

# Epson 25 Phase 2 Mid-Range Business Plan (FY2019-FY2021)

March 14, 2019  
Seiko Epson Corporation

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## ■ 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.

Years mentioned in these materials are fiscal years unless otherwise indicated.

We at Epson are creating new value with aspirations of creating a better world and becoming an indispensable company.



- We at Epson are creating new value with aspirations of creating a better world and becoming an indispensable company.
- This is the idea that underpins the Epson 25 Phase 2 Mid-Range Business Plan as well.

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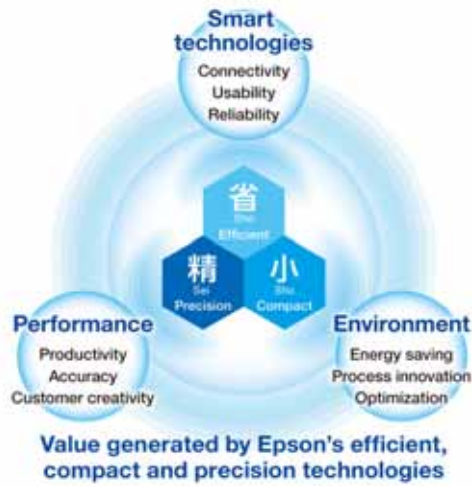
1. **Goals of Epson 25 Corporate Vision**
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Creating a new connected age of people, things and Information with efficient, compact and precision technologies



- In 2016, we established the Epson 25 vision statement shown here.
- We are looking to create a new connected age of people, things, and information by leveraging Epson's efficient, compact and precision technologies to drive innovations in four areas: inkjet, visual, wearables, and robotics.



Smart technologies  
Create convenient and easy-to-use products that can be used anytime and anywhere, and which help customers reduce waste, and save effort, time and money

Environment  
Leverage Epson products to reduce environmental impact by improving customers work processes, and contribute to a sustainable society

Performance  
Use outstanding products to contribute to customers performance through productivity, accuracy and creativity.

- This illustration graphically represents the value generated by Epson's efficient, compact and precision technologies. The value lies in smart technologies, the environment, and performance.



### Inkjet innovation

Refine Micro Piezo technology, and expand into high-productivity segments. Improve environmental performance and create a sustainable printing ecosystem.



### Visual innovation

Refine original microdisplay and projection technologies, and create outstanding visual experiences and a natural visual communications environment for every aspect of business and lifestyles.



### Wearables innovation

Leverage our watchmaking heritage, refine leading technology, and offer a sense of status and fashion



### Robotics innovation

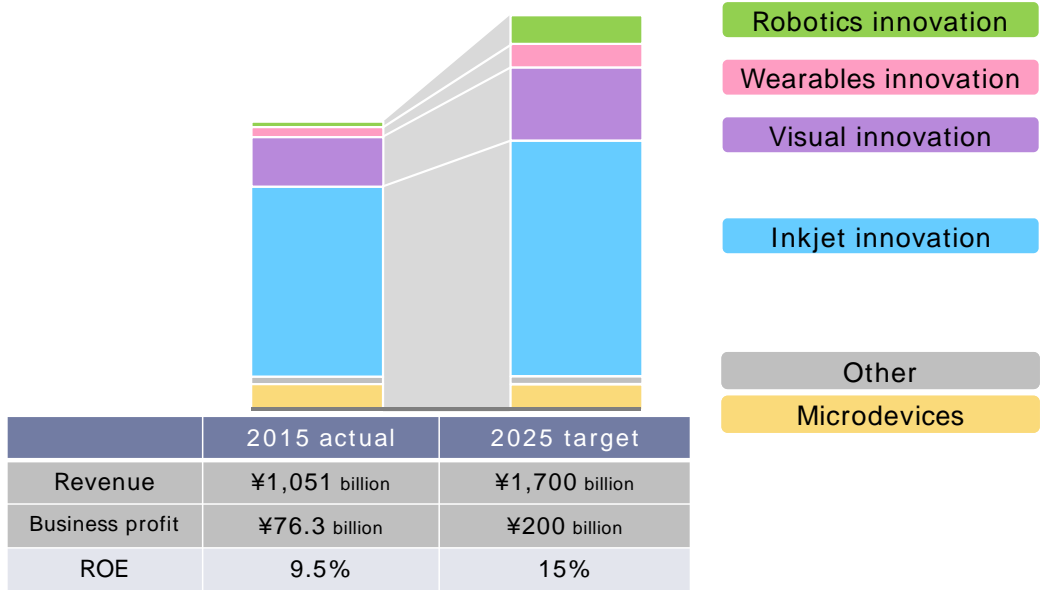
Combine our core technologies with sensing and smart technologies in manufacturing, expand applications, and create a future in which robots support people in a wide variety of situations.

- The directions for the four areas of innovation are summarized here.
- We will continue to produce high customer value by continuing to refine our core technologies.



## Direction of Growth

- Greatly expand business in the office and industrial domains by 2025.
- Create platforms to drive expansion in commercial and industrial domains.



- Our 2025 targets and the direction of growth in the areas of innovation are shown here.
- The targets that we set three years ago have not changed.

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Underachieved on Phase 1 revenue and ROS targets



- We divided Epson 25 into three phases.
- The period under the Phase 1 Mid-Range Business Plan, which covers the fiscal years from 2016 through 2018, was designated as a time for positioning Epson for growth in Phase 2 and beyond. So, during this Phase 1, we focused on developing products and aggressively investing as needed to achieve Epson 25 and on laying a solid foundation for robust growth.
- Accomplishments and issues are shown later in presentation, but in terms of performance we underachieved on revenue and ROS targets.

## Phase 1 Financial Results

Executed necessary investments toward achieving Epson 25,  
but FCF fell short of plan due to  
underachievement in revenue and profit.

Item	Phase 1 Target	Outlook*	Difference
Operating CF	¥330.0 billion	¥274.1 billion	¥-55.8 billion
Investment CF	¥-210.0 billion	¥-229.4 billion	¥-19.4 billion
FCF	¥120.0 billion	¥44.7 billion	¥-75.2 billion
R&D	Aggressive investment	¥158.0 billion	-
Capital expenditure	¥210.0 billion	¥237.7 billion	¥+27.7 billion

\*FY2016 & FY2017: Actual, FY2018: Outlook

### Investments to acquire future technology

- Jun. 2016 Made textile printer manufacturer Robustelli a wholly-owned subsidiary
- Jun. 2018 Made Shinko Sellbic a wholly-owned subsidiary to acquire compact injection molding technology
- Feb. 2019 Forged capital ties with AI venture company Cross Compass

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- We also project underachieving on our free cash flow target due to the shortfalls in revenue and profit.
- We conducted research and development in line with the plan, but capital expenditure exceeded the plan due primarily to the rising cost of construction materials and labor.
- We also invested in Robustelli, Shinko Sellbic, and Cross Compass to acquire future technology.

## Preparations for growth progressed to varying degrees and have not connected to earnings

Phase 1 Basic Policies	Accomplishments	Issues
<b>Establish a path to growth</b> <ul style="list-style-type: none"> <li>Reinforce competitive advantages</li> <li>Business transformation and new market advancement</li> </ul>	<ul style="list-style-type: none"> <li>Shifted from I/C printers to high-capacity ink tank printers in emerging markets</li> <li>Strengthened core technologies</li> <li>Increased production capacity</li> </ul>	<ul style="list-style-type: none"> <li>Shifting the business model from LPs to high-capacity ink tank printers</li> <li>Responding to rapid digitization</li> <li>Creating new markets</li> </ul>
<b>Increase customer value with smart technologies, environmental benefits, and performance</b> <ul style="list-style-type: none"> <li>Creation of products &amp; services</li> </ul>	<ul style="list-style-type: none"> <li>Launched strategic products (LIJ, laser projectors)</li> <li>Expanded product line-ups (high-capacity ink printers &amp; high-lumen projectors)</li> <li>Accumulated customer insights</li> </ul>	<ul style="list-style-type: none"> <li>On-time product launches</li> <li>Offering functions and services that meet customer needs</li> </ul>
<b>Enhance sales structure</b> <ul style="list-style-type: none"> <li>Quickly establish new business models</li> </ul>	<ul style="list-style-type: none"> <li>Strengthened B2B sales organization (Japan &amp; Western Europe)</li> <li>Enhanced billing plans (Japan &amp; Western Europe)</li> </ul>	<ul style="list-style-type: none"> <li>Establishing sales proposal techniques for B2B</li> <li>Establishing B2B sales structure in North America, etc.</li> <li>Expanding billing plans (other regions)</li> </ul>
<b>Steadily invest in management resources as needed</b>	<ul style="list-style-type: none"> <li>Invested aggressively in capex for growth</li> <li>Invested aggressively on R&amp;D</li> <li>Invested in companies to acquire future technology</li> </ul>	<ul style="list-style-type: none"> <li>Strengthening sales in Middle East, Africa, etc.</li> <li>Determining investment and expenditure priorities</li> </ul>

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- The accomplishments we have made and the issues we are experiencing are summarized here for each of the Phase 1 basic policies.
- While some preparations for growth progressed significantly, others fell behind schedule or did not fully accomplish what was expected.
- Broadly speaking, we accomplished our goals of strengthening core technologies, increasing production capacity, and launching strategic products, but we were unable to act fast enough.
- On the sales front, we made a certain amount of progress in enhancing our sales structures in Japan and Western Europe, and in accumulating customer insights, but there were delays in improving the sales structure in other regions. Meanwhile, we lagged in providing products and services that capitalize on the accumulated insights and fell behind in establishing effective selling techniques.
- In addition, we made aggressive capital expenditures and had active research and development programs for growth areas, but, on the whole, we could have done better in determining priorities.

