



# Third Quarter Financial Results Fiscal Year 2012 (Ending March 2013)

January 31, 2013

**SEIKO EPSON CORPORATION**

## ■ 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.

## ■ Numerical values presented herein

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Numbers are rounded to the unit indicated.

Percentages are rounded off to one decimal place.

1) FY2012 Q3 Financial Results

2) FY2012 Business Outlook

## Financial Highlights (Through Third Quarter)



Thru Q3 (Billions of yen)		FY2011		FY2012		Change	
		First 9 Months	%	First 9 Months	%	Amount	Change
Net sales		664.6	-	624.1	-	-40.4	-6.1%
Operating income		21.1	3.2%	11.7	1.9%	-9.3	-44.1%
Ordinary income		21.4	3.2%	12.0	1.9%	-9.3	-43.6%
Net Income Before Income Taxes		8.6	1.3%	-2.6	-0.4%	-11.3	-
Net Income		0.3	0.1%	-12.6	-2.0%	-13.0	-
EPS		¥2.04		-¥70.50			
Exchange Rate	USD	¥79.01		¥80.00			
	EUR	¥110.64		¥102.17			

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- Cumulative results for the first three quarters
- Net sales were ¥624.1 billion, operating income was ¥11.7 billion, and net loss was ¥12.6 billion.

## Financial Highlights (Third Quarter)



(Billions of yen)	FY2011		FY2012		Change	
	Q3 Actual	%	Q3 Actual	%	Amount	Change
Net sales	239.1	-	235.8	-	-3.2	-1.3%
Operating income	14.3	6.0%	25.9	11.0%	+11.6	+81.0%
Ordinary income	15.3	6.4%	26.2	11.1%	+10.9	+71.8%
Net Income Before Income Taxes	8.5	3.6%	26.9	11.4%	+18.4	+216.3%
Quarterly Net Income	4.7	2.0%	22.8	9.7%	+18.0	+378.7%
EPS	¥25.21		¥127.64			
Exchange Rate	USD	¥77.41	¥81.17			
	EUR	¥104.33	¥105.25			

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### ■ FY2012 third-quarter results

- Net sales were ¥235.8 billion, down ¥3.2 billion compared to the same period last year. Operating income was ¥25.9 billion, up ¥11.6 billion. Net income was ¥22.8 billion, up ¥18.0 billion.
- The previous outlook, which we presented on October 31, was based on our internal plan for the third quarter. Compared to this internal plan, net sales ended lower than expected in the devices and precision products segment, for the most part. However, operating income for the company as a whole was close to expectations. Operating income was helped mainly by new products that improved profitability in the information equipment segment and by improvements in operations.

**Inkjet Printer Business**

- Negative market growth in Europe, the U.S., and now Japan
- Unit shipments below expectations; consumables sales in line with expectations
  - ✓ Office inkjets as a % of total shipments, expansion of high-capacity ink tank models, and expansion of compact models were generally in line with plan
- Operating income in line with expectations, as printer costs were reduced and prices maintained as planned

**Business Systems Business**

- Net sales and operating income were affected by the economic slump in Europe and the slowing of growth in China, but both were in line with expectations

**Visual Products Business**

- Posted year-over-year projector unit growth, but unit shipments and net sales were lower than forecast due to decline in tenders in the U.S. and falling demand in education market in Asia
- Operating income in line with expectations owing to price maintenance and improved model mix

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■ Main factors affecting third-quarter financial performance

- The inkjet printer business recorded net sales that were slightly lower than planned. Although sales of consumables went as expected, sales of hardware units were somewhat lower than expected. This was partly because we curtailed shipments of low-priced home inkjet printers, which do not generate high print volume. But it was also due to a continued contraction of the European and U.S. markets, as well as to slow sales in the Japanese market, where growth turned negative after a solid first half.
- Although our financial performance was affected somewhat by negative market growth, we were able to make steady progress on the core strategies we have been pursuing. For example, we increased office inkjets as a percentage of total inkjet unit shipments, we expanded the number of high-capacity ink tank models for emerging markets, and we expanded the proportion of compact inkjet models.
- Operating income was basically in line with the internal plan. In addition to benefiting from the launch of new products, operating income was boosted by steady reductions in hardware costs and from measures to maintain prices.
- In business systems, net sales and operating income were in line with the internal plan, though both were hurt by the ongoing economic slump in Europe and the slowing of growth in China.
- In the visual products business net sales fell short of expectations. Although projector unit shipments grew by about 5% year over year, net sales were hurt by the effects of lower demand in the Asian education market and a decline in the number of tenders offered in the Americas.  
Operating income was basically in line with the internal plan thanks to our efforts to maintain prices and firm sales of high-added-value products.

## Key Points of FY2012 Third-Quarter Financials (Vs. Previous Outlook)



### Microdevices Business

- Net sales fell short of the plan due to slack demand for finished products such as digital home electronics, cell phones, and smartphones, but operating income was in line with the plan mainly because of ongoing efforts to reduce fixed costs

### Precision Products Business

- Watches: Firm demand for wristwatches on the high end and in Japan
- Factory automation: Missed targets mainly due to shortfalls in IC handler shipments because of reduced capital expenditure by chip manufacturers
- Net sales fell short, but operating income was in line with the outlook

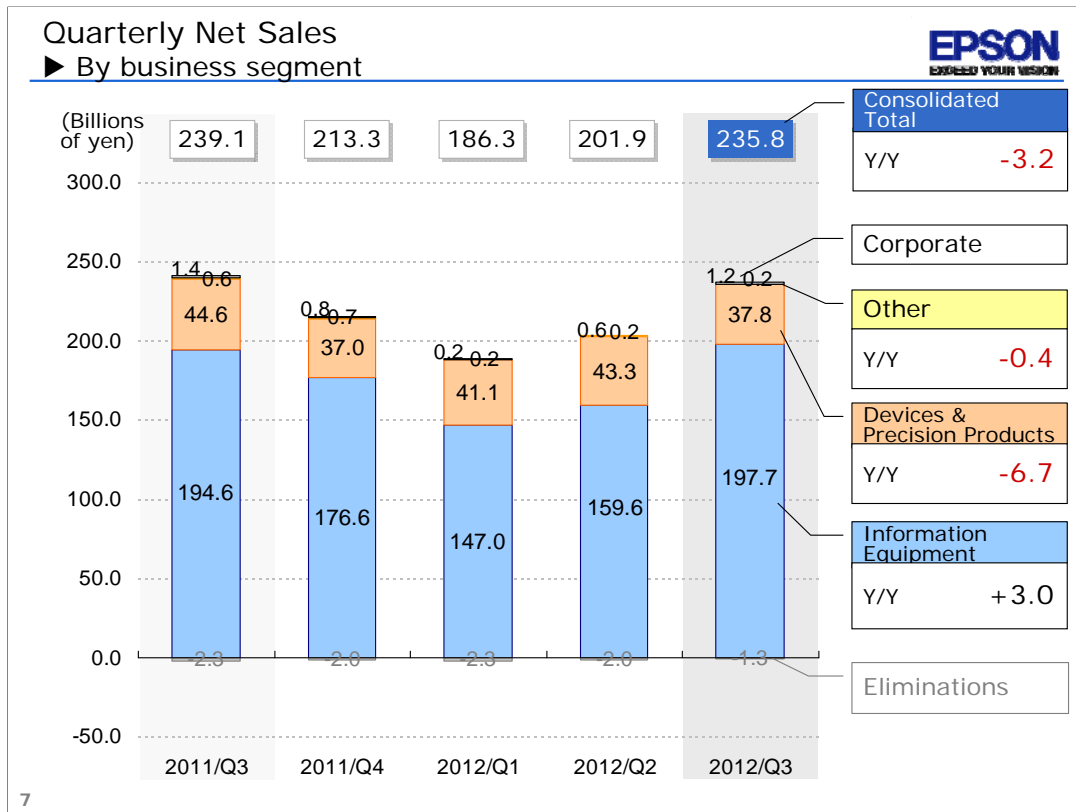
### ■ SE15 Mid-Range Business Plan (FY2012-14)

- We continue to verify the validity of strategies and targets in light of changes in the macroeconomic, market, and competitive landscape.
- We will announce our conclusions in March.

