

Canon Marketing Japan Inc. Third Quarter 2014 Results

October 24, 2014
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Director & Senior Vice President


Canon Marketing Japan Inc.

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- * The figures are rounded off to the nearest 100 million yen in this material.
 - * Forward-looking statements and results forecasts presented in this material are based on the management's assumptions using currently available information and therefore contain inherent risks and uncertainties.
As a consequence, due to a range of possible factors, actual results may materially differ from the forecasts.

Summary of Results

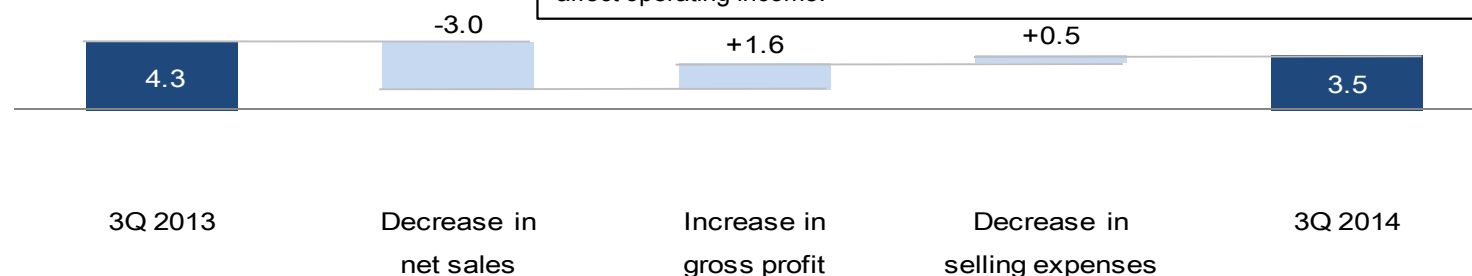
3Q 2014 Actual
(from July 1 to September 30)



Summary of Results	3Q 2013	3Q 2014	Changes		(Billions of yen)
			Amount	%	
Net sales	159.2	150.7	-8.4	-5%	
Gross profit	(35.3%) 56.2	(36.4%) 54.9	(+1.1%) -1.3	-2%	
Operating income	(2.7%) 4.3	(2.3%) 3.5	(-0.4%) -0.8	-20%	
Ordinary income	(2.8%) 4.5	(2.4%) 3.7	(Δ0.4%) -0.8	-18%	
Net income	(1.7%) 2.7	(1.2%) 1.9	(Δ0.5%) -0.9	-32%	

Op. Income Variance Analysis

The Company previously recorded expenses related to the development and management of the Group operating systems that were outsourced to certain consolidated subsidiaries in cost of sales. However, because the importance of the amount of such expenses increased as a result of the progress of in-house production within the Group, effective from the first quarter of the consolidated fiscal year under review, the Company has changed its accounting method and now records these expenses in selling, general and administrative expenses. For reference, this change does not affect operating income.



Segment Outline

3Q 2014 Actual
(from July 1 to September 30)



(Billions of yen)

	3Q 2013		3Q 2014		Changes	
	Net sales	Op. Income	Net sales	Op. Income	Net sales	Op. Income
Business Solutions	79.5	1.3	78.5	1.4	-1.0	+0.1
IT Solutions	34.2	-0.1	33.5	0.4	-0.7	+0.4
Imaging System	46.7	3.5	39.9	2.0	-6.9	-1.5
Industrial / Medical	6.3	-0.5	6.2	-0.4	-0.1	+0.1
Other	-7.5	0.1	-7.3	0.1	+0.2	+0.0
Total	159.2	4.3	150.7	3.5	-8.4	-0.8

“Other” includes the intersegment sales and the corporate expenses that are not allocated to the shared service businesses or to each segment.

Summary of Results 1Q-3Q 2014 Actual

(from January 1 to September 30)



Summary of Results	1Q-3Q FY 2013	1Q-3Q FY 2014	Changes	
			Amount	%
Net sales	468.6	479.1	+10.5	+2%
Gross profit	(34.4%) 161.1	(35.4%) 169.6	(+1.0%) +8.5	+5%
Operating income	(1.8%) 8.4	(3.3%) 16.0	(+1.5%) +7.6	+91%
Ordinary income	(2.0%) 9.3	(3.6%) 17.1	(+1.6%) +7.8	+83%
Net income	(1.0%) 4.7	(2.0%) 9.7	(+1.0%) +5.0	+107%

Op. Income Variance Analysis

The Company previously recorded expenses related to the development and management of the Group operating systems that were outsourced to certain consolidated subsidiaries in cost of sales. However, because the importance of the amount of such expenses increased as a result of the progress of in-house production within the Group, effective from the first quarter of the consolidated fiscal year under review, the Company has changed its accounting method and now records these expenses in selling, general and administrative expenses. For reference, this change does not affect operating income.



Segment Outline

1Q-3Q 2014 Actual
(from January 1 to September 30)



(Billions of yen)

	1Q-3Q FY 2013		1Q-3Q FY 2014		Changes	
	Net sales	Op. Income	Net sales	Op. Income	Net sales	Op. Income
Business Solutions	243.2	4.7	248.3	6.7	+5.2	+1.9
IT Solutions	104.2	-0.0	113.2	2.5	+9.0	+2.5
Imaging System	124.5	4.9	123.0	7.4	-1.5	+2.4
Industrial / Medical	18.7	-1.5	20.6	-0.9	+1.9	+0.6
Other	-21.9	0.3	-26.0	0.3	-4.0	+0.1
Total	468.6	8.4	479.1	16.0	+10.5	+7.6

“Other” includes the intersegment sales and the corporate expenses that are not allocated to the shared service businesses or to each segment.

