

Management Analysis of Financial Position, Operating Results and Cash Flows

1. Operating results overview

(1) Operating results

The global economy in the fiscal year under review continued to gradually recover until the third quarter but then rapidly decelerated due to the worldwide spread of the novel coronavirus toward the end of the fiscal year. Moreover, there is concern that the area and number of people infected by the coronavirus will further expand and that the steep economic downturn will persist. Seen by region, Japanese, the U.S. and European economies as well as the economies of emerging nations rapidly decelerated, and China recorded negative growth in the fourth quarter. This situation was largely the result of a sharp contraction of economic activity brought about by the spread of the coronavirus toward the end of the fiscal year.

The average exchange rates of the yen against the U.S. dollar and of the yen against the euro during the year were ¥108.74 and ¥120.85, respectively. This represents a 2% appreciation of the yen against the dollar and a 6% appreciation of the yen against the euro compared to the same period last year. The yen also rose against the currencies of some emerging countries, in places such as China and Latin America.

In this business environment, operating results in the fiscal year under review are as follows.

(Billions of yen)

	Year ended March 31, 2019	Year ended March 31, 2020	Change	Percentage of change	Main reason(s) for change
Revenue	1,089.6	1,043.6	(46.0)	(4.2%)	[Revenue]
Cost of sales	(677.0)	(681.6)	(4.5)	–	Printing Solutions Segment (15.0)
Gross profit	412.6	362.0	(50.6)	(12.3%)	Visual Communications Segment (19.9)
Selling, general and administrative expenses	(342.1)	(321.1)	20.9	–	Wearable & Industrial Products Segment (10.4)
Business profit *	70.4	40.8	(29.6)	(42.0%)	[Business profit] Printing Solutions Segment (18.8) Visual Communications Segment (7.6) Wearable & Industrial Products Segment (3.6)
Other operating income and Other operating expense	0.8	(1.3)	(2.2)	–	Increases caused by a decrease in gain on sales of idle properties and an increase in foreign exchange losses despite an increase in insurance income
Profit from operating activities	71.3	39.4	(31.8)	(44.7%)	
Finance income and Finance costs	0.5	0.1	(0.4)	–	Decreases in foreign exchange gains
Profit before tax	72.0	39.7	(32.3)	(44.9%)	
Income taxes	(17.9)	(31.8)	(13.8)	–	Decreases caused by a reversal of deferred tax assets
Profit for the period	54.0	7.8	(46.2)	(85.5%)	
Profit for the period attributable to owners of the parent company	53.7	7.7	(45.9)	(85.6%)	

* Business profit is calculated after deducting cost of sales and selling, general and administrative expenses from revenue.

A breakdown of operating results in each segment is provided below.

Printing Solutions Segment

Printer business revenue decreased. Revenue from high-capacity ink tank printers for the Office/ Home increased due to a number of factors. In addition to our ongoing sales campaigns in emerging nations, we stepped up our sales promotions and product awareness-building campaigns aimed at end-users in North America, Western Europe, Japan, and other advanced economies. Sales also increased because the pandemic created a greater need to print at home as more people began working and learning from home. Meanwhile, SOHO/ Home ink cartridge printer unit shipments decreased chiefly because we limited promotions and maintained prices even as competitors aggressively stepped up their own price promotions. In addition to this, foreign exchange had a negative impact, and total Office/ Home inkjet printer revenue was flat year on year as a result. Consumables revenue decreased. Although revenue from ink bottles for high-capacity ink tank printers grew, SOHO/ Home printer ink cartridge sales decreased because of the shrinking install base and negative foreign exchange effects. Serial impact dot matrix printer revenue also decreased as a result of negative foreign exchange effects and a market contraction that was accelerated in part by the pandemic.

Revenue in the professional printing business was consistent with the previous period. Commercial and industrial inkjet printer revenue increased owing to solid demand in the growing signage and textile printer markets. POS system product revenue decreased because the negative effects of the pandemic and foreign exchange outweighed an increase in demand associated with tax reforms in Italy.

Other revenue increased due to a rise in PC demand as users upgrade their operating systems.

Segment profit in the printing solutions business decreased mainly due to a combination of the effects of continued strategic investment in future growth and foreign exchange, which more than offset revenue growth in products such as high-capacity ink tank printers and PCs.

