

# Canon Marketing Japan Inc. First Quarter 2016 Results

April 26, 2016  
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**Canon**

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 First Quarter 2016 Results



**Net sales**                      **¥156.0 B (Y/Y +0.6B, +0.4%)**

- ✓ Business solutions, IT solutions and Industrial equipment contributed to the increase of Net sales.
- ✓ Net sales decreased in the B to C Businesses due to the weakness of the market.

**Operating Income**            **¥5.2 B (Y/Y +1.7B, +49.8%)**

- ✓ Sales increase of service & consumable goods and the adjustment of expenses contributed to the increase of Operating income.

**Profit attributable to  
owners of parent**              **¥3.0 B (Y/Y +1.1B, +61.0%)**

# Summary of Results

1Q 2016 Actual  
(from January 1 to March 31)



## Summary of Results

(Billions of yen)

	1Q 2015	1Q 2016	Changes	
			Amount	%
Net sales	155.4	156.0	+0.6	+0%
Gross profit	(35.0%) 54.3	(35.2%) 54.9	(+0.2%) +0.6	+1%
Operating income	(2.2%) 3.5	(3.3%) 5.2	(+1.1%) +1.7	+50%
Ordinary income	(2.4%) 3.8	(3.4%) 5.4	(+1.0%) +1.6	+43%
Profit attributable to owners of parent	(1.2%) 1.8	(1.9%) 3.0	(+0.7%) +1.1	+61%

## Op. Income Variance Analysis



# Segment Outline

1Q 2016 Actual  
(from January 1 to March 31)



(Billions of yen)

	1Q 2015		1Q 2016		Changes	
	Net sales	Op. Income	Net sales	Op. Income	Net sales	Op. Income
Business Solutions	85.0	2.7	85.7	3.2	+0.8	+0.5
IT Solutions	36.3	1.0	37.5	1.5	+1.2	+0.5
Imaging System	34.5	-0.4	31.8	-0.3	-2.8	+0.1
Industrial / Medical	7.3	0.1	8.1	0.8	+0.8	+0.7
Other	-7.7	0.1	-7.2	0.1	+0.5	-0.0
Total	155.4	3.5	156.0	5.2	+0.6	+1.7

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

## Net Sales 85.7B (Y/Y +0.8B, +1%)

➤ Sales rose only slightly, reflecting an increase in office MFPs, IT solutions, and network cameras and a decrease in page printers and production printing.

## Operating Income 3.2B (Y/Y +0.5B, +19%)

➤ Operating income rose substantially thanks to growth in profitable businesses, including maintenance services and LBP cartridge business.

■ 2016 Actual v. 2015 Actual

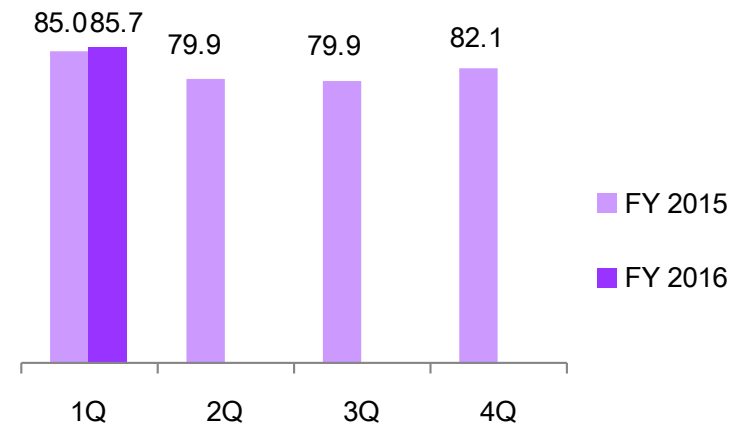
	1Q 2015	1Q 2016	Changes
Net sales	85.0	85.7	+0.8
Op. income	2.7	3.2	+0.5

■ Net sales - Growth rate

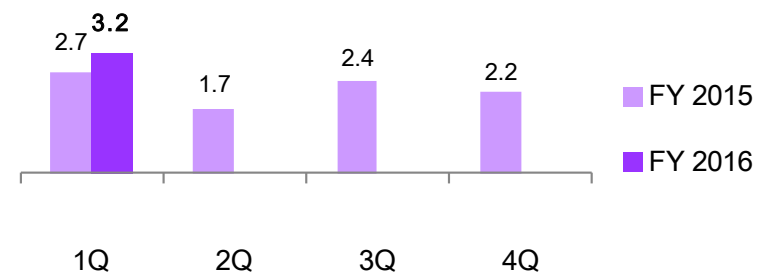
	1Q	2Q	3Q	4Q	FY
FY 2015	-8%	+3%	+2%	+0%	-1%
FY 2016	+1%				+1%

