

First Quarter Financial Results  
Fiscal Year 2016  
(Ending March 2017)

July 28, 2016  
**SEIKO EPSON CORP.**

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## ■ 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.

## ■ Disclosure of the first-half financial outlook

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Effective from the 2016 fiscal year, Epson will no longer disclose a financial outlook for the first half of the year.

## ■ Numerical values presented herein

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

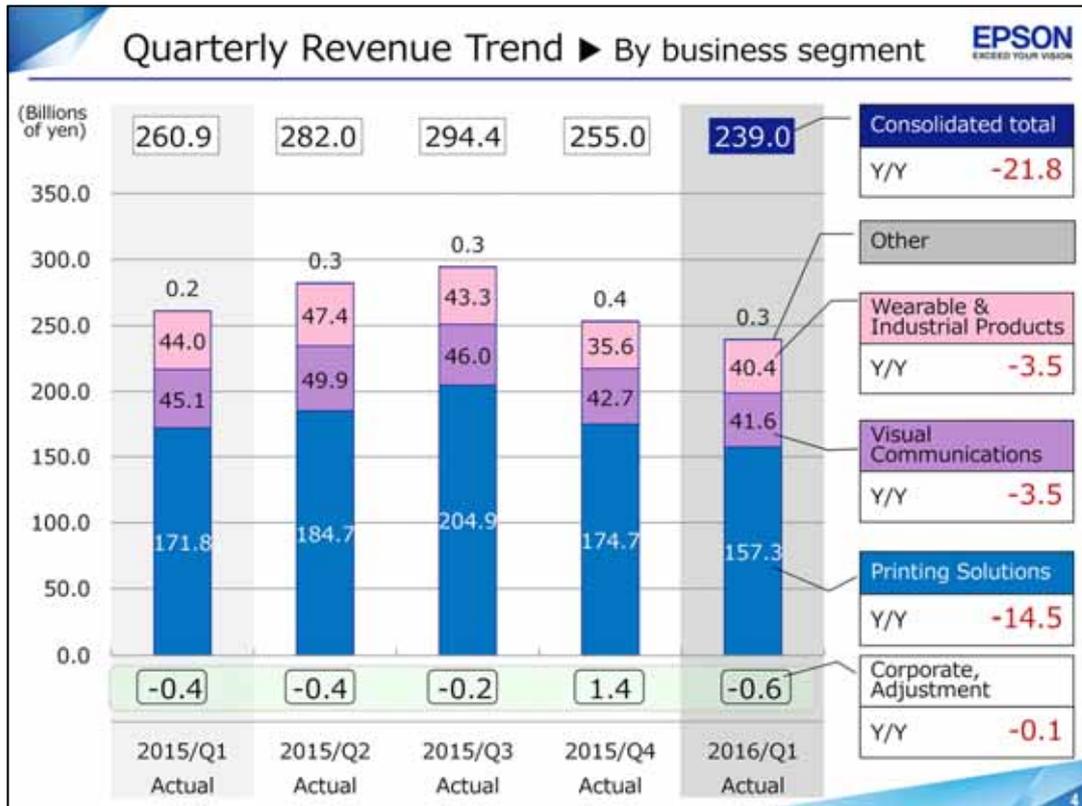
- 1) FY2016 Q1 Financial Results
- 2) FY2016 Financial Outlook

## Financial Highlights (First Quarter)

	FY2015		FY2016		Change				
	Q1 Actual	%	Q1 Actual	%	Amount	%			
(Billions of yen)									
Revenue	260.9	-	239.0	-	-21.8	-8.4%			
Business profit	16.5	6.3%	6.4	2.7%	-10.0	-60.8%			
Profit from operating activities	16.2	6.2%	6.9	2.9%	-9.3	-57.2%			
Profit before taxes	16.0	6.1%	6.3	2.7%	-9.6	-60.3%			
Profit for the period	10.5	4.0%	4.2	1.8%	-6.3	-60.2%			
EPS	¥29.43		¥11.58		Foreign exchange fluctuations (bil. yen)				
Exchange rate	USD	¥121.36	¥108.15		USD	EUR	Other currencies	Total	
	EUR	¥134.16	¥122.02		Revenue	-9.2	-3.9	-14.2	-27.4
					Business profit	+2.0	-2.7	-6.1	-6.8

