

**Canon**

Canon Marketing Japan Group

Three-Year Management Plan 2018 to 2020

April 25, 2018  
Canon Marketing Japan Inc.  
Masahiro Sakata, President

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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

Companies are aiming for growth by taking a range of measures including structural reforms and the enhancement of productivity.

In particular, major customers are shifting to outsourcing to focus on their core businesses, and to cloud use away from owning their own equipment.

IT supports every line of business. There is a growing need for improvement in business efficiency and working style reform through increasing productivity by using IT.

As Japan's population ages, cost reductions and information sharing at medical institutions are being pursued. However, we consider that local collaboration in the medical field in Japan is lagging behind. In this sense, medical IT must advance further.

Conditions in nursing care facilities are contrary to working style reform in society. The staff in these facilities have to watch the residents, but the number of staff who are able to do so is limited. We would like to support the conditions with IT.

As for IoT, we need to enable remote surveillance by connecting the equipment that we sell to the Internet and switch to a way of working that enables time-consuming work to be undertaken efficiently within a short period of time with RPA. We expect that RPA will advance rapidly as workloads increase, particularly in large companies. Our company has just established an RPA department and is driving business efficiency forward.

Financial institutions need to make asset management consulting easier for the elderly to understand by using Fintech.

The automobile industry has a broad base and is large in size. Under these circumstances, digitalization will advance without a doubt, and our company intends to expand in this field as well.

We hear the term "AI" every day. What is important is how it is used and whether it can lead to a more comfortable job or life. We are going to invest further in this area.

Contrary to the enhancement of convenience, cyberattacks are becoming cleverer and are increasing in number. Regardless of the size of a company, its management is feeling the need for security. We expect the business in this field to grow steadily going forward.

Needs for wanting to see images taken by network cameras are increasing in conjunction with improvements in sensor technology. We are good at offering high-definition network cameras, so we would like to further enhance this area.

### 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

In the existing business areas, we will maintain high productivity while making labor savings. We would like to pick up the pace of our growth in growth areas.

In Q1, the trend of contraction, particularly in Consumer, is getting stronger, and we are required to vitalize the market as a market share No. 1 company and boost business productivity.

## 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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In Enterprise and Area, in particular, we are beginning to realize that what we can sell expands by switching to a channel by customer. Again, we truly believe that it was beneficial to shift from the conventional organizational structure by product to the structure by customer.

This is not something that will lead to rapid results within a short period of time, however. Looking ahead, we would like to achieve a growth pattern by accelerating our speed.

## 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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For 2019 and 2020, we need to meticulously analyze the markets of existing businesses again. Unless we achieve the expansion of growth areas, we believe that it will be difficult to achieve this plan.

## 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%)

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In 2018, it is important that we can cover the contraction in Consumers with three segments: Enterprise/Area/Professional.

With regard to mirrorless cameras, the contribution of new products launched in Q1 will become evident in Q2 and beyond. Recently, we have been occupying a high share. We would like to maintain it throughout the year and cover the drop in sales of SLR cameras. In addition, with regard to cameras of at least a midrange level, we are going to have to reach customers more with a promotion focused on how they can use the products comfortably.

We would like to hit the announced target figures for 2018 one way or another.

# Sales Targets by Growth Scenario

## Shifting Weight to Growth Areas

(Billions of Yen)



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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

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The digital interchangeable lens camera market for this year is expected to contract a little, but the number of shots is definitely on the rise. Cameras are being enjoyed by a lot of people, so all we need to do as a business that deals in cameras is to reach people by promoting ways in which they can enjoy photography using a specific camera.

Moreover, we need to promote the enjoyment and attractiveness of printing out the photos taken by consumers.

We are lagging behind in the SOHO market. The main product was home-use inkjet printers. SOHO requires a huge print volume per printer, so we will reinforce this again, including laser printers.

There is a growing number of users who purchase products online. We are now in a situation where we cannot prepare a Consumers strategy without talking about EC.

We will steadfastly incorporate EC into our sales strategy and implement it.