Segment Information 3Q 2014 Actual

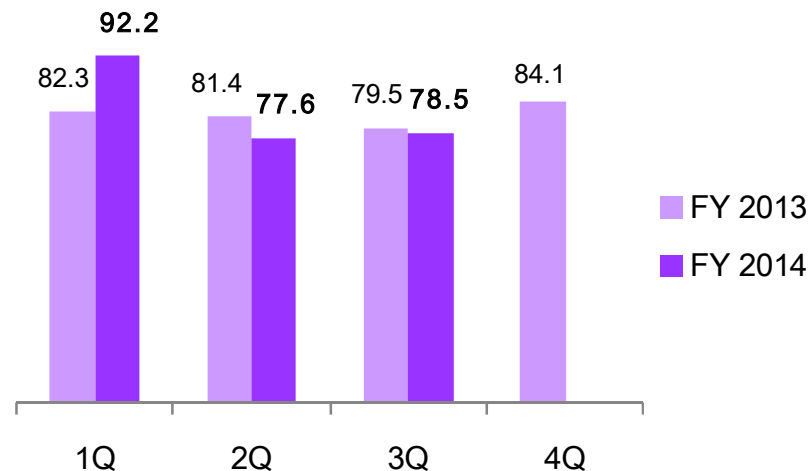


(Billions of yen)

2014 Actual v. 2013 Actual

	1Q-3Q 2013	1Q-3Q 2014	Changes
Net sales	243.2	248.3	+5.2
Op. income	4.7	6.7	+1.9

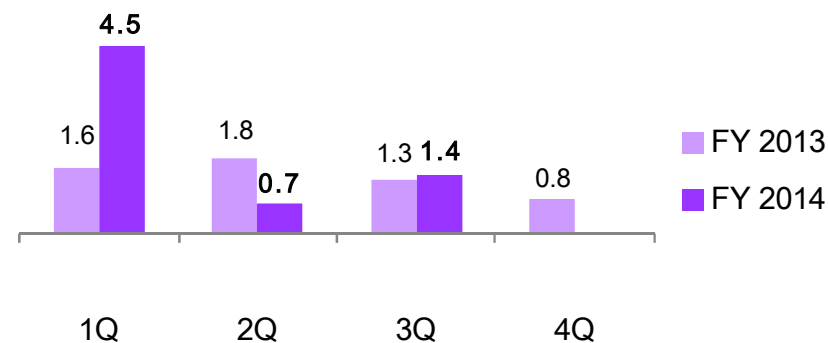
Net sales



Net sales - Growth rate

	1Q	2Q	3Q	4Q	FY
FY 2013	-6%	-0%	-1%	+3%	-1%
FY 2014	+12%	-5%	-1%	-	+2%

Op. income



Points

- ▶ Sales declined due to decreased sales of products such as LBP toner cartridges.
- ▶ Operating income rose due to an improved gross margin and reduced costs.

Segment Information 3Q 2014 Actual



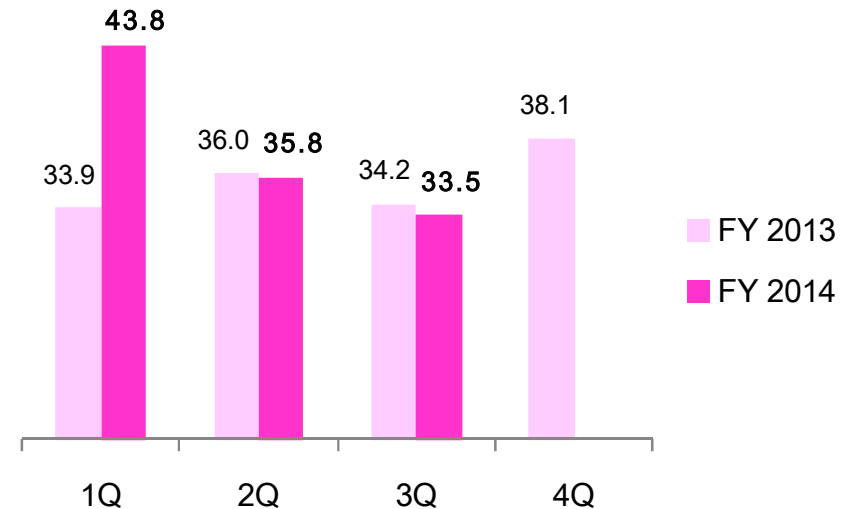
(Billions of yen)



2014 Actual v. 2013 Actual

	1Q-3Q 2013	1Q-3Q 2014	Changes
Net sales	104.2	113.2	+9.0
Op. income	0.0	2.5	+2.5

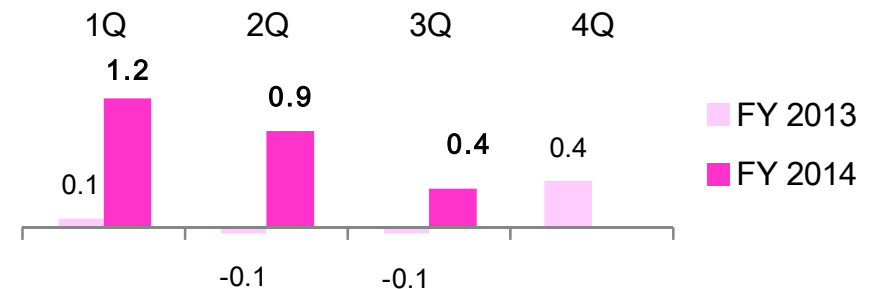
Net sales



Net sales - Growth rate

	1Q	2Q	3Q	4Q	FY
FY 2013	-1%	+12%	+8%	+17%	+9%
FY 2014	+29%	-1%	-2%	-	+9%

Op. income



Points

- ▶ Sales declined due to a significant reduction in demand for business computer replacement, although system integration services remained strong.
- ▶ Operating income increased as highly profitable businesses expanded.

Segment Information 3Q 2014 Actual



2014 Actual v. 2013 Actual

	1Q-3Q 2013	1Q-3Q 2014	Changes
Net sales	124.5	123.0	-1.5
Op. income	4.9	7.4	+2.4

Net sales - Growth rate

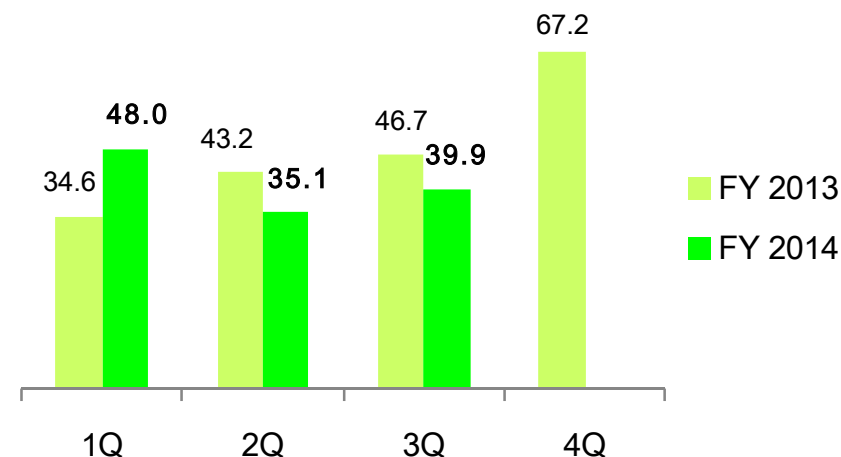
	1Q	2Q	3Q	4Q	FY
FY 2013	-8%	-5%	+11%	+1%	-0%
FY 2014	+39%	-19%	-15%		-1%

