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Epson 25 Renewed Corporate Vision

Seiko Epson Corporation
March 18, 2021

Agenda

- Our Aspirational Goal
- Environmental Vision 2050
- Review and the Business Environment
- Epson 25 Renewed
  - Vision
  - Innovation Strategy
  - Strengthening Business Infrastructure
  - Financial Targets
  - Strengthening Governance

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> Here is today's agenda. I will start by explaining our aspirational goal and Environmental Vision 2050. I will then go over the vision described by Epson 25 Renewed and the initiatives designed to realize innovation.

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Achieving sustainability and enriching communities

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➢ We aspire to achieving sustainability and enriching communities.
➢ The world is facing some serious issues, climate change and the COVID-19 pandemic among them.
➢ People have always sought enrichment, but the focus was on material and economic wealth. This desire for personal affluence may be a contributing cause to these issues.
➢ Going forward, it is both necessary and desirable to enrich not only ourselves but the rest of the world and the global environment as a whole.
➢ I think the world desires more than just material and economic wealth. People also want other, less tangible forms of wealth. They want to be enriched spiritually and culturally. Sustainability is a fundamental requirement for achieving this.
➢ It is because of this that we at Epson let societal issues direct our actions.
   I want us to approach the development of our business by asking ourselves what we can do to solve these issues and contribute to society.

Environmental Vision 2050

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Epson will become carbon negative and underground resource*1 free by 2050 to achieve sustainability and enrich communities

*1 Non-renewable resources such as oil and metals

Goals
- 2030: Reduce total emissions in line with the 1.5°C scenario*2
- 2050: Carbon negative and underground resource*1 free

Actions
- Reduce the environmental impacts of products and services and in supply chains
- Achieve sustainability in a circular economy and advance the frontiers of industry through creative, open innovation
- Contribute to international environmental initiatives

*1 Non-renewable resources such as oil and metals
*2 Target for reducing greenhouse gas emissions aligned with the criteria under the Science Based Targets initiative (SBTi)

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- We amended Environmental Vision 2050 when we formulated our aspirational goal.
- Epson will become carbon negative and underground resource free by 2050.
- We will reduce the environmental impacts of products and services, and in supply chains. We will also achieve sustainability in a circular economy and advance the frontiers of industry through creative, open innovation.

Value Creation Story for Realizing our Aspirational Goal
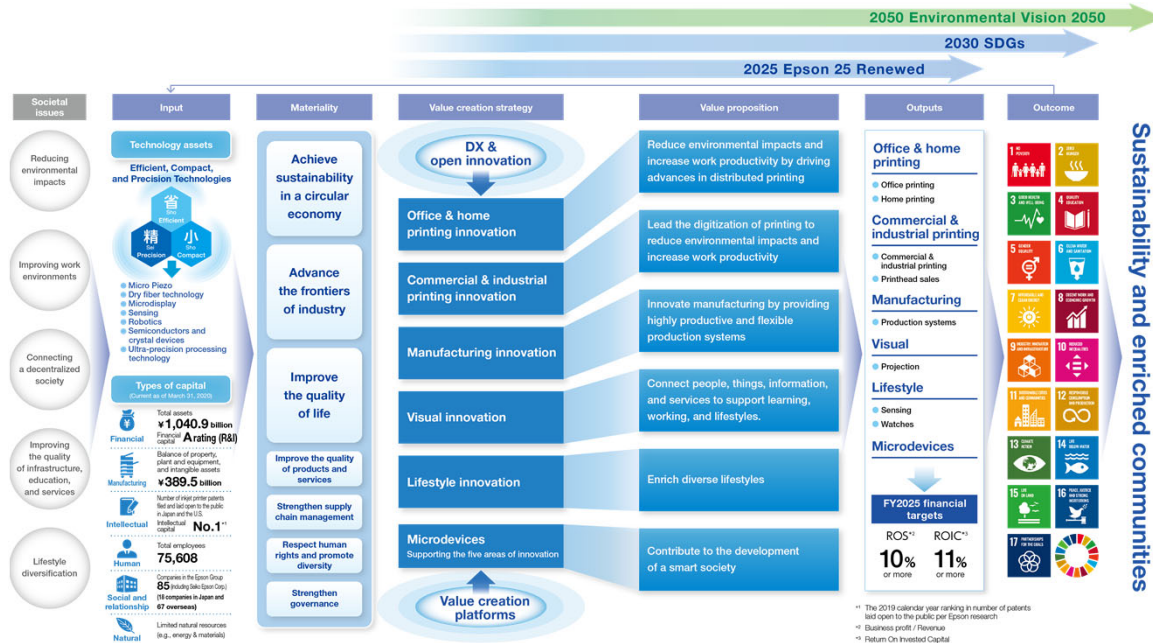
- We also amended our Value Creation Story.
- The main changes were to societal issues, materialities, the value creation strategy, and financial targets.
- I will explain this later.

Societal Issues We Will Address

| Reducing environmental impacts | Improving work environments | Connecting a decentralized society | Improving the quality of infrastructure, education, and services | Lifestyle diversification |

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> These are the five societal issues that we will help to address.
> We will act to reduce environmental impacts, improve work environments, connect a decentralized society, improve the quality of infrastructure, education, and services, and respond to and support lifestyle diversification.

- There are three materialities that we will address. In addition to our longstanding commitment to achieving sustainability in a circular economy and advancing the frontiers of industry, we will also seek to improve the quality of life.
- We will drive initiatives that help people to choose a lifestyle that suits them and that is both healthy and enriching.

Review and the Business Environment

➤ Before explaining the new vision, I want to review the previous five years.

Epson 25 Review

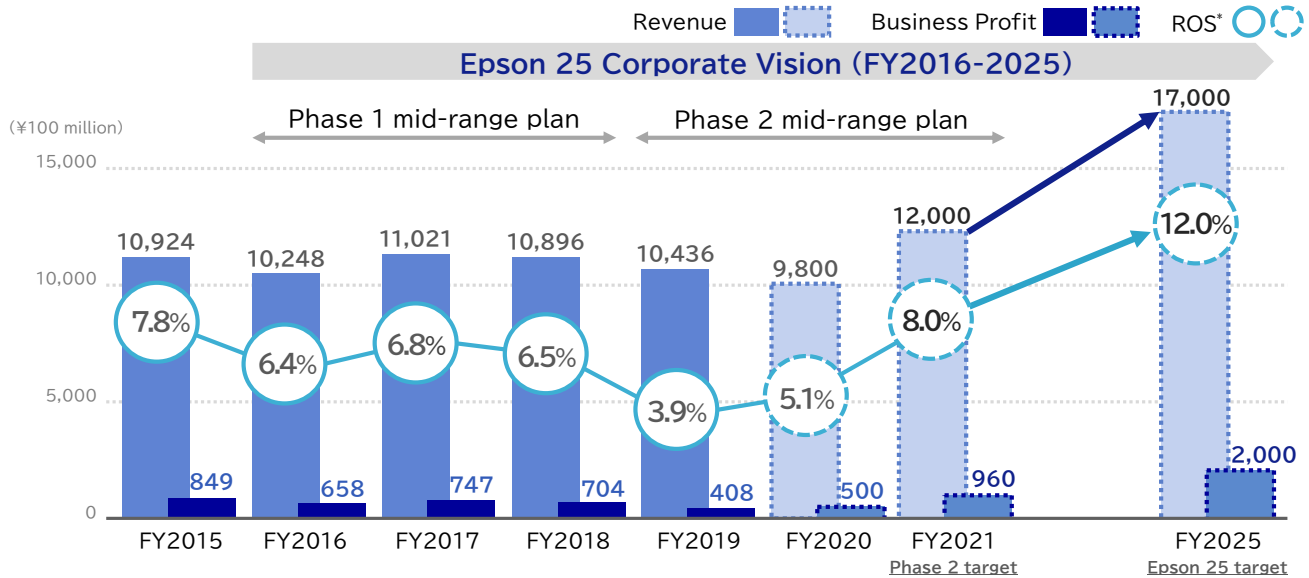Achieving our previous FY2025 financial targets unrealistic

* ROS = Business profit / revenue

Revenue ▮ ▯ Business Profit ▮ ▯ ROS* ◯ ◯

Epson 25 Corporate Vision (FY2016-2025)

(¥100 million)

Phase 1 mid-range plan   Phase 2 mid-range plan

	FY2015	FY2016	FY2017	FY2018	FY2019	FY2020	FY2021 Phase 2 target	FY2025 Epson 25 target
Revenue	10,924	10,248	11,021	10,896	10,436	9,800	12,000	17,000
ROS	7.8%	6.4%	6.8%	6.5%	3.9%	5.1%	8.0%	12.0%
Business Profit	849	658	747	704	408	500	960	2,000

➢ The original Epson 25 Corporate Vision was announced in March 2016.
➢ We set a 2025 revenue target of 1,700 billion yen and an ROS target of 12%, but we have realized that we will not be able to achieve these targets.