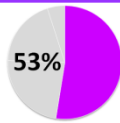
■ Net sales

(Billions of yen)



■ Op. income





## Products & Services included in New Product Groups

### Production Printing

- Production MFP (Cut Sheet method)
- Continuous Feed Printers (Roll Paper method)
- Wide Format Printers (Inkjet/Toner methods)
- Point of Purchase Advertising System
- Related Service & Support
- Document Outsourcing Service, etc.

### Network Camera

- Network Camera
- Useware Service (Installation, Cloud Service, Service & Support, etc.)

# 1Q 2016 Actual



## Net Sales 37.5B (Y/Y +1.2B, +3%)

➤ Sales rose, driven mainly by sales from large-scale projects related to SI services for financial institutions, system infrastructure building, and data centers.

## Operating Income 1.5B (Y/Y +0.5B, +47%)

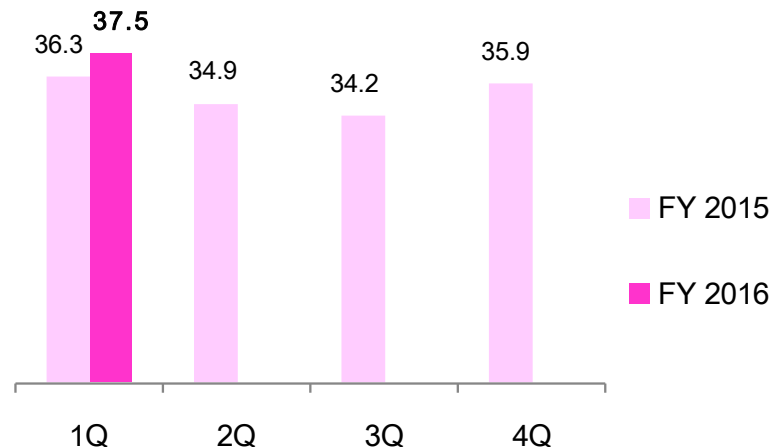
➤ Operating income climbed, reflecting greater profits due to an increase in sales as well as a decline in selling, general and administrative expenses.

### 2016 Actual v. 2015 Actual

	1Q 2015	1Q 2016	Changes
Net sales	36.3	37.5	+1.2
Op. income	1.0	1.5	+0.5

### Net sales

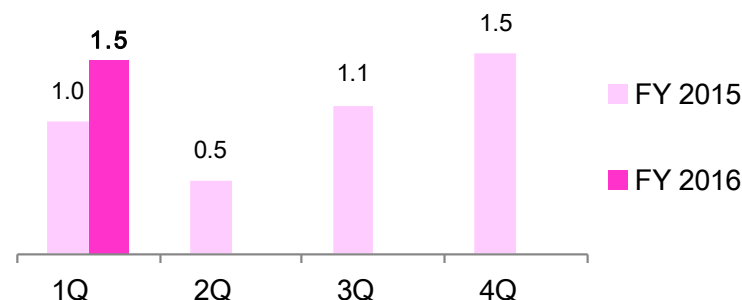
(Billions of yen)



### Net sales - Growth rate

	1Q	2Q	3Q	4Q	FY
FY 2015	-17%	-3%	+2%	+1%	-5%
FY 2016	+3%				+3%

### Op. income



# 1Q 2016 Actual



**Net Sales 31.8B (Y/Y -2.8B -8%)**

- Sales fell on a decrease in shipments of interchangeable lens digital cameras and compact cameras.

