

CEO Message

Achieving Sustainability and Enriching Communities by Using Our Efficient, Compact, and Precision Technologies to Solve Societal Issues



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Today, more than a year and half since the onset of the pandemic, COVID-19 continues to disrupt global economic activity and upend lives. I would like to express my sympathy to everyone who has been afflicted and to extend my gratitude to all frontline healthcare workers and other essential workers.

COVID-19 has also materially impacted Epson's performance, as the virus resulted in factory shutdowns in Asia and upheaval in market demand. It precipitated changes in behavior, lifestyle, and society that were thought to be on the more distant horizon, forcing us to scramble to adapt. To respond to the rapidly changing social environment, we reviewed and updated our long-term corporate vision, renaming it "Epson 25 Renewed," and realigned our business activities to respond to the changes brought about by COVID-19 and to solve societal issues.



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Changes in the External Environment

We are facing serious societal issues, such as climate change, natural resource depletion, and a shrinking labor pool. Consumers are increasingly demanding that companies take action to solve environmental problems and other societal issues.

Digitalization and artificial intelligence have been driving a transformation in consumer needs and lifestyles, and COVID-19 has accelerated this megatrend and expedited its arrival. Due to the needs of the New Normal, including the need to work remotely and socially distance, we are seeing an acceleration in the trend toward the distribution and decentralization of where we work, where we learn, and where we produce goods. This rapid distribution and decentralization has created communication obstacles and breakdowns, making connecting people and information more important than ever.

Epson seeks to realize its aspirational goal by utilizing its efficient, compact, and precision technologies to provide individuals and industries with smart solutions that connect people, things, and information.

Epson's Aspirational Goal

Achieving Sustainability and Enriching Communities

At the start of the 2021 fiscal year, Epson clearly stated its aspirational goal and declared its commitment to meeting the expectations and demands of society and stakeholders.

The word “enriching” was used in the statement. Society has always seen economic wealth as a symbol of enrichment. However, as I thought about the true nature of enrichment, I came to the conclusion that it is much more than that. Gaining a sense of fulfillment and satisfaction by contributing to the creation of a better world, one that is amenable to all, also nourishes the soul. Thus, “enrichment” expresses not only material and economic wealth but also spiritual and cultural abundance.

Achieving Our Vision by Addressing Societal Issues

To enrich communities, we must move to solve issues facing society and achieve sustainability. Epson lets societal issues dictate its actions. We develop business by asking ourselves what we can do to solve these issues and how we can contribute to society. After analyzing the strengths of our businesses and products and the value that they can provide, we selected five main societal issues to address. We will act to reduce environmental impacts, improve work environments, connect a decentralized society, improve the quality of infrastructure, education, and services, and support lifestyle diversification.

Epson sees achieving sustainability in a circular economy, advancing the frontiers of industry, improving the quality of life, and fulfilling our social responsibility as key issues (materialities) for solving these societal issues. First, we will achieve sustainability in a circular economy by using electricity, energy, water and other resources effectively and by reducing consumption of virgin underground resources, thereby closing the resource loop and helping to curb climate change. Second, we will advance the frontiers of industry by transforming conventional processes to solve societal issues. For example, we intend to reduce environmental pollution and address labor issues by replacing analog manufacturing processes with digital processes. Third, we will improve the quality of life by helping people live healthier lives and by contributing to education that leads to personal growth.

Main Societal Issues That Epson Will Address



Reducing
environmental
impacts



Improving
work
environments



Connecting a
decentralized
society



Improving
the quality of
infrastructure,
education,
and services



Lifestyle
diversification

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Epson will provide products and services that enrich lives by making people healthier and giving them a wider range of lifestyle options. We will fulfill our social responsibility, the last materiality, by doing everything we need to do as a company to achieve sustainability and enrich communities. Initiatives that help Epson live up to society's expectations include things such as dialogue with stakeholders, environmentally and socially responsible materials procurement and supplier management, respect for human rights, promotion of diversity, transparency of governance, and business continuity and resilience even in a pandemic. We will develop our business with these four materialities at the core of our activities.

Epson 25 Renewed Eyes Societal Issues

In the Epson 25 corporate vision, established in 2016, we asserted that we would create a new era over a 10-year period by connecting cyberspace with the real world. In 2021, the midpoint of the plan, we found that our efforts to expand and enhance products and services and strengthen infrastructure had not yielded the results we had hoped for, and we realized that achieving ¥1.7 trillion in revenue and a 12% ROS would not be possible. We recognize that there were several problem areas.

We had technological strength and confidence and had fallen into the trap of thinking that as long as our products provided good performance, they would sell. We set high revenue targets and focused too much on our most competitive businesses to achieve them. As a result, not only were we unable to execute company-wide strategies but we also postponed doing things that we should have done from a long-term perspective and put off making changes that needed to be made. Taking this as a lesson learned, we adopted a new approach to business. We now look for ways to contribute to society by utilizing our technology to solve societal issues. The direction of the vision described in Epson 25 has not changed. We remain committed to connecting cyberspace and the real world to create a new era.