### Rapid advances in digitization

- New businesses emerged and customer touch points changed
- Inkjets drove digitization of commercial and industrial printing
- Advances in robotization and IoT

### Greater expectations for corporate sustainability

- Tougher environmental regulations requiring improved environmental performance and reduced waste

### Uncertainty increased due to political and economic changes

- Emerging markets continued to grow, but the Chinese economy slowed while Latin America and other regions saw currency devaluations and ongoing economic stagnation
- Uncertainty increased over the medium and long terms

- We saw a number of major changes in the external business environment.
- First, digitization is advancing far more rapidly than initially anticipated.
- For example, new businesses emerged and customer touch points changed. Inkjet systems drove digitization of commercial and industrial printing; and the adoption of robots and Internet of things technology rapidly advanced in the industrial sector.
- Another major trend concerns the level of expectations that the public has for corporate sustainability. The United Nation's Social Development Goals are emblematic of this.
- In addition, political and economic uncertainty is likely to continue going forward due mainly to the recent deceleration of the Chinese economy and the ongoing economic stagnation in Latin America and other regions.

## High-capacity Ink Tank / Home & SOHO/ Office Shared Printers

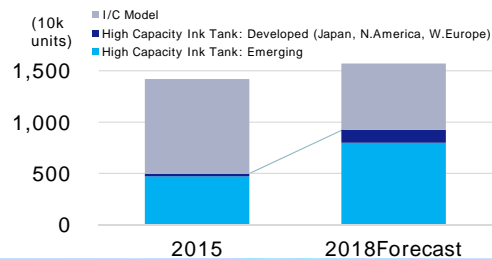
### Put office market development on track with inkjets

- Captured growth while shifting away from IJP and LP business model (cartridge business model) that depends on sales of consumables
  - Sales of high-capacity ink tank printers grew substantially in emerging markets
  - Started full-fledged sales in developed markets
- 
- Replacement of LPs did not go as expected

High-capacity ink tank printer cumulative global unit shipments topped 30 million



Epson's inkjet printer unit sales



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- Next several slides summarize the initiatives we undertook in each area of innovation.
- First, we acted to put office market development on track with inkjets.
- Growth continued as we shifted the focus to high-capacity ink tank printers and away from a business model that depends on consumables sales.
- High-capacity ink tank printer sales grew substantially in emerging markets. In addition, we launched full-scale sales in developed markets.
- On the other hand, replacement of laser printers did not go as expected.

## Office Shared Printers

### Put office market development on track with inkjets

- Launched high-speed linehead inkjet multifunction printers
  - Strengthened sales organizations in Japan and Western Europe
  - Understood customer needs from launched products
- 
- Unable to adequately communicate the benefits of inkjets
  - Late in providing functions and services that meet customer needs
  - Late in building sales organizations outside Japan and Western Europe



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- We launched high-speed linehead inkjet multifunction printers, strengthened sales organizations in Japan and Western Europe, and better understood customer needs after launching products.
- On the other hand, we were unable to adequately reach customers with messages about the benefits of inkjet. We were late in providing functions and services that meet customer needs. And we need to improve our sales organizations outside Japan and Western Europe.



## Commercial and Industrial Printers

Accelerate the switch from analog to digital

- Made progress in developing platforms and products for future growth
  - Increased PrecisionCore printhead production capacity
- 
- Saw some growth in new areas (signage, textiles and labels), but growth was limited by delayed product launches
  - Markets expanded faster than expected due to the rapid advance of digitization, but we were unable to fully respond to diversified needs

Signage



Textiles



Labels



Printheads



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- For commercial and industrial printers, we sought to accelerate the switch from analog to digital. Toward that end, we developed platforms and products and increased PrecisionCore printhead production capacity.
- However, although we saw some growth in the signage, textile, and label areas, growth was limited by new product launch delays.
- Markets expanded faster than expected due to the rapid advance of digitization, but we were unable to fully respond to diversified needs.

### Projectors

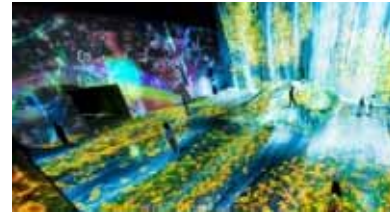
#### Increase market presence with laser projectors

- Continued to expand market share with strong products and services despite a contraction of the existing projector market due to FPDs
  - Increased our market presence by launching high-brightness laser projectors
- 
- New markets for small projectors expanded



High-brightness laser projector

FY17  
No. 1 Global  
Share\*



Sponsored the Epson TeamLab  
Borderless digital art museum as a  
projection partner

\* Based on unit shipments of projectors of 500 lumens or more, per Futuresource Consulting Limited

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- In visual innovation, we sought to increase our market presence with laser projectors.
- The existing projector market has been contracting due to the growing presence of big-screen LCD monitors and other flat panel displays. However, we continued to expand our market share of the projector market with strong products and services, and we maintained our lead in global market share.
- We also increased our market presence by launching high-brightness laser projectors.
- On the other hand, Epson does not yet offer products in the rapidly expanding market for small projectors.

Create new markets by proposing new applications

### Digital Lighting

- Launched accent lighting projectors for the spatial design market



### Smart Glasses

- Launched new products with silicon OLEDs
- Didn't achieve substantial growth



- Our efforts to create new markets by proposing new applications included the launch of accent lighting projectors for the spatial design market.
- In smart glasses, we launched new products with silicon OLED technology, but did not achieve substantial growth.

## Watches

Strengthen the foundation of the watch business and introduce distinctive new families of products that integrate sensor technologies

- Focused resources on the high-value-added analog watch segment to capitalize on Epson's unique technology
  - Launched original Trume brand
- 
- Sales of sports watches did not meet expectations



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- In wearables innovation, our strategy during Phase 1 was to create distinctive new families of products that integrate sensor technologies. In line with this strategy, we launched an Epson original brand called Trume and expanded our lineup.
- On the other hand, we were unable to grow sales of sports watches as much as anticipated due in part to the emergence of smartwatches. We therefore altered our strategy to focus resources on the analog watch segment, where we can capitalize on Epson's unique technology.

## Robots

Drive manufacturing innovations by providing robots that meet a wide range of automation needs and solutions that accomplish sophisticated tasks

- Sales grew smoothly as the market expanded and Epson launched strategic products
- Transferred sensing and software technology assets refined by the wearable products business to the robotics solutions business
- Forged capital ties with AI venture company Cross Compass



SCARA robots with integrated controllers (T series)



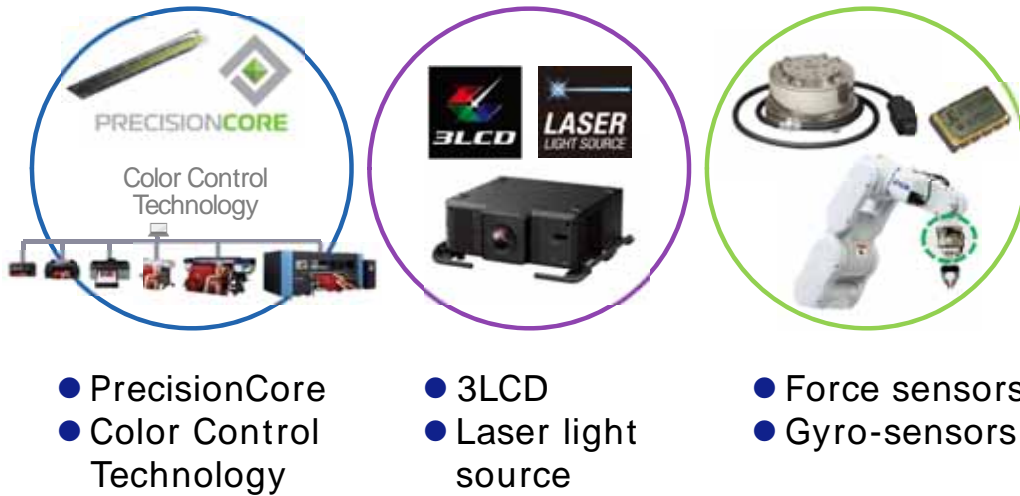
Compact 6-axis robots (N series)



Force sensors  
Gyro-sensors

- In robotics innovation, we sought to drive manufacturing innovations by providing robots that meet a wide range of automation needs and offering solutions that allow customers to accomplish sophisticated tasks.
- We were able to grow sales as the market expanded by launching strategic products.
- To achieve growth moving forward, we transferred sensing and software technology assets from the wearable products business to the robotics solutions business. We also forged capital ties to acquire AI technology.

Create a foundation to achieve the corporate vision by strengthening core technologies for key products



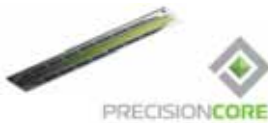
- We continued to steadily strengthen our core technologies.
- In printing, we made advances in PrecisionCore and we commercialized Color Control Technology.
- In visual, we refined our 3LCD and laser light source technologies.
- In robotics, we strengthened key component technologies such as force sensors and gyro-sensors.

Create a foundation to achieve the corporate vision by increasing production capacity for key products

- Increased production capacity for inkjet printers, projectors, and robots



New PrecisionCore print chip factory at the Hirooka Plant



Additional new factories in the Philippines and Indonesia



Robot production line installed at the Toyoshina Plant



- We strengthened our manufacturing infrastructure by increasing our production capacity for key products.

