

FY2018 Third-Quarter Financial Results Presentation
Main Q&A

Overall

Q: What are the factors that caused you to lower the business profit outlook by ¥15 billion?

Also, what are the figures broken down by third and fourth quarter?

A: Approximately 40% of the difference is due to the Chinese economic slowdown that affected many of our businesses, such as high-capacity ink tank printers, SIDM printers, robots, and quartz.

Approximately 30% is due to currency devaluation and economic stagnation in Latin America and some other emerging regions.

Since we adjust selling prices in response to local currency valuations, selling prices in emerging regions increased, also affecting the outlook. In fourth quarter, we plan to reduce the effect of this situation on unit shipments by implementing sales and marketing actions.

Approximately 10% is due to changes in foreign exchange assumptions.

The remaining approximately 20% includes negative effects such as a decrease in ink sales sold along with the initial purchase of ink cartridge printer hardware, and positive effects such as a one-time planned change to a new method for recording inventory devaluations associated with printhead parts.

The business profit in third quarter fell short of the plan on which our previous financial outlook was based on by approximately ¥3 billion.

Q: Did the previous outlook reflect patent royalties and other factors for changes in corporate expenses and adjustments in third quarter?

A: The previous outlook reflected patent royalties.

Q: SGA expenses continue to increase. What is the future outlook?

A: Strategic investments to expand our business for office, commercial, and industrial printing will remain to a certain extent, but the pace of the increase will slow. On the other hand, we will promote efficiency in wearable and industrial products.

Q: This is the final year of the Epson 25 first phase Mid-Range Business Plan. What are your plans for second phase?

A: We will provide detail when we introduce second phase plan, but we aim to continue the growth of high-capacity ink tank printers mainly by expanding their lineup. We also aim to increase the sales of high-speed linehead inkjet multifunction printers mainly by increasing the lineup. Total revenue is expected to struggle due to the

uncertainty of economic environment. However, we think that we will be able to increase profit ratio with strategic products.

Q: What is the appropriate inventory level at the end of the fiscal year?

A: Inventory at the end of FY2017 is the appropriate level. The majority of the inventories at the end of third quarter are high-capacity ink tank printers, which are adjustable.

Printing Solutions

Q: Give some details regarding sales situation for high-capacity ink tank printers, and the assumptions for the full-year forecast.

A: Although the total unit sales of high-capacity ink tank printers in third quarter increased year-on-year, the growth rate for the quarter was the lowest in FY18 mainly due to the deceleration in China and other emerging regions.

We saw channels in China reducing inventory, but inventory levels have been normalized at the end of third quarter.

In some emerging regions, the sales of high-capacity ink tank printers were sluggish mainly due to economic stagnation and because the price differential with competitors widened because we raised local selling prices. In fourth quarter, we will take action to expand sales as we monitor the situation.

Visual Communications

Q: Give some details regarding sales of projectors, and the assumptions for the full-year forecast.

A: Production of small liquid crystal displays, a core component for projectors, was temporarily interrupted at Epson's Chitose Plant after a major earthquake struck the northern Japanese island of Hokkaido. We have already resumed production, but some sales have been impacted starting from the second half of FY2018, mainly for home projectors. We are also continuing to strategically invest in expenses for expanding our laser light source projector lineup, together leading to a lower forecasted profit.