

Second Quarter Financial Results Fiscal Year 2016 (Ending March 2017)

October 27, 2016
SEIKO EPSON CORP.

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■ Disclaimer regarding forward-looking statements

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

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

Numbers are rounded down to the unit indicated. Percentages are rounded off to one decimal place.

- **1. Overview**

- 2. Details

Financial Highlights (First Half)						
		FY2015		FY2016		Y/Y
(Billions of yen)		Actual	%	Actual	%	Change (amount, %)
Revenue		542.9	-	487.5	-	-55.4 -10.2%
Business profit		40.2	7.4%	25.7	5.3%	-14.5 -36.1%
Profit from operating activities		41.7	7.7%	27.7	5.7%	-13.9 -33.4%
Profit before taxes		40.1	7.4%	27.0	5.6%	-13.0 -32.5%
Profit for the period		26.1	4.8%	18.6	3.8%	-7.5 -28.9%
EPS		¥72.75		¥52.09		
Exchange rate	USD	¥121.80		¥105.29		
	EUR	¥135.07		¥118.15		

Exchange difference (Billions of yen)				
	USD	EUR	Other	Total
Revenue	-24.3	-10.8	-30.5	-65.7
Business profit	+4.7	-7.5	-12.7	-15.5

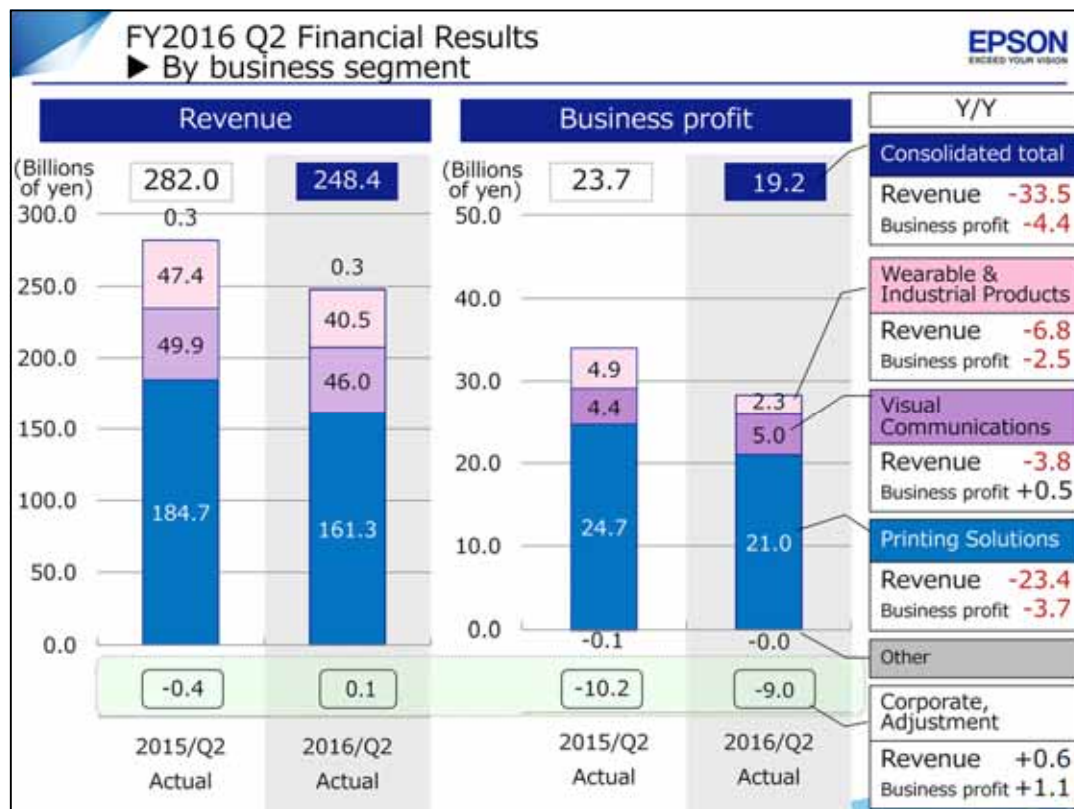
■ FY2016 first half financial highlights

- Revenue was ¥487.5 billion, down ¥55.4 billion year-on-year. Business profit was ¥25.7 billion, down ¥14.5 billion. Profit for the period was ¥18.6 billion, down ¥7.5 billion.
- The strong yen hit our financial results hard, causing revenue and every category of profit to decline year-on-year.
- On a constant currency basis, however, both revenue and profit actually rose. This indicates that we were able to make the planned progress in laying the foundation for achieving our medium- and long-term profit goals under the Epson 25 Mid-Range Business Plan (FY2016-18).

Financial Highlights (Second Quarter)							EPSON EXCEED YOUR VISION	
		FY2015		FY2016		Change		
(Billions of yen)		Q2 Actual	%	Q2 Actual	%	Amount	%	
Revenue		282.0	-	248.4	-	-33.5	-11.9%	
Business profit		23.7	8.4%	19.2	7.8%	-4.4	-18.8%	
Profit from operating activities		25.4	9.0%	20.7	8.4%	-4.6	-18.2%	
Profit before taxes		24.0	8.5%	20.7	8.3%	-3.3	-14.0%	
Profit for the period		15.6	5.5%	14.4	5.8%	-1.2	-7.7%	
EPS		¥43.32		¥40.66		Exchange difference (Billions of yen)		
Exchange rate	USD	¥122.23		¥102.44			USD	
	EUR	¥135.98		¥114.28			EUR	
							Other	
							Total	
							Revenue	-15.1
							Business profit	+2.7
								-6.9
								-16.2
								-38.3
								-8.7

■ FY2016 second-quarter financial highlights

- Revenue was ¥248.4 billion, down ¥33.5 billion year-on-year. Business profit was ¥19.2 billion, down ¥4.4 billion year-on-year. Profit for the period was ¥14.4 billion, down ¥1.2 billion year-on-year.
- Foreign exchange had a ¥38.3 billion negative effect on revenue for the quarter, and an ¥8.7 billion negative effect on business profit.
- In addition to the U.S. dollar and euro, the yen rode high against the Chinese yuan, Argentine peso, British pound, and nearly all other currencies.



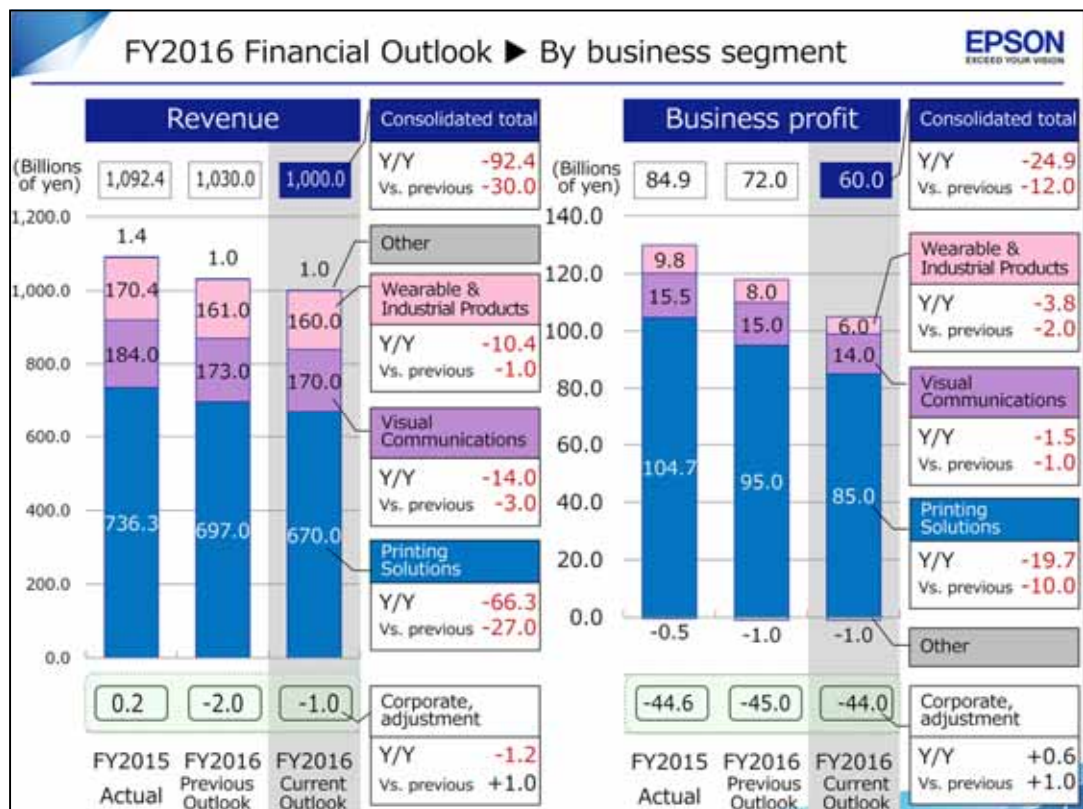
■ FY2016 second-quarter revenue and business profit broken down by segment