## Improve B2B sales organizations and revamp sales functions

### Strengthening sales functions

- Strengthened B2B sales organizations in Japan & Europe

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- Did not finish the global switch to B2B sales methods that emphasize customer intimacy and solution selling

### Preparations for shift over to B2B

- Introduced flat-rate plans  
Japan, Western Europe, etc.
- Set up solution centers  
Japan, Germany, France, Spain, U.S., Asia
- Set up sales sites  
Vietnam sales affiliate and offices in Bangladesh, Sri Lanka, Munich, Berlin, Madrid and Lisbon

エプソンのスマートチャージ

Unlimited Printing Card



Showroom in Europe



Hirooka solution center

- We strengthened our sales function mainly to expand B2B sales.
- In Japan, we forged stronger relationships with existing business sales channels. Meanwhile, we also started to get on track with solutions tailored to the needs of different types of industries and businesses.
- In Western Europe, we are steadily expanding sales as a result of having strengthened the sales organization by hiring people with experience of selling office equipment and by building relationships with sales channels.
- On the other hand, in the Americas and other regions, actions to strengthen our sales organizations and structures were insufficient.
- We also did not finish the global switch to B2B sales methods that emphasize customer intimacy and solution selling.
- We are steadily moving forward with a shift toward B2B sales. We have introduced flat-rate service plans in Japan and Western Europe and have set up solution centers and sales offices in various locations around the world.



## Achieving sustainability in a circular economy

### Contributing to environment through products and services

- Launched environmentally considerate products



Winner at 1<sup>st</sup> EcoPro Awards\*



Dry process office papermaking system that produces paper on-site



High-speed linehead inkjet multifunction printers that offer both printing performance and low power consumption



High-capacity ink tank printers that save resources through reduced consumables consumption

\*Minister's prize, the Ministry of Economy, Trade and Industry

### Commitment to the SDGs

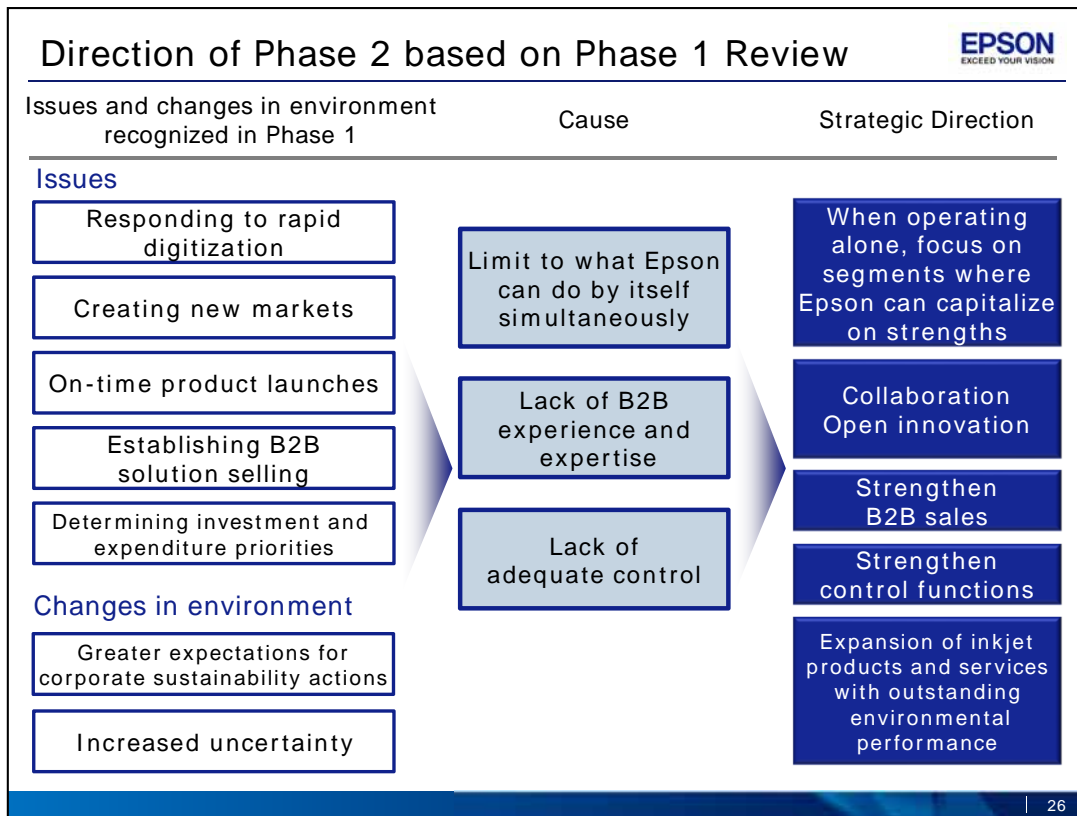
- Selected 13 goals by mapping Epson 25 and CSR initiatives to SDGs 17 goals



- We advanced a variety of sustainability initiatives.
- For example, we contributed to sustainability through eco-considerate products and services such as a dry-process office papermaking system.
- We also identified 13 Sustainable Development Goals towards which we can contribute.

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- The issues and environmental changes earlier are summarized here.
- Among the most serious issues were our inability to adequately respond to rapid digitization, speedily create new markets, or launch products on time.
- There were three reasons for this.
- First, there is a limit to what Epson can do by itself simultaneously.
- Second, a lack of experience and expertise were major factors in our inability to make adequate inroads into B2B markets.  
We still need to build customer relationships and strengthen solutions selling based on customer needs.
- Third, we lacked speed in sales and business operations, and lacked adequate control over the setting of priorities and the execution of investments.
- We believe that to address these serious issues and achieve future growth, we must move forward toward the five strategic directions shown on the slide.
- When operating alone, we will still be focusing on segments where we can capitalize on the strengths derived from our storehouse of core technologies, but to further increase the speed of growth, we will also actively collaborate with external partners and create new markets by leveraging open innovation.
- To improve B2B sales, it will be essential to strengthen not only sales organizations but also our ability to propose solutions.
- The Head Office will take the initiative to strengthen control functions so that we are able to accurately identify changes that are occurring in the field and respond quickly and dynamically.
- Expanding inkjet products and services with outstanding environmental performance is another necessity for achieving a sustainable society.

Continue to commit to the goals of Epson 25, and transform business operations to achieve high profitability by managing priorities in responding to social issues and environmental changes

Accelerate growth by taking maximum advantage of assets and through collaboration and open innovation

- Strengthen solution selling business
- Rapidly strengthen product lineups, including through collaboration
- Strengthen external sales of core devices and open innovation
- Invest management resources in robotics to accelerate its growth into a core business

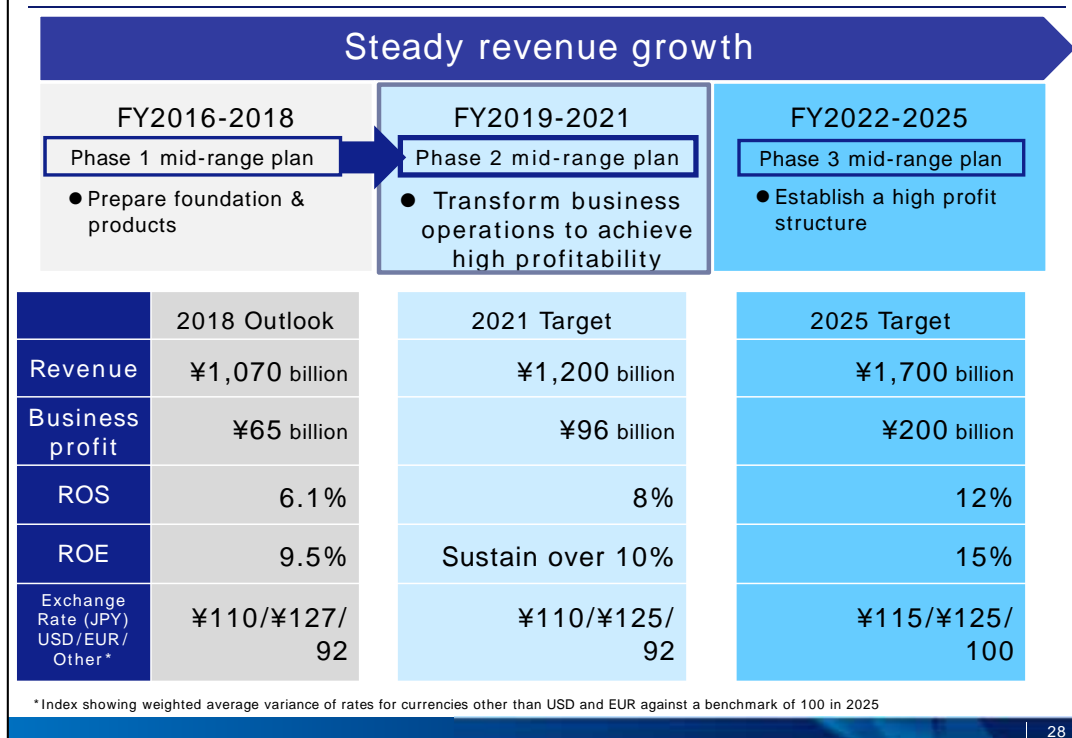
Strengthen global sales company functions under Head Office control

- Select and focus on priority business areas and regions
- Improve the organization and allocate personnel to strengthen B2B solution selling
- Strengthen company-wide integrated IT infrastructure

Invest management resources in a disciplined manner according to the economic environment and strategy effectiveness

- Rebuild product portfolios based on priorities
- Strengthen financial discipline

- The basic policies of the Phase 2 Mid-Range Business Plan are as shown here.
- We remain committed to the goals of the Epson 25 Corporate Vision, and will transform business operations to achieve high profitability by managing priorities in response to social issues and changes in the business environment.
- We established three basic policies that are aligned with this basic idea.
- First, we will accelerate growth by taking maximum advantage of assets fostered during Phase 1 and through collaboration and open innovation.
- Using the core technologies that were refined in Phase 1 along with the production capacity that we added, and the customer knowledge and insights that we accumulated, we will strengthen our solutions selling and rapidly strengthen our product lineups, including through collaboration.
- We will strengthen external sales of printheads and other core devices and will create new value through open innovation.
- Robotics is a particularly promising area from a long-term perspective, so we will aggressively invest management resources in robotics to accelerate its growth into a core business.
- Second, we will strengthen global operations under Head Office control.
- The Head Office will exercise more control than before when selecting priority business areas and regions on which to focus.
- We will improve the organization and allocate personnel to strengthen solution selling.
- We will prepare a company-wide integrated IT infrastructure to strengthen operations.
- Third, we will invest management resources in a disciplined manner according to the economic environment and the effectiveness of our strategies.
- We will rebuild product portfolios based on priorities and strengthen financial discipline.



