

Long-Term Management Objectives Phase III (2016 to 2020)

Three-Year Management Plan 2016 to 2018

January 27, 2016

Canon Marketing Japan Inc.

Masahiro Sakata, President

Long-Term Management Objectives Phase III (2016 to 2020)

2020 Group Mission and Vision

Group Mission

Help resolve social issues with advanced imaging & IT solutions.

Group Vision

The Canon Marketing Japan Group understands and grows with its customers.

Image of Achieving our Mission and Vision

Mission: Help resolve social issues



Vision: understands and grows with its customers

Create results with its customers

Create imaging & IT solutions

**Canon
Group**

Customers

IT

Strengths of manufacturer's
sales companies

Customer base

Technical skills

Shifting to a Customer-Oriented Framework

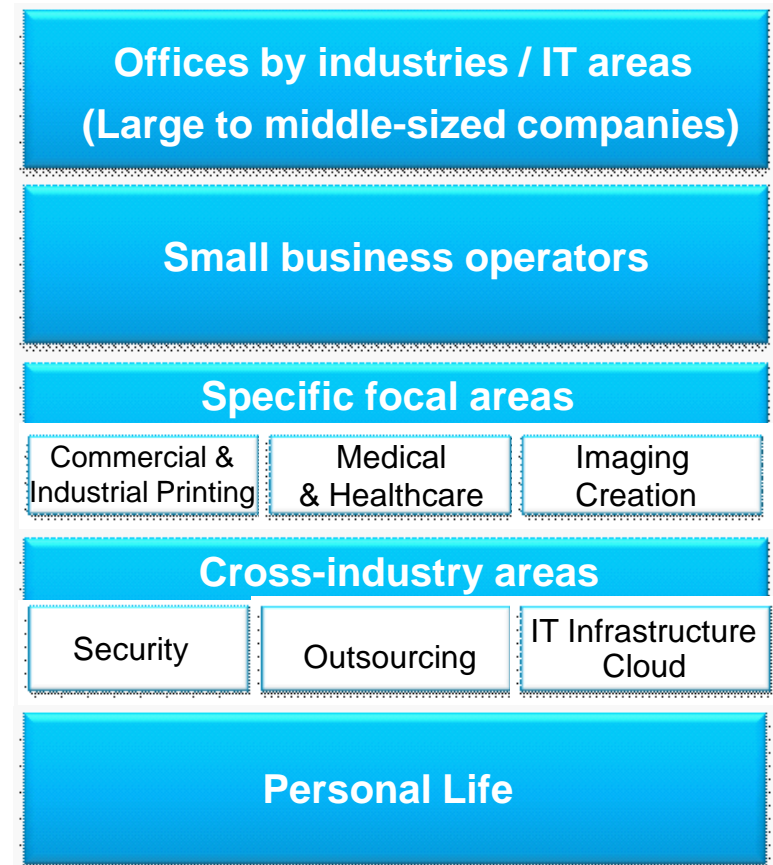
Current

Key Products
×
Channels

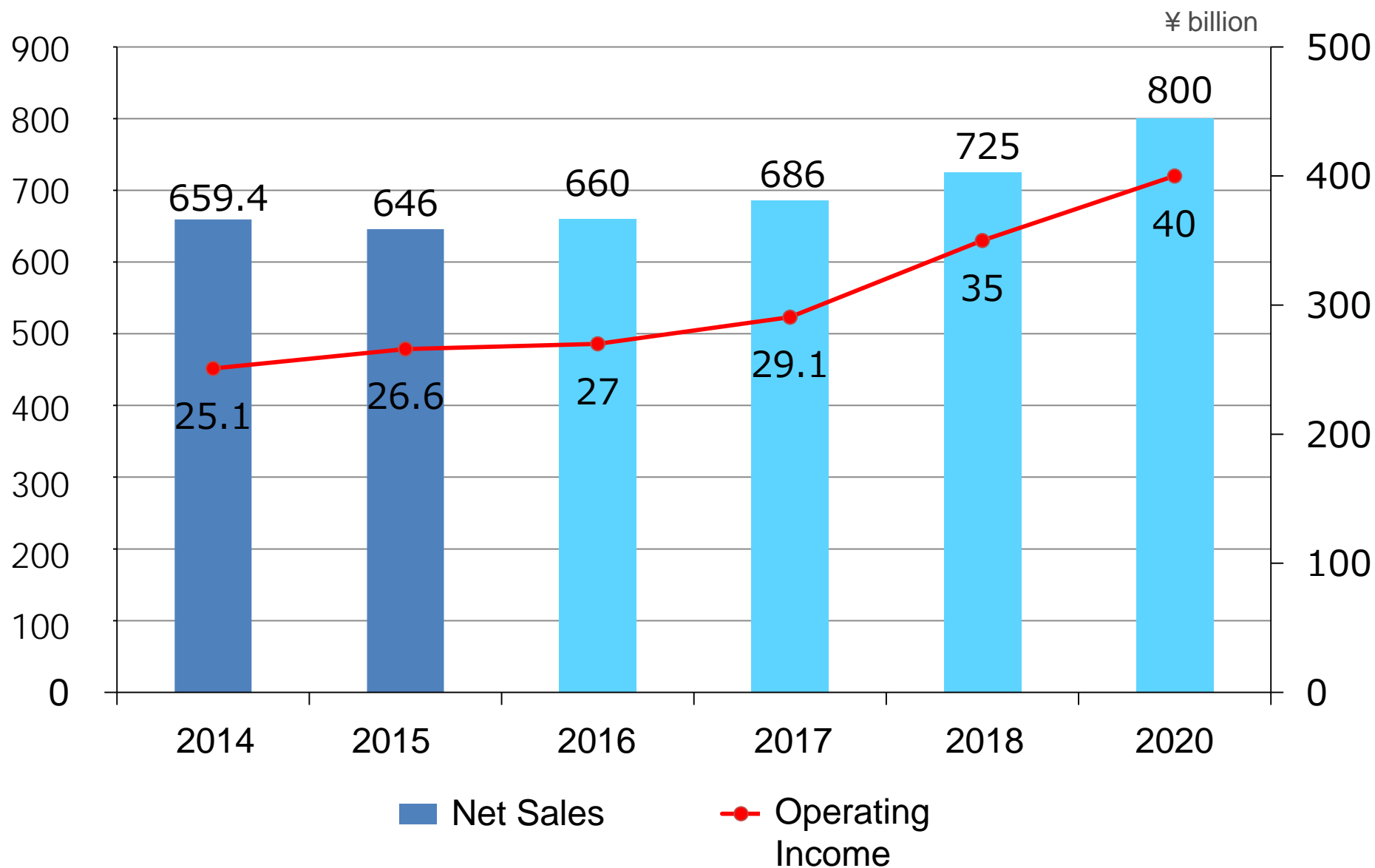


Future

Markets/Customers
×
Solutions



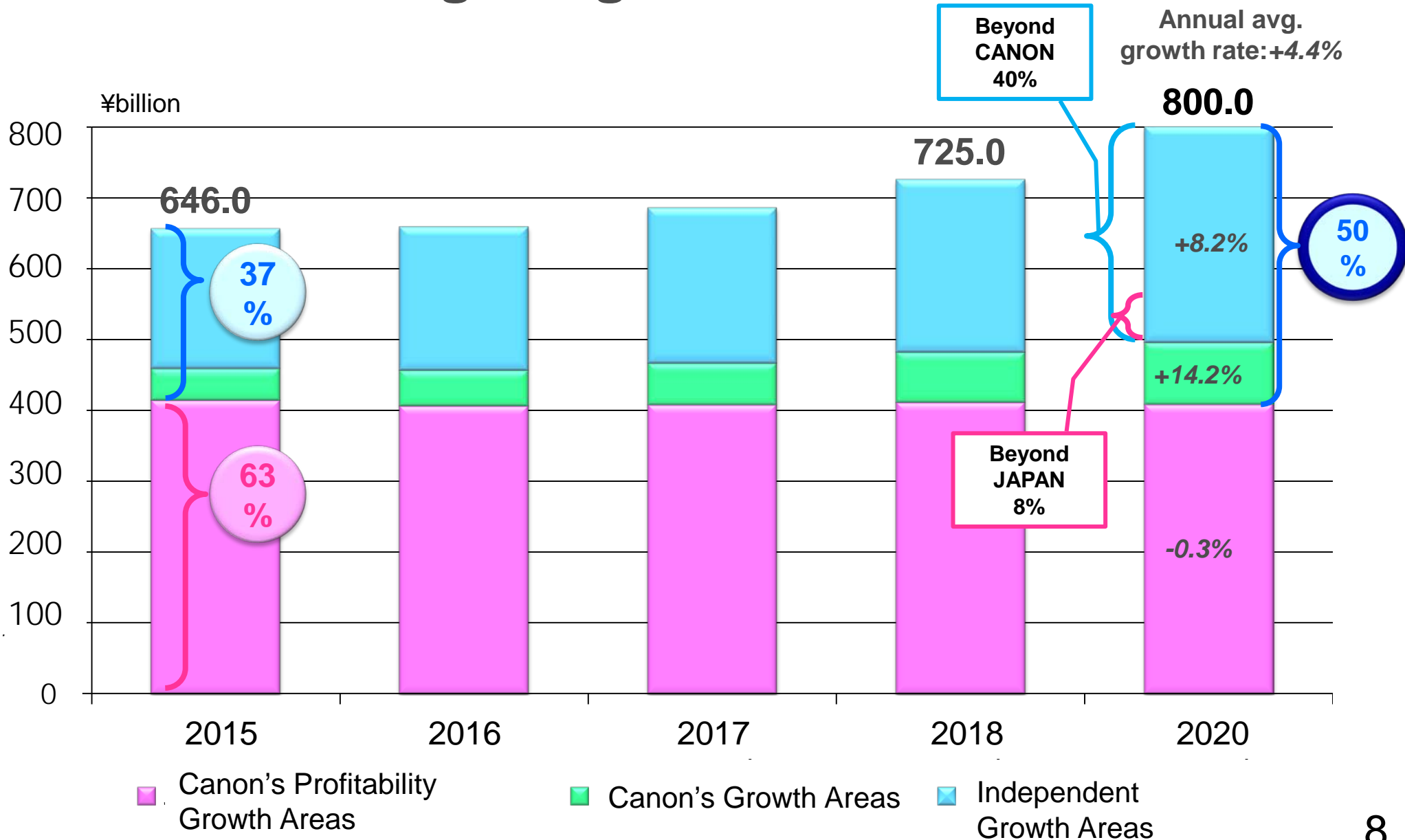
Group Management Goals



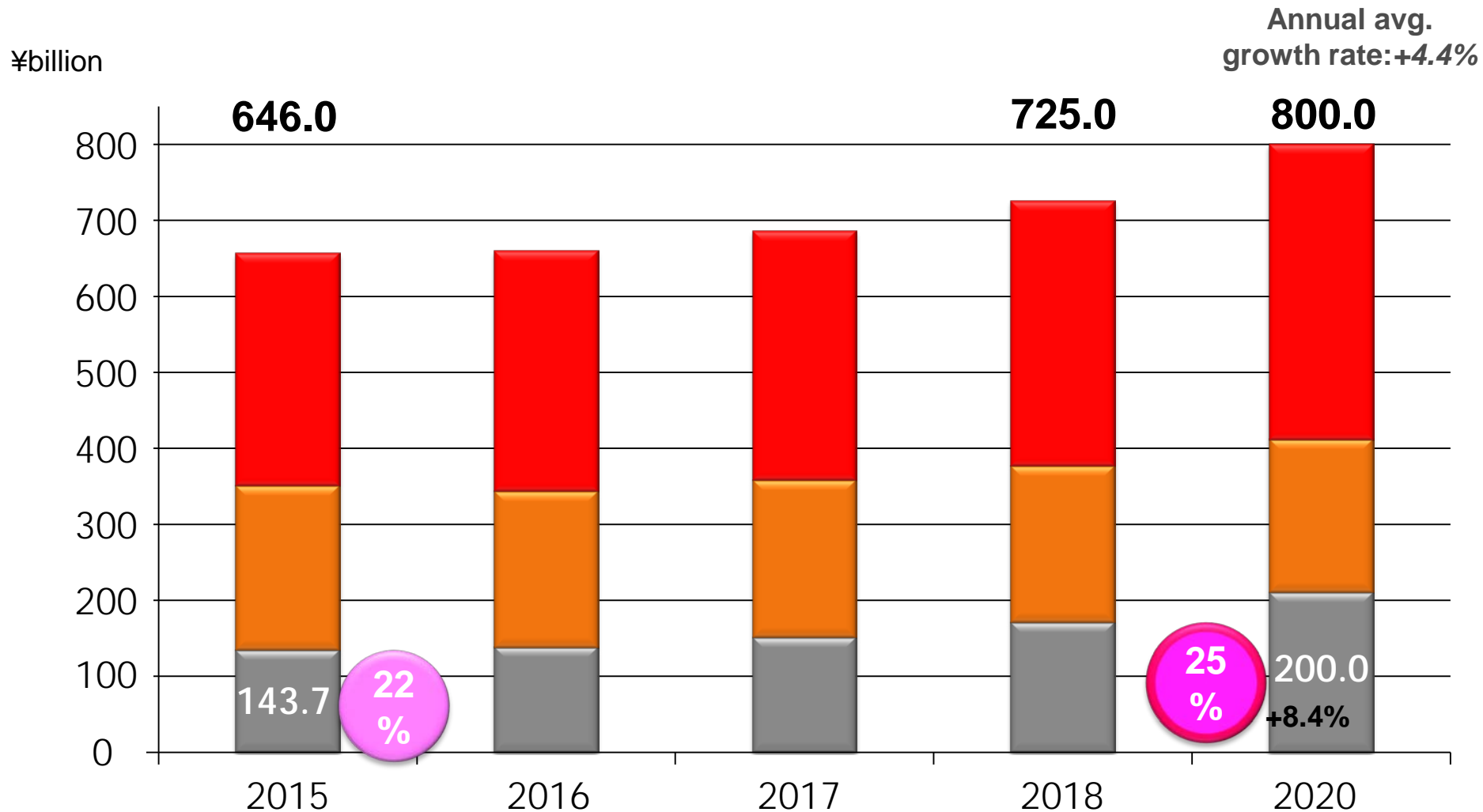
Growth Scenario Categories & Strategy Overview

