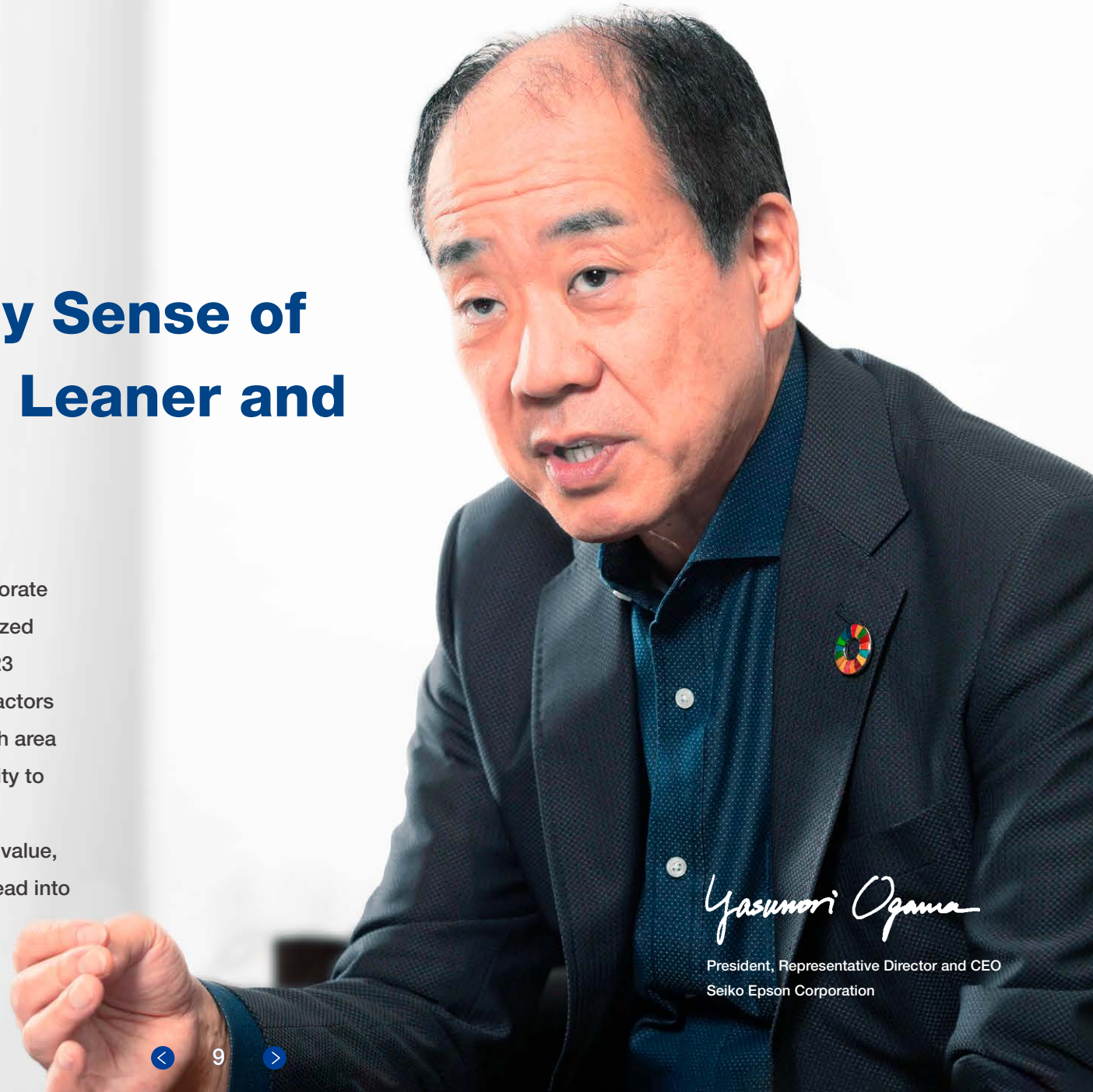


## CEO Message

# Embracing a Healthy Sense of Urgency to Become Leaner and More Profitable

Fiscal 2023 marked the midway point of our long-term corporate vision, Epson 25 Renewed. Although management emphasized profitability and capital efficiency, we fell short of our FY2023 performance targets. This was primarily due to temporary factors such as changes in the macro environment, issues in growth area businesses, and inventory reductions that caused profitability to deteriorate.

