

CEO Message

Leveraging Our Philosophy of Efficient, Compact and Precise Innovation in Support of Advancement



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What We Gained by Facing Change Over the Past Three Years

I assumed the post of president in 2020. The past three years have been marked by sudden changes triggered by COVID-19 and geopolitical instability. We faced a challenging environment due to logistics disruptions and soaring parts, materials, and distribution costs, but our strategy of emphasizing earnings took root throughout the company, resulting in year-on-year revenue and profit growth in FY2022. The fact that we correctly read these changes and responded with effective pricing strategies and cost controls represents significant progress for us. I had expected these sudden changes to force us to innovate and adapt. And we did. For example, in the past when we prepared to manufacture new products or deal with quality issues at our factories overseas, employees from Japan would fly out to provide on-site support. However, COVID-19 travel restrictions made this impossible, so our people overseas had to step up and handle technical issues themselves. I also expected that we would find ways to get work done remotely and, again, we have. We were able to transform business processes and localize operations that we previously thought impossible with innovative thinking.

Embedding and Embracing Purpose

In September 2022, Epson articulated its purpose as follows: “Our philosophy of efficient, compact and precise innovation enriches lives and helps create a better world.” Since FY2022, we have been working to embed the purpose throughout the organization. Memorizing the purpose is not the goal. Encouraging employees to think about their own purpose and about the meaning of their work is. In other words, we want them to find satisfaction and fulfillment in practicing Epson’s purpose. The articulation of purpose has had a ripple effect. It has sparked greater communication within the workplace and has given employees a fresh opportunity to think about their own meaning and that of their workplace. This has had a positive impact on internal engagement. The establishment of a purpose will not have an immediate, positive impact on performance, but I believe it is essential for us to have a shared understanding about why the company exists, what it aims to achieve, and what it has decided not to do. I trust that it will yield benefits when everyone embraces the purpose and lives it in their own way.
→ For details, see P13-16 “Purpose.”



The corporate purpose was articulated in September 2022.



■ Illustration of purpose (drawn by President Ogawa)

The conceptual illustration depicts our purpose as a sturdy trunk firmly rooted in the foundation of Epson’s Management Philosophy and the Epson Way.

Materiality and KPIs in the Business Strategy

Epson has identified four material societal issues (“materialities”) that it can help to address. We have assigned key performance indicators (KPIs) to specific actions (“key sustainability topics”) that we have mapped to the materialities to more clearly show how each business can contribute. In FY2022, we set and disclosed KPIs for achieving sustainability in a circular economy and for fulfilling our social responsibility. This year we also set KPIs for advancing the frontiers of industry and for improving the quality of life, both of which are crucial for growth. We have now established actions and KPIs for all the materialities. Some of the KPIs have been incorporated into executive management compensation evaluations to clearly show where responsibility lies.

→ For details, see P27–28, “Key Sustainability Topics and KPIs.”

Epson’s value creation story depicts the process by which we use our efficient, compact, and precision technologies to solve societal issues and provide value. Materiality and KPIs are important elements in the story, and I frequently communicate their importance so that everyone is conscious of them and understands what they need to do.

Materialities We Will Address

Epson sees
**achieving sustainability in a circular economy,
advancing the frontiers of industry,
improving the quality of life and fulfilling our social responsibility**
as key themes for solving societal issues.



Epson 25 Renewed Progress and Issues Identified

Under Epson 25 Renewed, we grouped our businesses into a growth area, a mature area, and a new area. This enables us to better focus on priorities as well as ensure profitability and growth. Progress toward the FY2025 targets in the growth and mature areas is shown on the next page. In mature businesses, we restructured and shifted the focus toward profitability rather than revenue, which helped us to exceed targets.

In the growth areas, we exceeded the FY2022 targets but have not made adequate progress toward the FY2025 targets. In office printing, for example, we are moving to replace laser printers with inkjet printers. With offices going paperless, we cannot expect to expand the total office printing market, but we see substantial demand for office inkjet printers as a more eco-conscious alternative to laser printers, which currently dominate the market. Unlike laser printers, Epson’s inkjet printers do not use heat, so they consume far less electricity. Inkjet printers also have fewer parts that require periodic replacement, so they generate less waste and cost less to maintain. They help offices shrink their environmental footprint and help decarbonize the world.