**Operating Income -0.3B (Y/Y +0.1B, -%)**

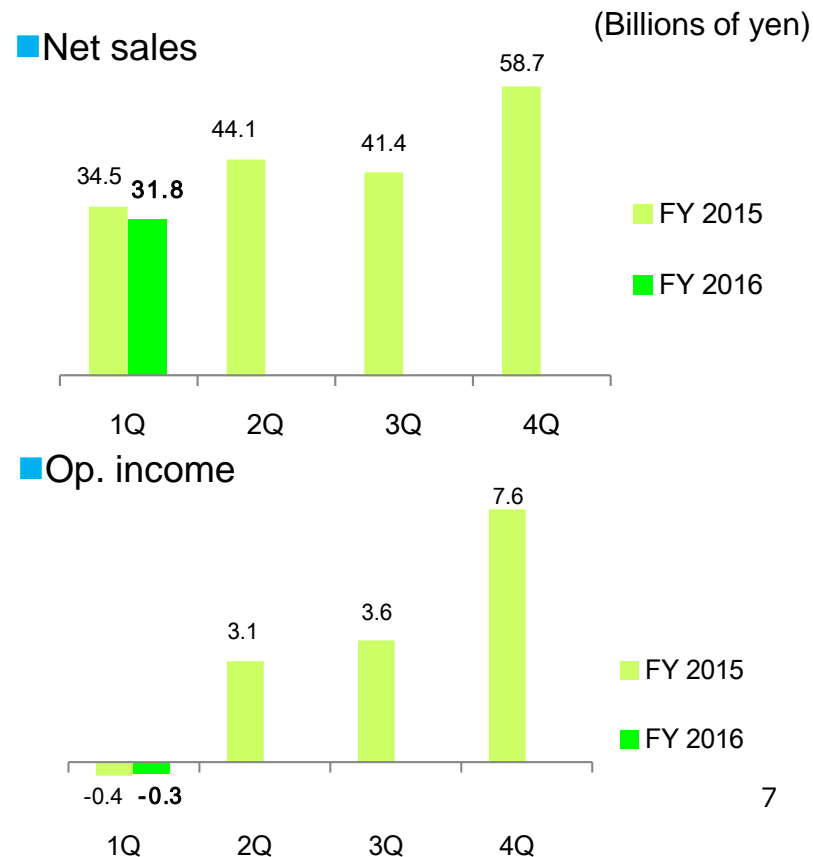
- Operating income improved from a year ago as a result of a reduction in selling, general and administrative expenses.

■ 2016 Actual v. 2015 Actual

	1Q 2015	1Q 2016	Changes
Net sales	34.5	31.8	-2.8
Op. income	-0.4	-0.3	+0.1

■ Net sales - Growth rate

	1Q	2Q	3Q	4Q	FY
FY 2015	-28%	+26%	+4%	-6%	-4%
FY 2016	-8%				-8%





## Net Sales 8.1B (Y/Y +0.8B, +11%)

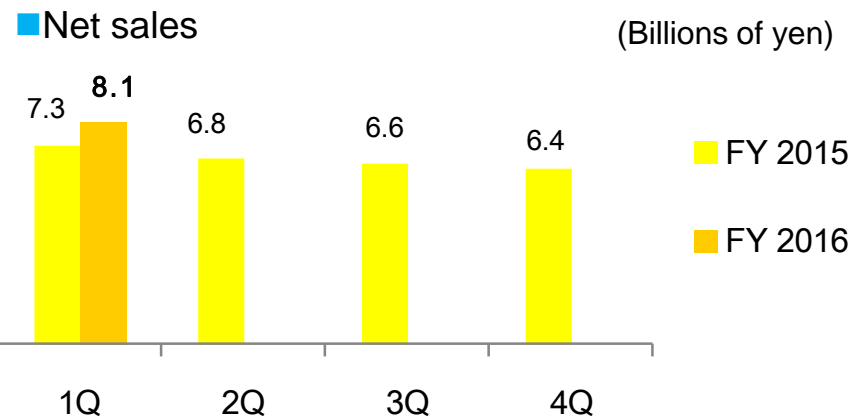
➤ Of industrial equipment, semiconductor-related equipment and inspection and measuring devices performed well, and sales increased.

## Operating Income 0.8B (Y/Y +0.7B, +572%)

➤ Of Industrial equipment, operating income climbed thanks to the sales increase. Of Medical, ongoing improvement of profit structure contributed to the increase of operating income.