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### ■ Main factors affecting third-quarter financial performance

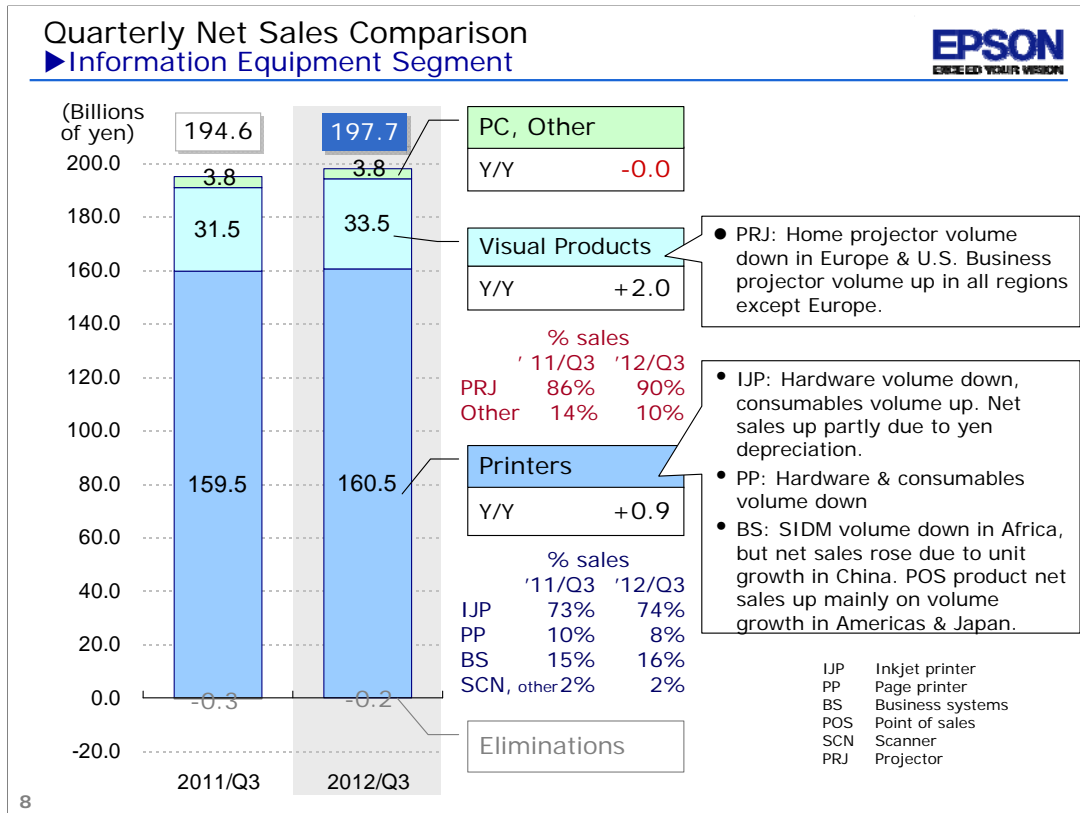
- In the microdevices business, net sales ended lower than our internal plan due to slack demand for finished products such as digital home electronics, cell phones, and smartphones. However, we did meet the internal plan for operating income, mainly owing to our efforts to reduce fixed costs.
- In precision products, the watch business saw sustained strength in Japan and in sales of high-end wristwatches. The factory automation products business, on the other hand, missed its net sales outlook, mainly because the appetite for IC handlers failed to grow as expected due to ongoing reluctance to invest in capital equipment among chip manufacturers. The combined result was that net sales in precision products fell short of the outlook, but operating income was in line with the internal plan, mainly because of reductions in fixed costs.
- Because of these reasons consolidated third-quarter net sales were lower than planned, but consolidated operating income was basically in line with the previous outlook.
- As we mentioned in the explanation of our first-half results, we are presently verifying the validity of the strategies and targets in Epson's SE15 mid-range business plan in light of changes in the macroeconomic, market, and competitive landscape. We will announce our conclusions in March.



■ Net sales in each segment over the last five quarters

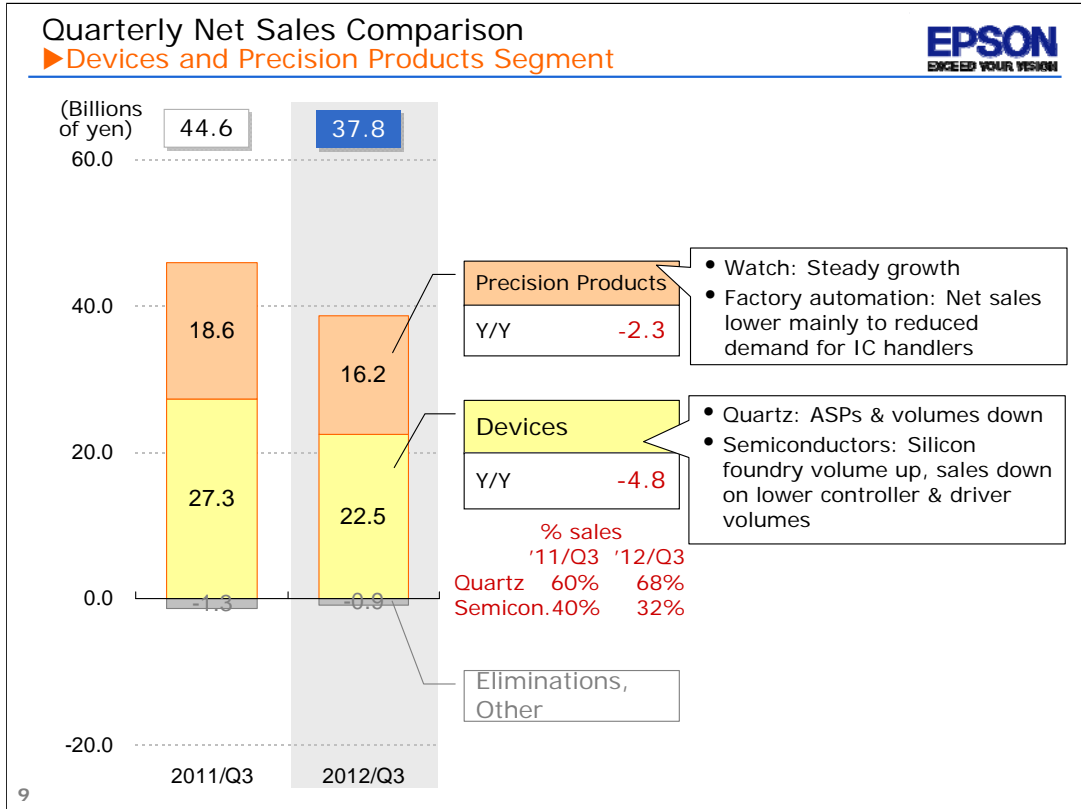
- Compared to the same period last year, net sales in the information-related equipment segment increased by ¥3 billion, but net sales in the devices and precision products segment fell by ¥6.7 billion. Consolidated net sales were down by ¥3.2 billion.
- Foreign exchange effects had a ¥6.2 billion positive impact on third-quarter net sales, mostly in the information-related equipment segment.