We will act to address the issues, steadily create corporate value, and make the company leaner and more profitable as we head into the next long-term strategic corporate vision.



*Yasunori Ogama*

President, Representative Director and CEO  
Seiko Epson Corporation

## A Prosperous, Vibrant Future for Both Humanity and the Earth

At Epson, we have maintained a spirit of creativity and challenge and utilized our efficient, compact, and precise technologies to deliver products and services that exceed customer expectations. The pursuit of ever greater efficiency, compactness, and precision that we have embraced for so long goes well beyond technology. “Efficient, compact, and precise” encompass a philosophy for eliminating waste, reducing dimensions, and increasing precision. I believe that this approach can enable us to create even greater social value. We will continue to adhere to this philosophy and take advantage of the tremendous value that it yields to overcome global environmental problems and other societal issues.

### There Are Concerns But Also High Hopes

In FY2023, the global economy slowed due to inflation and the continued tightening of monetary policy. In this harsh business environment, Epson’s financial performance suffered, with revenue and profit decreasing from the prior year, in no small measure due to the impact of reductions in parts and product inventories that had accumulated during the pandemic. It is regrettable that we were not able to respond quickly enough to changes in the external environment. On the other hand, it was good to see commercial and industrial printers and printheads contribute significantly to revenue. Printhead sales are an important business, and one that promises future growth. The Middle East and Africa, with their burgeoning populations, are primed for economic growth. To strengthen sales in these regions, we established a new sales company, Epson Middle East (FZCO), in Dubai, the United Arab Emirates. It will begin operations in October 2024. So, there are concerns, but that there are also high hopes.

→For details, see P21-22. “CFO Message.”



A new building for additional inkjet printhead production capacity is under construction at Epson Group company Tohoku Epson in anticipation of higher demand for printers, particularly commercial and industrial printers. The new building is scheduled for completion at the end of September 2025.

## Building a Lean, Profitable Company in Preparation for the Next Corporate Vision

The 2023 fiscal year marked the midway point of the Epson 25 Renewed corporate vision. Although management emphasized profitability and capital efficiency, we fell short of our FY2023 performance goals. This was primarily due to temporary factors such as changes in the macro environment, issues in growth areas, and inventory reductions that caused profitability to deteriorate. Given the changes in the external environment to date and the uncertain outlook, we were forced to conclude that it would be unrealistic to think that we could achieve the performance targets for the final year of Epson 25 Renewed (FY2025). We have thus decided to revise our performance targets for FY2025. However, we will maintain our focus on profit and capital efficiency. We are making progress in this area by focusing on priorities. This includes expanding printhead sales, a growth business, and accelerating restructuring in the mature visual communications business. Change is needed if we are to reach our new performance targets. The global economic slowdown is a big reason that manufacturing solutions has fallen short of growth expectations. However, I believe that we also need to review our own actions and ask ourselves whether we have truly been putting ourselves in our customers’ place and addressing their needs. The fact that our product lineup is too thin and lacks competitiveness suggests that we have not been doing so. We also needed to do better at balancing expenditures. We are currently revising our strategies and are identifying target markets where we can leverage our strengths. We will tightly control fixed costs to make the company leaner and more profitable. We are in the process of consolidating some of our overseas manufacturing sites and reducing our workforce. In Japan, we will strengthen personnel management in conjunction with efforts to improve productivity and optimize personnel allocation. We must control fixed costs. I have communicated the situation to our employees and told them that we must work with a sense of urgency. It is essential for Epson to become leaner in time for the next corporate vision.