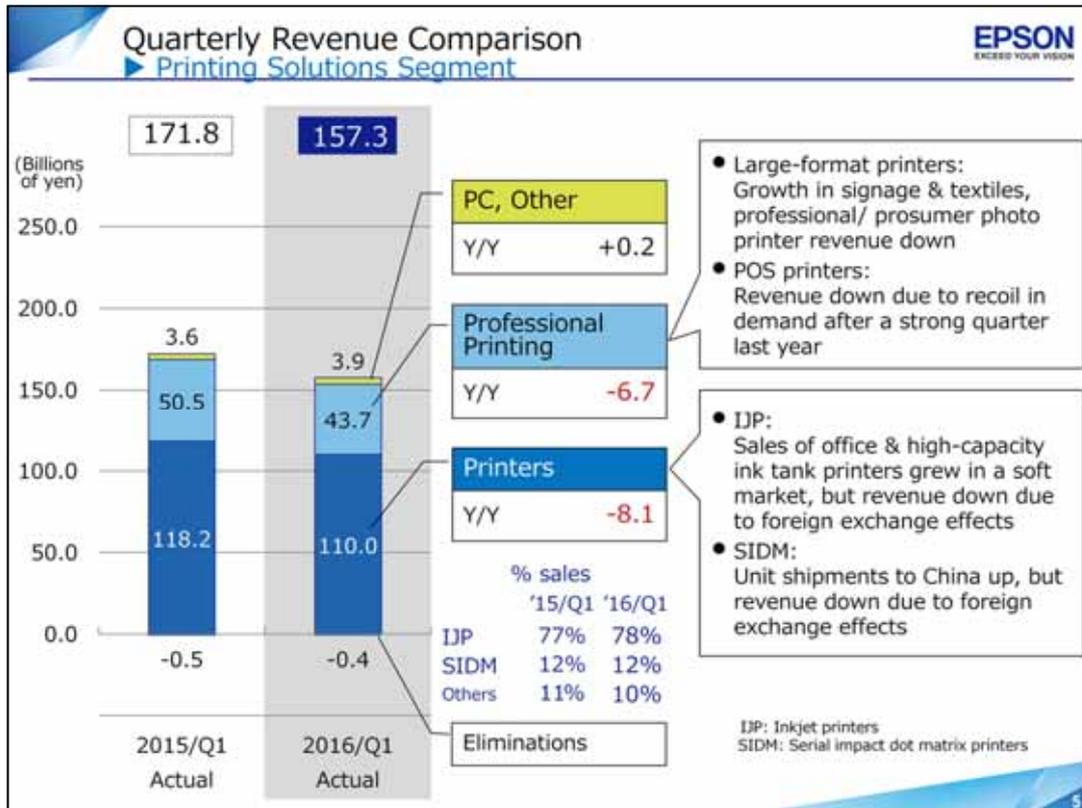
### ■ FY2016 Q1 results

- Revenue was ¥239.0 billion, down ¥21.8 billion compared to the same period last year. Business profit was ¥6.4 billion, down ¥10.0 billion. Profit for the period was ¥4.2 billion, down ¥6.3 billion.
- We were significantly impacted by the one-sided appreciation of the yen. Foreign exchange fluctuations had a ¥27.4 billion negative impact on revenue and a ¥6.8 billion negative impact on business profit for the quarter. In addition to the US dollar and the euro, the Chinese yuan fell by about 15% versus the yen compared to the same quarter last year. The Argentine peso fell by more than 40%, while the Brazilian real and Mexican peso each dropped by about 20%.

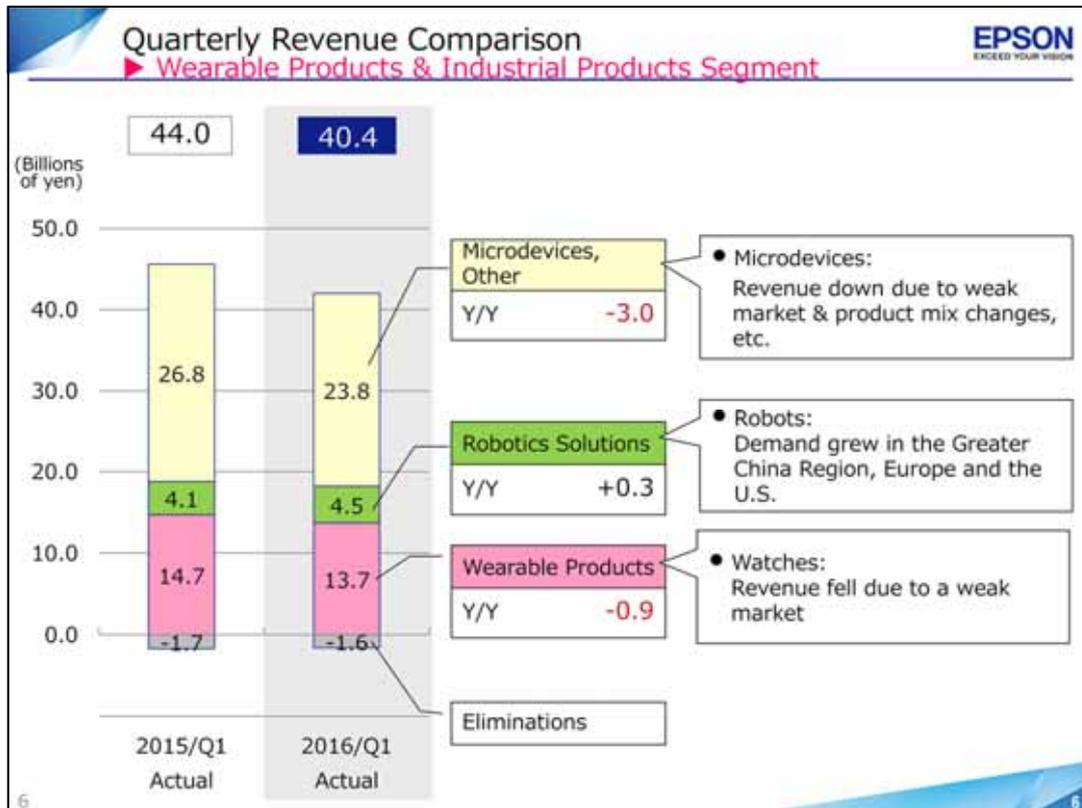


■ Quarterly revenue by segment over the last five quarters

- In visual communications, projector sales lost traction in Latin America due to the ongoing economic slump in the region. Nevertheless, we increased sales of models mainly in the volume zone and achieved a significant year-on-year unit shipment growth of 9%. We achieved this largely by stepping up our marketing and promotional campaigns. For example, in Europe we synchronized a marketing campaign with a major football tournament, and in Southeast Asia and India we developed sales channels and used in-store displays to show off the image quality of our projectors.
- Still, with a high percentage of sales overseas, we saw foreign exchange effects eat at our revenue.



- Quarterly revenue in businesses that make up the printing solutions segment
  - In the printer business, the inkjet printer market was soft, particularly in developed economies. But, while Epson's unit shipments declined in Japan, our total unit shipments increased by 8% year-on-year owing to increased sales of volume zone office printers in North America and Western Europe, as well as to growth in high-capacity ink tank printers in both emerging markets and Western Europe. We also launched these ink tank printers in North America and Japan. Ink revenue also continues to expand gradually, with North America and Western Europe fueling the majority of that growth. However, inkjet printer revenue decreased due to foreign exchange effects.
  - SIDM printer unit shipments increased by 19%, as we were able to capture increased demand generated by a change in the Chinese tax system, but revenue decreased because of foreign exchange effects related to the yuan and other currencies.
- In professional printing, we are strategically targeting the signage and textile markets, and we are seeing steady growth in both. In the existing photo and graphics markets, on the other hand, large-format printer sales have been steady, but competitors continue to pursue low-price strategies in photo printers for professionals and prosumers. Revenue in the professional printing business as a whole decreased because, in addition to foreign exchange effects, POS printer sales recoiled in response to large orders in the same period last year.