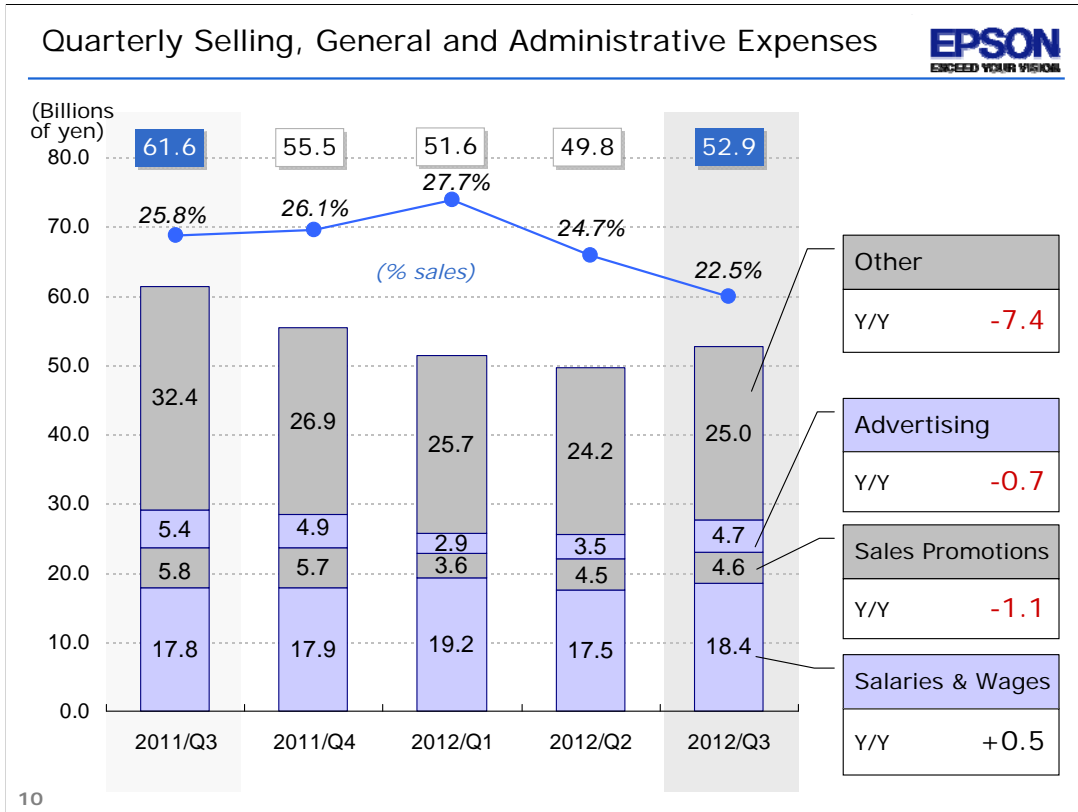
■ Breakdown of quarterly net sales in the businesses that make up the information-related equipment segment

- The printer business as a whole saw net sales increase by ¥900 million.
- Inkjet printer net sales increased compared to last year even though revenue from hardware declined as a result of reduced unit shipments. One of the main factors contributing to the increase in net sales was the sharp improvement in average selling prices, which we achieved mainly by curtailing sales of low-priced printers and through price maintenance. Net sales also benefited from increased consumables volume and the effects of a weaker yen.
- Epson saw inkjet unit shipments decline in every region, with the markets of Europe, America, and Japan all shrinking.
- Page printer net sales declined as unit shipments of both printers and consumables fell due to a decline in tender business in Japan and Europe.
- Business systems recorded net sales growth, in part because of foreign exchange effects, but also because total SIDM printer net sales increased even though unit shipments in Africa, the Middle East, and Eastern Europe decreased. SIDM unit growth came mostly from a rebound in demand from China, where last year the market for these printers, which are used in tax collection systems, hit bottom. Meanwhile, we recorded an increase in shipments of POS-related products to small- and medium-sized retailers in the Americas and of coupon printers in Japan.
- In visual products, there was slackened demand in the projector markets of Japan and North America, while the rate of expansion in countries such as China and India slowed. Given the general market softness, Epson saw unit shipments of home projectors in Europe and America decrease. Nevertheless, visual products still managed to boost net sales by ¥2 billion compared to the same period last year. We achieved this by shipping more business projectors in every region other than Europe and by improving the model mix.



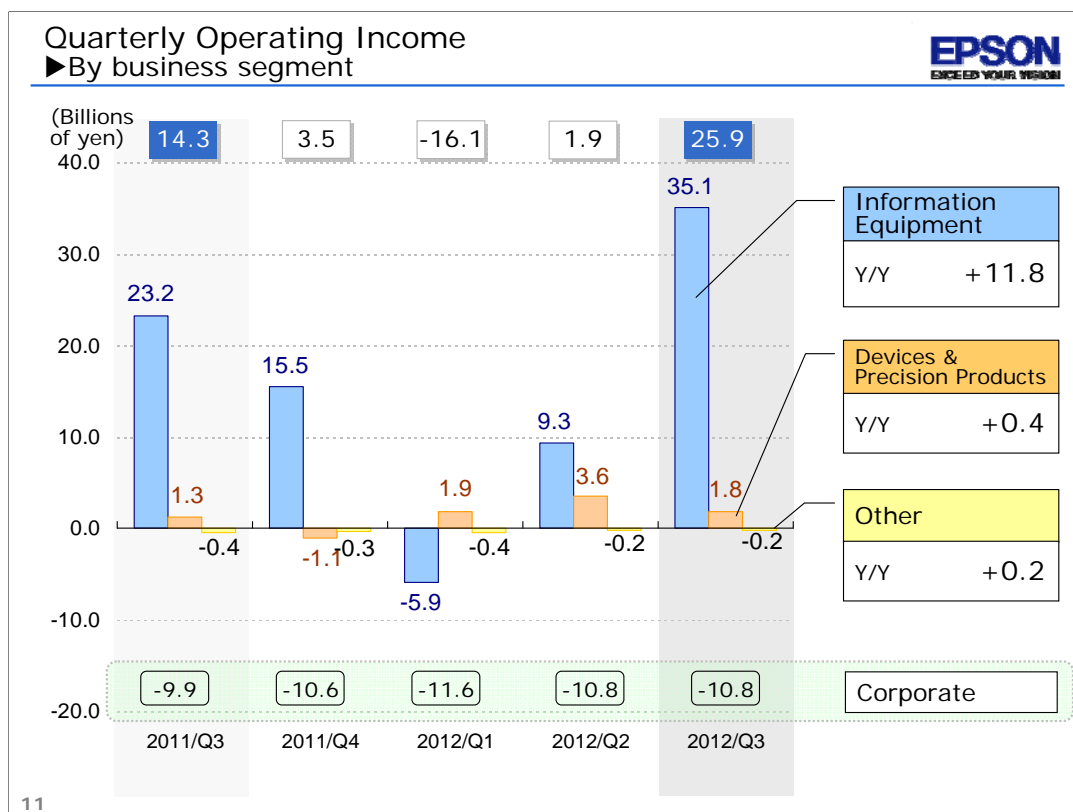
■ Net sales for the quarter in the devices and precision products segment shown against the results from the same period last year