■ Direction of Business Operations by Area Under Epson 25 Renewed

		FY2021-2023	Until FY2025
Growth	Office printing Commercial & industrial printing Printhead sales Production systems	Growth strategies	
		Projection Watches	Structural changes
Mature	Home printing Microdevices	Profitability maintenance and improvement	
	Sensing Environmental business	Business launch	Growth strategies

## ■ Epson 25 Renewed Consolidated Performance Targets

CEO Message

	FY2023		FY2025	
	Targets (announced 3/2021)	Result	Targets (announced 3/2021)	New Target
ROIC	8% or more	4.6%	11% or more	7% or more
ROE	10% or more	6.8%	13% or more	8% or more
ROS	8% or more	4.9%	10% or more	7% or more

We are in the process of formulating our next corporate vision. The direction we are heading, as mapped out in our purpose and Epson 25 Renewed, will remain largely the same. One of the key points will be what further value will be added to it. I see a variety of possibilities, including the expansion of applications for our microdevice technology and the development of new business areas where we can leverage our strengths. The content and process of formulating the next corporate vision is one of the topics of discussion in board effectiveness evaluations. Discussions have begun at the executive management level. Similar discussions are also under way among mid-level personnel selected from each business unit and corporate organization.

→ For details, see P19-20, "Vision Progress."

## Addressing the Issues of Horizontal Collaboration and Speed

I have long seen weak horizontal collaboration and a lack of speed as issues, and these are often discussed at board meetings. The four internal executive officers on the board of directors, including me as CEO, are addressing these issues. We gather weekly to discuss the direction of the company and various other management issues. Depending on the topic, we invite other executive officers to join in. The issues are then brought up for discussion by the full board of directors. I believe that the collaboration between me as CEO and the internal directors and executive officers will symbolize the strengthening of horizontal collaboration. In June, we brought in new internal directors. Named as new internal directors were Eiichi Abe, who is responsible for human capital along with health and productivity management, Junkichi Yoshida, who is responsible for the printing solutions business, and Yasunori Yoshino, who heads up corporate strategy and the manufacturing solutions business. They have assumed responsibility for strategies that are crucial for Epson. In addition, two new outside directors joined us this year. One is Kahori Miyake, who is highly knowledgeable and well versed in ESG and decarbonization measures, having promoted ESG strategies as an executive officer at AEON Corporation. She currently serves as co-chair of the Japan Climate Leaders' Partnership (JCLP). Epson, armed with efficient, compact, and precise technologies, is an environmentally progressive company, and I am confident that Ms. Miyake is the ideal person for us.

I look forward to hearing her thoughts and recommendations from an environmental management perspective.

The other new outside director is Akira Marumoto. He has a wealth of insight and experience in corporate management, having formerly served as president/CEO at Mazda Motor Corporation. Mr. Marumoto strengthened his company's earning power as a manufacturing industry executive. We expect him to supervise management to ensure long-term sustainable growth and growth in corporate value and to contribute to the soundness of management.

→ For details, see P75-76, "Message from Newly Appointed Directors."

We need to move more quickly. I believe that strengthening horizontal collaboration and digging deep to uncover customer needs will lead to an increase in speed, yet we still are not sufficiently engaging customers in product development. We have not yet been able to dispel the belief that if we create good products, they will sell. At board meetings, outside directors often ask us what customers are looking for and whether we are truly giving them what they want. Questions like this come from a customer's point of view and stimulate discussion. Instead of developing products and services based on what we want or on superficial customer needs, we need to engage our customers more seriously to uncover their underlying needs. Once we have fully absorbed that information, we can begin to more quickly develop products and services that meet their true needs. Making employees aware of the need for speed will be crucial to improving speed, so we will be persistent in building this mentality. The board of directors is also keenly aware of the need for speed and is leading by example. The board used to spend about 80% of the time during board meetings listening to explanations of matters on the agenda and the remaining 20% of the time on discussion. The ratio now is about 50:50, so there is ample time for debate. Seiko Epson meetings tended to have a lot of time-consuming explanatory materials, with a level of detail that obscured the key points and left little time for discussion. By preparing more concise explanations and materials to speed up the proceedings, we improved the quality of discussions and the efficiency of meetings. I believe that this change in the composition of the board of directors will enable us to make significant progress in addressing longstanding issues such as cross-organizational collaboration and speed.