	Strategy Overview	Key Products and Services
Canon's Profitability Growth Areas	<ul style="list-style-type: none"> ➤ Achieve and maintain No.1 market share of key products ➤ Increase productivity by reforming sales and services 	MFP and LBP Cameras, Inkjet Printers, Digital X-ray camera (CXDI)
Canon's Growth Areas	<ul style="list-style-type: none"> ➤ Expand the network camera business <ul style="list-style-type: none"> • Cooperate with Axis and Milestone • Enhance solutions ➤ Expand the production printing business area <ul style="list-style-type: none"> • Upstream and downstream processes of commercial printing • Package printing, industrial printing area 	Network Cameras, Projectors, Production Printing, Business Inkjet Printers, Commercial Imaging Equipment, DreamLabo, Machine Vision
Independent Growth Areas	<ul style="list-style-type: none"> ➤ Strengthen and expand IT solutions in all businesses ➤ Change from entrusted development business to solution proposing Sier ➤ Expand cross-industry solutions (security, outsourcing, etc.) ➤ Turn Industrial Business Unit into a commercial firms ➤ Strengthen solutions in the medical business 	IT Solutions Industrial Equipment (semiconductors and non-semiconductors) Medical Solutions, Infection Control, and Dispensing Equipment

Key Management Indicator 1: Shifting Weight to Growth Areas



Key Management Indicator 2: Creation of New Service Businesses



Independent Service
Business*1

Canon-related Stock Business*2

Hardware Business

*1: IT Solutions & Maintenance of non-Canon products

*2: Maintenance of Canon products and cartridges, etc.

Six Basic Policies and Priority Strategies (1)

Basic Policies		Priority Strategies
1	Become the “true partner” of our customers	<ul style="list-style-type: none">➤ Expand both large company solutions by industry and SME solutions➤ Strengthen customer relations through digital marketing
2	Maintain the high profitability base of Canon’s Profitability Growth Areas	<ul style="list-style-type: none">➤ Achieve and maintain No.1 market share of key products➤ Reform the sales approach (improve CRM, promote EC)
3	Turn Canon Growth Areas into core businesses (improve solution skills and promote cooperation)	<ul style="list-style-type: none">➤ Expand the network camera business through cooperation with Axis and Milestone.➤ Expand the business area into the upstream and downstream processes of commercial printing, and enter the package printing and industrial printing markets.

Six Basic Policies and Priority Strategies (2)

Basic Policies		Priority Strategies
4	Expand IT solution business using the Groups' collective abilities (Independent Growth Areas)	<ul style="list-style-type: none"> ➤ Turn IT-based high value-added solution services into the core of all businesses ➤ Switch from entrusted development business to solution proposing Sier ➤ Transform in-house package products into a stock-based business through cloud migration ➤ Expand cross-industry solutions through Group synergy (security, outsourcing, etc.) ➤ Turn industrial business unit into a commercial firm ➤ Strengthen solutions in medical business
5	Aggressively implement business structure / process reforms	<ul style="list-style-type: none"> ➤ Drastic BPR of existing businesses and build next-generation IT systems based on the reforms ➤ Drastic reform of the cost structure for the transition to a new business framework
6	Become a corporate group where employees work more energetically	<ul style="list-style-type: none"> ➤ Develop and enhance human resources who will be professionals with extensive knowledge of customers' businesses or drive improvements in growth areas and the creation of new businesses. ➤ Create new value at an early stage through collaboration by various human resources and promote diversity.

Key Management Indicators

¥ billion

	2015 Results	2018 Targets	2020 Targets
Net sales	646.0	725.0	800.0
Gross profit margin	36.1%	35.0%	35%
SG&A expenses to net sales	32.0%	30.2%	30%
Operating margin	4.1%	4.8%	5.0%
Ratio of sales from Growth Areas	37%	43%	50%
Ratio of sales from Beyond CANON	33%	34%	40%
Ratio of sales from Independent Service Business	22%	24%	25%

Three-Year Management Plan (2016 to 2018)

Group Consolidated Financial Targets

¥ billion

	Results		Three-year Plan Targets		
	2014	2015	2016	2017	2018
Net sales	659.4	646.0	660.0	686.0	725.0
YoY growth rate	-	-2.0%	+2.2%	+3.9%	+5.7%
Operating income	25.1	26.6	27.0	29.1	35.0
(margin)	3.8%	4.1%	4.1%	4.2%	4.8%
Ordinary income	26.6	28.0	28.2	30.2	36.0
(margin)	4.0%	4.3%	4.3%	4.4%	5.0%
Net profit	16.0	15.7	17.7	19.1	23.0
(margin)	2.4%	2.4%	2.7%	2.8%	3.2%
EPS	¥124	¥121	¥137	¥147	¥177
ROE	6.1%	5.7%	6.3%	6.5%	7.5%
Free Cash Flow (3 year total)	11.2 (total for 2013 to 2015)		28.7 (total for 2016 to 2018)		

Net Sales and Operating income Target by Segment

¥ billion	Results				Medium-term Plan						CAGR 2015 →2018
	2014		2015		2016		2017		2018		
	Net Sales	operating income	Net Sales	operating income	Net Sales	operating income	Net Sales	operating income	Net Sales	operating income	Net Sales
Business Solutions	330.2	8.2	326.9	9	334.1	9	348	11	368.1	13.5	+4.0%
	-	2.5%	-1.0%	2.8%	+2.2%	2.8%	4.2%	3.2%	5.8%	3.7%	-
IT Solutions	148.8	3.2	141.2	4.1	145.8	4.4	154.2	4.6	168.7	6.7	+6.1%
	-	2.1%	-5.1%	2.9%	+3.3%	3.0%	5.8%	3.0%	9.4%	4.0%	-
Imaging Systems	185.4	14.3	178.7	13.8	180.3	13.3	180.5	13	183.1	13.5	+0.8%
	-	7.7%	-3.6%	7.7%	+0.9%	7.4%	+0.1%	7.2%	+1.4%	7.4%	-
Industrial / Medical	28	-1	27.2	-0.7	26.7	-0.3	30.7	0.1	33.6	0.9	+7.3%
	-	-	-3.1%	-	-1.7%	-	+15.0%	0.3%	+9.4%	2.7%	-
Corporate / Elimination	-33	0.4	-27.9	0.4	-26.9	0.4	-27.4	0.4	-28.5	0.4	-
Group consolidated	659.4	25.1	646	26.6	660.0	27.0	686	29	725	35	+4.0%
	-	3.8%	-2.0%	4.1%	+2.2%	4.1%	+3.9%	4.2%	+5.8%	4.8%	

* The percentages in the lower part of each segment indicate the YoY growth rate for sales and the operating margin for operating income.