- We set the 2021 fiscal year financial targets shown here based on the basic policies of the Phase 2 Mid-Range Business Plan.
- We are targeting 1,200 billion yen in revenue, 96 billion yen in business profit, and an 8% return on sales. We aim to sustain ROE of over 10%.
- The Phase 2 targets were set under the assumption that the current challenging environment will continue, given the increase in uncertainty surrounding the external environment.
- On top of that, we have designated Phase 2 as a period for transforming business operations to achieve high profitability.
- The revenue and business profit targets for FY2021, the final year of the Phase 2 plan, are basically in line with the targets we announced three years ago for the 2018 fiscal year, though there are differences in our foreign exchange assumptions.
- The ROS target was lowered from 10% to 8%.
- We are embarrassed about the slow progress we are making toward achieving Epson 25, and recognize that in many areas we simply cannot continue doing things the way we have always done them.
- However, the infrastructure we put in place in Phase 1 is robust, and we will capitalize on that by responding to environmental changes and speeding up execution. This reflects our strong commitment to restoring our ability to achieve high profitability in readiness for Phase 3.
- We will transform business operations so that we are positioned to establish a high profitability structure in Phase 3.

## Initiatives in Each Innovation Area



### Inkjet Innovation

- Use inkjets to accelerate office market development, and shift away from the consumables-dependent business model
- Use inkjets to accelerate the digitization of commercial and industrial printing



### Visual Innovation

- Use laser projectors to expand the value of projectors
- Develop new markets



### Wearable Innovation

- Focus on the analog watch segment where Epson can capitalize on its strengths



### Robotics Innovation

- Further accelerate growth and strengthen infrastructure to make robotics a core business

- The initiatives in each area of innovation in the Phase 2 plan are summarized here. Details are explained in the following slides.

### Shift to new business model

- Use high-capacity ink tank printers to accelerate office market penetration and shift away from the consumables-dependent business model
  - Replace laser printers and ink cartridge printers with high-capacity ink models (ink pack and ink tank printers)
- Advertise the advantages of inkjets (environmental performance, low cost) to raise awareness
- Strengthen B2B sales capabilities
- Continue taking actions to maintain ink cartridge printer prices

- In inkjet innovation, we will continue to transition away from the business model that depends on sales of consumables by accelerating the penetration of the office market with high-capacity ink models that can fully leverage the benefits of inkjet and thus displace laser printers and ink cartridge printers.
- Given the lessons learned in Phase 1, we will take steps to raise awareness about office inkjets by heavily appealing their competitive advantages while strengthening our B2B sales capabilities.
- On the other hand, we will continue taking actions to maintain ink cartridge printer prices.

## High-capacity Ink Tank Printers

- Strengthen the lineup of high-capacity ink tank printers for the office
  - Strengthen the lineup and launch products that have features that match office printing needs
  - Develop cost-saving designs to support competitiveness
- Provide services that encourage installation
  - Roll-out subscription-based services globally



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- This slide shows initiatives involving high-capacity ink tank printers, which will also continue to be the main growth driver in Phase 2.
- In Phase 2, we will start to make serious inroads into segments long dominated by laser printers.
- We will strengthen the lineup and launch products with features that match office printing needs. We will also develop platforms with cost-saving designs to improve competitiveness.
- At the same time, for customers who want to keep their initial installation costs lower, we will roll out subscription-based services globally.



## Office Shared Printers

- Strengthen the lineup of high-speed linehead inkjet multifunction printers
  - Strengthen the product lineup to meet office demand
  - Provide a comprehensive lineup for the office with a combination of high-capacity ink pack and ink tank printers.
- Focus on providing solutions in areas where we can take advantage of our strengths
  - Provide solutions that increase the efficiency of work in different types of **businesses**



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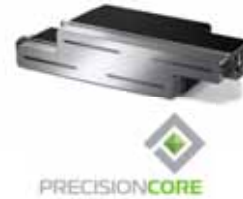
- Next are our initiatives in office shared printers.
- Using the knowledge gained about customer needs during Phase 1, we will strengthen the lineup of high-speed linehead inkjet multifunction printers that meet office demand.
- We will also provide a comprehensive lineup for the office with a combination of high-capacity ink pack and ink tank printers.
- We had issues in reaching customers with messages about the benefits of inkjets and in building our sales organizations. Given this, we will focus on providing solutions in areas where we can take advantage of our strengths. For example, we will sell solutions that increase the efficiency of work tailored according to type of industry and business.

## Leading the acceleration of digitization

- 1 Rapidly expand the lineup of high productivity products through platforming and collaboration with partners



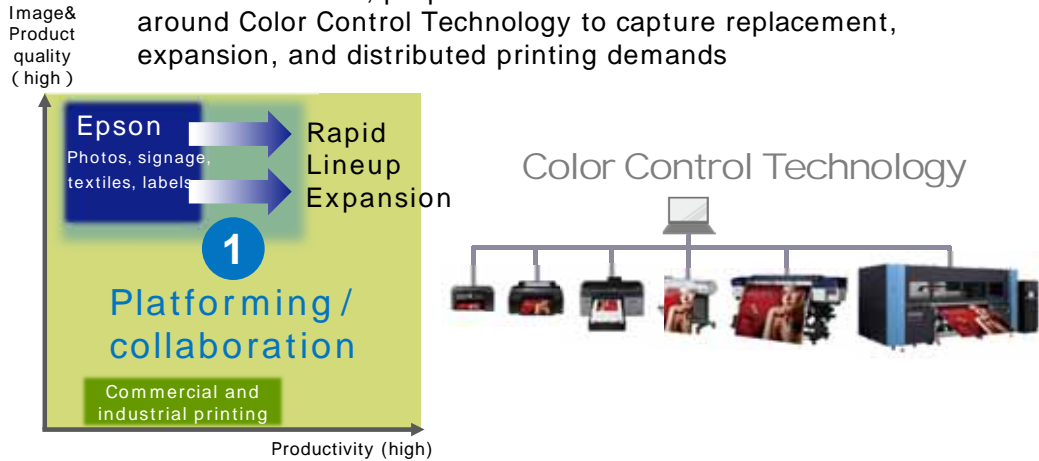
- 
- 2 Expand business by responding to a diverse range of needs with external printhead sales and open innovation



- In the commercial and industrial segments, we will make significant changes to our initiatives in order to lead the acceleration of digitization.
- There is a limit to how much Epson can accomplish by itself, simultaneously, so we will rapidly expand the lineup of high productivity products through platforming and collaboration with partners.
- In addition, we will expand the business by leveraging external printhead sales and open innovation to respond to needs that we were previously unable to fulfill.

## Commercial and Industrial Printers

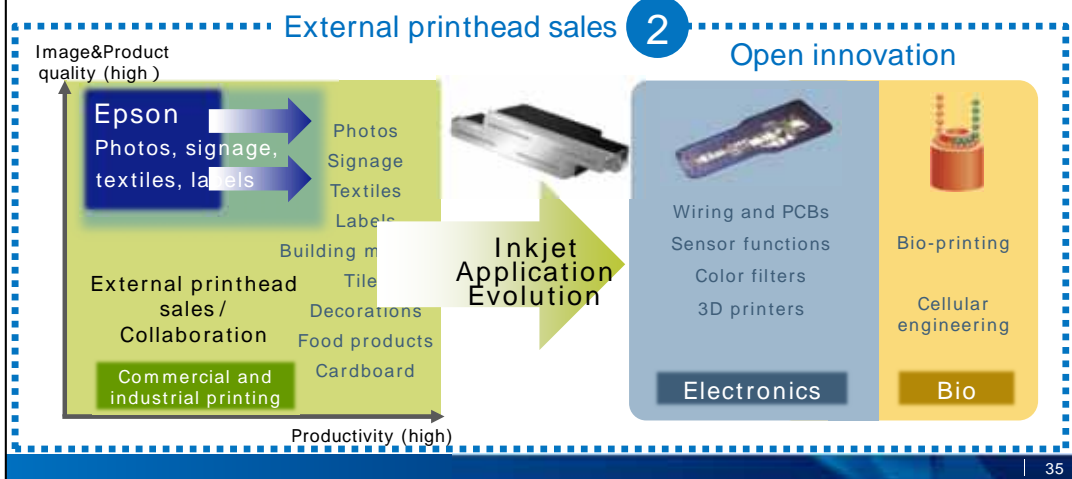
- 1 Rapidly expand the lineup of high productivity products through platforming and collaboration with partners
  - Maintain high image and product quality, and utilize technology assets for platforming and collaboration
  - At the same time, propose software and solutions that are centered around Color Control Technology to capture replacement, expansion, and distributed printing demands