Points

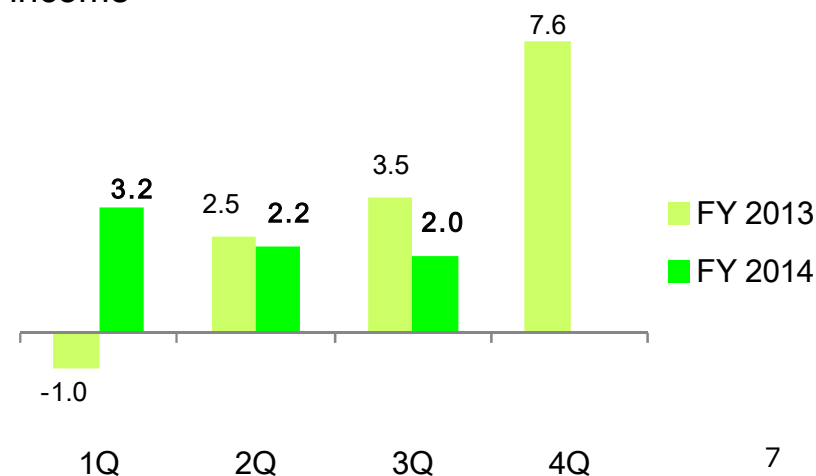
- Sales and profits declined for interchangeable-lens digital cameras and inkjet printer cartridges due to the impact of the consumption tax hike.

(Billions of yen)

Net sales



Op. income



Segment Information 3Q 2014 Actual



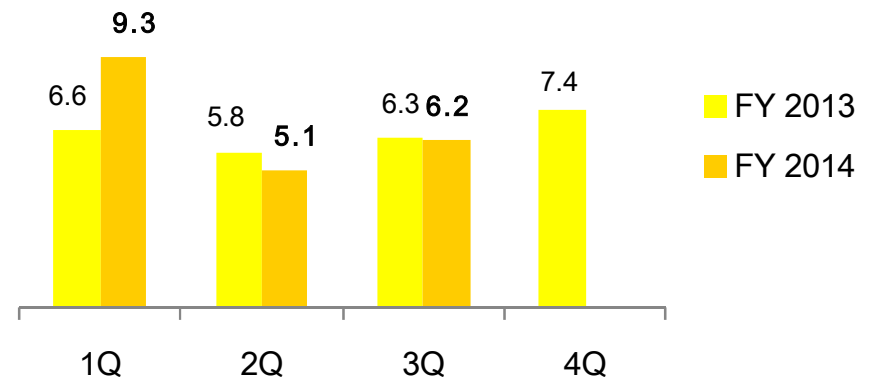
(Billions of yen)



2014 Actual v. 2013 Actual

	1Q-3Q 2013	1Q-3Q 2014	Changes
Net sales	18.7	20.6	+1.9
Op. income	-1.5	-0.9	+0.6

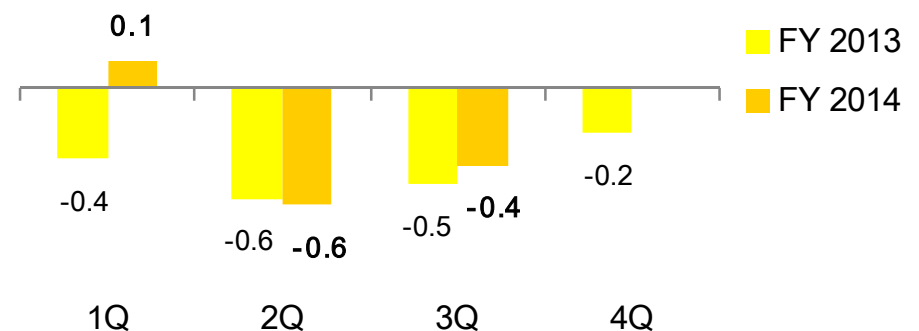
Net sales



Net sales - Growth rate

	1Q	2Q	3Q	4Q	FY
FY 2013	-38%	-16%	-3%	+13%	-15%
FY 2014	+41%	-12%	-2%	-	+10%

Op. income



Points

- ▶ Sales declined due to factors such as the reaction to the consumption tax hike, although 3D printers and large-scale modality projects remained strong.
- ▶ Operating income improved due to cost reductions.

Summary of Projections



(Billions of yen)

	FY 2014	FY 2014	Changes		FY 2013	Changes	
	Previous projection	Current projection	Amount	%	Actual	Amount	%
Net sales	677.2	668.4	-8.8	-1%	657.2	+11.2	+2%
	(3.4%)	(3.6%)	(+0.2%)		(2.6%)	(+1.0%)	
Operating income	22.8	24.1	+1.3	+6%	17.0	+7.1	+42%
	(3.5%)	(3.8%)	(+0.3%)		(2.8%)	(+1.0%)	
Ordinary income	23.9	25.5	+1.6	+7%	18.2	+7.3	+40%
	(2.0%)	(2.2%)	(+0.2%)		(1.5%)	(+0.6%)	
Net income	13.5	14.4	+0.9	+7%	10.2	+4.2	+42%

Projections Summary Outline



FY2014 Current Projection v. Previous Projection

(Billions of yen)

	FY 2014		FY 2014		Changes		
	Previous projection		Current projection		Net sales	Op. income	Op. income
	Net sales	Op. income	Net sales	Op. income			
Business Solutions	335.7	7.5	333.1	7.8	-2.6	-1%	+0.3
IT Solutions	150.8	3.0	149.4	3.2	-1.4	-1%	+0.2
Imaging System	192.8	12.5	189.1	13.4	-3.7	-2%	+0.9
Industrial / Medical	29.4	-0.6	29.2	-0.8	-0.2	-1%	-0.2
Other	-31.5	0.4	-32.4	0.5	-0.9	+3%	+0.1
Total	677.2	22.8	668.4	24.1	-8.8	-1%	+1.3

* "Other" includes intersegment sales, shared service businesses, and corporate expenses that are not allocated to each segment.

