

# First Quarter Financial Results Fiscal Year 2017 (Ending March 2018)

July 27, 2017  
**SEIKO EPSON CORP.**

## ■ Disclaimer regarding forward-looking statements

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The foregoing statements regarding future results reflect the Company's expectations based on information available at the time of announcement. The information contains certain forward-looking statements that are subject to known and unknown risks and uncertainties that could cause actual results to differ materially from those expressed or implied by such statements. Such risks and uncertainties include, but are not limited to, the competitive environment, market trends, general economic conditions, technological changes, exchange rate fluctuations and our ability to continue to timely introduce new products and services.

## ■ Note regarding business profit

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Business profit is calculated by deducting cost of sales and SGA expenses from revenue.

Although not defined in the statement of consolidated comprehensive income, this indicator is very similar to the concept of operating income under J-GAAP. Epson will present this information as a reference, as the Company believes users of financial statements will find it useful when evaluating Epson's financial performance.

## ■ Numerical values presented herein

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Numbers are rounded down to the unit indicated. Percentages are rounded off to one decimal place.

- FY2017 Q1 Financial Results
- FY2017 Financial Outlook

## Financial Highlights (First Quarter)

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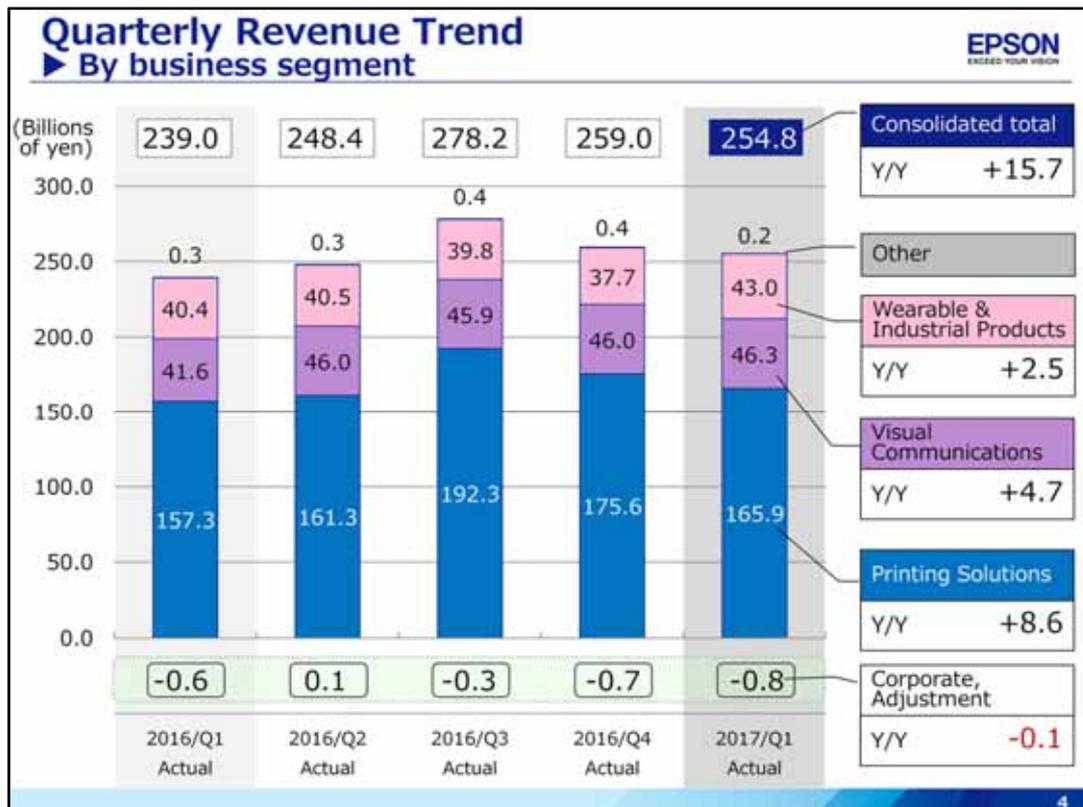
	FY2016		FY2017		Change		
	Q1 Actual	%	Q1 Actual	%	Amount	%	
(Billions of yen)							
Revenue	239.0	-	254.8	-	+15.7	+6.6%	
Business profit	6.4	2.7%	16.7	6.6%	+10.2	+159.1%	
Profit from operating activities	6.9	2.9%	14.6	5.8%	+7.7	+110.5%	
Profit before taxes	6.3	2.7%	14.4	5.7%	+8.0	+126.9%	
Profit for the period	4.2	1.8%	10.3	4.0%	+6.1	+145.2%	
EPS*	¥11.58		¥28.97		Exchange difference (Billions of yen)		
Exchange rate	USD	¥108.15	¥111.08		Revenue	Business profit	
	EUR	¥122.02	¥122.12		USD	+2.1	-0.4
					EUR	+0.0	+0.0
					Other	+0.9	+0.9
					Total	+3.1	+0.5

\* Basic earnings per share for the period

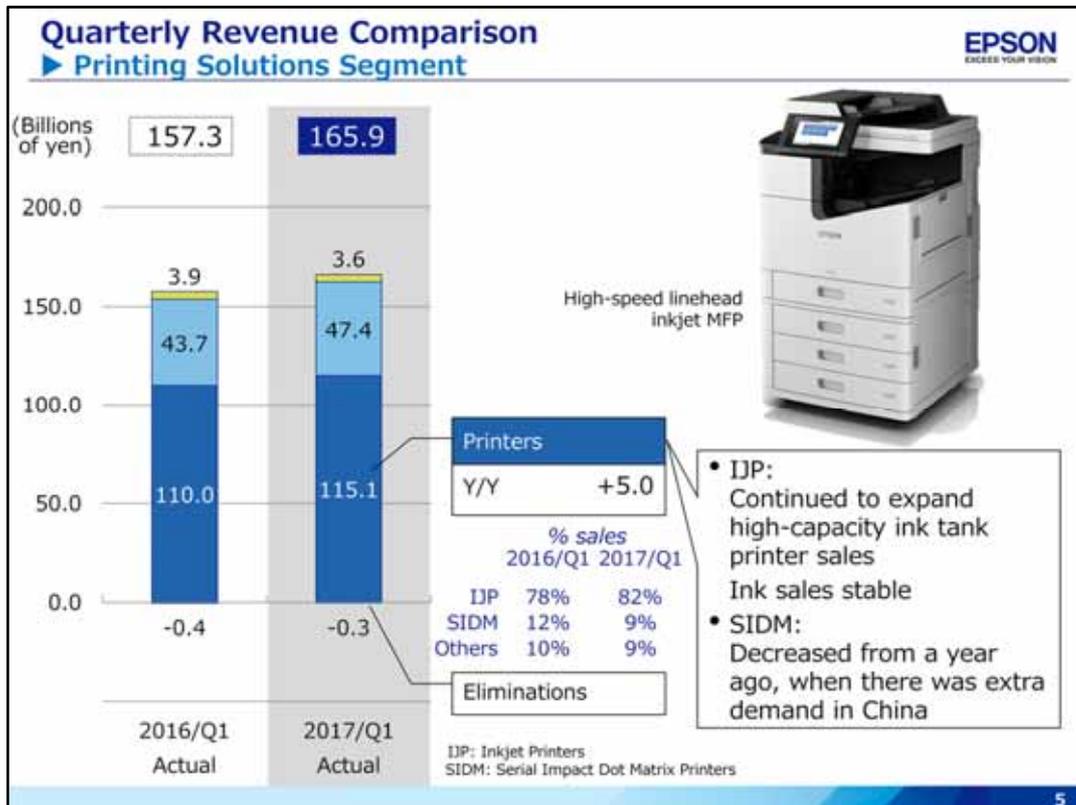
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### ■ FY2017 Q1 results