■ Quarterly revenue in businesses that make up the wearable & industrial products

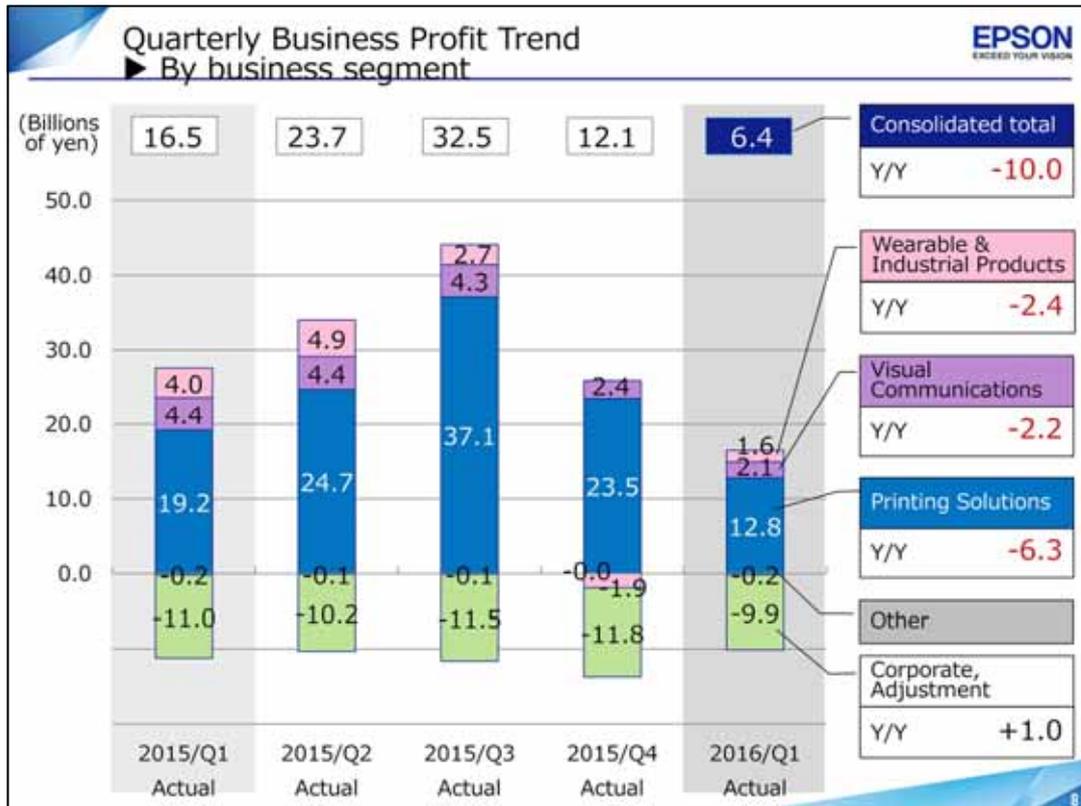
- In wearable products, total revenue decreased due to a decline in watch unit shipments. Foreign watch demand shrank in response to declining market conditions while tourist demand for watches quieted in Japan.
- In robotics solutions we increased revenue by capturing orders in areas of strong demand, in the Greater China Region, Europe, and the U.S.
- In microdevices and other, we saw growth in sales of crystal devices to the network, communications, and automotive sectors, but sales to manufacturers of consumer devices decreased.

In semiconductors, external sales decreased in association with changes in the silicon foundry product mix, and as a result of weaker demand for products such as STN LCD drivers for automotive applications.

Foreign exchange effects were an additional factor in the decrease in total revenue in the business as a whole.

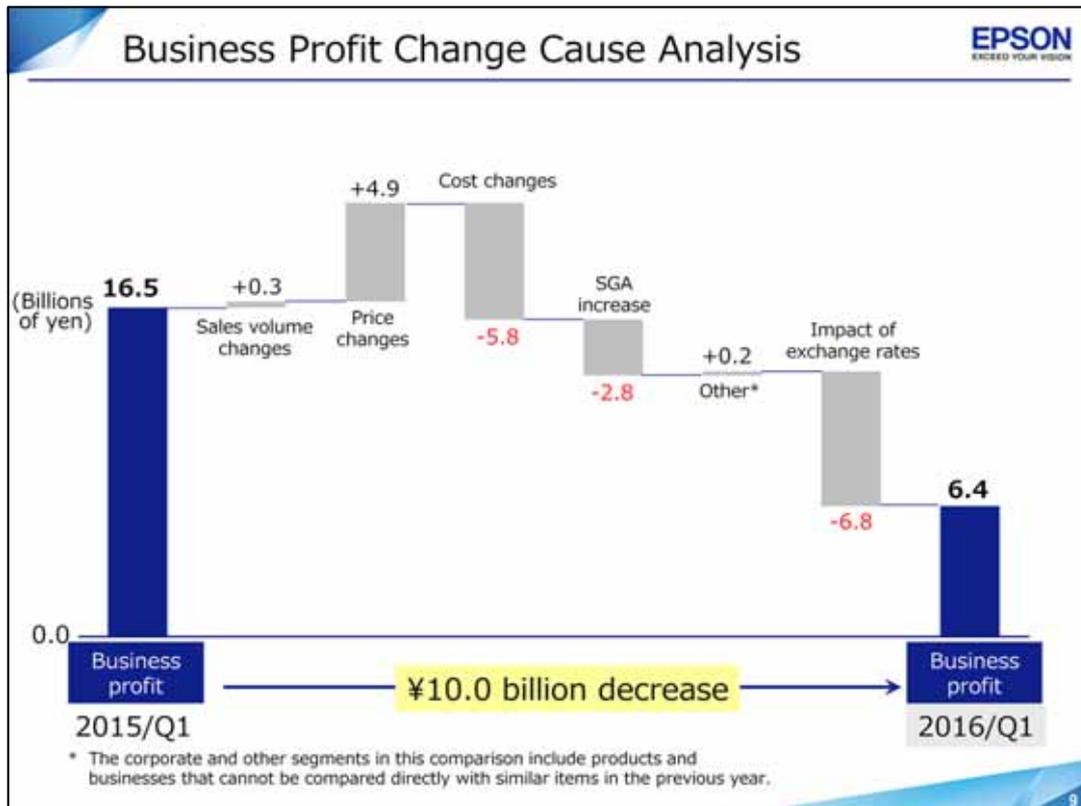


- Quarterly selling, general and administrative expenses
  - These expenses fell by ¥2.7 billion in comparison to the first quarter of last year when converted to yen due to the appreciation of the Japanese currency.
  - However, when the SGA expenses for the two quarters are calculated using the same exchange rates, they actually increased this year by about ¥2.8 billion because we strengthened our strategic marketing and advertising campaigns and reinforced our sales and marketing organization in line with the Epson 25 Mid-Range Business Plan.



