

Canon

Canon Marketing Japan Group

Three-Year Management Plan 2018 to 2020

January 30, 2018
Canon Marketing Japan Inc.
Masahiro Sakata, President

■ 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
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■ 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

1 Review of 2017

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.

[Grow Sales]

- In January 2017, we had already consolidated all Group services and support functions early on, and began considering sales from a cross-functional perspective.
- We shifted resources including personnel and funding from Canon's Profitability Growth Areas to Canon's Growth Areas and Independent Growth Areas in an effort to expand business.
- We have already made early progress in some areas concerned with personnel and investment.

[Improve profit margins]

- We managed to cultivate a thorough awareness of cost and reduce SG&A expenses more than expected. Significant progress has been made in improving our financial standing in this regard.

- 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%	

- Unfortunately, the increase in sales was not as large as planned. This year we hope to strengthen our efforts with a focus on increased sales.
- We managed to reduce SG&A expenses by 0.9%, and accomplished this earlier than scheduled as a result of efforts to reduce SG&A that were undertaken after I was appointed president.

- 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)

- Moving forward, since profitability growth areas are not areas undergoing market growth, our challenge will be how to raise productivity to generate profits.

- Last year our plan was to avoid falling sales in these areas. However, due to factors including a contraction of the digital SLR market, sales fell by 2%.

- We managed to achieve greater than expected expansion in independent growth areas.

- For the most part, we were unable to achieve growth in Canon's Growth Areas. Although there was an expansion in network cameras, in production printing we suffered from delays in the release of new products and fell well short of planned performance.

- As the delayed production printing products will be released this year, we hope to recover from the delay.

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**

- In 2017, the IT Solutions segment enjoyed solid growth, and we also managed to achieve growth outside the ITS segment.

- Although the framework has changed, we will strive to achieve firm growth in the field of IT solutions and make it an even more significant pillar of the Canon Marketing Japan Group.

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%

- Industrial equipment has enjoyed a robust expansion.
- We have seen strong activity in business inquiries about equipment thanks to favorable market conditions.
- Due to higher equipment operating rates among semiconductor manufacturers, there is an increasing demand for maintenance and we face a shortage of service personnel.

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

[Network Cameras]

- We held two network camera fairs last year and received an extremely favorable response.

- Network cameras are not only used for surveillance. There are usage scenarios across numerous fields including marketing. Moving forward, we expect the fields in which network cameras are used and applied will continue to broaden.

- Rather than expanding solely through coordination between our cameras and video management software, we must develop sales channels and systems for taking on various tasks including construction work. To further raise the tempo of our efforts, I believe we need to increase our M&A and alliance activities.

[Production Printing]

- In the field of data printing services we have established a certain market position. We are now trying to add commercial printing fields to the mix.

- In tandem with our efforts to cultivate personnel in-house, we have engaged in mid-career hirings to increase the ranks of sales personnel with expert knowledge. We need to approach this field with greater commitment.

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.

- In the BPO business, there is an increasing trend among relatively large companies to entrust some measure of non-core operations to contractors. We hope to engage in initiatives to show that we have the skills, knowledge, equipment and solutions that cater to such needs, and that we are willing to provide those services in an efficient way.

- In terms of medical IT, customers want to make use of recorded medical images. Opportunities to coordinate with Canon Medical Systems in their field will increase.

- As we employ a large number of personnel in the area of Group service & support, we need to implement these measures in a more efficient way. We must implement thorough measure that also consider improving customer satisfaction.

- We established the Customer Experience Center Tokyo at Canon's Shimomaruko headquarters. No other company is equipped with facilities to this extent. The center has become a facility where a consistent flow of printing can be seen.

- We established Commercial Printing Lab as a joint venture company. The company's many activities include exploring in what ways we are involved with printing, including offset printing.

- In terms of video solutions, we established a co-creation project to explore the possibilities for expanding into various businesses. The project will look for new businesses, focusing on technological areas that can be pursued together with Canon.

- The automotive industry is experiencing a transitional phase and we added to the previous year's investment in APTJ. As we expect this field will continue to grow in size, we want to get involved without falling behind.

- In the area of network cameras, we invested in Safie. We hope to promote a service that utilizes a relatively lighter cloud platform to allow video recorded with a network camera to be viewed on a smartphone.

- We have established the Canon i Program, an in-house program to encourage the creation of new businesses originating at CMJ, and the inception of businesses in partnership with other companies in the future, in addition to M&A and alliance activities.

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.

- The Nishi-Tokyo Data Center is operating smoothly.
- We were the second company in Japan to obtain M&O certification, recognizing that the center is operated and managed to exceptionally high standards. We hope to maintain the certification in the future.