As a result of the foregoing factors, revenue in the printing solutions segment was ¥708.6 billion, down 2.1% year on year. Segment profit was ¥75.6 billion, down 20.0% year on year.

Visual Communications Segment

Visual communications revenue decreased. In addition to the negative effects of foreign exchange and the coronavirus, revenue was hurt by a decline in sales of volume zone projectors as the markets in places such as North America, China, and India contracted.

Although Epson is streamlining its investments in future growth, segment profit in the visual communications segment declined on lower revenue as well as negative foreign exchange effects.

As a result of the foregoing factors, revenue in the visual communications segment was ¥183.3 billion, down 9.8% year on year. Segment profit was ¥13.5 billion, down 36.1% year on year.

Wearable & Industrial Products Segment

Revenue in the wearable products business decreased despite sustained firm demand for products in the high-price zone. In addition to slow sales of movements and products in the low- and mid-price zones, revenue was further hit by a drop in demand from visitors to Japan due to the coronavirus.

Revenue in the robotics solutions business decreased mainly due to ongoing trade friction between the U.S. and China, which caused a pullback in capital expenditure in Europe.

Revenue in the microdevices business decreased. Although revenue was flat year on year in both the quartz crystal devices business and semiconductor business, negative foreign exchange effects dragged revenue lower.

Segment profit in the wearable & industrial products segment declined chiefly in response to a sharp drop in wearable products business revenue and because of negative foreign exchange effects.

As a result of the foregoing factors, revenue in the wearable & industrial products segment was ¥152.9 billion, down 6.4% year on year. Segment profit was ¥1.8 billion, down 66.6% year on year.

Other

Other revenue amounted to ¥0.9 billion, down 3.0% year on year. Segment loss was ¥0.5 billion, compared to a segment loss of ¥0.5 billion last year.

Adjustments

Adjustments to the total profit of reporting segments amounted to negative ¥49.6 billion. (Adjustments in the previous fiscal year were negative ¥50.2 billion.) The main components of the adjustment were basic technology research and development expenses that do not correspond to the reporting segments and expenses associated with things such as new businesses and corporate functions.

(2) Cash flow performance

Net cash provided by operating activities during the year totaled ¥102.3 billion. The total for the previous year was ¥76.9 billion. This increase was primarily because we had ¥68.4 billion in depreciation and amortization and ¥31.8 billion in income taxes compared to ¥7.8 billion in profit for the period.

Net cash used in investing activities totaled ¥76.1 billion (compared to ¥82.7 billion in the previous year), mainly because Epson used ¥75.7 billion in the acquisition of property, plant, equipment and purchase of intangible assets.

Net cash used in financing activities totaled ¥0.2 billion, whereas ¥49.4 billion was used in the prior year. While non-current borrowings increased by ¥29.9 billion and there was a ¥29.8 billion bond issue, there were items such as ¥21.6 billion in dividends paid, a ¥10.2 billion purchase of treasury shares, a ¥10.0 billion redemption of bonds payable, a ¥9.8 billion net decrease in current borrowings, and an ¥8.2 billion repayment of lease liabilities.

As a result, cash and cash equivalents at the end of the fiscal year totaled ¥196.2 billion (compared to ¥175.2 billion at the end of the previous fiscal year).

*Please refer to the following for Epson's financial results for previous fiscal years:

<https://global.epson.com/IR/>

2. Manufacturing, orders received and sales

(1) Actual manufacturing

The following table shows actual manufacturing information by segment in the fiscal year under review.

Business segment	Year ended March 31, 2020 (From April 1, 2019, to March 31, 2020) (Millions of yen)	Change compared to previous fiscal year (%)
Printing solutions	691,333	97.0
Visual communications	177,235	88.0
Wearable & Industrial products	142,810	92.6
Total for the segments	1,011,379	94.7
Other	–	–
Total	1,011,379	94.7

Notes

1. The above figures are based on sales prices. Intersegment transactions are offset and therefore eliminated.
2. The above figures do not include consumption tax.
3. The above figures include outsourced manufacturing.

(2) Orders received

Epson's policy is to manufacture products based on sales forecasts. Accordingly, this section does not apply.

(3) Actual sales

The following table shows actual sales information by segment in the fiscal year under review.