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Strategic actions moved forward but did not yield results

Actions

Expanded products and services

- **Launched strategic products**
  (LIJs, high-capacity ink tank models, LFPs, high-brightness projectors, etc.)
- **Began subscription-based services**
- **Strengthened the printhead sales business**

Strengthened infrastructure

- **Allocated resources from a Group perspective**
- **Increased development speed and reduced costs though platform design**
- **Increased production capacity**
- **Built a B2B sales organization**
- **Established CVC and invested to acquire future technology**

Issues

- **Plan assumed excessive revenue growth**
  - Office, industrial printers
  - Robots, wearable products

- **Strategy execution lacked speed**
  - Deployment of solutions leveraging strengths in our hardware
  - Building a sales organization in industrial sectors
  - Establishment of technology to distinguish projectors from alternatives
  - Creation of new businesses

- **Slow response to environmental changes**
  - Use of digital in management and customer capture

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- In the past five years we expanded our products and services and strengthened our infrastructure, but we recognize that we fell short of the desired results and that there were issues.

- I can only say that strategies were not as rigorously examined as they should have been and that the plan assumed unrealistic sales growth.
- We were also unable to execute strategies with the expected speed. We were unable to fully take advantage of the market presence of our inkjet printheads and high-capacity ink tank printers in the deployment of solutions.
- We were also slow to build a sales organization in the industrial sector, slow to deploy a strategy against the threat of competition from projector alternatives, and slow in establishing new businesses.
- Meanwhile, digitization progressed more rapidly than anticipated. This left us a step behind, and we were slow to respond to environmental changes.

Epson 25 Review

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Strategies and management processes need to be modified and financial targets reset
Rather than pursue excessive revenue growth, focus on priorities, secure profitability, and seek future growth

Issue	Cause	Response

• Plan assumed excessive revenue growth
 	
• Strategy execution lacked speed
 	
• Slow response to environmental changes
	• Unmindful of customer and competitor perspectives, together with mindset that superior products would be enough to drive sales
	
	• Lack of sensitivity to changes in societal demands and weakness in incorporating them in company-wide strategy
	
	• Lack of ability to execute strategy and over-emphasis on self-reliance
	  • Sales organization centered on consumer products
	  • Lack of human resource strategy
		• Redefine business area goals and evolve strategies
		  • Product planning using customer data
		  • Improve solutions
		• Strengthen company-wide strategy across businesses
		  • Formulate strategy centered on solving environmental issues
		  • Provide solutions via DX
		  • Build a co-creation framework
		• Allocate management resources to new areas and growth areas by clarifying business portfolio
		• Strengthen business infrastructure to execute strategy
		  • Leverage data to strengthen sales tied to customer support
		  • Recruit and develop diverse human resources

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➢ Causes for these issues and our response are summarized here.

➢ We did not adequately address issues from a customer and competition perspective. We had the mindset that we could achieve our sales plan as long as we made products that offered good performance.
➢ We needed to be more sensitive to changes in societal demands and be better at making sure our company-wide strategy reflected these changes.
➢ These also contributed to a lack of objective verification of our ability to execute strategy and an over-emphasis on self-reliance.
➢ We pivoted strategically toward commercial and industrial markets but were unable to adequately reposition the sales organization and lacked an adequate human resources strategy.

➢ Given this, we are revising some strategies.
➢ We have redefined our goals for our businesses and are placing particular emphasis on the environment, digital transformation, and co-creation.
➢ We will also redefine our business portfolio and reallocate management resources.
➢ At the same time, we will further strengthen the business infrastructure that supports strategy execution.

External Environment

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Increasing demand for solutions to environmental and other societal issues

Distribution/decentralization accelerating in the New Normal, heightened importance of connections and information

- ➤ This is how we see the external environment.
- ➤ Digitization, AI, and other advances are driving the diversification of consumption and lifestyles. This megatrend has not changed, except that the pace of these changes has accelerated.
- ➤ There is also increasing demand for solutions to environmental and other societal issues.
- ➤ The COVID-19 pandemic has also accelerated the pace of distribution and decentralization in the New Normal.
- ➤ An emphasis on efficiency led to excessive centralization, which created certain societal issues. Distribution and decentralization were happening naturally to some extent, but their rapid acceleration are creating new issues such as communication difficulties and fragmentation, and we are seeing an increase in the importance of connections and information.

Epson 25 Renewed

➤ Now, let me explain the new corporate vision, Epson 25 Renewed.

- ➢ This is the vision statement.

- ➢ Co-creating sustainability and enriching communities to connect people, things, and information by leveraging our efficient, compact, and precision technologies and digital technologies

- ➢ As the world shifts from excessive centralization to greater distribution and decentralization, we will seek to realize our aspirational goal by providing individuals, industries, and manufacturers with smart solutions that connect people, things, and information.

- ➢ Environment, digital transformation, and co-creation will be keys to this effort.
- ➢ We will place the most weight on efforts to contribute to the environment.
- ➢ On top of that, we will use digital technology and co-create with a range of partners to realize innovation.

Environmental Initiatives

Promote decarbonization and close the resource loop, develop environmental technologies, and provide products and services that reduce environmental impacts
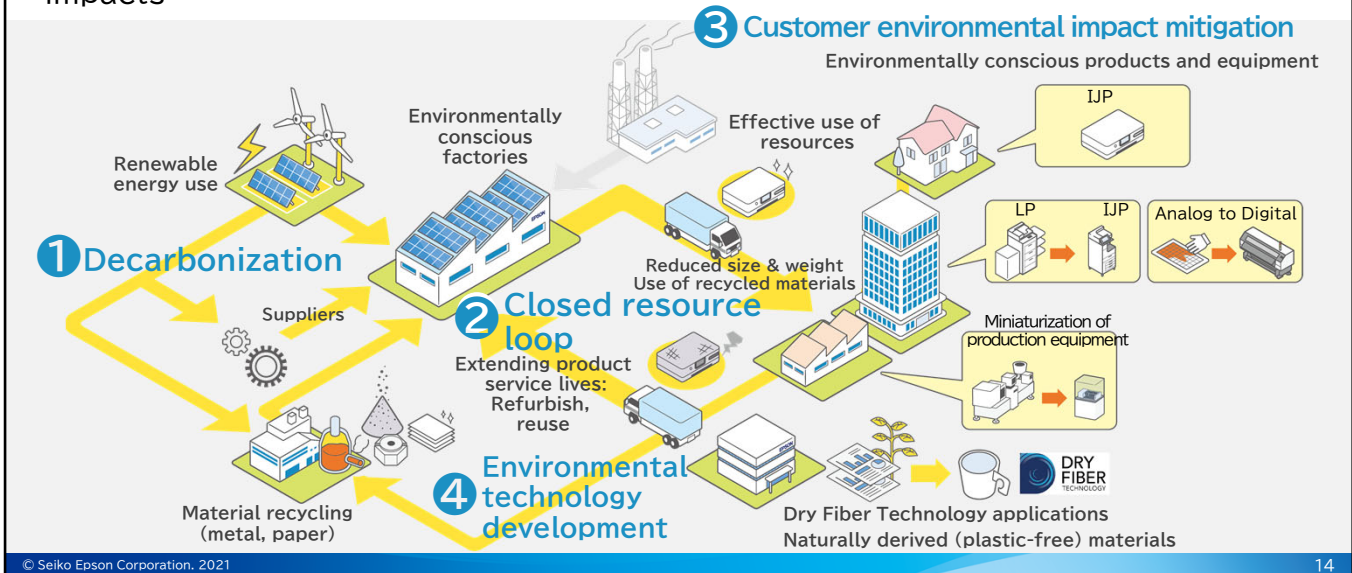
- Next, I will explain our priority actions, starting with our environmental initiatives.
- To achieve carbon negative by 2050, in addition to promoting product, service, and manufacturing process decarbonization and closing the resource loop, we will develop environmental technologies and provide products and services that reduce the environmental impacts of customers.

- ➢ The specific environmental initiatives are shown here.

- ➢ Over the next 10 years, we will invest approximately 100 billion yen on decarbonization, resource recycling, and environmental technology development to reduce GHG emissions in the supply chain by more than 2 million tonnes.
- ➢ A key milestone will be to switch to renewable energy for all of Epson's electricity needs by 2023.
- ➢ In Japan, we will lead other manufacturing companies to achieve this by March 2022. Please see our news release for details.

- ➢ In addition to this 100 billion yen, we will concentrate management resources on developing products and services that reduce the environmental impacts of our customers.