Achieving a Record Operating Income Ratio of 4.8%

Measures	Results
Enhancing profitability of B-to-C business	<ul style="list-style-type: none"> ● 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	<ul style="list-style-type: none"> ● 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	<ul style="list-style-type: none"> ● 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

- For last year's operating income ratio, we achieved a record 4.8%.

[Enhancing profitability of B-to-C business]

- Although we enjoy a leading market share in digital interchangeable lens cameras, compact cameras and inkjet printers, we come in second in terms of mirrorless cameras. We want to quickly become number one in this area as well. We hope to form a slim and streamlined team to ensure earning power.

[Improving profitability of the document business]

- We currently maintain a third-place market share in MFPs. As we have steadily improved our market share and shipped a record number of units, we will continue with efforts to ensure that we become number one.

- We have held on to a leading market share in laser printers for 26 consecutive years. In the OA field, there is an unmistakable trend of integration around MFPs. In addition to MFP, we will make every effort to expand in areas where materials are output using specialized printers, and for LBPs aimed at special applications, where our market share has been traditionally small. As these fields also involve a high volume of cartridge usage, we will make strongly focused efforts to develop sales.

- We have managed to maintain and expand income from maintenance services due to increased print volume associated with the expanded number of units operating in the market.

[Structural reforms]

- Although we have worked to develop a muscular structure, there are limits to reductions that can be made to expenses and SG&A. We established a Business Process Innovation Project Division to achieve fundamental changes to our business processes in the future. The division is currently tracing our business processes.

- We are currently looking areas that have traditionally been labor-intensive and transforming them into lean teams using IT mechanisms, as a way to reduce company-related costs in fundamental ways. We will continue our commitment with the realization that IT costs will decrease if business processes become simple.

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(Billions of Yen)

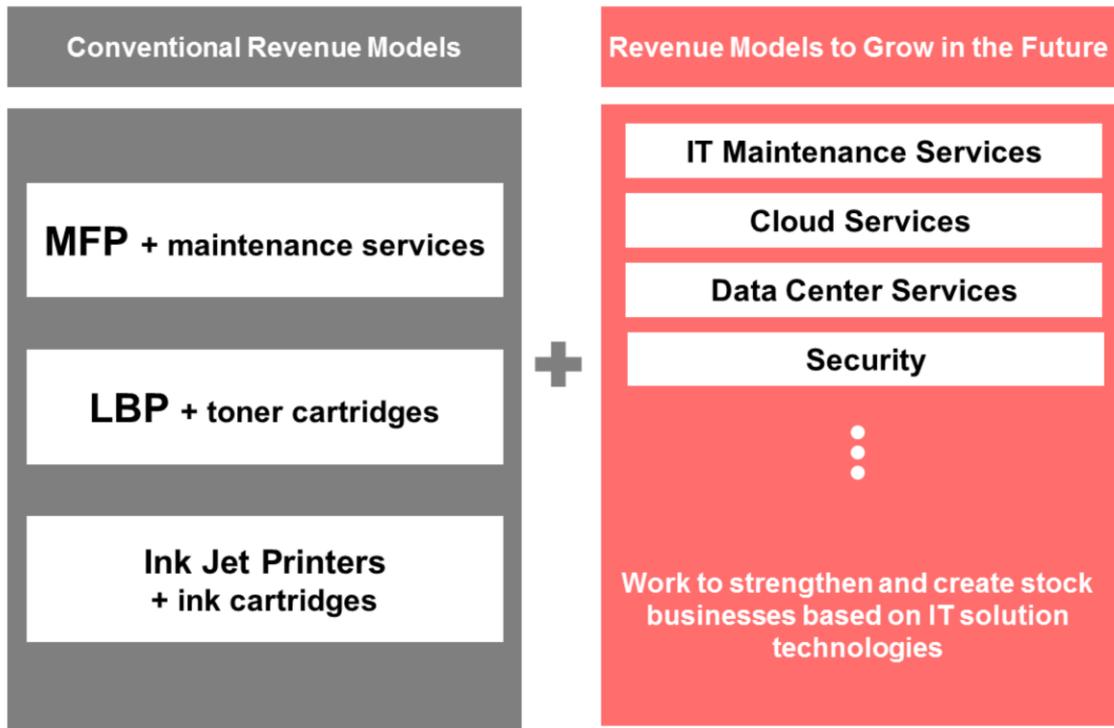
	Actual Results	3-year Management Plan		
	2017	2018	2019	2020
Net sales	632.2	645.0	680.0	720.0
(%)	(+0.5%)	(+2.0%)	(+5.4%)	(+5.9%)
Operating income	30.4	32.0	35.0	38.0
(ratio)	(4.8%)	(5.0%)	(5.1%)	(5.3%)
Ordinary income	31.5	33.0	36.0	39.0
(ratio)	(5.0%)	(5.1%)	(5.3%)	(5.4%)
Profit attributable to owners 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%

Shifting Weight to Growth Areas

(Billions of Yen)



- Last year we again made steady progress in expanding our independent growth areas.
- This result is thanks to the fact that each of the projects taken on by Canon IT Solutions is large, and that the former Business Solutions are rooted in IT solutions.
- A key point for the future will be whether we can achieve growth in Canon's Growth Areas. Canon's Profitability Growth Areas are expected to decline slightly this year, with year-on-year decreases halting in 2019. As the camera and inkjet printer markets are continuing to shrink, these areas are still expected to show decline.