Business segment	Year ended March 31, 2020 (From April 1, 2019, to March 31, 2020) (Millions of yen)	Change compared to previous fiscal year (%)
Printing solutions	707,816	97.9
Visual communications	183,345	90.2
Wearable & Industrial products	145,072	94.2
Total for the segments	1,036,234	95.9
Other	186	99.0
Total	1,036,420	95.9

Notes

1. Intersegment transactions are offset and therefore eliminated.
2. The above figures do not include consumption tax.
3. No customer accounts for more than 10% of the actual total sales.

3. Management analysis and discussion on operating results, etc.

Recognition and details of analysis/discussions on Epson's operating results, etc. from the management's perspective are as follows:

All forward-looking statements hereunder were made at Epson's discretion based on the forecasts and certain assumptions at the end of the fiscal year. These statements may differ from actual results and are not guarantees of the achievement.

(1) Operating results, etc.

Financial position

Total assets at the end of the fiscal year were ¥1,040.9 billion, an increase of ¥2.5 billion from the previous fiscal year end. Although inventories decreased by ¥17.3 billion and trade and other receivables decreased by ¥15.3 billion, total assets increased largely because of a ¥38.5 billion increase in property, plant and equipment resulting primarily from an accounting policy change (the application of a new lease accounting standard).

Total liabilities were ¥534.8 billion, up ¥39.2 billion compared to the end of the last fiscal year. Although there was a ¥19.3 billion decrease in trade and other payables and a ¥5.0 billion decrease in other current liabilities, total liabilities increased mainly because of a ¥67.3 billion increase in bonds issued and in borrowings and lease liabilities resulting primarily from an accounting policy change (the application of a new lease accounting standard) and an issue of corporate bonds.

The equity attributable to owners of the parent company totaled ¥503.7 billion, a ¥36.4 billion decrease compared to the previous fiscal year end. This decrease was primarily due to ¥21.6 billion in dividend payments and an ¥12.9 billion decrease in other components of equity, including a decrease in the exchange differences on translation of foreign operations associated with the appreciation of the yen.

Working capital, defined as current assets less current liabilities, was ¥337.5 billion, an increase of ¥12.4 billion compared to the end of the previous fiscal year.

There is uncertainty due to the effects of the pandemic, but Epson's financial position remains solid and sufficient financing arrangements are in place.

Operating results

The operating results are provided in "Management Analysis of Financial Position, Operating Results and Cash Flows 1. Operating results overview (1) Operating results."

Cash flow performance

The cash flow performance is provided in "Management Analysis of Financial Position, Operating Results and Cash Flows 1. Operating results overview (2) Cash flow performance."

(2) Capital resources and liquidity

In order to stably secure funds necessary for business activities such as capital expenditures, Epson raises funds through utilization of internal funds as well as borrowings from financial institutions and issuance of bonds.

The balance of interest-bearing debt at the end of the fiscal year under review was ¥209.6 billion, up ¥67.3 billion compared to the previous fiscal year end, due to an accounting policy change (the application of a new lease accounting standard) and an issue of corporate bonds. The balance of cash and cash equivalents at the end of the fiscal year under review totaled ¥196.2 billion, up ¥21.0 billion compared to the end of the last fiscal year, giving Epson sufficient liquidity.

Epson has earned a credit rating from Rating and Investment Information, Inc. The rating was A (single A) as at the end of the fiscal year under review.

(3) Management policy, corporate strategy, objective indices to assess the status of achievement of management goals, etc.

As stated in "Management Analysis of Financial Position, Operating Results and Cash Flows 5. Management policy, business environment and issues to be addressed, etc.," Epson will aim to achieve, for the 2025 fiscal year, ¥1,700 billion in revenue, ¥200 billion in business profit, a 12% return on sales (business profit/revenue), and a 15% return on equity (profit for the period/equity attributable to owners of the parent company), assuming exchange rates of 115 yen to the U.S. dollar and 125 yen to the euro, by striving to promote a growth strategy based on the Epson 25 Corporate Vision and the mid-range business plan for achieving the vision and strengthen its business infrastructure and financial structure.

In each area of innovation where its unique strength can be demonstrated, Epson will look to achieve operating performance targets by accomplishing strategies for future growth of each business set forth in “Management policy, business environment and issues to be addressed, etc.” above as well as promoting sustainable growth and increase of its corporate value.

(4) Significant accounting estimates and assumptions used for those estimates

The consolidated financial statements of Epson are prepared in conformity with IFRS in accordance with the provision of Article 93 of “Ordinance on Terminology, Forms and Preparation Methods of Consolidated Financial Statements” (hereafter “Ordinance for Consolidated Financial Statements”). Estimates that are deemed necessary have been made based on reasonable criteria.