- Net sales in the devices businesses decreased. Falling average selling prices and slack demand due to the economic slowdown put a dent in quartz device net sales. Semiconductor net sales decreased despite an increase in silicon foundry volume because controller and driver unit shipments declined.
- Precision products reported lower net sales. Although sales of high-end wristwatches and sales of wristwatches in Japan remained firm, unit shipments of IC handlers in the factory automation products business fell as chip manufacturers remained reluctant to invest in capital equipment.



■ Quarterly selling, general and administrative expenses

- We made a concerted effort to maximize the cost efficiency in each expense category. This enabled us to reduce total SG&A expenses compared to the same period last year, when logistics expenses rose as a result of the disaster in northeastern Japan and the flooding in Thailand.



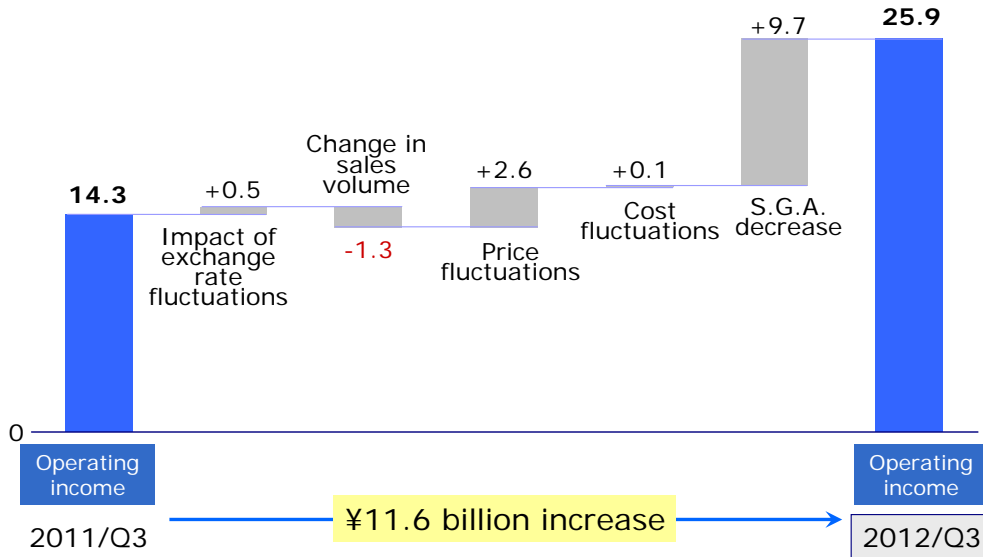
■ Breakdown of quarterly operating income by segment

- Foreign exchange effects for the quarter had an approximately ¥500 million positive impact on operating income.
- Information-related equipment posted operating income of ¥35.1 billion, an increase of ¥11.8 billion, year over year.
- Inkjet printer operating income increased primarily due to a combination of increased revenue from consumables, printer price maintenance, an improved model mix resulting from the launch of compact models, and cost reductions.
- Page printer operating income increased as a result of fixed cost reductions.
- Operating income in business systems and visual products was very similar to last year.
- Devices and precision products operating income was ¥1.8 billion, an increase of ¥400 million, despite lower net sales and lower income in precision products. Operating income in this segment increased mainly because of fixed cost reductions in the devices business. These reductions were associated with the transfer of personnel and cost reductions.

## Operating Income Fluctuation Cause Analysis



(Billions of yen)



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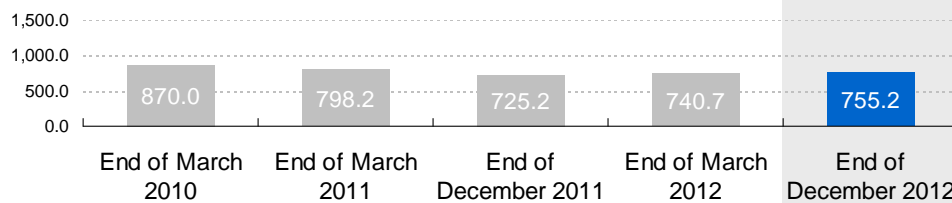
- Cause analysis of the increase in operating income compared to the same period last year
  - Whereas we had ¥14.3 billion in operating income in the third-quarter of fiscal 2011, this year we recorded ¥25.9 billion in operating income. The increase is primarily attributable to lower SGA expenses and price fluctuations.

## Statistics of Balance Sheet Items

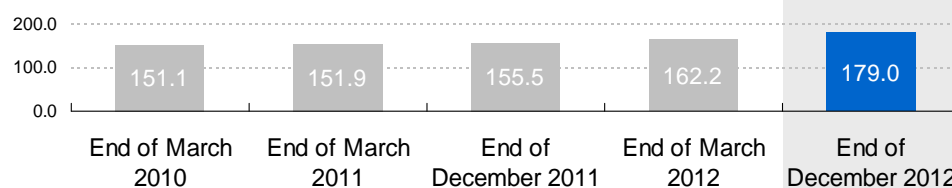


(Billions of yen)

### Total assets



### Inventories



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#### ■ Major items on the balance sheet

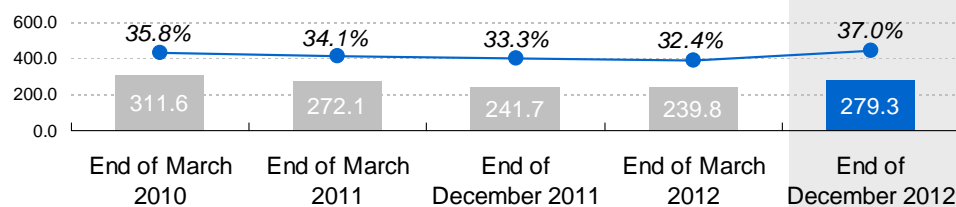
- Total assets increased by ¥14.4 billion compared to the end of March 2012 even though cash reserves shrank. The bulk of the increase came from increases in items such as inventory, trade notes and accounts receivable, and tangible fixed assets.

