Canon Marketing Japan Group

Three-Year Management Plan 2018 to 2020

January 30, 2018

Canon Marketing Japan Inc.
Masahiro Sakata, President

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Details of this Briefing

Progress of the Previous Medium-term Management Plan, Outline of the New Medium-term Management Plan and Information on Investment and Shareholder Return

I: Review of 2017
II: Brief Description of the New Medium-term Management Plan (2018-2020)
III: Investment Strategy, Shareholder Return

Details to be Announced in April

Premise for Formulation of the New Medium-term Management Plan and Growth Strategies for Each New Segment

I: Premise for Formulation of the New Medium-Term Management Plan (2018-2020)
II: Description of New Segments
III: Descriptions of Growth Strategies for Each New Segment

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2 Overview of the Medium-term Management Plan for 2018-2020

3 Strategic Investments

4 Shareholder Return

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Core Themes of the Medium-term Management Plan (2017-2019)

Growing Sales

Achieving growth through attack & reform

- Seek to expand business to markets and customers that we were unable to offer solutions to until now, by shifting to a framework that caters to market and customer needs.
- Seek to expand business by shifting manpower, funds and other resources from Canon's Profitability Growth Areas to Canon's Growth Areas and Independent Growth Areas.

Improving percentage profits

Conversion to a muscular business structure

- Seek to further improve profitability of B-to-C, Document Businesses and other of Canon's Profitability Growth Areas.
- Implement fundamental structural reforms and seek to reduce SG&A expenses.

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2017 General Overview - Progress on Key Management Indicators -

Canon

- Sales increased slightly and income increased over the previous year.
- Sales fell short of targets due to delayed market recovery for B-to-C, delayed shipments of new production printing products and other factors. On the other hand, operating income managed to beat targets thanks to thorough efforts to appropriately manage expenses.
- Operating income ratio was a record 4.8%.

	Actual results for 2016	Plan at start of 2017	Actual results for 2017	Compared with Previous Year
Sales	¥629.3 billion	¥645 billion	¥632.2 billion	+0.5%
SGA ratio	31.5%	31.0%	30.6%	-0.9%
Operating income	¥27.7 billion	¥28.8 billion	¥30.4 billion	¥+2.7 billion
Operating income ratio	4.4%	4.5%	4.8%	+0.4%
Profit attributable to owners of parent	¥18.2 billion	¥19.8 billion	¥20.7 billion	¥+2.5 billion
ROE	6.3%		7.2%	

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2017 General Overview - Weight shift towards growth areas -

Canon

- Growth was achieved compared with the previous year in Independent Growth Areas driven by IT solutions and industrial equipment.
- In Canon's Growth Areas, year-on-year growth was achieved thanks to growing performance with network cameras.
- In Canon's Profitability Growth Areas, a decline occurred due to a weak consumer market.

	Actual results for 2016	Actual results for 2017	%
Independent Growth Areas (IT solutions, industrial equipment, medical imaging solutions, etc.)	**31%** (¥197.9 billion)	**33%** (¥206.7 billion)	**+4%** (¥+8.8 billion)
Canon's Growth Areas (Production printing, network cameras, etc.)	**7%** (¥46.5 billion)	**7%** (¥46.9 billion)	**+1%** (¥+0.4 billion)
Canon's Profitability Growth Areas (MFP, laser printers, digital cameras, ink jet printers, etc.)	**62%** (¥384.9 billion)	**60%** (¥378.6 billion)	**-2%** (¥-6.3 billion)

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Growth in IT Solutions

(Billions of Yen)

	2016	2017	%
ITS segment	128.8	134.9	+5%
Outside ITS Segment	73.7	76.5	+4%
Between-segment sales	-25.5	-27.5	-
Group IT solutions total	177.0	183.9	+4%

Increase in SI Services for Finance and Manufacturing **+3%**

Expansion of Security Business including ESET **+12%**

Expanded External Sales for Embedded Solutions

Nishi-Tokyo Data Center Building 1 will be fully occupied

Expanded ITS Sales in BS Segment

Advancement of Cloud Strategy

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Growth in Industrial Equipment

Market Conditions

- Increasing smartphone capacity, the establishment of new data centers and the electrification of vehicles has driven growth in the semiconductor market and significantly expanded capital expenditures.

Factors Behind Increased Sales in 2017

- Sales of semiconductor process equipment and measurement equipment have grown

HeliosXP
(Mattson)

Suprema
(Mattson)

Initiatives to Carry New Products

- Proposing new solutions associated with the miniaturization and densification of semiconductor devices

Mentor
(Metryx)

CLUSTERLINE
(Evatec)

Year-on-year Sales Growth Rate for Industrial Equipment
+33%

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2017 General Overview - Weight shift towards growth areas -

Network Cameras
(+22% year-on-year)

- Number of projects increased through stronger coordination with AXIS and Milestone Systems
- Business expansion through alliances
- Stronger sales power thanks to shift of personnel from other segments

Issues

- Expertise in design and network construction
- Development of sales channels

Production Printing
(-3% year-on-year)

- Increase in cut paper production printers for the commercial printing market
- Attempted to create new market in the printing industry with the establishment of a joint venture company

Issues

- Delay in release of black-and-white continuous feed printer

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Measures aimed at Future Sales Growth

Resource Shifting and Consolidation and Strengthening

- Consolidation and strengthening of BPO business resources
- Consolidation and strengthening of medical IT resources
- Consolidation and improved productivity for Group service & support capabilities

Strengthening the Commercial Printing Segment

- Establishment of Customer Experience Center Tokyo, a commercial printing experience-oriented facility on the premises of the Canon Inc. headquarters
- Establishment of joint venture named Commercial Printing Lab Inc.

Initiatives aimed at Business Creation and Expansion

- Establishment of Video Solutions Co-creation Project
- Added to previous year investment in APTJ, which develops on-board control-related software for cars.
- Invested in Safie Inc., the operator of a cloud-based video platform.
- Launched drone solutions business in partnership with Prodrone Co., Ltd., which we have invested in.
- Started the Canon i Program, a business creation program to cultivate entrepreneurs in-house.

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Reference: Nishi-Tokyo Data Center Obtains M&O Certification

With the earning of M&O certification, the operational capabilities of the Nishi-Tokyo Data Center have been verified as sufficiently high according to global standards.