- ➢ Inkjet produces less waste and consumes lower power compared to other printing technologies. We also have other products that leverage our efficient, compact, and precision technologies and offer value through lower environmental impact.
- ➢ Epson will focus on these products, while also seeking to build new businesses based on environmental technologies and solutions.
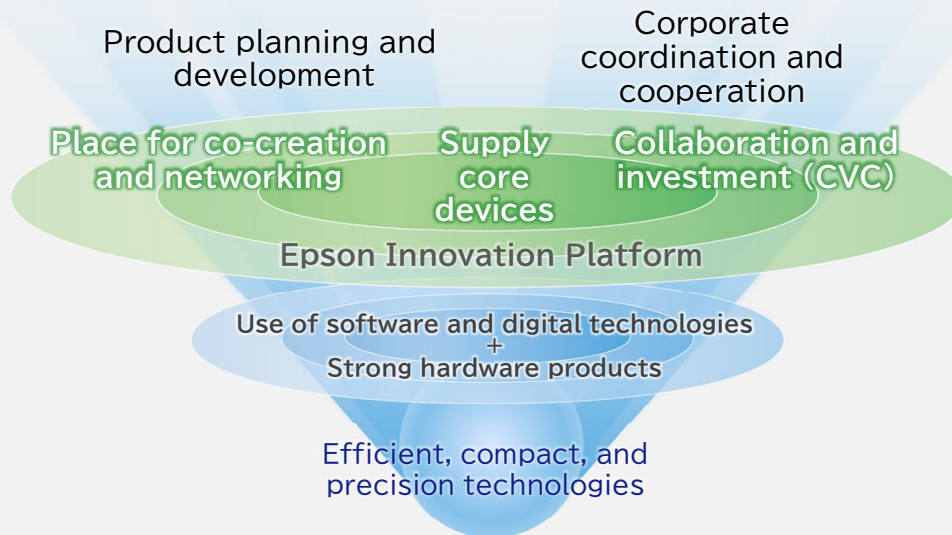
DX Initiatives

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

Get to understand customers through data

Provide business, education, maintenance and other services

Transform product life cycles and business models through take-backs and reuse

Open connections, including with equipment from other companies

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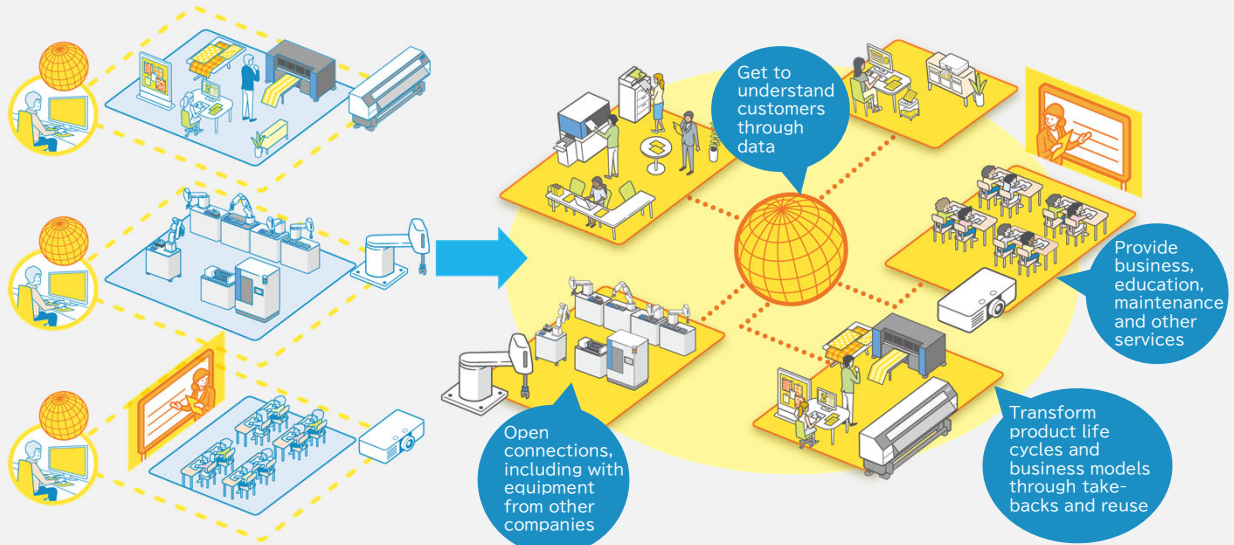
- ➢ The second initiative is DX.
- ➢ We will drive digital transformation initiatives and build a robust digital platform that will enable us to share data as well as use standardized infrastructure, provide solutions that connect businesses and classrooms, and provide maintenance services.
- ➢ We will co-create these solutions with our partners to create long-term relationships with our customers.
- ➢ In order to co-create these solutions, we will take open-minded actions. We will open our API, enable non-Epson equipment to be connected, and offer meeting opportunities between partners.
- ➢ At the same time, we will use data to understand our customers and that will enable us to contribute to their success by expanding services, providing support, and creating new products.
- ➢ Furthermore, we will transform product life cycles and business models. For example, we can propose product switches according to usage, or offer refurbished products to our customers.

- ➢ The third initiative is co-creation.
- ➢ We will further expand our co-creation initiatives. We have hardware product families that are based on our efficient, compact, and precision technologies. We will leverage these to provide a place for co-creation and networking opportunities, we will supply core devices, and we will utilize corporate venture capital to co-create with a range of outside partners.

- We have established new policies under Epson 25 Renewed.
- While uncertainties in society are expected to continue, we will seek to secure profitability and future growth by focusing on priorities.
- In growth areas, we will invest management resources where decentralization, environmental awareness, and other changes will afford opportunities.
- In mature areas, we will emphasize the profitability of operations through structural changes and improvements in efficiency.
- In new areas, we will develop sensing, environmental, and other technologies to create new businesses.

Strategic Direction of Business Operations

Define the role and deadline in each area, and operate businesses accordingly

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

19
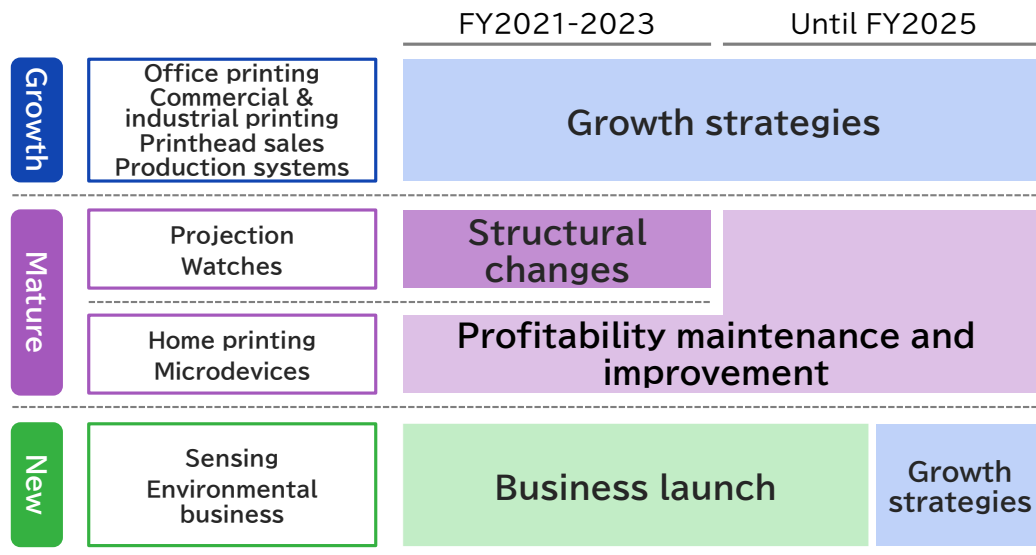
- ➢ This slide illustrates the strategic direction of our business operations.
- ➢ We will define the role and deadline in each area and manage businesses accordingly.

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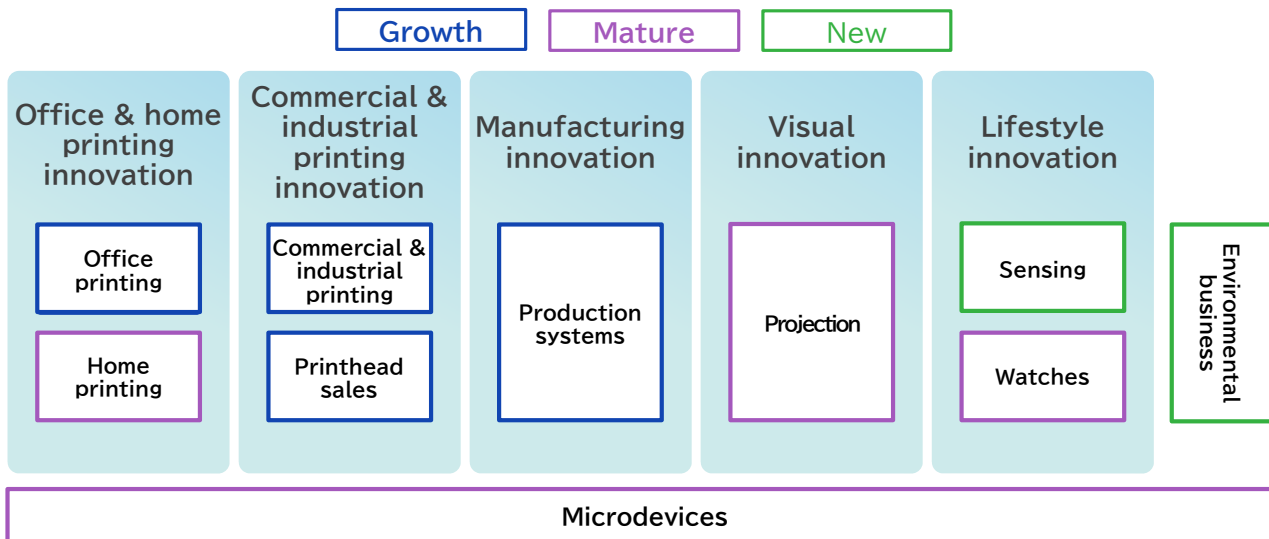
- In order to execute the strategy for realizing our goals, we have reorganized our innovation into five areas.
- In the past, we focused on technology-centered innovation, but we have reconfigured the innovation areas around customer value and societal issues.

Innovation Strategy

➤ Next, I will explain our strategy in each area of innovation.