Significant accounting policies applied in the consolidated financial statements of Epson, accounting estimates, and assumptions used for those estimates are provided in “Index to Consolidated Financial Statements, Notes to Consolidated Financial Statements, 3. Significant Accounting Policies and 4. Significant Accounting Estimates and Judgments.”

Furthermore, information regarding the effect of the coronavirus infection in the accounting estimates is provided in “Index to Consolidated Financial Statements, Notes to Consolidated Financial Statements, 4. Significant Accounting Estimates and Judgments.”

4. Research and development activities

Epson conducts research and development to create products and services that offer value that exceeds customer expectations. We seek to create value by driving advances in Micro Piezo printheads, microdisplays, sensors, and robotics, all of which are unique core technologies that evolved from the efficient, compact, and precision technologies that have been an Epson strength since its founding. Further value is added by developing technology platforms that meet the needs of a wide spectrum of customers.

The corporate R&D division and the R&D units of the operations divisions are teaming up to develop core technologies and devices for the future and to strengthen manufacturing infrastructure. Together, they are laying a technological foundation to create new businesses, strengthen existing ones, and increase the competitiveness of all Epson products.

Total R&D spending during the fiscal year was ¥49.2 billion. The printing solutions segment accounted for ¥17.5 billion, the visual communications segment for ¥10.2 billion, and the wearable and industrial products segment for ¥5.0 billion. The “other” segment and corporate segment accounted for the remaining ¥16.4 billion.

The main R&D accomplishments in each segment are described below.

Printing solutions segment

In the printer business, Epson launched a new line of EcoTank inkjet printers for the home. These printers are compact yet have high-capacity ink tanks. Epson succeeded in downsizing these products by employing an on-carriage design, where the ink tanks are mounted on the printhead. Moreover, the tanks are easy to refill simply by placing spill-free bottles upside down on the tank opening. LEDs on the front of the printers indicate whether there is ink left in the tanks. They light up in white when ink is present, and they flash when the tanks are empty. Users can also turn off the LEDs and check the amount of remaining ink from an LCD panel.

The company launched three new models in its LX series of Epson Smart Charge printers, which now do everything from printing to finishing, and three new models in its PX series, which offer greater space efficiency and more advanced functions. Epson reinforced its lineup of medium-speed and high-speed LX series printers equipped with PrecisionCore lineheads. In addition to the 100 ppm and 75 ppm¹ models, Epson now offers a new 60 ppm¹ model. The new model achieves this speed in duplex printing and other printing modes, and regardless of paper size. Time to first copy² is fast—about 4.9 seconds for the LX-10050MF series. So, this series of printers make short work of print jobs both large and small. The printers in the PX series offer a time to first print³ of 5.5 seconds, so customers will not be kept waiting at the service counter. Duplex printing is accomplished quickly thanks to temperature and humidity sensors in the printers that detect the optimal drying time. These printers are equipped with an auto document feeder (ADF) that can hold up to 150 sheets to conveniently and speedily complete large scanning and copying jobs. Two-sided simultaneous scanning substantially improves operational efficiency.

In the professional printing business, Epson released two new large-format inkjet printers with eco-solvent ink for the signage and display industry: the SC-S80650L, which uses ink packs to provide the 10-color ink set, and the four-color SC-S60650L. The products deliver the same outstanding image quality, productivity, and reliability as the SC-S80650 and SC-S60650, which were launched in May 2016, but employ new ink packs to free users from the trouble of replacing ink cartridges when processing large print jobs. Ink packs hold more than twice⁴ as much ink as the ink cartridges used in the current models⁵. This reduces the frequency with which ink must be replaced in high-volume print jobs and boosts productivity.

Epson also launched two new models of dye-sublimation inkjet printer, the six-color SC-F9450H, Epson’s first dye-sub model with fluorescent inks⁶, and the four-color SC-F9450. These products provide the same outstanding reliability, productivity, and image quality of the SC-F9350, which was released in September 2017. They are ideal for producing great-looking sports uniforms with exceptionally vibrant color.

¹ A4 single-side print. Details about how print speeds are calculated are provided on Epson websites.