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

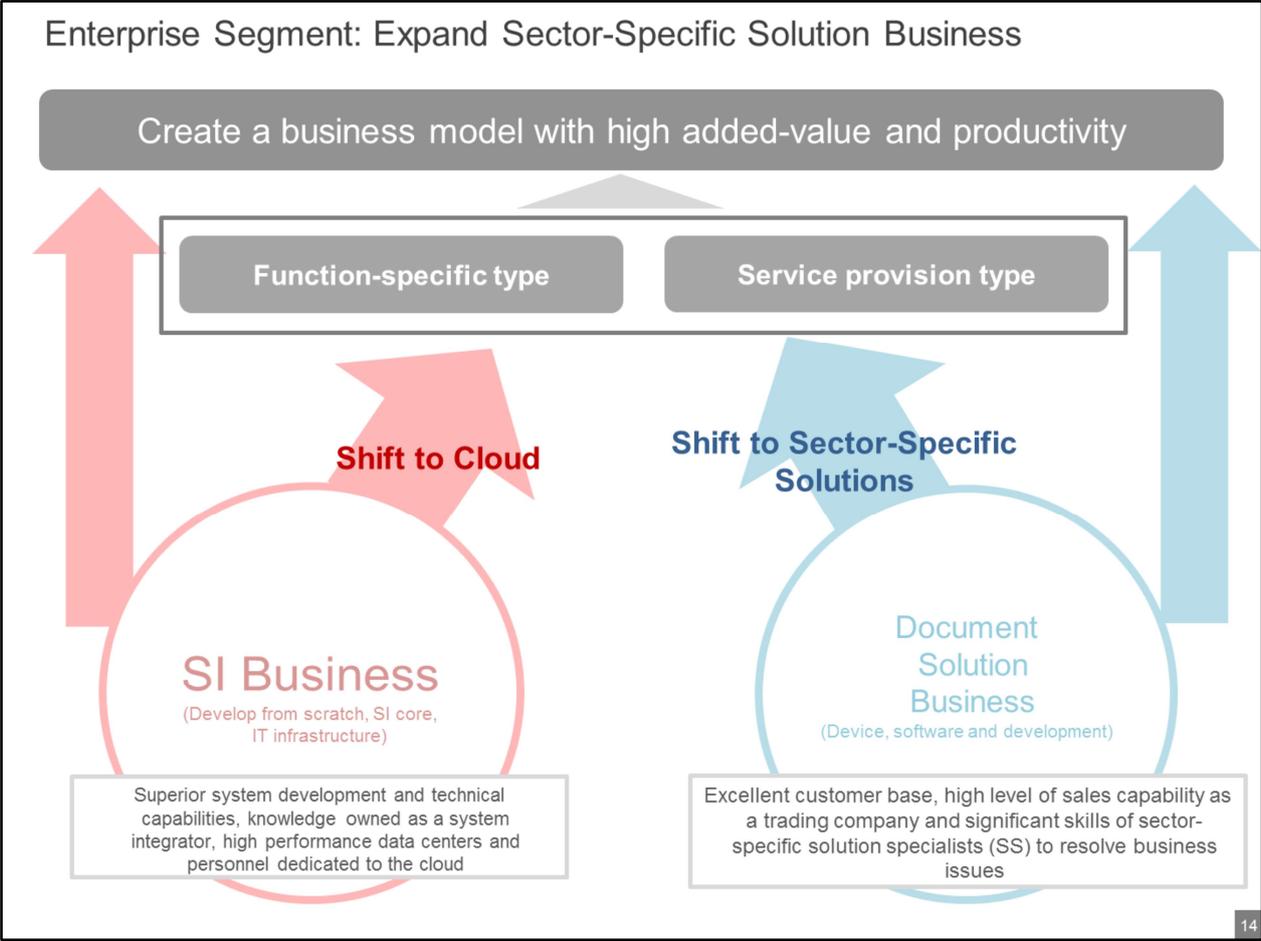
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Although Enterprise has been performing acceptably in Q1, we should not be content with the current state. At present, there are still many Entrusted-type SI. We are therefore going to need to shift to Solution-type SI, and we must take on the challenge of a difficult task to shift to Solution-type SI while increasing orders.

We are going to need to establish a sales structure that will make full use of our customer base, which is our strength.