Projections Summary Outline



FY2014 Projection v. FY2013 Actual

(Billions of yen)

	FY 2013		FY 2014		Changes		
	Actual		Projection		Net sales	Op. income	
	Net sales	Op. income	Net sales	Op. income			
Business Solutions	327.3	5.5	333.1	7.8	+5.8	+2%	+2.3
IT Solutions	142.3	0.4	149.4	3.2	+7.1	+5%	+2.8
Imaging System	191.7	12.5	189.1	13.4	-2.6	-1%	+0.9
Industrial / Medical	26.1	-1.8	29.2	-0.8	+3.1	+12%	+1.0
Other	-30.2	0.4	-32.4	0.5	-2.2	+7%	+0.1
Total	657.2	17.0	668.4	24.1	+11.2	+2%	+7.1

* "Other" includes intersegment sales, shared service businesses, and corporate expenses that are not allocated to each segment.

Projections Segment Information



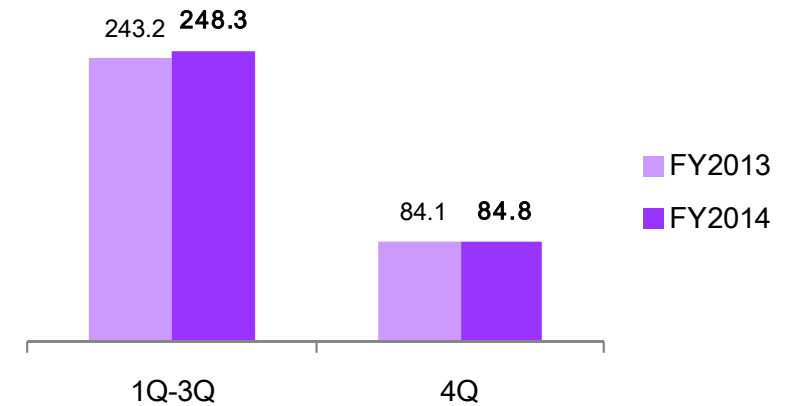
(Billions of yen)



FY 2014 Projection v. FY 2013 Actual

	FY 2013 Actual	FY 2014 Projection	Changes	Previous projection - July 23 -
Net sales	327.3	333.1	+5.8	335.7
Op. income	5.5	7.8	+2.3	7.5

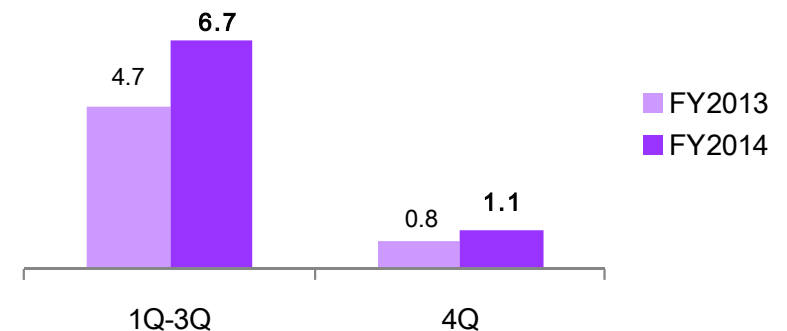
Net sales



Points

- ▶ For the fourth quarter, the Company forecasts increases in both sales and profits as it expands the sales of mainstay product lines such as MFP.
- ▶ For the full year, the Company forecasts increases in both sales and profits.

Op. income



Projections Segment Information



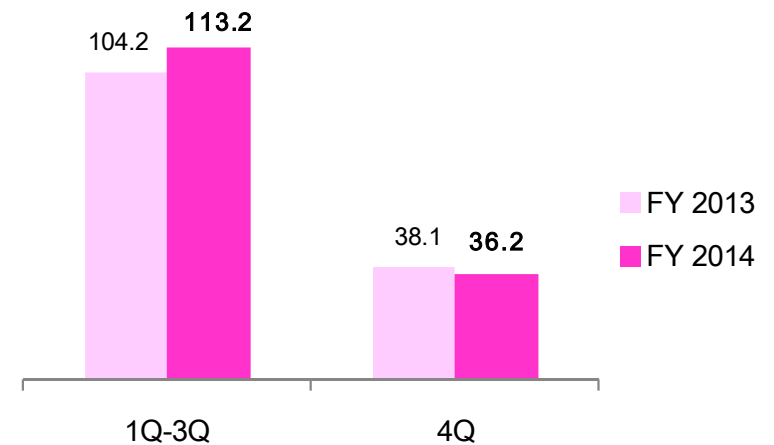
(Billions of yen)



FY 2014 Projection v. FY 2013 Actual

	FY 2013 Actual	FY 2014 Projection	Changes	Previous projection - July 23 -
Net sales	142.3	149.4	+7.1	150.8
Op. income	0.4	3.2	+2.8	3.0

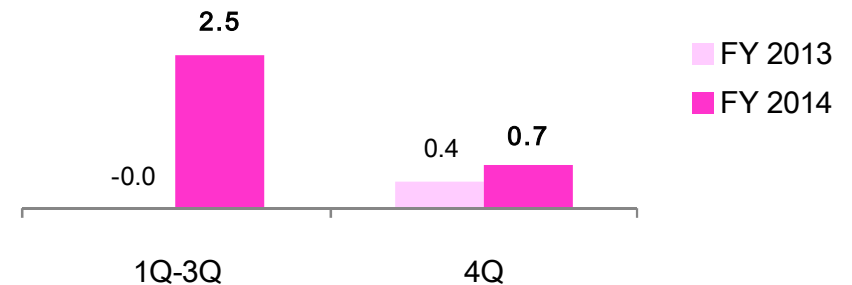
Net sales



Points

- ▶ For the fourth quarter, the Company will record a decrease in sales, as demand for business computer replacement is declining significantly. However, the Company forecasts an increase in operating income as a result of expanding its highly profitable businesses.
- ▶ For the full year, the Company forecasts increases in both sales and profits.

