CFO Message

Generating Profits and Reinvesting Them into the Future

I'm Masaharu Mizukami. I became CFO in April 2024. Before that, I served under my predecessor as deputy head of the Business Management Division for three and a half years. I have succeeded him as CSuO as well a CFO. My role as CFO is to create the conditions for building Group-wide consensus for our business policies and ensuring that management makes the best decisions and allocates resources in the best way. Once Epson has agreed upon a strategy, action proceeds with striking speed. My role is to ensure that Epson is always ready to unleash such action.

Headwinds, but no easing up in our growth strategy

In FY2023, revenue was down from the previous year's level. Revenue decreased to ¥1,313.9 billion, with the manufacturing solutions business experiencing lower sales amid inventory adjustments in the microdevice market and an economic slowdown in China. With the huge impact of inventory adjustments, business profit decreased to ¥64.7 billion and profit for the period decreased to ¥52.6 billion. Having had high inventory levels at the beginning of the fiscal year, we reduced the inventories over the course of the year. While this adjustment had a huge impact on our performance, the inventory level returned to normal thereafter.

		YoY
Revenue	¥1,313.9 billion	Down 1.2%
Business profit*	¥64.7 billion	Down 31.9%
Profit from operating activities	¥57.5 billion	Down 40.7%
Profit for the year attributable to owners of the parent company	¥52.6 billion	Down 29.9%

* Business profit is similar to operating income under J-GAAP, both conceptually and numerically. Epson began using business profit as an indicator after adopting IFRS.

Average exchange rates during FY2023

USD	¥144.44	(7% depreciation YoY)
Euro	¥156.66	(11% depreciation YoY)

FY2023 marked the midway point of Epson 25 Renewed. We fell short of our interim goals because of the global economic slowdown coupled with rising costs of materials, transportation, and labor. With little hope of a rapid improvement in economic conditions and competition, we reassessed the outlook for the macro environment and sales growth, concluding that we should use this juncture to lower our targets. The revised targets for FY2025 are as follows: ROIC of 7% or more, ROE of 8% or more, and ROS of 7% or more.

While the targets are lowered, we remain just as committed to the business strategies set out in the Epson 25 Renewed. How would I appraise the resource allocations in our business portfolio? I would say that progress has been pleasing among the mature areas. Profit growth has remained solid in our core business—SOHO and home inkjet printers. Moreover, in the visual communications business, restructuring has resulted in better profitability. However, results are more mixed in the growth areas. Among the growth areas, we have seen remarkable growth in printhead sales. Epson's inkjet printheads use our Micro Piezo technology. While we had initially used this proprietary technology in consumer printers, we have expanded its use to other applications. It now serves in multifunction office printers as well as in commercial and industrial printers that can print on materials other than paper. We will strengthen our printhead sales for existing and new applications of commercial and industrial printers.

As for the commercial and industrial IJP finished products business, sales were up from the previous year but still short of the target. We can largely attribute this to companies cutting back spending following the hike in interest rates. However, it was also partly a result of us being slow to invest in new products and respond to the rise of lower-priced consumables. We will therefore take steps to get the business back up to speed.

Likewise, results were less than expected for sales of our office shared inkjet printers. We remain committed to growing this business, even if it takes time to do so. Inkjet printers help address societal issues. This is something to bear in mind as we grow this business: we need to articulate more clearly the low total cost of ownership (TCO) and engage more actively with sales channels to build up the number of users. That will be our focus in the years ahead.

The manufacturing solutions business, which primarily targets China, has proven vulnerable to that country's economic slowdown and the rise of local manufacturers. Conditions will remain tough for the time being, but there are actions we can take to create a story of business growth. We can combine Epson's high-precision sensor technology with robotics to develop and deliver innovative manufacturing solutions, assist in streamlining the process of installing the robots in the production lines, and contribute to addressing customer issues and needs.