To this end, we need to exhibit synergies to a greater extent between the direct sales forces of the business solution line and the sales forces of Canon ITS.

The profit margin is rising, but it is never high compared to those of our competitors. We need to raise the profit margin up a notch. In order to do so, we aim to improve the profit margin by achieving a shift to Solution-type SI.



We will roll out the Solution best practices that we have been implementing so far throughout the Company for expansion.

Our upcoming challenge is how we can make the synergies between the SI business of Canon ITS and the document solution that Business Solution was implementing kick in to achieve growth.

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

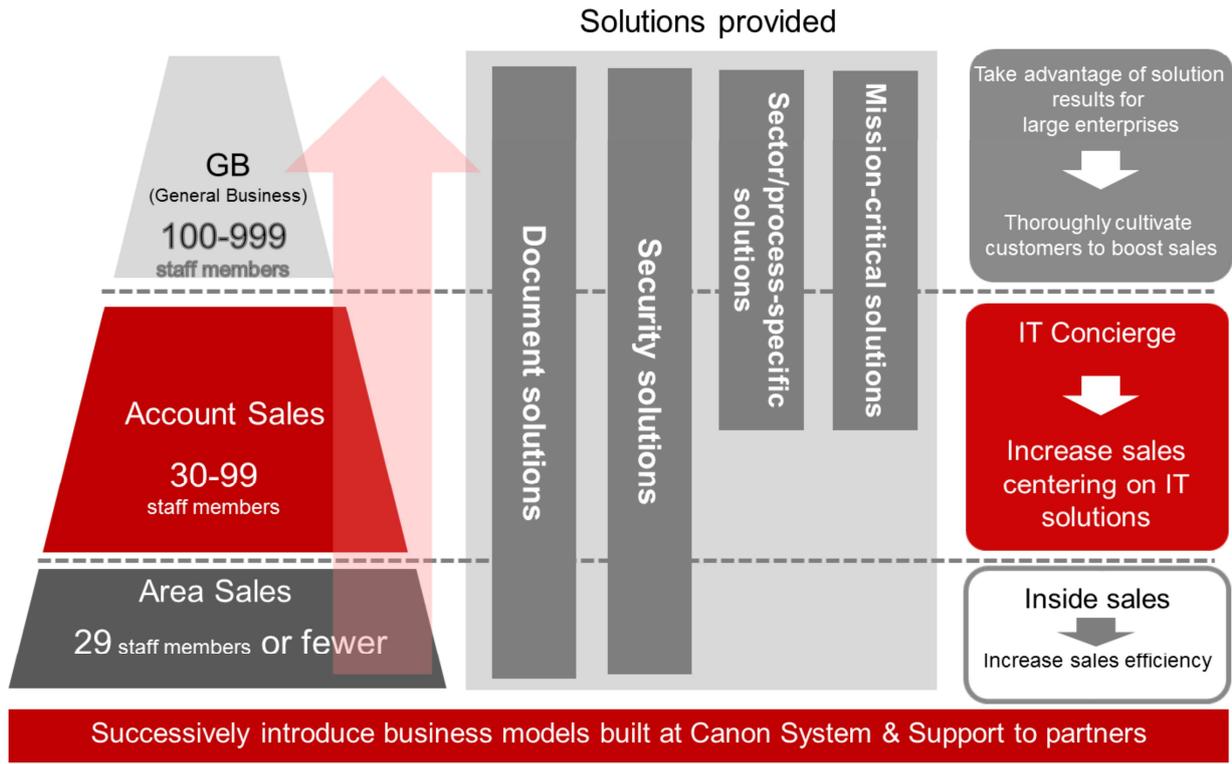
- Expand non-face-to-face sales and other activities to increase sales efficiency
- Shift resources to cultivate medium-sized customers

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Direct sales forces and partners coexist in the same area. Direct sales forces and partners must work together and engage in a sales strategy by area that has not been consistent to date. We therefore need to prepare a scenario for this.

We have been carrying out business centered on MFP so far. For example, customers of mid-standing/small and medium-sized enterprises think that they would like to install in-house systems, but there is almost no one to take charge of them internally. The needs for this service are very high, and how we can play a part in this business will be important going forward.