Op. income



Projections Segment Information



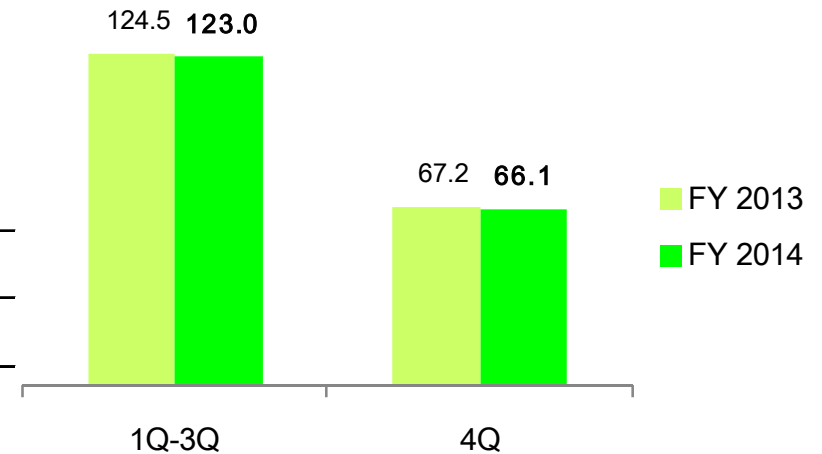
(Billions of yen)



FY 2014 Projection v. FY 2013 Actual

	FY 2013 Actual	FY 2014 Projection	Changes	Previous projection - July 23 -
Net sales	191.7	189.1	-2.6	192.8
Op. income	12.5	13.4	+0.9	12.5

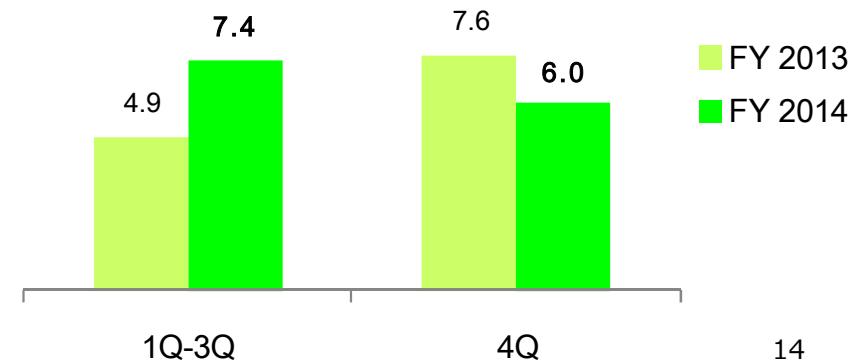
Net sales



Points

- ▶ For the fourth quarter, the Company will experience a slight decrease in sales due to a reaction to the surge in procurement by dealers ahead of the tax hike last year. However, the Company forecasts a dip in profits as it proactively invests in sales promotions and advertising.
- ▶ For the full year, the Company forecasts a slight decrease in sales and an increase in operating income in comparison to the previous year.

Op. income



Projections Segment Information



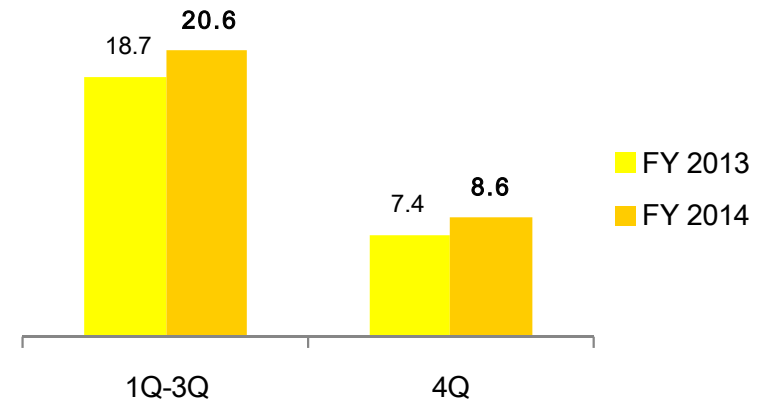
(Billions of yen)



FY 2014 Projection v. FY 2013 Actual

	FY 2013 Actual	FY 2014 Projection	Changes	Previous projection - July 23 -
Net sales	26.1	29.2	+3.1	29.4
Op. income	-1.8	-0.8	+1.0	-0.6

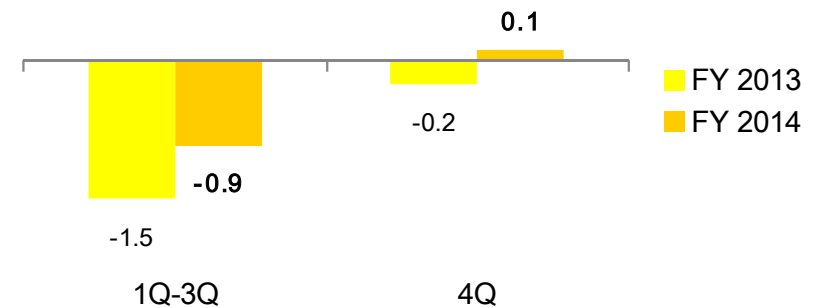
Net sales



Points

- ▶ For the fourth quarter, the Company forecasts increases in both sales and profits as it enhances its lineup of new products while expanding sales of existing products.
- ▶ For the full year, the Company forecasts increases in both sales and profits.

