

# Second Quarter Financial Results Fiscal Year 2016 (Ending March 2017)

October 27, 2016

**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.



- **1. Overview**

- 2. Details

# Financial Highlights (First Half)

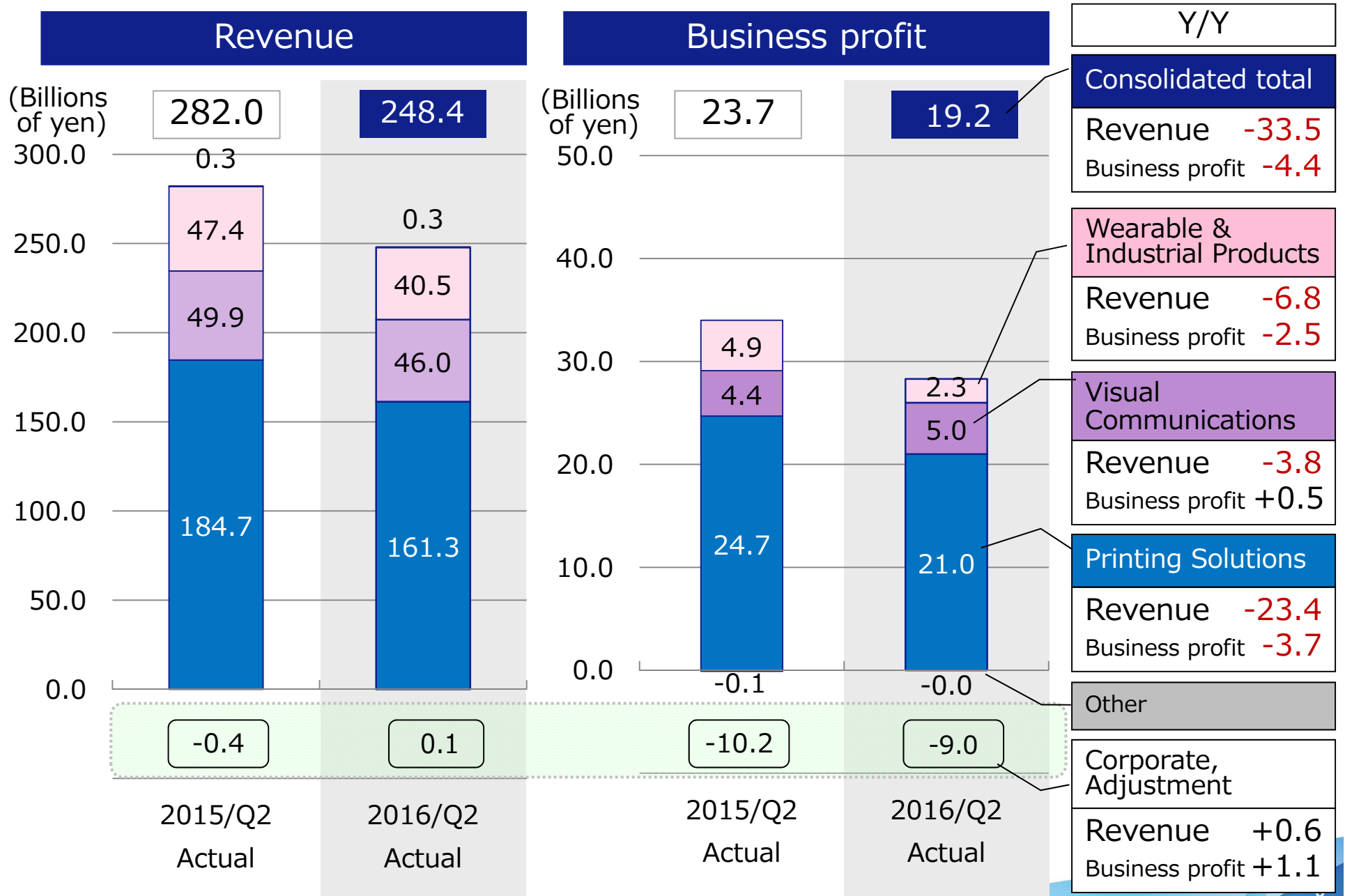
		FY2015		FY2016		Y/Y																
		Actual	%	Actual	%	Change (amount, %)																
(Billions of yen)																						
Revenue		542.9	-	487.5	-	-55.4	-10.2%															
Business profit		40.2	7.4%	25.7	5.3%	-14.5	-36.1%															
Profit from operating activities		41.7	7.7%	27.7	5.7%	-13.9	-33.4%															
Profit before taxes		40.1	7.4%	27.0	5.6%	-13.0	-32.5%															
Profit for the period		26.1	4.8%	18.6	3.8%	-7.5	-28.9%															
EPS		¥72.75		¥52.09		Exchange difference (Billions of yen)																
Exchange rate	USD	¥121.80		¥105.29																		
	EUR	¥135.07		¥118.15																		
						<table border="1"> <thead> <tr> <th></th> <th>USD</th> <th>EUR</th> <th>Other</th> <th>Total</th> </tr> </thead> <tbody> <tr> <td>Revenue</td> <td>-24.3</td> <td>-10.8</td> <td>-30.5</td> <td>-65.7</td> </tr> <tr> <td>Business profit</td> <td>+4.7</td> <td>-7.5</td> <td>-12.7</td> <td>-15.5</td> </tr> </tbody> </table>			USD	EUR	Other	Total	Revenue	-24.3	-10.8	-30.5	-65.7	Business profit	+4.7	-7.5	-12.7	-15.5
	USD	EUR	Other	Total																		
Revenue	-24.3	-10.8	-30.5	-65.7																		
Business profit	+4.7	-7.5	-12.7	-15.5																		

# Financial Highlights (Second Quarter)

		FY2015		FY2016		Change																
		Q2 Actual	%	Q2 Actual	%	Amount	%															
(Billions of yen)																						
Revenue		282.0	-	248.4	-	-33.5	-11.9%															
Business profit		23.7	8.4%	19.2	7.8%	-4.4	-18.8%															
Profit from operating activities		25.4	9.0%	20.7	8.4%	-4.6	-18.2%															
Profit before taxes		24.0	8.5%	20.7	8.3%	-3.3	-14.0%															
Profit for the period		15.6	5.5%	14.4	5.8%	-1.2	-7.7%															
EPS		¥43.32		¥40.66		Exchange difference (Billions of yen)																
Exchange rate	USD	¥122.23		¥102.44																		
	EUR	¥135.98		¥114.28																		
						<table border="1"> <thead> <tr> <th></th> <th>USD</th> <th>EUR</th> <th>Other</th> <th>Total</th> </tr> </thead> <tbody> <tr> <td>Revenue</td> <td>-15.1</td> <td>-6.9</td> <td>-16.2</td> <td>-38.3</td> </tr> <tr> <td>Business profit</td> <td>+2.7</td> <td>-4.8</td> <td>-6.6</td> <td>-8.7</td> </tr> </tbody> </table>			USD	EUR	Other	Total	Revenue	-15.1	-6.9	-16.2	-38.3	Business profit	+2.7	-4.8	-6.6	-8.7
	USD	EUR	Other	Total																		
Revenue	-15.1	-6.9	-16.2	-38.3																		
Business profit	+2.7	-4.8	-6.6	-8.7																		