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



We handle a large number of products compared to our competitors.

Regardless of the size of the company, security is essential, and it could pose a risk to the very existence of a company in some cases.

There are growing needs among customers of small and medium-sized companies in that they would like us to diagnose the status of the security of their companies or take care of the entire system altogether on their behalf.

The key to our growth in this segment will be how we can adapt to these needs.

Professional Segment

## Professional Segment – Production Printing

### 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

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As for cut sheets, we are catching up with our competitors, and we will create a sales force that will outperform them.

Regarding continuous feed printers, we have not been able to launch products that suit the Japanese market particularly well. In addition, we need to replace black-and-white continuous feed printers or wide format printers, etc. and implement a shift to color versions.

Customer Experience Center Tokyo is the industry's No.1 facility. We would like to make use of it.

## 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

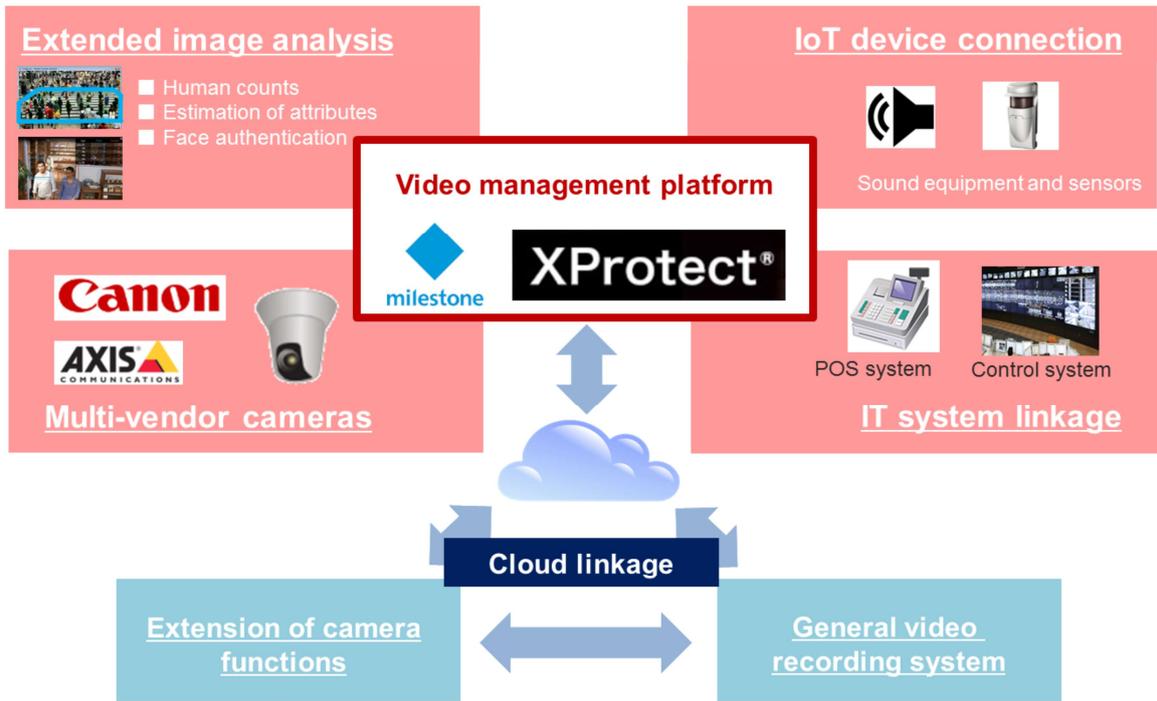
- Medical imaging: Expand business by establishing collaboration scheme with Canon Medical Systems Corporation
  
- Expand OCT angiography
  
- Medical IT: Expand the medical IT business in collaboration with Canon Medical Systems Corporation

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Semiconductors are very strong, and they will remain so for some time to come.

As for Healthcare, we have an excellent company called Canon Medical Systems Corporation within the Group. We will consider how we can make the synergies kick in.