² The time from the moment the start button is pressed until the first copy lands in the output tray. Epson’s measurement criteria: A4 plain paper; standard print quality; original oriented in the left direction; auto background removal off. Performance will differ depending on content of prints.

³ The method of measurement is defined in ISO/IEC 17629. Please see Epson websites for measurement data and measurement conditions.

⁴ Excluding metallic silver

⁵ SC-S80650 & SC-S60650

⁶ Fluorescent yellow and fluorescent pink

Visual communications segment

Epson launched eight new business projectors, including six high-brightness models, an interactive model, and a signage model. These products include nine models of six laser projectors that provide brightness ranging from 5,500 lm to 9,000 lm. These are the EB-L1490U, the EB-L1495U, and the projectors in the EB-L1070 series. The interactive model is the EB-1485FT, which features improved usability and a simple new design that blends in with the surroundings. The signage model is the EB-W50, which provides 10,000 hours of lamp life. With these new products, Epson has reinforced its lineup of business projectors and, by providing solutions that are easier to install and use in spaces both large and small, Epson is positioned to meet the needs of a broad range of customers, from private enterprises and educational institutions to retailers, restaurants and shopping complexes. Epson also launched new products in the Dreamio series of 3LCD home projectors: the EH-LS500B, EH-LS500W, EH-TW7100, and EH-TW7000. The EH-LS500B and EH-LS500W are ultra-short throw laser projectors that can simply be placed in front of a wall so that users can enjoy 4K⁷ content in sizes up to 130 inches. These projectors can be used even where space is very limited because, unlike traditional projectors, they can be installed just centimeters away from a wall or screen. The EH-TW7100 has a pair of built-in 10 W speakers and a contrast ratio of 100,000:1. The EH-TW7000 is an affordably priced, speaker-less model that has a contrast ratio of 40,000:1. Both deliver 3,000 lm of brightness so that customers can quickly and easily enjoy super-sharp 4K big-screen images. They are also loaded with convenient functions, such as settings that support simple connection of Bluetooth® audio equipment as well as games and other fast-moving content.

⁷ Epson's 4K Enhancement Technology accepts 4K signal input and delivers astonishing picture quality equivalent to 4K.

Wearable and industrial products segment

The robotics solutions business added and began selling two new models of VT6L 6-axis (vertically articulated) robots with a built-in controller. The new Cleanroom⁸ and Protected⁹ models expand potential installation environments. These entry-level 6-axis robots, which handle payloads up to 6 kg and have a reach up to 920 mm, are ideal for automating simple manual tasks, such as the transport and assembly of electronic and electrical parts and auto parts. The built-in controller enables these robots to be installed even where space is limited. The Cleanroom model can be used inside a cleanroom to perform tasks such as parts assembly. The Protected model expands potential robot applications by providing high levels of protection against the ingress of dust and water⁹ so that it can be installed in wet or dusty environments where parts are polished, for example.

Epson also developed a compact, lightweight spectroscopic camera to automate color inspections. This camera enables users to more easily manage color in their manufacturing processes because it can automate and quantify inspections, it can be integrated into a manufacturing line, and it can output images without the time and trouble of compositing.

In the microdevices business, Epson added two new real-time clock (RTC) modules¹⁰ to its lineup: the RX8111CE and RX4111CE. Both come in a tiny 3.2 x 2.5 x 1.0 mm package and are equipped with a time-stamp function. Like Epson's RX8130CE, these small RTC modules have a built-in frequency-adjusted 32.768 kHz crystal unit and an automatic battery switchover function, but they also have a time-stamp function that logs and stores time information. The function can be used, for example, to record the time of system software updates, battery replacements, and system alerts. Time-stamps are stored even when main power is switched over to a backup power source, contributing to system robustness. These products consume just 100 nA of current, a mere one-third that of the 300 nA consumed by the RX8130CE. This reduction in current consumption makes it possible to use a smaller, cheaper secondary battery or capacitor. Epson has also expanded the interface options by offering an SPI-Bus interface in addition to an I2C-Bus¹¹ interface.

In addition, Epson developed the S1C17M40. This new, low-power microcontroller with 16 bits of embedded flash memory is ideal for remote controlled home appliances such as air conditioners and for small factory automation devices such as time switches and counters. Like the other MCUs in the S1C17M3 series, the S1C17M40 is a versatile MCU with specifications that are ideal for liquid crystal displays. The S1C17M40 also has an embedded oscillator circuit that is stable within ±1% over an operating temperature range of 0°C to 85°C, an improvement over the ±1% of the S1C17M3 at an operating temperature of 25°C. Moreover, the S1C17M40 is Epson's first single-chip MCU with embedded EEPROM. With an expanded range of new applications in everything from home appliance remote controllers to small factory automation devices, the S1C17M40 will help users reduce their bills of materials and save board space.