However, after reaffirming our reason for being and articulating our aspirations, we found it necessary to reset our goals and map out a new path for getting there. So, in March 2021, we announced an updated corporate vision, Epson 25 Renewed. We will build businesses to solve societal issues and will set different priorities in each of the businesses.

In the past we overemphasized revenue growth. So, under Epson 25 Renewed, instead of setting a revenue target, we set medium- and long-term targets for return on sales (ROS). The highest priority in our businesses will be to find ways to leverage Epson's strengths to help solve societal issues. Thinking we needed greater awareness of the cost of capital, we set ROIC (return on invested capital) as a Group target in addition to ROE (return on equity).

Epson 25 Renewed Vision

Co-creating sustainability and enriching communities to connect people, things, and information by leveraging our efficient, compact, and precision technologies and digital technologies

Initiatives to Achieve the Vision Statement

Environmental Initiatives

Promote decarbonization and close the resource loop, develop environmental technologies, and provide products and services that reduce environmental impacts

DX Initiatives

Contribute to customer success by building a robust digital platform, connecting people, things, and information, and co-creating solutions that continue to meet customer needs

Co-creation Initiatives

Leveraging our technologies and product families, solve societal issues with partners by providing core devices and a place for co-creation and networking, as well as through collaboration and investment

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Environmental, DX, and Co-creation Initiatives

To achieve the vision statement set forth in Epson 25 Renewed, our businesses will focus on the environment, digital transformation (DX), and co-creation.

Environmental Initiatives

Epson has long been an environmentally aware company and has utilized advanced environmental technology in its products and product manufacturing. In 2008, we established Environmental Vision 2050, a statement of our environmental goals in 2050. Epson draws its strength from a storehouse of efficient, compact, and precision technologies. We believe that these very technologies, which save energy, save space (through design miniaturization), and achieve exceptional accuracy and precision, can help solve societal issues by mitigating environmental impacts. Realizing that Epson can contribute to society because of these technologies, we decided to put the environment at the center of our operations. This commitment is made clear in the Epson 25 Renewed corporate vision.

Before we announced Epson 25 Renewed, we also revised Environmental Vision 2050, which has only been conceptual, and added specific numerical targets. Our thought was that if the government commits to becoming carbon neutral, then we would commit to becoming carbon negative.

In addition to becoming carbon negative, Epson is driving an initiative to become underground resource¹ free.

→ For details, please see [P10](#) and [P59](#).

¹ Non-renewable resources such as oil and metals

DX Initiatives

We will create value by focusing more on efforts to connect cyberspace and the real world, as was described in Epson 25. COVID-19 accelerated the decentralization of society, making connecting that much more valuable. This is an area for digital transformation.

By combining AI and other advanced digital technologies with Epson's core technologies and product families and deploying them in our businesses, we will provide solutions to customers' problems. In addition to increasing value in existing businesses, we will contribute to solving societal issues and to customer success by transforming business models and creating new ones. By doing so, we aim to create businesses that can produce value with software alone, rather than relying solely on our own hardware.

→ For details, please see [P11](#).

Co-creation Initiatives

One of the regrets we had when we looked back over Epson 25 was that we overemphasized self-reliance. We pushed the strategy of vertical integration to the forefront and tried to handle all processes internally, from technology development to product sales. As a result, a considerable amount of time and energy was devoted to areas that are not our strength, and this hindered growth in some ways. By cooperating with partners instead of insisting on going it alone, we have discovered new value in Epson's efficient, compact, and precision technologies. These collaborations with companies that have technologies and ideas that we never imagined could yield new products and applications. Co-creation is essential for developing new businesses and takes various forms, including personnel exchanges, the provision of core devices, collaboration and capital investments. We want our technology to help the world by evolving and spreading into useful new applications that solve societal issues.

→ For details, please see [P12](#).

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Setting Priorities and Innovating to Solve Societal Issues

Under Epson 25 Renewed, we classified our businesses into three areas: a growth area, a mature area, and a new area, and set priorities in each. Rather than seeking revenue growth in all businesses, we will allocate the lion’s share of management resources to growth areas and new areas that promise future growth. In mature areas, we will emphasize profit rather than revenue. With the social situation still uncertain, we will operate our businesses such that we obtain growth while also locking in profit.