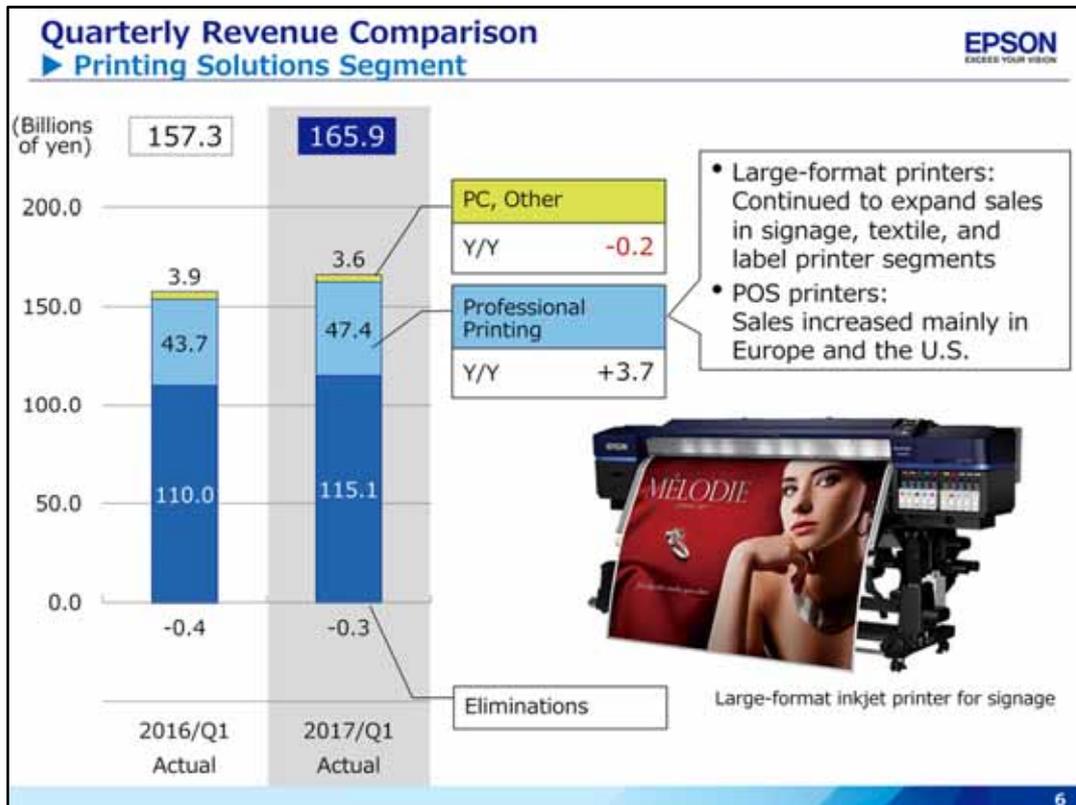
- For the quarter we recorded ¥254.8 billion in revenue, up ¥15.7 billion year-on-year. Business profit was ¥16.7 billion, up ¥10.2 billion. And profit for the period was ¥10.3 billion, up ¥6.1 billion.
- Currency fluctuations had a ¥3.1 billion positive effect on revenue for the quarter, and a ¥0.5 billion positive effect on business profit.
- The yen remained weak relative to the US dollar and euro compared to the full-year financial outlook announced on April 28.
- This somewhat inflated our revenue and business profit figures, but if you exclude these foreign exchange effects, both revenue and business profit were generally in line with the outlook.



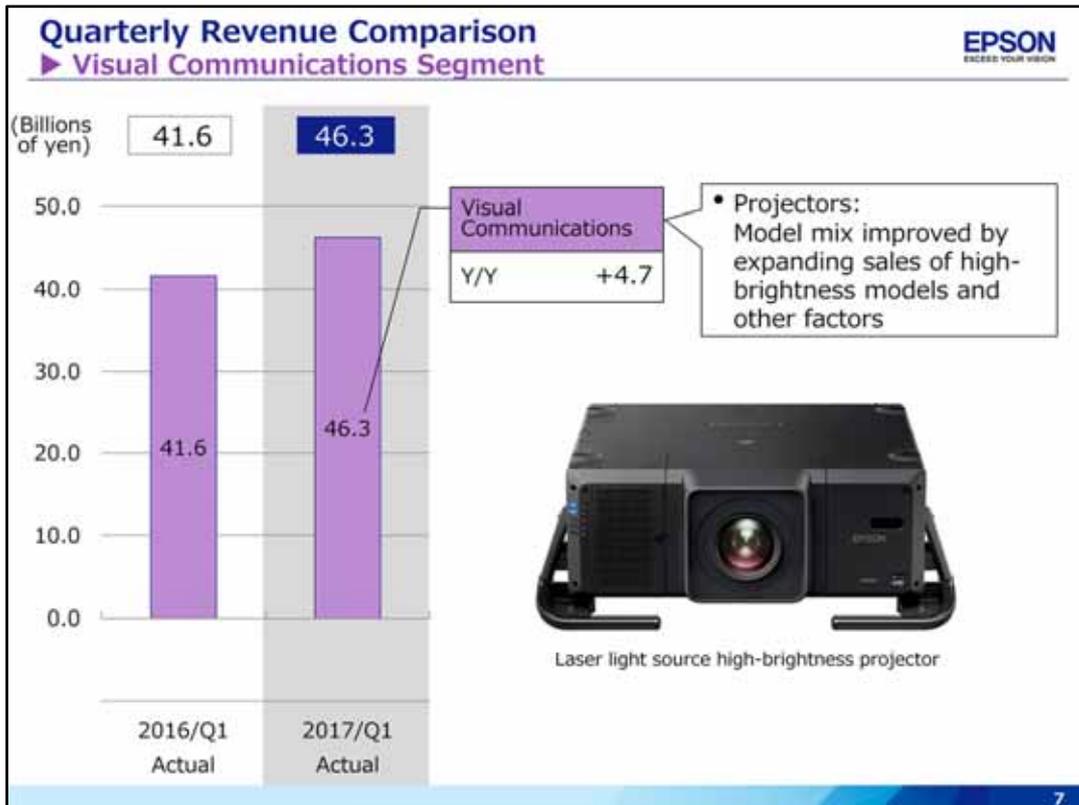
- Quarterly revenue by segment over the last five quarters
- Revenue increased compared to the same period last year in printing solutions, visual communications, and wearable products & industrial solutions.
- Since the effect of currency fluctuations was negligible, the results almost directly reflect the benefits of the strategic steps we have taken, with revenue and profit up in every business segment.