⁸ Cleanroom class 4 (ISO 14644-1)

⁹ Protected class IP67 (IEC standard)

Protection against intrusion of body parts and solids: Fully protected from harmful dust. Protection against ingress of water: No ingress of water even if immersed in water under defined conditions of pressure and time.

¹⁰ Real-time clock module: a single-package product that has a real-time clock IC with clock, calendar, and other functions and an integrated 32,768-kHz crystal unit. These modules not only benefit users by eliminating the need to design oscillator circuits and adjust clock accuracy, their small size and level of integration also allow customers to use their board space more efficiently.

¹¹ I²C-Bus is a trademark of NXP Semiconductors.

Other and corporate

Epson developed a pair of high-performance products to its lineup of three-axis accelerometers.

The M-A552AC1 supports the CAN¹² communications protocol while the M-A552AR1 supports RS-422¹³. The M-A552AC1 and M-A552AR1 boast the same performance as the M-A352, samples of which began shipping in May 2019, but come standard equipped with the CAN and RS-422 interfaces, respectively. These interfaces are widely used in industrial applications and demand for them has been strong. They are housed in metal packages that provide IP67-equivalent protection against water and dust. This high level of protection against the environment enables these products to be used in a wide range of industrial applications that require long distances and excellent stability and reliability. These products offer the high level of performance required for structure health monitoring and other industrial applications, as well as the flexibility to enable easy system construction. They also make it easy to build multi-node (multi-point) measurement systems, synchronized measurement systems, and other complex, sophisticated measurement systems. Since they are easy to install, connect, and use even outdoors and under other harsh environmental conditions, these accelerometers can sharply reduce customer system development times.

¹² Controller Area Network (CAN) is a network protocol that is widely used for automotive devices and industrial products.

¹³ RS-422 is a serial communication standard that is primarily used for industrial products.

5. Management policy, business environment and issues to be addressed, etc.

All forward-looking statements hereunder were made at Epson's discretion based on the forecasts and certain assumptions at the end of the fiscal year. These statements may differ from actual results and are not guarantees of the achievement.

(1) Fundamental management policy

Endowed with a rich legacy of efficient, compact, and precision technologies, Epson seeks to continuously create game-changing customer value and play a central role in creating a better world as an indispensable company by forging innovations through challenges that are bold, imaginative, and exceed our own vision. Using the Epson Management Philosophy and the global tagline below as guides, we will strive to achieve our vision with employees who embrace a common set of values, demonstrate teamwork, and exercise initiative to create value that exceeds customer expectations.

Epson Management Philosophy

Epson aspires to be an indispensable company,
trusted throughout the world for our commitment to openness,
customer satisfaction and sustainability.
We respect individuality while promoting teamwork,
and are committed to delivering unique value
through innovative and creative solutions.

EXCEED YOUR VISION

As Epson employees,
we always strive to exceed our own vision,
and to produce results that bring surprise and delight
to our customers.

(2) Business and financial issues to be addressed with higher priority

In March 2019, Epson established the Epson 25 Phase 2 Mid-Range Business Plan (FY2019-2021) (hereinafter, the "Phase 2 Mid-Range Business Plan"), a three-year plan starting in FY2019, toward achieving the Epson 25 Corporate Vision (hereinafter, "Epson 25") that describes what Epson would like to achieve in the days ahead. Looking back on FY2019, the first year of the Phase 2 Mid-Range Business Plan, revenue decreased year on year due to a harsh business environment including the worldwide economic downturn caused by U.S.-China trade friction and the ongoing yen appreciation against Euro and emerging countries' currencies. Business profit also decreased despite efforts to reduce fixed costs based on priorities. Against this backdrop, progress in the strategies for future growth included collaboration and open innovation with a startup in Japan, review on product portfolios and capital expenditures concentrated in key strategic areas.