The Second Data Center in Japan to earn M&O Certification

M&O certification is a global standard for data centers established by the Uptime Institute, a U.S.-based private sector group which formulated facility standard “tiers” for data centers, and is an objective assessment of the quality of data center management.

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2017 General Overview - Higher Profit Margins -

Achieving a Record Operating Income Ratio of 4.8%

Measures	Results
Enhancing profitability of B-to-C business	● No. 1 market share for digital interchangeable lens cameras and compact cameras ● No. 1 market share for ink jet printers ● Improved profitability through organizational slimming and enhanced operating efficiency
Improving profitability of document business	● A record number of MFP units have been shipped for three consecutive years since 2015 ● No. 1 market share in laser printers has been maintained for 26 consecutive years ● Revenues from maintenance services have been maintained and expanded due to increase in print volume associated with the expanded number of units operating in the market ● Cartridge sales have increased due to expanded LBPs for specific uses
Structural reforms	● SG&A ratio fell due to thorough awareness of costs (31.5% in 2016 → 30.6% in 2017: year-on-year fall of 0.9%) ● Lower IT costs due to visualization and simplification of business processes ● Higher productivity per employee

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Medium-term Management Plan (2018-2020) Targets

(Billions of Yen)

	Actual Results	3-year Management Plan		
	2017	2018	2019	2020
Net sales	632.2	645.0	680.0	720.0
(%)	(+0.5%)	(+2.0%)	(+5.4%)	(+5.9%)
Operating income	30.4	32.0	35.0	38.0
(ratio)	(4.8%)	(5.0%)	(5.1%)	(5.3%)
Ordinary income	31.5	33.0	36.0	39.0
(ratio)	(5.0%)	(5.1%)	(5.3%)	(5.4%)
Profit attributable to owners of parent	20.7	21.7	24.2	26.1
(ratio)	(3.3%)	(3.4%)	(3.6%)	(3.6%)
EPS	¥159	¥167	¥187	¥202
ROE	7.2%	7.1%	7.7%	7.9%

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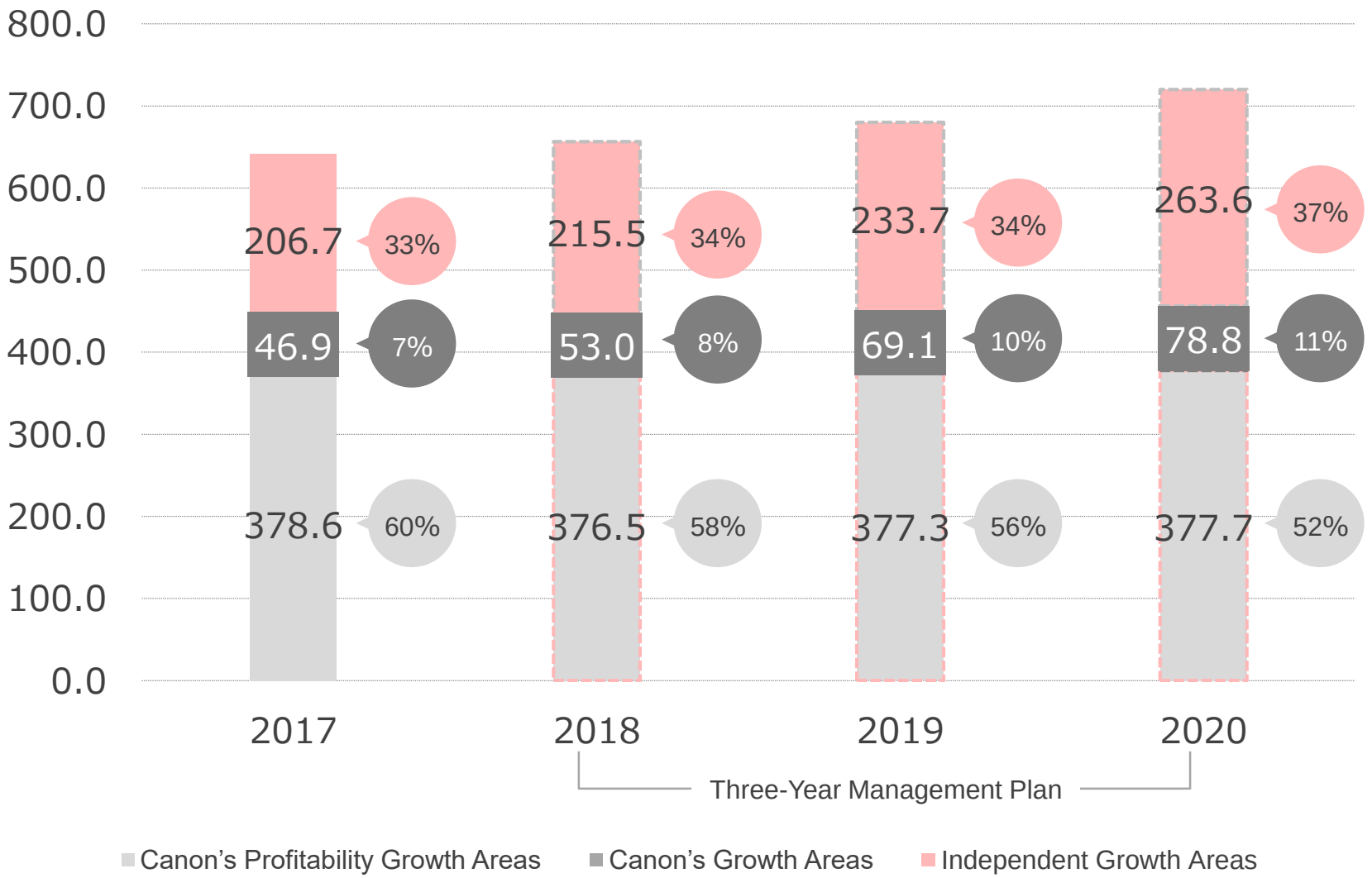
Sales Targets by Growth Scenario

Shifting Weight to Growth Areas

(Billions of Yen)



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Strengthening and Creating New Sources of Revenue

Canon

Conventional Revenue Models

MFP + maintenance services

LBP + toner cartridges

Ink Jet Printers
+ ink cartridges

+

Revenue Models to Grow in the Future

IT Maintenance Services

Cloud Services

Data Center Services

Security

⋮

Work to strengthen and create stock businesses based on IT solution technologies

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Shift to Growth

Achieving Growth through Attack and Reform

Expand Growth Areas

- Shift resources to growth businesses
- Make active use of M&A and alliances
  - Expand operations and supplement functioning of growth businesses
- Create and expand new businesses

Enhanced Profitability

Further Conversion to a Muscular Earnings Structure

Boost Productivity in Profitability Growth Areas

- Raise productivity in existing businesses
- Promote fundamental structural reforms

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Core Themes of the Medium-term Management Plan for 2018-2020

Shifting to a framework that caters to customer and market needs

■ Shifting to a new framework

Existing		Future
Product Centric Organizational framework based on products	→	**Customer Centric** Organizational framework based on customers and markets

Gain a deep understanding of customers and establish processes to develop and produce results in step with customers.