# FY2016 Q2 Financial Results

## ► By business segment

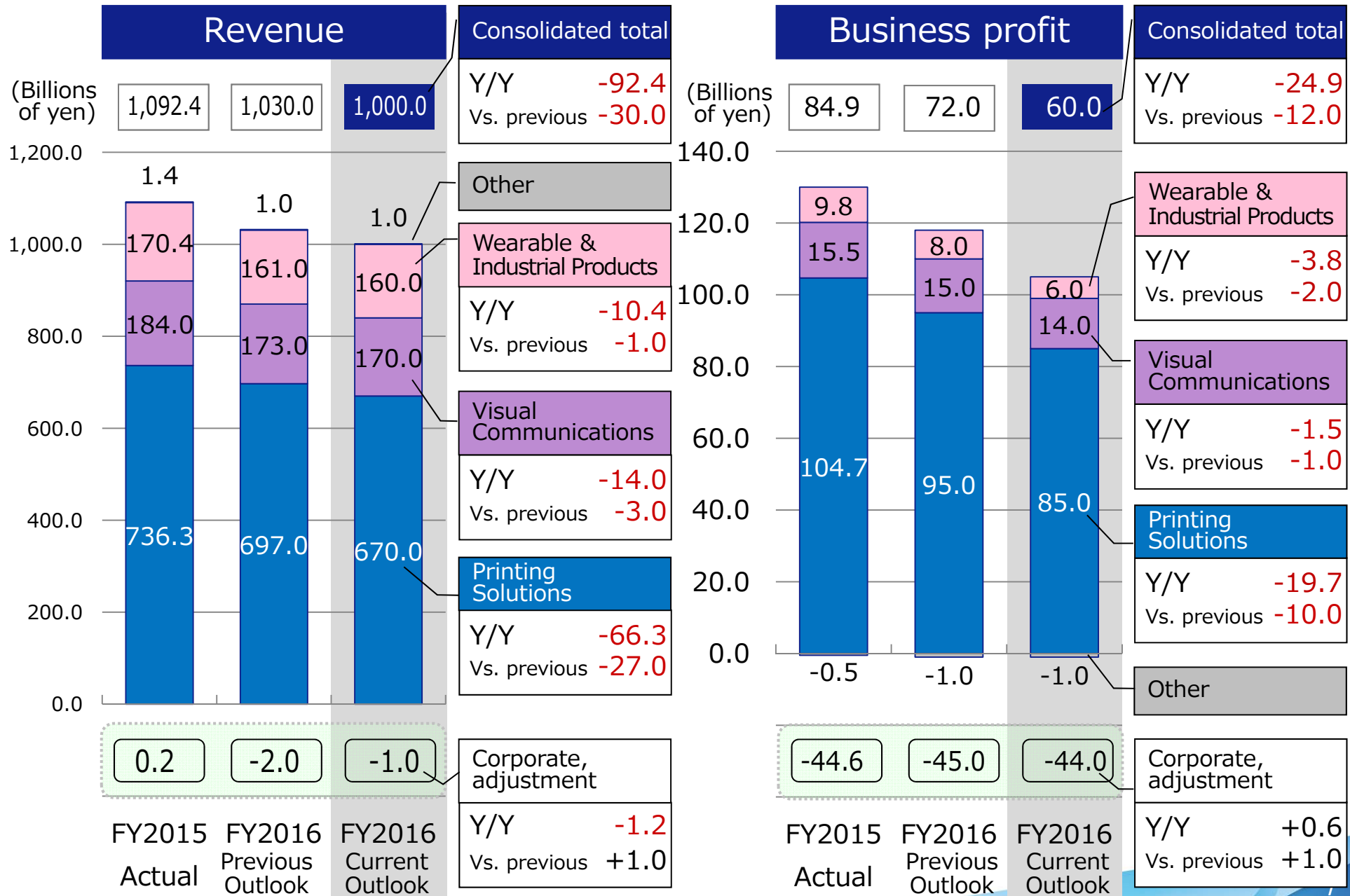


# FY2016 Financial Outlook

	FY2015		FY2016				Change (amount, %)	
	Actual	%	7/28 Outlook	%	10/27 Outlook	%	Y/Y	Vs. 7/28 Outlook
(Billions of yen)								
Revenue	1,092.4	-	1,030.0	-	1,000.0	-	-92.4 -8.5%	-30.0 -2.9%
Business profit	84.9	7.8%	72.0	7.0%	60.0	6.0%	-24.9 -29.4%	-12.0 -16.7%
Profit from operating activities	94.0	8.6%	70.0	6.8%	60.0	6.0%	-34.0 -36.2%	-10.0 -14.3%
Profit before taxes	91.5	8.4%	69.0	6.7%	59.0	5.9%	-32.5 -35.5%	-10.0 -14.5%
Profit for the year	46.0	4.2%	54.0	5.2%	46.0	4.6%	-0.0 -0.1%	-8.0 -14.8%
EPS	¥127.94		¥153.23		¥130.60			
Exchange rate	USD	¥120.14	¥106.00		¥103.00			
	EUR	¥132.58	¥121.00		¥114.00			

- Exchange rate assumptions from Q3  
USD: ¥100.00  
EUR: ¥110.00
- Exchange rate sensitivity
  - Effect on business profit of 1-yen rise in yen value  
USD: +¥0.3 bil. / EUR: -0.9 bil.
  - Effect on business profit of 1% rise in yen value  
Currencies other than USD & EUR: -¥1.0 bil.

# FY2016 Financial Outlook ▶ By business segment







# Main Factors Affecting the FY2016 Outlook

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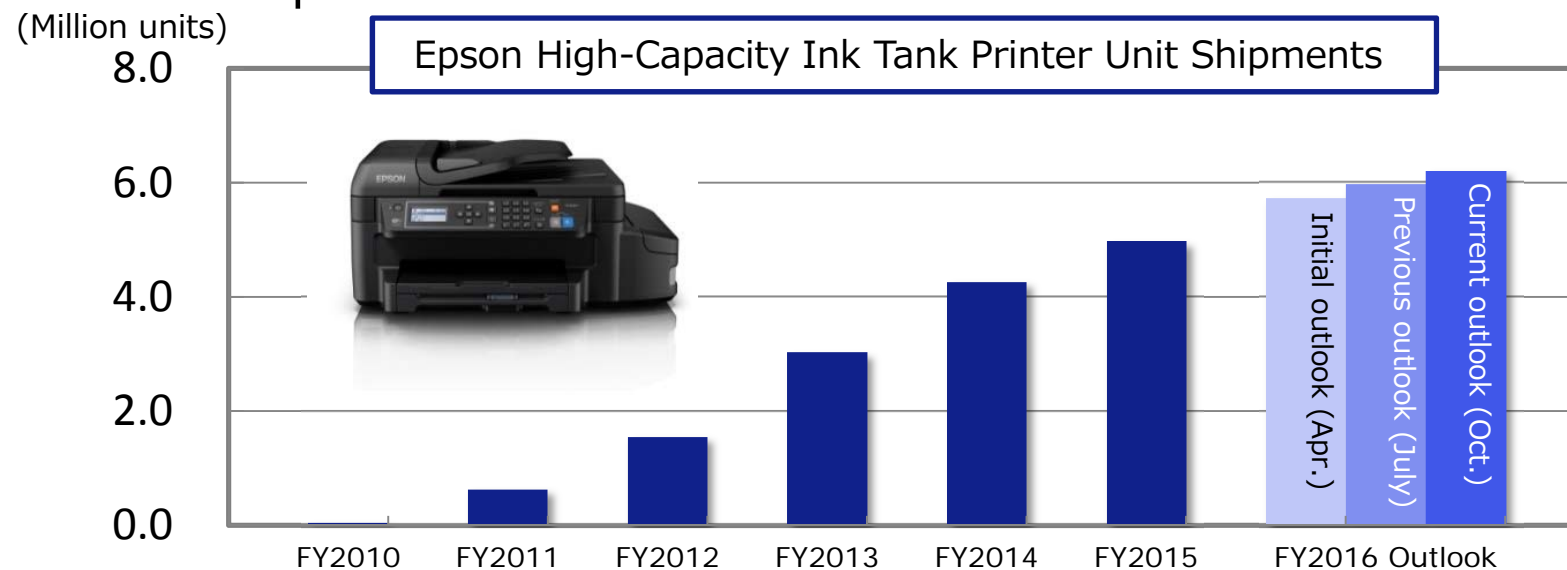
- Change in exchange rate assumptions (from Q3: ¥100/USD, ¥110/EUR)
  - Negative impact of ¥30 billion on revenue and ¥10 billion on business profit
- Increased costs for ocean shipping, etc.
- Printing Solutions
  - Further increase in high-capacity ink tank printer unit shipments
  - Effect on SIDM of change in Chinese tax policy
  - Temporary increase in customer service costs for POS printers (check scanners sold to certain customers)
- Visual Communications
  - Continued firm demand forecast for 2nd half
- Wearable & Industrial Products
  - Adjusted robot demand forecast
  - Microdevices: Decline in sales of crystal products for personal devices
- Fixed cost reductions

- Strategic progress

- Expanding revenue and business profit on a constant currency basis

- Printers

- Continuing to expand high-capacity ink tank printer shipments



- Achieving stable ink revenue

- Linehead inkjet printer development remains on track

- Professional Printing
  - Steadily increasing sales in growth areas (signage, textiles, labels)
- Visual Communications
  - Further increased presence in projector market
  - Launching new products in high-brightness segment
- Wearable & Industrial Products
  - Expanding robot applications and customer base