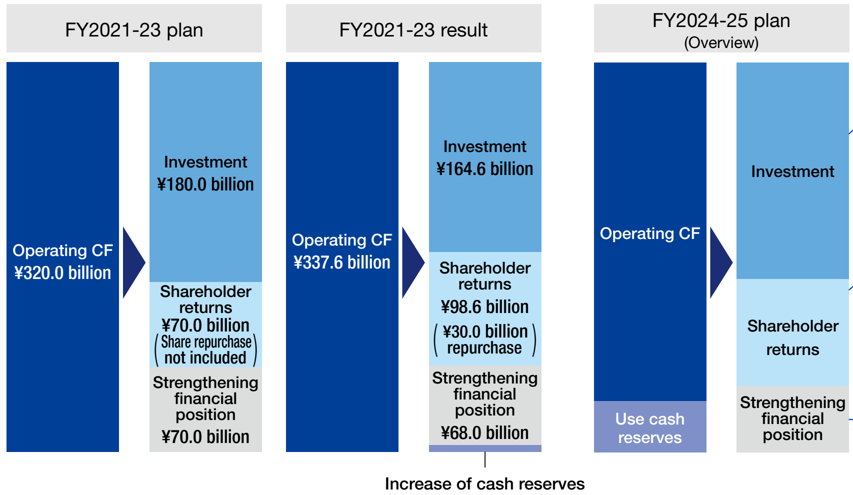
A healthy sense of urgency for swifter change

FY2025 will be the final fiscal year of Epson 25 Renewed, but that is just a milestone toward our end goals. Looking toward FY2025 and beyond, we must clarify what we should be doing and maintain the momentum of change. We will also need to rebalance our business portfolio, which currently places the weight on mature areas as a source of steady profits. With a healthy sense of urgency, we will act more expeditiously to sustain our value creation. In our efforts to improve the value of our organization, we will carefully consider the feedback of external stakeholders and share insights in robust internal discussions. One action we can take right away is to cut our fixed costs so that we can still attain the targets for our financial KPIs (ROIC, ROE, ROS) even if economic conditions remain stagnant.

Amid our efforts to transform our business portfolio under Epson 25 Renewed, our price-to-book ratio bobbed above 1.0 (as of March 31, 2024), suggesting that capital markets are not as confident in us as we would like. To earn the confidence of markets and increase our valuation, we must take urgent action to leverage our efficient, compact, and precise technologies and global sales channels in a way that delivers greater results.

The growth areas are where we will be especially expeditious in implementing our business strategies. But this does not mean we

Cash Allocation



Investment

Maintain competitiveness and increase productivity in the mature area
Actively invest (including in M&As) in new and growth areas, environment-related areas, and digital infrastructure development

Shareholder returns

- Dividends: Continue to provide stable dividends, with a consolidated dividend payout ratio* of about 40% over the mid-term.
- Share repurchase: Repurchase if necessary, depending on the share price, the capital situation, and other factors.

Strengthening financial position

Repayment of interest-bearing liabilities, etc.

* Calculated based on the amount obtained by deducting an amount equivalent to the statutory effective tax rate from business profit

will be reckless. Learning from our failure to meet our FY2023 target for ROIC, we will take a smarter approach for businesses in this category. Specifically, we will vet all growth strategies and budgeting as part of a dynamic approach to resource allocation, which will deliver higher returns and better capital efficiency.

Cash allocations were largely as planned between FY2021 and FY2023. That is, we allocated cash to our growth strategy while also providing generous shareholder returns and strengthening our financial position. The cash allocation plan remains unchanged in FY2024 and beyond. As of March 31, 2024, Epson's shareholders' equity ratio was as high as 57%, giving us plenty of leeway for reinvesting profits into projects that will increase our growth prospects. In view of capital efficiency and our policy of delivering generous dividends, we have decided to buy back up to ¥30 billion in shares during FY2024. Repurchased shares will be retired. As for dividends, we have been stably providing dividends while aiming for a consolidated payout ratio of about 40% over the mid-term. Shareholders will continue to receive a steady and generous dividend.

Since I became CFO, many investors have asked me about how quickly the growth areas will grow. I have received plenty of feedback and insights. It is important to have in-depth discussions with internal stakeholders, but it is no less vital to communicate with capital markets, which can provide frank, no-holds-barred feedback. I will keep listening to stakeholder feedback and leveraging my dual role as CSuO to help the company generate profit in the immediate term and achieve sustained growth over the longer term.

I will close by thanking our shareholders, investors, and other stakeholders for their continuing confidence and loyalty.