To provide customers with greater added value, strive to enhance IT solution functions as our strength across all business fields.

To make effective use of Group resources and strengthen the ability to cater to customer needs, supervise products, services and personnel across the Group in a cross-sectoral manner.

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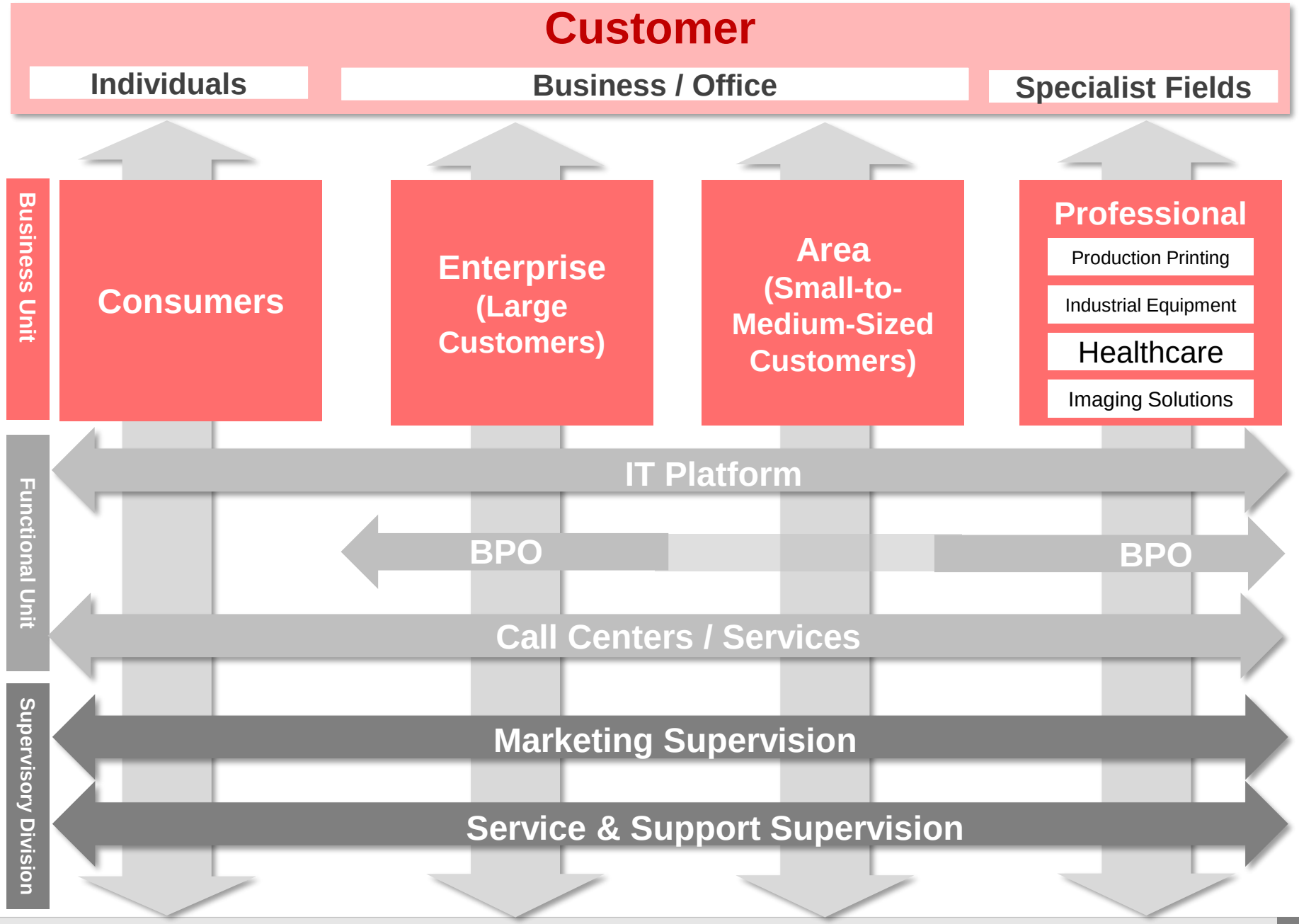
Schematic of the New Framework



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Expansion of Group IT Solutions

Canon

Pursue the optimum utilization of Group resources and make the ITS business a pillar of growth (average three-year growth rate +9%)

Enterprise (Large Customers)	Area (Small-to-Medium-Sized Customers)	Professional
Cloud shift Solution shift Digital business shift	IT Concierge	

Development of Data Centers and Cloud Infrastructure, IT Maintenance and Operation ★

IT Products (PCs, Servers, Network Equipment)

IT Security ★

Document solutions

SI Solutions by Business Category ★	Mission-critical and Business Packaged Software	Imaging Solutions ★
Embedded (On-board Software for Vehicles) ★	IT Support Cloud Service for Small-to-Medium-Sized Enterprises	Medical IT (MIP)

Strengthening the IT Business Infrastructure (Optimum Arrangement of Technical Resources and Quality Control)

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Strategic Investments

M&A Investments	**Accelerating Growth in Independent Growth Areas**	◆ Strengthening the IT Solutions Business ➢ Enhancing IT systems infrastructure including security ➢ Improving solutions for specific business categories and businesses (for large enterprises and small-to-medium-sized enterprises) ➢ Acquiring cutting-edge technologies ◆ Acquiring new independent growth areas
	Expanding Business Domain in Canon's Growth Areas	◆ Enhancing the Solutions Business for Professionals ➢ Strengthening the Imaging solutions business (Network Camera Business, Commercial Imaging Business) ➢ Reinforcing business foundations for commercial and industrial printing
Capital Expenditure	**Data Centers**	◆ Construction of the Nishi-Tokyo Data Center Building 2
	IT Investment	◆ Investment in IT to boost internal productivity and business efficiency