■ 1. Overview

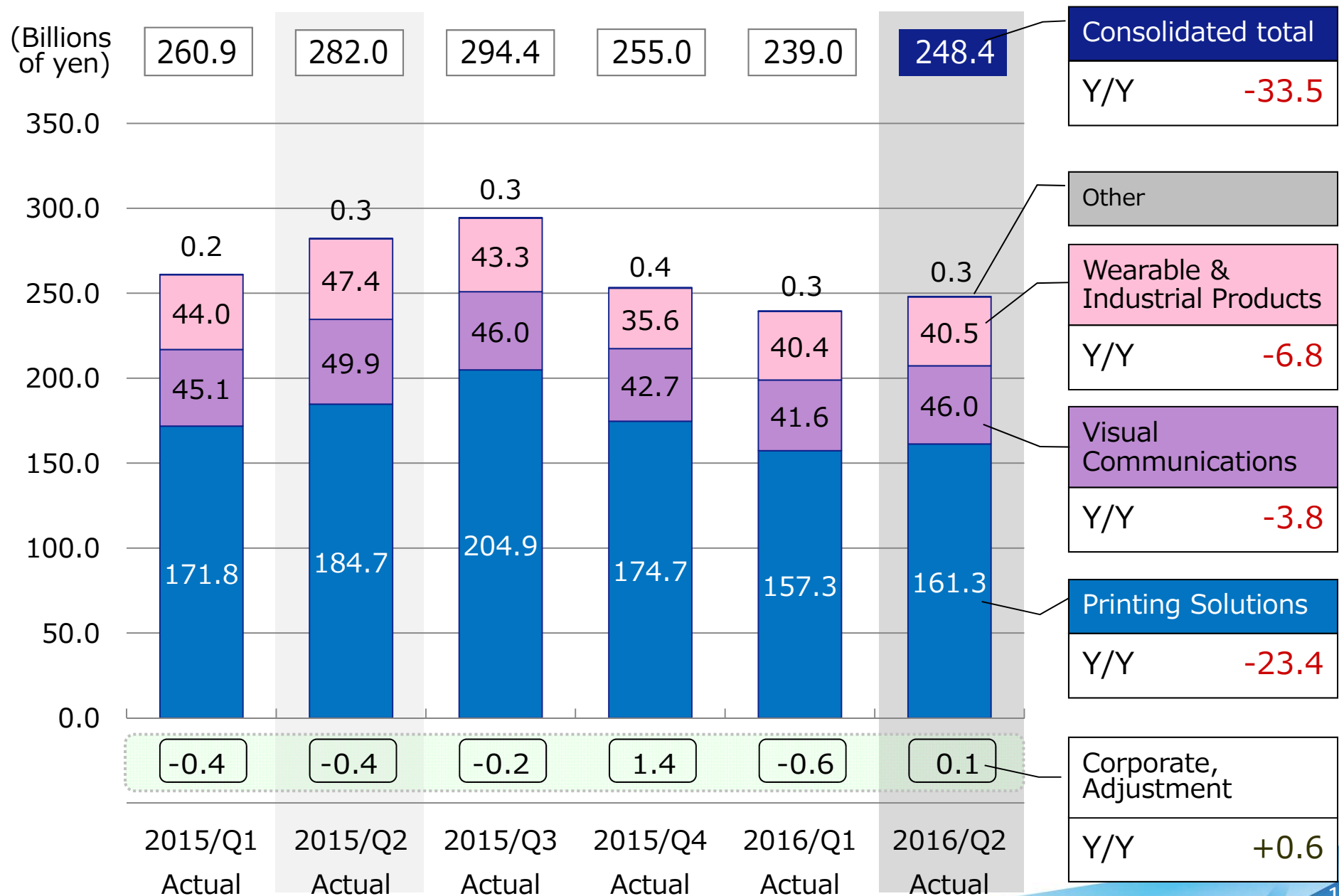
■ **2. Details**



1) FY2016 Q2 Financial Results

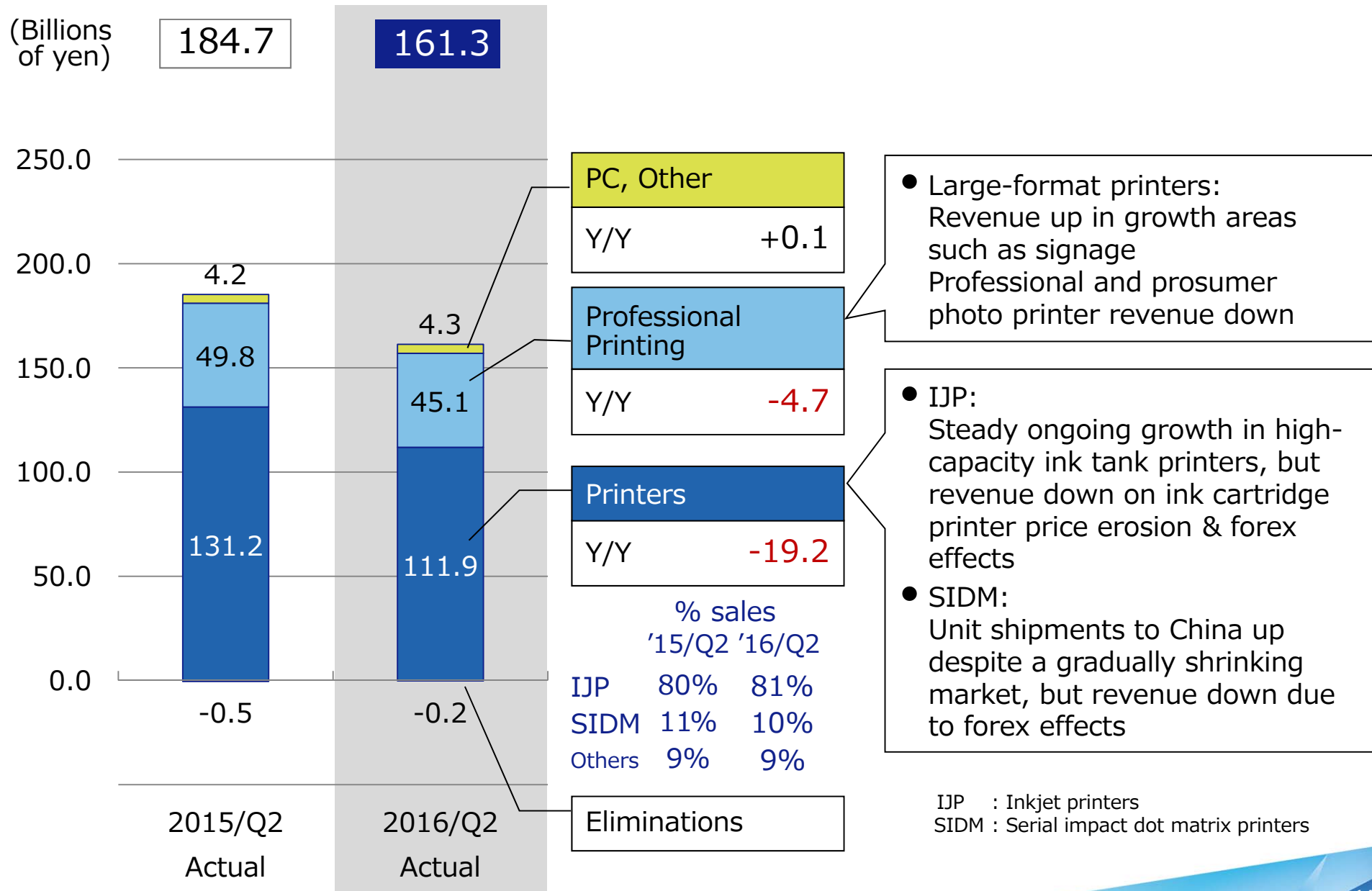
2) FY2016 Financial Outlook

# Quarterly Revenue Trend ▶ By business segment



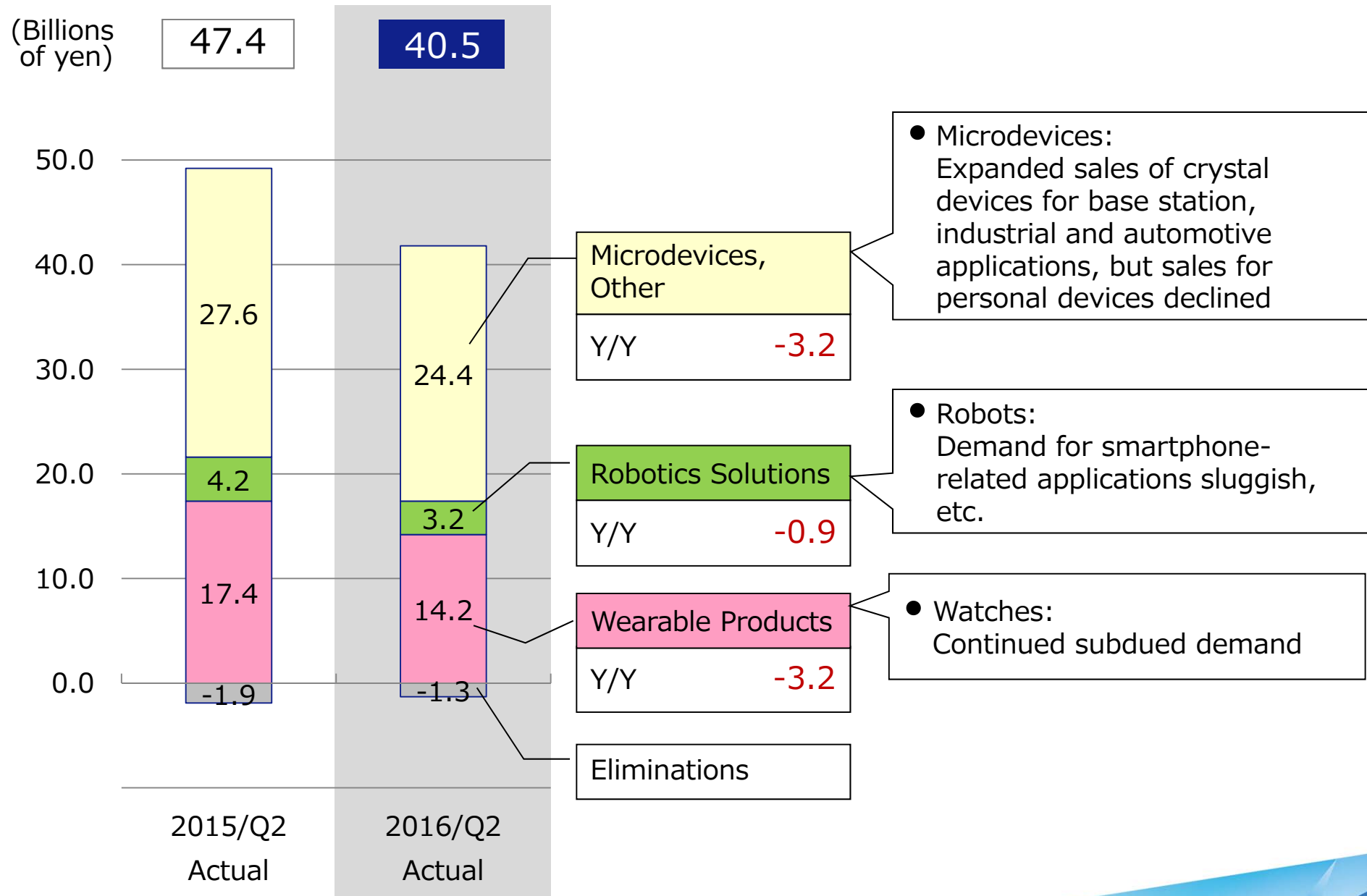
# Quarterly Revenue Comparison

## ▶ Printing