■ Breakdown of quarterly business profit by segment

- Printing solutions business profit declined by ¥6.3 billion.
- Professional printing business profit decreased on lower revenue.
- In the printer business, business profit for SIDM declined slightly due to the effects of foreign exchange. Inkjet printer business profit was in line with the same period in the previous year. Despite the negative impact of foreign exchange and outlay on strategic investments, business profit benefitted from expanding sales of high-capacity ink tank printers and steady ink sales.
- In visual communications, we sharply increased projector unit shipments, but business profit fell due to a combination of foreign exchange effects, a change in the composition of the model mix caused by an increase in sales of volume zone models, and strategic investments.
- Wearable & industrial products profit also fell on lower revenue.
- I'll now talk about our progress regarding the internal plan. Both revenue and business profit both fell slightly short of the internal plan for the first quarter.
- Revenue in the printing solutions segment as a whole was solid. Although revenue in the professional printing business was hurt by POS printer orders that slid out into next quarter or later, segment revenue benefited from the printer business, which met its unit sales target for high-capacity ink tank printers and saw firm demand for ink.
- In visual communications we saw a slump in sales due to the economic slowdown in Latin America, but we very nearly met our revenue plan, in large part as a result of capturing contracts from the education sector in Asia.
- Wearable & industrial products revenue ended slightly below the internal plan due to a combination of factors. These factors included, for example, a decline in watch and watch movement sales due to the effects of a deterioration in market conditions in wearable products, a reduction in certain robot orders, and, in microdevices and other businesses, changes in semiconductor product mix.
- Consolidated business profit ended slightly below the internal plan because, in addition to a slight shortfall in revenue due to a delay in certain POS printer orders, we increased production of ink cartridge printers in the printer business in response to strong demand for office inkjets in North America and Western Europe.
- This increase in unit production will not have a material impact on our full-year financial results.



- Cause analysis of the changes in business profit compared to the same period last year
- This slide shows a cause analysis of the ¥10.0 billion decrease in consolidated business profit compared to the same period last year. Business profit took a ¥6.8 billion hit from foreign exchange fluctuations.
- Volume fluctuations in inkjet printers in which high-capacity ink tank models are selling well, SIDM printers, and projectors positively affected business profit, while inkjet printer ink and watch volume fluctuations had a negative impact.
- Price fluctuations positively affected business profit. While on one hand we saw falling ASPs for ink cartridge printers and declines in the product mix for semiconductors, we compensated by adjusting selling prices in line with currency fluctuations in Latin America and by adjusting the ink and watch model mixes to increase ASPs.
- Ink profit was negatively affected by volume fluctuations and positively affected by price fluctuations, but this was caused by a shift toward larger ink consumables as office inkjet printers penetrated the market. On a constant currency basis, business profit from ink increased.
- Cost fluctuations were a negative factor because of changes in the product mix, because of curtailed production volume in the wearable products and microdevices businesses compared to the same period in the previous year, because of greater production volumes of ink cartridge models and also because of larger inventory write-offs accompanying ASP declines for the same printers.
- SGA expenses increased due to strategic investments and other factors.

## Q1 Actions and Achievements



- Smooth start on the strategic front
  - High-capacity ink tank printer sales smoothly expanding
    - Cumulative unit shipments topped 15 million
    - Sales also increasing in Western Europe and North America
  - Ink sales continue to grow
  - Linehead printer development on track
  - Strategic progress in professional printing
    - Solid sales of new signage printers
    - Strengthened the textile category by acquiring Robustelli of Italy
  - Set a new record for monthly projector shipments in June
  - Robots
    - Force sensor sales strong
    - Started accepting orders for compact new 6-axis robots
- Repurchased Epson shares