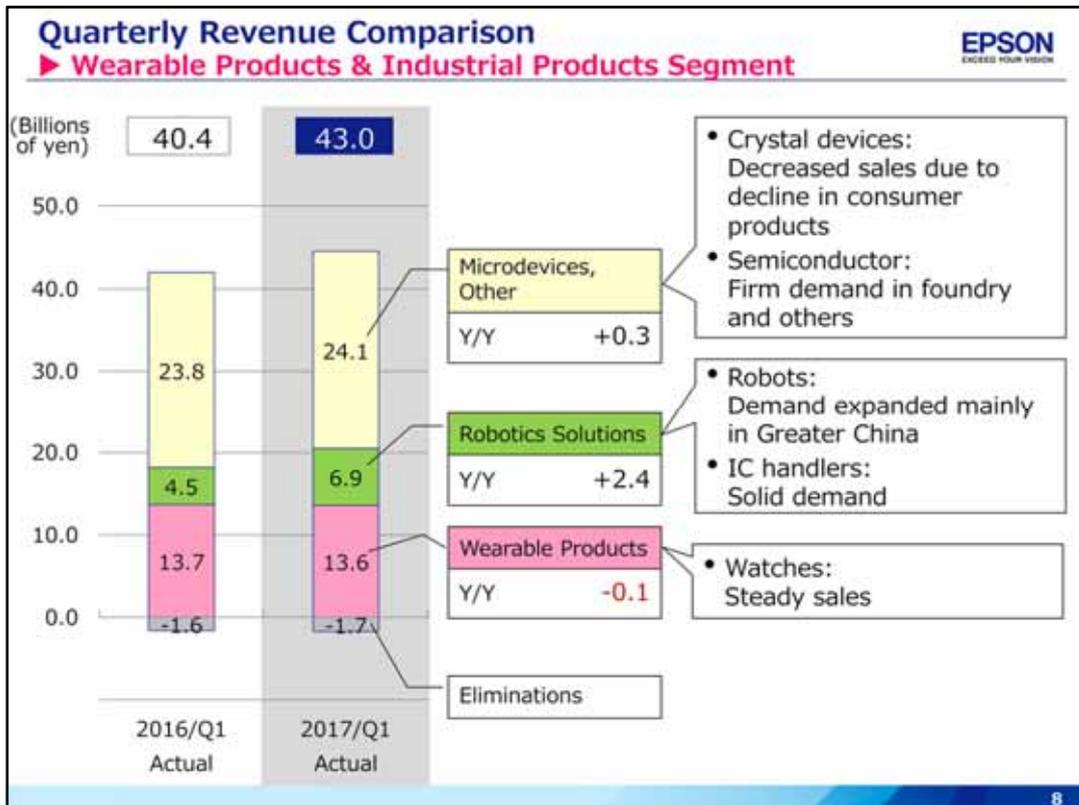
- Quarterly revenue in printing solutions
- The printer business as a whole posted revenue growth even though unit shipments of inkjet printers decreased mainly due to consumer market softness in some developed economies and competitors' promotions, and despite a decrease in SIDM printer unit shipments compared to the first quarter of last year, when amendments to China's tax system generated extra demand. Driving revenue growth were high-capacity ink tank printers, which continued to see solid demand in both emerging and economically developed markets, and ink sales, which remained stable, though demand varied from market to market.
- In June, we launched sales of high-speed linehead multifunction inkjet printers in Japan and Europe. We have made a smooth start and received acclaim from dealers, distributors, and customers that experienced using the printers.
- These enterprise linehead printers print up to 100 pages per minute with high print quality, and they offer usability equivalent to that of a copier. We have found that an effective way to close a deal is to get potential customers to actually experience the performance, and we are therefore strengthening our marketing activities in this area.
- Through activities like this, our dealers and distributors come to see that we are serious about enterprise printing, and we are now approaching high print volume users who were out of reach with our past product lineup.
- The response from dealers and distributors in the U.S. and China has exceeded expectations, so we are confident in the growth potential going forward.



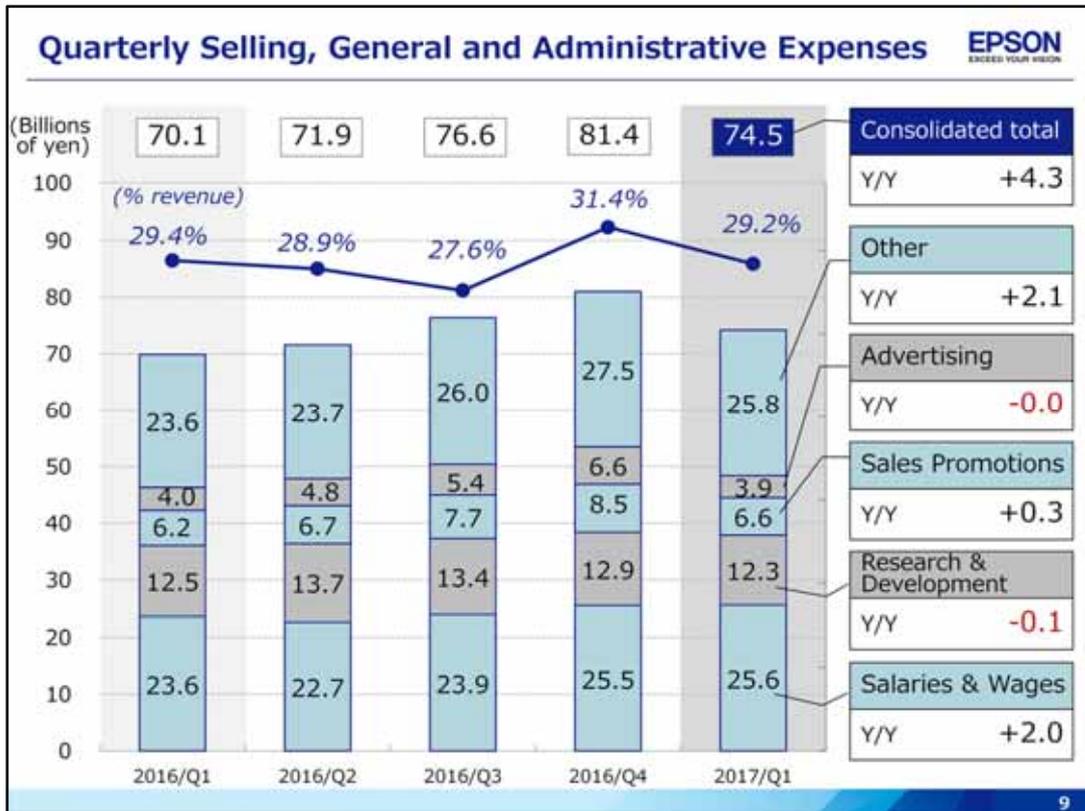
- Quarterly revenue in printing solutions
- Revenue in professional printing grew as a whole. We steadily expanded large format printer sales in the growing signage, textile, and label segments. We also recorded firm sales of POS printers in Europe and the U.S., where we were able to win some contracts.
- Please note that from this first quarter results announcement, a portion of the photo and graphics products accounting for about 1% of full-year revenue in the printing solutions segment was moved from the professional printing to the printer business.