Medium- to Long-term Growth Strategy by Growth Scenario

Canon's Profitability Growth Areas

**Canon's
Profitability
Growth Areas**

**MFP, LBP
Cameras, Inkjet Printers,
Digital X-ray camera (CXDI)**

Canon's Profitability Growth Areas: Document Business

1

Increase competitiveness in middle-sized market, increase MFP market share

2

Expand the sales of related solution products (IT outsourcing, document / security solutions)

3

Shift the focus of LBP business to the key industries - distribution/retail, hospitals/dispensing, and government offices

Canon's Profitability Growth Areas: Imaging Systems

1

Develop the step-up strategy (increase the number of beginners and develop amateur photographers)

2

Enhance the product appeal of intermediate models, mirrorless models, and interchangeable lenses

3

Maintain the profitability of Inkjet Printers in the home market

Canon's Profitability Growth Areas: Sales and Service Reforms Using IT

1

Increase the number of loyal customers by improving CRM and approach potential customers (B to C) by using big data

2

Increase EC

✓ B to B: Increase services for Colemall

✓ B to C: Increase EC channels

3

Increase service productivity through remote inspections, predictive monitoring, etc. (B to B)

Canon Growth Areas

**Canon
Growth Areas**

**Network Cameras, Projectors, Production Printing
Business Inkjet Printers
Commercial Imaging Equipment, DreamLabo
Machine Vision**

Canon Growth Areas: Network Cameras

Avg. growth rate
until 2018: 37 %



Canon Growth Area: Production Printing

Avg. growth rate
until 2018: 11 %

Focal Areas

Full-fledged entry into
commercial printing sector

Books

Newspaper

Photo books

Catalogs,
leaflets

Direct Mail

Signs

New Areas

Packaging / Industrial Printing

Soft
packing

Wallpaper

Paper
containers

Glass

Textile

Existing Areas

For Business

Invoices

Ledgers
and forms

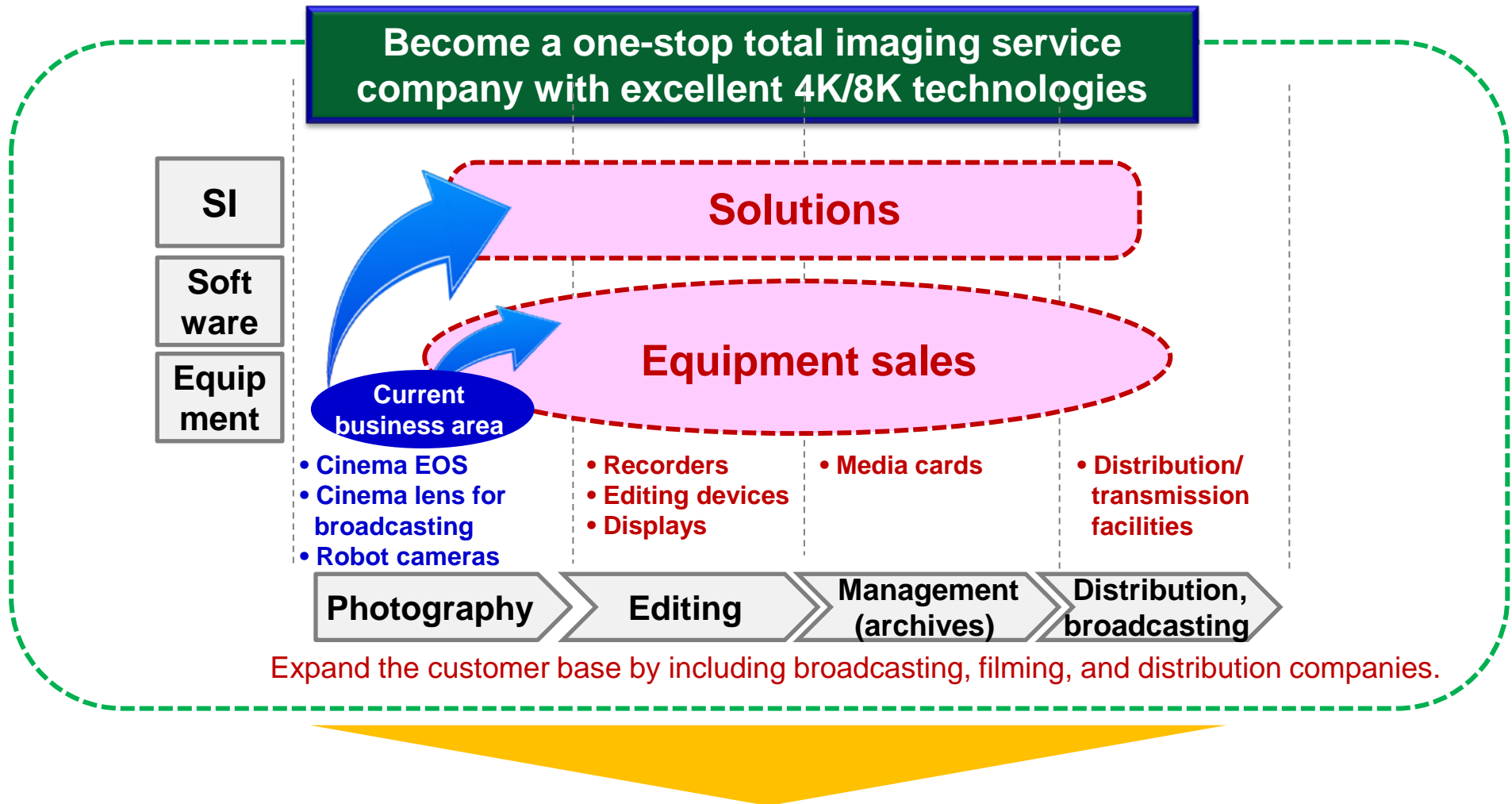
Design

CAD
Drawings

In addition to increasing the number of business areas, convert from focus on merchandise sales to integrated solution models ranging from upstream systems to downstream processes.

Canon Growth Areas: Commercial Imaging Equipment

Avg. growth rate until
2018: +21%



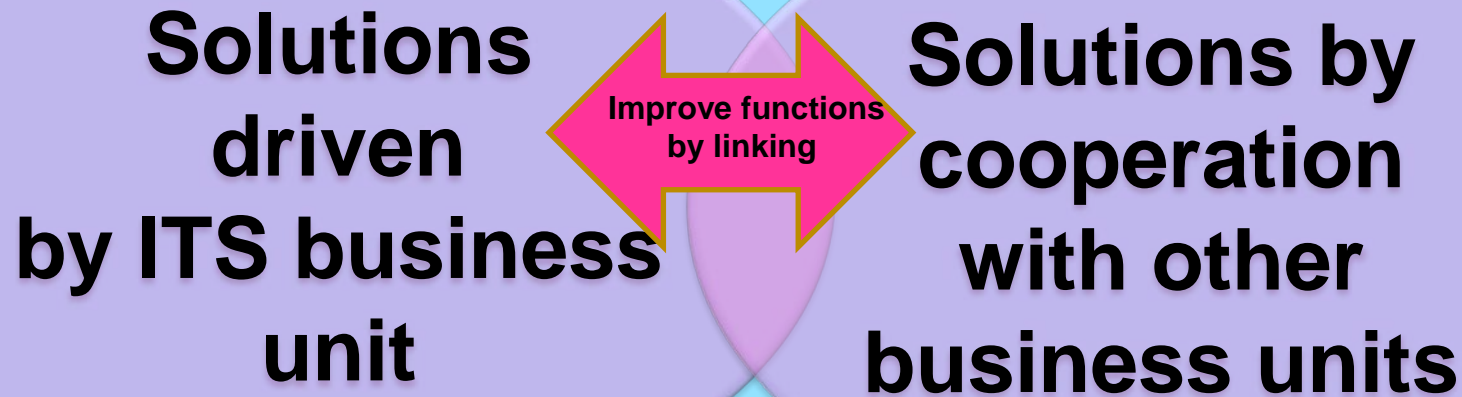
**Also consider entering image production and technical service
(content-related) businesses**