In the area of inkjet innovation, unit shipments of high-capacity ink tank printers increased in developed markets, in addition to emerging markets, and sales of office shared inkjet printers grew as we worked to acquire large projects in Europe and rolled out Academic Plan service in Japan. Nonetheless, as it should take a while to displace inkjet printers with laser printers, we will hereafter accelerate deploying subscription-based services globally with an aim of strengthening customer contacts to expand our B2B sales structure.

In the area of visual innovation, we launched new products with laser light source for strategic areas, including high-lumen projectors and OS built-in home projectors. However, the existing market conditions were challenging, affected by a trend toward flat panel displays with lower prices.

In the area of wearables innovation, while low- and mid-priced watches were negatively affected by a shrinking market, Epson worked to increase production efficiency and narrowed down management resources while focusing the resources on the areas of strength for Epson.

In the area of robotics innovation, sales of robots were weak due to the impact of U.S.-China trade friction and other factors, which offset our efforts to explore solution selling market with new products and various applications.

On the assumption that a business environment in FY2020 continues to be harsh, Epson intends to accomplish allocation and conversion of management resources based on priorities and build a stable earnings base for future growth. Meanwhile, the business environment currently surrounding Epson continues to be uncertain with respect to the intensifying competition, the influence of the spread of novel coronavirus infection and unstable global economic climate. Given this situation, we will execute efficient investments in response to future risks. Epson maintains sound financial standing at present, but takes all possible measures to ensure smooth financing using commitment line agreements with financial institutions, among others.

In addressing the spread of novel coronavirus infection, which is the most pressing issue, Epson places the highest priority on ensuring safety and health of all stakeholders including our employees and their families, and customers and shareholders. At the same time, Epson takes prompt actions to bring production and sales operations back to normal and break out of the current disruptions as early as possible. During the period under the influence of the spread of the infection, as well as after the influence settles down, our society will see people's lifestyle drastically shifting to a one where traveling, human contact and face-to-face interaction are no more essential. In response to these major changes to be faced by society, we will accelerate our ongoing initiatives including "digitization," "work-style reform," and "environmental impact reduction," aiming to address anticipated social issues in a proactive manner. In addition, toward resolving social issues that must be tackled by Epson, which will become even clearer, we intend to propel our initiatives for "advancing the frontiers of industry" and "achieving sustainability in a circular economy."

In view of these circumstances, we will make disciplined capital expenditures to achieve future growth through continuously resolving issues faced by the society. By speedily and steadily executing the following strategies under the Phase 2 Mid-Range Business Plan according to changes in the environment, Epson will look to sustain growth and increase corporate value over the medium- to long term.

① Phase 2 business plan concept

Following the Phase 1 business plan, we will continue to commit to the goals of Epson 25, and transform business operations to achieve high profitability by managing priorities in responding to social issues and changes in the business environment.

Policies

- 1) Accelerate growth by taking maximum advantage of assets and through collaboration and open innovation
 - Strengthen solution selling business
 - Rapidly strengthen product portfolio, including through collaboration
 - Strengthen external sales of core devices and open innovation
 - Invest management resources in robotics to accelerate growth to make it a core business
- 2) Strengthen global operation under Head Office control
 - Select and focus on priority business areas and regions
 - Improve the organization and allocate personnel to strengthen B2B solution selling
 - Strengthen company-wide integrated IT infrastructure
- 3) Invest management resources in a disciplined manner according to the economic environment and strategy effectiveness
 - Rebuild product portfolios based on priorities
 - Strengthen financial discipline

② Financial targets under Phase 2 business plan and Epson 25

		FY2021 Target	FY2025 Target
Revenue		¥1,200 billion	¥1,700 billion
	Printing Solutions	¥780 billion	—
	Visual Communications	¥225 billion	—
	Wearable & Industrial Products	¥195 billion	—
Business profit ¹		¥96 billion	¥200 billion
ROS		8%	12%
ROE		Sustain over 10%	15%
Exchange Rate USD/EUR/Other ²		¥110/¥125/92	¥115/¥125/100

¹ Business profit is calculated by subtracting cost of sales and selling, general and administrative expenses from revenue.

² Index showing weighted average variance of rates for currencies other than USD and EUR against a benchmark of 100 in FY2025.

③ New initiatives

Initiatives in each of our innovation areas

Inkjet innovation

- In the home & SOHO, and office shared printers*, Epson is transitioning away from a business model that is reliant on consumables by accelerating the displacement of laser printers and ink cartridge printers with high-capacity ink models such as high-capacity ink tank printers and high-speed linehead inkjet multifunction printers.