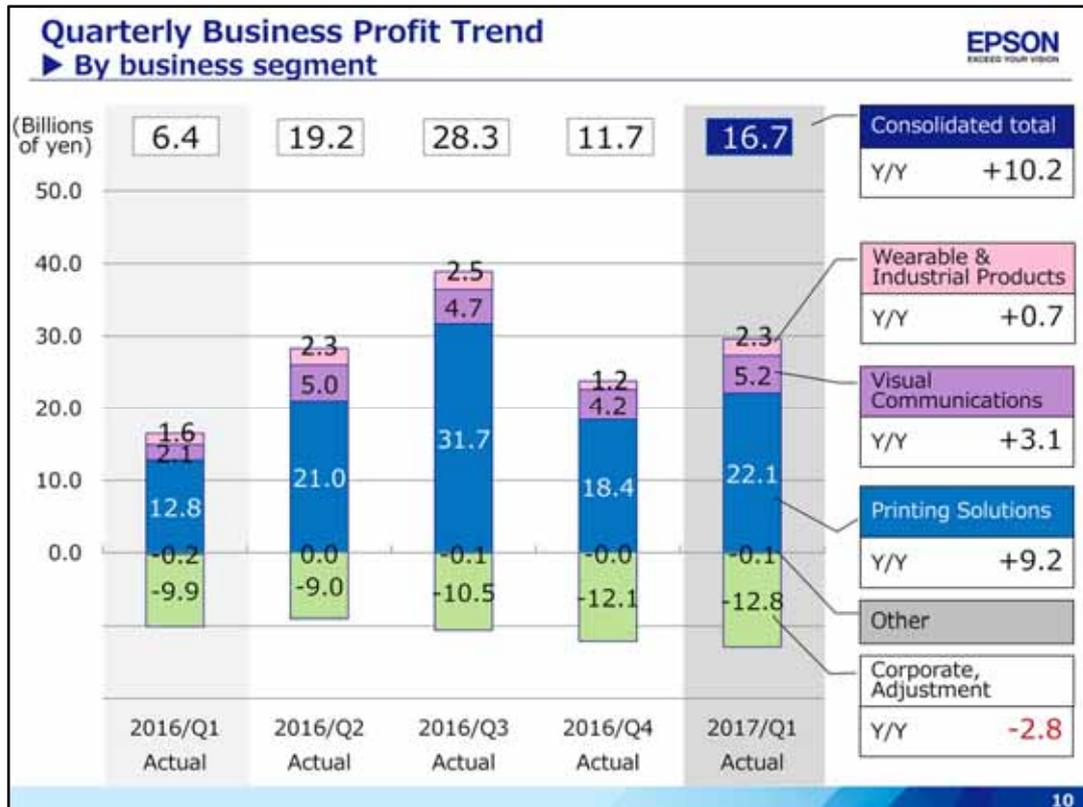
- Quarterly revenue in visual communications
- Visual communications revenue increased despite a slight decrease in unit shipments on the back of sluggish sales of entry level projectors mainly in North America and reduced shipments compared to the previous year when a major European football tournament was held. The revenue increase was primarily because we stepped up promotions in China to increase unit shipments there, and because the model mix improved on strong sales in each region of high-end, high-brightness projectors, which we boosted last year.



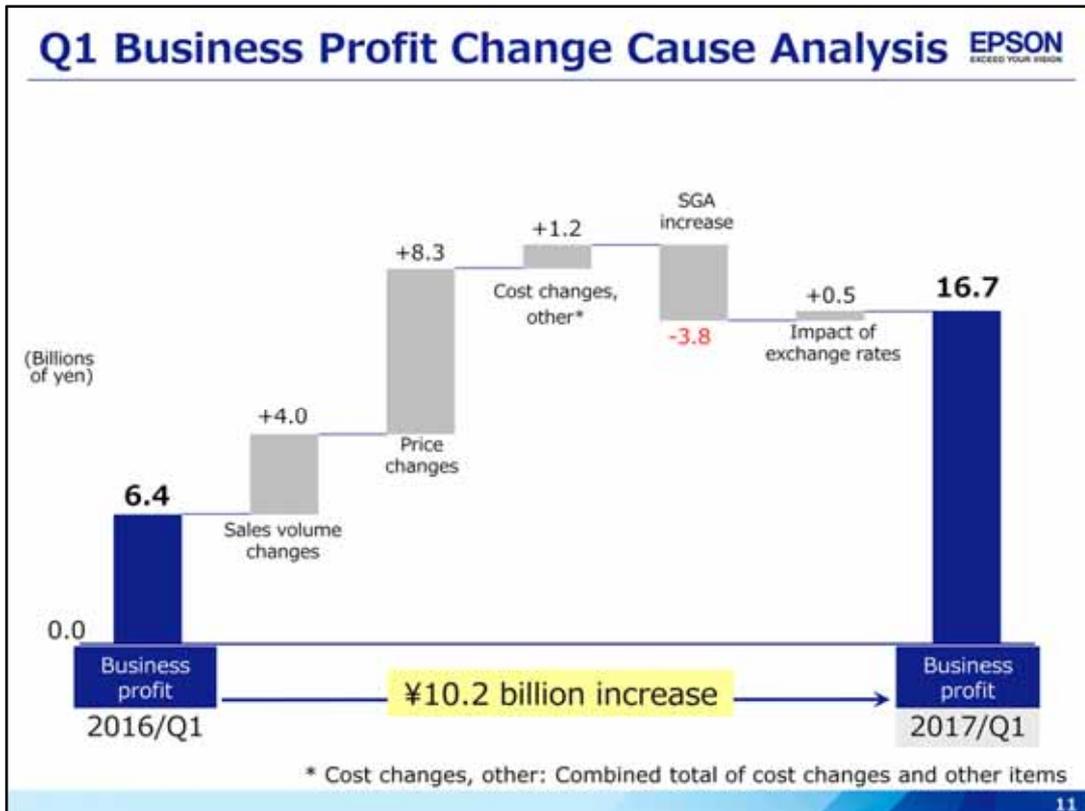
- Quarter in wearable products & industrial solutions
- Wearable products revenue was flat year on year.
- Robotics solutions reported a sharp year-on-year increase in revenue. Robot sales increased significantly mainly in the Greater China Region, where our systems are used in the assembly of items such as mobile equipment and electronic components. IC handler sales were solid.
- Microdevices and other revenue was flat year-on-year. Although quartz crystal device sales declined for consumer products, orders were firm in the semiconductor foundry business and others.



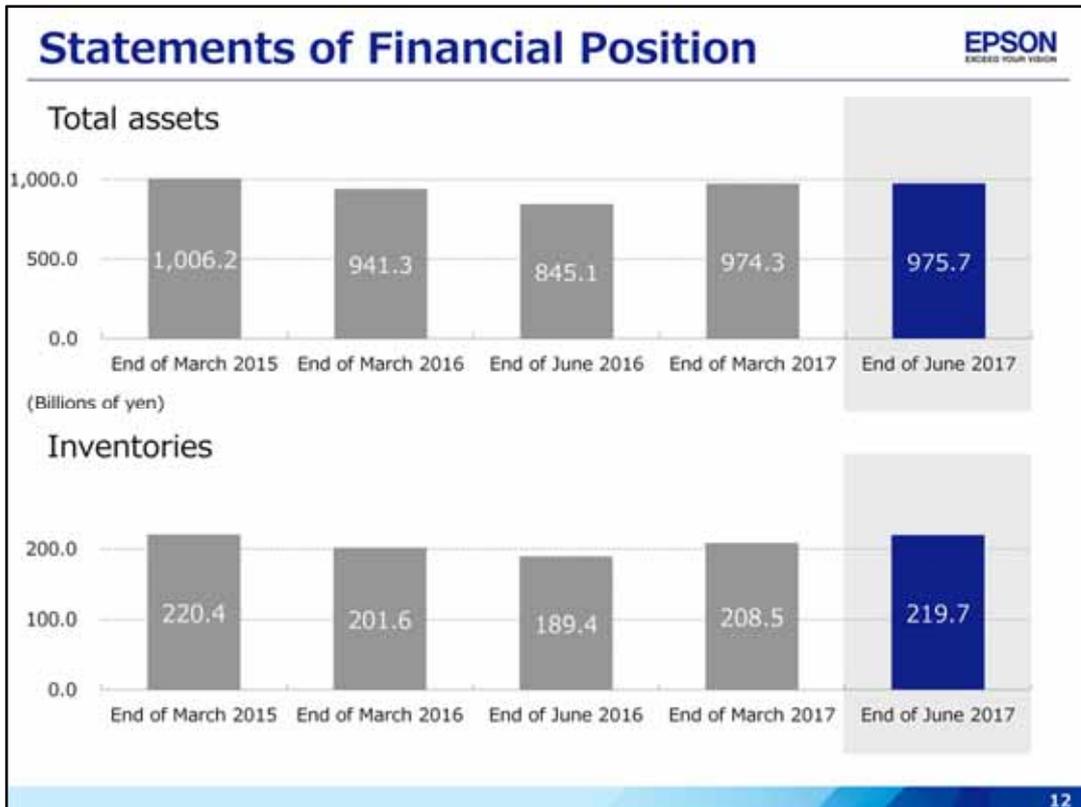
- Quarterly selling, general and administrative expenses
- Total consolidated SG&A expenses increased by ¥4.3 billion compared to the first quarter of last year mainly because salaries and wages increased in conjunction with the reinforcement of our sales organization and because the accounting item used for recognition of some intellectual property-related expenses was changed.