## Enhancing Corporate Value Through Company-wide Initiatives

Finally, I would like to communicate some of the progress we have made in our company-wide initiatives. First, we are working to mitigate our environmental impact. We committed to becoming carbon negative and underground resource<sup>1</sup> free in Environmental Vision 2050. The use of renewable electricity is a key means by which we seek to reach our decarbonization goal. In line with this, we declared, in March 2021, that we would switch to 100% renewable electricity to meet the electricity needs at all Epson Group sites<sup>2</sup> around the world by 2023. In November 2021, the switch was completed in Japan. Globally, it was completed on schedule in December 2023. The fact that we accomplished this in just two years and 10 months is a strong indication of our commitment to Environmental Vision 2050. However, procuring renewable electricity from external sources only is a risk. Therefore, we will build our first biomass power plant, slated to start operation in FY2026. In June 2024, we expressed support for the Taskforce on Nature-related Financial Disclosures (TNFD) recommendations. As with the TCFD, we intend to develop a plan in accordance with the framework and consider how we can contribute through our business operations.

<sup>1</sup> Free of non-renewable resources such as oil and metals

<sup>2</sup> Excludes some sales sites and leased properties where the amount of electricity consumed cannot be determined

→ For details, see P37-42  
“Environmental Strategy.”



With the planned construction of Epson's first biomass power plant, we will help spur wider use of renewable electricity in society by increasing the ratio of self-generated renewable electricity and reducing the ratio procured from external sources.

To solve societal issues, it is essential for us to not only create eco-conscious products and solutions but also to create new value and businesses. Digital transformation (DX) will play a huge role in this. This is why DX is positioned as one of the core initiatives in Epson 25 Renewed. We are pursuing DX initiatives from a customer's point of view and from an employee's point of view. The goal is to contribute to customer success by building a robust digital platform, connecting people, things, and information, and co-creating solutions that continue to meet customer needs. From a customer point of view, we are developing subscription services and cloud solutions for commercial and industrial printing. We also have some other interesting initiatives in the works, but it is going to time for them to become major businesses. DX is essential for the future, and we intend to persevere in our efforts.

→ For details, see P49-50, “DX Strategy.”

Human capital management has been attracting more attention in recent years, and Epson is in the process of formulating a human resources portfolio. In FY2023, we defined our human resource requirements and visualized a human resource portfolio for a certain business unit as an example. Using this company-wide should enable us to gain visibility into human resource allocation issues and optimize their allocation more quickly. It should also give us a clearer picture of individual skill improvement goals, thereby contributing to human resource development. Since assuming the helm, I have said that I want to create a corporate culture in which people feel free to air their thoughts and to take initiative. To achieve this, we need to de-emphasize the hierarchy as much as possible. One way we are doing this in Japan is by encouraging employees to address people by their name instead of their titles. I believe that actions like this will bolster human capital management by creating an environment where people find it easy to hear and be heard and share diverse ideas, laying the foundation for self-sufficient employees to thrive.

→ For details, see P51-56, “Human Resources Strategy.”

## Responding to Expectations of Growth with Results

Our price-to-book ratio is only slightly above 1 (as of March 31, 2024). I do not think that our share price reflects our potential and future growth expectations. We will implement the growth strategies and environmental actions outlined in our corporate vision and deliver results in the form of business performance. At the same time, we will present our growth story for the creation of customer value to stakeholders to boost expectations and win support.



## The CEO, CSuO, and an Outside Director Discuss Sustainability Management

# Dialogue

Epson is committed to sustainability management. By tackling societal issues, we enhance our ability to generate long-term, sustainable sources of growth (earning power). In the free dialogue presented here, Yasunori Ogawa (CEO), Masaharu Mizukami (CFO/CSuO), and Kahori Miyake (outside director since June 2024) share their views about sustainability management at Epson, including what impresses them and what needs to be improved.

