

Main questions and answers at the earnings presentation for the nine months ended
December 31, 2020

Date and time: February 10 (Friday), 2021, 16:00 to 17:00

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

Main questions and answers:

[Watches Business]

Q) Background behind the upward revision of operating profit despite the downward revision of net sales

A) For operating profit, we have made an upward revision to reflect the effect of better-than-expected results in the third quarter. Sales in North America, which were expected to be difficult, considering heavy channel inventories, remained solid, mainly driven by e-commerce sales. In addition, sales were strong in China, partly reflecting excellent Singles' Day-related demand. Despite the COVID-19 pandemic, higher-than-expected sales, particularly in North America and China, contributed to a rise in profit. Results in North America reflected the effects of active advertising investments. We have made a downward revision to net sales, taking into account lockdowns implemented due to the second wave of COVID-19.

Q) Assumptions for FY2021

A) We should factor in external environments. Having said that, we have succeeded in strengthening the profit-generating structure of manufacturing sector by implementing structural reforms. In addition, we assume that the situation in North America, which is the mainstay market, is normalizing thanks to the progress in the rationalization of channel inventories. We expect that sales activities will be conducted without being bothered by channel inventories in FY2021. The recovery of demand for watches will result in a recovery in sales. Based on this assumption, we will take steps to restore profitability.

Q) Improvement of the profitability of movements

A) We are seeing progress, such as progress in business negotiations for the next fiscal year for analog quartz, in addition to steady sales of mechanical movements.

Inventories have been rationalized and the issue of channel inventories is being solved. We expect that profitability will improve if the market recovers.

Q) Outlook for advertising expenses in FY2021

A) We should advertise actively in line with the recovery of sales. In terms of content, we have been focused on digitization, taking advantage of enhanced controllability compared to advertisements via conventional media. We will exercise control flexibly, while simultaneously monitoring the status of sales and profit, thereby making necessary investments with an eye toward returning to profitability.

[Machine Tools Business]

Q) Third quarter results of the Machine Tools Business

A) We anticipated that China would perform strongly from the beginning because the market is on a recovery trend. In addition, Europe continued to perform strongly, whose results exceeded the assumption. North America, whose recovery had been slow, also showed the better-than-expected results, reflecting the resumption of medical-related investments, as well as progress in inventory adjustments.

Q) Background of progress in profitability in the Machine Tools Business

A) The operating profit ratio rose significantly in the third quarter, reflecting an increase in the composition ratio of sales to Europe. Looking at the current trend in orders, we see consistent rises in Europe and the United States. As these will be reflected in sales, going forward, we expect that profitability will be further improved.

Q) Timing in which recent strong orders will be reflected in sales

A) The lead time from the receipt of orders, which is four to five months, has become longer than before. We expect that orders received in and after last December will contribute to sales for the next period.