

July 27, 2018

Seiko Epson Corporation

FY2018 First-Quarter Financial Results Presentation

Q&A

**Overall**

Q: Have your assumptions about exchange rates changed?

If current exchange rates prevail, how will that impact business profit in the full-year financial outlook?

A: We did not change our assumptions about exchange rates for the rest of the year involving the U.S. dollar, euro, and other currencies.

If current exchange rates prevail, we would see a slight positive effect on total business profit, as the dollar would have a negative effect and the euro a positive effect. Most other currencies would have a positive effect, although there would be a negative effect from some Latin American currencies.

Q: Can you share details about differences between Q1 sales and the April outlook?

A: We fell short of our sales forecasts in the wearable products business and in quartz products in the microdevices business due to market softness, but we slightly exceeded the forecast for the visual communications, owing in part of exchange effects. Outside of these businesses and products, there were not really any significant differences.

If we had to cite something, we could mention minor differences in the printer business, where unit shipments of ink cartridge printers in developed markets fell slightly short of the forecast as a result of actions we took to maintain prices and where ink sales and revenue were soft in Western Europe. On the other hand, we basically met the outlook for the business as a whole thanks to strong sales of high-capacity ink tank printers.

In professional printing, POS printer sales fell short of the forecast due to the postponement of requests for tenders, but weakness here was augmented by firm sales of other products, and results were in line with the outlook.

In visual communications, projector unit shipments fell short of the demand forecast in the lead up to the World Cup, but the model mix was good.

Q: On slide 9, cost changes are shown as having had a positive effect on business profit. Can you provide a breakdown?

A: Ink cartridge printer production costs increased compared to the same period last year, but since sales of products such as microdevices shifted to low-priced products, costs also declined commensurately. We also saw benefits for our ongoing cost-reduction initiatives.

Q: Was the increase in inventories intentional?

A: We have been strategically building inventory of high-capacity ink tank printers in preparation for sales promotions. In the latter half of last year, we had some parts procurement delays that prevented us from carrying as much inventory as we would have liked, but this year that is not an issue.

Sales of ink cartridge printers came under some pressure from our competitors, but we have been adjusting production in accordance with sales and inventory, so we are not carrying excess inventory.

Q: Why aren't you more heavily advertising how you are reducing environmental impacts and working to achieve the SDGs?

A: Epson has a lot of products that can help users reduce their environmental impacts, so we want to do a better job of getting the word out. In Europe, for example, we are gradually changing our product advertising messages by touching more on environmental benefits.

In the future we will also step up our efforts to educate people about Epson, including about the features of Epson products and initiatives geared toward sustainability. We are using the Integrated Report, for example, to summarize these points in an easy to understand format.

## **Printing Solutions**

Q: What is the competitive environment like for high-capacity ink tank printers?

A: Other companies have also launched new high-capacity ink tank printers, but their lineups are limited. The durability and broad ink compatibility of Epson's Micro Piezo printheads are advantages that we believe will continue to give us a competitive edge in this market.

Q: What are your sales targets for high-capacity ink tank printers?

A: Last fiscal year we sold about 7.8 million high-capacity ink tank printers around the world, and sales in Japan, North America, and Western Europe accounted for only about 10% of total unit sales.

This fiscal year's global sales target is around 9.5 million units, with sales in Japan, North America, and Western Europe accounting for more than 10% of total unit sales. This year, we would like to increase these products' proportion of all Epson's inkjet printers in North America and Western Europe to nearly 20% from around 10% last year.