Three Areas

Growth areas	<p>See environmental changes as an opportunity and invest management resources</p> <ul style="list-style-type: none"> • Office printing • Commercial & industrial printing • Printhead sales • Production systems
Mature areas	<p>Emphasize profitability through structural changes and efficiency improvements, etc.</p> <ul style="list-style-type: none"> • Home printing • Projection • Watches • Microdevices
New areas	<p>Develop new technologies and businesses</p> <ul style="list-style-type: none"> • Sensing • Environmental business

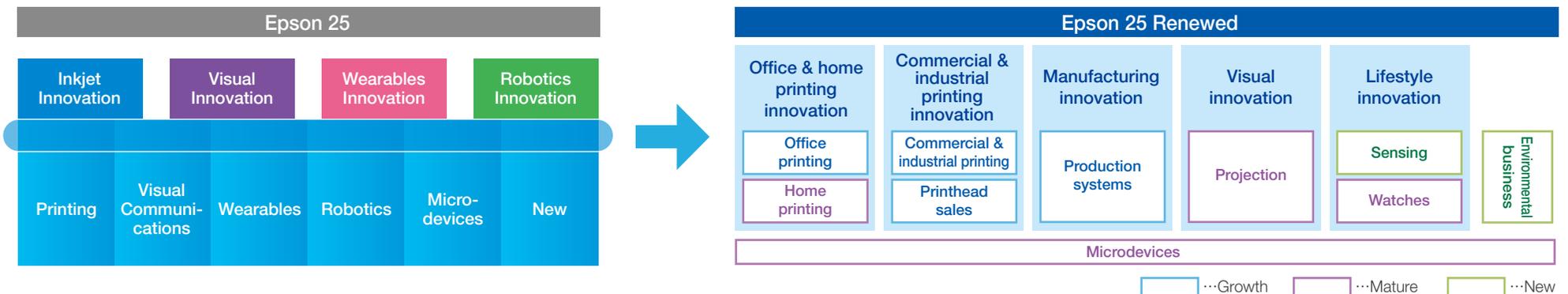
The areas of innovation were reorganized into five areas instead of four.

In the past, we focused on technology-centered innovation, but under Epson 25 Renewed we have reset the target areas centered on customer value and societal issues.

The office and home printing business and the commercial & industrial printing business are seen as growth areas. The office printing market itself is shrinking and yet represents a huge growth opportunity for Epson if we can persuade users to replace their laser printers with inkjet printers. Inkjet printing offers greater convenience and productivity, but it also enables eco-conscious offices by reducing electricity consumption and waste. In commercial and industrial printing, we will spearhead digitalization by proposing digital inkjet solutions that replace analog printing processes. Digitalization enables distributed production sites to be centrally managed from a remote location. And producing goods in markets where they are consumed enables lean production and transforms the value chain.

Robotics innovation was changed to manufacturing innovation. Instead of focusing exclusively on producing and selling stand-alone robots as in the past, we will also work to provide compact, flexible production systems. Our efficient, compact, and precision technologies enable us to produce small products of great variety, from robots to peripherals and manufacturing equipment. They also allow us to support customers by providing them with services, from production line design and installation to production engineering and production system construction.

Innovation



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Our goal is to drive innovations in manufacturing that make it impervious to labor shortages and adaptable to short-run production and local production for local consumption.

Strengthening Business Infrastructure to Support Innovation

To drive advances in the five areas of innovation, we will reinforce critical business infrastructure, including sales and marketing, production, technology development, and human resources. First, we will concentrate on customer-focused sales and support. In addition to providing tailored solutions, we will put more effort into providing after-sales support and services. In the area of production, we will further accelerate automation and digitalization, transition to distributed rather than centralized production systems, and establish robust production systems that exhibit resilience even in emergencies. In the area of technology development, we will strengthen the development of materials and AI, which are base technologies, digital technologies, which are product technologies, and environmental technology. To develop environmental technology, we are allocating human resources primarily to materials development. We expect development work in this area to bear fruit in the form of new businesses. Development know-how and developed technology will be shared across the company. By sharing knowledge about good initiatives across the company instead of siloing them in operations divisions, we will raise the level of all businesses. We will strengthen our workforce through organization revitalization, human resource development, and the hiring of specialists. To broaden the knowledge and experience in our workforce, we will rotate personnel more frequently to different jobs within the company, train and develop people needed in priority areas, and hire more mid-career people.

The board of directors exhaustively discusses whether the innovation, business infrastructure, and other strategies are aligned with the direction of the Epson Group before reaching decisions. Forums are set up to discuss topics such as diversity, DX, harassment, organizational climate, and quality. Outside directors actively share their experience and insights. Negative issues that require a fast company response are reported to the board, and the pros and cons of actions to address them are discussed and decided. The Seiko Epson Board of Directors will continue to play a role in ensuring transparency in decision-making.



Increasing Employee Happiness by Contributing to Society

The world has entered a period of major transformation, in which the COVID-19 pandemic has played a part, and we are often forced to respond to the unexpected. We recognize that we must respond appropriately and think long-term as we advance toward the future that we envision for Epson. In order to enrich communities in which people, things, and information are connected, we will face past mistakes, drive transformation, and move forward one step at a time. Fortunately, our young employees who will take the reins of leadership are very mindful about what the company should be for society and how it can contribute to society and the environment. As president, I have repeatedly communicated the message that contributing to society is closely linked to employee happiness, as the sense of fulfillment and reward earned by contributing to society through work makes employees happy. This idea seems to truly resonate with our people. If we share this mindset and remain committed to this belief, we will never be at a loss for what to do, regardless of the speed and magnitude of change. From top to bottom, the entire Epson team will confront the changing world and progress toward achieving sustainability and enriching communities.