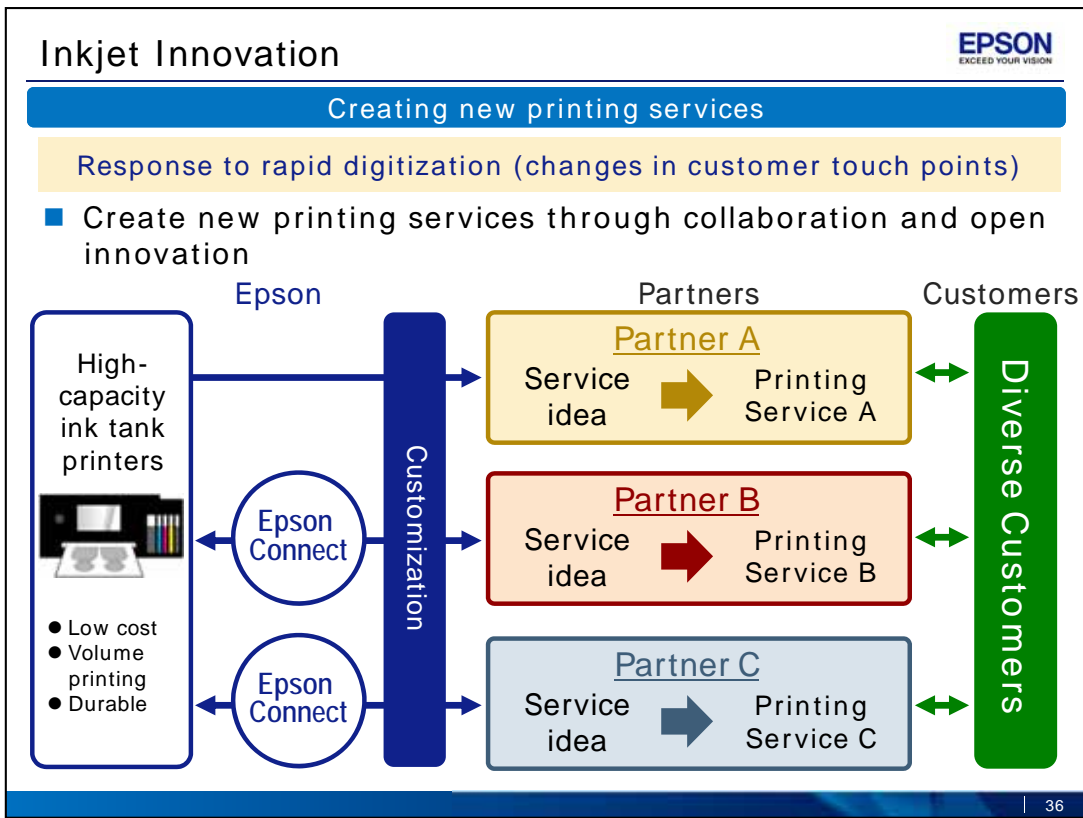
- This slide explains the first initiative about rapidly expanding our lineup in detail.
- As illustrated on the left of the slide, we will rapidly expand our lineup of high-productivity products in the areas where Epson brand products are sold. We will do this by further improving our imaging and product quality, and capitalize on our technological assets thereby creating product platforms, and by collaborating with partners.
- At the same time, to take advantage of that lineup, we will propose software and solutions centered around Color Control Technology to capture replacement, expansion, and distributed printing demand.

## Commercial and Industrial Printers

- 2 Expand business by responding to a diverse range of needs with external printhead sales and open innovation
  - Accelerate digitization by providing printheads for a wide range of applications
  - Drive the creation of new markets via open innovation



- The second initiative, involving external printhead sales and open innovation, is explained here.
- First, Epson will lead the acceleration of digitization by actively selling printheads for use in a diverse and expanding range of applications.
- As shown in the illustration, in commercial and industrial printing, Epson has focused its business primarily in the photo, signage, textile, and label categories. As mentioned earlier, we will expand the lineup of Epson brand products for these applications, but we will also sell printheads to external customers. We will also accelerate digitization by actively selling printheads for applications involving construction materials, tile, decorations, and other areas where Epson has no customer knowledge.
- In addition, new needs are emerging for Epson’s PrecisionCore and other high-performance inkjet technology in areas such as electronics and biotechnology. We will drive the creation of new markets by not only providing printheads in these areas, but by also through open innovation.



- This slide explains the creation of new print demand.
- The rapid advance of digitization has brought major changes in customer touch points, and the emergence of new touch points has caused new printing needs to emerge.
- Durable high-capacity ink tank printers that can print in high volumes at low cost are advantageous in that, for example, they require less frequent maintenance.
- The durability and infrequent need for maintenance allows these printers to be used in various printing services. For example, they are used in unattended kiosks that consumers can use to print photos from smartphones via social networks.
- Accelerating the realization of new services like this will require supporting platforms.
- Epson will provide an environment that links customers with printers through Epson Connect, a mobile cloud service platform, based on partner services and ideas. We will also collaborate with partners and promote open innovation to provide customized solutions.
- This will enable us to create new printing services and contribute to building the social infrastructure for printing.

## Projectors

### Increase value and develop new markets

- Efficiently broaden lineup with laser light source and through platforming to increase market presence and develop new markets
  - Compete against FPDs and accelerate growth in the high-brightness segment by driving further advances in laser light source engine platforms
  - Create demand in the spatial design market with accent lighting projectors
  - Expand and upgrade the ultra-short throw home projector lineup, and develop small projectors



- Our initiatives in visual communications are summarized here.
- We will efficiently broaden our lineup with laser light sources and through platforming to increase our market presence and develop new markets.
- First, we will compete against flat panel displays and accelerate growth in the high-brightness segment by driving further advances in laser light source engine platforms.
- We will also create demand for accent lighting projector applications in public spaces like places of worship and restaurants.
- In addition, we will expand the ultra-short throw home projector lineup, begin to develop and commercialize small projectors, and further solidify our position as the industry leader.

## Smart Glasses

New market creation and the provision of functions and services based on customer needs

- Expand applications through external sales of optical engines and specialized apps
- Offer software for major applications
- Increase offered value through advances in OLED and optics



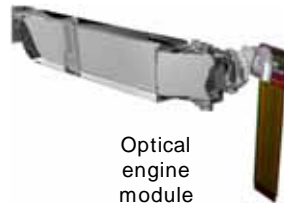
Remote support



Consumer drones



Industrial drones



Optical engine module



- We recognized during Phase 1 that we would have a hard time creating a market for smart glasses by ourselves, so we will look to achieve growth through external sales and collaboration.
- We will begin external sales of Epson's silicon OLED optical engine modules. We will also expand uses that we could not achieve alone through the provision of specialized apps.
- We will look to expand the range of uses for smart glasses by providing software for major growth applications, such as drones and providing remote support to improve work efficiency.
- Of course, we will also continue to advance our OLED and optics technologies in order to provide competitive products and high customer value.

## Watches

Focus on areas where Epson can capitalize on strengths

- Continue to focus resources on the high-value-added analog watch segment to capitalize on Epson's unique technologies

Epson original brands

Movement

Seiko Business



- We changed our strategy in wearables in phase 1, and we will continue to focus resources on the high-value-added analog watch segment to capitalize on Epson's unique technologies.



## Robotics

Further accelerate growth and strengthen infrastructure to make robotics a core business

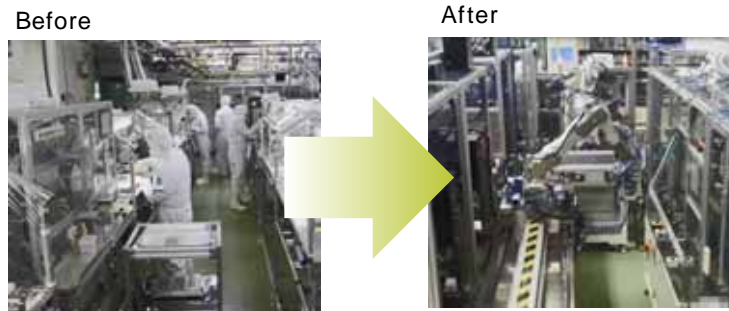
- Accelerate growth through active collaboration based on Epson technologies (sensors, etc.)
- Use AI to further improve usability
- Enter the collaborative robot market



- In robotics, we will further accelerate growth and strengthen infrastructure to make robotics a core business.
- To accelerate growth, we will embrace collaboration based on Epson technologies to increase product competitiveness.
- We will also use AI to further improve usability.
- These initiatives will enable us to enter the collaborative robot market in addition to expanding our presence in existing robot markets.

### Robotics

- Capitalize on Epson's manufacturing knowledge to sell solutions that meet customers' automation requirements



Printhead assembly automation

- Further strengthen our sales support system in collaboration with global manufacturing sites

- Automating manufacturing requires more than just installing robots. Production lines have to also be designed and built by people who have manufacturing experience and expertise.
- These photos show an example of an Epson printhead assembly process that we automated.
- Epson's robotics business has accumulated automation expertise that enables us to propose solutions that meet customers' automation requirements.
- We will further accelerate growth by building on these strengths and by strengthening our sales support system in collaboration with our global manufacturing sites.