Op. income



Supplementary Information

[Reference] Overall sales of IT Solutions

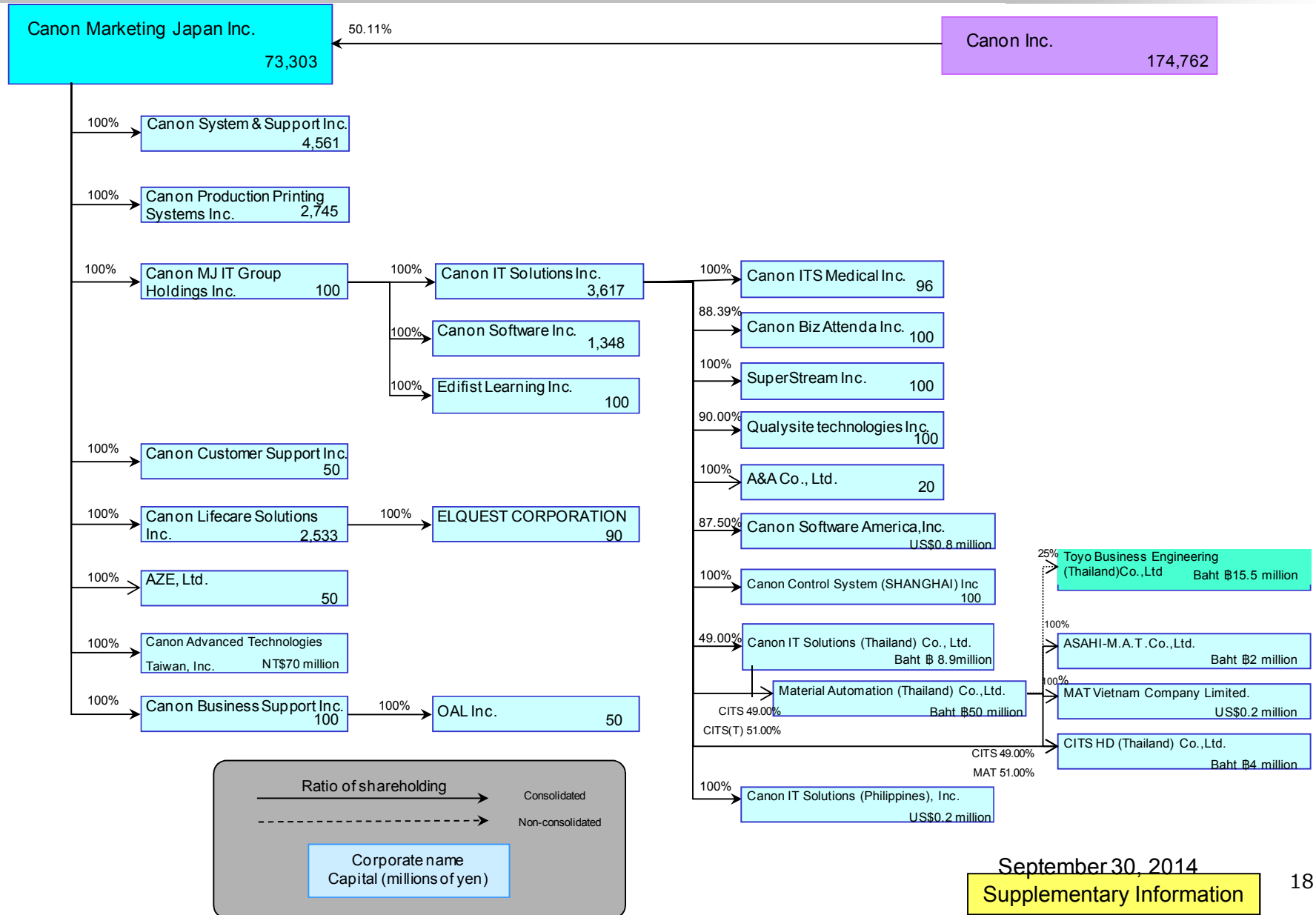


(Billions of yen)

	3Q 2013	3Q 2014	Changes	
			Amount	%
Sales of IT Solutions	34.2	33.5	-0.7	-2%
Sales other than the IT Solutions segment	14.0	13.3	-0.7	-5%
Intersegment (elimination), etc.	-7.5	-7.1	+0.3	-4%
Total	40.7	39.7	-1.0	-2%

	1Q-3Q 2013	1Q-3Q 2014	Changes	
			Amount	%
Sales of IT Solutions	104.2	113.2	+9.0	+9%
Sales other than the IT Solutions segment	41.2	46.0	+4.8	+12%
Intersegment (elimination), etc.	-21.7	-25.4	-3.7	+17%
Total	123.7	133.7	+10.1	+8%

Capital Relationship Diagram



Results of main consolidated companies



(Billions of yen)

		3Q 2013	3Q 2014		Changes	
					Amount	%
Business Solutions						
Canon System & Support Inc.	Net sales	28.8		27.9	-0.9	-3%
	Op. income	0.9 (3.1%)		0.6 (2.2%)	-0.3 (-0.9%)	
Canon Production Printing Systems Inc.	Net sales	3.0		3.0	+0.0	+1%
	Op. income	-0.1 (-)		0.0 (0.0%)	+0.1 (-)	
IT Solutions						
Canon IT Solutions (Consolidated)	Net sales	19.0		20.5	+1.5	+8%
	Op. income	0.2 (0.8%)		0.6 (2.7%)	+0.4 (+1.9%)	
Canon Software	Net sales	4.9		5.3	+0.4	+8%
	Op. income	0.3 (5.1%)		0.4 (7.1%)	+0.1 (+2.0%)	
Total	Net sales	23.9		25.8	+1.8	+8%
	Op. income	0.4 (1.7%)		0.9 (3.6%)	+0.5 (+1.9%)	
Industrial / Medical						
Canon Lifecare Solutions (Consolidated)	Net sales	4.7		4.5	-0.2	-5%
	Op. income	-0.2 (-)		-0.2 (-)	+0.0 (-)	

* The amount is before the elimination on a consolidated basis.

* The figures for Canon Production Printing Systems Inc. in 2013 and 1Q 2014 are aggregates of figures for OCE JAPAN CORPORATION, Canon Print Square Inc., and SHOWA INFORMATION SYSTEMS CO., LTD.

Supplementary Information

Results of main consolidated companies



(Billions of yen)

		1Q-3Q FY 2013		1Q-3Q FY 2014		Changes	
						Amount	%
Business Solutions							
Canon System & Support Inc.	Net sales	86.1		90.0		+4.0	+5%
	Op. income	2.4	(2.8%)	2.5	(2.8%)	+0.1	(+0.0%)
Canon Production Printing Systems Inc.	Net sales	10.8		9.9		-0.9	-8%
	Op. income	0.0	(0.2%)	0.1	(0.7%)	+0.1	(+0.5%)
IT Solutions							
Canon IT Solutions (Consolidated)	Net sales	59.8		65.2		+5.3	+9%
	Op. income	0.5	(0.8%)	2.3	(3.5%)	+1.8	(+2.7%)
Canon Software	Net sales	15.3		16.1		+0.8	+6%
	Op. income	1.0	(6.5%)	1.3	(7.8%)	+0.3	(+1.4%)
Total	Net sales	75.1		81.3		+6.2	+8%
	Op. income	1.5	(1.9%)	3.5	(4.3%)	+2.1	(+2.4%)
Industrial / Medical							
Canon Lifecare Solutions (Consolidated)	Net sales	14.3		15.0		+0.7	+5%
	Op. income	-0.5	(-)	-0.4	(-)	+0.1	(-)

* The amount is before the elimination on a consolidated basis.