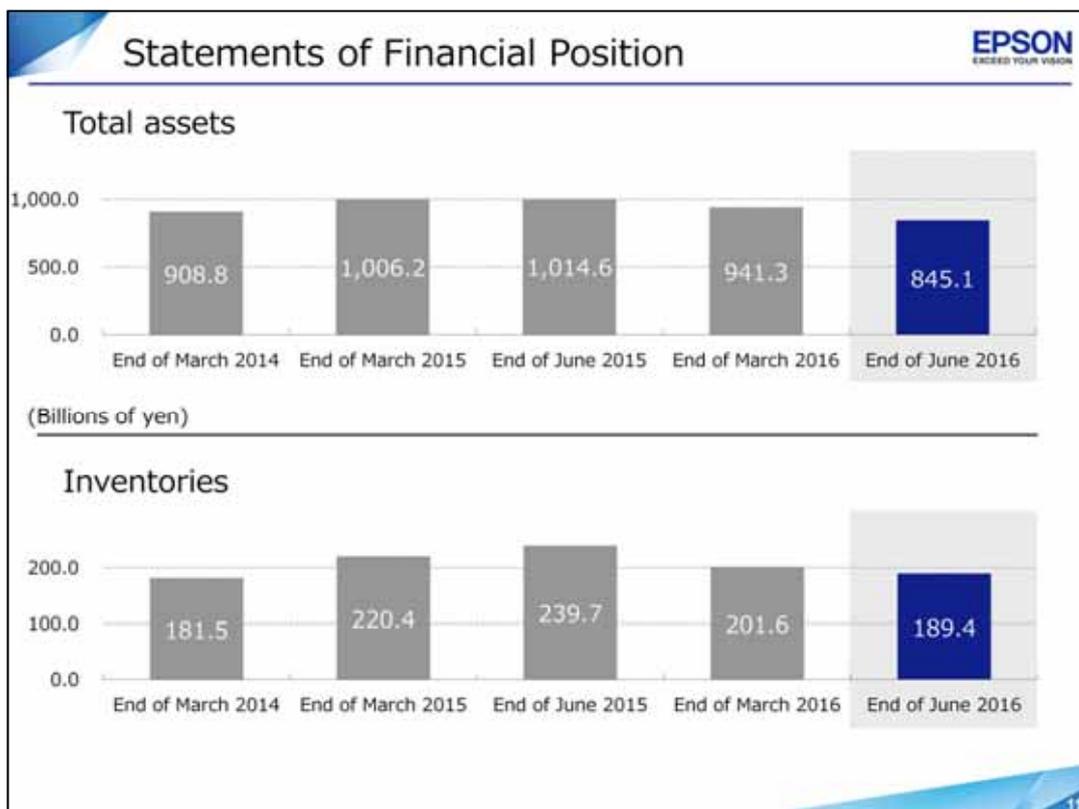






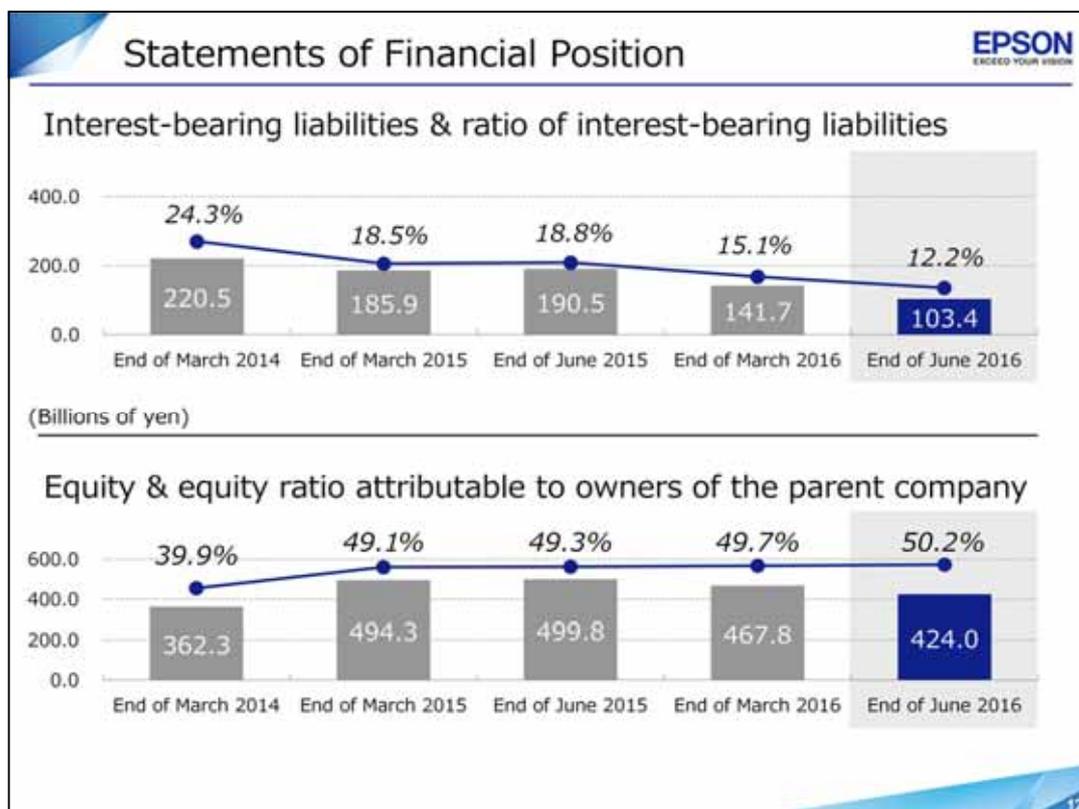
### ■ Q1 actions and achievements

- We have been stepping up our actions this year to build a foundation for sustained long-term growth in line with the Mid-Range Business Plan.
- Although results fell slightly short of our internal plan in the first quarter, these actions have, for the most part, made a smooth start.
- Sales of high-capacity ink tank printers have remained strong since we first introduced them in 2010, and cumulative sales have now topped 15 million. Moreover, we have also built awareness of these printers in developed economies, and sales are steadily increasing there, as well.
- Ink sales have also continued to grow due to improvements in the install base.
- Development work on printers equipped with lineheads is moving forward in line with the plan.
- In the professional printing business, the new signage printers we began launching in the second half of last fiscal year have been very well received, and sales have been firm.
- We improved our sales and support capability in the textile printer category by acquiring Italy-based Robustelli, to accompany existing Group company For.Text.
- In visual communications, we further solidified our presence in the projector market. We even set a new record for projector shipments in June despite the sluggish market. In the second half we plan to expand further by launching competitive new laser projectors in the high-brightness category, an area in which we had a low profile.
- In the robotics solutions business, sales of our newly released force sensors, which leverage Epson's quartz crystal sensing expertise, have been strong. We have also started accepting orders for compact 6-axis robots with slimmer, folding arms.
- Moreover, we repurchased Epson shares in the first quarter to optimize capital efficiency and increase shareholder returns. As stated in our business plan, we will continue to move agilely to repurchase additional shares if warranted by our financial performance, the free cash flow situation, and share price.



■ Major items on the statements of financial position

- Total assets decreased by ¥96.2 billion compared to the end of the prior fiscal year. In addition to currency translation losses due to the rise in the yen, total assets decreased chiefly due to decreases in cash and cash equivalents, trade and other receivables, and inventories.
- Cash and cash equivalents decreased primarily as a result of the repurchase of shares, redemption of bonds, and dividend payments.
- Inventories decreased by ¥12.1 billion compared to the end of March 2016, largely due to currency translation losses.



■ Major items on the statements of financial position

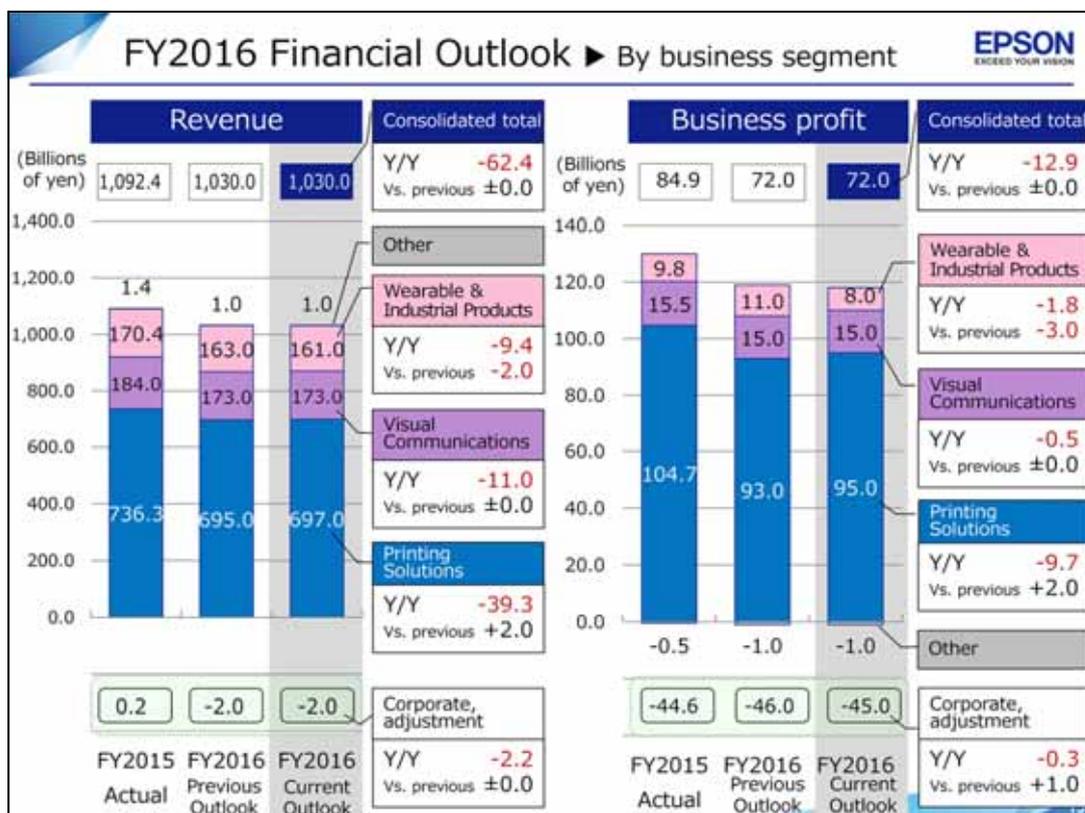
- Interest-bearing liabilities were ¥103.4 billion, a decrease of ¥38.2 billion compared to the end of the previous fiscal year chiefly due to a redemption of bonds payable. As a result, the ratio of interest-bearing liabilities to total assets was 12.2%.
- Net cash was ¥60.2 billion.
- Equity attributable to owners of the parent company decreased by ¥43.8 billion compared to the previous fiscal year end. This was due chiefly to the rise of the yen, which resulted in a decline in the yen equivalent value of foreign assets, and dividend payments. The equity ratio attributable to owners of the parent company was 50.2%.