## Strengthening B2B sales capabilities

### Strengthening global sales strategy and control functions

- Strengthen Head Office control
  - Develop a product lineup based on circumstances in each region
  - Control sales expenditures based on identified priorities

### Actions to shift to B2B

- Reinforce functions in Japan and West Europe, which are leading the move to B2B, and share that knowledge globally
  - Expand solutions sales
  - Roll-out subscription-based services globally
  - Develop North American B2B sales channels
- Strengthen sales human resources and sites
  - Increase strength with experienced personnel and sales engineers
  - Increase sales offices in the Middle East, Africa, etc.
  - Open solutions centers in the central and eastern parts of North America

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- This slide shows our incentives to strengthen our B2B sales capabilities.
- First, we will strengthen Head Office control over global sales strategies and control functions.
- The Head Office will play a leadership role in ensuring that the products we launch are tailored to the needs of specific markets, rather than standardized across the globe.
- The Head Office will also assume greater control over items such as labor costs and the sales promotion expenses of sales companies. And we will seek to maximize cost effectiveness by controlling expenditures based on priorities.
- On top of that, we will step up our efforts to shift to B2B.
- We will reinforce functions in Japan and Europe, which are leading the move to B2B, and share that sales knowledge globally.  
Specifically, we will share knowledge and information about solutions selling and will roll out subscription-based services globally.  
Moreover, we will strengthen and accelerate our efforts to develop B2B sales channels in North America, as this has been a key issue.
- For human resources, emphasis will be placed on hiring experienced B2B salespeople and sales engineers.
- We will also increase sales offices in places such as the Middle East and Africa, and will open solutions centers in the central and eastern parts of North America.

Invest management resources in a disciplined manner according to the economic environment and strategy effectiveness

### Visualization of business operations and strengthen head office leadership

- Set up accurate and timely methods to capture situational changes in the field
- Create priorities in product portfolio on a company-wide perspective

### Renovate business process having “discipline and freedom”

- Renovate business processes and strengthen company-wide integrated IT infrastructure

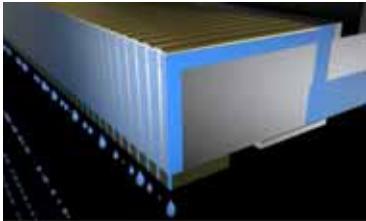
### Strengthen control over investment and expenditure priorities

- Continue with investments necessary for future growth
- Control expenditure according to strategy effectiveness
  - Carefully review and screen capex with mid-term target as the upper limit
  - Control expenditure priorities on a company-wide perspective holding a balance between revenue growth and increase in SGA.

- For Head Office functions, we will increase the visualization of business operations and strengthen Head Office leadership.
- To do so, we will set up systems to understand market changes in a timely manner, as well as set product portfolio priorities.
- We have also started to renovate business processes and strengthen our company-wide integrated IT infrastructure to create processes that are disciplined but also can allow freedom.
- Finally, for investments, while we will continue to invest in growth areas, we will strengthen control over expenditures according to strategy effectiveness.
- For capex, we will carefully review and screen expenditures while setting a mid-term target as an upper limit.
- For expenditures, we will control priorities from a company-wide perspective, holding a balance between revenue growth and SGA increases.

Take heightened expectations  
for achieving sustainability as a business opportunity

Innovation using  
inkjet technology

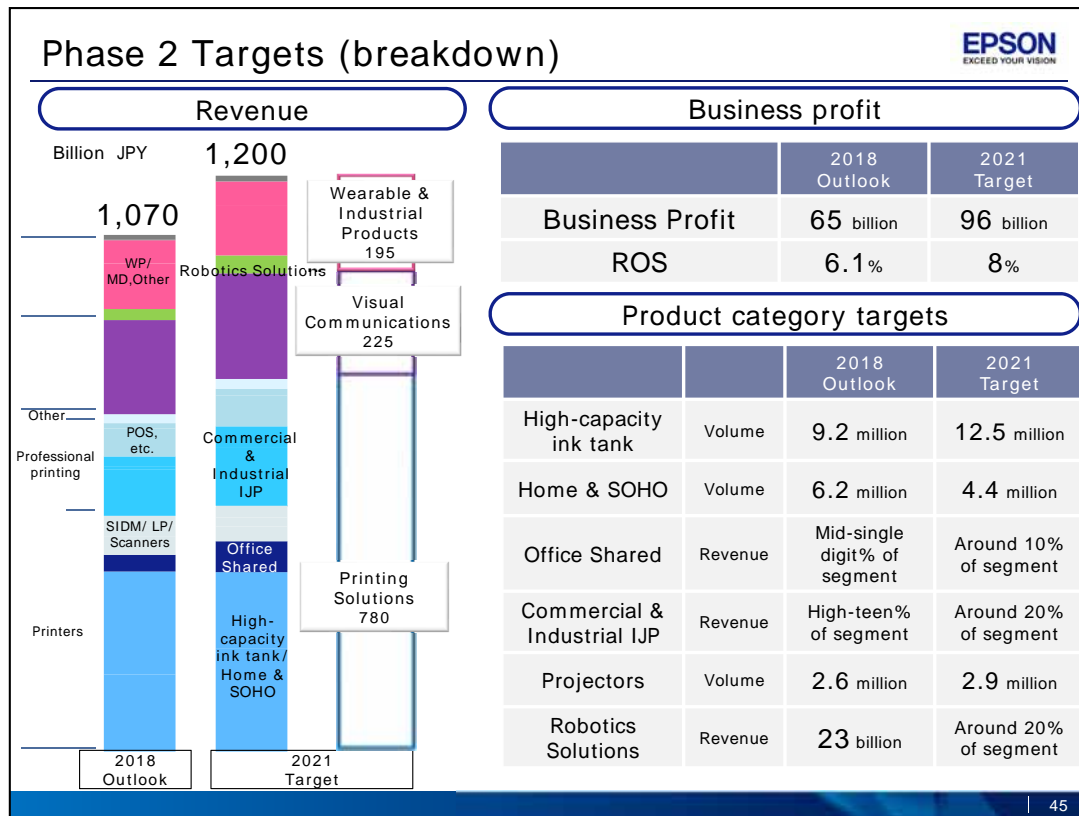


Inkjet

=

Helping to develop  
a sustainable society

- For our sustainability initiatives, we will approach heightened expectations for achieving sustainability as a business opportunity.
- We will accelerate innovation using inkjet technology to contribute to sustainability.



- This slide shows segment revenue and targets for key products.
- In printers, we will accelerate the transition to new business models as we displace laser printers.  
Home and SOHO printer revenue will decrease, but increase from high-capacity ink tank printers and office shared printers will contribute to overall revenue growth.
- In professional printing, commercial and industrial inkjets, including large-format printers and external sales of printheads, will drive revenue growth.
- In visual communications, we will seek revenue growth by increasing unit shipments of projectors.
- In wearables and industrial products, robotics will drive growth.
- For business profit, we plan gains from revenue growth, and from improved model mix due to growth of high-capacity ink tank printers and office shared printers.
- The progress toward these product category targets will be reported when we announce our financial results.

1. Goals of Epson 25 Corporate Vision
2. Epson 25 Phase 1 Mid-Range Business Plan Review
3. Epson 25 Phase 2 Mid-Range Business Plan
4. **Financial Targets**
5. Shareholder Returns



## Cash Flow (CF) & Capital Expenditure Plans

- Restore our ability to generate cash flow by steadily growing profit and increasing operations efficiency
- Prioritize and allocate generated cash to growth areas
- Offer shareholder returns while maintaining a healthy financial structure

Item	Phase 1 Mid-range outlook*	Phase 2 Mid-range target
Operating CF	3 year total: ¥274.1 billion	3 year total: ¥370 billion
FCF	3 year total: ¥44.7 billion	3 year total: ¥170 billion
R&D Expense	3 year total: ¥158 billion	Aggressively invest in new products and key technologies necessary to achieve Epson 25
Capital Expenditure (excluding lease)	3 year total: ¥237.7 billion	3 year total: ¥200 billion (Production capability, new products)

\* FY2016 & FY2017: Actual, FY2018: Outlook

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- We will restore our ability to generate cash flow by steadily growing profit and increasing operations efficiency during Phase 2.
- After allocating generated cash to growth areas based on identified priorities, we will offer returns to our shareholders while maintaining a robust financial structure.



## Approach to Achieving the ROE Targets

- Steadily grow revenue and profit during Phase 2 to secure stable operating cash flows and prioritize investment in growth to achieve Epson 25, while also maintaining a robust financial structure and securing capital efficiency to sustain ROE of over 10%



Strike a balance with revenue growth & control expenses from a company-wide perspective (aggressively spend in growth areas and increase efficiency in existing areas)

In addition to rigorous selection by setting a hurdle rate, do test risk scenarios and strengthen company-wide discipline and control over capital expenditure by Head Office



Maintain a robust financial structure that can withstand sudden changes in the business environment and intense competition  
Optimize capital efficiency (proactive profit sharing and agile share repurchase)

- We will target to sustain an ROE of over 10%.
- We will strike a balance between spending and revenue growth and will control expenses from a company-wide perspective.
- In addition to rigorously selecting investment projects by setting hurdle rates, we will exercise stronger discipline and control over capital expenditure from a company-wide perspective.
- The 2025 target of 15% ROE has not changed.