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



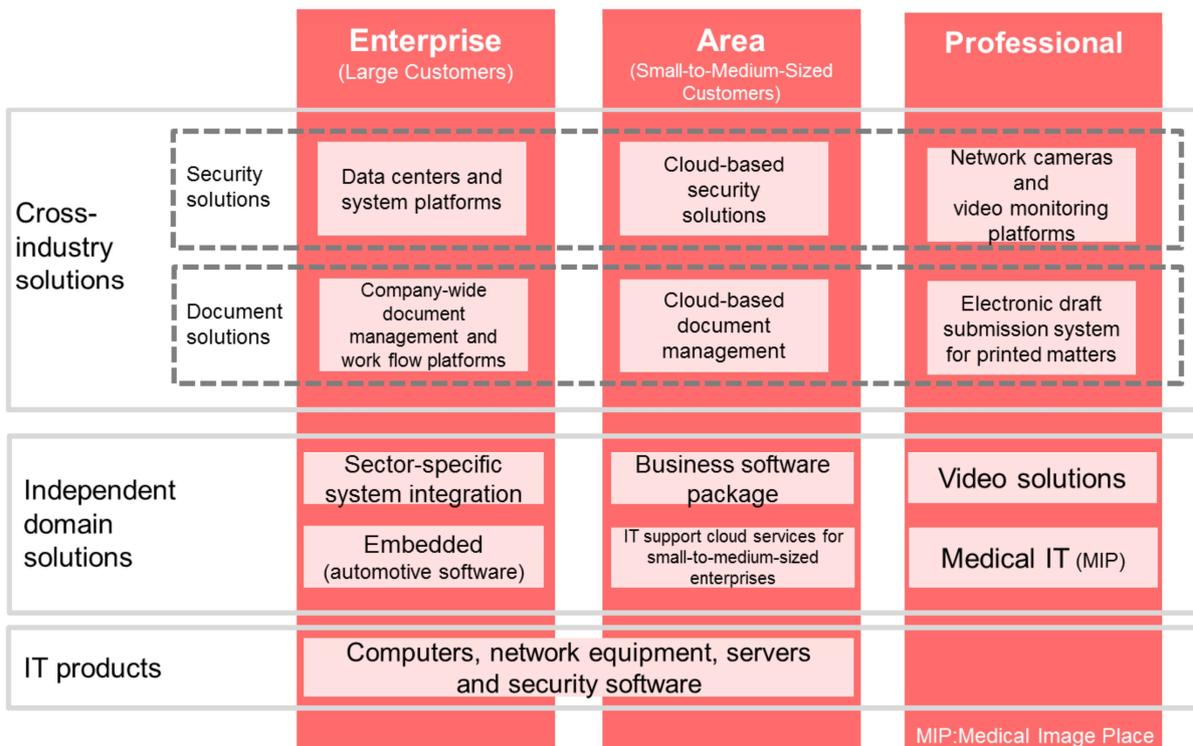
Twice a year in this hall, we hold an event to advise you how to manage, analyze and use video taken, not only network cameras. We are beginning to reach people by promoting how to put an application on the video management system called Xprotect of Milestone and how to use a video taken in collaboration with other tools.

Looking ahead, the weight of the camera per project will get smaller. As a result, a key point will be whether we are able to propose how people can use video.