Solutions Segment



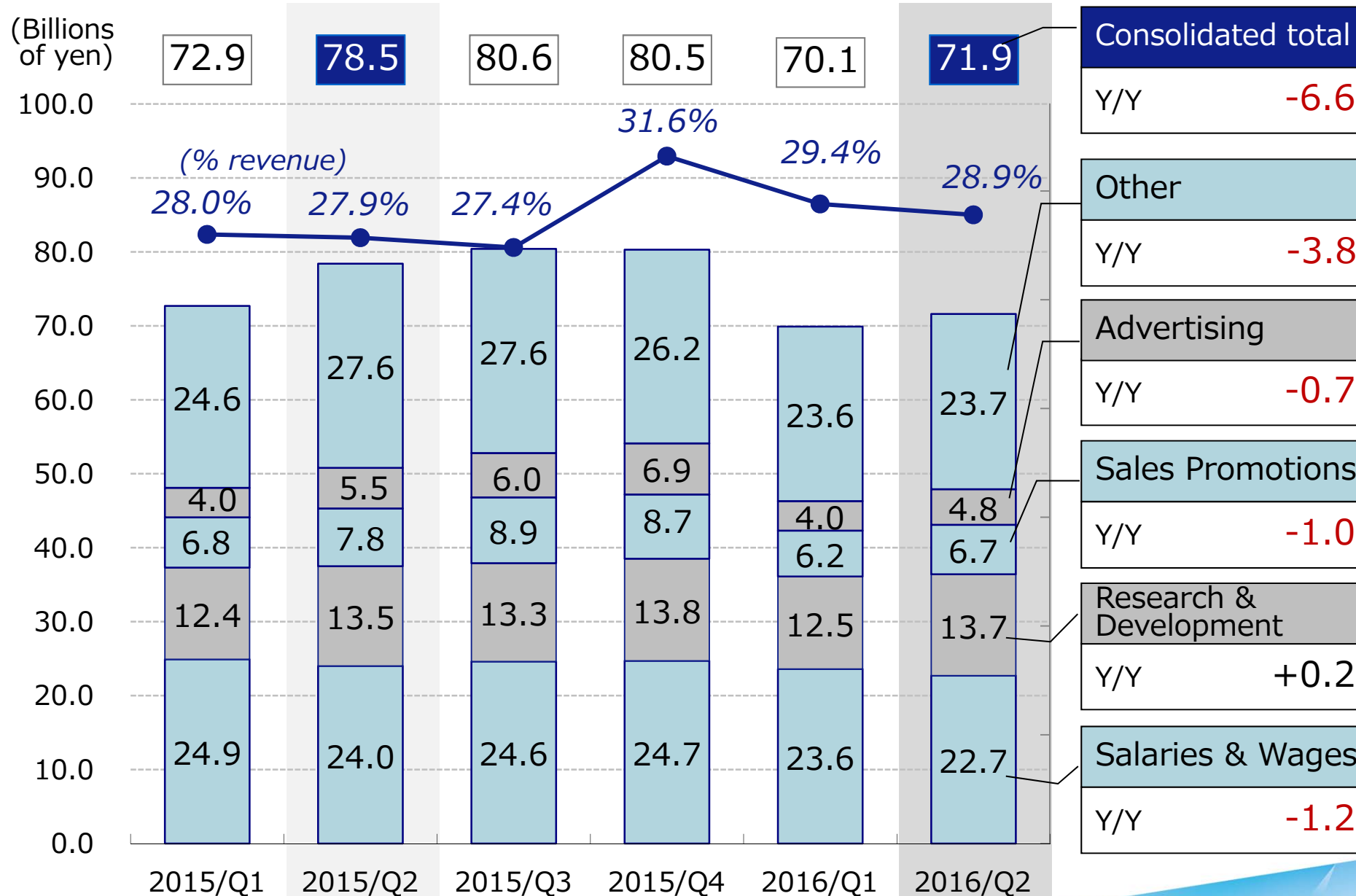
# Quarterly Revenue Comparison

## ▶ Wearable Products & Industrial Products Segment



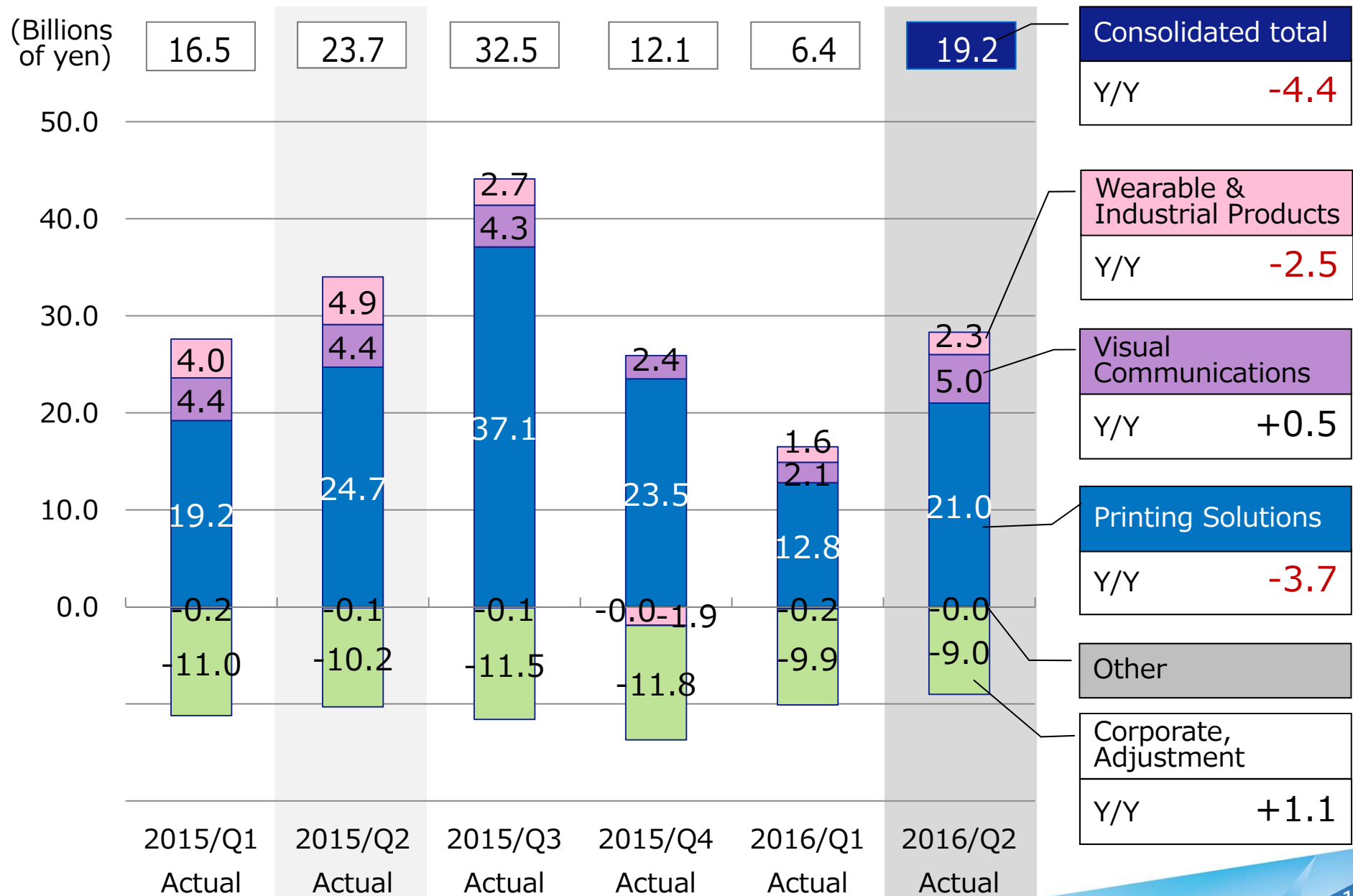


# Quarterly Selling, General and Administrative Expenses

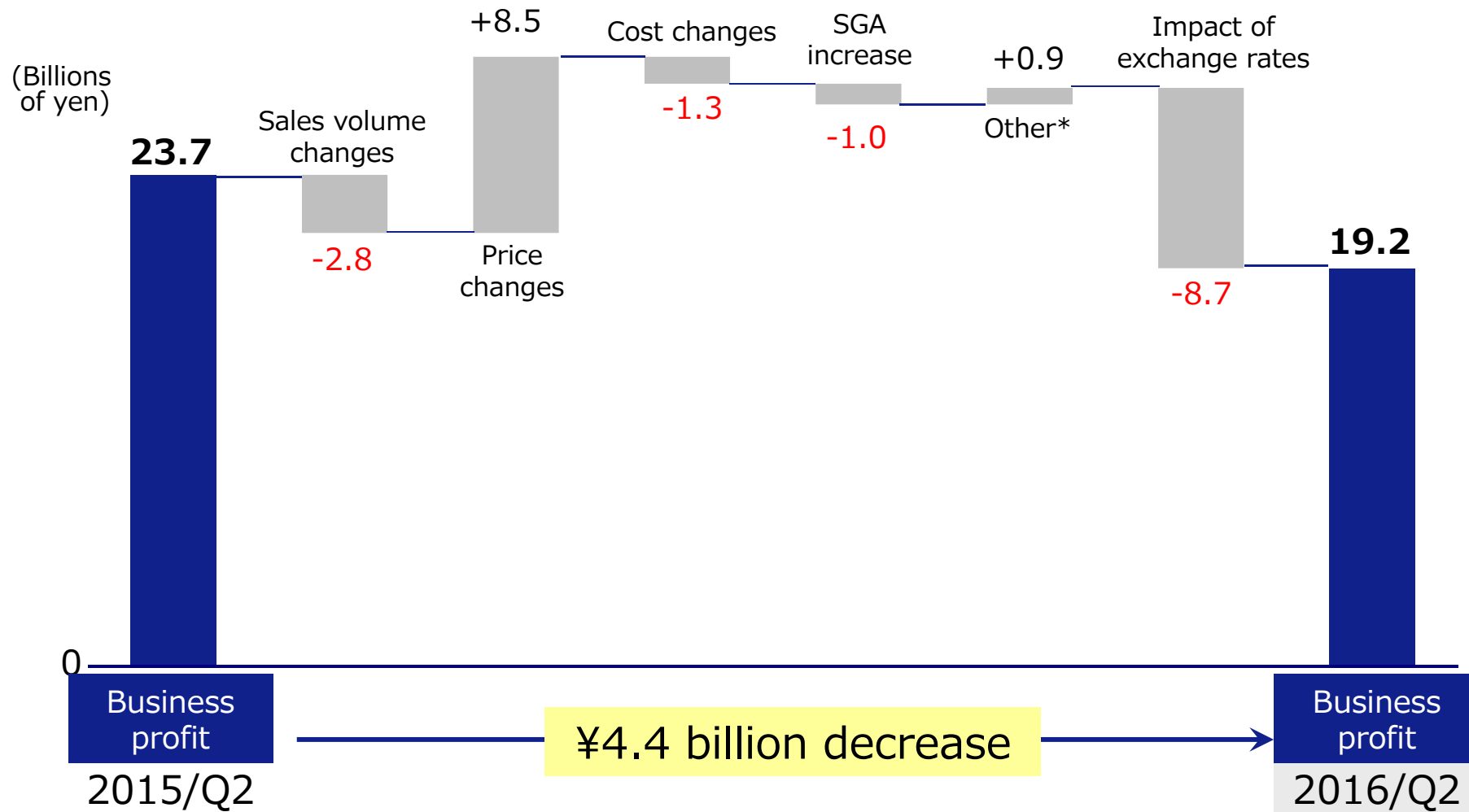