1. Goals of Epson 25 Corporate Vision
2. Epson 25 Phase 1 Mid-Range Business Plan Review
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4. Financial Targets
5. **Shareholder Returns**



- Provide continuous and stable shareholder returns

Category	Phase 1 Mid-range plan	Phase 2 Mid-range Plan
Dividends: consolidated dividend payout ratio*	FY2018: Outlook Approx. 48%	Approx. 40%
Share Repurchase	FY2016: Repurchased ¥10 billion	Agilely purchase shares as warranted by share price, the capital situation, and other factors

\*Calculated based on profit after an amount equivalent to the statutory effective tax rate is deducted from business profit, which shows profit from operations

- Epson's policy is to actively provide shareholder returns in parallel with efforts to maintain a robust financial structure that is capable of withstanding changes in the business environment.
- This policy will not change under the Phase 2 Mid-Range Business Plan. We will continue to provide steady shareholder returns.
- In 2018 fiscal year, we forecast approximately 48% consolidated dividend payout ratio, against the target of approximately 40% in Phase 1.
- The target for Phase 2 will also be approximately 40%.
- We hope to meet the expectations of shareholders also by keeping our options open regarding share repurchases.



## Exceed Your Vision

Epson moves you in a powerful way.  
And we do this through our commitment to  
developing technology that inspires and  
empowers people all over the world.

- Finally, the “Exceed Your Vision” global tagline states our promise to our customers and the role we must play.
- We believe that Epson’s role is to deliver surprise and delight that exceeds customer expectations, solve society’s problems, and contribute to sustainability.
- Epson’s executive management team will lead the transformation of our business operations to achieve growth and answer the expectations of the capital markets.

# Reference



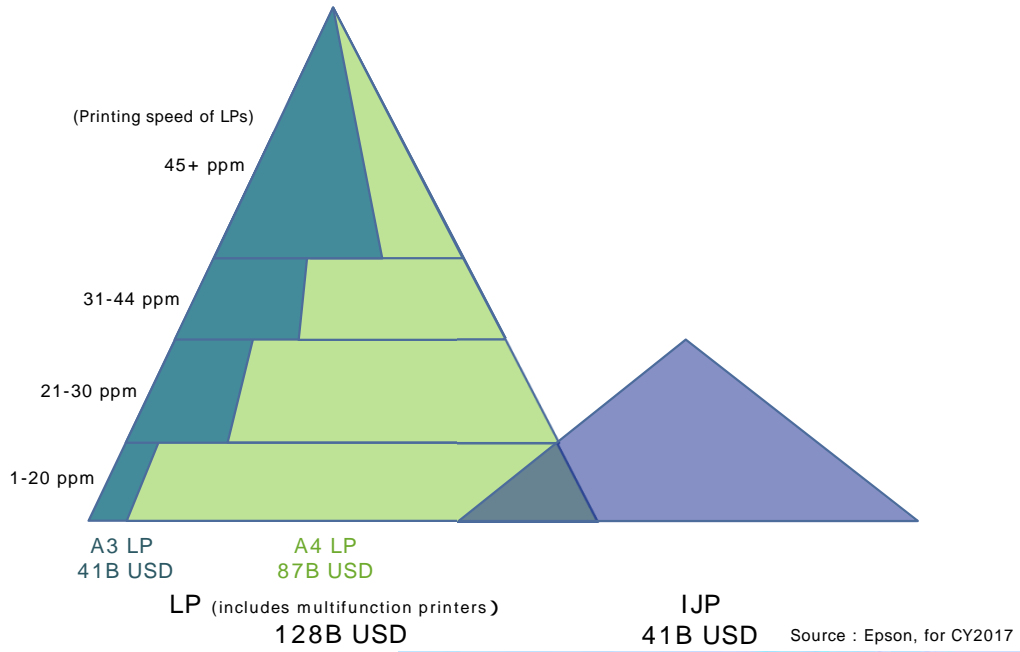
## Definition of term

Color Control Technology	Color managing technology that enhances color reproducibility
Epson Connect	Epson's mobile cloud service for Epson products and services
I/C	Ink cartridges
IJP	Inkjet printers
LIJ	Line inkjet printers, high-speed line inkjet multifunction printers
LP	Laser printers, including multi function printers
POS	Point of sales, POS printers : small receipt printers
RIPS	Replaceable ink pack system, high-yield cartridge-free ink pack printers
SOHO	Small office, home office
Office Shared Printers	One of printer category for high print volume office users. This includes LIJ, RIPS, and I/C printers.
Photos	Printer product category that includes large format printers for photo, graphics, proofing and CAD printing
High-capacity ink tank printers	Inkjet printers with high-capacity ink tank (includes EcoTank)
High-capacity ink models	General term for high-capacity ink cartridge printers, high-capacity ink tank printers, RIPS, and LIJ
Distributed printing	Printing method that prints out same images/documents by using several printers
3LCD	Technology that projects images by utilizing 3LCD-chips
FPD	Flat panel displays
OLED	Organic light emitting diode
High-brightness laser projectors	High lumen projectors mainly used in venues such as conference rooms and halls
WP	Wearable Products business
MD, Other	Microdevices, Other business
ROS	Business profit/ revenue
ROE	Profit for the year attributable to owners of the parent company/ Equity attributable to owners of the parent company (avg. balance)

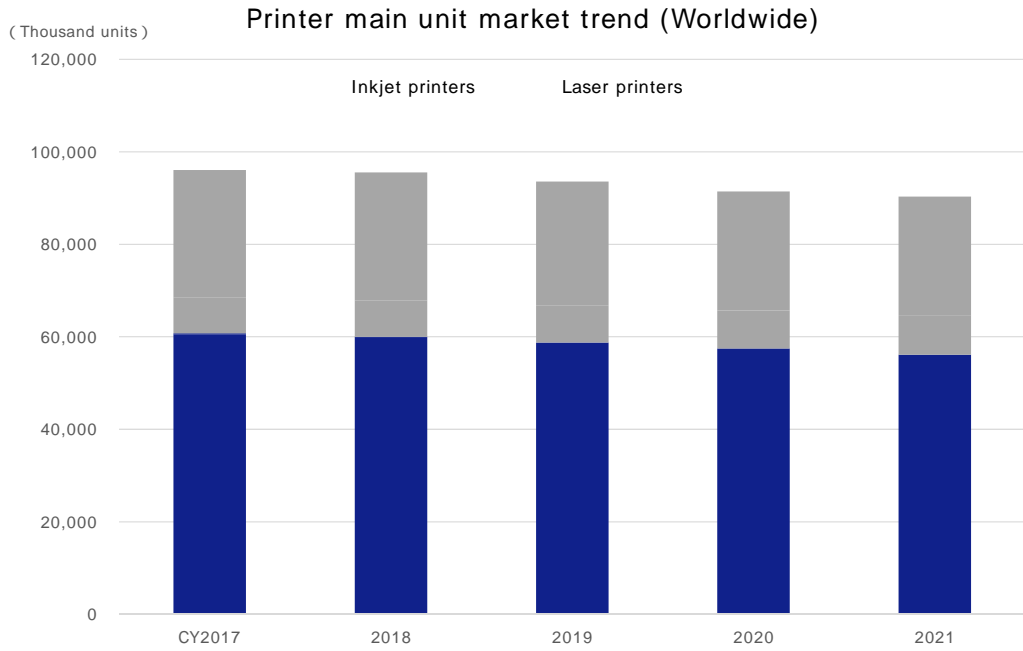
# Printer market size (IJP+LP | Monetary basis)



## Printer main unit + consumables (Worldwide)



# Printer market size (IJP+LP | Unit Volume)



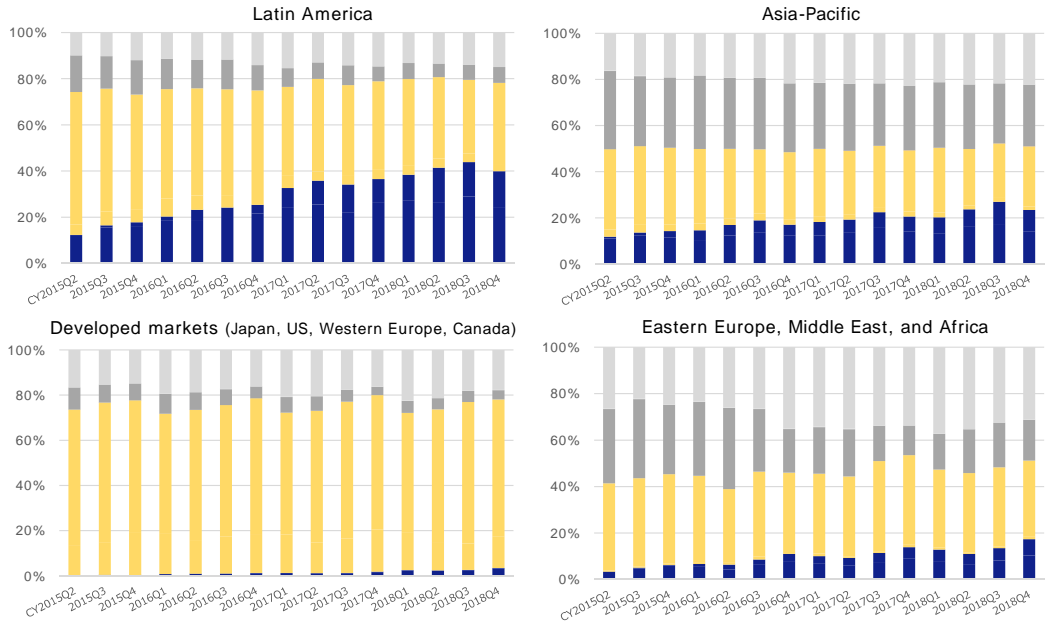
IDC Quarterly Hardcopy Peripherals Tracker 2018Q4 Forecast Release  
Printers include multifunction printers. Reproduction or republication of this data is prohibited.