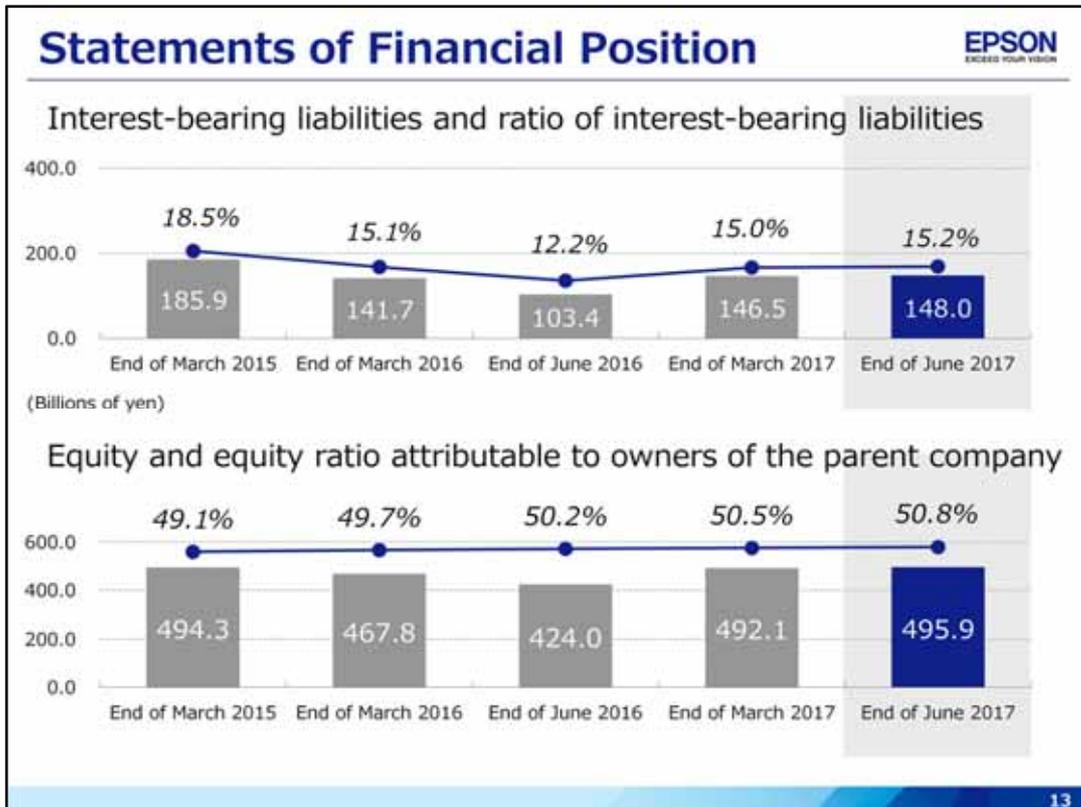
- Breakdown of quarterly business profit by segment
- Printing solutions posted year-on-year business profit growth. In addition to the effect of higher revenue from increased sales of high-capacity ink tank printers, the printer business reduced its costs and increased profit by reducing ink cartridge printer production compared to the same period last year.
- We reduced ink cartridge printer production compared to the same period last year when there was a temporary increase in production volume to build inventory after it fell too low at the end of the 2015 fiscal year.
- We restored ink cartridge printer production volume to an ordinary level this year after temporarily increasing in the first quarter of last year to build inventory after it fell too low at the end of the 2015 fiscal year.
- Professional printing business profit increased on higher revenue generated mainly by sales of large format printers in the growth segments.
- Visual communications profit increased due to revenue growth produced by an improvement in the model mix, including increased sales of high-brightness projectors.
- Wearable products & industrial solutions also saw profit increase as revenue grew on the strength of robotics solutions. This was despite an increase of strategic costs in wearable products.
- Corporate expenses and adjustments were affected by a decision to recognize in the corporate segment some of the intellectual property-related expenses that were allocated to the various segments until last fiscal year.



- Cause analysis of the changes in business profit compared to the same period last year
  - Sales volume changes positively affected business profit. Among the positive contributors were high-capacity ink tank printers, large format printers in growth markets, robots, semiconductors and others. The higher volume and profit in these areas more than offset the negative effects of the decline in ink cartridge volume as the model mix moves away from the home and toward enterprise, and the decrease in SIDM printer volume.
  - Price changes had a large positive effect on business profit. The improved projector model mix was an important contributor. Changes in the high-capacity ink tank printer and ink cartridge mix also were positive factors.
  - While costs increased in conjunction with an increase in high-added-value products, cost changes were a positive factor, chiefly because the volume of ink cartridge printers produced decreased compared to the first quarter of last year.
  - The increase in selling, general and administrative expenses is a result of strengthening the sales organization.



- Major items on the statements of financial position
  - Total assets were ¥975.7 billion, a ¥1.3 billion increase compared to the end of the previous fiscal year. Although cash and cash equivalents decreased mainly due to the payment of dividends, inventories and others increased.
  - Inventories increased by ¥11.2 billion from the end of the previous fiscal year, ending at ¥219.7 billion.



- Major items on the statements of financial position
  - Interest-bearing liabilities were ¥148.0 billion, an increase of ¥1.5 billion compared to the end of the previous fiscal year. The ratio of interest-bearing liabilities to total assets was 15.2%.
  - Net cash was ¥48.5 billion.
  - Equity attributable to owners of the parent company was ¥495.9 billion, up ¥3.7 billion compared to the previous fiscal year-end. The equity ratio attributable to owners of the parent company was 50.8%.

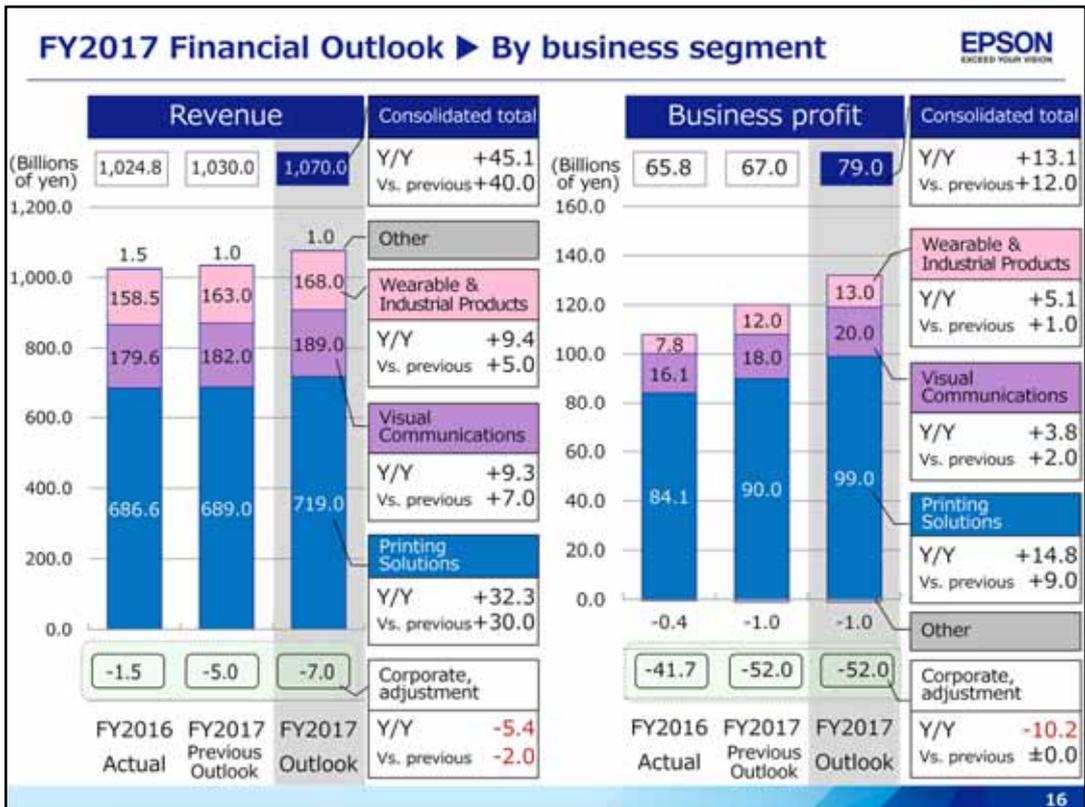
- FY2017 Q1 Financial Results
- **FY2017 Financial Outlook**