# Quarterly Business Profit Trend

## ► By business segment



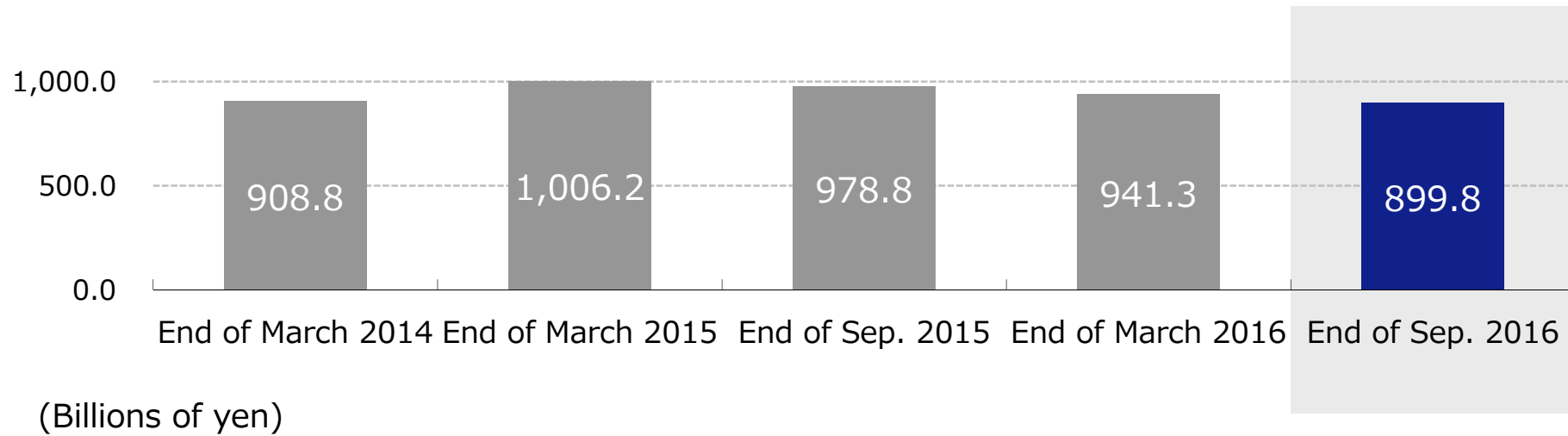
# Business Profit Change Cause Analysis



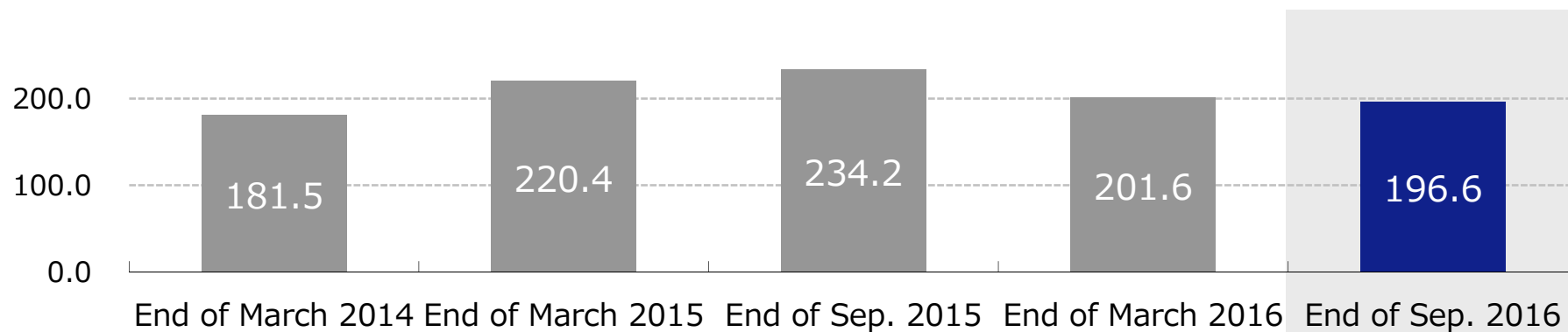
\* The corporate and other segments in this comparison include products and businesses that cannot be compared directly with similar items in the previous year.