- Revenue was hit hard by foreign exchange effects and decreased compared to the same period last year in every segment.
- Business profit declined in printing solutions and wearable & industrial products. In visual communications, however, business profit increased year-on-year largely due to expanded unit volume and an improved model mix.
- Our financial results versus our internal plan were mixed. Revenue fell short of the plan primarily because of foreign exchange effects, but business profit ended higher.
- In printing solutions, the printer business fell short of its revenue plan. In addition to foreign exchange effects and a soft inkjet printer market, revenue slipped because we shipped fewer printers than expected due to the impact of selective promotional campaigns by competitors in the U.S. and because sales of SIDM printers were hurt by a tax policy change in China.
 On the other hand, business profit was higher than expected despite the shortfall in revenue mainly because some planned spending on fixed costs slid out into the second half.
- Revenue and business profit in the visual communications and in wearable & industrial products were both in line with the internal plan.

FY2016 Financial Outlook							EPSON EXCEED YOUR VISION	
(Billions of yen)	FY2015		FY2016				Change (amount, %)	
	Actual	%	7/28 Outlook	%	10/27 Outlook	%	Y/Y	Vs. 7/28 Outlook
Revenue	1,092.4	-	1,030.0	-	1,000.0	-	-92.4 -8.5%	-30.0 -2.9%
Business profit	84.9	7.8%	72.0	7.0%	60.0	6.0%	-24.9 -29.4%	-12.0 -16.7%
Profit from operating activities	94.0	8.6%	70.0	6.8%	60.0	6.0%	-34.0 -36.2%	-10.0 -14.3%
Profit before taxes	91.5	8.4%	69.0	6.7%	59.0	5.9%	-32.5 -35.5%	-10.0 -14.5%
Profit for the year	46.0	4.2%	54.0	5.2%	46.0	4.6%	-0.0 -0.1%	-8.0 -14.8%
EPS	¥127.94		¥153.23		¥130.60		- Exchange rate assumptions from Q3 USD: ¥100.00 EUR: ¥110.00 - Exchange rate sensitivity - Effect on business profit of 1-yen rise in yen value USD: +¥0.3 bil. / EUR: -¥0.9 bil. - Effect on business profit of 1% rise in yen value Currencies other than USD & EUR: -¥1.0 bil.	
Exchange rate	USD	¥120.14	¥106.00		¥103.00			
	EUR	¥132.58	¥121.00		¥114.00			

■ FY2016 full-year financial outlook

- After adjusting our exchange rate assumptions for the third and fourth quarters to 100 yen to the U.S. dollar and 110 yen to the euro we are forecasting ¥1,000 billion in revenue, ¥60 billion in business profit, and ¥46 billion in profit for the year.
- We updated the outlook on the assumption that the yen will continue at current high levels.
Exchange rates are thus expected to have about a ¥30 billion greater negative impact on revenue than in the previous outlook and about a ¥10 billion greater negative impact on business profit.
- The full year outlook was also revised based on the latest forecasts in each business, which have factored in the situation in the second quarter.
- While we have adjusted the outlook, we are making steady progress and have not changed any basic strategic actions.
- We have therefore fixed our interim dividend at 30 yen and are reiterating our year-end dividend forecast of 30 yen.



- FY2016 full-year revenue and business profit outlook for the different segments

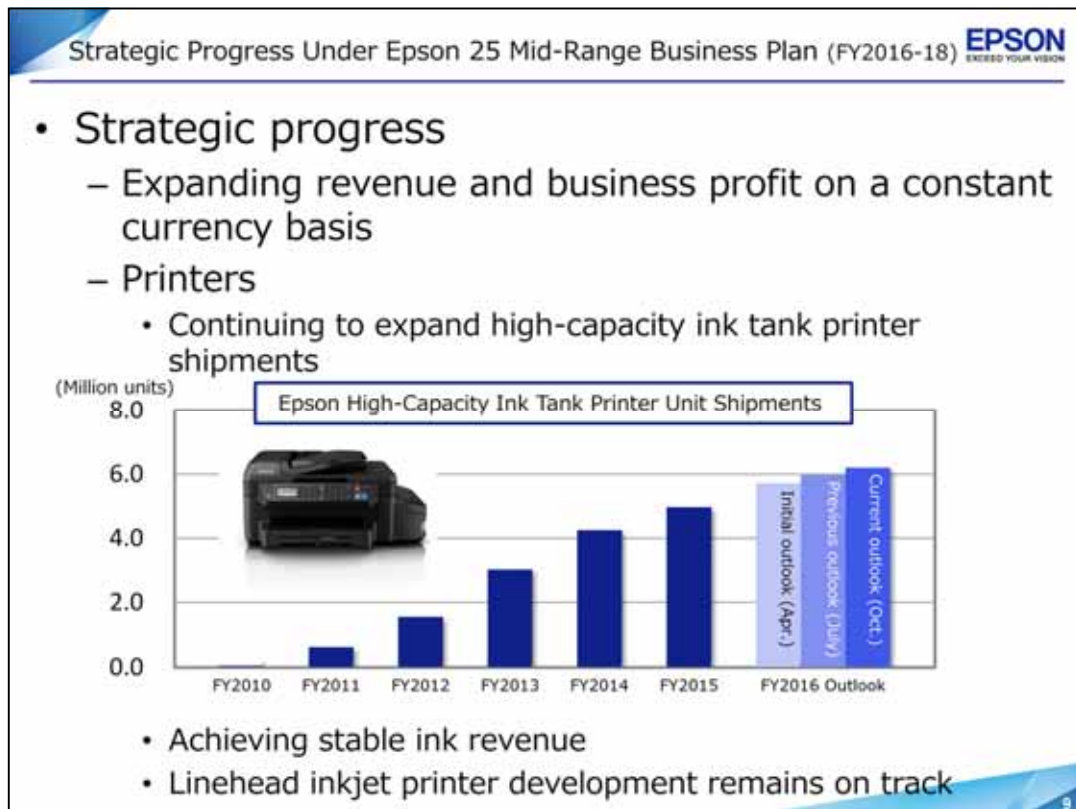
Main Factors Affecting the FY2016 Outlook



- Change in exchange rate assumptions (from Q3: ¥100/USD, ¥110/EUR)
 - Negative impact of ¥30 billion on revenue and ¥10 billion on business profit
- Increased costs for ocean shipping, etc.
- Printing Solutions
 - Further increase in high-capacity ink tank printer unit shipments
 - Effect on SIDM of change in Chinese tax policy
 - Temporary increase in customer service costs for POS printers (check scanners sold to certain customers)
- Visual Communications
 - Continued firm demand forecast for 2nd half
- Wearable & Industrial Products
 - Adjusted robot demand forecast
 - Microdevices: Decline in sales of crystal products for personal devices
- Fixed cost reductions

■ Main factors affecting the FY2016 outlook

- We adjusted the financial outlook mainly because of the negative impact that the change in assumed foreign exchange rates will likely have on our financial results, but we also made changes based on the latest forecast for each business.
- In addition, we also factored in an increase in transportation expenses in the wake of the bankruptcy of a shipping line.
- In printing solutions, the printer business is forecasting further unit shipment growth in high-capacity ink tank models. However, new demand for SIDM printers accompanying Chinese tax reform is expected to decrease due to a change in the government's implementation policy.
- In professional printing, we factored in a projected temporary increase in customer service expenses involving check scanners, which fall under the POS printer category, that were shipped to certain customers.
- In visual communications, we anticipate momentum from the firm demand we saw in the first two quarters to carry over into the second half.
- The updated outlook also reflects changes in wearable & industrial products, including a more cautious view of robot demand in the U.S. and China, and lower demand for crystal products in the personal devices market.
- On the other hand, we also factored into the financial outlook a Group-wide reduction in fixed costs associated with fluctuations in our financial results.