# Penetration of High-Capacity Ink Tank Printers (Unit Volume)



## A4 printer main unit market trend by region



Ink tank printers  
Laser printers (1-20 ppm)

Ink cartridge printers  
Laser printers (21 ppm and more)

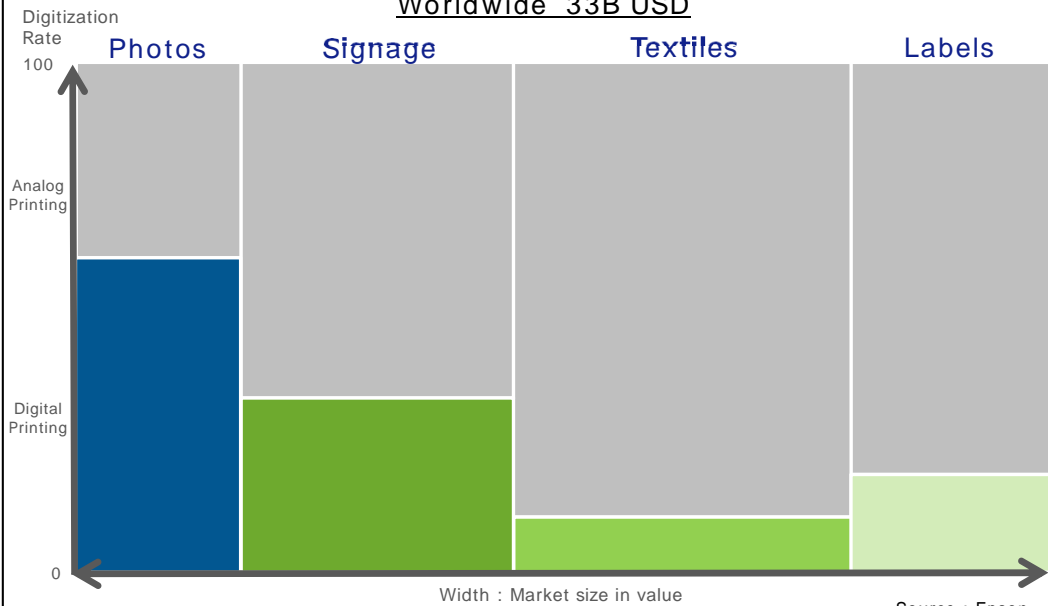
Printers include multifunction printers. Reproduction or republication of this data is prohibited.

# Commercial and Industrial Printing Market Size (Photo/Signage/Textiles/Labels | Monetary Value)



FY17 Market size by category  
(Printer main unit + consumables)

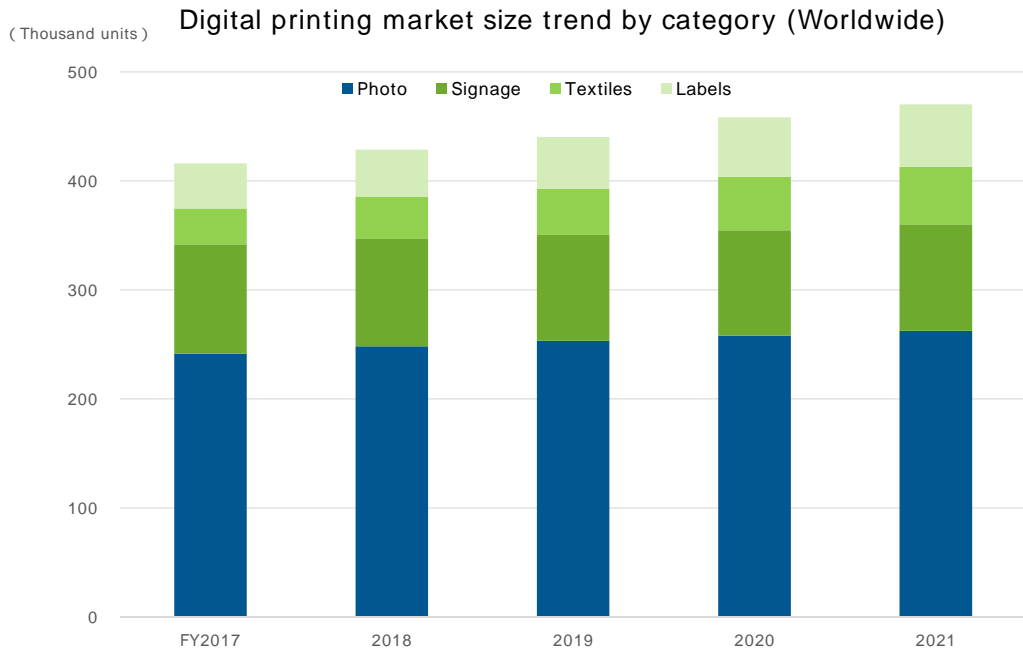
Worldwide 33B USD



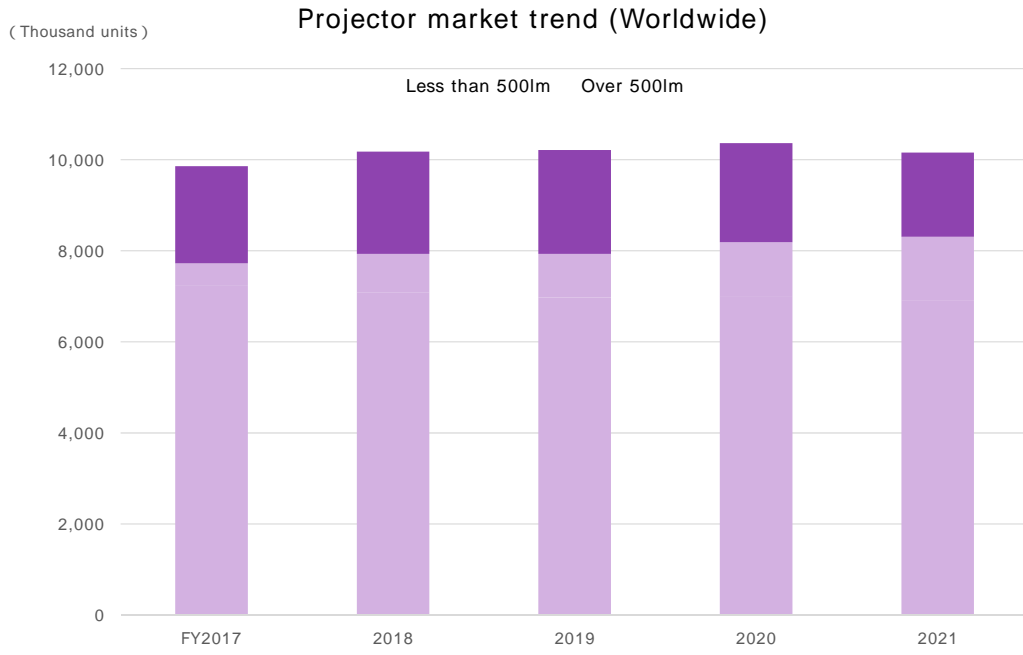
Width : Market size in value

Source : Epson

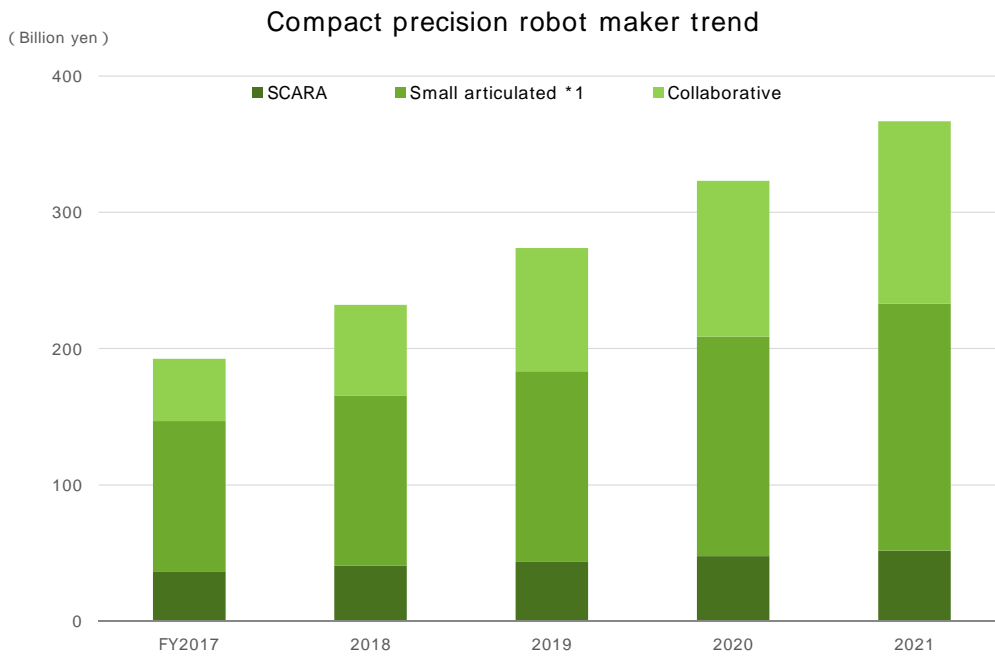
# Commercial and Industrial Printing Market Size (Photo/Signage/Textiles/Labels | Unit volume)



# Projector market size (Unit volume)



# Robot market size (Monetary Basis)



\*1 Vertically articulated robots with a max. payload of 20kg

Source : Epson

**EPSON**  
EXCEED YOUR VISION