- 1) FY2016 Q1 Financial Results
- 2) FY2016 Financial Outlook

		FY2015		FY2016				Change (amount, %)	
(Billions of yen)		Actual	%	4/28 Outlook	%	7/28 Outlook	%	Y/Y	Vs. 4/28 Outlook
Revenue		1,092.4	-	1,030.0	-	1,030.0	-	-62.4	±0.0
Business profit		84.9	7.8%	72.0	7.0%	72.0	7.0%	-5.7%	±0.0%
Profit from operating activities		94.0	8.6%	70.0	6.8%	70.0	6.8%	-12.9	±0.0%
Profit before taxes		94.0	8.6%	70.0	6.8%	70.0	6.8%	-25.6%	±0.0%
Profit for the year		91.5	8.4%	69.0	6.7%	69.0	6.7%	-24.0	±0.0
		46.0	4.2%	54.0	5.2%	54.0	5.2%	-24.6%	±0.0%
EPS		¥127.94		¥150.93		¥153.23			
Exchange rate								● Current outlook exchange rate assumptions from Q2 onward USD: ¥105.00/ EUR: ¥120.00	
USD		¥120.14		¥105.00		¥106.00		● Exchange rate sensitivity - Effect on business profit of 1-yen drop in yen value USD: -¥0.3 bil. / EUR: +¥0.9 bil.	
EUR		¥132.58		¥120.00		¥121.00		- Effect on business profit of 1% depreciation in yen value For currencies other than USD & EUR: +¥1.0 bil.	

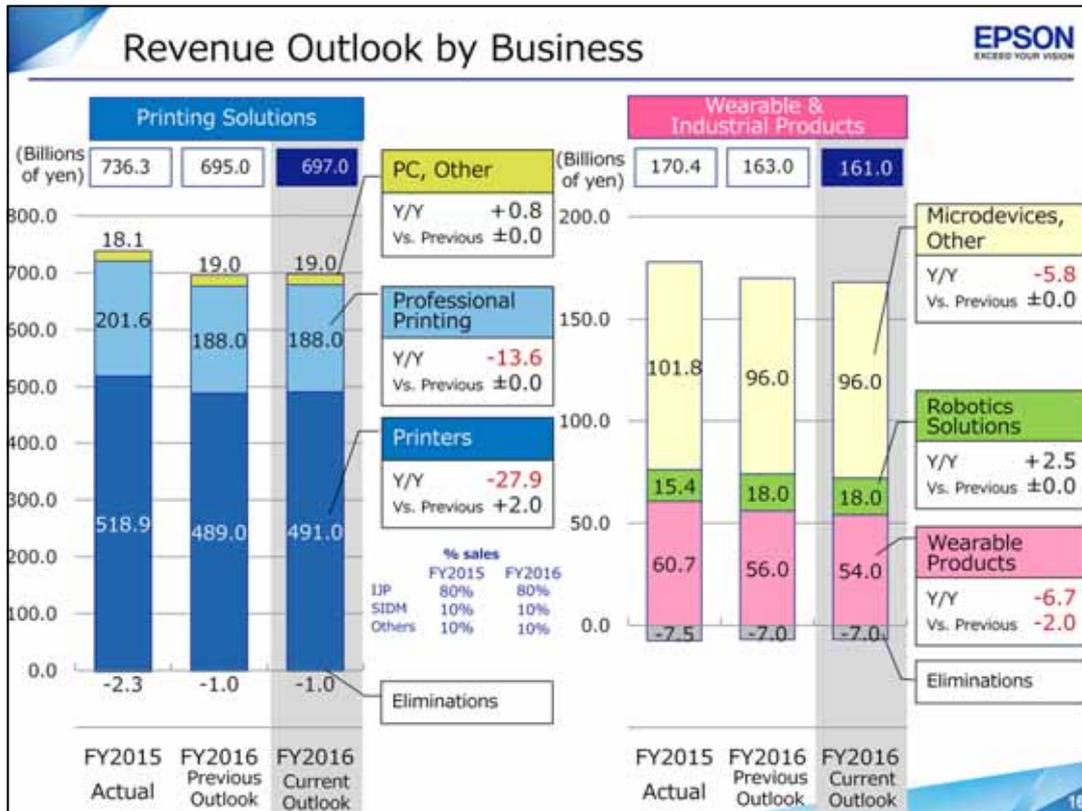
#### ■ FY2016 full-year outlook

- We got off to a good start in the first quarter on the actions we took under the Mid-Range Business Plan. Sales of strategic products steadily expanded, we strengthened our organizations, and development work on the next generation of products steadily advanced.
- There are elements of uncertainty in the environment in which we operate including macro environmental factors and foreign exchange fluctuations. However, in addition to our conservative initial foreign exchange assumptions, we do not at this stage see any major factors affecting our businesses that would necessitate a dramatic revision of our financial outlook.
- So, after re-examining each of the segments and businesses based on the business situation in the first quarter and the outlook from the second quarter, we decided to stand by our previous outlook, in which we forecast ¥1,030 billion in revenue, ¥72.0 billion in business profit, and ¥54.0 billion profit for the year.
- Assumed exchange rates for second and remaining quarters also remain at 105 yen to the US dollar and 120 yen to the euro.
- The estimated sensitivity of annual business profit to a one-yen decline in exchange rates is also unchanged at minus ¥0.3 billion for the US dollar and plus ¥0.9 billion for the euro.