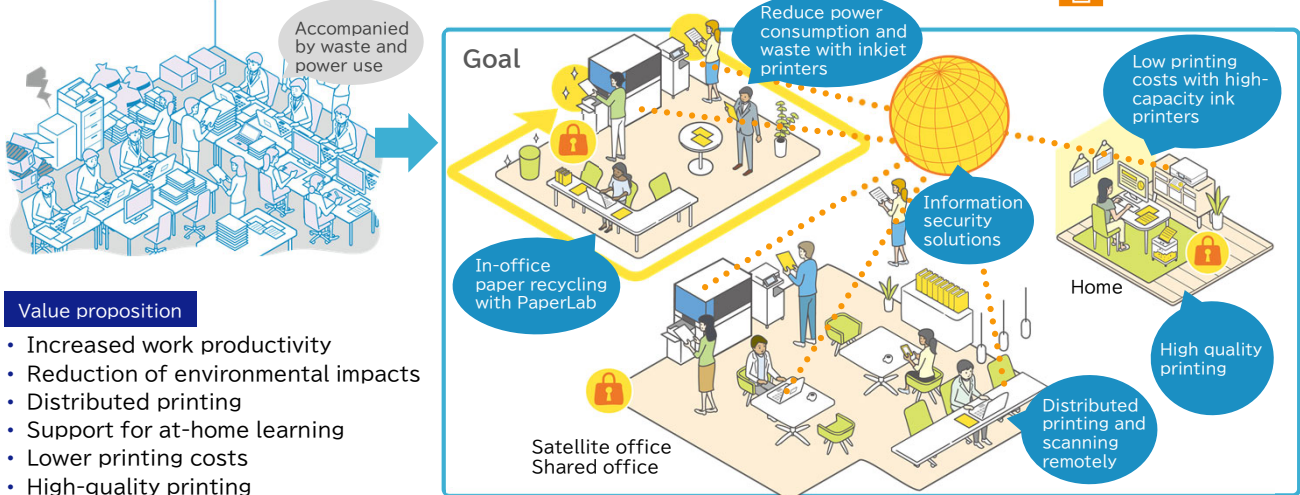- The first slide for each innovation will illustrate the goals envisioned for that area. The second slide will describe the actions we will take to achieve those goals and the strategic direction for business operations.

- I will start with office and home printing innovation.
- Here, we will lead the evolution toward distributed printing to reduce environmental impacts and increase work productivity by offering inkjet technology, paper recycling technology, and open solutions.
- Office printing will increasingly be distributed among remote offices and homes. Meanwhile, homework and other materials for schools will increasingly be printed at home. As this transition occurs, we will improve printing convenience and productivity while achieving low power consumption and low waste.
- We will also expand the resource recycling ecosystem with products like PaperLab.

Office & Home Printing Innovation

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Actions

- Offer inkjet products that reduce environment impacts, improve productivity, and lower printing costs
- Drive a technology shift from laser to inkjet printers by expanding the product lineup, providing solutions, and calling attention to environmental performance
- Accelerate paper resource recycling and printer reuse and recycling
- Co-create solutions to meet the growing needs of education and distributed offices
- Expand the lineup of high-capacity ink printers and promote their value

Strategic direction of business operations

- Develop products efficiently through platforming
- Expand sources of income by providing subscription services and solutions

Revenue	ROS
FY20 FY23 FY25	FY20 FY23 FY25

23
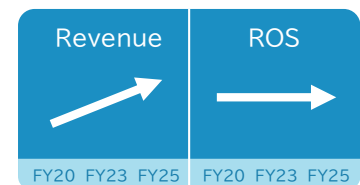
- ➢ In office and home printing, we will drive a technology shift from laser printers to inkjet printers by expanding the product lineup, providing solutions, and calling attention to the environmental performance of inkjets.
- ➢ In addition, we will accelerate the recycling of paper resources using dry fiber technology, and printer reuse and recycling activities throughout the value chain.
- ➢ By developing products efficiently through platforming and enhancing subscription services and solutions, we will expand the sources of income and stably increase revenue, as well as emphasize the efficiency of business operations.
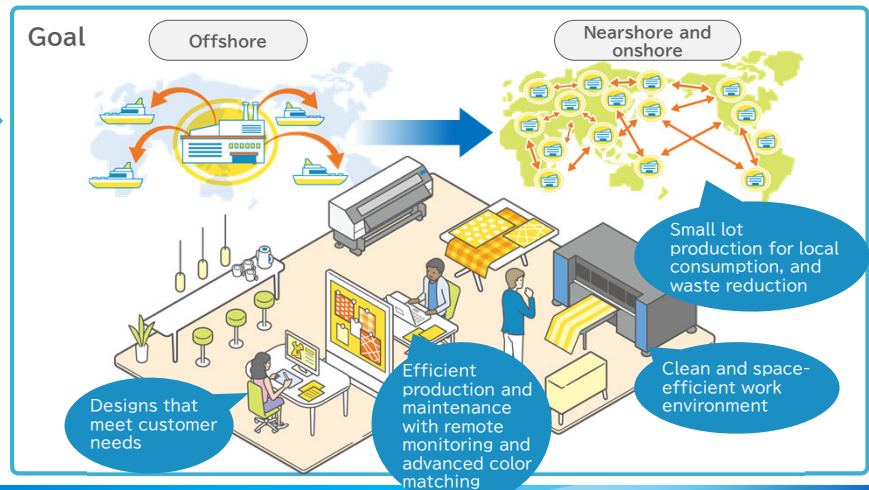
Commercial & Industrial Printing Innovation

Offer inkjet technology and solutions that lead the digitization of printing and contribute to lower environmental impacts and higher productivity

- Achieve sustainability in a circular economy
- Advance the frontiers of industry
- Improve quality of life

Complex work processes Waste treatment required
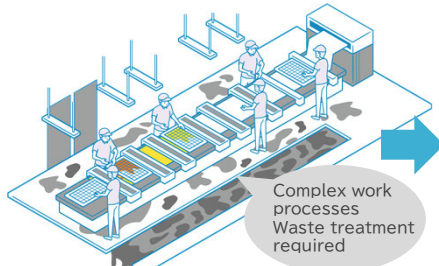
Value proposition
- Power of digital expression
- Small lot production and fast delivery
- Distributed production, and local production for local consumption
- Waste reduction
- Improved work environment
- Accommodate logistics changes

Goal

Offshore

Nearshore and onshore

Small lot production for local consumption, and waste reduction

Designs that meet customer needs

Efficient production and maintenance with remote monitoring and advanced color matching

Clean and space-efficient work environment

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➢ Next, we have commercial and industrial printing innovation.

➢ Inkjet systems produce little waste and have a low environmental impact because they deposit ink in the volume needed, only where it is needed.

➢ In addition, delicate patterns that cannot be easily completed by analog printing are possible, and the range of applications is extremely wide.

➢ We will offer inkjet technology and solutions that lead the digitization of printing and contribute to lower environmental impacts and higher productivity.

➢ For example, we will eliminate waste in production and transform value chains by facilitating distributed production, making it possible to produce goods locally for local consumption.

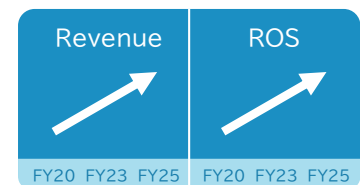# Commercial & Industrial Printing Innovation

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Actions

- Create inkjet technology and digital solution platforms
- In the finished products business, immediately expand the lineup to meet wide-ranging needs, and provide customer support solutions by utilizing data
- In the printhead sales business, expand market share by providing solutions that include peripheral technologies, and develop new markets through co-creation
- Provide POS printer products and solutions that accommodate changes in distribution and payment

Strategic direction of business operations

- Efficiently develop products and expand the lineup with platforms
- Expand sources of income by providing subscription services and solutions

Revenue	ROS
FY20 FY23 FY25	FY20 FY23 FY25

25

- Commercial and industrial printing is another area where we will build digital solutions around inkjet technology to create platforms and solve customer issues.
- In the finished products business, we will look to rapidly expand the lineup, provide total customer support solutions, and build lasting customer relationships.
- In the printhead sales business, we will expand market share and develop new markets through co-creation by providing both printheads and solutions that include peripheral technologies such as driving methods and ink.

- This is an area where we can efficiently expand the lineup.
- Providing solutions along with hardware will enable us to expand sales and further increase profitability.