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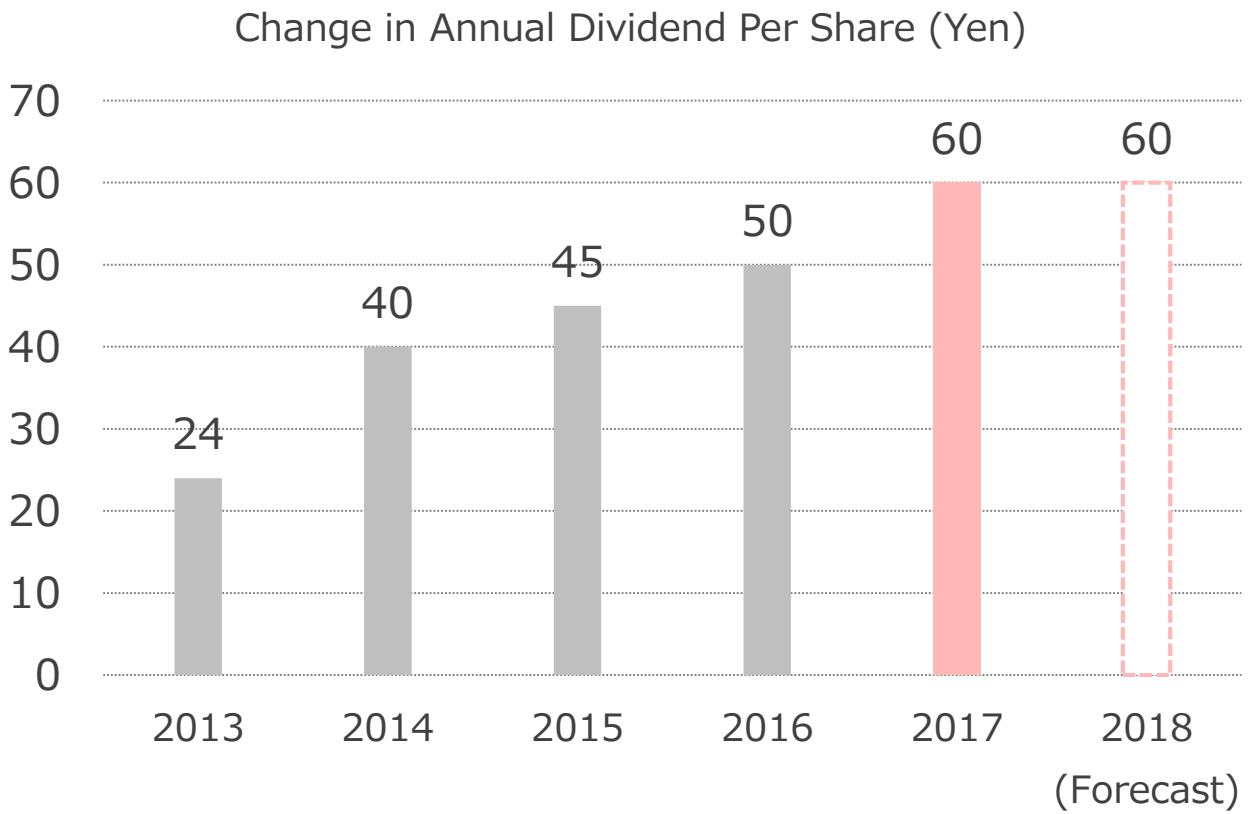
Dividend Policy

Our basic policy is to pay dividends to shareholders based on a dividend payout ratio of 30%, while also taking into account overall issues such as medium-term profit outlook, investment plans and cash flow.



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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.

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Three-Year Management Plan 2018 to 2020

April 25, 2018

Canon Marketing Japan Inc.

Masahiro Sakata, President

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2 Main Strategies in New Segments

3 Structural Reforms

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1 Assumptions for formulation of the Medium-Term Management Plan (2018-2020)

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Environmental Changes & Expansion of Business Opportunities

Market maturation, low birth rate and aging population
→Rising demand for high-efficiency solutions in society and business

➢Need for workflow improvement at companies
→ Intensifying use of outsourcing and cloud systems for concentration on main business/services
→ Improving work efficiency and bolstering sales capabilities through proactive utilization of IT at small-to-medium sized businesses

➢Need for reduction of medical costs accompanying social aging
→ Solutions for reducing costs at medical institutions through utilization of IT technologies
→ Increase operational efficiency and monitoring of residents at nursing care facilities

Technological advancement and evolution
→Increased investment in new business opportunities and expanding security needs

➢Incorporation of IT technologies through technological innovation
→ Investing in IoT and robotics, etc., in various industry segments
→ Investment for revolutionizing points of contact with customers in the financial sector utilizing FinTech
→ Increase investment in automatic driving and transition to digital devices in the automobile sector

➢Reforming and revolutionizing business models
→ Investing in new businesses that utilize AI, 3D technologies and digital marketing, etc.

➢Rising demand for improved security
→ Bolstering security against increasingly sophisticated cyber attacks

➢Advancement of business and higher efficiency in society through utilization of imaging technologies
→ Utilizing high-resolution images (i.e. 4k & 8k)
→ Deploying monitoring and security/protection solutions utilizing the data of network camera for marketing applications and developing new businesses utilizing drones