■ Strategic progress under the Epson 25 mid-range business plan (FY2016-18)

- Due to the effects of foreign exchange, we have factored into the forecast for this fiscal year a negative impact on revenue and business profit of more than 130 and 35 billion yen, respectively, compared to the previous year.
- However, the results of our strategies can be seen in our financial outlook when we exclude the effects of foreign exchange. Considered on a constant currency basis, revenue grew by 50 billion yen while business profit expanded 10 billion yen, even as we implemented strategic investments.
- In the printer business, at the start of the period, we adopted a cautious outlook for high-capacity ink tank printers because competitors had entered the market in the previous year.
However, as time went by, we raised our unit shipment forecast. The forecast currently stands at approximately 6.2 million units, a 25% increase from last year.
- We believe that efforts by companies to promote product recognition have further fueled demand for these printers in emerging markets.
- There are graphs on the reference slides at the end of this presentation that show the growth trend in the high-capacity ink tank printer market in two representative countries, India and Indonesia. The graphs are based on analysis of data from third-party printer market research.
- We have built trust as the high-capacity ink tank printer market pioneer and we have a broad product lineup. We expect to leverage these advantages to continue to lead this market by meeting customer expectations.
- We also expect stable full-year ink revenue on a constant currency basis.
- In addition, we are making steady progress in the commercial development of inkjet printers equipped with lineheads.
As announced previously, we still plan to release linehead printers in the early part of the current three-year mid-range business plan.

- Professional Printing
 - Steadily increasing sales in growth areas (signage, textiles, labels)
- Visual Communications
 - Further increased presence in projector market
 - Launching new products in high-brightness segment
- Wearable & Industrial Products
 - Expanding robot applications and customer base



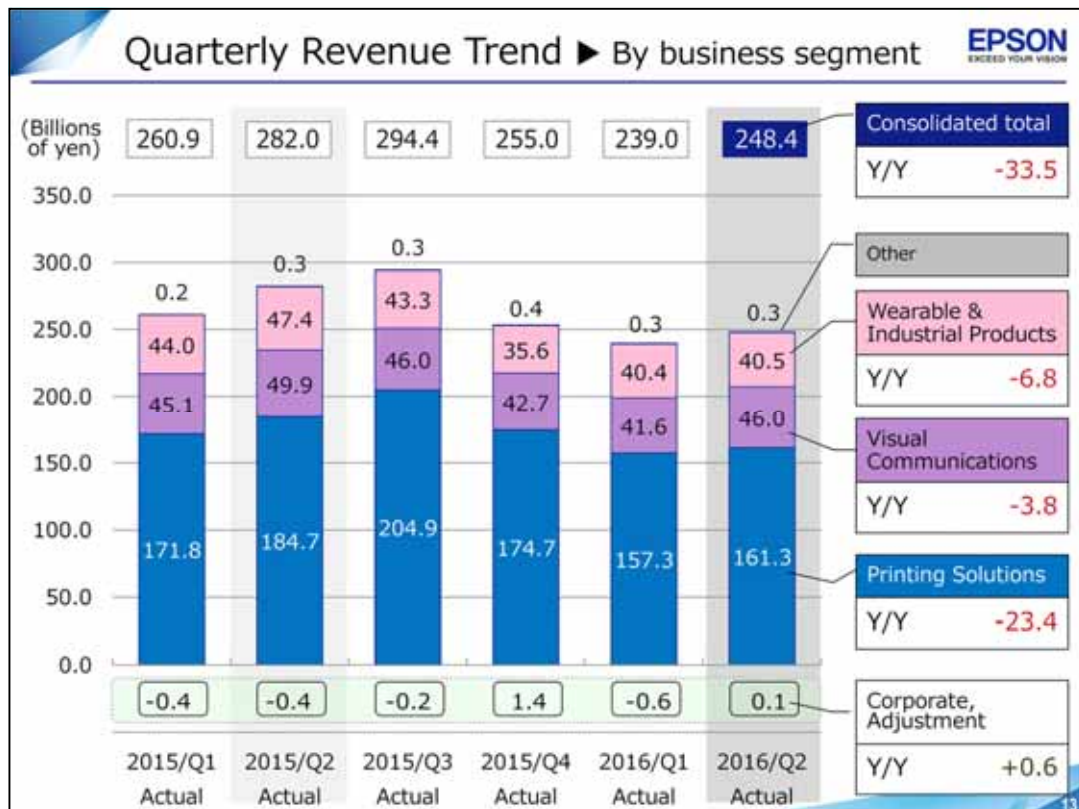
- Strategic progress under the Epson 25 mid-range business plan (FY2016-18)
 - In professional printing, we have put ourselves on a growth path. We are seeing steady expansion in sales of the new large format signage printers that we launched to market from the second half of the last fiscal year, and we are forecasting 10% or more year-on-year revenue expansion in all growth areas, including signage, textiles, and labels, despite foreign exchange effects.
 - Demand in the overall projector market continues to be subdued, yet we expect Epson to achieve 5% annual unit shipment growth, outpacing last year's growth rate and further solidifying our position in this market. We have begun a serious move into the high-brightness segment by launching projectors equipped with a laser light source.
 - We are making progress in wearable & industrial products. For example, seizing growth opportunities in the robot market, we are selling products not only to our traditional base of smartphone assemblers but also to customers in a broader range of industries, such as the electronic parts assembly, toy, and food industries. Sales of our force sensors, which are built around Epson's sensing technologies, have made an excellent start.
 - We revised our full-year outlook because we expect the yen to sustain its gains, but we are taking action to sustain growth over the medium and long terms. These actions are our top priority and we will not let up. The Epson Group will work as a team to achieve the full-year financial outlook and lay a foundation for growth.

