

FY2019 Third-Quarter Financial Results Presentation

Q&A

Overall

Q: You have continued to keep down SGA expenses. What is your forecast going forward?

A: This is the result of focusing our investment and restraining spending, and we will continue with this approach. We will spend on projects that lead directly to sales and will continue to improve efficiency.

Q: Were inventory changes the primary factor responsible for the year-on-year change within “Cost changes, other” in the business profit change cause analysis? What was the approximate impact of the decline in income from patent royalties?

A: Inventory changes were the largest factor. We are doing a better job of managing inventories this year, so there was no one-off profit increase from inventory changes like last year. The decline in income from patent royalties amounted to several billions of yen.

Q: How far are you looking to reduce inventories by the end of the fiscal year?

A: We will continue to decrease inventories toward the end of fiscal year, but days of stock will not fall to the level of 74 days recorded at the end of FY2017. This is due to a change in the method of accounting for printhead inventory devaluations, and changes in how we hold inventory due to the expansion of high-capacity ink tank printers and commercial and industrial IJPs. Cumulative free cash flow for the first three quarters improved by more than ¥20 billion compared to the same period last year. We believe this shows the benefit of reduced inventory.

Q: What has been the impact of the eruption of Taal Volcano in the Philippines and the coronavirus in China, and what actions are you taking in response to these threats?

A: We shut down manufacturing operations at our factories in the Philippines for two days following the volcanic eruption, but have now resumed normal operations. We are implementing additional measures to protect HVAC and other equipment from volcanic ash.

Factories in China were closed down for the Chinese New Year as originally planned, so there has not yet been any direct impact from the coronavirus on production. We will continue to monitor the situation. Although we have only one supplier in Wuhan, the effects of the coronavirus may spread and it is difficult to predict the extent of the impact on production and sales.

We have established a Crisis Management Committee and are responding to the situation.

We also manufacture projectors and large-format printers in the Philippines and Indonesia, but there are a few products that we manufacture only in China.

Q: You announced that Yasunori Ogawa will replace Minoru Usui as president. How would you evaluate the past 12 years under Mr. Usui, and what are your expectations for Mr. Ogawa?

A: Our objective is to use inkjet technology to change the world by replacing laser systems with high-speed linehead inkjet copiers armed with PrecisionCore technology. We are starting to see this change happen. We were hoping to accelerate these changes a little faster, but some of our actions took too much time.

To achieve the necessary speed, all our people, from top to bottom, need to work dynamically yet with discipline toward our corporate goals. Mr. Ogawa is an outstanding leader and motivator, and has the ability to make sure our employees achieve their full capacity.

Printing Solutions

Q: How are sales of high-capacity ink tank printers and the competitive landscape.

A: High-capacity ink tank printer unit shipments grew 21% year over year.

Our competitors strengthened their high-capacity ink tank models this fiscal year, but the market situation has not changed due to our full lineup of high-capacity ink tank printers and our printhead technology.

Seen by geographical region, sales fell short of expectations in India and some parts of Latin America due to weak economic conditions. However, other emerging and developed markets are growing, and we are on track to reaching 10.2 million unit shipments for the year.

Q: How are sales of shared office printers?

A: High-speed line inkjet multifunction printers are making inroads in Japan, particularly with academic plans and in offices. Sales are also getting on track in Europe, where the environmental benefits of our machines are recognized and appreciated. We also have customers requesting high-capacity ink pack models in a package deal.

Q: You previously targeted a ¥10 billion increase in external sales of printheads over a three-year period. How is progress?

A: We have not changed our target to increase sales by ¥10 billion in three years.

Q: What is the outlook for professional printing?

A: We are forecasting continued expansion. We plan to release a variety of new products in the next fiscal year, and will also offer new solutions based on software and services such as Color Control Technology.

Visual Communications

Q: The profit rate has been falling intermittently due to worsening market conditions. What is your forecast going forward?

A: In the fourth quarter we expect earnings to weaken significantly but will take actions to avoid a loss. The projector market size is shrinking due to flat panel sales growth, particularly in China. Given this situation, we will expand in the high-brightness segment where there is still growth potential, and will emphasize profitability as we promote our business by taking advantage of our high market share and of strong customer touch points.

Wearable & Industrial Products

Q: What is your watch business strategy? Are you considering transferring the business?

A: We have no intention of transferring our watch business. Epson's watch business has assets unlike any other in the world, including technology, engineers, technicians, artisans, and history. Market conditions are challenging, especially for products on the lower end, but we are addressing the situation by driving structural improvements to return to profitability.