Core Themes of the Medium-term Management Plan for 2018-2020

Shift to Growth

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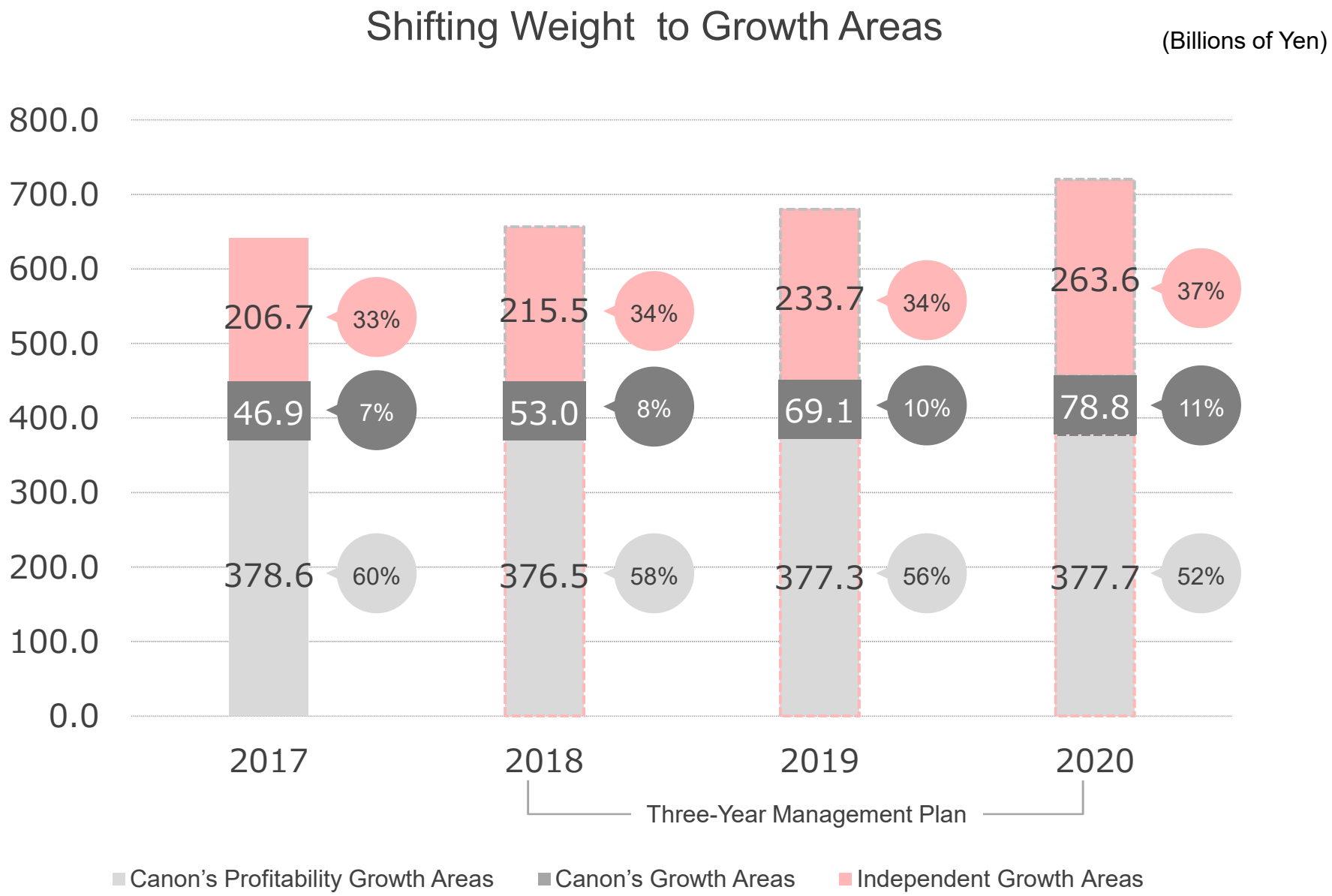
ROE	7.2%	7.1%	7.7%	7.9%

Net Sales and Operating Income Targets of Individual Segments

(Billions of Yen)

	Actual		Medium-Term Management Plan			
	2017		2018		2020	
	Net sales	Operating income	Net sales	Operating income	Net sales	Operating income
	Growth rate	Income ratio	Growth rate	Income ratio	Growth rate	Income ratio
Consumers	166.3	12.7	163.0	11.6	170.0	11.5
	-	(7.6%)	(-2.0%)	(7.1%)	-	(6.8%)
Enterprise	177.1	7.9	183.0	8.5	220.0	10.0
	-	(4.5%)	(+3.3%)	(4.6%)	-	(4.5%)
Area	257.3	11.2	261.0	13.2	280.0	14.0
	-	(4.4%)	(+1.4%)	(5.1%)	-	(5.0%)
Professional	54.5	-1.9	61.0	-1.3	80.0	2.4
	-	-	(+11.9%)	-	-	(3.0%)
Other	-23.0	0.5	-23.0	0	-30.0	0.1
Consolidated total	632.2	30.4	645.0	32.0	720.0	38.0
	(+0.5%)	(4.8%)	(+2.0%)	(5.0%)	(+5.9%)	(5.3%)

Sales Targets by Growth Scenario



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Consumers Segment

Consumers Segment

Maintain and increase profitability in principal business fields

- Build closer ties between the production and sales sections to develop attractive products
- Cut SG&A expenses and review the operation process