■ 1. Overview

■ 2. Details

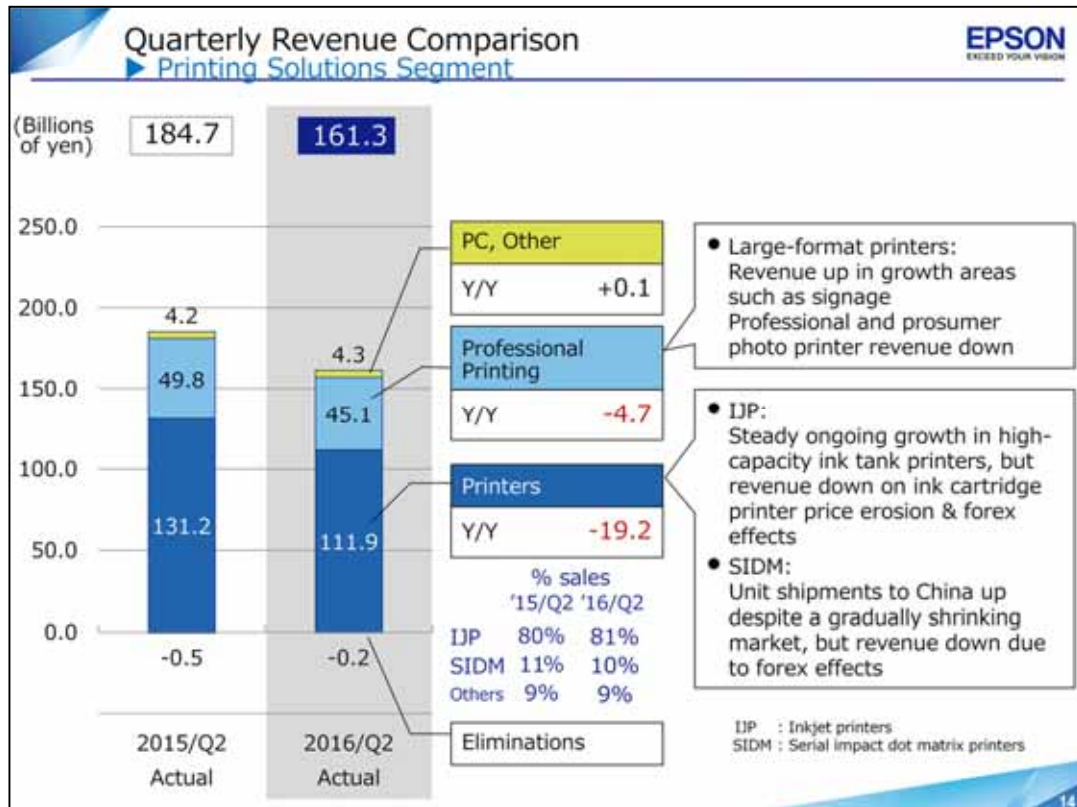
1) FY2016 Q2 Financial Results

2) FY2016 Financial Outlook



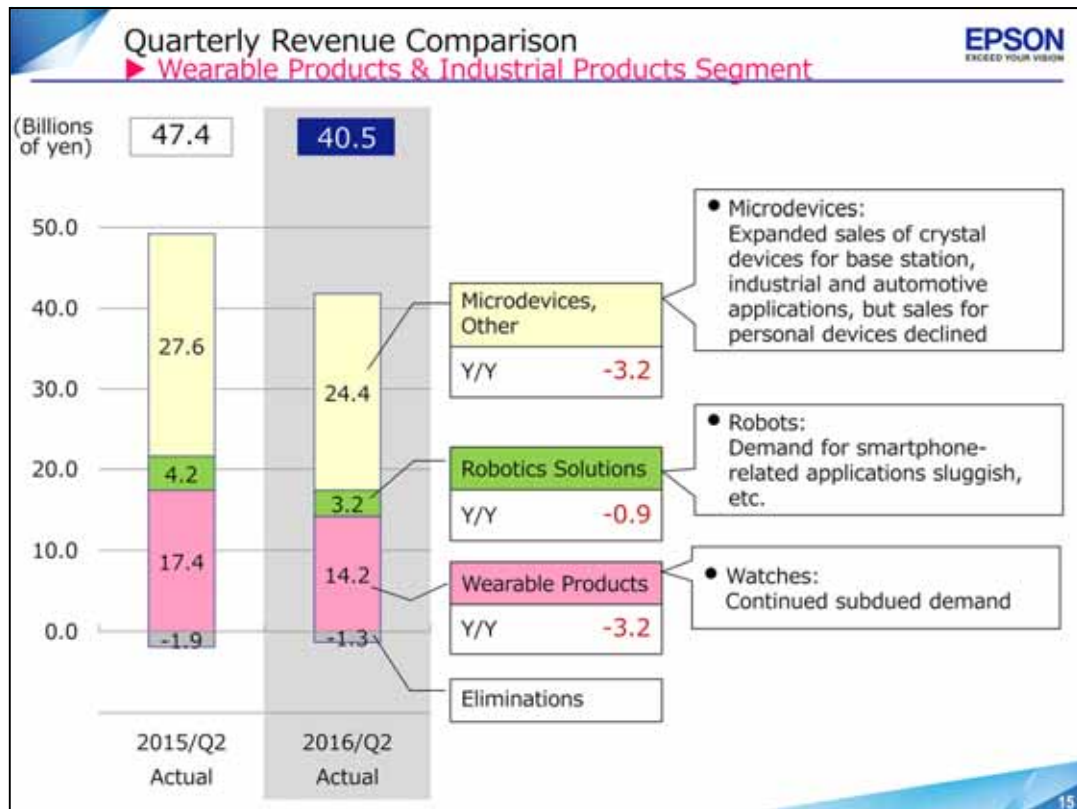
■ Revenue trends by business segment

- In visual communications, projector revenue continued to smoothly expand, as first-quarter momentum carried over into the second quarter.
- Projector unit shipments increased in every category, from high-brightness projectors, which we began releasing in earnest this fiscal year, to projectors in the ultra-short & short-throw, standard, and home categories. We marked 8% year-on-year growth and set a new record for unit shipments in any quarter.
- Revenue ended up lower than in the same period last year because of foreign exchange effects, but on a constant currency basis, revenue actually grew.



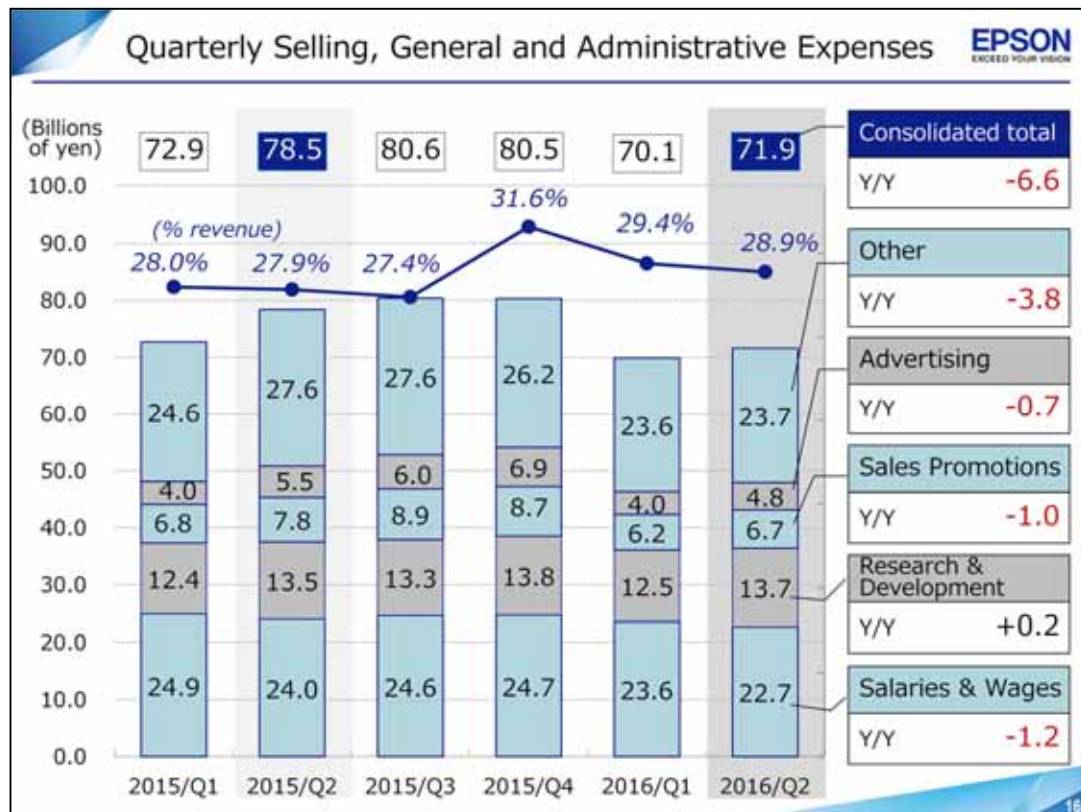
■ Quarterly revenue in the printing solutions segment

- Revenue in both the printer and professional printing businesses decreased year-on-year due to foreign exchange effects.
- The inkjet printer market itself was soft, particularly in advanced economies. Overall, however, unit sales increased 5% year-on-year. While ink cartridge model ASPs fell compared to the previous year mainly due to the effects of model mix changes, especially for consumer models, we benefitted due to continuing steady growth in high-capacity ink tank printers.
- Ink revenue was comparable to the previous year on a constant currency basis.
- SIDM printer unit shipments increased by 10% in a gradually shrinking market because we were able to capture some of the increased demand for products used in Chinese tax collection systems.
- Ultimately, printer business revenue was flat year on year on a constant currency basis.
- Professional printing revenue grew on a constant currency basis. In the existing professional and prosumer markets our competitors continue to pursue a low-price strategy. In growth areas, however, we continued to steadily expand, largely on the strength of our new large-format printers for signage.