FY2017 Financial Outlook							EPSON EXCEED YOUR VISION		
(Billions of yen)	FY2016		FY2017				Change (amount, %)		
	Actual	%	4/28 Outlook	%	7/27 Outlook	%	Y/Y	Vs. 4/28 outlook	
Revenue	1,024.8	-	1,030.0	-	1,070.0	-	+45.1 +4.4%	+40.0 +3.9%	
Business profit	65.8	6.4%	67.0	6.5%	79.0	7.4%	+13.1 +20.0%	+12.0 +17.9%	
Profit from operating activities	67.8	6.6%	64.0	6.2%	76.0	7.1%	+8.1 +11.9%	+12.0 +18.8%	
Profit before taxes	67.4	6.6%	64.0	6.2%	76.0	7.1%	+8.5 +12.6%	+12.0 +18.8%	
Profit for the year	48.4	4.7%	49.0	4.8%	58.0	5.4%	+9.5 +19.8%	+9.0 +18.4%	
EPS <sup>*1</sup>	¥136.82		¥139.12		¥164.67		Exchange rate assumptions from Q2 onward		
Exchange rate	USD	¥108.38	¥105.00		¥109.00		USD	¥108	
	EUR	¥118.79	¥110.00		¥123.00		EUR	¥123	
							Exchange sensitivity *2	Revenue	Business profit
							USD	-3.0	+0.4
							EUR	-1.5	-1.0
							Other	-2.8	-1.1

\*1: Basic earnings per share for the year  
\*2: Annual impact of a 1-yen increase in the value of the yen versus the USD & EUR (in billions of yen)  
Annual impact of a 1% increase in the value of the yen versus other currencies (in billions of yen)

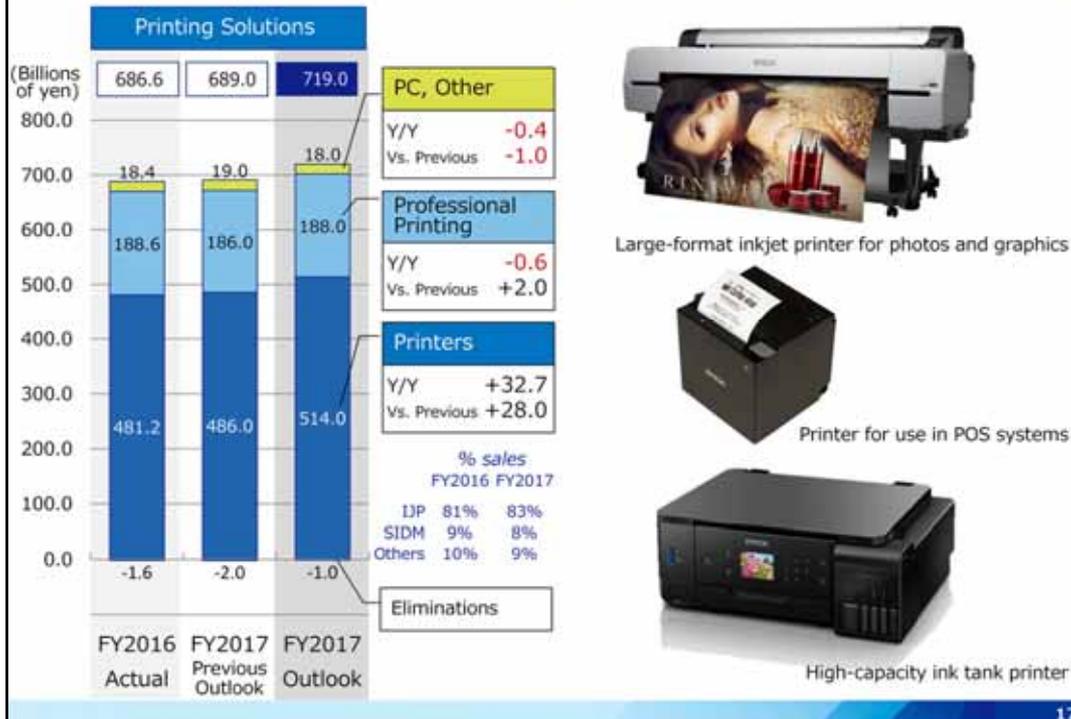
■ FY2017 full-year outlook

- We are forecasting 1,070 billion yen in revenue, 79 billion yen in business profit, and 58 billion yen in profit for the year.
- We got off to a smooth start in the first quarter. Our results were, by and large, in line with our original outlook, excluding foreign exchange effects.
- From the second quarter, we expect transportation expenses in printing solutions to increase because of a fire that occurred in the first quarter at an inkjet printer components supplier. On the other hand, we forecast an increase in unit shipments of high-capacity ink tank printers.
- We also updated the outlook in the other segments based on the latest situation, but we do not foresee any major changes from the original outlook in any segment.
- We will limit the effects of the fire at the components supplier by taking appropriate action depending on the state of components deliveries and printer sales.
- A large gap has emerged between the exchange rates we assumed when we established the original outlook and recent exchange rates. So, from the second quarter we revised assumed exchange rates to 108 yen to the US dollar and 123 yen to the euro. We also revised our foreign exchange assumptions versus other currencies and, with a few exceptions, anticipate a weaker yen than in the previous outlook.
- The latest financial outlook does not differ significantly from the original outlook, when excluding foreign exchange effects, but in addition to the revised foreign exchange assumptions, we factored in an increase in fixed costs accompanying the change in financial performance.