## Group IT Solutions

## Group IT Solutions

### Outline of ITS Business in Different Segments and Key Themes

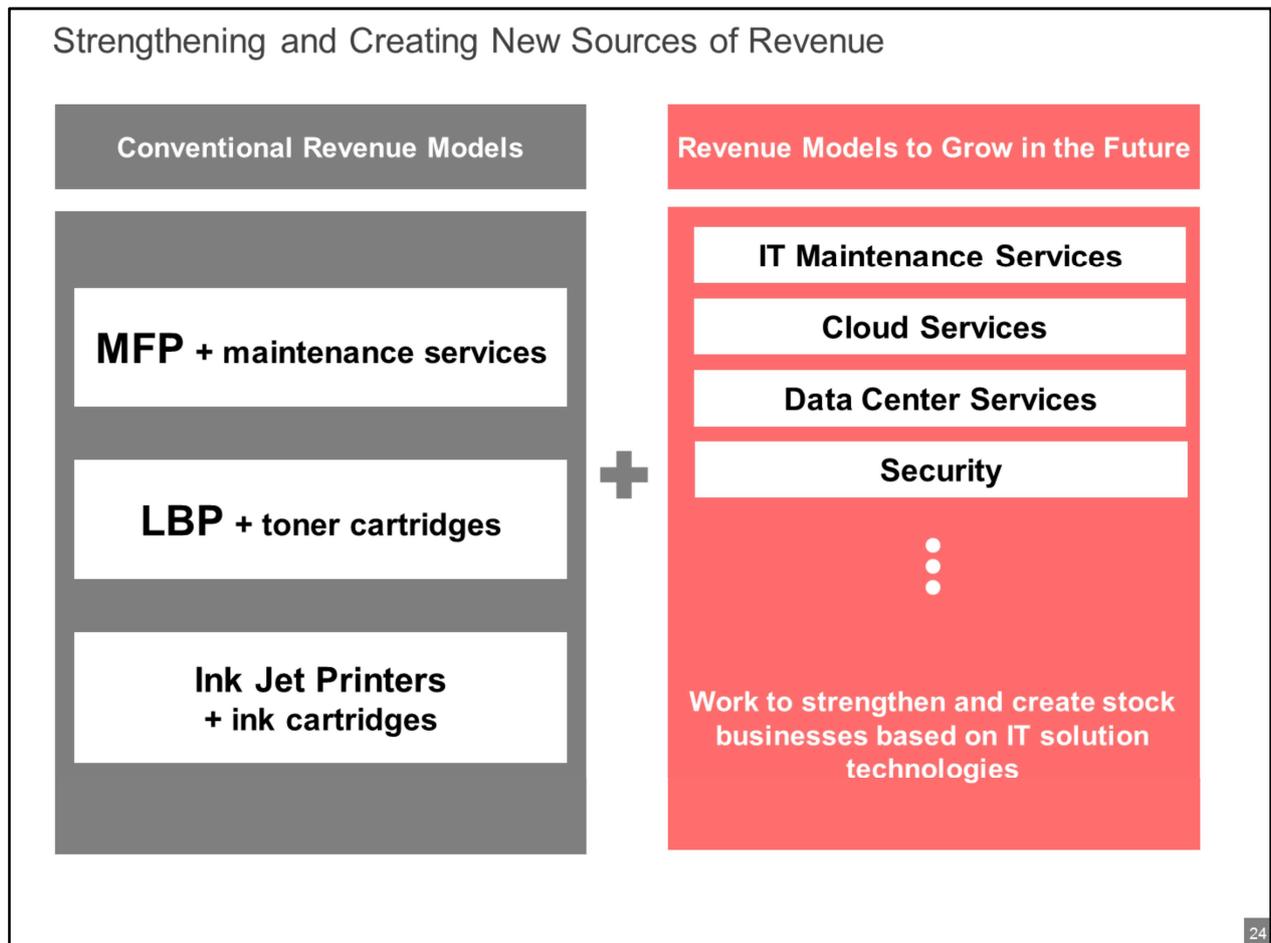


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We would like to make this IT Solutions even bigger.

As needs vary from customer to customer, we would make a proposal on how to use it after understanding the customer's situation thoroughly to expand IT Solutions.