■ Epson 25 Renewed Targets and Progress by Area

| | FY2021-FY2023 | until FY2025 | Targets | FY2022 actual | Progress & issues toward FY2025 targets |
|--------|--|---|-------------------------------|--------------------------------|---|
| Growth | <ul style="list-style-type: none"> ① Office printing ② Commercial & industrial printing ③ Printhead sales ④ Production systems | Growth strategies | FY2020→FY2025 Revenue CAGR | FY2020→FY2022 Revenue CAGR* | <ul style="list-style-type: none"> ① Expanded office product lineup ② Some schedule delays, but expanded the product lineup ③ Expanded the customer base ④ Limited revenue growth due to changes in the external environment |
| | | | +15% or more | +16% | |
| Mature | <ul style="list-style-type: none"> ⑤ Projection, watches ⑥ Home printing ⑦ Microdevices | Structural changes Profitability maintenance and improvement | FY2020→FY2025 ROS improvement | FY2020→FY2022 ROS improvement* | <ul style="list-style-type: none"> ⑤ Restructured on an accelerated schedule & improved profitability ⑥ Captured at-home print demand and raised prices and controlled costs in response to high material costs and other environmental changes ⑦ Stabilized business operations by building a balanced customer portfolio |
| | | | +10pt or more | +19pt | |
| New | <ul style="list-style-type: none"> ⑧ Sensing, environmental business | Business launch | FY2025 Revenue | FY2022 Revenue | <ul style="list-style-type: none"> ⑧ Key component technology development progressed, but business development did not |
| | | | ¥10 billion or more | ¥0.3 billion or more | |

* Comparison of the FY2020 outlook when Epson 25 Renewed was announced and FY2022 results

Epson's hardware provides a solid platform for advances in software. Conversely, software can maximize the potential of our hardware. Our goal is to leverage the synergies between them to enhance and deliver value. AI has been advancing with eye-opening speed recently. Epson is using AI in some production processes. We are also collaborating with and investing in companies that have strong AI portfolios. We will drive steady progress in DX and co-creation through trial and error.

**Managing with an Eye
Toward Epson 25 Renewed
and Beyond**

We will accelerate the switch to inkjet printers by raising awareness of their environmental advantages and tailoring an expanded lineup of products to customer needs.

In new areas, we are focusing on developing technologies whose commercialization will contribute to decarbonization and the closing of resource loops. Environmental businesses are costly and can be challenging, but we remain committed to the development of products and services that provide clear environmental value, even if a somewhat higher price point.

Under Epson 25 Renewed, we are also pursuing important environment, digital transformation (DX), and co-creation initiatives.

In the environmental area we are working to achieve the goals of Environmental Vision 2050. For example, we are providing customers with solutions that reduce their environmental impact. We are also nearing our goal of switching to 100% renewable electricity throughout the global Epson Group by the end of 2023.

→ For details, see P41-44 "Environmental Strategy."

We are making headway in DX and co-creation, but it is going to take time to see significant results. People tend to associate DX with software, but hardware is the intermediary between software and people. It must evolve along with the software that connects people, things, and information.

The societal issues and materialities that Epson is addressing are unlikely to change significantly in the foreseeable future, nor are decentralization and heightened environmental awareness, two of the trends cited in Epson 25 Renewed. Various aspects of life and business are moving toward decentralization. Production is one such area. Instead of mass-producing goods in centralized factories and then shipping them around the world, companies are increasingly adopting on-demand local production for local consumption. Similarly, work arrangements are changing. Instead of traditional centralized offices, people are more often working remotely or at satellite offices. This is likely to accelerate further with digitalization.