# Statements of Financial Position

## Total assets

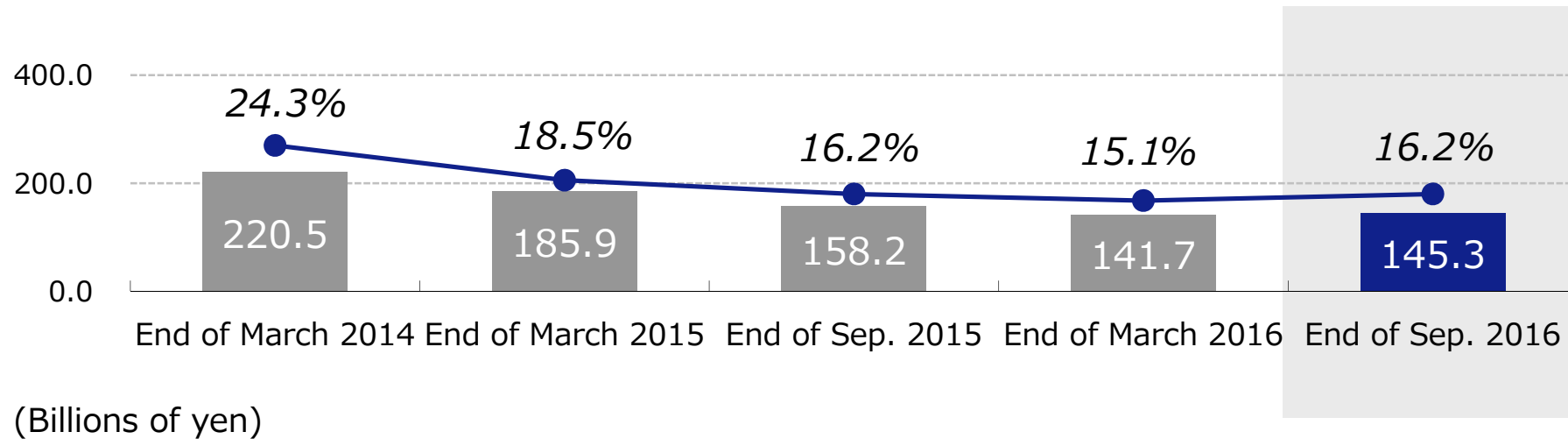


## Inventories

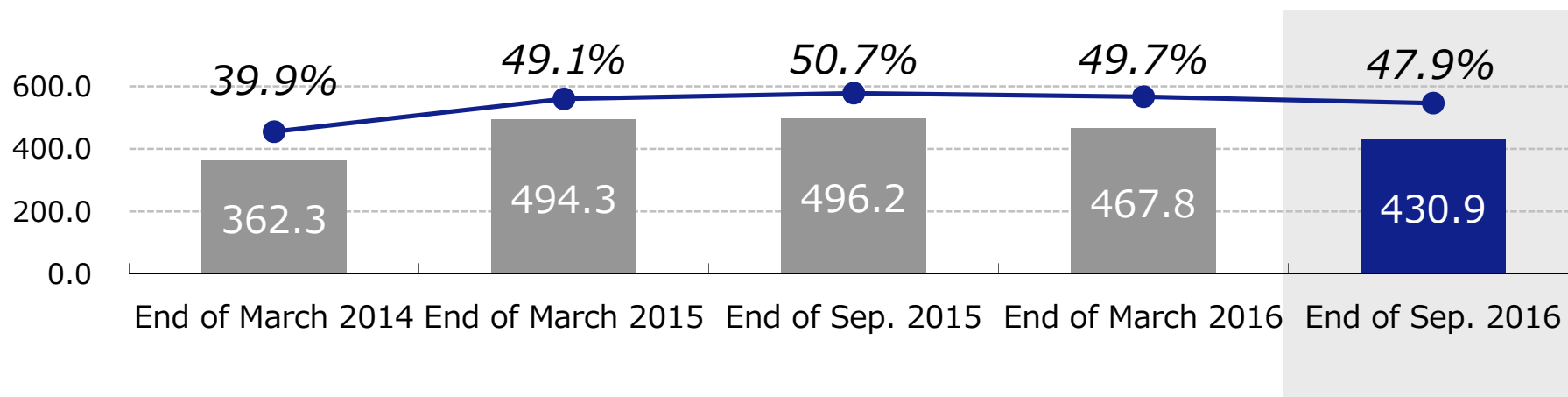


# Statements of Financial Position

## Interest-bearing liabilities & ratio of interest-bearing liabilities



## Equity & equity ratio attributable to owners of the parent company



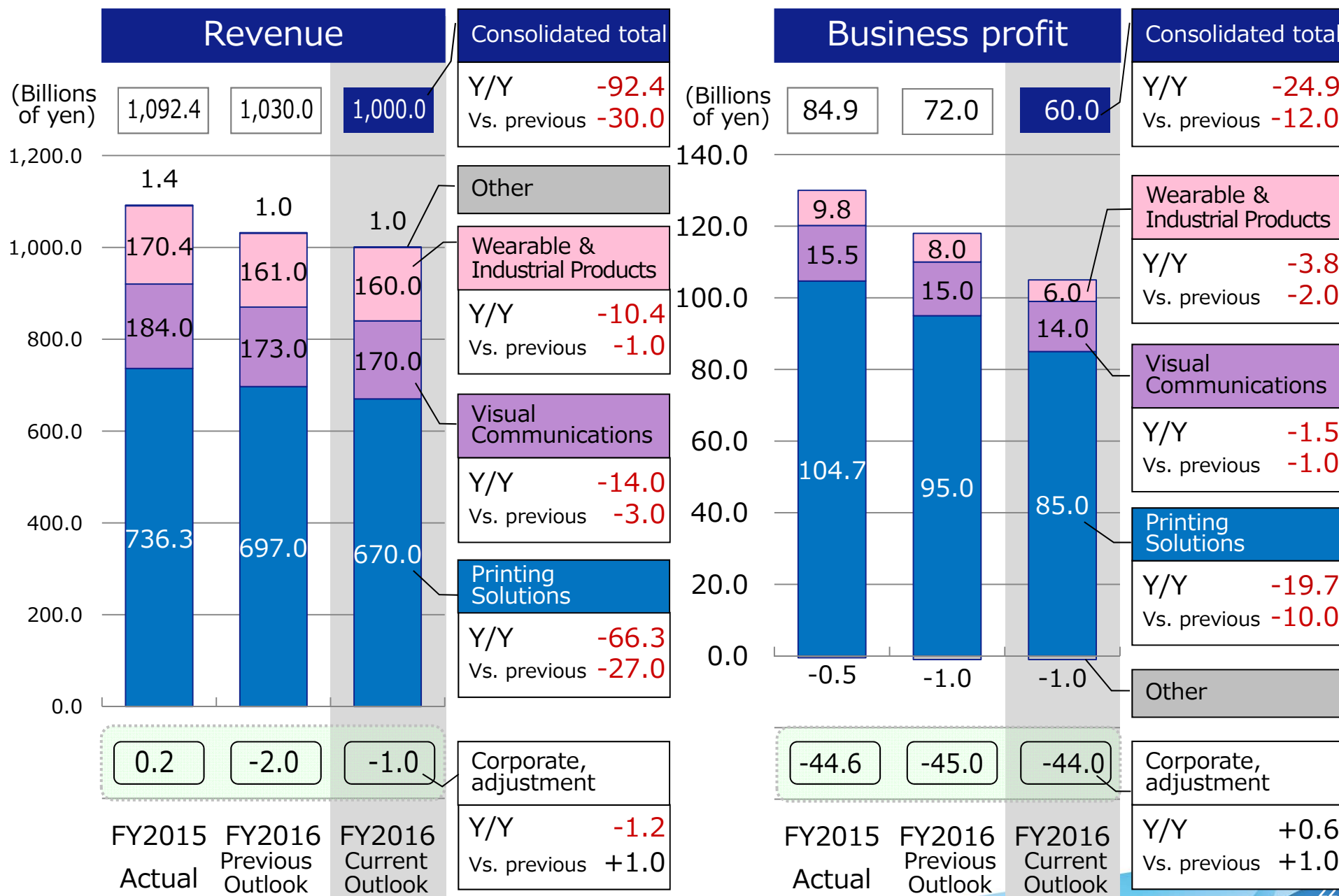
\*Interest-bearing liabilities: Includes lease obligations