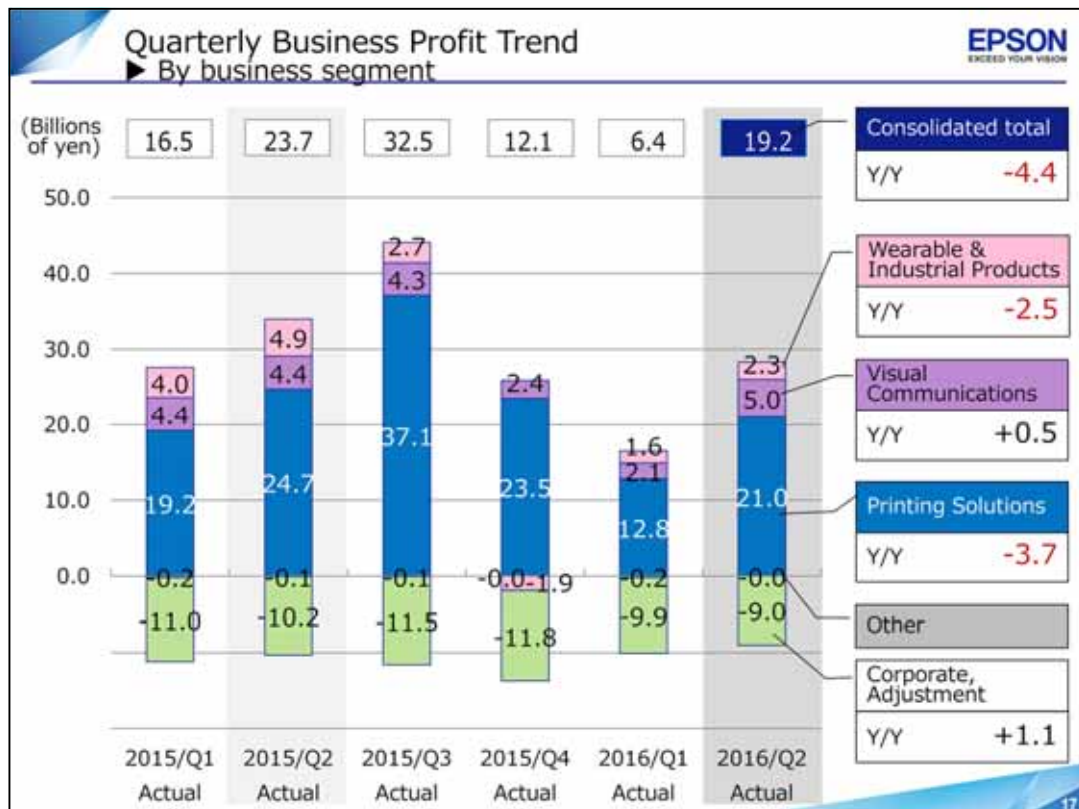
■ Quarterly revenue in the wearable & industrial products segment

- In wearable products, watch demand from visitors to Japan decreased, while we saw continued subdued demand for watches in the U.S. and other overseas markets.
- In robotics solutions, revenue shrank primarily on sluggish demand for robots used in smartphone-related applications.
- In microdevices and other, we are seeing sustained growth in sales of crystal devices to the network, communications, and automotive sectors, but sales to manufacturers of personal devices decreased.
- Foreign exchange effects were an additional factor in the decrease in total revenue in the segment as a whole.

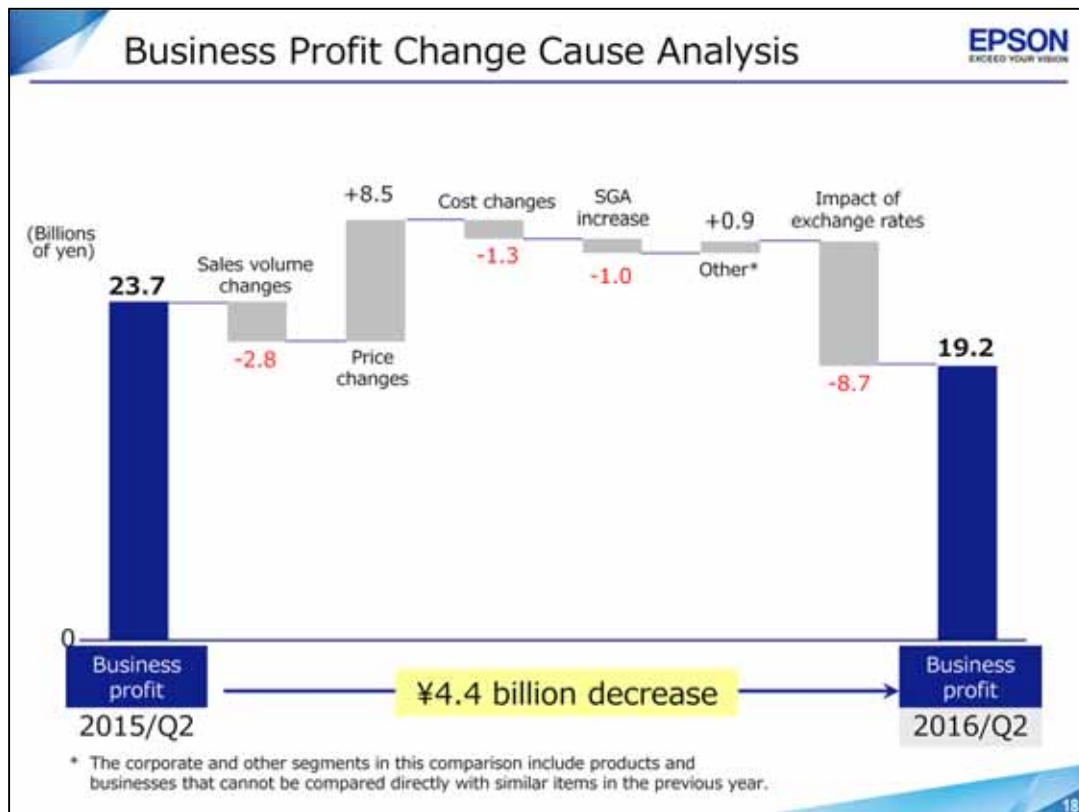


■ Quarterly selling, general and administrative expenses

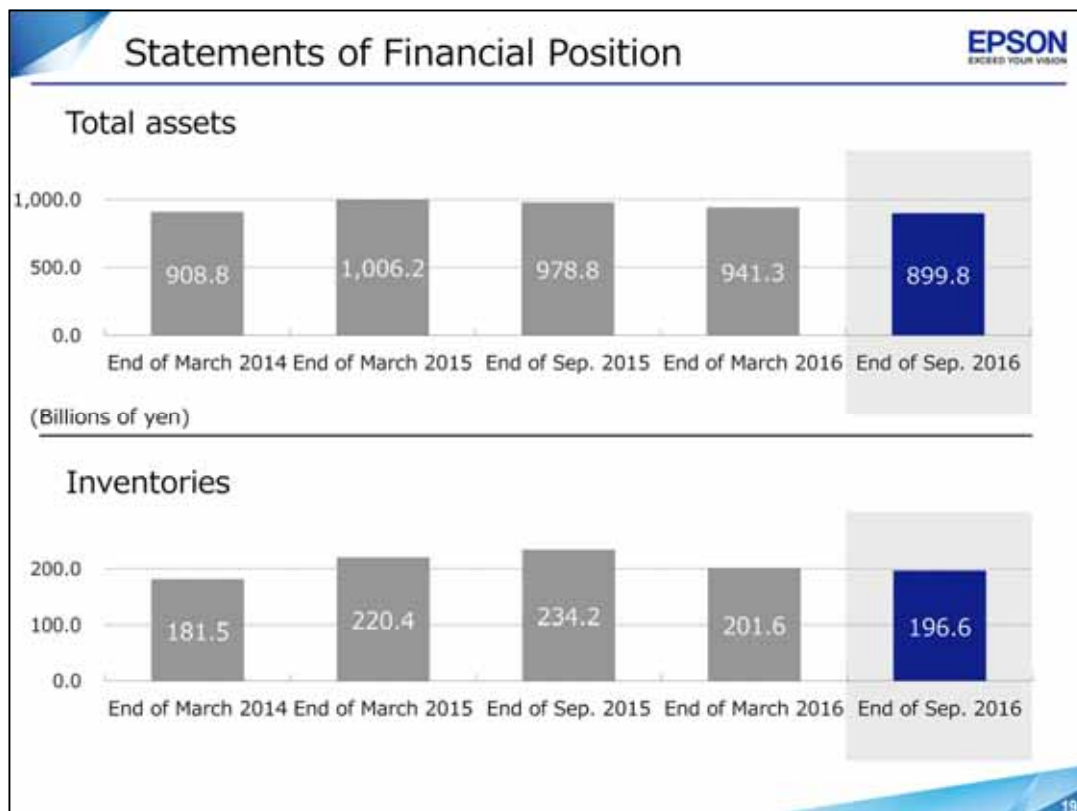
- Total SG&A expenses were down ¥6.6 billion compared to the same period last year, but this was because the strong yen caused the monetary amount to shrink.