Independent Growth Areas

Independent Growth Areas	IT Solutions
	Industrial Equipment (semiconductors and non-semiconductors)
	Medical Solutions, Infection Control, and Dispensing Equipment

Direction of the IT Solution Segment Functionality

IT Solution Business

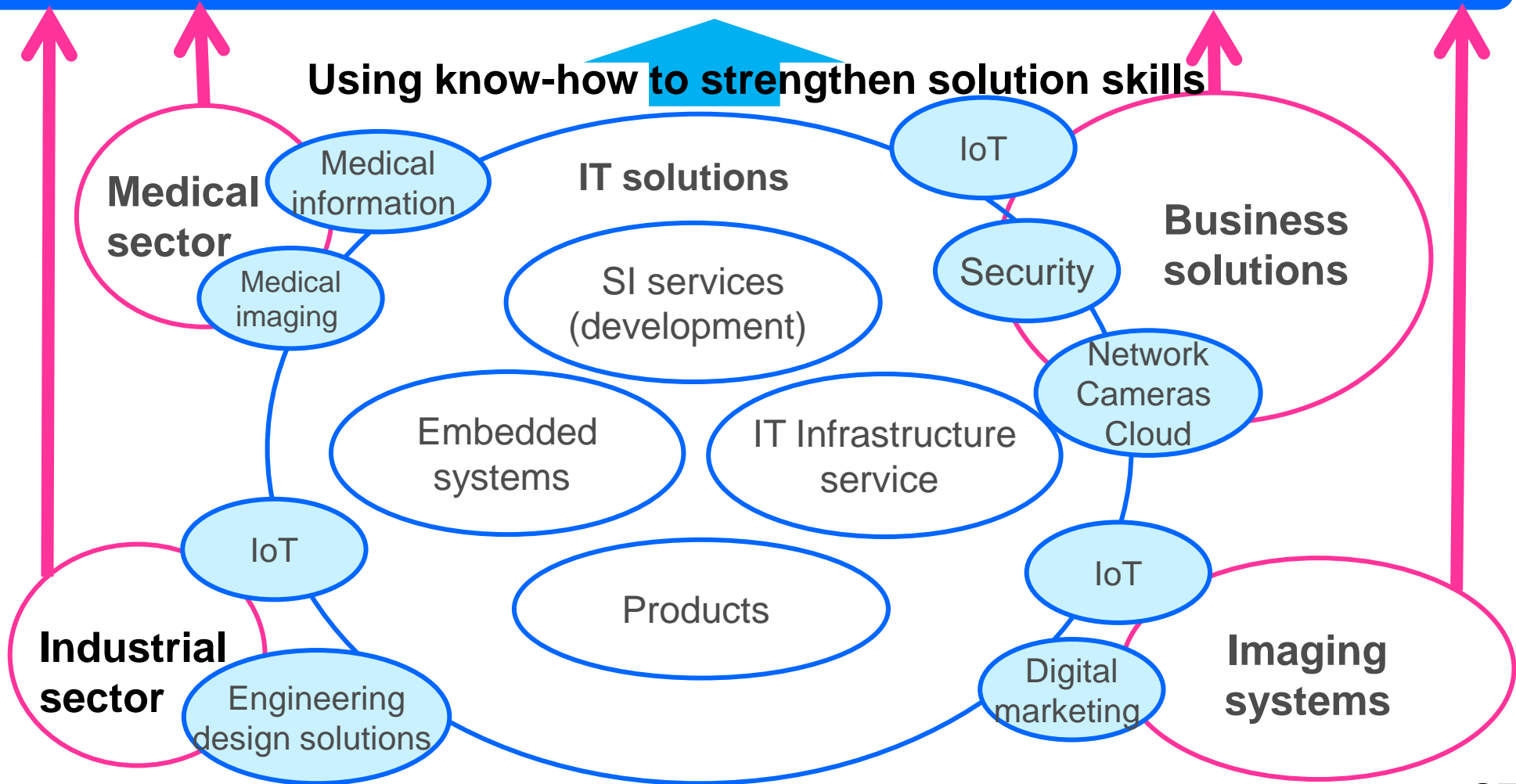


**Establish IT solution business unique to
Canon MJ Group**

Image for Expanding Range of IT Solution Business in All Businesses

Customers

Using know-how to strengthen solution skills



Sales Targets for Group IT Solutions

¥ billion

	2015 Results*	2018	2020
ITS Segment	141.2	168.7	200.0
Other segments	58.3	76.0	80.0
Inter-segment sales	-27.4	-27.7	-30.0
Group IT Solutions – total	172.1	217.0	250.0
Group consolidated	646.0	725.0	800.0
Ratio of sales from Group IT Solutions	27%	30%	31%

* 2015 Results are not equal to the figures on page 16, “[Reference] Overall sales of IT Solutions,” of “FY 2015 Results Presentation” which is disclosed separately, due to recalculation based upon our aggregation method of the Long-Term Management Objectives.

IT Solution Business Strategy (1)

Conversion to business based on SI service solutions

Direction of SI service reform

Entrusted Development
(development from scratch)

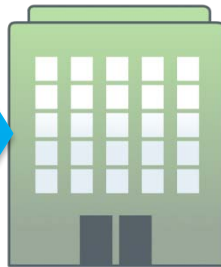


Solution SI

- Internal IT system and solution development
- Conversion of knowledge for system development for industry users into solutions

- ✓ Expand market presence
- ✓ Growth through new business areas
- ✓ Increase profitability and productivity