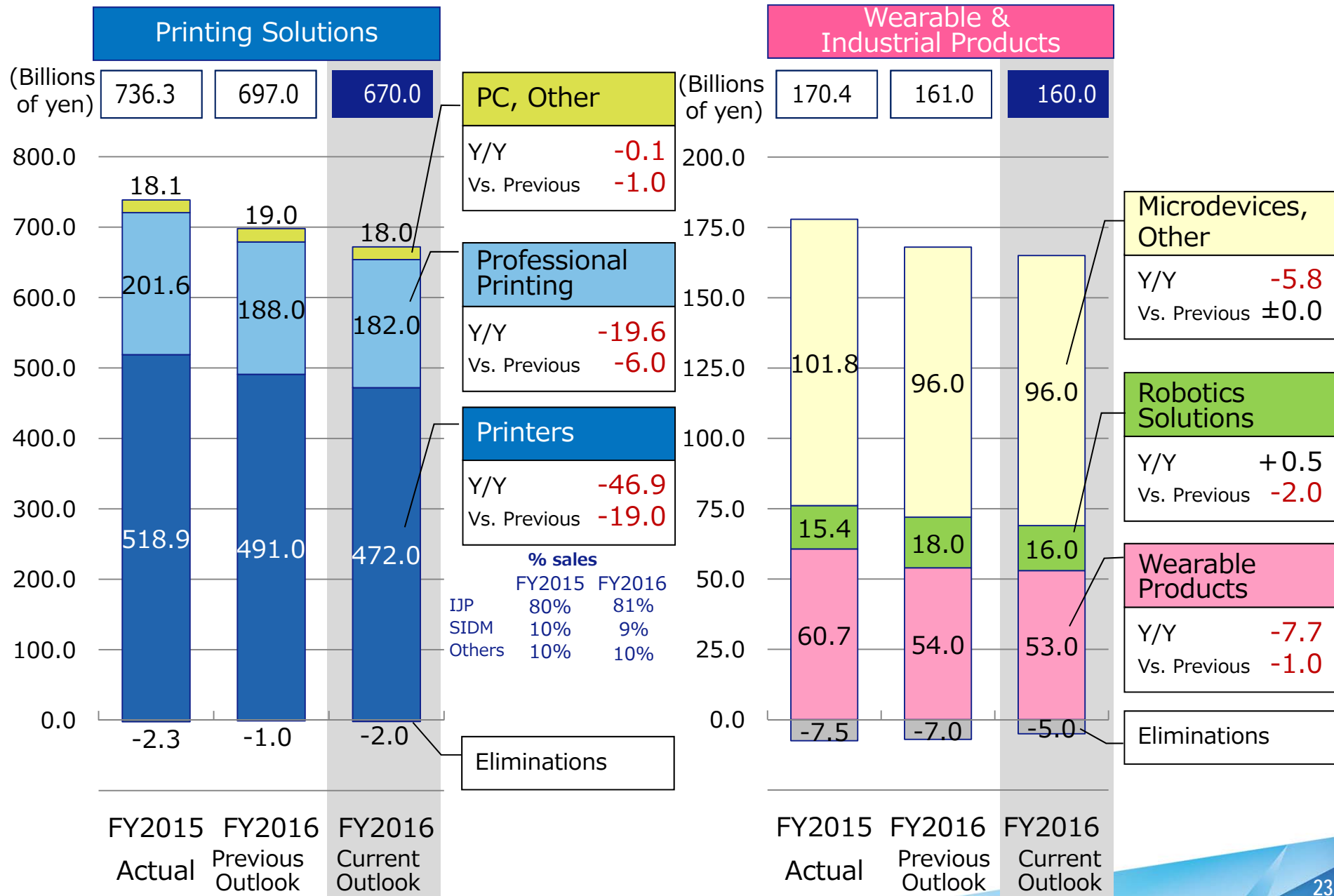
1) FY2016 Q2 Financial Results

2) FY2016 Financial Outlook

# FY2016 Financial Outlook ▶ By business segment

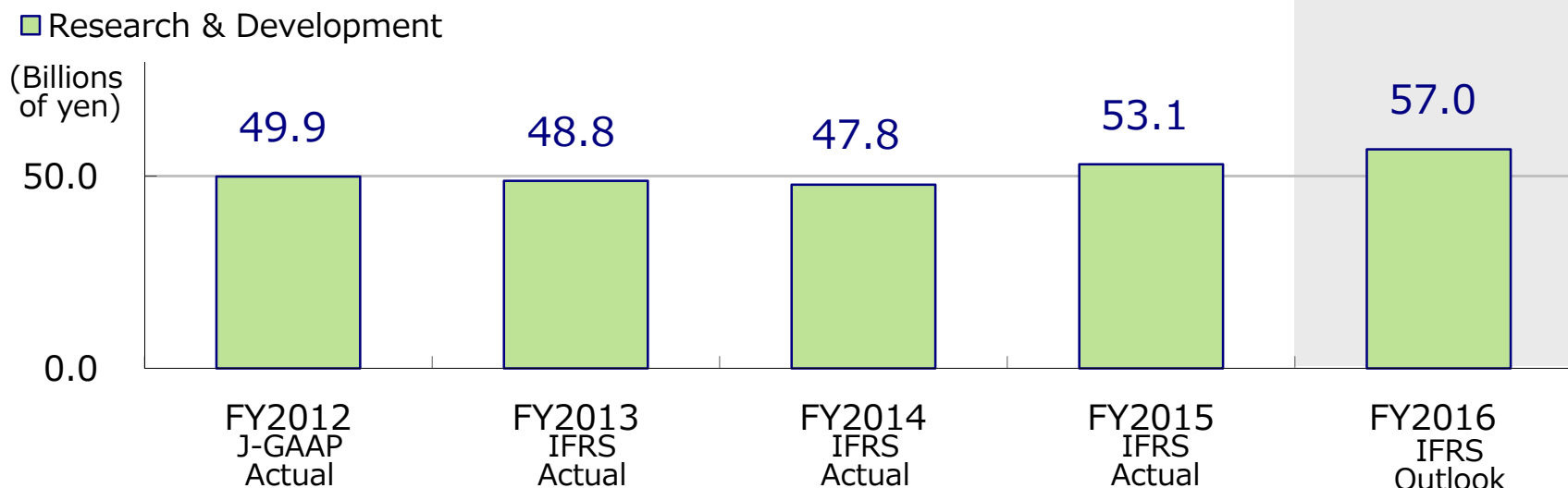


# FY2016 Revenue Outlook by Business

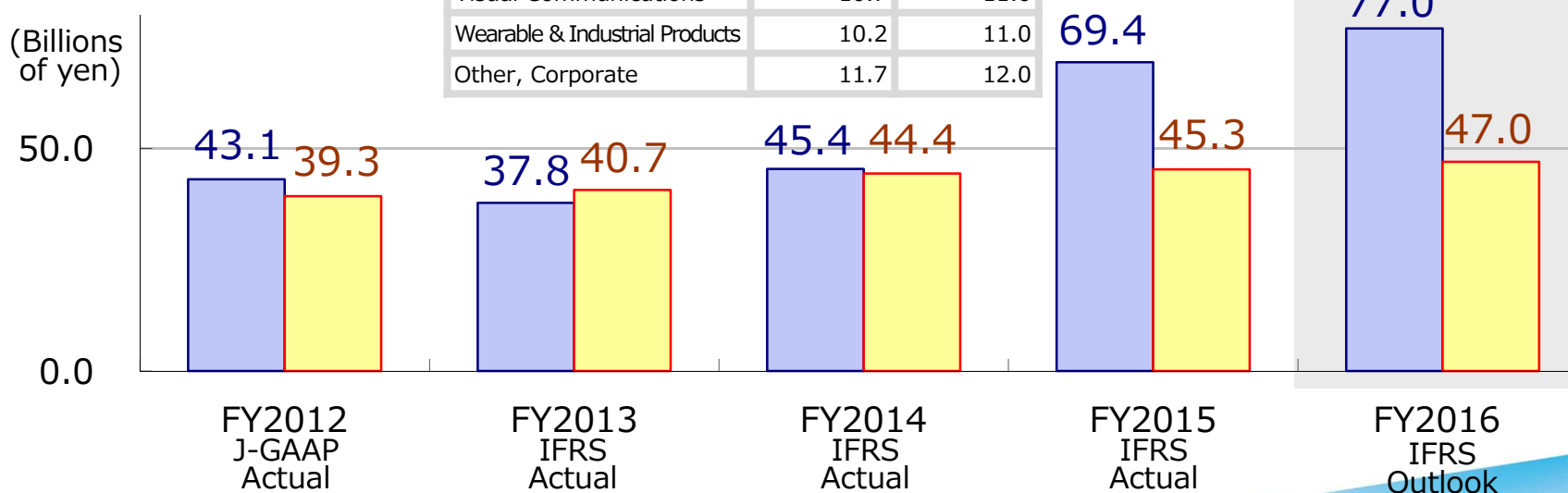




# Outlook for R&D Costs, Capital Expenditure and Depreciation and Amortization Expenses

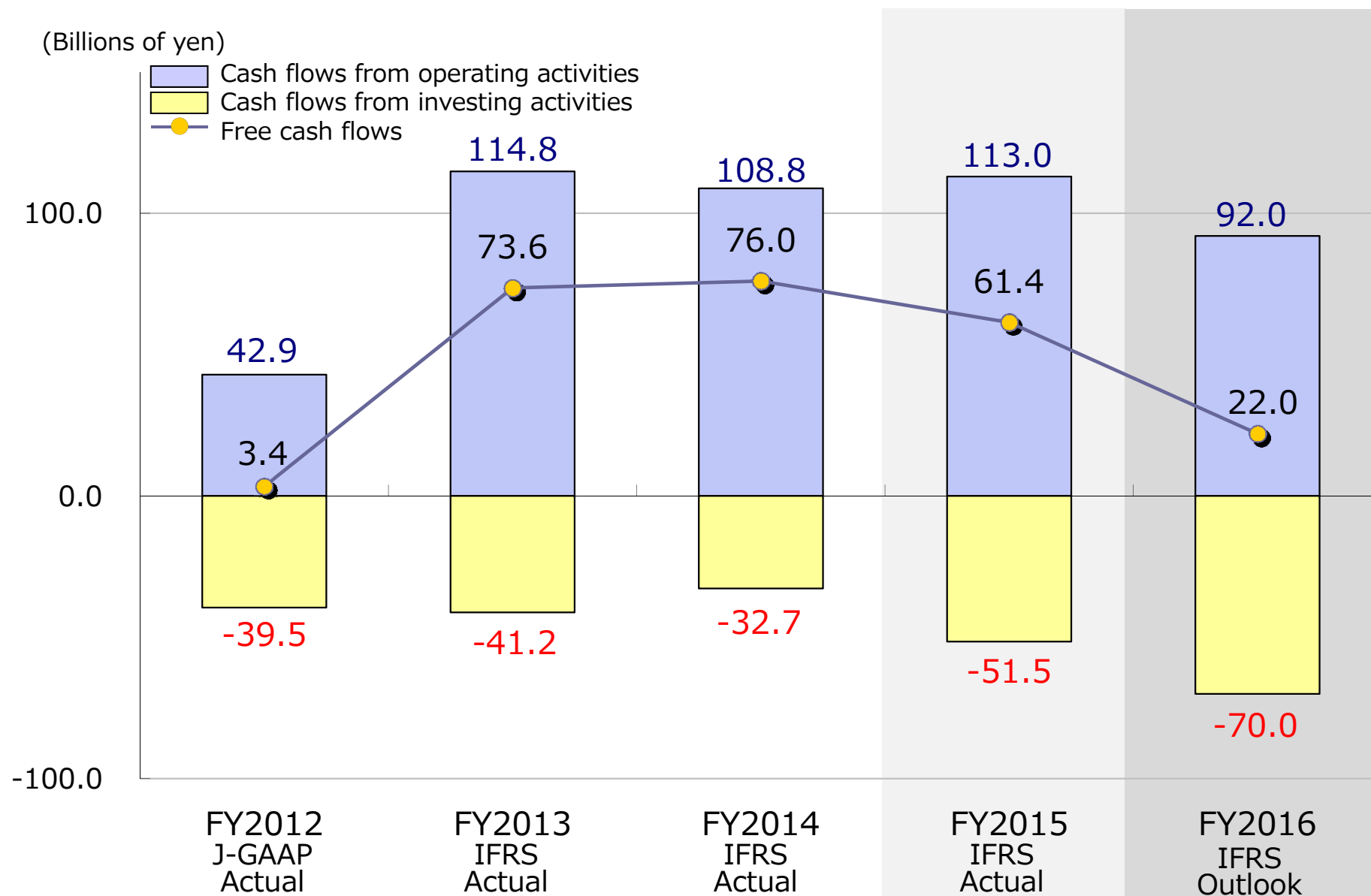


■ Capital expenditures  
■ Depreciation and amortization

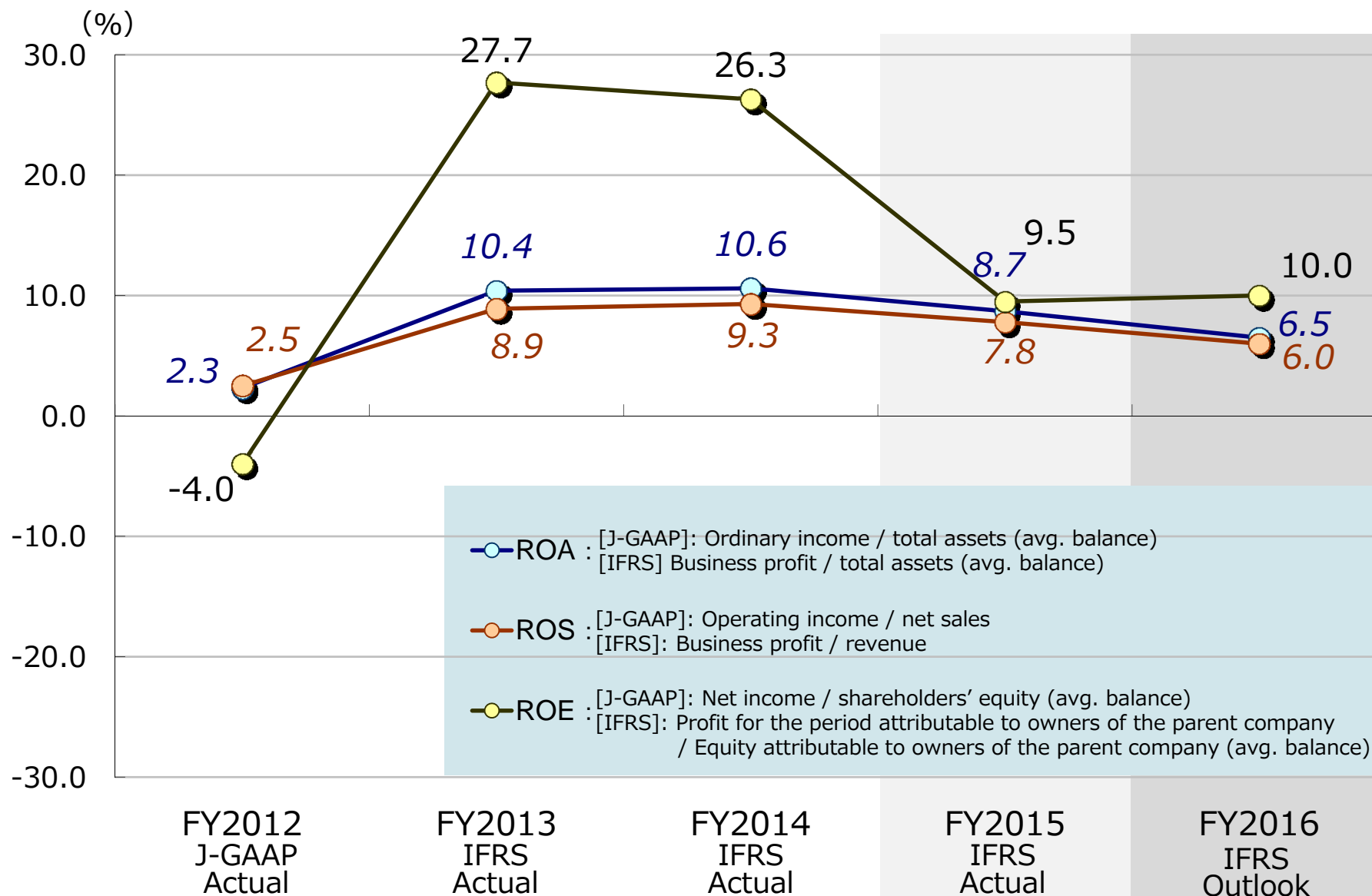


Capex breakdown by segment	FY2015 Actual	FY2016 Outlook
Printing Solutions	36.6	43.0
Visual Communications	10.7	11.0
Wearable & Industrial Products	10.2	11.0
Other, Corporate	11.7	12.0