## Statistics of Balance Sheet Items

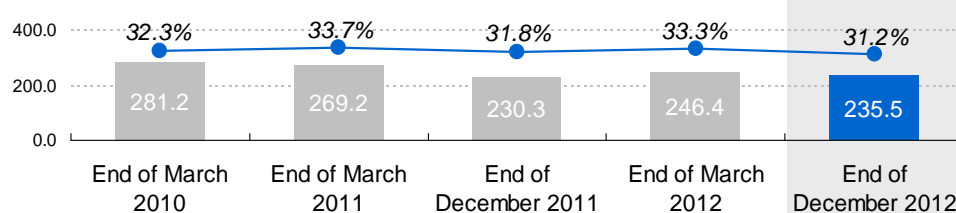


(Billions of yen)

### Interest-bearing liabilities & ratio of interest-bearing liabilities



### Shareholder's equity & equity ratio



\*Lease obligations are included in interest-bearing liabilities  
 \*Shareholder equity: Total net assets - minority interests in subsidiaries

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#### ■ Major items on the balance sheet

- Interest-bearing liabilities increased by ¥39.4 billion from the end of the previous fiscal year due to an increase in both short-term loans payable and long-term loans payable. The ratio of interest-bearing liabilities to total assets was 37.0%. Net interest-bearing liabilities were ¥143.9 billion.
- Shareholders' equity decreased by ¥10.8 billion compared to the end of March 2012, by and large because of the financial results for the first three quarters. The equity ratio was 31.2%.

1) FY2012 Q3 Financial Results

2) FY2012 Business Outlook



## FY2012 Financial Outlook



(Billions of yen)	FY2011		FY2012				Change (amount, %)	
	Actual	%	10/31 Outlook	%	Current Outlook	%	Y/Y	Vs. Previous
Net sales	877.9	-	850.0	-	850.0	-	-27.9 -3.2%	-
Operating income	24.6	2.8%	18.0	2.1%	18.0	2.1%	-6.6 -26.9%	-
Ordinary income	27.0	3.1%	16.0	1.9%	16.0	1.9%	-11.0 -40.8%	-
Net Income <small>Before Income Taxes</small>	15.6	1.8%	-4.0	-0.5%	-4.0	-0.5%	-19.6 -	-
Net income	5.0	0.6%	-15.0	-1.8%	-15.0	-1.8%	-20.0 -	-
EPS	¥26.22		-¥83.85		-¥83.85			
Exchange Rate	USD	¥79.08	¥77.00		¥79.00		Current outlook exchange rate assumptions for FY2012/Q4 USD: ¥75.00 EUR: ¥100.00	
	EUR	¥108.98	¥100.00		¥102.00			

Previous outlook exchange rate assumptions from H2 onward  
USD: ¥75.00, EUR: ¥100.00

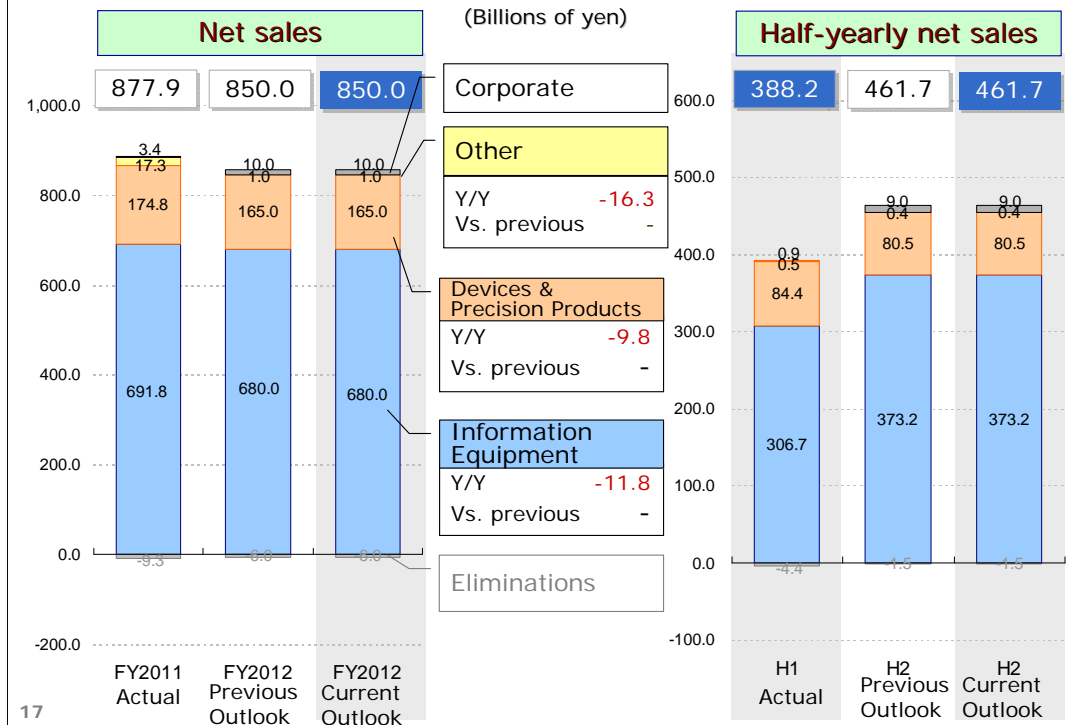
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### ■ FY2012 full-year outlook

- For the full year we are reiterating our outlooks for net sales and each income category.
- We are forecasting ¥850 billion in net sales and ¥18 billion in operating income. Net loss is expected to be ¥15 billion.
- The assumed exchange rates for the fourth quarter are 75 yen to the US dollar and 100 yen to the euro.
- Although the yen has been slipping in recent foreign exchange trade, the business environment is tougher than we expected compared to when we compiled our initial outlook. In the fourth quarter we expect further market deceleration to affect our inkjet printer, business systems, projector, and other finished products businesses in addition to the quartz, semiconductor, factory automation, and other devices and precision products businesses.
- Difficult business conditions notwithstanding, management is committed to achieving our operating income target of 18 billion yen under the same exchange rates used for the previous outlook.

