's proprietary technology to significantly reduce residual materials after processing by softening materials by friction heat and bonding different materials by applying even stronger pressure. This will reduce material costs and contribute to reducing environmental burdens.

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Next, I will introduce initiatives in the Machine Tools Business.

The first initiative is LFV technology.

LFV is CITIZEN's proprietary control technology, and it is highly valued by customers because it helps solve various issues about chips and contributes to improved productivity. Cumulative shipments reached 2,500 units in October 2020.

We plan to start selling a new Miyano product equipped with LFV technology in July 2021.

The second initiative is friction bonding technology.

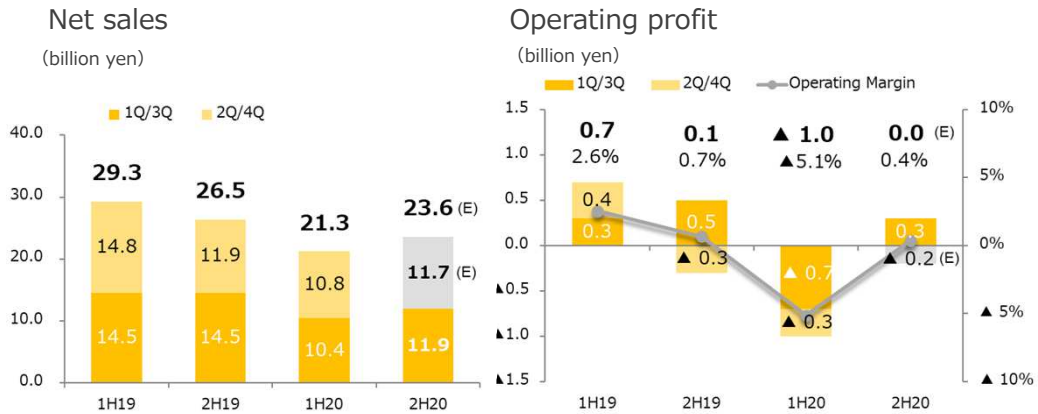
This is CITIZEN's proprietary technology to significantly reduce residual materials after processing by softening materials using friction heat and bonding different materials by applying even stronger pressure. It reduces material costs and helps to reduce the burden on the environment.

We started selling Cincom "L32" equipped with friction bonding technology in November 2020.

Devices and Components (3Q Result)

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- Precision machining components: Sales of auto parts increased associated with the market recovery.
Sales of switches decreased, but orders were on a recovery trend.
- Opto-devices: Sales of LED for lighting products and automobiles grew at a sluggish pace.



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Finally, I will explain the results of the Devices and Components Business in the third quarter (October to December).

Of precision machining components, both sales and operating profit of auto parts turned up YoY associated with the recovery in new car sales. Switches still suffered a YoY decrease in sales but achieved the plan, and orders were on a recovery trend.

In opto-devices, LED for lighting products continued to face severe conditions because sales were sluggish due to a fall in demand. Sales of general LED also decreased because the resilience of sales for automobiles was weak.

In other products, sales of quartz devices increased due to a rise in demand for products for communication devices.

The strong performance of auto parts is expected to continue in the fourth quarter, although a significant improvement looks unlikely.

That concludes my presentation.

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