

Epson Establishes “Epson 25 Phase 2 Mid-Range Business Plan”

- TOKYO, Japan, March 14, 2019 –

Seiko Epson Corporation (TSE: 6724, "Epson") today announced the establishment of the Epson 25 Phase 2 Mid-Range Business Plan (FY2019-2021), a three-year plan based on the Epson 25 Corporate Vision.

The Epson 25 Phase 2 Mid-Range Business Plan

1. Epson 25 Phase 1 Mid-Range Business Plan (FY2016-2018) review

As stated in the Epson 25 Corporate Vision, established in 2016, Epson envisions creating a new connected age of people, things and information with efficient, compact and precision technologies by 2025. To accomplish this, Epson seeks to drive innovations in four areas where it can leverage its competitive advantages and aims to enrich lives and contribute to sustainability.

In the three years under the Phase 1 business plan, we made significant preparations for growth in some areas, but in others fell behind schedule or did not fully accomplish what we expected. Moreover, the company was affected by greater than anticipated changes in the business environment, and revenue, business profit, and ROS are projected to fall short of the targets.

Main accomplishments and issues in Phase 1

- We accomplished our goals of strengthening core technologies, increasing production capacity, and launching strategic products, but we still have issues in terms of speed.
- In sales, 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.
- We made aggressive capital expenditures and had active research and development programs, but, on the whole, we could have done better in determining priorities.

2. Phase 2 business plan concept

We will 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 changes in the business environment.

Policies

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

- Strengthen the 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

- (2) 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
- (3) Invest management resources in a disciplined manner according to the economic environment and strategy effectiveness
- Rebuild product portfolios based on priorities
 - Strengthen financial discipline

3. Financial targets

	FY2018 Outlook ^{*1}	FY2021 Target
Revenue	¥1,070 billion	¥1,200 billion
Printing Solutions	¥710 billion	¥780 billion
Visual Communications	¥198 billion	¥225 billion
Wearable & Industrial Products	¥162 billion	¥195 billion
Business profit ^{*2}	¥65 billion	¥96 billion
ROS	6.1%	8%
ROE	9.5%	Sustain over 10%
Exchange Rate USD/EUR/Other ^{*3}	¥110/¥127/92	¥110/¥125/92

Reference: Epson 25 targets

FY2025 target	Revenue	¥1,700 billion
	Business profit ^{*2}	¥200 billion
	ROS	12%
	ROE	15%
	Exchange Rate USD/EUR/Other ^{*3}	¥115/¥125/100

*1 As of January 31, 2019

*2 Business profit is calculated by deducting cost of sales and SGA expenses from revenue.

*3 Index showing weighted average variance of rates for currencies other than USD and EUR against a benchmark of 100 in FY2025

4. Initiatives

- (1) Initiatives in each of our innovation areas

Inkjet innovation

- In the home & SOHO, and office shared* printers, Epson is transitioning away from a business model that is reliant on consumables by accelerating the displacement of laser printers and ink cartridge printers with high-capacity ink models such as high-capacity ink tank printers and high-speed linehead inkjet multifunction printers.
*Office shared printer: A printer category for high-print volume office users.
- In the commercial and industrial segments, rapidly expand the lineup of high productivity products through platforming and collaboration with partners.
- Expand business by responding to a diverse range of needs with external printhead sales and open innovation.

- Capture needs spawned by rapid digitization and embrace collaboration and open innovation to create new printing services.

Visual innovation

- Refine laser light source platforms, expand the lineup in the high-lumen and other segments, and promote the advantages of projectors.
- Develop new markets by creating demand in the spatial design market with accent lighting projectors, and by developing small projectors.

Wearables innovation

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

Robotics innovation

- Accelerate the growth of robotics into a future core business by leveraging a solid foundation of technology and infrastructure while also actively collaborating with partners to further increase product competitiveness and improve its ability to propose solutions.
- Use AI to further improve usability and enter the collaborative robot market.

(2) Strengthening sales capabilities

- Epson will strengthen Head Office control over global sales strategies and management functions while simultaneously transitioning to B2B sales methods that emphasize customer intimacy and solution selling.

(3) Sustainability initiatives

- For our sustainability initiatives, we will approach heightened expectations for achieving sustainability as a business opportunity. For example, we will accelerate innovation using printing and environmental performance, ink versatility and other advantages of inkjet technology to contribute to sustainability.

5. Financial targets

(1) Cash flow

Epson will restore its ability to generate cash flow by steadily growing profit and increasing operations efficiency.

	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

By allocating generated cash to growth areas based on identified priorities, we will pay steady dividends while maintaining a healthy financial structure.

(2) Investment plan

	Phase 1 Mid-range Outlook	Phase 2 Mid-range Target
R&D expenses	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)
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6. Basic shareholder returns policies

Epson actively returns profits in parallel with its efforts to maintain a robust financial structure that is capable of withstanding changes in the business environment.

	Phase 1 Mid-range Plan	Phase 2 Mid-range Plan
Dividends (consolidated dividend payout ratio) *	FY2018: Outlook Approx.48%	40%
Share repurchase	FY2016: Repurchase ¥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

Related links

Epson 25 Corporate Vision:

http://global.epson.com/company/corporate_vision/

Explanatory presentation:

<https://global.epson.com/IR/library/presentations.html>

About Epson

Epson is a global technology leader dedicated to connecting people, things and information with its original efficient, compact and precision technologies. With a lineup that ranges from inkjet printers and digital printing systems to 3LCD projectors, watches and industrial robots, the company is focused on driving innovations and exceeding customer expectations in inkjet, visual communications, wearables and robotics.

Led by the Japan-based Seiko Epson Corporation, the Epson Group comprises more than 81,000 employees in 85 companies around the world, and is proud of its contributions to the communities in which it operates and its ongoing efforts to reduce environmental impacts.

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