- Breakdown of quarterly business profit by segment
- Printing solutions business profit declined by ¥3.7 billion.
- But on a constant currency basis, business profit actually increased because revenue grew as we made strategic advances.
- We recorded business profit growth in visual communications despite foreign exchange effects, because of ongoing strong sales of projectors.
- Wearable & industrial products profit fell on lower revenue.

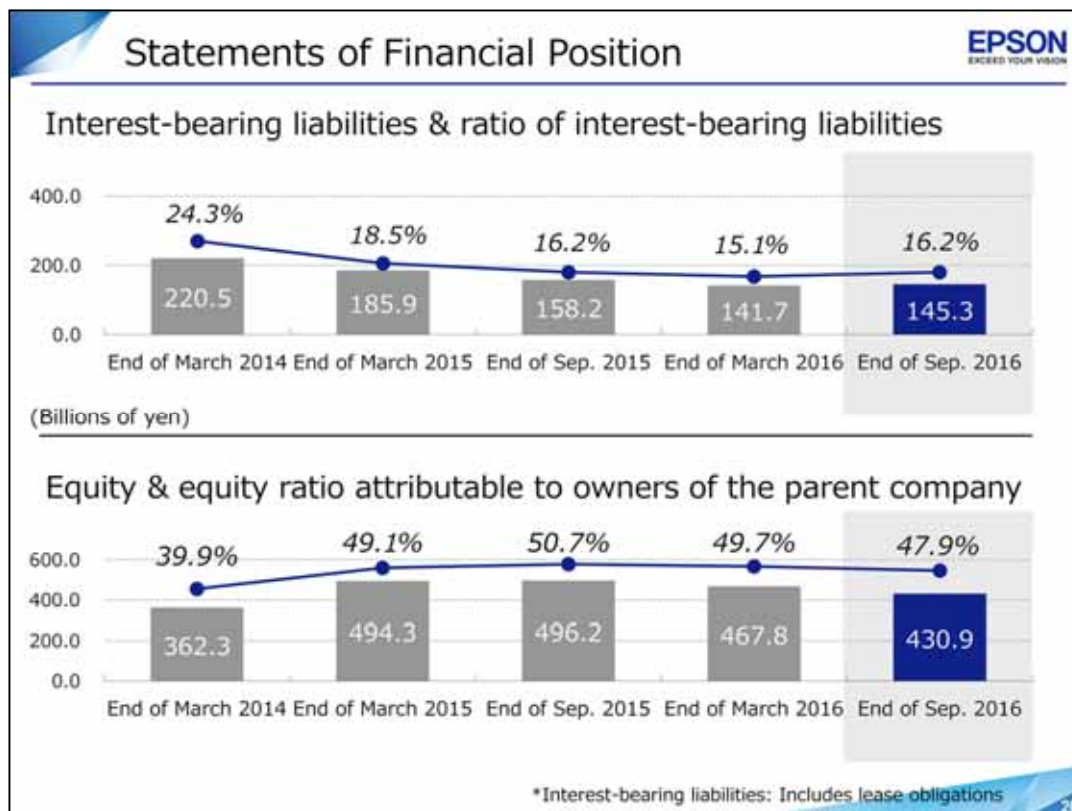


- Cause analysis of the decrease in business profit compared to the same period last year
 - Business profit took a ¥8.7 billion hit from foreign exchange fluctuations.
 - Volume changes, on the whole, negatively impacted profit. On the positive side, continued growth in sales of high-capacity ink tank printers and projectors, SIDM printers that captured demand in China, and semiconductor foundry orders all added to profit. However, in addition to a continuing shift of the ink cartridge mix toward high unit-cost office models, profit was negatively affected by declining volume in products such as photo printers for the professional and prosumer segment, wearable products, and crystal products for personal devices.
 - Price changes had a positive impact on profit. We benefitted from the positive effects of price adjustments to high-capacity ink tank printers that compensated for weakened local currencies particularly in Latin America, an improved ink cartridge model mix that lifted average selling prices, and an improved projector model mix.
 - Cost changes worked negatively against profit because higher costs per product accompanied an increase in sales of high added value products, outweighing cost reductions.
 - The increase in selling, general and administrative expenses is a result of strategic spending.



■ Major items on the statements of financial position

- Total assets decreased by ¥41.4 billion compared to the end of the previous fiscal year. This was mainly because, in addition to foreign exchange effects, current assets decreased because cash and cash equivalents declined due to repayment of borrowings, payment of dividends, and repurchase of Epson shares.
- Inventories decreased by ¥4.9 billion compared to the end of the last fiscal year due to foreign exchange effects.