# Free Cash Flows Outlook



# Main Management Indicators



# Reference

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# Major Business Indicators

(Billions of yen)

		FY2015 Actual	FY2016 10/27 Outlook	FY2018 Targets
Printing Solutions	Revenue	736.3	670.0	805.0
	Business profit	104.7	85.0	-
Visual Communications	Revenue	184.0	170.0	200.0
	Business profit	15.5	14.0	-
Wearable & Industrial Products	Revenue	170.4	160.0	195.0
	Business profit	9.8	6.0	-
Other	Revenue	1.4	1.0	0.0
	Business profit	-0.5	-1.0	-
Corporate, Adjustment	Revenue	0.2	-1.0	0.0
	Business profit	-44.6	-44.0	-
Consolidated total	Revenue	1,092.4	1,000.0	1,200.0
	Business profit	84.9	60.0	96.0
	ROS	7.8%	6.0%	8%
	ROE	9.5%	10.0 %	Sustain at at least 10%

(Billions of yen)

Category	FY2015 Actual	FY2016 10/27 Outlook	3-year cumulative (FY2016-18 business plan)
Operating CF	113.0	92.0	330.0
FCF	61.4	22.0	120.0
Capital expenditure	69.4	77.0	Approx. 210.0
R&D costs	53.1	57.0	Invest aggressively
Exchange rate			
	FY2015 Actual	FY2016 10/27 Outlook	FY2016-18 business plan
USD	¥120.14	¥103.00	¥115.00
EUR	¥132.58	¥114.00	¥125.00

# Main Product Sales Trends

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

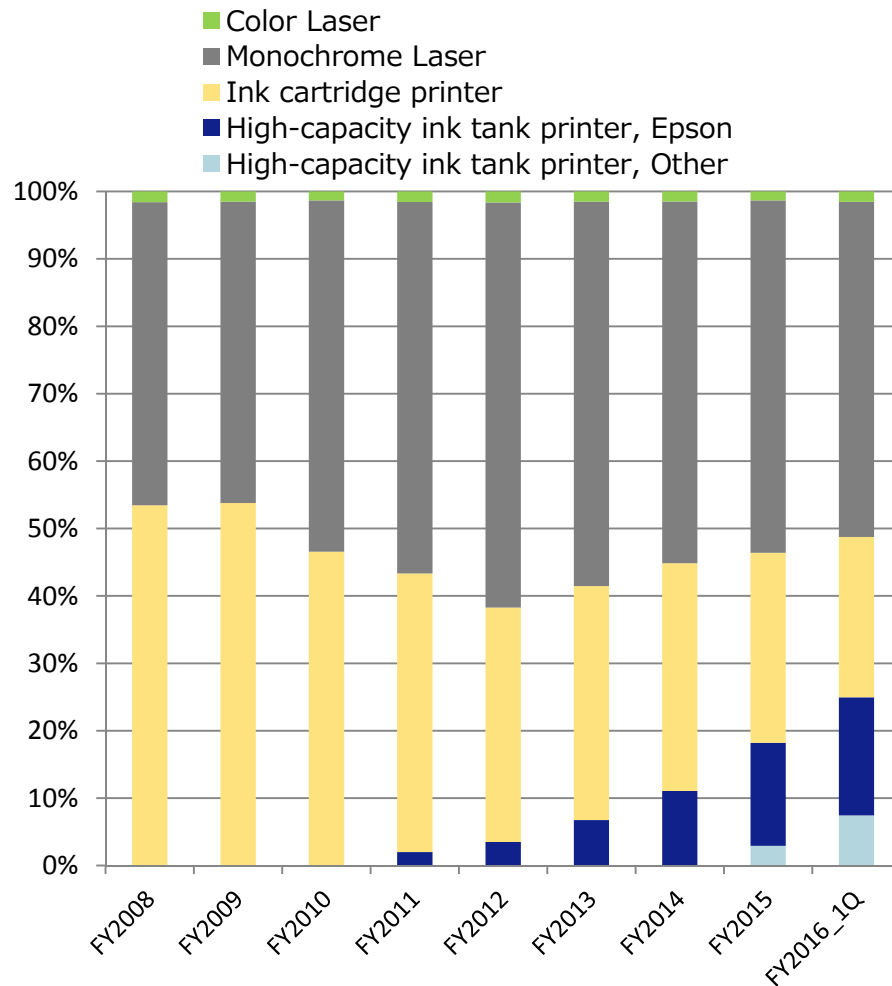
ASP (average selling prices) and sales amounts after conversion to yen

Product		FY2015 Full year	FY2016 Q1	FY2016 Q2	FY2016 Full year (forecast)
IJP	Volume	+1%	+8%	+5%	+8%
	Office/ high-capacity ink tank as % of total unit sales	Approx. 20%/ Approx. 35%	-	-	Approx. 20%/ Approx. 40%
	ASP	+ low single-digit %	Around -10%	- mid 10%	Around -10%
	Revenue	+ low single-digit %	- low single-digit %	- low teen %	- mid-single-digit %
IJP ink	Volume	0%	-3%	-7%	-
	ASP	+ mid-single-digit %	- low single-digit %	- high single-digit %	-
	Revenue	+ mid-single-digit %	- mid-single-digit %	- mid-teen %	- low teen %
SIDM printers	Volume	-6%	+19%	+10%	+14%
	ASP	+ low single-digit %	- mid 20%	- mid 20%	- mid 20%
	Revenue	- low single-digit %	Around -10%	- high teen %	- mid 10%
Projectors	Volume	+2%	+9%	+8%	+5%
	ASP	+ low single-digit %	- mid-teen %	- mid-teen %	- low teen %
	Revenue	+ mid-single-digit %	- high single-digit %	- high single-digit %	- high single-digit %

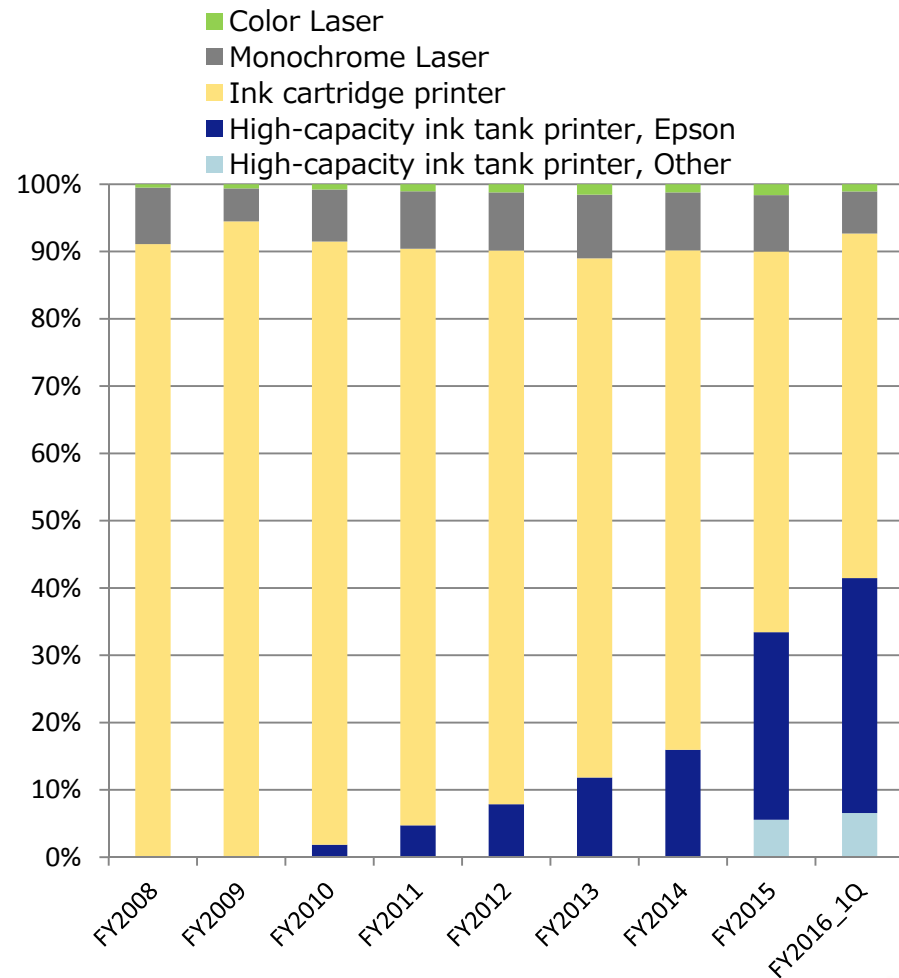
The indicators in this document are based on values tracked internally by Epson.

- Further market growth due to heightened market recognition

Percentage of unit sales by technology (India)



Percentage of unit sales by technology (Indonesia)



Source: Seiko Epson, based on IDC Worldwide Quarterly Hardcopy Peripherals Tracker 2016Q2  
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**EPSON**  
EXCEED YOUR VISION