* The figures for Canon Production Printing Systems Inc. in 2013 and 1Q 2014 are aggregates of figures for OCE JAPAN CORPORATION, Canon Print Square Inc., and SHOWA INFORMATION SYSTEMS CO., LTD.

Supplementary Information

Selling expenses



(Billions of yen)

	FY 2013		FY 2014		Changes	
	3Q	1Q-3Q	3Q	1Q-3Q	3Q	1Q-3Q
Advertising expenses	3.0	7.3	2.7	7.0	-0.3	-0.3
Promotion expenses	0.9	2.6	1.2	3.4	+0.3	+0.7
Warranty expenses	1.9	5.6	1.9	5.5	+0.0	-0.2
Other direct selling expenses	4.6	13.7	4.5	13.7	-0.1	+0.0
Personnel expenses	32.0	94.1	31.5	94.8	-0.5	+0.8
Depreciation and amortization	0.6	1.9	0.6	1.9	+0.0	+0.1
Other selling expenses	9.0	27.6	9.0	27.4	-0.0	-0.2
Total	51.9	152.8	51.4	153.6	-0.5	+0.9

Non-operating income and expenses



(Billions of yen)

■ Non-operating income

	FY 2013		FY 2014		Changes	
	3Q	1Q-3Q	3Q	1Q-3Q	3Q	1Q-3Q
Interest & dividends income	0.1	0.3	0.1	0.3	+0.0	+0.0
Insurance income	0.1	0.6	0.0	0.6	-0.0	-0.0
Other	0.1	0.4	0.2	0.5	+0.1	+0.1
Total	0.2	1.3	0.3	1.4	+0.1	+0.1

■ Non-operating expenses

	FY 2013		FY 2014		Changes	
	3Q	1Q-3Q	3Q	1Q-3Q	3Q	1Q-3Q
Interest expenses	0.0	0.0	0.0	0.0	-0.0	+0.0
Share of loss of entities accounted for using equity method	-	-	0.0	0.0	+0.0	+0.0
Foreign exchange losses	0.0	0.1	-0.0	-	-0.0	-0.1
Other	0.0	0.2	0.1	0.2	+0.0	-0.0
Total	0.1	0.3	0.1	0.2	+0.0	-0.1

Extraordinary income and expenses



(Billions of yen)

■ Extraordinary income

	FY2013		FY2014		Changes	
	3Q	1Q-3Q	3Q	1Q-3Q	3Q	1Q-3Q
Gain on sales of non-current assets	0.0	0.0	-0.0	0.0	-0.0	-0.0
Gain on sales of investment securities	0.0	0.1	0.0	0.0	+0.0	-0.1
Gain on bargain purchase	-	-	-	0.0	-	+0.0
Other	-	0.0	0.0	0.0	+0.0	+0.0
Total	0.0	0.1	0.0	0.0	+0.0	-0.1

■ Extraordinary expenses

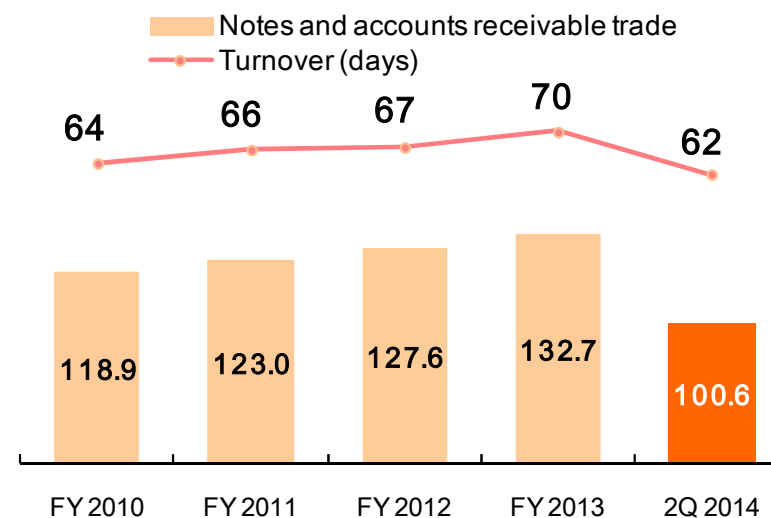
	FY2013		FY2014		Changes	
	3Q	1Q-3Q	3Q	1Q-3Q	3Q	1Q-3Q
Loss on sales and retirement of non-current assets	0.2	0.6	0.0	0.2	-0.2	-0.4
Impairment loss	0.0	0.0	-	-	-0.0	-0.0
Special extra retirement payments	-	0.6	-	-	-	-0.6
Office transfer expenses	0.1	0.2	-	-	-0.1	-0.2
Other	0.1	0.2	0.0	0.1	-0.1	-0.1
Total	0.4	1.5	0.1	0.3	-0.4	-1.3

Balance Sheets

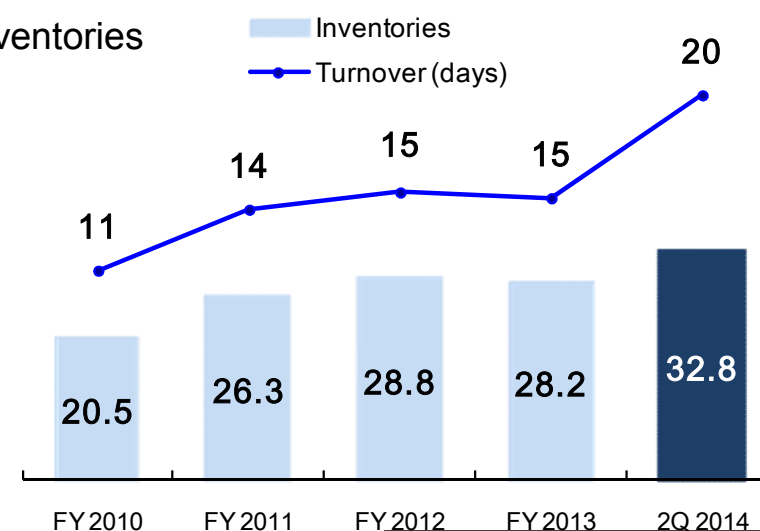


	Dec. 31 2013	Sep. 30 2014	Changes
Assets	467.1	454.5	-12.6
Current assets	324.9	314.1	-10.8
Cash and deposits	102.3	118.4	+16.1
Notes and accounts receivable trade	132.7	100.6	-32.1
Inventories	28.2	32.8	+4.5
Other	61.7	62.3	+0.6
Noncurrent assets	142.1	140.4	-1.8
Property, plant and equipment	99.7	99.4	-0.3
Intangible assets	12.9	11.1	-1.7
Investments and other assets	29.6	29.8	+0.3
Liabilities	210.0	190.9	-19.1
Current liabilities	164.9	146.0	-18.9
Notes and accounts payable-trade	108.5	90.1	-18.4
Other	56.4	55.9	-0.5
Noncurrent liabilities	45.1	44.9	-0.1
Net assets	257.1	263.6	+6.5
Shareholders' equity	255.6	261.8	+6.2
(Treasury stock)	-31.9	-31.9	-0.0
Accumulated other	1.2	1.5	+0.3
Minority interests	0.3	0.3	+0.0
Equity ratio	55%	58%	+3%