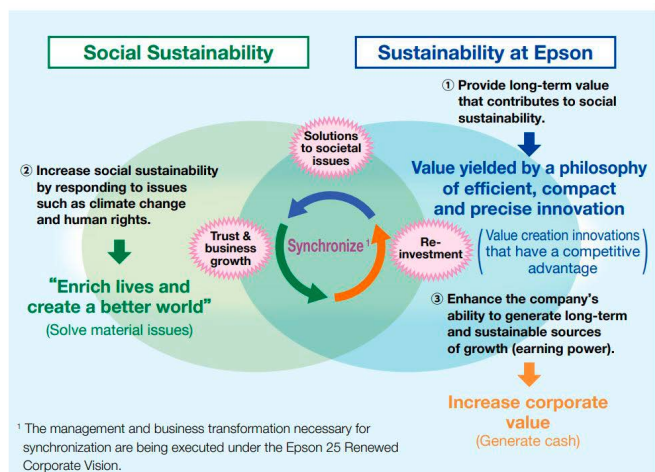


**Kahori Miyake**  
Outside Director

**Yasunori Ogawa**  
President, Representative  
Director and CEO  
Seiko Epson Corporation

**Masaharu Mizukami**  
Executive Officer  
CFO  
Chief Compliance Officer (CCO)  
Chief Sustainability Officer (CSuO)  
General Administrative Manager,  
Business Management Division  
General Administrative Manager,  
Sustainability Promotion Office

### ■ Sustainability Management at Epson



\* Illustration created by Epson based on Ito Review 3.0 (Ito Review SX Edition)

### Theme 1 What does sustainability mean to Epson?

**Ogawa** To earn trust and create sustainable growth, companies must engage in environmental initiatives and address societal issues. Epson has always engaged in environmental initiatives. We have a long track record of environmental initiatives, demonstrating our continual commitment to environmental sustainability along with business growth. We were the first company to have eliminated ozone depleting chlorofluorocarbons (CFCs) from our production processes. In 2008, we unveiled Environmental Vision 2050. In 2022, we defined our corporate purpose: "Our philosophy of efficient, compact and precise innovation enriches lives and helps create a better world." Rather than issuing a purpose statement in reaction to the sustainability agenda, our purpose statement articulates a corporate ethos that we have upheld since day one. Central to this ethos is our philosophy of efficient, compact and precise innovation. More and bigger are not always better. We firmly believe that energy saving solutions, space saving

innovation and ultra-high precision help to protect the natural environment and enrich communities. We've never treated sustainability as a side task (separate from our business operations) that we undertake in response to societal demands. Instead, we've always integrated sustainability into our core strategies and business operations. This integration is exemplified in our long-standing practice of appointing one individual to act as both chief financial officer (CFO) and chief sustainability officer (CSuO). We also recognize that outside perspectives are crucial to making our environmental initiatives more effective. That is why we were happy to welcome Kahori Miyake onto the board as an outside director in June 2024. As an expert in environmental matters, Miyake-san advises the management in environmental initiatives and other aspects of sustainability strategy. Her insights will help make our sustainability strategy more effective and raise the level of our initiatives.



**Miyake** In my time at an operating company, I've long observed environmental initiatives and trends in business. To be honest, Epson, for better or worse, never really caught my attention. However, this changed when Epson invited me to become an outside director. I took a fresh look at Epson's sustainability initiatives and heard reports about them, and I was struck by the company's passion for the environment. Epson is by no means unique in claiming to have embedded environmental initiatives into its corporate DNA. But Epson has integrated sustainability into its business strategies. Instead of making vague pledges that point to a distant future, Epson has placed environmental initiatives center stage in its medium- and long-term strategies. This level of commitment sets Epson apart from other companies and is highly praise-worthy. What

## Theme 2 Progress of sustainability initiatives

**Mizukami** Ogawa-san, you mentioned that Epson has embedded environmental initiatives into its business strategies. Epson 25 Renewed

matters now is how Epson translates its sustainability strategy into action, how its environmental initiatives will impact financial performance, and how financial performance will interact with non-financial performance. While the road ahead will be rough, Epson can be a trailblazer, and I will do all I can to help. Epson also has an organizational setup rarely seen around the world, in that the person who is CFO is also the CSuO.