Printing Innovation Ecosystem

Build lasting customer relationships around inkjet technology, and further expand printing uses and solutions with partners
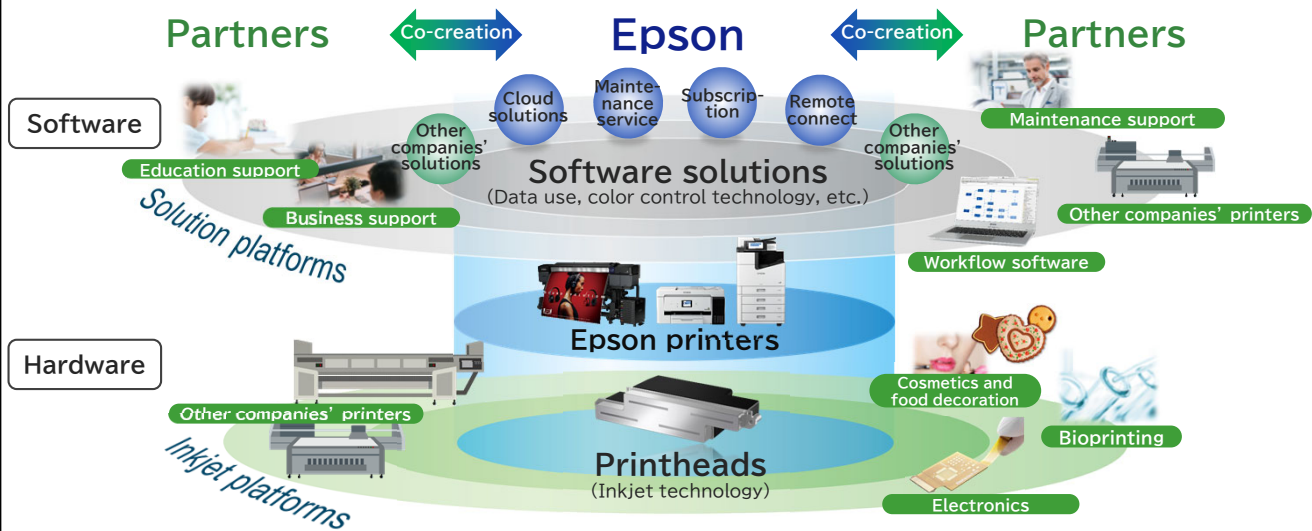
> In this slide we explain about the printing ecosystem, which includes office & home printing and commercial & industrial printing.
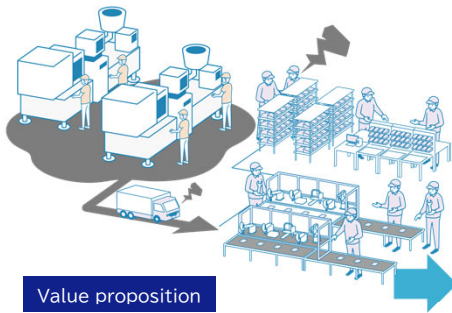> We will construct software and hardware platforms using our core inkjet technology and co-create new value with our partners.

> We have built an inkjet platform centered on our cost efficient printheads. We also have refined basic technologies such as ink, control systems, image processing, precision processing, production technology while expanding our business.
> We are using this not only for our own products, but also for our business supplying printheads to other companies.
> Our printheads can fire materials other than ink, such as metals.
> By collaborating with partners in various industries and through open innovation, we will expand into new business areas such as flexible circuit printing, 3D printing, and bioprinting.

> In addition to hardware, we are also beginning to deploy new software solutions that utilize color control technology and customer operation status data that paves the way for distributed and efficient production.
> In addition to software solutions, we will also provide products to create solution platforms for areas like educational and business support and work to create greater added value.

> We think that such hardware and software platforms centered on our core inkjet technology will foster co-creation with our partners and generate greater value.

- ➢ Next is manufacturing innovation.

- ➢ We will innovate manufacturing by co-creating flexible high-throughput production systems that reduce environmental impacts.

- ➢ In today's mode of manufacturing, parts are manufactured in different factories, shipped, stocked, and delivered to crowded assembly lines.
- ➢ Epson envisions future factories in which parts are manufactured using compact manufacturing units and assembled in the same place.
- ➢ Our goal is to realize a mode of manufacturing that is resistant to labor shortages, accommodates low volume, high-mix production, and is suited to local production for local consumption.

Manufacturing Innovation

Actions

- Develop next-generation platforms and expand competitive products
- Automate manufacturing by applying sensing and digital technologies
- Expand new production equipment that reduces environmental impacts （compact injection molding machines, 3D printers, stereoscopic surface printers, dry fiber production equipment, etc.）
- Customer support: Provide total assistance, from pre-installation to operation to collection

Strategic direction of business operations

- Concentrate management resources on next-generation platform expansion
- Expand revenue by expanding and upgrading the product lineup
- Increase profitability by developing products efficiently

Revenue	ROS
↗	↗
FY20 FY23 FY25	FY20 FY23 FY25
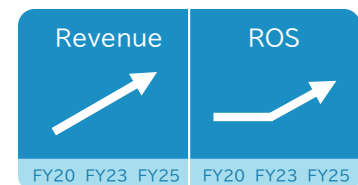
- ➢ In manufacturing, we will develop next-generation platforms and expand competitive products.
- ➢ In addition to automating manufacturing, we will expand new production equipment that brings together Epson's unique technology.
- ➢ We will also strengthen our efforts to provide total customer support from pre-installation to operation to take-backs.

- ➢ In terms of strategic direction, we will concentrate management resources to expand next-generation platforms.
- ➢ Manufacturing is an area with a large potential for growth, so we will invest in this area in the near term.

Visual Innovation

Connect people, things, information, and services with inspiring video experiences and quality visual communications to support learning, working, and lifestyles
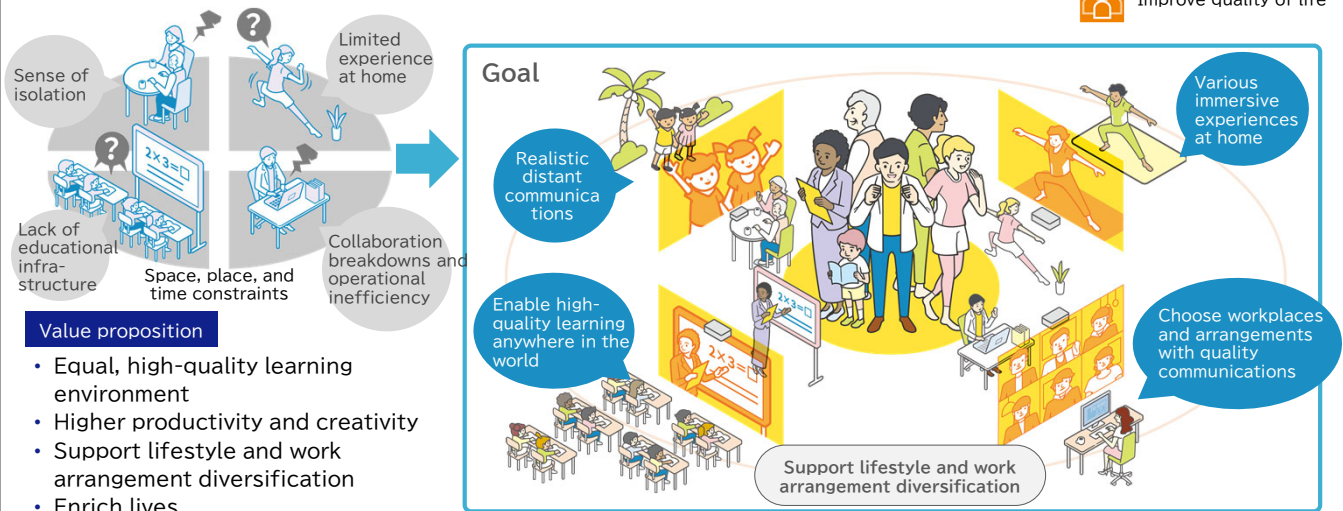
> Next, let's examine visual innovation.
> We will connect people, things, information, and services with dynamic, inspiring video experiences and quality visual communications to support the diversification of learning, working, and lifestyles.

> We will create new communications tools that use digital imaging to connect people so that they can effectively communicate regardless of time and place.

Visual Innovation

Actions

- Expand usage environments and applications with large screens that offer high image quality and smart features
- Provide a much higher quality ICT learning environment by strengthening collaboration with partners
- Use lighting to produce spatial designs and art

Strategic direction of business operations

- Restructure to achieve a lean profit structure
- Optimize the product portfolio and realize efficient product development
- Expand sales by providing services and solutions

Revenue	ROS
→	↗
FY20 FY23 FY25	FY20 FY23 FY25

30
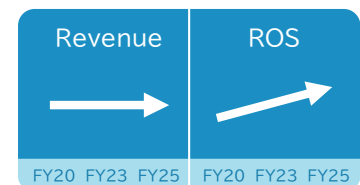
- In this area, we will drive advances in image quality on large screens and add smart features.
- In addition to providing hardware, we will collaborate with a variety of partners.

- At this point, however, we do not expect much revenue growth in the projector market. Offices and education used to be the main markets, but they are becoming more decentralized and distributed. Moreover, prices for flat panel displays will continue to fall and this will inevitably impact projector sales.
- So, up front we will create a lean profit structure and then expand sales by providing services and solutions.

Lifestyle Innovation

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Utilize craftsmanship and co-create solutions that utilize sensing technologies to enrich diverse lifestyles

Achieve sustainability in a circular economy

Advance the frontiers of industry

Improve quality of life

Watches

Goal

Provide compelling products with efficient, compact, and precision technologies + craftsmanship

Value proposition
- Appeal to people of every sensibility
- Improve environmental performance with automatic power generating systems

Sensing

Goal

Enrich lifestyles

Seek new enrichment

Customized training

Master the ideal swing
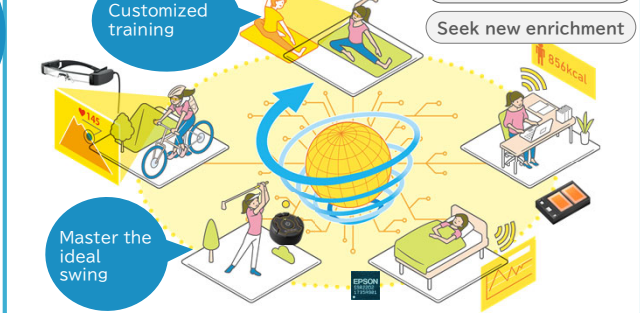
Value proposition
- Personalized information
- Support tailored to lifestyle and work changes

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- ➢ The next area of innovation is lifestyle.
- ➢ We will utilize craftsmanship skills centered on efficient, compact and precision technologies, and co-create solutions that utilize sensing technologies to enrich the lives of a diverse range of customers.