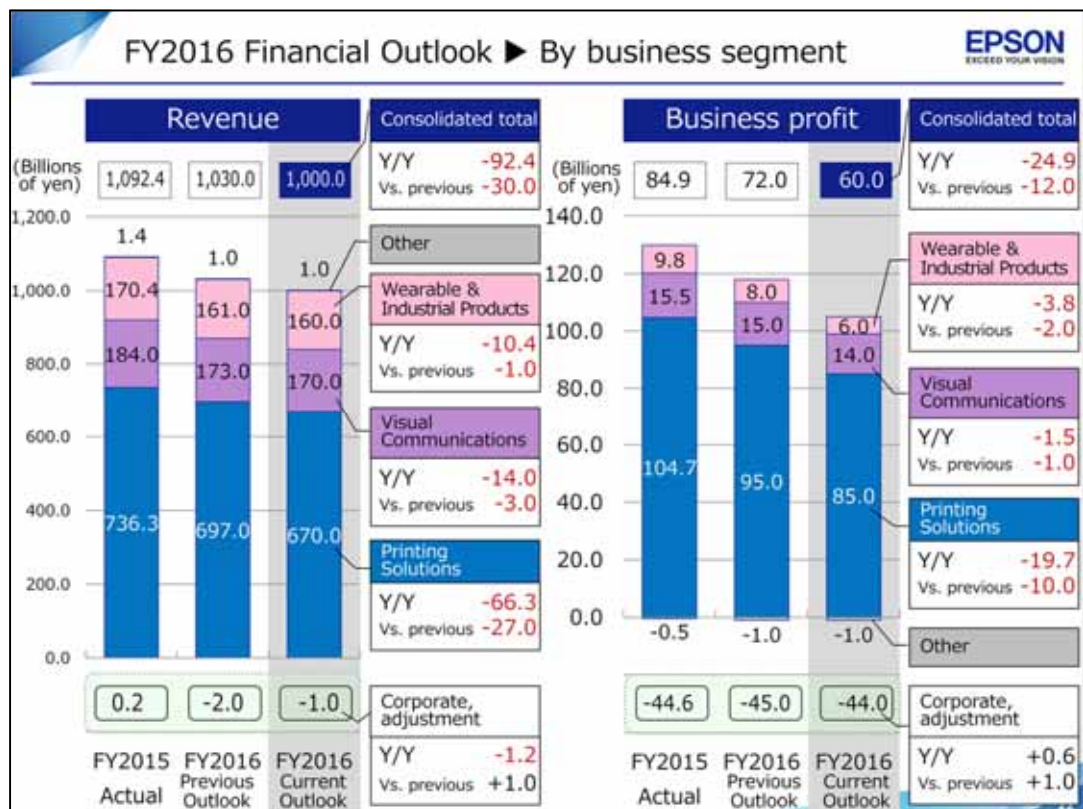


■ Major items on the statements of financial position

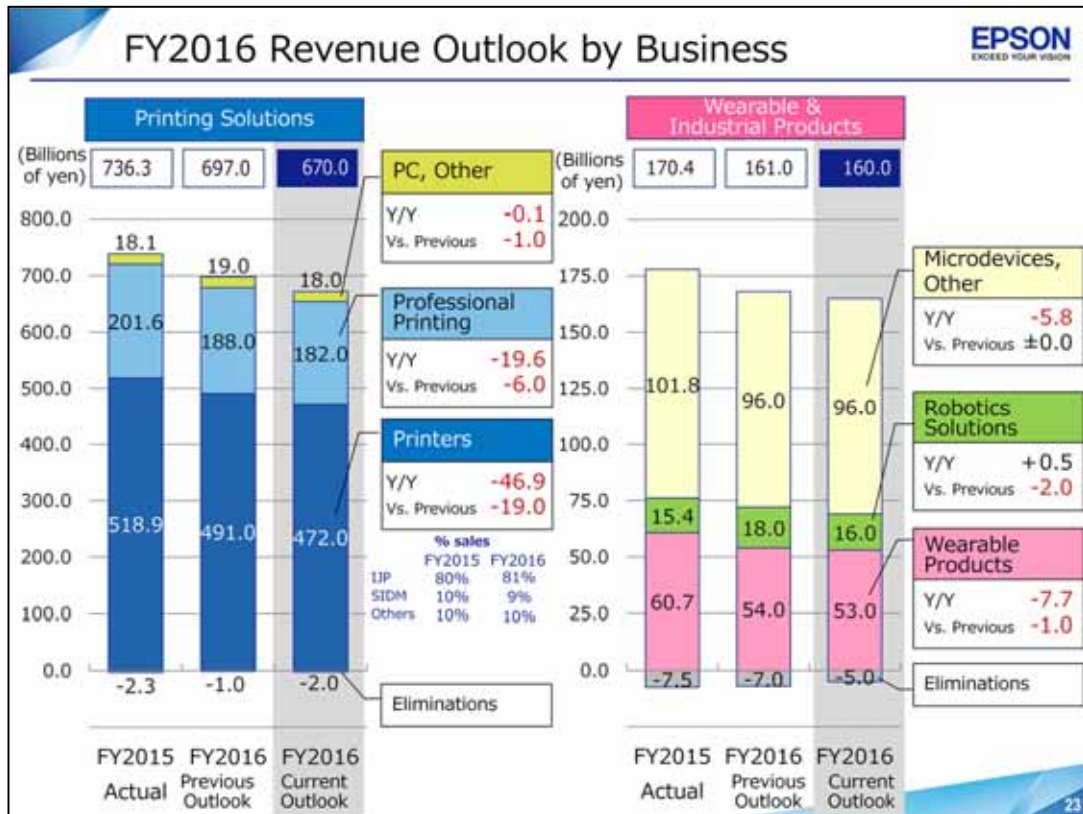
- Despite repayment of current borrowings, interest-bearing liabilities were ¥145.3 billion, an increase of ¥3.6 billion compared to the end of the previous fiscal year chiefly due to bonds issued.
As a result, the ratio of interest-bearing liabilities to total assets was 16.2%.
- Net cash was ¥55.8 billion.
- Equity attributable to owners of the parent company decreased by ¥36.8 billion compared to the previous fiscal year end. This was due chiefly to a decline in the yen equivalent value of foreign assets due to the strong yen and the repurchase of Epson shares. The equity ratio attributable to owners of the parent company was 47.9%.