**Ogawa** I've always wondered why financial performance must be separate from non-financial performance. To me, it's all financial capital. This fiscal year, Mizukami took on the joint role of CFO and CSuO. Mizukami's knowledge of company finances equips him to strike a balance with non-financial matters, leading to better sustainability performance overall. With his sound financial management coupled with broad, big-picture thinking, he can identify investments that will increase Epson's prospects for future growth and ability to generate sustainable value. I am confident that his career experience will serve Epson well.

declares that our role as a company is to address societal issues. It also identifies four materiality themes to integrate into our business

activities: achieve sustainability in a circular economy, advance the frontiers of industry, improve the quality of life, and fulfill our social responsibility.

To encourage effective action, the themes are linked with a total of 12 key sustainability topics. In FY2023, we set KPIs for the key sustainability topics and followed a PDCA cycle of continuous improvement toward these KPIs. Take, for example, the key sustainability topic of advancing the frontiers of industry. This theme has two key sustainability topics: improving productivity through digitization and automation and improving the work and education environments. For the first topic, the KPI is "sales growth rate of commercial and industrial inkjet printers." One of the KPIs for the second topic is "number of labor shortages eliminated through automation (using robots)." We set these KPIs after listening to feedback from investors who wanted a clearer idea of how sustainability tied in with our business strategies. We will keep listening to stakeholders and clarifying our commitments. In Environmental Vision 2050, we set out the goal of becoming carbon negative and underground resource free<sup>1</sup> by 2050. For this goal, we develop initiatives in four themes: decarbonization, closed resource loop, customer environmental impact mitigation, and environmental technology development. For decarbonization, we achieved a milestone in

## The CEO, CSuO, and an Outside Director

FY2023 by transitioning to 100% renewable electricity at all Group sites worldwide<sup>2</sup>. We are now focusing on generating electricity ourselves, with a view to launching a biomass power plant in 2026. Becoming carbon negative is too big a task for a single company. It requires a commitment across our supply chain. This fiscal year, we launched a process of supplier engagement called Epson Green Supply Chain. Suppliers in this program set decarbonization targets, and we help them switch to renewable electricity. Sustainability requires engagement and cooperation across society, and Epson's sustainability efforts must be ongoing. We can only maintain our pursuit of sustainability if we have solid performance and stable finances. That means making cool-headed decisions, not splashing out on unfeasible schemes. It's effective, therefore, to have dual responsibility over finance and sustainability, and I find the dual roles very rewarding.

<sup>1</sup> Free of non-renewable resources such as oil and metals  
<sup>2</sup> Excludes some sales sites and leased properties where the amount of electricity consumed cannot be determined



## The CEO, CSuO, and an Outside Director

**Miyake** I'm impressed by the commitment in Environmental Vision 2050 to becoming underground resource free. Few other companies have made such a clear commitment, even though underground resources pose an issue that no manufacturer can avoid. Your environmental vision is ambitious indeed. Another theme that caught my attention is supply chain engagement. Most would agree that companies near the demand end are responsible for what happens further upstream in the supply chain. What really matters is how Epson leads the way in tackling the issue. You need to play a leadership role and arrange the conditions so that all supply chain partners can prosper. Related to this is another key theme: advancing the frontiers of industry. If the supply chain is linear, then the industrial structure is planar. Transforming this plane will require a huge amount of energy.

**Ogawa** Yes, we have committed to advancing the frontiers of industry and this is very ambitious, not something Epson can do alone. Success will depend on whether we can co-create value with partners in a way that creates a groundswell of change. One way we can do this is through printhead sales. Our Micro Piezo printheads are heat-free, making them compatible with many types of ink. As well as conventional inks, they can also print biomass ink and metallic ink.



We've been expanding the range of inkjet technology applications and now produce high-quality, high-efficiency printheads for many kinds of applications. These printheads serve as essential products and infrastructure for other companies, giving us the leverage to advance the frontiers of industry. When you think of advancing the frontiers of industry, you might imagine robotics and automation. Our main product in this area—a robot with a small load capacity that excels at precision assembly operations—will take us only so far in advancing the frontiers of industry. How, then, can we advance the frontiers? Co-creation remains unfamiliar territory to us—we are used to having a vertically integrated organization and making things entirely by ourselves. We must change the mindset in our organization, encouraging an attitude that embraces co-creation.