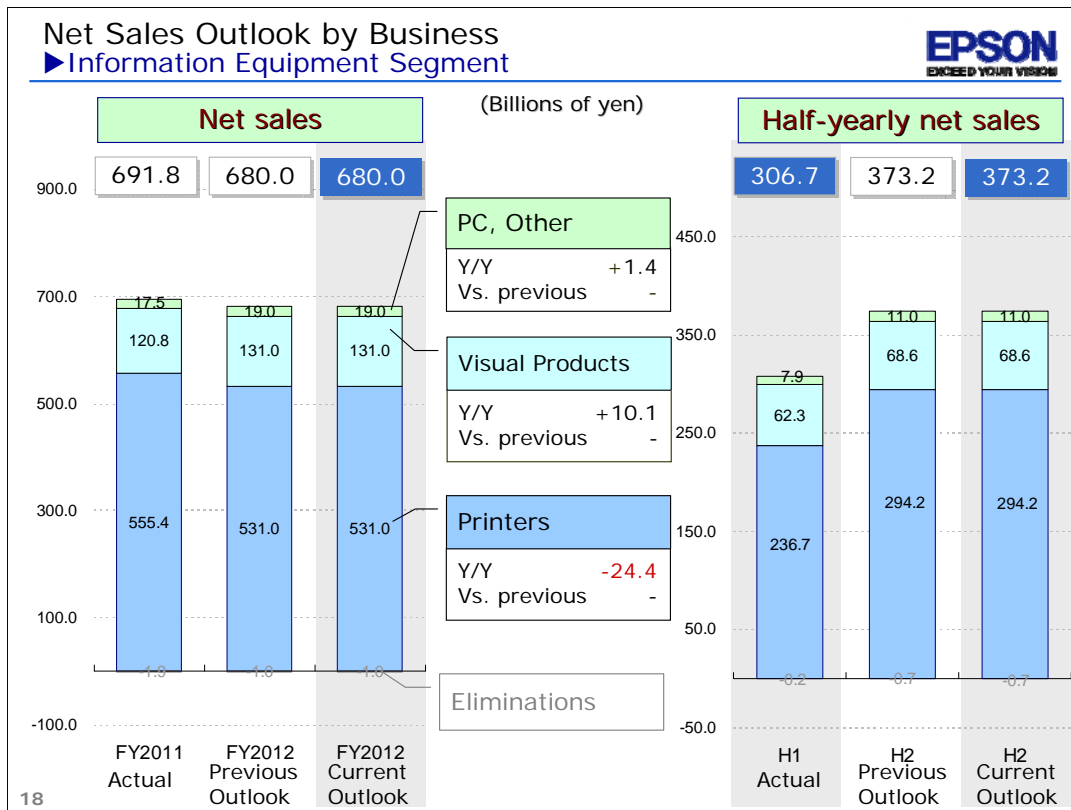
# FY2012 Financial Outlook (Net Sales)

► By business segment



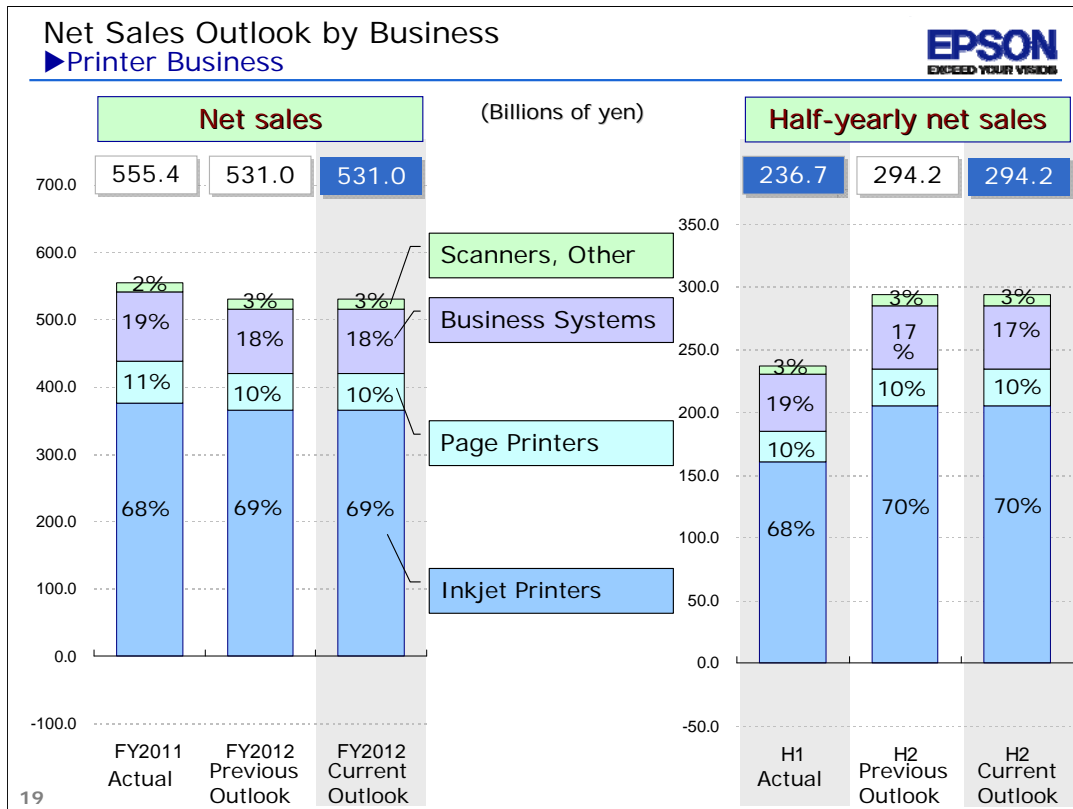
■ Breakdown of net sales outlook by segment and by first and second half.

➤ The net sales outlook in the segments has not changed, nor has the breakdown for each business.



■ Breakdown of net sales outlook for each business in the information-related equipment segment

- In visual products we expect the projector market growth rate to continue slowing in the fourth quarter, as China follows Europe and America into an economic slowdown. We will readjust our assumptions about annual unit shipments based on third-quarter performance and recent market conditions, but we will continue to take action to maintain prices, expand sales of our competitive strategic products, including our high-lumen and short-throw lens models, improve the model mix, and win tenders.



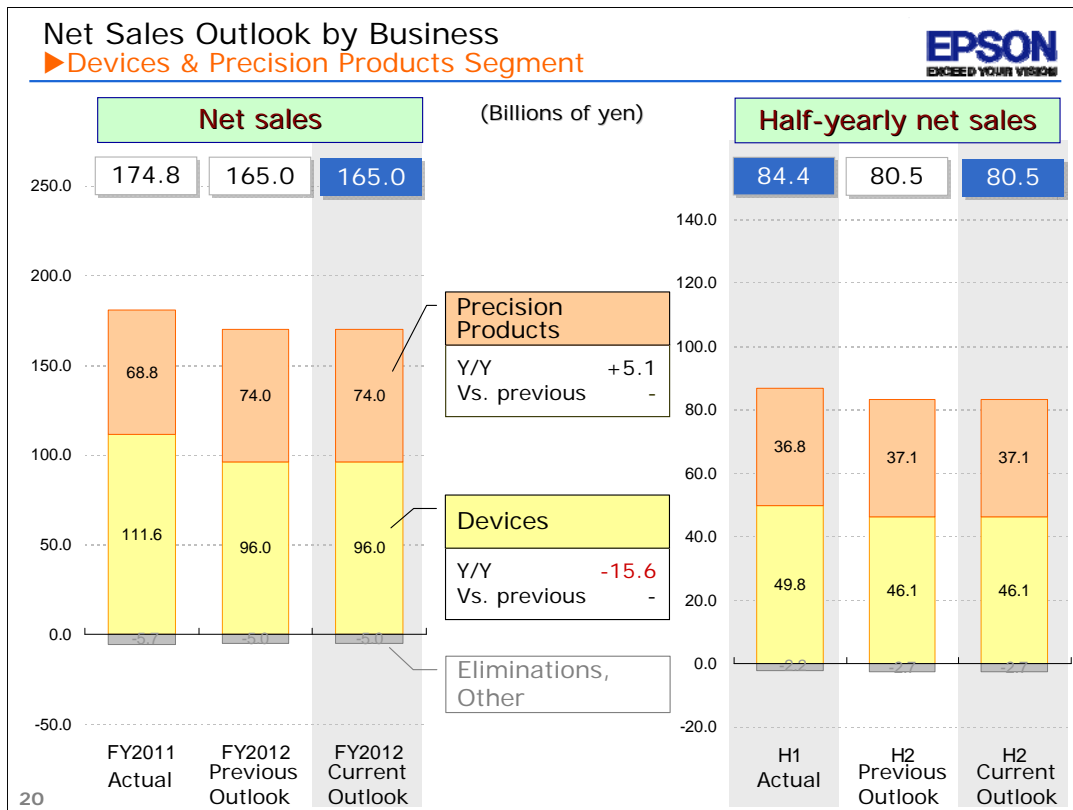
■ Breakdown of net sales in the printer business

- The current outlook for inkjet printers, including both hardware and consumables, is the same as the previous outlook.