- ➢ We will continue to sell watches that appeal to the sensibilities of different customers.
- ➢ In sensing, we will provide personalized information and tailored support in areas such as lifestyle monitoring, health and training, and work reform.

Lifestyle Innovation

Actions

Watches
- Provide value for money with appealing designs and quality
- Employ operations that adapt quickly to changes in lifestyles

Sensing
- Co-create new value using sensing technology, analysis algorithms, microdisplays, etc.
- Provide personalized health support and safe, secure services

Strategic direction of business operations

Watches
- Return to profitability through operational restructuring and sales reform
- Rationalize the product lineup and continue to control costs

Sensing
- Expand sales in new areas

Revenue	ROS
FY20 FY23 FY25	FY20 FY23 FY25

32
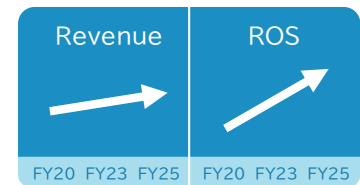
- In the watch business, we will look to make operations nimble enough to react quickly to changes in lifestyles.
- In sensing, we will co-create new value using advanced sensing technology, analysis algorithms, and microdisplays.
- We will convert the collected data into valuable information that can be used to provide health support and safe, secure services.

- As we move forward on these actions, the watch business must urgently restore profitability through operational restructuring and sales reform.
- In sensing we will steadily expand sales and stabilize profit.

> Small, high-precision, low-power microdevices will play an even more important support role in the advancement of things such as high-speed, high-capacity telecommunications and mobility. Epson will contribute to the development of a smart society with crystal devices and semiconductor solutions that elevate our efficient, compact and precision technologies.

Microdevices

Actions

- Develop low-power, small, and high-precision devices that enable social infrastructure
- Accelerate integration of crystal and semiconductor technologies to propose optimal solutions for each application
- Help to enhance the value of Epson finished products by elevating our unique crystal and semiconductor device technologies

Strategic direction of business operations

- Expand sales in growth areas such as IoT, 5G, and ADAS
- Maintain selling prices by improving value
- Reduce manufacturing costs by sharing production lines, etc.

Revenue	ROS
FY20 FY23 FY25	FY20 FY23 FY25

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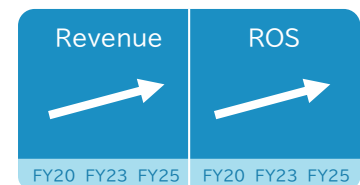
- We will develop low power and compact crystal devices that offer excellent temperature stability and low-power semiconductor devices.
- By leveraging our strengths in developing both crystal devices and semiconductors, we will continue to increase optimal solutions for each application.
- Microdevices will continue to increase the value of Epson's finished products.

- We will steadily expand profitability by expanding sales in growth areas while also continuously taking actions to reduce manufacturing costs to further improve profitability.

Environmental Business

EPSON
EXCEED YOUR VISION

Develop new environmental solutions that integrate materials technologies, and contribute to decarbonization and closing the resource loop

Achieve sustainability in a circular economy

Advance the frontiers of industry

Improve quality of life

Grain stalks

Used paper

Wood chips

Dry fiber defibration technology

Cushioning material

Recycled paper

Dry Fiber Technology applications

Insulation

Replacement with materials derived from above-ground resources

Metal waste materials

Powder control

Surface modification

Precision molded parts

Advanced electronic components

Recycling of waste and recycled materials
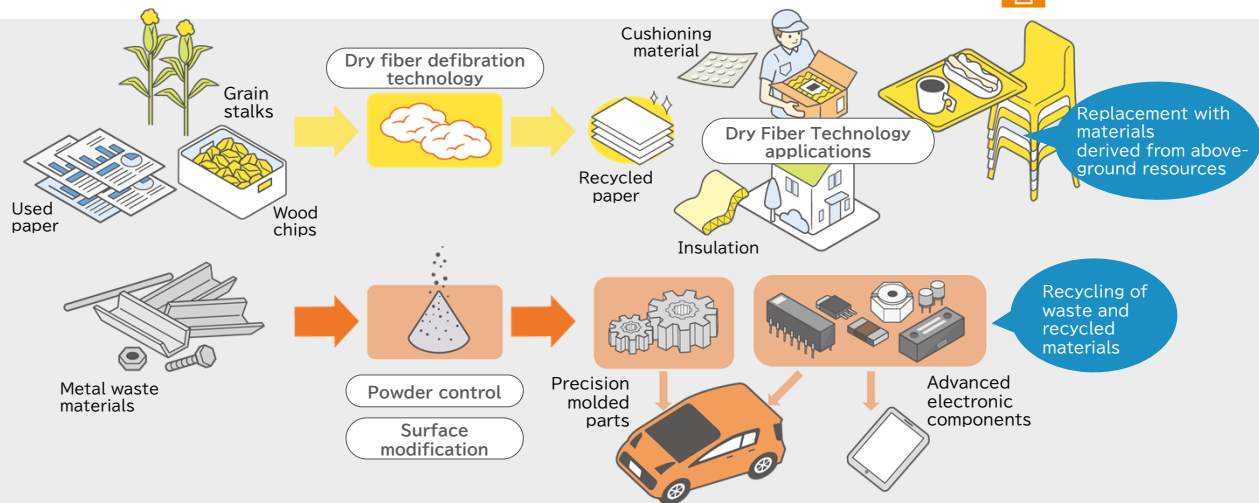
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➢ The last of the areas is the environmental business.

➢ Our efforts here will go beyond just providing products.
➢ We will look to simultaneously create environmental businesses by developing new solutions that help reduce environmental impacts.

➢ For example, by combining material technologies such as dry fiber technology and metal powder control technology to create new products from waste materials and recycled materials, we will look to replace the use of underground resources with materials derived from above-ground resources.

Strengthening
Business Infrastructure
to Realize Innovation

➢ From here, I will talk about initiatives to strengthen business infrastructure in order to realize the innovations I just explained.

EPSON
EXCEED YOUR VISION

Provide customer focused sales/ support utilizing digital technology
- Further develop solution sales
- Use digital technology to create and expand customer touch points that are unconstrained by time and place

Focused organizational improvements according to region and business segment

Recognition > Information collection > Evaluation > Purchase/ contract > Installation > Operation > Utilization/ Maintenance

Epson's responsibility

| Identify needs | Propose solutions | Support installation | Operational support Maintenance service |

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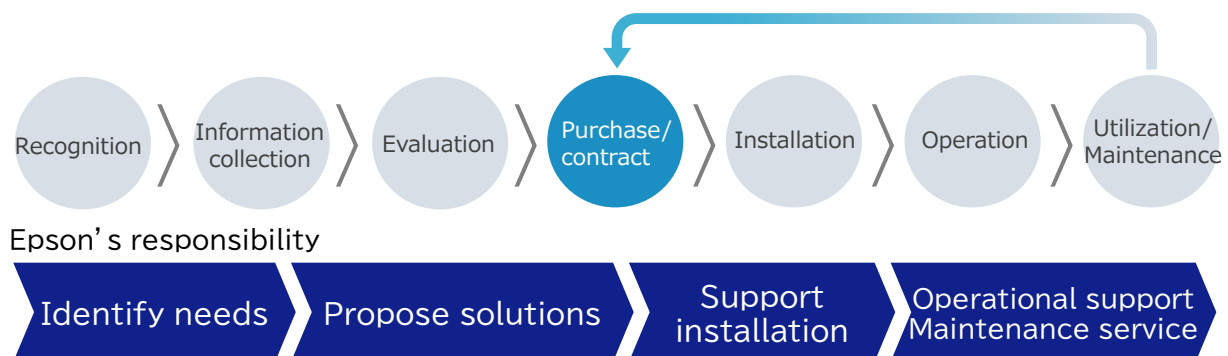
- Let's look first at the sales and marketing strategies.
- Solution selling will be particularly important in commercial and industrial printing and in manufacturing.
- Over the past several years, we have set up solution centers and demo centers in various locations and will use these to identify and meet customer needs. We will also strengthen cooperation with Epson Group manufacturing companies and outside partners to support our customers.
- In addition, we will effectively use digital technology to more quickly and deeply understand customer needs.
- We have been expanding our customer touch points through the introduction of subscription services. We will accelerate this expansion to offer solutions that meet our customers' needs.

- We will also define where to focus organizational improvements according to region and business segment.
- We are beginning to see benefits from the moves taken to strengthen the office printer sales organization in North America and the organization in the Middle East and Africa. We will continue to strengthen our global sales and marketing organizations as needed in a timely manner.