**Mizukami** To give examples of such collaboration, we are pursuing co-creation with the World Wildlife Fund (WWF) and the Japan International Cooperation Agency (JICA). In March 2023, Epson and the WWF signed a three-year International Corporate Partnership Agreement to conserve and restore forests around the world. This partnership is the first attempt by a Japanese company in the electric and precision equipment industry. With JICA, we signed a comprehensive partnership agreement that includes partnership in education. In this partnership, we're working to bring education to areas outside the electricity grid by delivering battery-operated projectors. These are just two examples. We are working on joint initiatives with many international organizations to achieve our vision.

**Miyake** Your co-creation initiatives with the voluntary sector—NGOs, NPOs, and so on—mark a fresh and positive trend. In these partnerships, you combine your strengths in effective ways to address societal issues, with

the ultimate goal of creating even greater positive impacts in society. It's a very effective strategy to co-create with NGOs and NPOs that align with Epson's purpose and long-term vision.

**Ogawa** Absolutely. With the WWF, we are promoting the use of responsible forestry resources (paper) in business. We will also consider joint initiatives for safeguarding freshwater ecosystems and promoting the circular economy. As part of this, I recently visited Sumatra in Indonesia to observe WWF programs for restoring forests and conserving wildlife. As for our partnership with JICA, we engage in an assistance program in developing countries to improve the quality of education in these countries. In the long run, the partnership will contribute to our goal of advancing the frontiers of industry.



### Theme 3 Hopes and concerns about sustainability management

**Ogawa** Sustainability management has business benefits too. Solving societal issues enhances Epson's ability to generate long-term, sustainable sources of growth (earning power). Another business benefit is higher employee motivation. Sustainability initiatives contribute to a happier and more motivated workforce. Employees feel more engaged when the work they do and the products and services they deliver help solve societal issues. It's important for employees and senior managers to share the same commitment to sustainability, with the belief that engaging in materiality and key sustainability topics leads, slowly but surely, to positive changes in society.

**Mizukami** People often highlight the importance of human capital in building an organization's value. For a company to sustain a high level of performance, it must create a workplace environment that engages and motivates employees. What motivates employees today is very different from what motivated employees in the past. Increasingly, employees feel passionate about sustainability. Pay is no longer enough to build employee motivation. Employees need to feel a sense of purpose in their job. They need to feel that

they are making a difference to the company and to society. Ultimately, the company's strategies and operations must resonate and inspire employees' behavior. Such resonance is a wellspring that makes employees more effectual in everything they do. While a sustainability strategy helps a company adapt to changes in the external business environment, it also serves as a constant motivator, leading to greater employee engagement and solidarity. We should bear this motivation factor in mind as we progress with and refine our sustainability strategy.

**Miyake** I agree. You'd be surprised by how much importance young people place on a company's purpose, even if this trend is yet to gain traction in Japan. A global survey revealed two factors that contribute to employee motivation: a feeling of affinity with the company's vision or purpose, but also the perception that the work one does in the organization contributes to the organization's goals. The purpose a company serves in society must surely be to make the society more sustainable. Such a purpose must be an integrated part of the company's business operations. A company engages in sustainability not as an

act of charity but as an economic necessity that will ensure its right to survive. The outside perspectives I can offer include how Epson appears in comparison to its peers within Japan. They also include how the world views the Japanese market. By actively voicing opinions and suggestions based on these outside insights, I can help Epson advance its sustainability initiatives.

**Mizukami** This dialogue has impressed upon me the importance of communicating to employees and external stakeholders how our environmental initiatives and other sustainability initiatives relate to our quantitative financial performance and how our financial performance interacts with our non-financial performance. We will step up our efforts to do just that.

**Ogawa** Sustainability has always been a key word and goal for us, but I now realize that we need to pursue sustainability more actively. This dialogue proved a great opportunity to reflect upon our long-term vision and sustainability initiatives. Our heart is in the right place—we are committed to tackling societal issues, leading the way to a circular economy, and advancing the frontiers of industry. But are we really leading the way and bringing positive

change? Or can we be doing more? I believe we have the right purpose and long-term vision, and we can surely be doing more to make them a reality. To that end, we all need to exert strong leadership.