Epson sees these changes bringing the need for smart solutions that connect people, things, and information, and this is where we can make significant contributions. The other trend, heightened environmental awareness, has gained traction due to the now generally acknowledged threat of global warming. Epson has clearly stated its commitment to being an environmentally progressive company. One of our goals is to switch to 100% renewable electricity across the entire global Epson Group. We are on track to completing this by the end of 2023. Like most companies, we traditionally focused on creating products equipped with the latest features, encouraging customers to upgrade frequently. However, we recognize that we must transition towards a model under which we generate earnings by relying on our philosophy of efficient, compact and precise innovation to provide products that offer genuine customer value and have longer service lives. The necessity of such a transition is sinking in internally and will get stronger moving forward.

**Developing Business
by Identifying and
Addressing Societal Issues**

In March 2022, Epson and the Japan International Cooperation Agency (JICA) signed a comprehensive cooperation agreement aimed at contributing to social

solutions in developing nations and achieving the SDGs. We are doing what we can to support the creation of equitable learning opportunities through our products and technology. At first glance, it may not seem that social support programs will blossom into a revenue-generating business, but I think they have the potential to be financially sustainable. Historically, social advancement has come at the expense of environmental destruction and resource consumption. From now on, I believe we must use technology in an environmentally conscious manner to realize advanced, innovative processes in developing countries. My hope is that Epson will use its efficient, compact and precise technologies to provide outstanding value and contribute to social evolution. We fully intend to continue to pursue socially impactful activities from a long-term perspective.

**Achieving Employee
Happiness Via Diversity
and Inclusion**

I repeatedly communicate the importance of contributing to society and employee happiness. It is crucial to understand that these two are interconnected and equally important. Employees feel happy when their opinions are valued and when they feel that they have a purpose. I believe that this becomes the driving force for both employees and the



company and ultimately contributes to society. I want to make Epson a company where employees live the purpose and where contributing to society breeds employee happiness and vice-versa. As part of this, I have been working to change the organizational climate, to encourage open and honest communication to empower employees to take initiative. Diversity is said to be a source of innovation, but having a diverse workforce alone is not enough. The importance of diversity lies in its power to strengthen both strategy and execution by voicing different opinions and motivating people. Our diversity and inclusion initiatives have made our challenges clear. We are on the right path, but we are not there yet. There is a gender imbalance at all levels of management. We currently have only one female executive officer, the chief executive at sales company Epson America, so I want to do more to promote women to executive positions.

Bearing in mind that diversity is a strength when formulating strategies and carrying out operations, we must also develop a human capital strategy that shows which positions require what kind of talent given the business portfolio or that indicates how to develop that talent. In reality, people grow into the responsibility they are given, so we will use this to help develop future managers.

Creating a Framework for Stronger Governance

Epson has 10 directors on its board, six of whom are outside directors (and two of whom are women). This structure was adopted because we believed that for the directors to effectively fulfill their role of oversight, it was essential to assess Epson from a broader, more critical perspective. By FY2022, outside directors comprised half of the board. This significantly broadened and deepened the scope, vigor, and nature of discussions, but the recent move to a majority of outside directors took this a step farther. Outside directors also comprise a majority of members of the Director Nomination Committee and Director Compensation Committee. Committee members vigorously discuss issues under the committee chair, who is chosen from among the outside directors.

Refining the Value Creation Story Through Discussions with Capital Markets

I value communication with shareholders and other stakeholders. I find discussions with institutional investors and analysts to be particularly beneficial. They broaden my perspective and give me an opportunity to examine my own thoughts. They help build stakeholder understanding and belief in Epson while also giving us valuable insights. Last year, stakeholders suggested that we visualize the contribution to business of our low environmental impact products, so we immediately set out to do so.

I want these ongoing discussions to help us refine the value creation story.



Stakeholder Engagement
<https://corporate.epson/en/sustainability/engagement/>

To realize Epson's aspiration of achieving sustainability and enriching communities, Epson itself must be a sustainable company. This requires that we continue to generate profit. We will achieve the corporate vision by embedding the corporate purpose and wringing the maximum value from our philosophy of efficient, compact and precise innovation while adapting to the ever-changing social landscape. We promise to continue to evolve and deeply appreciate your ongoing support.



Photo taken in the DTF Solution Center, which opened at the Hirooka Office in May 2022