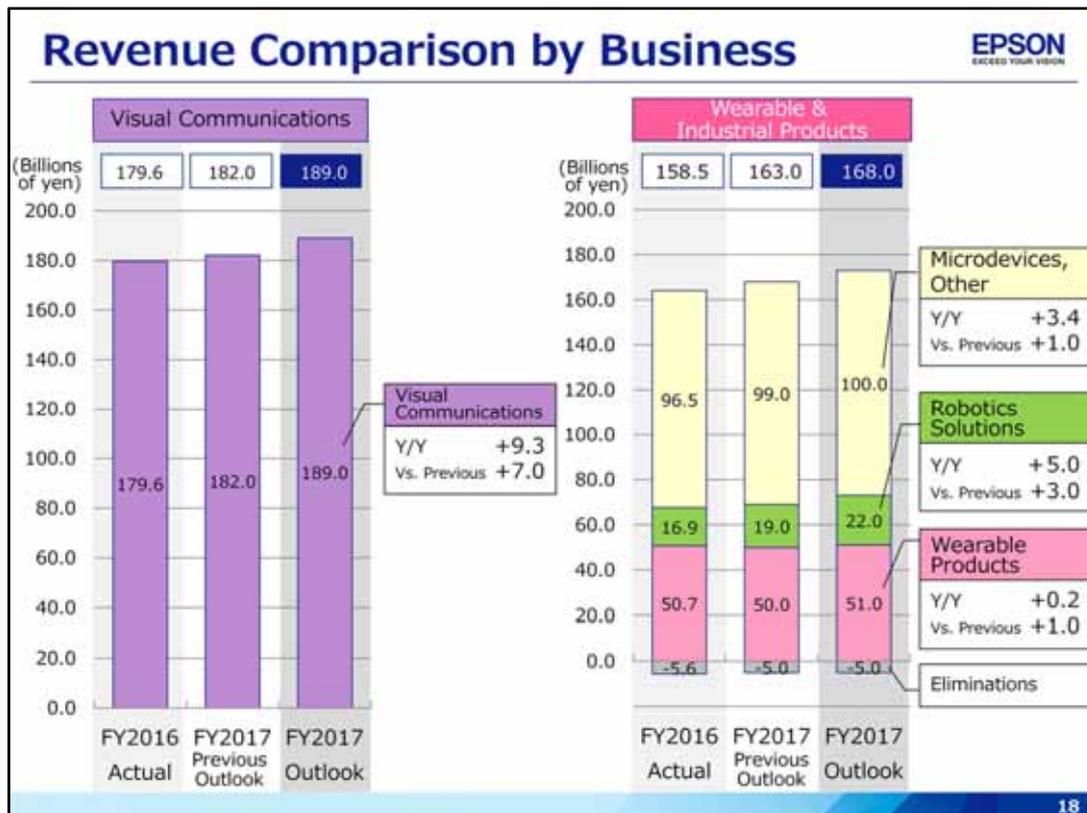
- Revenue and business profit broken out by segment
- We anticipate a steep year-on-year increase in revenue and profit in every segment as a result of having revised our foreign exchange assumptions.

# Revenue Comparison by Business

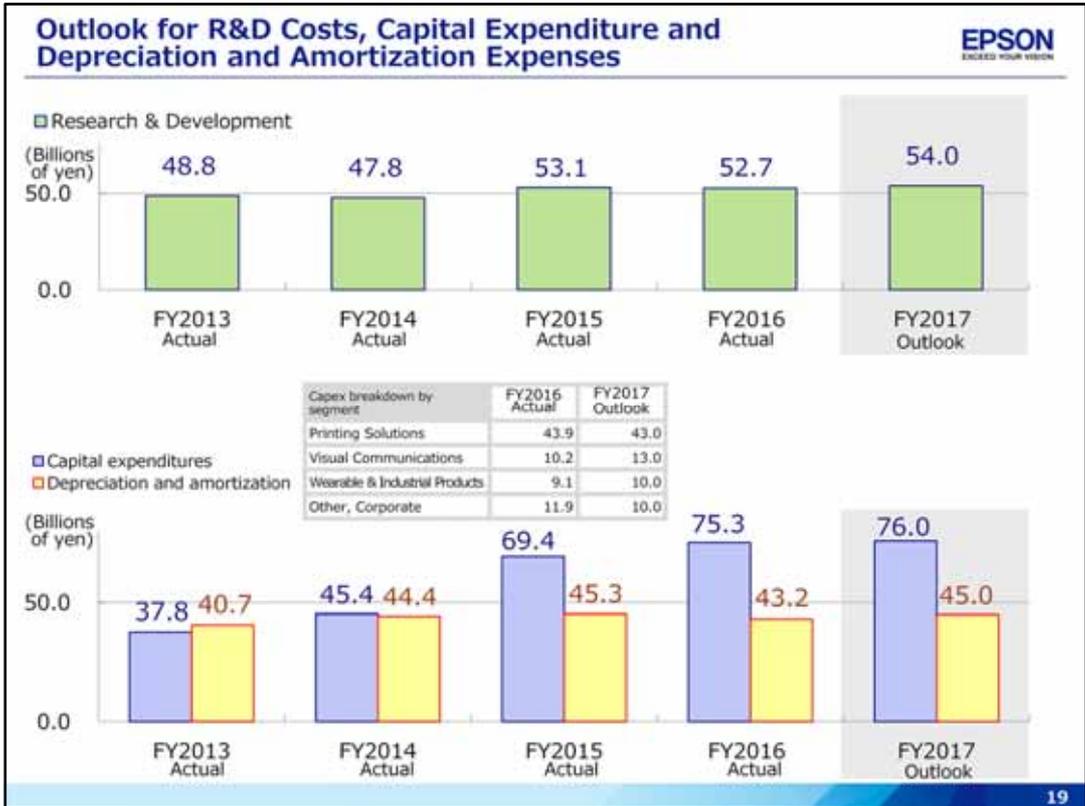


## ■ Revenue outlook in printing solutions

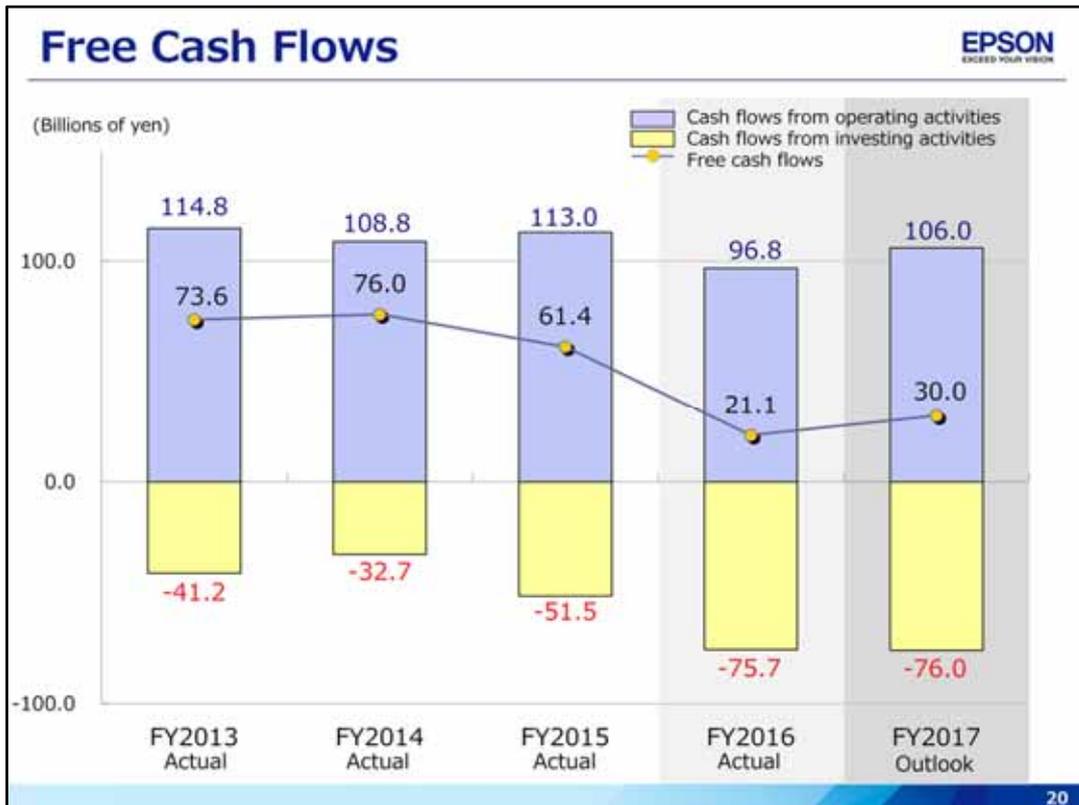
- In the printer business we slightly lowered our unit sales forecast for home and other inkjet printers. We also slightly lowered our ink revenue forecast so that it is level with last year because of an anticipated decline in the number of printers in the field. On the other hand, we factored the current strong sales of high-capacity ink tank printers into the outlook and now see revenue surpassing the original outlook.
- In professional printing, we expect steady demand in the existing photo, graphics, and POS printer segments, and we have not changed our forecast of continued sales growth in the new segments.
- As mentioned on page 6, the professional printing revenue outlook reflects a loss of revenue due to a change in the categorization of some photo and graphics printers, which are now included in the printer business. When compared year-on-year using the same categorization as last year, this year's outlook shows a steady increase in professional printing revenue.