Notes and accounts receivable trade



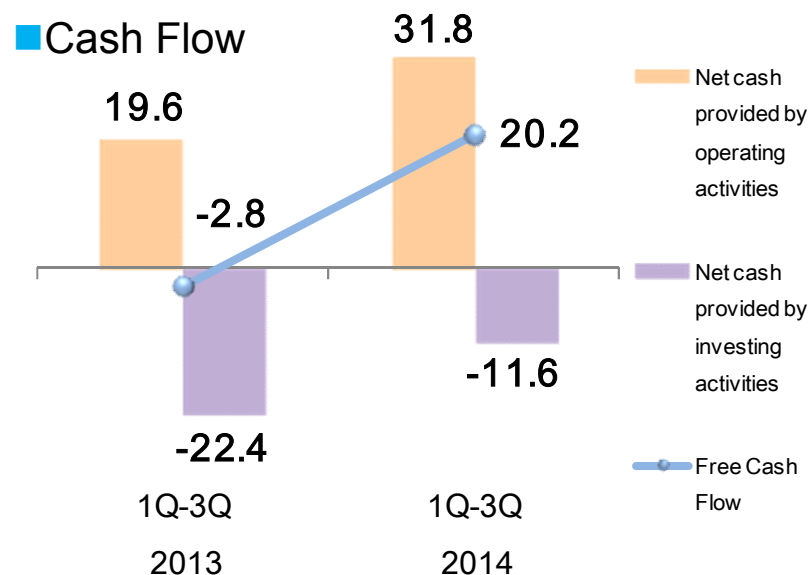
Inventories



Supplementary Information

Cash Flow / Investment / Depreciation and amortization /

Financial indicator

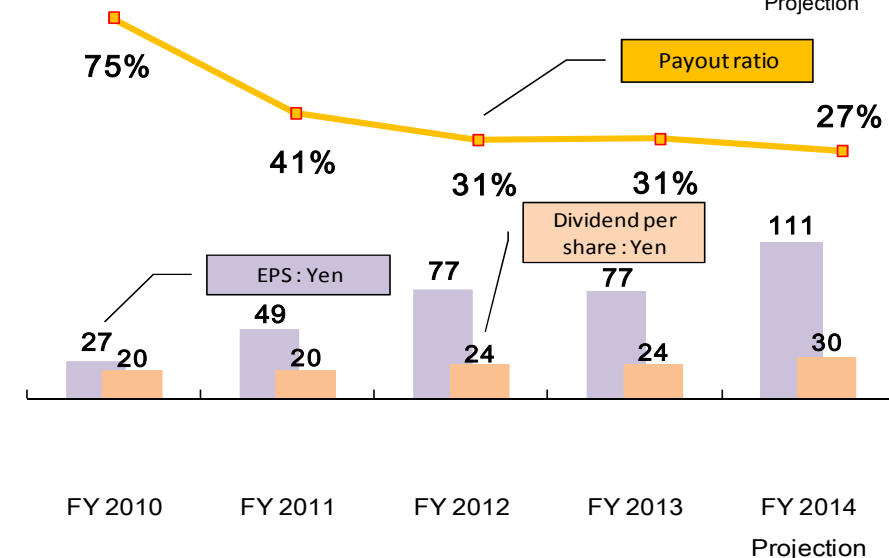
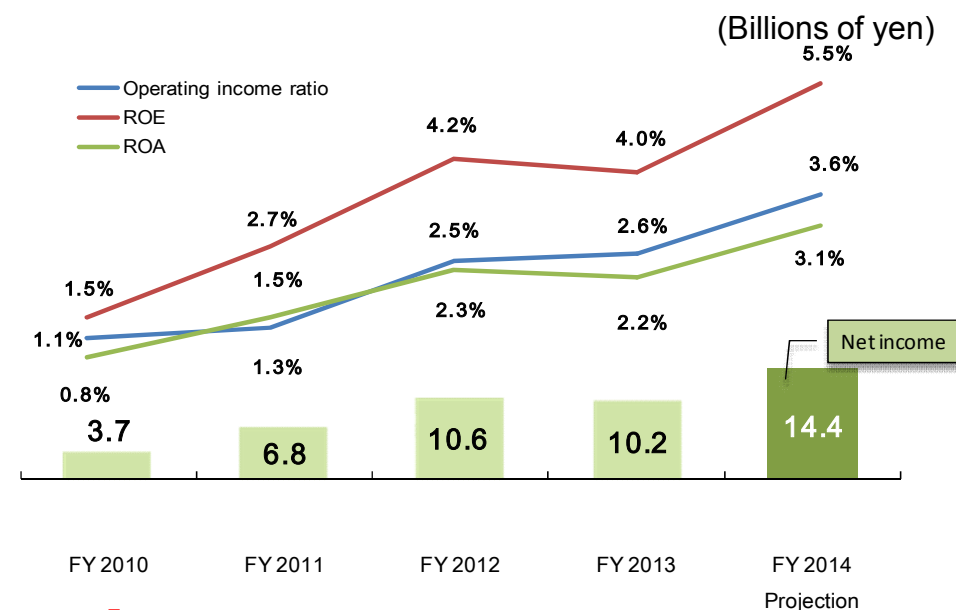


Investment

	1Q-3Q Actual	4Q Projection	FY Projection
FY 2013	11.4	3.0	14.4
FY 2014	9.6	5.8	15.4

Depreciation and amortization

	1Q-3Q Actual	4Q Projection	FY Projection
FY 2013	13.0	4.5	17.4
FY 2014	12.9	3.7	16.6



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