

FY2017 Second-Quarter Financial Results Presentation
Q&A

● Overall

Q: What factors contributed to the difference between second-quarter business profit results in each business and the internal plan, on which the assumptions of the previous outlook were based.

A: Consolidated total revenue and business profit were both firm, in part because the yen weakened against the US dollar, euro, and other currencies.

Excluding currency effects, the situation in each business was as follows.

In printing solutions, sales of ink cartridge printers fell slightly short of the plan, as did sales of some large-format photo and graphics printers that were faced with stepped-up competition. Nevertheless, sales were roughly in line with the plan owing to even stronger than expected sales of high-capacity ink tank printers.

Visual communications results were in line with the plan.

Wearable products & industrial solutions results fell slightly short of the plan even though robotics solutions results were in line with the plan. The shortfall was due mostly to weak watch sales in North America, a slow recovery of watch sales in Japan, and lower than anticipated demand for crystal devices from customers in China.

Q: Inventories increased from the end of the previous fiscal year. Are these inventory levels suitable?

A: The increase in inventories is mainly due to currency translation gains resulting from the weaker yen and the stockpiling of inventory in preparation of sales growth. Inventories are in line with our internal plan and are by no means excessive.

Q: First-half selling, general and administrative expenses increased compared to the first half of last year. Do you see them increasing further in the second half?

A: The increase in SG&A expenses includes the effects of yen depreciation and the reallocation of some intellectual property-related expenses to this account.

The remainder of the first-half increase, excluding these factors, was due to an increase in salaries and wages associated with the strengthening of the sales force, an increase in spending on sales promotions for strategic products, and an increase in transportation expenses, as we had to ship printers by air to make up for production delays resulting from a fire at a parts supplier's facility.

In the second half we will continue to strengthen the sales force and spend on promotions for strategic products, but we do not expect a sharp increase in air transportation expenses.

- Printing Solutions

Q: How did ink cartridge printer production costs change since the same period last year?

A: First-half production costs for these printers increased year on year but are expected to decrease in the second half.

Q: How have sales of high-speed linehead inkjet multifunction printers been recently, and what is the future outlook?

A: These printers have earned a reputation for outstanding printing performance and environmental performance, and we are steadily winning contracts and making deliveries.

Even in Europe, where market recognition is still low compared to Japan, a lot of customers appreciate the excellent environmental performance of these printers, and we have arranged for additional promotional samples and are steadily winning contracts.

On the other hand, we have come to realize that the internal approval process of prospective buyers takes longer than we anticipated. Even so, prospective business has increased in the second half, and we hope to steadily close out sales to meet the plan.

Q: In your latest full-year financial outlook you raised the forecast for unit shipments of high-capacity ink tank printers. Do you anticipate any changes in unit shipments of ink cartridge printers?

A: Ink cartridge printers fell short of the plan because second quarter sales were affected by a fire at a supplier's facility, and by weak demand in advanced markets. We therefore lowered the outlook for full-year printer unit shipments, especially those for home use.

Q: What can you tell us about changes that were factored into the full-year financial outlook, specifically environmental changes affecting large-format printers and changes in the product mix for POS printer contracts?

A: We lowered our second-half outlook for some large-format printers because of the effect that competitors' promotions had on sales in the second quarter.

We also lowered the second-half outlook for POS printers due to changes in the mix of products sold by Epson. The product mix changes accompany differences in customer demand for some orders planned for the second half.

- Wearable Products & Industrial Solutions

Q: The semiconductor market is strong right now. Do you have any plans to further strengthen your semiconductor business?

A: Demand for Epson's semiconductor products is brisk.

While we will not see immediate results, we are continuing to develop products that will bring higher earnings.

Epson's semiconductor business consists of external device sales, a foundry business, and internal sales to our finished product businesses. We will continue to strike a balance among these various parts of the business.