Expand growth areas

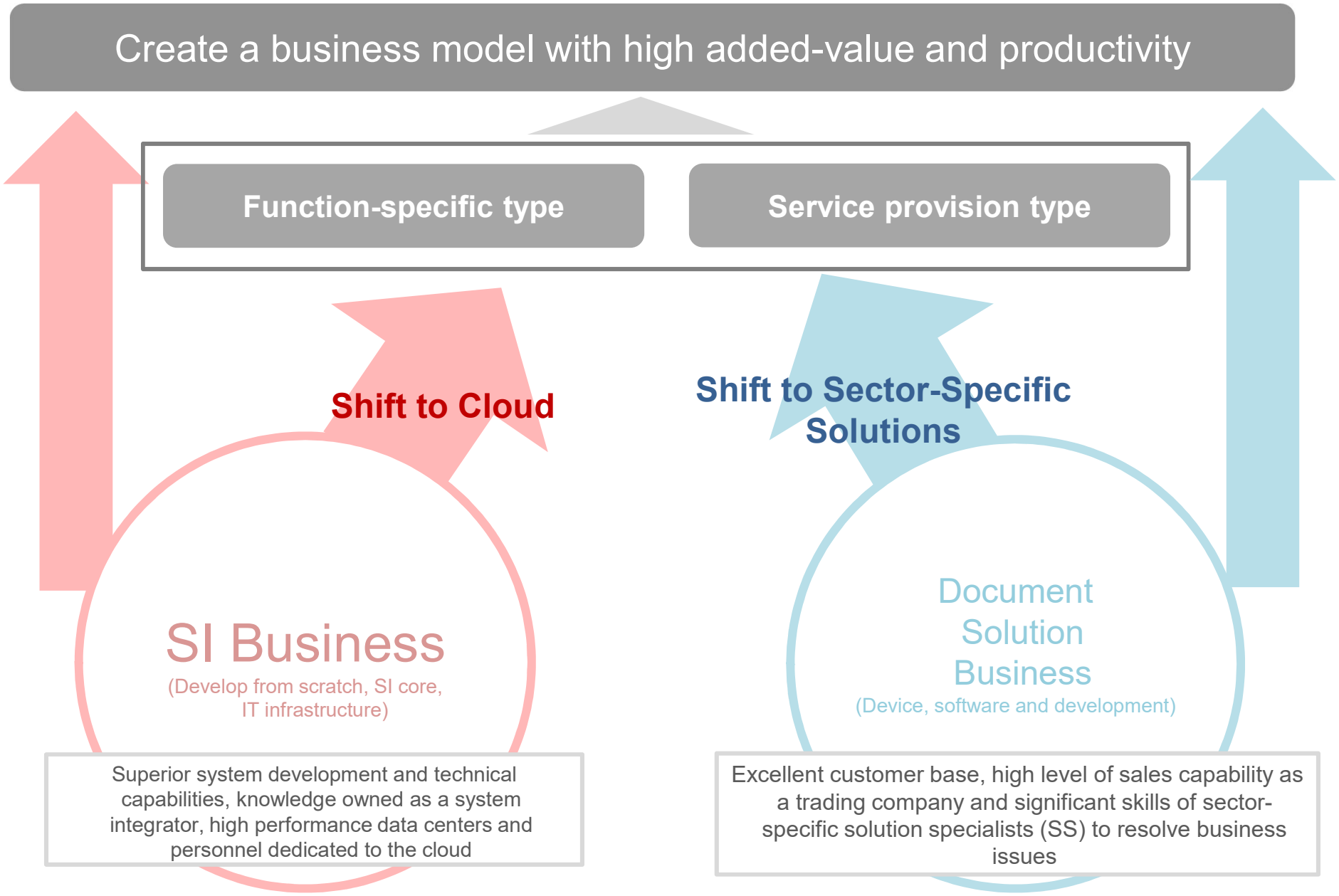
- Obtain the largest market share in mirrorless cameras and expand the entry-level customer base
- Improve business inkjet printers, laser printers and other products and services for the SOHO market
- Step up the e-commerce business

Enterprise Segment

Enterprise Segment

Expand ITS business	■ Change the business focus from sales of business equipment to sales of solutions to expand the ITS business ■ Shift from provision of SI services upon contract to provision of proposals and value through solutions
Build closer ties with customers	■ Solidify our customer base as a source of strength by increasing customer satisfaction and make it into a shared asset of the Group beyond segments and companies
Create high value-added businesses and increase profitability	■ Create high value-added businesses matched with market needs and increase the income ratio
Expand sales by spreading solutions to other sections	■ Ensure sector-specific solutions for other sections in the company to boost sales and productivity