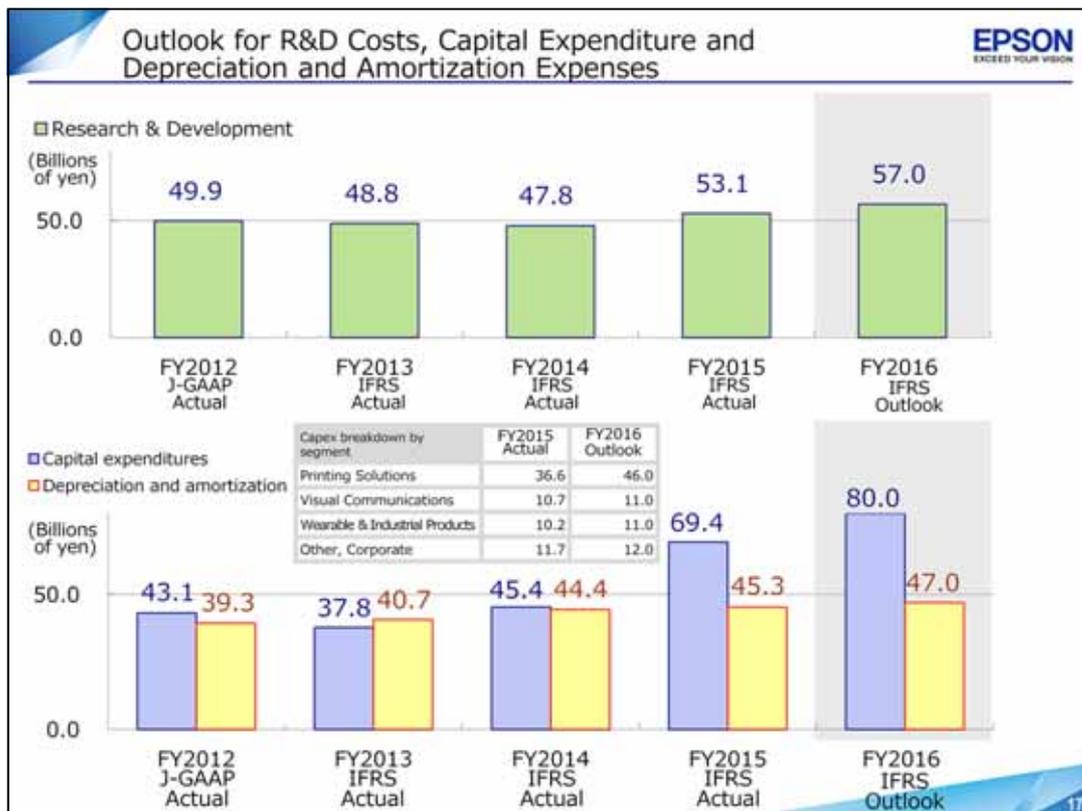


■ Revenue and business profit broken out by segment

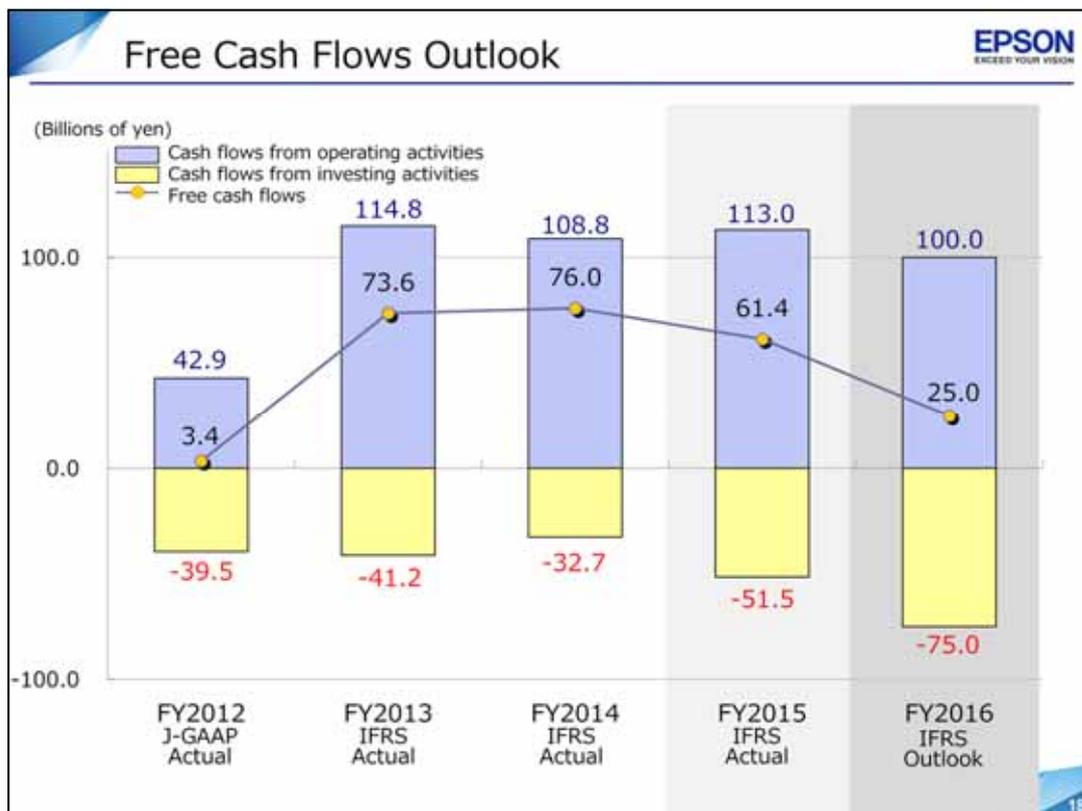
- The revenue and business profit outlooks for the different segments are shown here.
- Let's start with the printing solutions segment. In the printer business we expect unit shipments of high-capacity ink tank printers to increase, especially in Southeast Asia, and expect a continued steady rise in ink sales.
- As a result, we raised both the revenue and business profit outlook by ¥2.0 billion for the segment as a whole.
- The outlook in visual communications has not changed.
- In wearable & industrial products we lowered the revenue and business profit forecasts by ¥2.0 billion and ¥3.0 billion, respectively. We lowered the outlook in the wearable products business because overseas sales of watches, and watch movements, are seen decreasing due to deteriorating market conditions and changes in the product mix. We also lowered the outlook in the robotics solutions and microdevices and other businesses.
- As for corporate expenses, we factored in an additional ¥1.0 billion in business profit from fixed cost reductions.