We will make minor adjustments to the estimate for full-year inkjet unit shipments based on third-quarter unit shipments, but one thing we are not going to do is blindly chase unit volume. Instead, we will continue to improve the income picture mainly by maintaining prices, improving the model mix, and improving the composition of the install base.

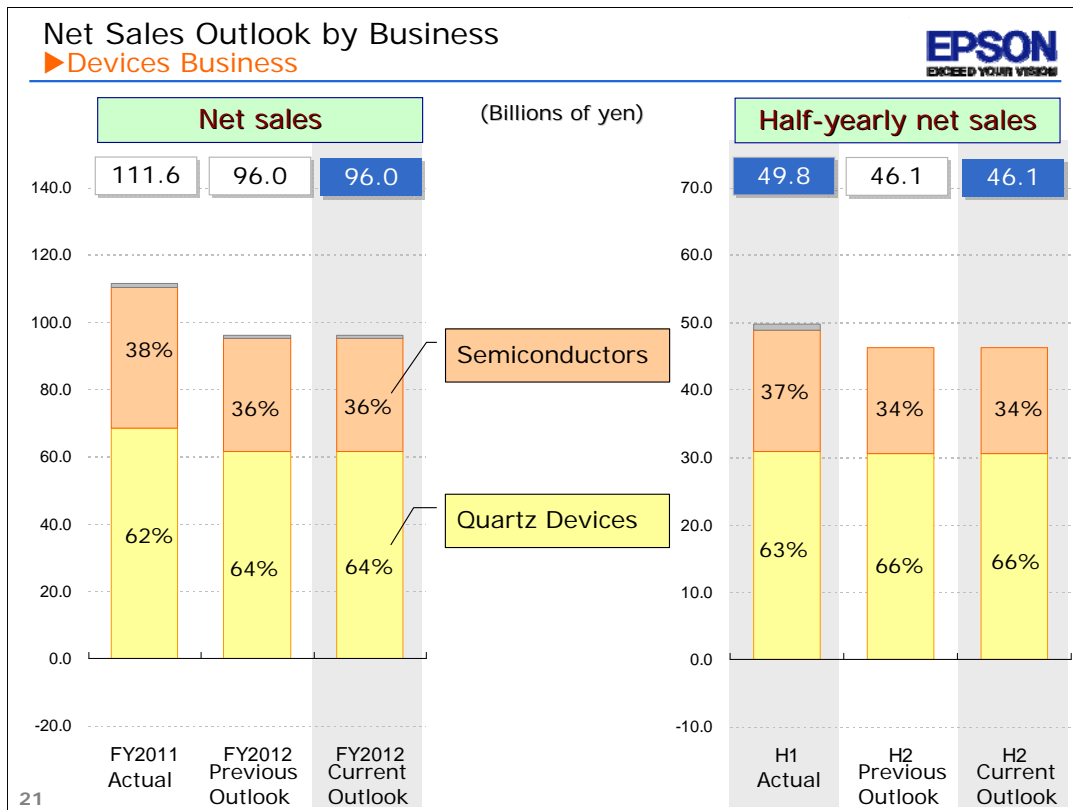
- The market environment in business systems will continue to be tough. However, we expect to meet the plan even without a material rebound in demand, by focusing on winning individual tenders.

On the other hand, we are seeing signs of a recovery in SIDM printer tenders in China and indications of some activity in POS-product tenders in North America, so we will move to capitalize on these business opportunities in the fourth quarter.



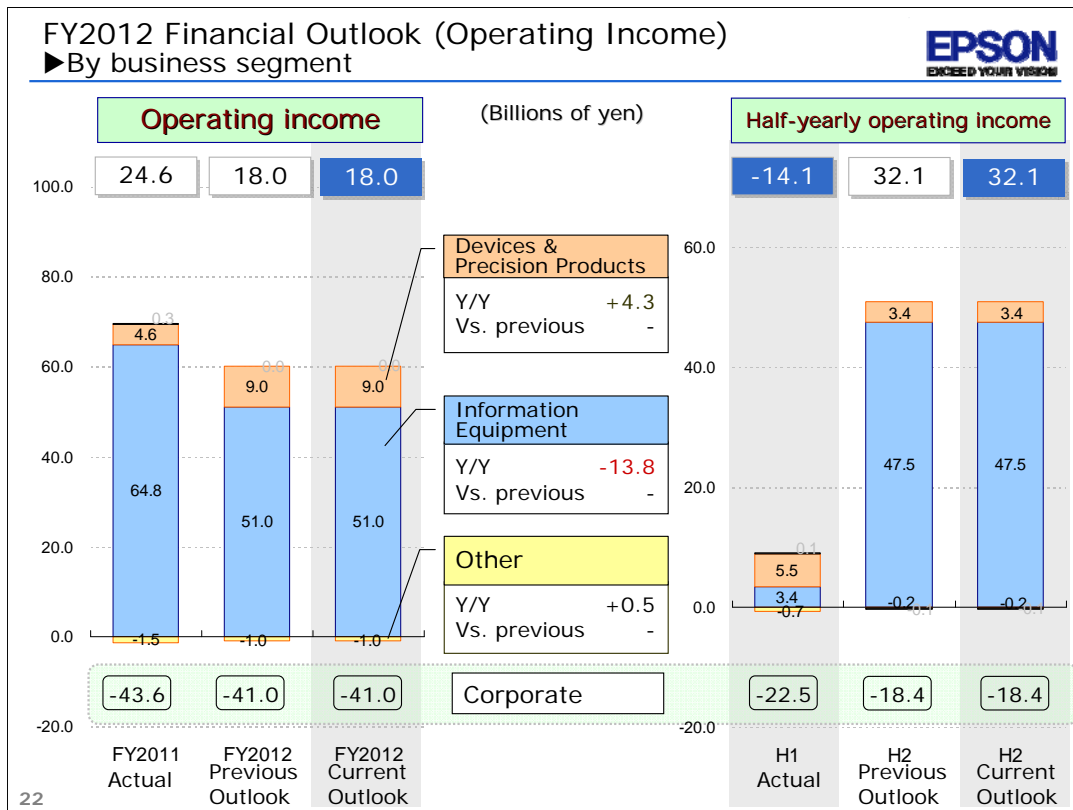
■ Net sales outlook for the devices and precision products segment

- Difficult market conditions are expected to persist in the fourth quarter due to a combination of seasonality and a slow market turnaround, but we will work to capture potential orders and achieve our business plan.