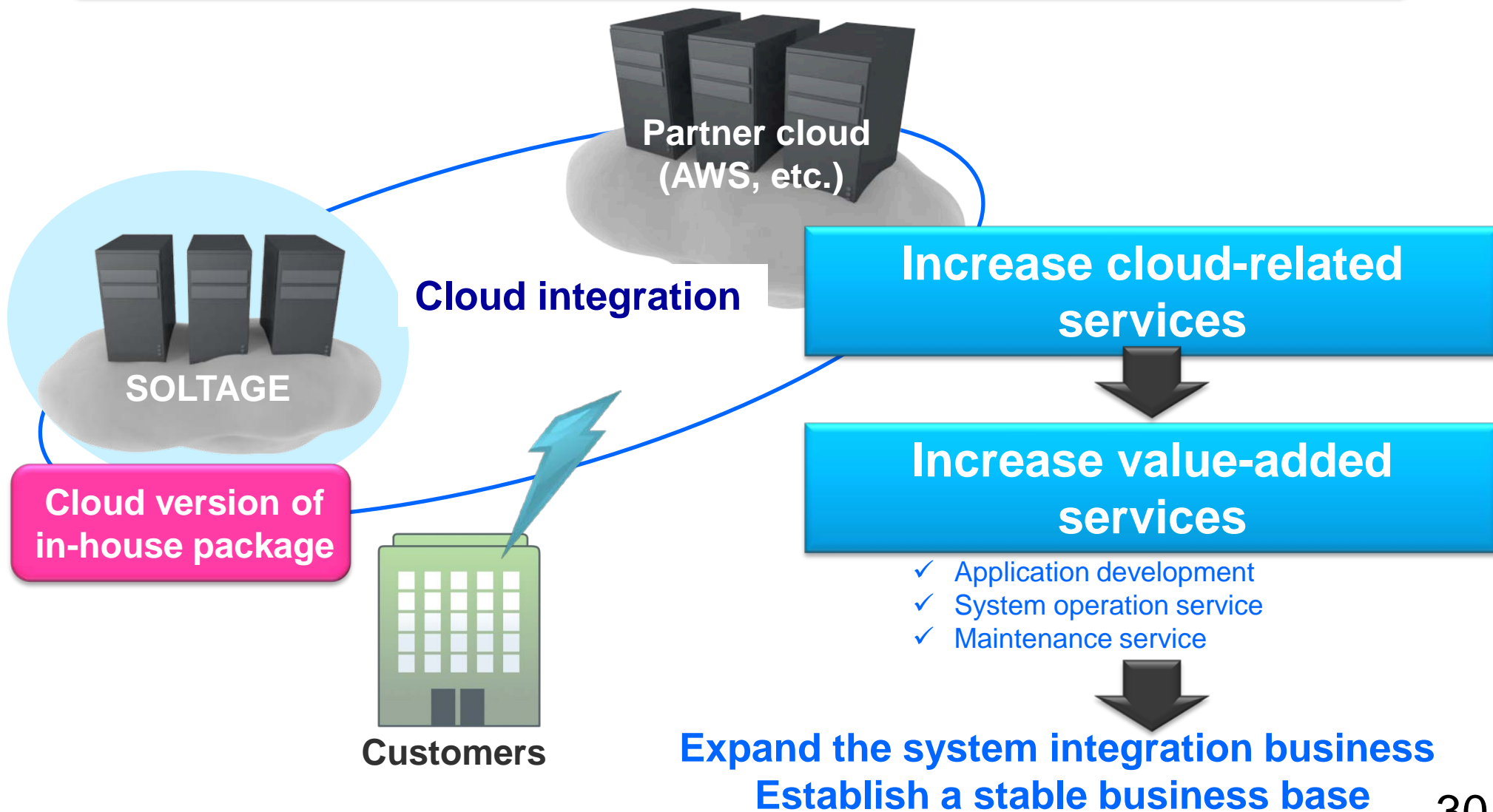
Deep understanding
Appropriate proposals



Customers

IT Solution Business Strategy (2)

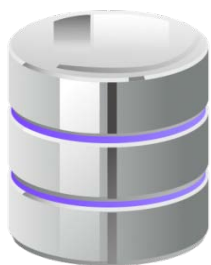
Strengthening Cloud Business



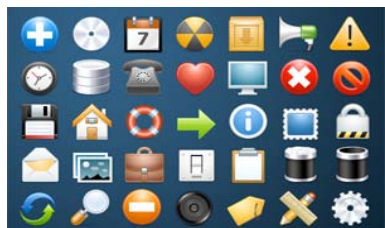
Independent Growth Areas: Security

Build a new service business model by using Canon Group's advanced devices (Network Cameras) and by increasing IT security services through cloud migration and the use of data analysis systems.