Enterprise Segment: Expand Sector-Specific Solution Business

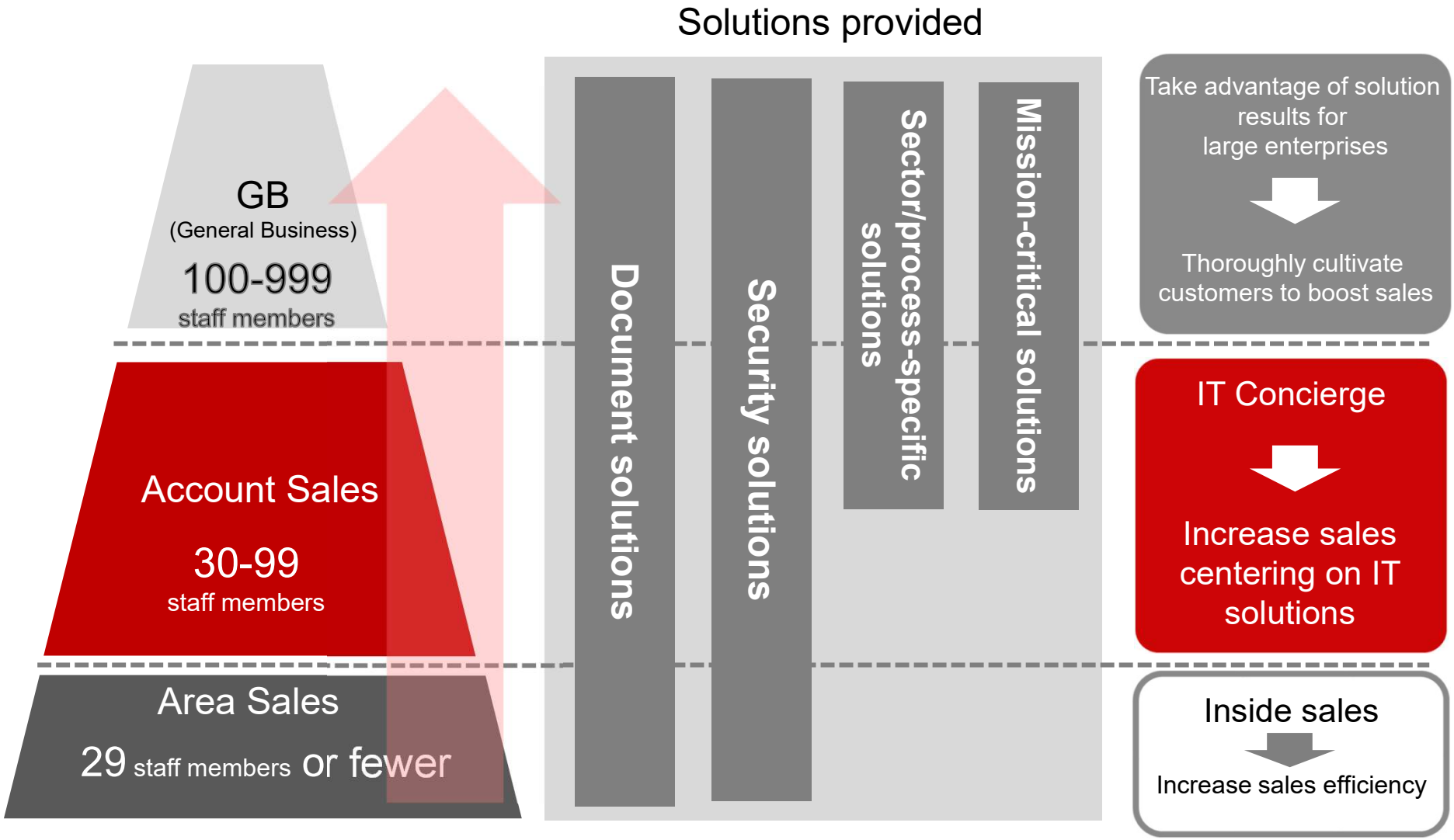


Area Segment

Area Segment

Strengthening sales with area marketing and solution business	■ Deepen marketing activities in individual regions in cooperation with direct sales staff (Canon System & Support) and partners and devise and carry out sales strategies specific to customer groups ■ Strengthen the IT solution business with active use of security and cloud solutions
Increasing profitability by boosting sales efficiency	■ Expand non-face-to-face sales and other activities to increase sales efficiency ■ Shift resources to cultivate medium-sized customers

Area Segment: Rebuild Business Models Matched with Different Sizes of Customers



Successively introduce business models built at Canon System & Support to partners

Professional Segment

Production Printing

Cut sheets

- Strengthening salesforce, expanding solution business in commercial printing business area
- In-house production and expansion of the central reprographic department (CRD) business
- Encouraging replacement with competitors' machines at mission-critical printing

Continuous forms

- Introduce products matched with the Japanese market
- Enhance marketing to diverse commercial printing markets (manuals, catalogs, newspapers, signage & displays, stickers & labels and direct mail) and carry out full-scale entry into the area of industrial printing (banner ads, wallpapers, labels)
- Actively use the Customer Experience Center Tokyo, a facility for gaining experience with commercial printers, to boost the capacity to make proposals

Professional Segment – Industrial Equipment / Healthcare

Industrial Equipment

- Exclusive distribution of overseas manufacturing equipment to domestic semiconductor manufacturers

=> Expand Film deposition equipment manufactured by Evatec

=> Introduce Mattson's equipment for annealing

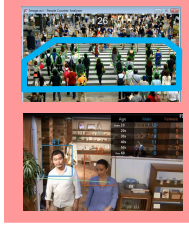
Healthcare

- Medical imaging: Expand business by establishing collaboration scheme with Canon Medical Systems Corporation
- Expand OCT angiography
- Medical IT: Expand the medical IT business in collaboration with Canon Medical Systems Corporation

Professional Segment: Imaging Solutions / Network Cameras

Expand projects to the area of video platform system integration to enlarge the scale of business

Extended image analysis



- Human counts
- Estimation of attributes
- Face authentication

IoT device connection

Sound equipment and sensors

Video management platform

milestone

XProtect®

Multi-vendor cameras

Canon

AXIS COMMUNICATIONS

IT system linkage

POS system

Control system

Cloud linkage

Extension of camera functions

General video recording system

Group IT Solutions

Outline of ITS Business in Different Segments and Key Themes

		Enterprise (Large Customers)	Area (Small-to-Medium-Sized Customers)	Professional
Cross-industry solutions	Security solutions	Data centers and system platforms	Cloud-based security solutions	Network cameras and video monitoring platforms
	Document solutions	Company-wide document management and work flow platforms	Cloud-based document management	Electronic draft submission system for printed matters
Independent domain solutions		Sector-specific system integration	Business software package	Video solutions
		Embedded (automotive software)	IT support cloud services for small-to-medium-sized enterprises	Medical IT (MIP)
IT products		Computers, network equipment, servers and security software		