1) FY2016 Q2 Financial Results

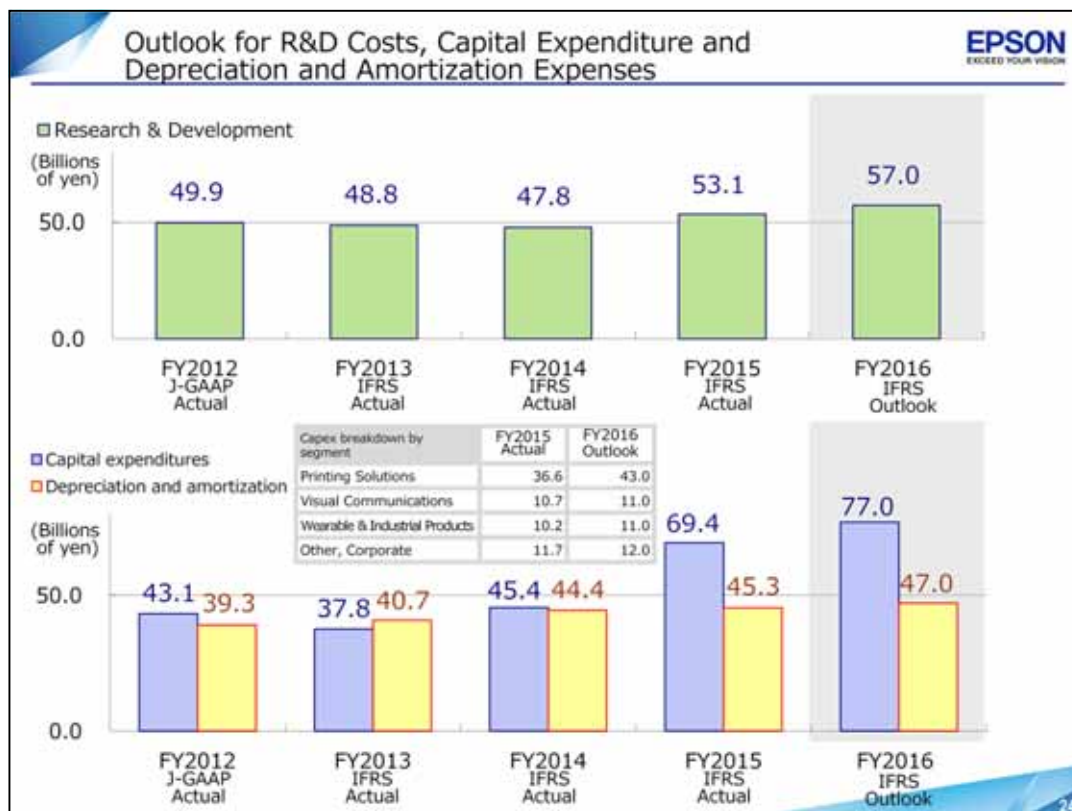
2) FY2016 Financial Outlook



■ FY2016 revenue and business profit outlooks for the different segments

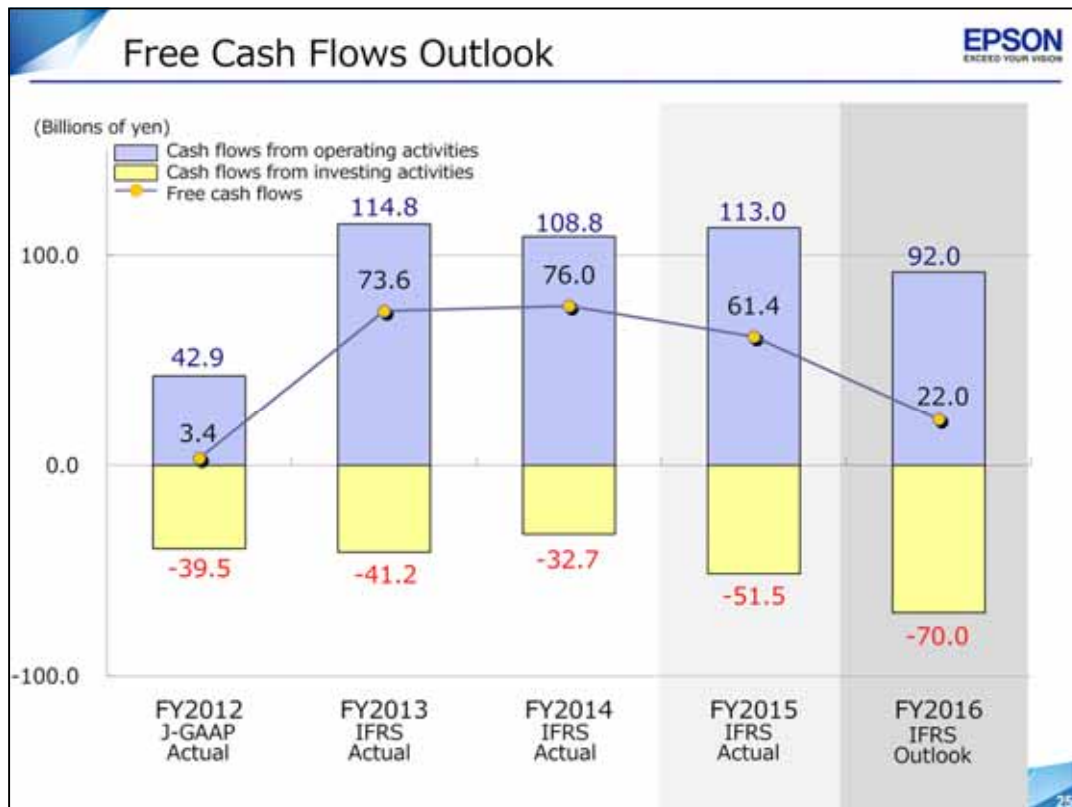


- FY2016 revenue forecasts for each of the businesses



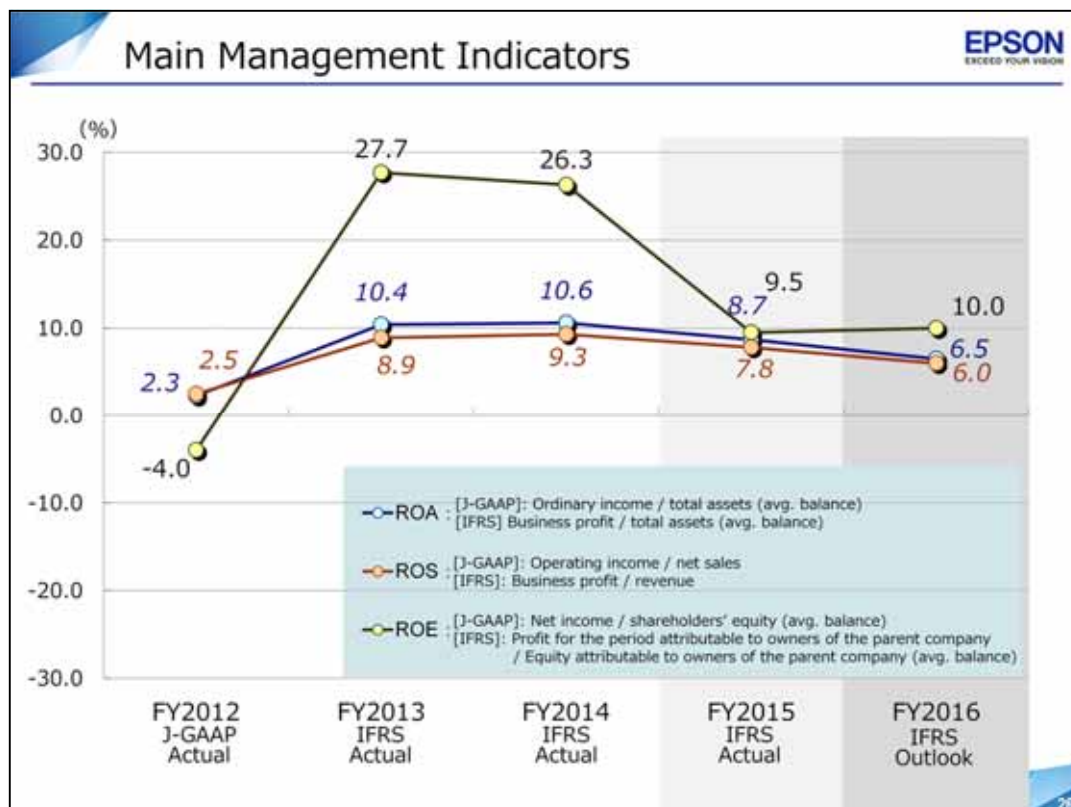
■ Outlook for capital expenditure and depreciation and amortization expenses

- Capital expenditure is expected to be in the neighborhood of ¥77 billion, down ¥3 billion from the previous outlook due to foreign exchange effects.
- There has been no change in the outlook for research and development expenses or for depreciation and amortization.



■ Cash flows

- Free cash flow is projected to be ¥22 billion, after factoring our revised foreign exchange rate assumptions into operating and investment cash flows.



■ Main management performance indicators

- ROS of 6.0%, ROA of 6.5% and ROE of 10%

Reference

Major Business Indicators

(Billions of yen)

		FY2015 Actual	FY2016 10/27 Outlook	FY2018 Targets
Printing Solutions	Revenue	736.3	670.0	805.0
	Business profit	104.7	85.0	-
Visual Communications	Revenue	184.0	170.0	200.0
	Business profit	15.5	14.0	-
Wearable & Industrial Products	Revenue	170.4	160.0	195.0
	Business profit	9.8	6.0	-
Other	Revenue	1.4	1.0	0.0
	Business profit	-0.5	-1.0	-
Corporate, Adjustment	Revenue	0.2	-1.0	0.0
	Business profit	-44.6	-44.0	-
Consolidated total	Revenue	1,092.4	1,000.0	1,200.0
	Business profit	84.9	60.0	96.0
	ROS	7.8%	6.0%	8%
	ROE	9.5%	10.0 %	Sustain at at least 10%

(Billions of yen)

Category	FY2015 Actual	FY2016 10/27 Outlook	3-year cumulative (FY2016-18 business plan)
Operating CF	113.0	92.0	330.0
FCF	61.4	22.0	120.0
Capital expenditure	69.4	77.0	Approx. 210.0
R&D costs	53.1	57.0	Invest aggressively
Exchange rate			
	FY2015 Actual	FY2016 10/27 Outlook	FY2016-18 business plan
USD	¥120.14	¥103.00	¥115.00
EUR	¥132.58	¥114.00	¥125.00

Main Product Sales Trends



FY2015 result (vs. FY2014) and FY2016 result/ forecast (vs. FY2015)

ASP (average selling prices) and sales amounts after conversion to yen

Product		FY2015 Full year	FY2016 Q1	FY2016 Q2	FY2016 Full year (forecast)
IJP	Volume	+1%	+8%	+5%	+8%
	Office/ high-capacity ink tank as % of total unit sales	Approx. 20%/ Approx. 35%	-	-	Approx. 20%/ Approx. 40%
	ASP	+ low single- digit %	Around -10%	- mid 10%	Around -10%
	Revenue	+ low single- digit %	- low single- digit %	- low teen %	- mid-single- digit %
IJP ink	Volume	0%	-3%	-7%	-
	ASP	+ mid-single- digit %	- low single- digit %	- high single- digit %	-
	Revenue	+ mid-single- digit %	- mid-single- digit %	- mid-teen %	- low teen %
SIDM printers	Volume	-6%	+19%	+10%	+14%
	ASP	+ low single- digit %	- mid 20%	- mid 20%	- mid 20%
	Revenue	- low single- digit %	Around -10%	- high teen %	- mid 10%
Projec- tors	Volume	+2%	+9%	+8%	+5%
	ASP	+ low single- digit %	- mid-teen %	- mid-teen %	- low teen %
	Revenue	+ mid-single- digit %	- high single- digit %	- high single- digit %	- high single- digit %

The indicators in this document are based on values tracked internally by Epson.

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- Further market growth due to heightened market recognition