■ Breakdown of net sales outlook in the devices business

➤ The outlook for quartz devices and semiconductor has not changed.



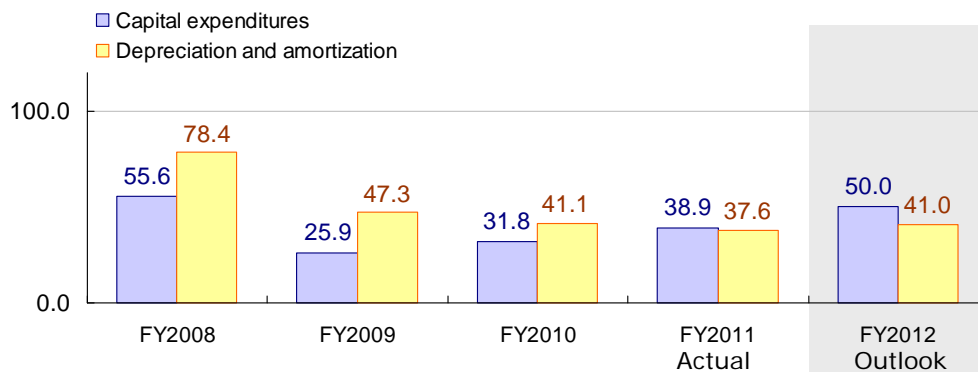
■ Operating income outlook in each segment by first and second half

- This is the same as our previous guidance.
- In the information-related equipment segment we will look to improve operating income by driving down our inkjet printer costs, by controlling production and inventory in line with sales, and by controlling expenses.
- In the devices and precision products segment we will reach the income target through reductions in both variable and fixed costs.

## Outlook for Capital Expenditure and Depreciation & Amortization Expenses



(Billions of yen)



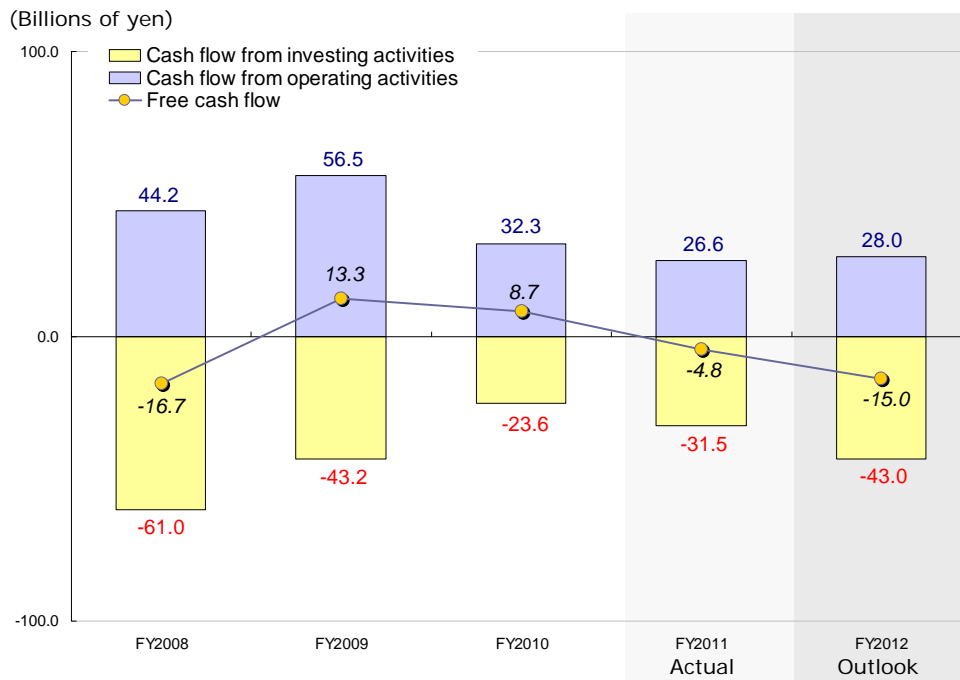
Breakdown by segment	FY2011 Actual		FY2012 Outlook	
	Cap. Ex.	D & A	Cap. Ex.	D & A
Information Equipment	29.5	22.7	38.0	27.0
Devices & Precision Products	6.8	10.1	9.0	9.0
Other/Adjustments	2.5	4.6	3.0	5.0

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- Outlook for capital expenditures and depreciation and amortization expenses
- We plan to be highly selective in our spending program, and so we reduced our capital expenditure plan to ¥50 billion. The depreciation and amortization budget remains unchanged at ¥41 billion.



## Free Cash Flow Outlook

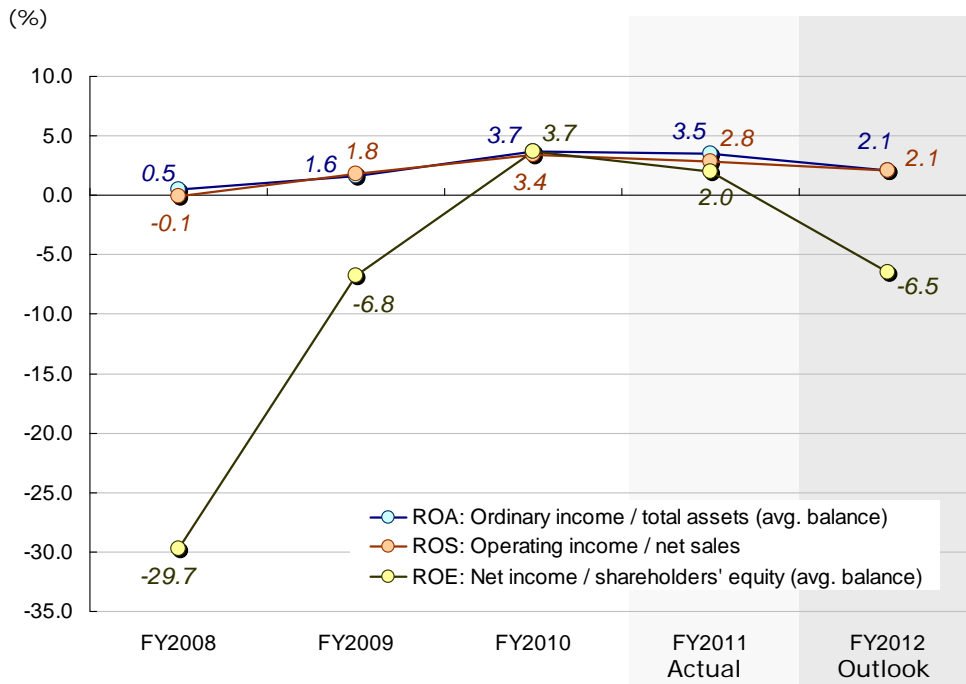


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### ■ Cash flows

- We revised estimated cash flows from investing activities and estimated cash flows from operating activities based on our third-quarter performance and on the revised capital expenditure plan.
- The free cash flows outlook has not changed.

## Main Management Indicators



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■ Major management performance indicators

➤ ROS and ROA of 2.1 %, and ROE of -6.5 %.

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