Strengthening Business Infrastructure | Production Strategies

EPSON
EXCEED YOUR VISION

Leverage changes caused by the spread of COVID-19 to accelerate the existing strategy
- Use automation and digital technology to double productivity in FY25
- Strengthen distributed production and local production for local consumption
- Total investment: 40 billion yen

Efficient smart factory enabled by automation and digital technologies
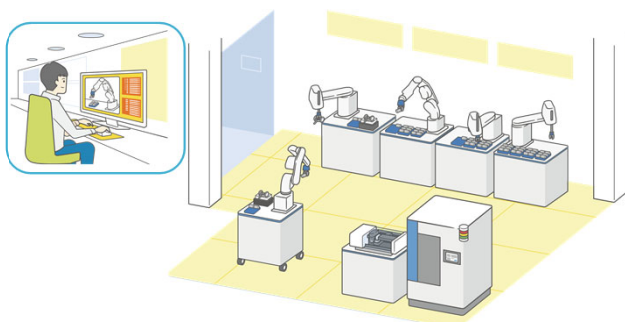
Distributed production

Secure supply continuity even in emergencies

Move from centralized production to distributed production, where everything is completed at each site
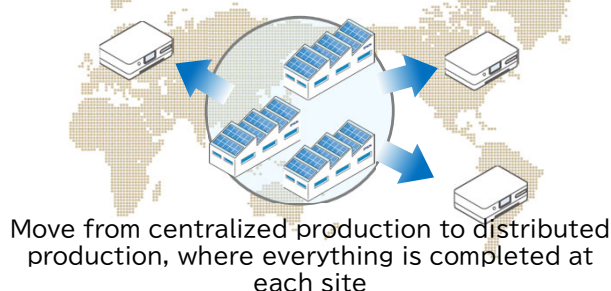
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> Next, I will explain our production strategies.

> We have been improving productivity through automation and the use of digital technology, but the impact from COVID-19, especially on our main factories in the Philippines and Indonesia, has reinforced the lesson that centralized and human-dependent production is vulnerable.

> We will accelerate automation and digitization and double productivity while positioning ourselves to absorb future risks.

> We will also incorporate our experiences during COVID-19 into our production site strategies.
> We have been manufacturing the same product models in the same location to maximize efficiency, but we will transition from this type of centralized production to distributed production, wherein the main models will be produced at multiple sites.

> For these initiatives, we will invest about 40 billion yen with a focus on automation and digitization.

> The knowledge gained through these efforts will also trickle down to customers through manufacturing innovations, thus contributing to the transformation of manufacturing.

EPSON
EXCEED YOUR VISION

Advance basic, core, and product technologies that support innovation
- Particularly reinforce material, AI, and digital technologies

Innovation

| Office & Home Printing | Commercial & Industrial Printing | Manufacturing | Visual | Lifestyle | Environmental Business |

Design technology | Digital technology | Production technology | Sensors | Actuators | Optical control

Product technology | **Core technology**

| AI | Process | Precision processing | Analysis | Materials |

Base technology

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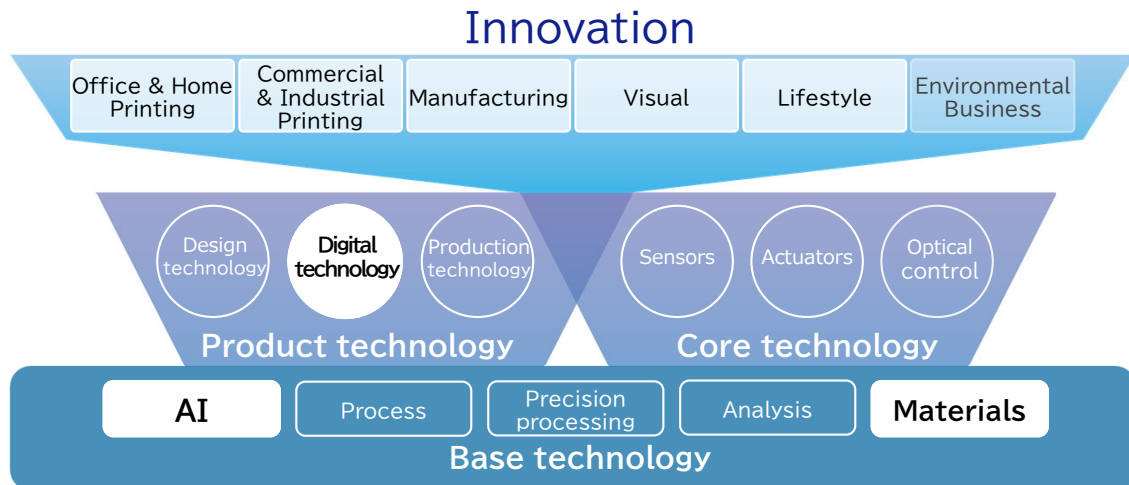
- ➤ Let's move on to our technology development strategies.
- ➤ Epson's innovations are the product of our core technology, product technology, and the basic technologies that underpin them.
- ➤ We will focus particularly on strengthening material, AI, and digital technologies that lead to innovations.

Strengthening Business Infrastructure | HR Strategies

Allocate human resources to priority areas

- Acquisition of specialists
- Priority placement in growth areas

Strengthen human resource development

- Enhancement of specialized training

Organizational activation

- Respect diversity and maximize team strength
- Create a free and open organizational culture
- Respond to diversification of working styles

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- ➢ The last topic concerning business infrastructure pertains to human resource strategies.
- ➢ We will hire specialists and place them in priority areas.
- ➢ In addition, we will strengthen human resource development and introduce actions to revitalize the organization.

Financial Targets

➤ From here, I will explain our financial targets.

Consolidated Financial Targets

EPSON
EXCEED YOUR VISION

Shift to profitability-focused management as the global economy becomes more uncertain

	FY2020	FY2023	FY2025
ROIC[*1]	4.7%	8% or more	11% or more
ROE[*2]	3.6%	10% or more	13% or more
ROS[*3]	5.1%	8% or more	10% or more

Main actions

ROIC
- Profitability — ROS
- Invested capital turnover — Efficiency
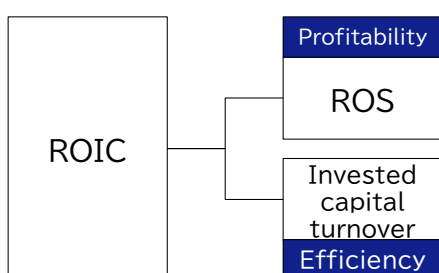
- Invest management resources in new and growth areas
- Efficiently expand and upgrade the lineup through platforming
- Restructure mature areas

- Invest in priorities
- Improve the cash conversion cycle (CCC)

*1 ROIC = Profit for the year attributable to owners of the parent company / (equity attributable to owners of the parent company + interest-bearing liabilities)
*2 ROE = Profit for the year attributable to owners of the parent company / equity attributable to owners of the parent company
Equity attributable to owners of the parent company and interest-bearing liabilities are calculated using the average at the beginning and end of the period
*3 ROS = Business profit / revenue

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- ➤ We will shift to profitability-focused management as the global economy becomes more uncertain.
- ➤ To promote greater awareness of the cost of capital, we will make ROIC a group target in addition to ROE.
- ➤ We recognize that due to an overemphasis on revenue growth, company-wide resource allocation and initiatives lacked adequate focus. To avoid this going forward, we elected not to disclose revenue targets and instead adopted mid- and long-term ROS targets.
- ➤ The targets are as shown here.

Efficient Fund Circulation Through Business Portfolio

High

Company Growth

Low

New
- Sensing
- Environmental business

Growth
- Office printing
- Commercial & industrial printing
- Printhead sales
- Production systems

Mature (Structural changes)
- Projection
- Watches
- IC test handlers

Mature (Profitability maintenance)
- Home printing
- Microdevices

← Flow of funds

Low   Profitability   High

Business transferred*

Clarify the role/importance of business areas according to product life cycles

Final decision made by also considering factors such as synergies between businesses and social value

▼

Allocate funds and set targets according to business priority

∗Concluded a business transfer agreement with Kanematsu Corp. on Jan. 28, 2021

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- ➢ We will improve management efficiency by clarifying the roles of each business and circulating funds efficiently.
- ➢ As I explained earlier, Epson's business areas can be broadly divided into new areas, growth areas, and mature areas. Mature areas can be further divided to yield stable profit with structural changes or steady business development.
- ➢ We will set fund allocations and targets according to how the businesses are positioned and will determine the strategic direction of each as we go through a regular review cycle.
- ➢ The transfer of the IC test handler business to Kanematsu that was announced in January was part of this initiative.

Direction of Business Operations and Targets

EPSON
EXCEED YOUR VISION

		FY2021-FY2023	from FY2025	Targets
Growth	Office printing Commercial & industrial printing Printhead sales Production systems	Growth strategies		FY2020 → FY2025 revenue CAGR **+15**% or more
Mature	Projection Watches	Structural changes		FY2020 → FY2025 ROS improvement **+10**pt or more
	Home printing Microdevices	Profitability maintenance & improvement		Sustained ROS of **15**% or more
New	Sensing Environmental business	Business launch	Growth strategies	FY2025 revenue **¥10** billion or more

Group ROS targets FY2023 **8**% or more FY2025 **10**% or more

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➢ To achieve group ROS , we set targets in each business area as shown here.

➢ For the growth area, we set a compound annual revenue growth rate target because we will look to drive growth by expanding revenue, spending as necessary while taking profitability into account.

➢ For the mature area, we set ROS targets because we will look to maintain and increase profitability. For new areas, we set revenue targets because launching the businesses will be the top priority.

Cash Allocation

Continuously provide stable shareholder returns while also allocating cash toward investments in growth and new areas.