- Revenue outlook in visual communications and in wearable products & industrial solutions
  - There are no major changes in the strategic progress that we forecast for these businesses.
  - In visual communications, we will look to steadily grow projector unit shipments and improve the model mix by selling more high-added-value products such as high-brightness models.
  - In wearable products, we announced the expansion of our brand business with the introduction of our new Trume brand in Japan in September as we aim for mid-term growth.
  - We expect to expand robotics solutions revenue by meeting strong demand.
  - In microdevices and other, we forecast steady year-on-year revenue growth based mainly on anticipated steady demand for semiconductors.



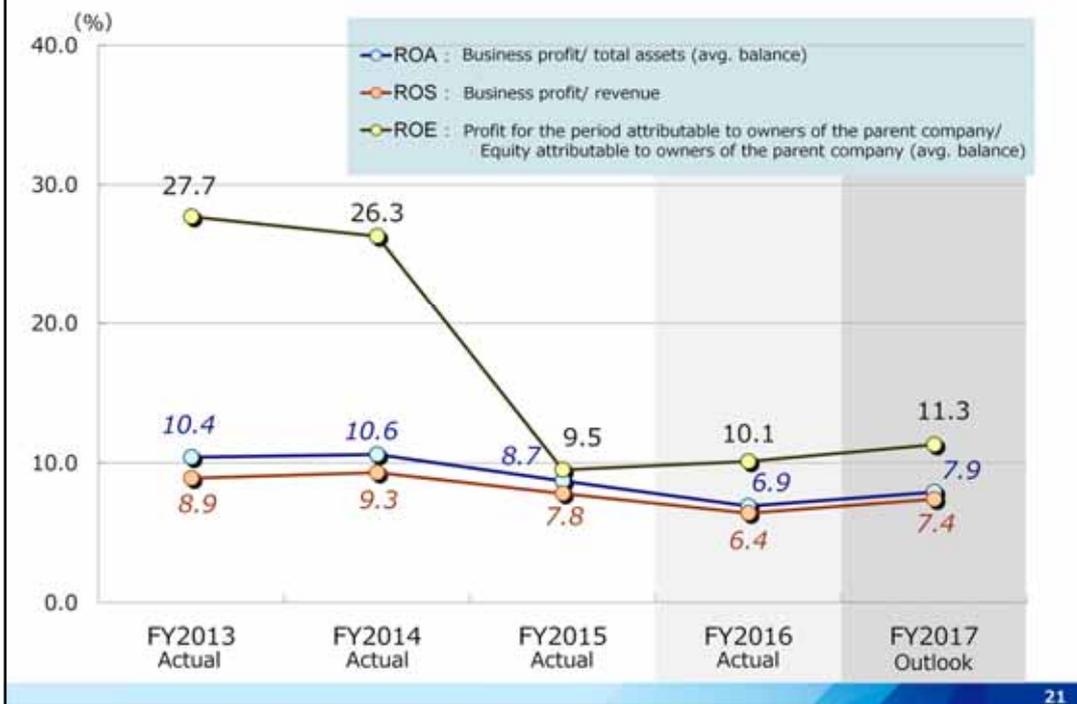
- Outlook for R&D costs, capital expenditures, and depreciation and amortization expenses
  - We are sticking to our original outlook and will continue to aggressively invest in future growth.



■ Cash flows

- In conjunction with the upwards revision of our outlook, we are forecasting ¥106 billion in cash flows from sales activities, ¥76 billion in cash flows from investing activities, and ¥30 billion in free cash flows.

# Main Management Indicators



- Major financial management performance indicators
- We expect a 7.4% return on sales, 7.9% return on assets, and 11.3% return on equity.

# Reference

# Major Business Indicators



(Billions of yen)					(Billions of yen)			
		FY2016 Actual	FY2017 Outlook	FY2018 Target	Category	FY2016 Actual	FY2017 Outlook	3-year cumulative (FY2016-18 business plan)
Exchange rate	USD	¥108.38	¥109.00	¥115.00	USD	¥108.38	¥109.00	¥115.00
	EUR	¥118.79	¥123.00	¥125.00	EUR	¥118.79	¥123.00	¥125.00
Printing Solutions	Revenue	686.6	719.0	805.0	Operating CF	96.8	106.0	Approx. 330.0
	Business profit	84.1	99.0	-	FCF	21.1	30.0	Approx. 120.0
Visual Communications	Revenue	179.6	189.0	200.0	Capital expenditure	75.3	76.0	Approx. 210.0
	Business profit	16.1	20.0	-	R&D costs	52.7	54.0	Invest aggressively
Wearable & Industrial Products	Revenue	158.5	168.0	195.0				
	Business profit	7.8	13.0	-				
Other	Revenue	1.5	1.0	0.0				
	Business profit	-0.4	-1.0	-				
Corporate, Adjustment	Revenue	-1.5	-7.0	0.0				
	Business profit	-41.7	-52.0	-				
Consolidated total	Revenue	1,024.8	1,070.0	1,200.0				
	Business profit	65.8	79.0	96.0				
	ROS	6.4%	7.4%	8%				
	ROE	10.1%	11.3%	Sustain at at least 10%				

# Main Product Sales Trends



■ Results & outlook vs. previous fiscal year ASP (average selling prices) and sales amounts after conversion to yen

Product		FY2016 Full year (Actual)	FY2017/Q1 (Actual)	FY2017 Full year (Outlook)
Exchange rate	USD / EUR	¥108.38 / ¥118.79	¥111.08 / ¥122.12	¥109.00 / ¥123.00
IJP	Volume	+5%	+7%	+9%
	Office/ high-capacity ink tank as % of total unit sales	Approx. 20% / Approx. 40%	-	Approx. 20% / Approx. 45%
	ASP	- high single-digit %	+ low teen %	+ high single-digit %
	Revenue	- low single-digit %	+ high teen %	+ high teen %
IJP ink	Volume (packs)	-4%	-2%	-
	ASP	- low single-digit %	+ mid-single-digit %	-
	Revenue	- mid-single-digit %	+ low single-digit %	Flat YoY
SIDM printers	Volume	+4%	-25%	-10%
	ASP	- high teen %	+ low single-digit %	Flat YoY
	Revenue	- mid-teen %	- low 20%	- low teen %
Projectors	Volume	+6%	-2%	+2%
	ASP	- high single-digit %	+ mid-teen %	+ mid-single-digit %
	Revenue	- low single-digit %	+ low teen %	+ mid-single-digit %

The indicators in this document are based on values tracked internally by Epson.

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