## Strengthening and Creating New Sources of Revenue

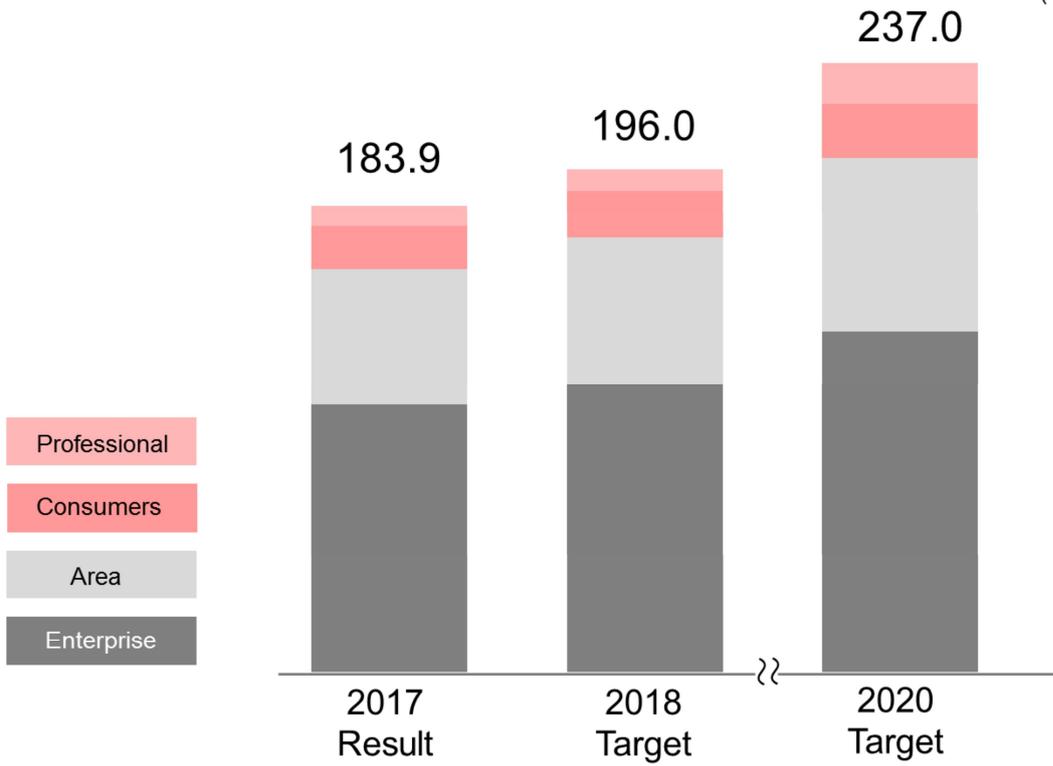


The businesses on the left-hand side have been supporting our revenue, but they will decline little by little. Going forward, while developing IT Solutions, we would like to grow the businesses on the right-hand side and subsequently make them stock businesses as services that we offer to customers. This is an image that we would like to achieve.

Currently, the ratio on the left is higher. However, we would like to increase the ratio on the right, and eventually make it higher than the left.

# Group IT Solutions Result and Targets

(Billions of Yen)



While undertaking M&A, we would like to increase these figures.

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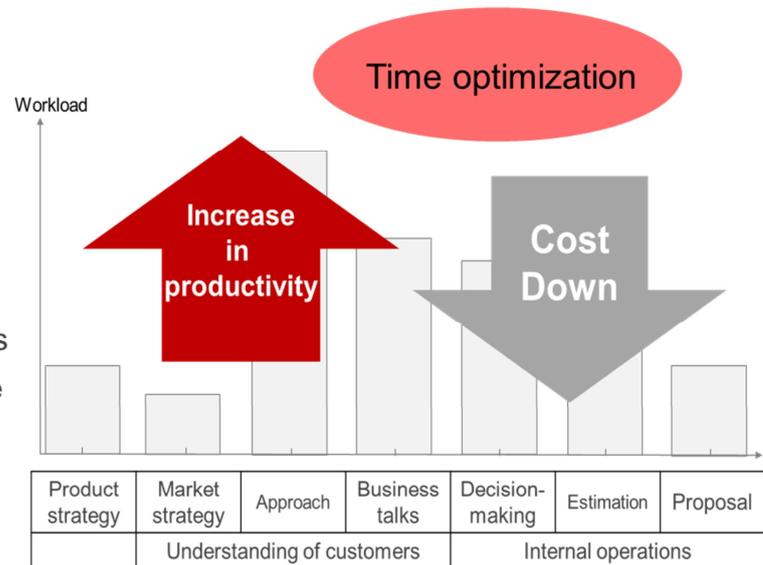
**3** Structural Reforms

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## Fundamental Structural Reforms: Operation Process Reform

### 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



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We were able to sharply reduce SG&A expenses last year, but the expenses will tend to rise due to an increase in retirement benefit expenses and a 50<sup>th</sup> anniversary event.

Meanwhile, we will steadily reduce operating costs.

## 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

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We recognize that the SG&A ratio is too high for a sales company. Along with growth, the area of structural reform is very important in how we achieve this target SG&A ratio.

# Appendix

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



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.

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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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