MIP:Medical Image Place

Strengthening and Creating New Sources of Revenue

Conventional Revenue Models

MFP + maintenance services

LBP + toner cartridges

Ink Jet Printers + ink cartridges

+

Revenue Models to Grow in the Future

IT Maintenance Services

Cloud Services

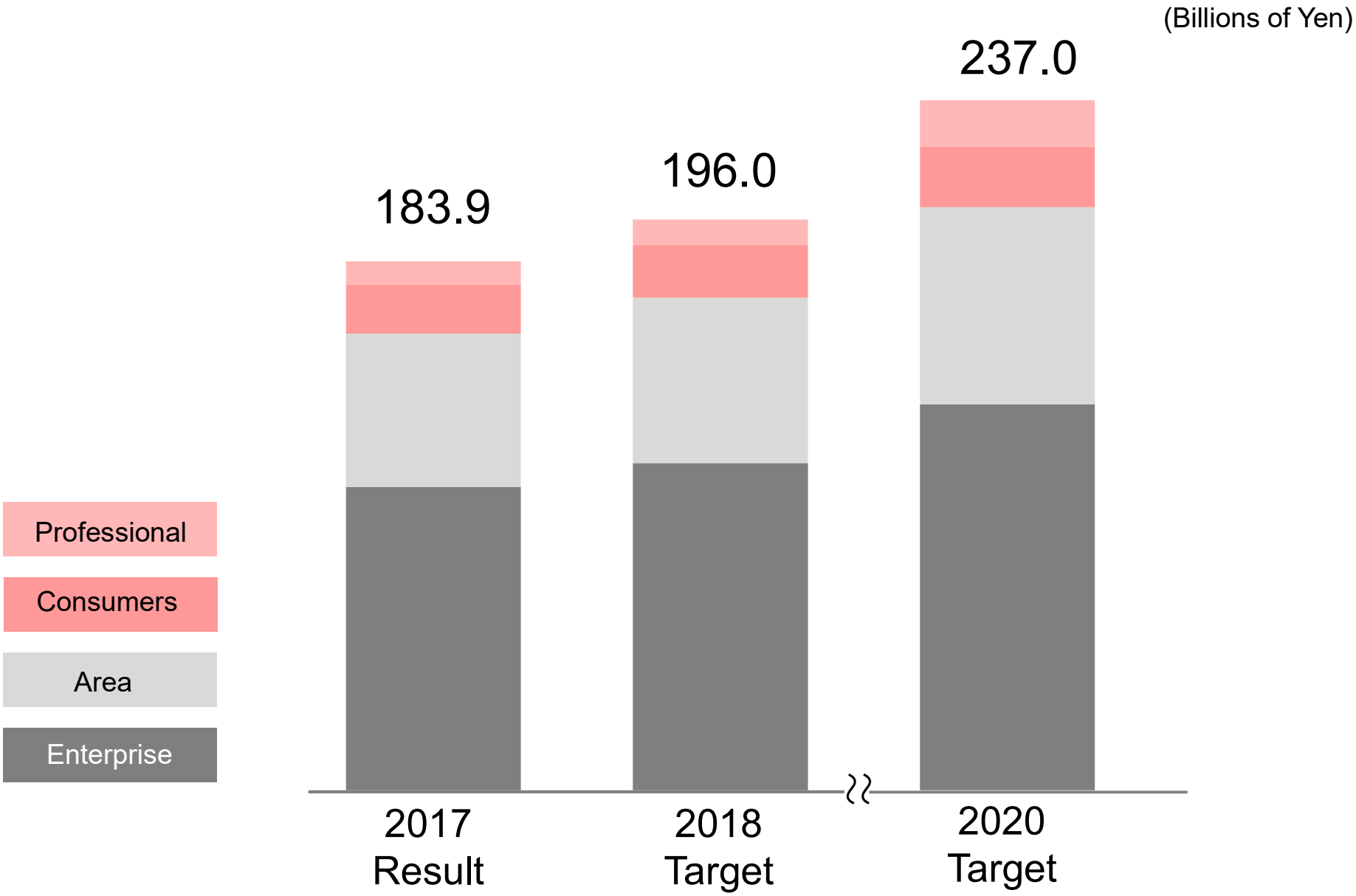
Data Center Services

Security

⋮

Work to strengthen and create stock businesses based on IT solution technologies

Group IT Solutions Result and Targets



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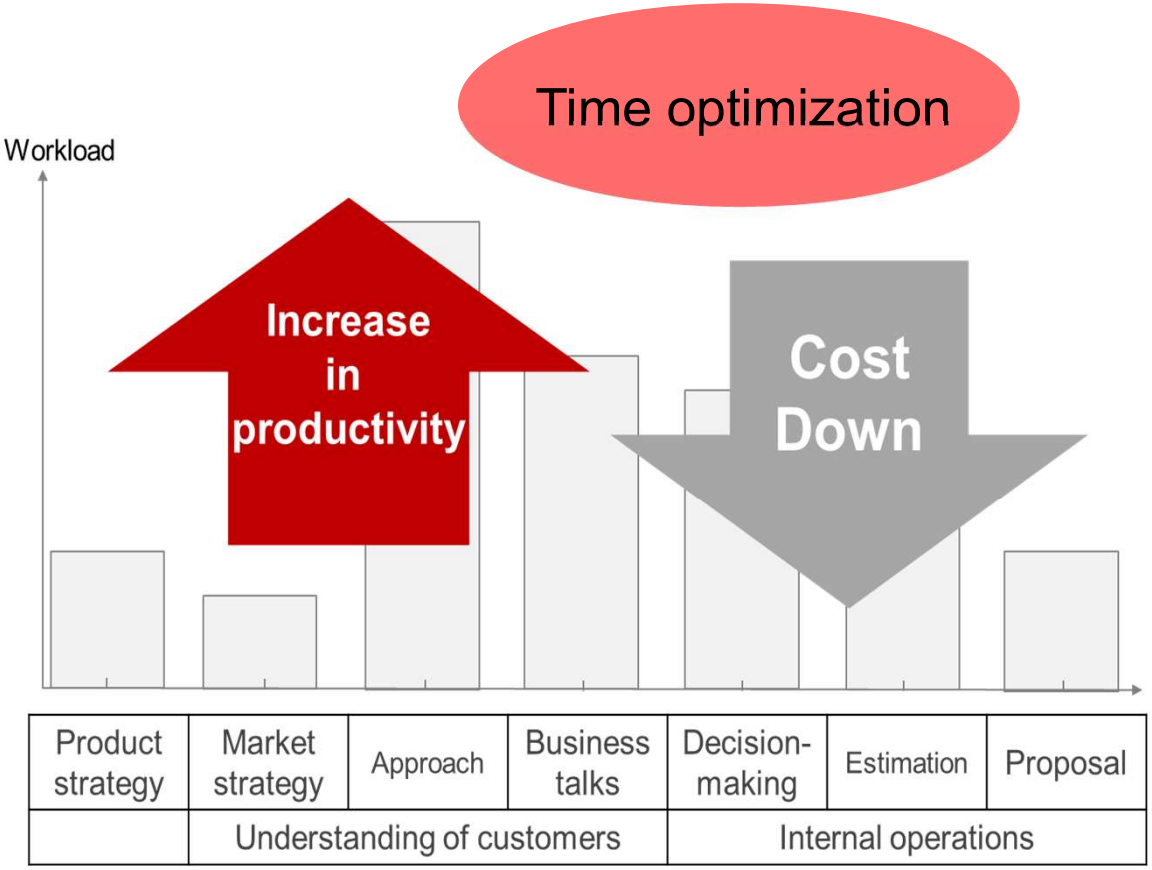
Dramatic simplification of business processes in 2017-2019

- Analysis business operations in all businesses
  - Visualize processes
  - Visualize costs
- Redesign business processes
  - Revise process rules
  - Create time to find customers
  - Shorten task processing time



Fundamental Structural Reforms: SG&A Expenses Reduction

SG&A ratio: 30.6% in 2017 -> 28.5% in 2020

Main actions in 2018-2020

- ✓ Fundamentally revise business processes in all Group companies
- ✓ Integrate currently scattered call centers in the Group to reduce the amount
- ✓ Construct the Group's optimal system for after-sales services
- ✓ Carry out structural reform of staff

Reduction of principal expenses

	Reduction Policy
Logistical expenses	To be cut by efficiently operating warehouses amid an upward trend due to an increase in shipments and requests for price increases
Office expenses	To be cut by integrating area offices and service centers to reduce the amount
Advertising expenses	Introduce more efficient advertising expenses through optimal allocation based on the digital shift

Appendix

Outsiders' Evaluation: Selected for the Health and Productivity Stock Selection for the First Time

2018
健康経営銘柄
Health and Productivity

Canon Marketing Japan Inc. was highly regarded for its management philosophy and policy, organizational structure, systems and implementation of measures, and assessment and improvements that it was recently selected for the Health & Productivity Stock Selection for the first time.

Canon

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