- We are looking to increase the new services we offer and create revenue models while maintaining conventional revenue models.
- We maintain a customer base made up of small and mid-sized firms around Japan. Many of these customers cannot offer meet their support needs internally after we provide security services. We want to provide that support for them.

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

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



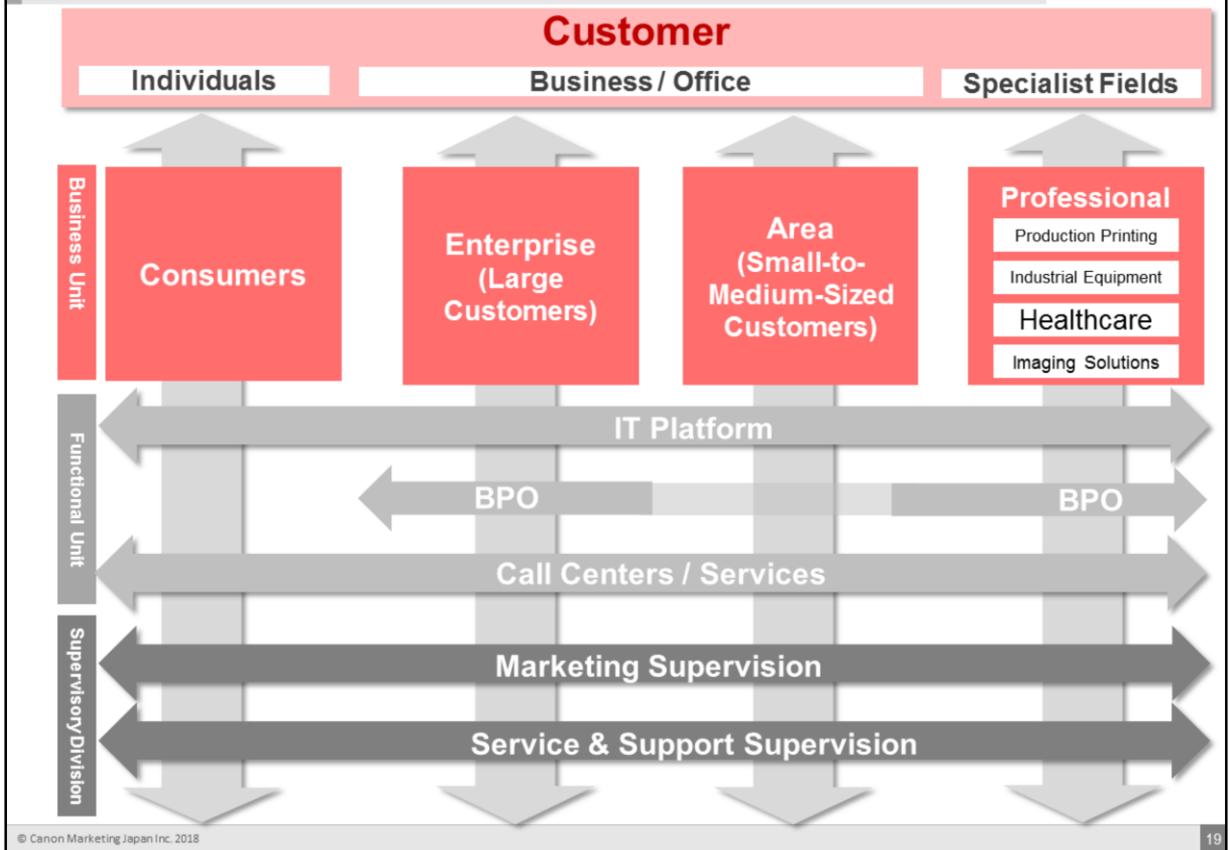
Customer Centric

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.