Canon Security Cloud



Big data



Recognition and analysis applications



Security infrastructure platform

Provide services

Provide services

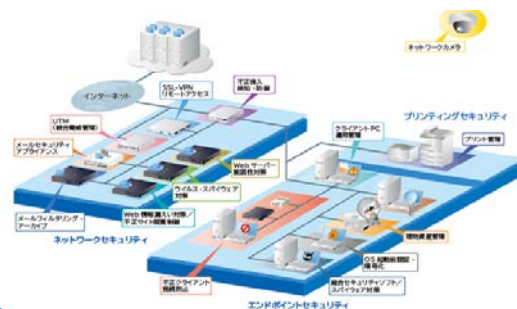
Physical Security

Group of security sensors that employ network cameras

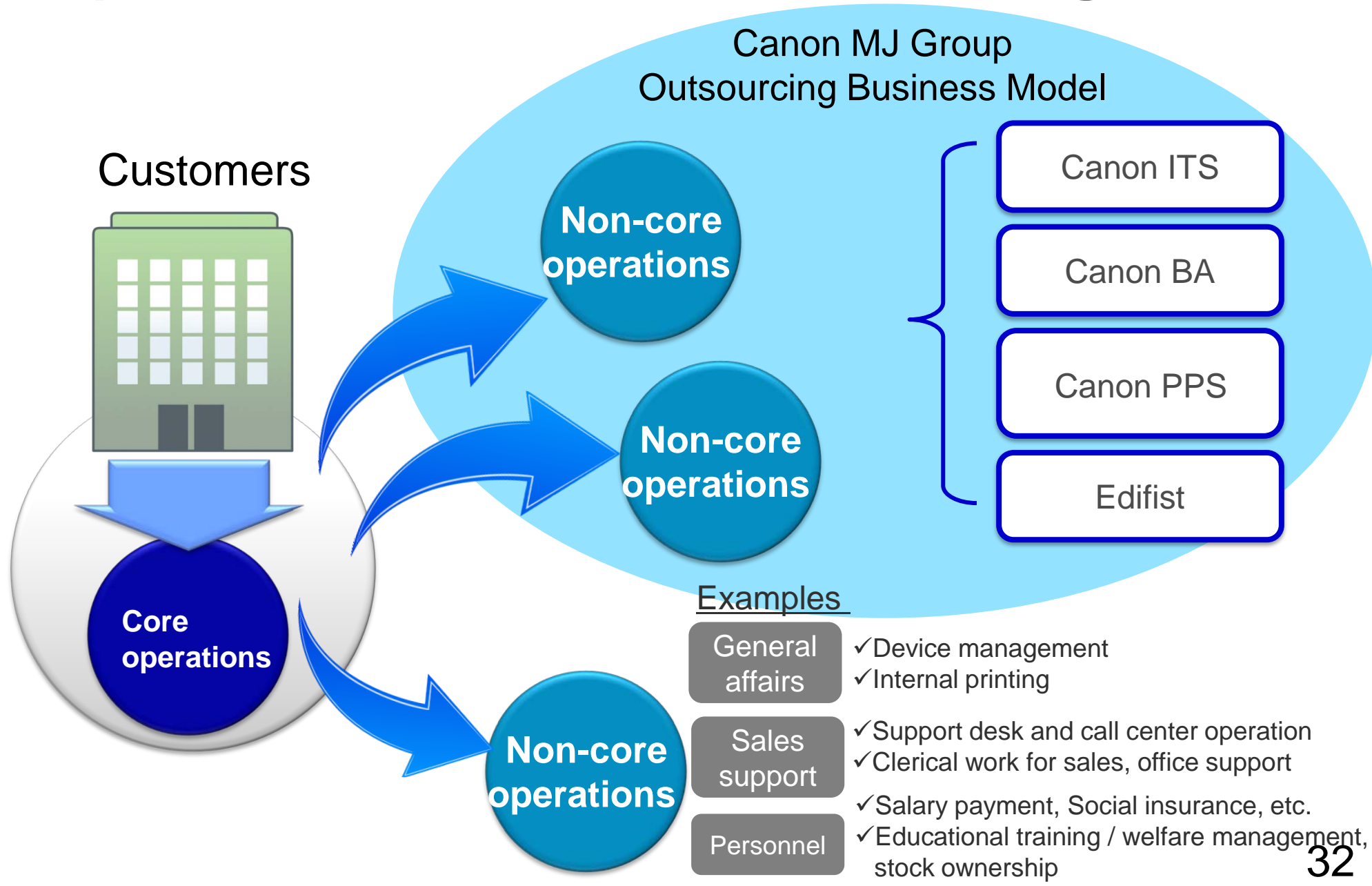


Information Security

Integrated security service for companies

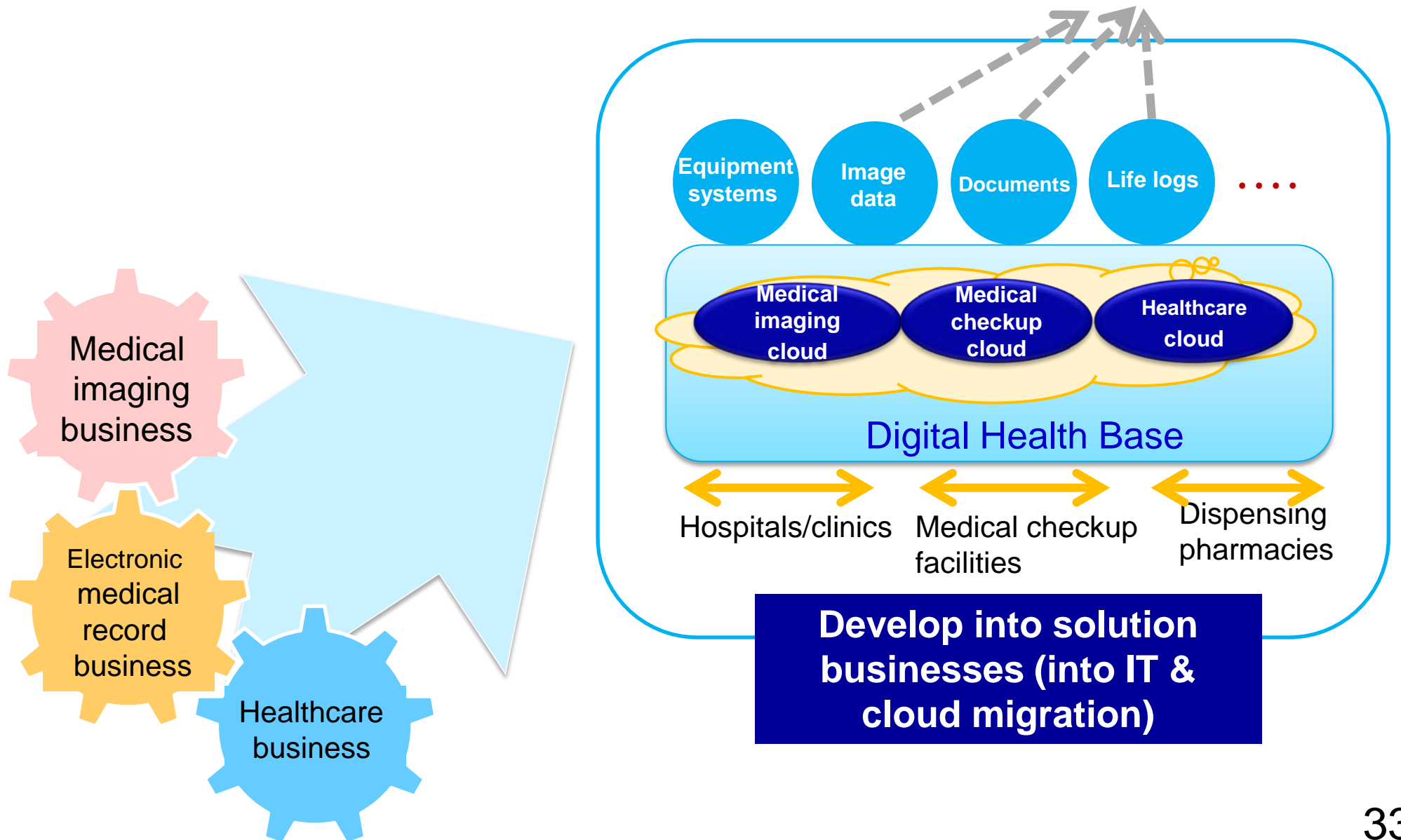


Independent Growth Areas: Outsourcing



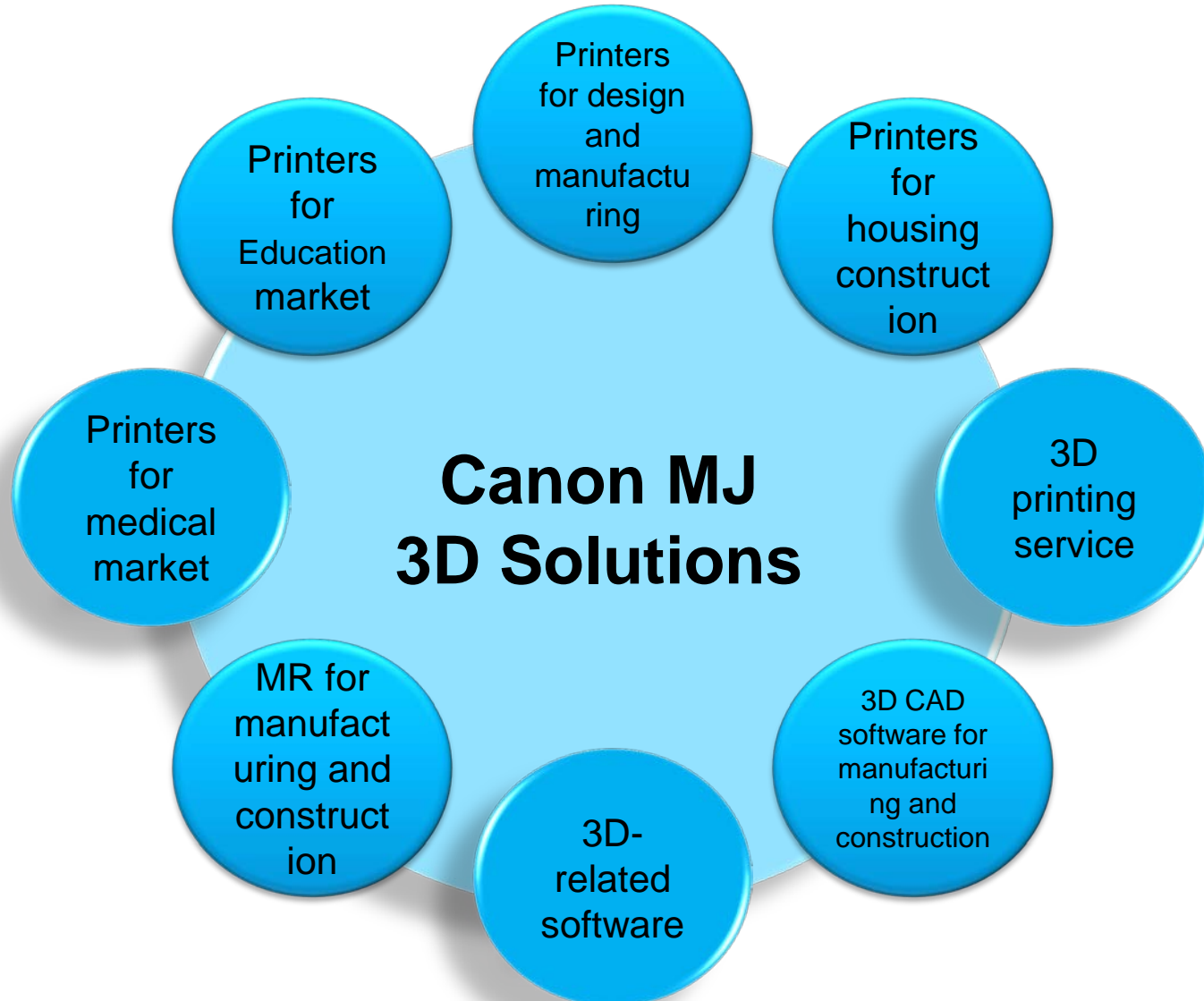
Independent Growth Areas: Medical Solutions

In the future, these will be directed to life / nonlife Insurance and personal businesses



Independent Growth Areas: 3D Solutions

Establish Canon's presence in the 3D solution industry by offering various printers and Canon's original solutions, such as mixed reality (MR) and CAD, in growing markets.

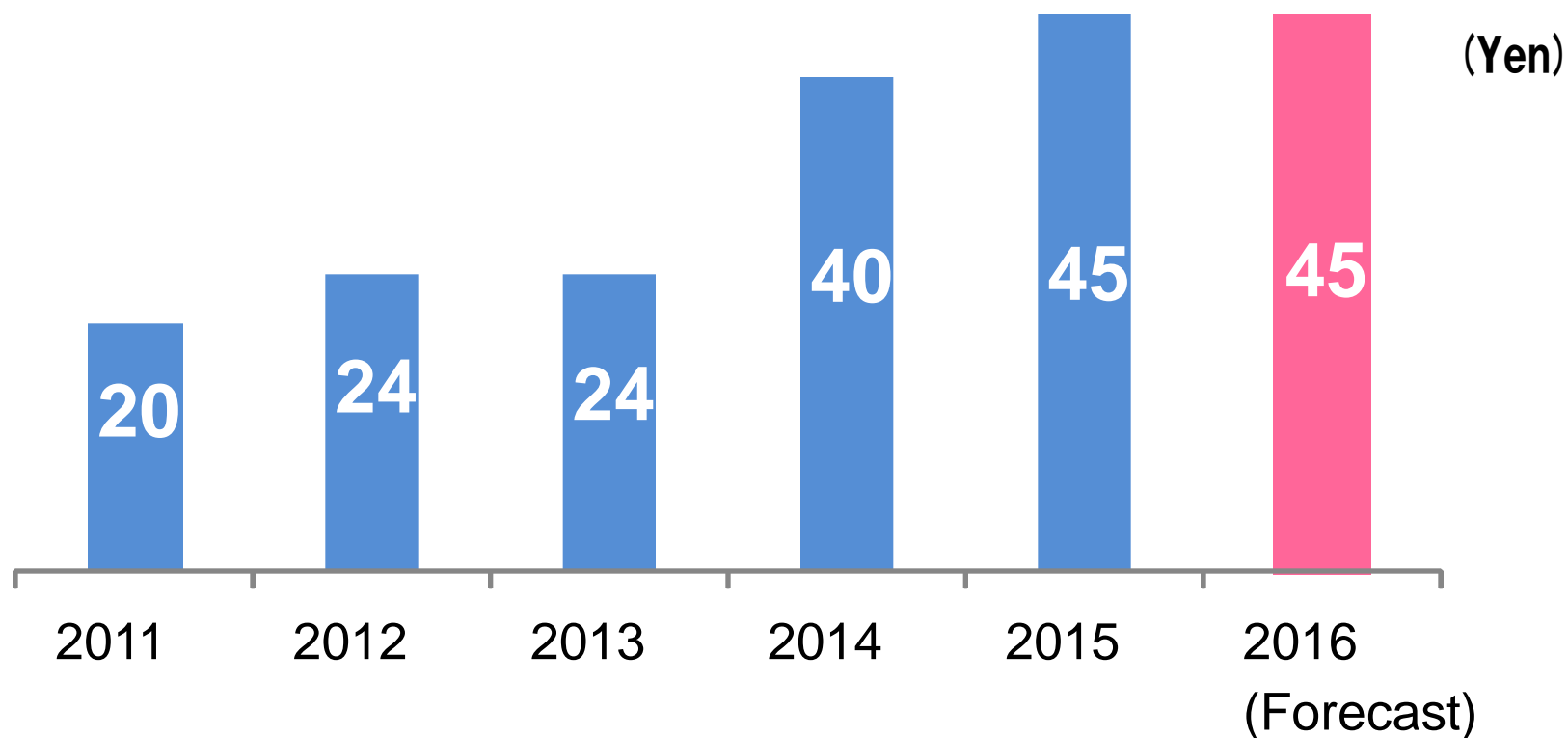


Investing in Growth

		Breakdown of Investment	Cumulative Investment 2016 to 2018
General Investment	Main Investment Items	Data center improvement	¥8.5 billion
		Rental business	¥25.0 billion
		Investment in IT	¥8.5 billion
	Total General Investment		¥54 billion
Strategic Investments		M&A-related funds, etc.	¥40 billion

Shareholder Dividend Policy

- Pay dividends with comprehensive consideration of the medium-term profit plan, investment plan, and cash flows, based on a consolidated payout ratio of at least 30%





Canon Marketing Japan Group

The performance and future projections made in this document are based on information available at the present time, and include potential risks and inaccuracies. Owing to various factors, actual results may differ substantially from these projections. All estimated/actual performance figures are for consolidated performance.

*Fractions of less than 100 million yen are rounded off in this document.