- Revenue projections for the business in printing solutions and in wearable & industrial products

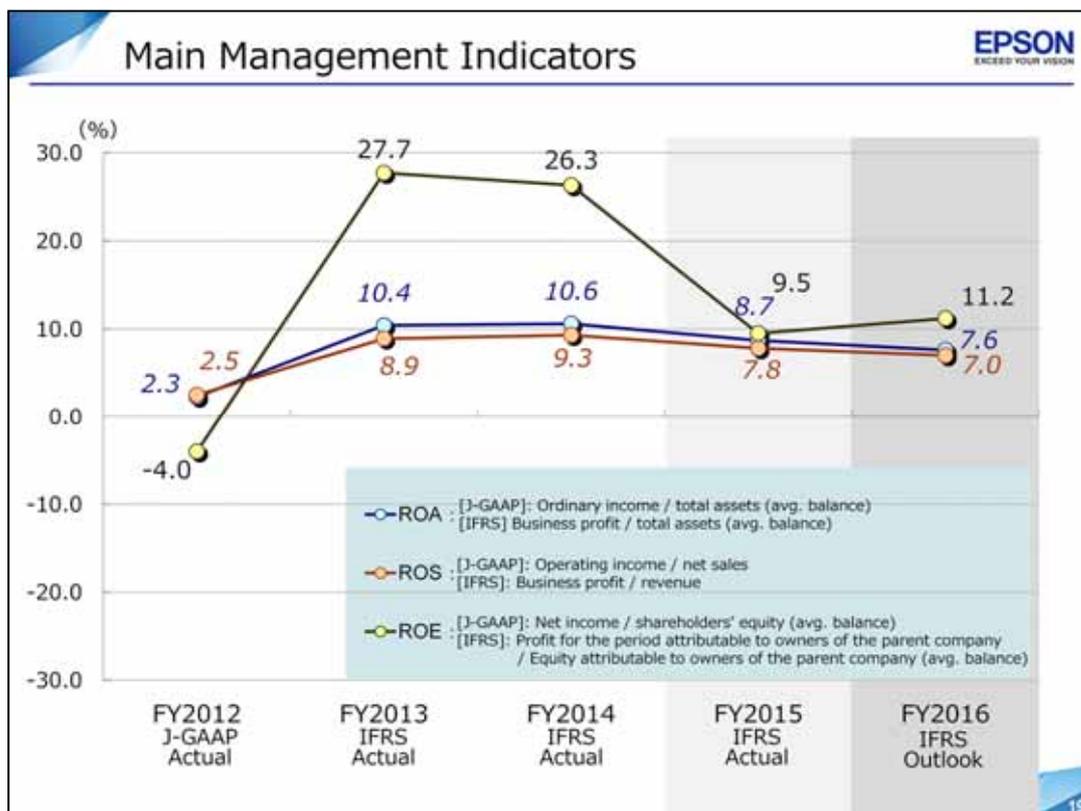


- Outlook for R&D costs, capital expenditures and depreciation and amortization expenses
- There has been no change in the outlook for research and development expenses, capital expenditures, and depreciation and amortization.



■ Cash flows

- The cash flow outlook has not changed.



■ Major management performance indicators

- As previously forecast, we expect a 7.0% return on sales, 7.6% return on assets, and 11.2% return on equity.

## Reference

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## Major Business Indicators

(Billions of yen)

		FY2015 Actual	FY2016 Current Outlook	FY2018 Targets	Category	FY2015 Actual	FY2016 Current Outlook	3-year cumulative (FY2016-18 business plan)
Printing Solutions	Revenue	736.3	697.0	805.0	Operating CF	113.0	100.0	330.0
	Business profit	104.7	95.0	-				
Visual Communications	Revenue	184.0	173.0	200.0	FCF	61.4	25.0	120.0
	Business profit	15.5	15.0	-				
Wearable & Industrial Products	Revenue	170.4	161.0	195.0	Capital expenditure	69.4	80.0	Approx. 210.0
	Business profit	9.8	8.0	-	R&D costs	53.1	57.0	Invest aggressively
Other	Revenue	1.4	1.0	0.0	Exchange rate			
	Business profit	-0.5	-1.0	-		FY2015 Actual	FY2016 Current Outlook	FY2016-18 business plan
Corporate, Adjustment	Revenue	0.2	-2.0	0.0	USD	¥120.14	¥106.00	¥115.00
	Business profit	-44.6	-45.0	-	EUR	¥132.58	¥121.00	¥125.00
Consolidated total	Revenue	1,092.4	1,030.0	1,200.0				
	Business profit	84.9	72.0	96.0				
	ROS	7.8%	7.0%	8%				
	ROE	9.5%	11.2%	Sustain at at least 10%				

## Main Product Sales Trends

FY2015 result (vs. FY2014) and FY2016 forecast (vs. FY2015)

ASP (average selling prices) and sales amounts after conversion to yen

Product		FY2015 Full year	FY2016 Q1	FY2016 Full year (forecast)
IJP	Volume	+1%	+8%	+7%
	Office/ high-capacity ink tank as % of total unit sales	Approx. 20%/ Approx. 35%	-	Approx. 20%/ Approx. 40%
	ASP	+ low single-digit %	Around -10%	- high single-digit %
	Revenue	+ low single-digit %	- low single-digit %	Flat YoY
IJP ink	Volume	0%	-3%	-
	ASP	+ mid-single-digit %	- low single-digit %	-
	Revenue	+ mid-single-digit %	- mid-single-digit %	- high single-digit %
SIDM printers	Volume	-6%	+19%	+18%
	ASP	+ low single-digit %	- mid 20 %	- high teen %
	Revenue	- low single-digit %	Around -10%	- mid-single-digit %
Projectors	Volume	+2%	+9%	+4%
	ASP	+ low single-digit %	- mid-teen %	- low teen %
	Revenue	+ mid-single-digit %	- high single-digit %	- high single-digit %

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

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