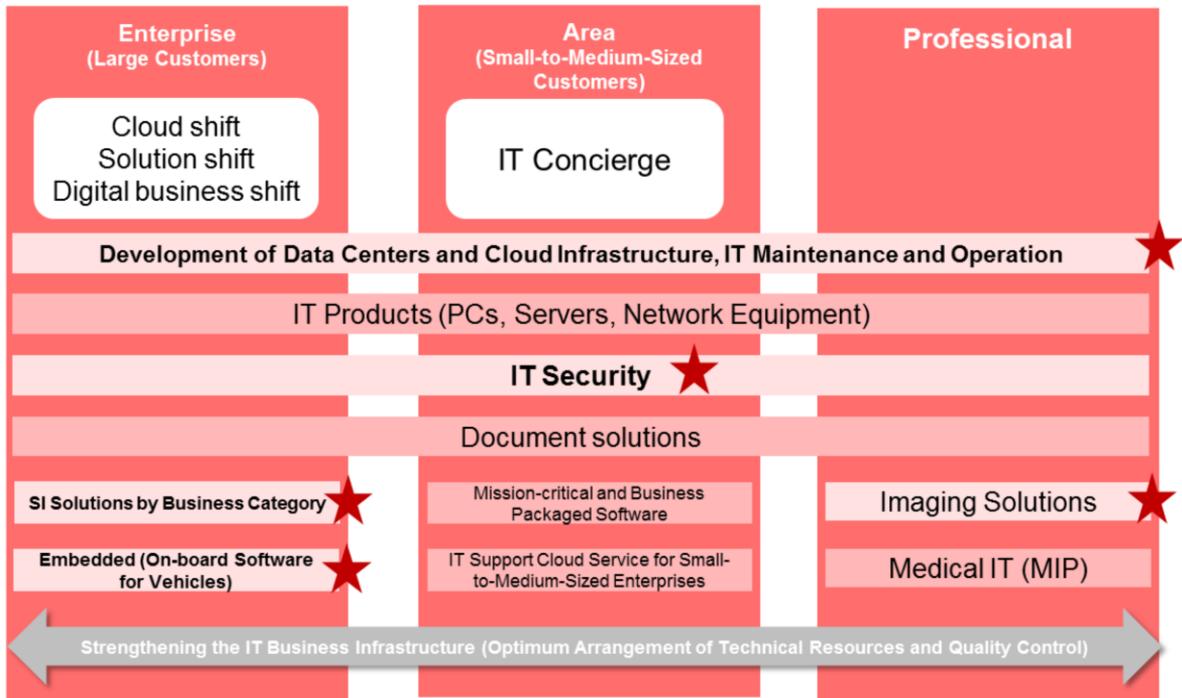
To provide customers with greater added value, strive to enhance IT solution functions as our strength across all business fields.

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.



- This schematic depicts the new organizational framework.
- We have made functions that support all channels span the organization, creating a structure that supports four major business units.

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



- This diagram shows which area of IT solutions we will focus on in the future.

- Among these, we will focus on and expand data centers, cloud businesses, IT security, system integration and embedded software for automotive use.

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- There are limits to what we can accomplish alone, and in the interests of actively expanding our independent growth areas, we will accelerate M&A and alliance activities.

- We will continue to pursue mid-career hires in the professional segment.

- For network cameras, we will undertake M&A and alliance activities so that we can increase sales channels and accept contracts for areas that allow construction work.

- As for data centers, as our Phase 1 building is almost full, we are planning to construct a Phase 2 building. As we have also fielded requests from customers, we want to complete the new building as soon as possible and quickly achieve capacity.

1 Review of 2017

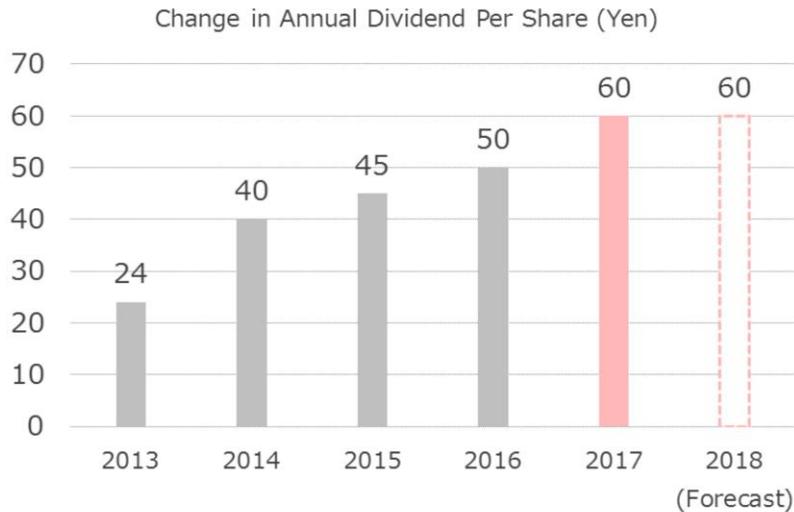
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Dividend Policy

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.



We decided to increase dividends to 35 yen at the end of the 2017 fiscal year, and increase to 60 yen for the full year.

- As dividends are the focus of our returns to shareholders, we hope to focus on ensuring profits and on providing shareholder return in similar ways moving forward.

Canon
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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.