* Office shared printer: A printer category for high-print volume office users

- In the commercial and industrial segments, rapidly expand the lineup of high productivity products through platforming and collaboration with partners. Expand business by responding to a diverse range of needs with external print head sales and open innovation.
- Capture needs spawned by rapid digitization and embrace collaboration and open innovation to create new printing services.

Visual innovation

- Refine laser light source platforms, expand the lineup in the high-lumen and other segments, and promote the advantages of projectors.
- Develop new markets by creating demand in the spatial design market with accent lighting projectors, and by developing small projectors.
- For smart glasses, accelerate open innovation to broaden the range of their application through enhancing the selection of interface models that enable connections with PCs and smartphones and external sales of optical engine modules.

Wearables innovation

- Continue to focus resources on the high-value-added analog watch segment to capitalize on Epson's unique technologies.

Robotics innovation

- Accelerate the growth of robotics into a future core business by leveraging a solid foundation of technology and infrastructure while also actively collaborating with partners to further increase product competitiveness and improve its ability to propose solutions.
- Use AI to further improve usability and enter the collaborative robot market.

Strengthening sales capabilities

- Epson will strengthen Head Office control over global sales strategies and management functions while simultaneously transitioning to B2B sales methods that emphasize customer intimacy and solution selling.

Sustainability initiatives

- For our sustainability initiatives, we will approach heightened expectations for achieving sustainability as a business opportunity. For example, we will accelerate innovation using printing and environmental performance, ink versatility and other advantages of inkjet technology to contribute to sustainability.

④ Financial targets under Phase 2 business plan

1) Cash Flow

- Restore our ability to generate cash flow by steadily growing profit and increasing operations efficiency.
- By allocating generated cash to growth areas based on identified priorities, we will pay steady dividends while maintaining a healthy financial structure.

	Phase 1 Mid-range Result	Phase 2 Mid-range Target
Operating CF	3-year total: ¥258.1 billion	3-year total: ¥370 billion
FCF	3-year total: ¥24.9 billion	3-year total: ¥170 billion

2) R&D Expenses and Capital Expenditure

	Phase 1 Mid-range Result	Phase 2 Mid-range Target
R&D expenses	3-year total: ¥161.3 billion	Aggressively invest in new products and key technologies necessary to achieve Epson 25
Capital expenditure (excluding lease)	3-year total: ¥236.8 billion	3-year total: ¥200 billion (Production capacity, new products)

6. Dividend policy

The Company strives to sustain business growth through the creation of customer value and to generate stable cash flow by improving profitability and using management resources efficiently. While the top priority is on strategic investment in growth, the Company also actively returns profits in parallel with its efforts to build a robust financial structure that is capable of withstanding changes in the business environment.

In line with this policy, the Company has set a consolidated dividend payout ratio in the range of 40% as a medium-term target, the ratio based on profit after an amount equivalent to the statutory effective tax rate is deducted from business profit, a profit category that shows profit from the Company's main operations (and which is very similar to operating income under Japanese accounting standards, both conceptually and numerically). The Company intends to be more active in giving back to shareholders by agilely purchasing treasury shares as warranted by share price, the capital situation, and other factors.

The Company's dividend policy is to pay cash dividends twice a year. The year-end dividend is determined by resolution of the general shareholders' meeting and the interim dividend is determined at a meeting of the board of directors.

Based on its dividend policy and the perspective of stable dividend, the Company has paid an annual dividend of ¥62 per share.

The Company's Articles of Incorporation allow the Company to issue an interim dividend with a record date of September 30 every year by resolution of the board of directors.

The Company's distribution of retained earnings for the fiscal year under review is as follows.

Distribution of retained earnings for the fiscal year under review

Date approved	Cash dividends (Millions of yen)	Cash dividend per share (Yen)
October 30, 2019, by resolution of the board of directors	10,731	31
June 25, 2020, by resolution of the general shareholders' meeting	10,731	31

Notes

1. The total amount of dividends to be paid based on the resolution of the board of directors on October 30, 2019 includes ¥4 million of cash dividends for the Company's shares held through the BIP (Board Incentive Plan) trust (hereinafter referred to as the "BIP trust").
2. The total amount of dividends to be paid based on the resolution of the general shareholders' meeting on June 25, 2020 includes ¥8 million of cash dividends for the Company's shares held through the BIP trust.