3-year cumulative (FY2021-23)   Billions of yen

Cash flows from operating activities Approx. 320	Investment Approx. 180	Investment to maintain competitiveness and improve productivity in mature areas
		Active investment, including in M&A, in new and growth areas, environment-related, digital infrastructure development, etc.
	Shareholder returns Approx. 70	**Dividends** Consolidated dividend payout ratio Approx. 40%
		Share repurchase Implement as needed, taking into account share price, financial situation, and other considerations
	Strengthening financial condition Approx. 70	Repayment of interest-bearing liabilities, etc.

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- ➢ Next, I will explain our cash allocation policy.

- ➢ We will continue as before to allocate cash toward investments in growth, new, and environment-related areas.
- ➢ On top of that, we will continue to provide stable shareholder returns while also strengthening our financial condition through things such as the repayment of interest-bearing liabilities while taking into account the demand for funds and other considerations.

Strengthening Governance

➢ Finally, I want to touch on initiatives to strengthen governance.

Strengthening Governance

Facilitate management decision-making transparency and speed

- Increase the effectiveness of the board of directors
  - Transfer more authority to operations and continuously improve through effectiveness evaluations
- Continuously engage with investors and other related parties
- Speed up management decision-making
  - Centralize management of information by developing global integrated IT infrastructure

Management improvement

Engagement with investors, etc.

Information disclosure
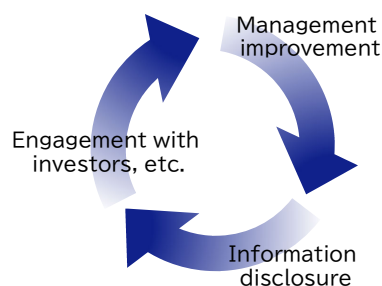
> We will facilitate management decision-making transparency and speed.
> We will take ongoing action to increase the effectiveness of the board of directors and to engage investors and other stakeholders.
> To increase the accuracy and speed of management decision-making, we will improve our global integrated IT infrastructure.

Achieving sustainability and enriching communities

> In closing, we will move steadily forward on the actions and initiatives I have explained and contribute to achieving sustainability and enriching communities.

■ **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.
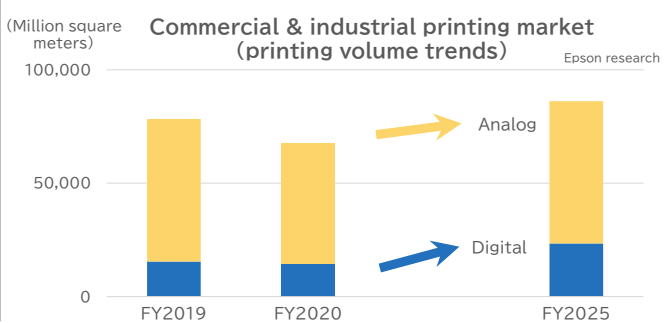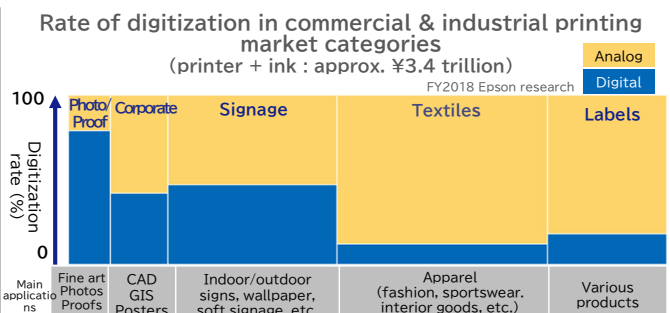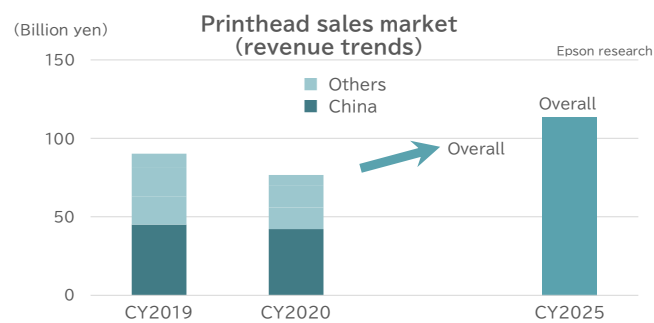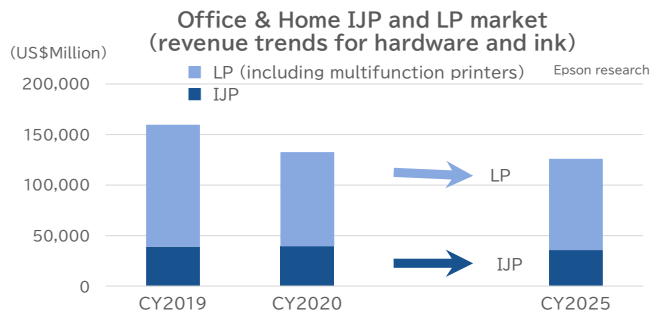
■ **Numerical values presented herein**

Numbers are rounded down to the unit indicated. Percentages are rounded off to one decimal place.
Years mentioned in these materials are fiscal years unless otherwise indicated.

Reference

Market Trends (1)

Office & Home IJP and LP market
(revenue trends for hardware and ink)

(US$Million)   Epson research

- LP (including multifunction printers)
- IJP

200,000
150,000
100,000
50,000
0

CY2019   CY2020   CY2025

LP
IJP

Rate of digitization in commercial & industrial printing market categories
(printer + ink : approx. ¥3.4 trillion)

FY2018 Epson research

Analog
Digital

100

Digitization rate (%)

0

Photo/Proof | Corporate | Signage | Textiles | Labels

Main applications: Fine art Photos Proofs | CAD GIS Posters | Indoor/outdoor signs, wallpaper, soft signage, etc. | Apparel (fashion, sportswear. interior goods, etc.) | Various products

Printhead sales market
(revenue trends)

(Billion yen)   Epson research

150
100
50
0

- Others
- China

Overall

CY2019   CY2020   CY2025

Commercial & industrial printing market
(printing volume trends)

(Million square meters)   Epson research

100,000

50,000

0

FY2019   FY2020   FY2025

Analog
Digital

52

52

Market Trends (2)

Projector market
(unit volume trends by product)
Epson research

- ■ High-brightness:
  High lumen projectors with an interchangeable lens function
- ■ Business: Projectors of 500 lm or more
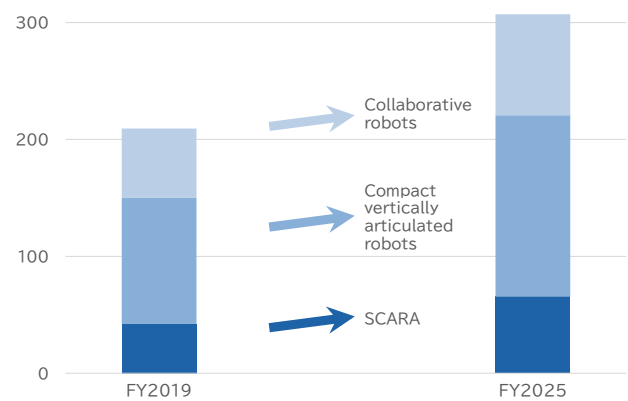- ■ Home: Home projectors

(Thousand units)
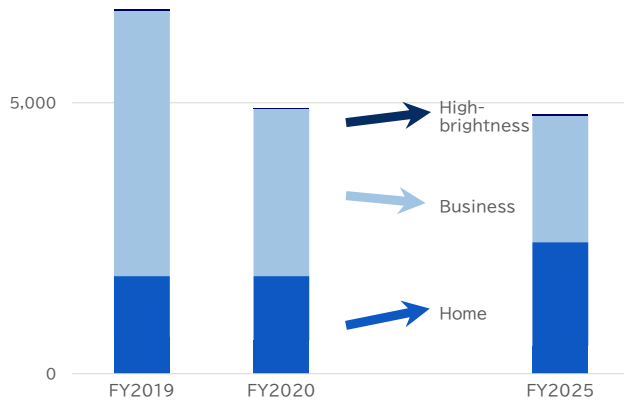
Compact precision robot market
(revenue trends by product)
Epson research

- ■ Collaborative robots: Articulated robots with safety function
- ■ Compact vertically articulated robots:
  Vertically articulated robots with a payload of 20 kg or less
- ■ SCARA: Horizontally articulated robots

(Billion yen)

Definition of terms

GIS	Geographic information system
IJP	Inkjet printers
LFP	Large format printers
LIJ	Line inkjet printers, high-speed line inkjet multifunction printers
LP	Laser printers, including multifunction printers
PaperLab	Dry-process office papermaking system
Color Control Technology	Color management technology for enhancing color reproducibility
Dry Fiber Technology	Technology that transforms fibrous materials into tangible value without using water (a small amount of water is used to maintain a humidity inside the system). It produces highly functional materials by defibrating, binding, and forming fibrous materials as needed depending on the application.
Dry fiber production equipment	Equipment that produces fibrous materials and/ or produces highly functional products by defibrating fibrous materials utilizing Dry Fiber Technology.
High-brightness projectors	High lumen projectors with an interchangeable lens function.
High-capacity ink models	Inkjet printers with high-capacity ink tanks (includes EcoTank)
High-capacity ink printers	General term for high-capacity ink tank models, high-capacity ink cartridge models, RIPS (Replaceable ink pack system), and LIJ.