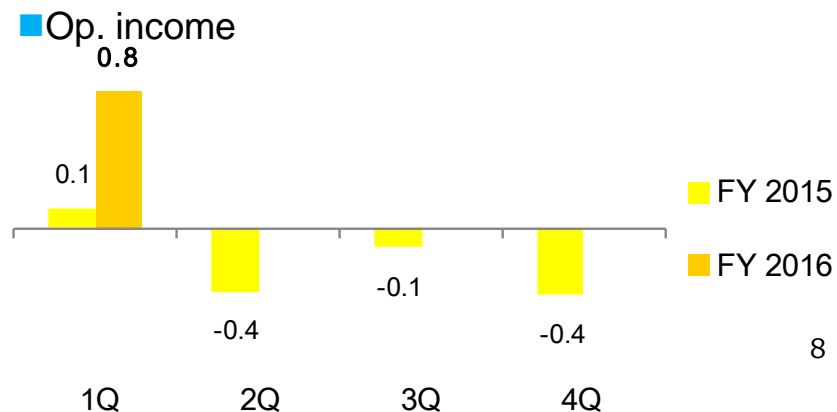
### 2016 Actual v. 2015 Actual

	1Q 2015	1Q 2016	Changes
Net sales	7.3	8.1	+0.8
Op. income	0.1	0.8	+0.7



### Net sales - Growth rate

	1Q	2Q	3Q	4Q	FY
FY 2015	-21%	+33%	+7%	-14%	-3%
FY 2016	+11%	-	-	-	+11%



# Summary of Projections

\* The target for FY2016 is unchanged from the previous update announced in January.

(Billions of yen)	FY 2016 Projection	[Reference]	Changes	
		FY 2015 Actual	Amount	%
Net sales	<b>660.0</b>	<b>646.0</b>	<b>+14.0</b>	<b>+2%</b>
Operating income	(4.1%) <b>27.0</b>	(4.1%) <b>26.6</b>	(-0.0%) <b>+0.4</b>	<b>+1%</b>
Ordinary income	(4.3%) <b>28.2</b>	(4.3%) <b>28.0</b>	(-0.1%) <b>+0.2</b>	<b>+1%</b>
Profit attributable to owners of parent	(2.7%) <b>17.7</b>	(2.4%) <b>15.7</b>	(+0.3%) <b>+2.0</b>	<b>+13%</b>

# Projections Summary Outline



\* The target for FY2016 is unchanged from the previous update announced in January.

(Billions of yen)	FY 2015		FY 2016		Changes		
	Actual		Projection		Net sales	Op. income	Op. income
	Net sales	Op. income	Net sales	Op. income			
Business Solutions	<b>326.9</b>	<b>9.0</b>	<b>334.1</b>	<b>9.2</b>	<b>+7.2</b>	<b>+2%</b>	<b>+0.2</b>
IT Solutions	<b>141.2</b>	<b>4.1</b>	<b>145.8</b>	<b>4.4</b>	<b>+4.6</b>	<b>+3%</b>	<b>+0.3</b>
Imaging System	<b>178.7</b>	<b>13.8</b>	<b>180.3</b>	<b>13.3</b>	<b>+1.6</b>	<b>+1%</b>	<b>-0.5</b>
Industrial / Medical	<b>27.2</b>	<b>-0.7</b>	<b>26.7</b>	<b>-0.3</b>	<b>-0.5</b>	<b>-2%</b>	<b>+0.5</b>
Other	<b>-27.9</b>	<b>0.4</b>	<b>-26.9</b>	<b>0.4</b>	<b>+1.0</b>	<b>-</b>	<b>-0.1</b>
Total	<b>646.0</b>	<b>26.6</b>	<b>660.0</b>	<b>27.0</b>	<b>+14.0</b>	<b>+2%</b>	<b>+0.4</b>

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

## Business Solutions

- ✓ Sales of MFPs are expected to rise from a year ago, reflecting aggressive sales promotion, including the promotion of new products.
- ✓ The Company will take steps to gain new customers for page printers by adding new products to the product lineup, and continue to focus on the distribution and medical markets.
- ✓ The Company expects to increase sales in production printing by launching new Océ continuous feed printers and enhancing the product lineup of light production printers, which sell well.

## IT Solutions

- ✓ SI business, IT infrastructure & service business, and products business are all expected to perform well.
- ✓ Expenses are likely to increase, reflecting new investments and R&D expenses for growth.

## Imaging System

- ✓ The Company aims to expand sales of mirrorless cameras, a market in which Company can expand share significantly, and expects that unit sales of interchangeable lens digital cameras will rise from the previous fiscal year.
- ✓ The Company forecasts that operating income will fall due to an increase in expenses resulting from investment to revitalize the market.

## Industrial/ Medical

- ✓ Industrial Equipment:  
There is concern over the effect of investment cutbacks by semiconductor manufacturers.
- ✓ Medical :  
The Company will continue its efforts to improve profits by reviewing its business structure.

## ✓ **Newly Organized “ITS Company”**

ITS company was newly organized as an in-house company, that plan and promote the strategy to expand the IT solution businesses covering all business segments.

## ✓ **Call Center Project**

### **Digital Marketing & EC Project**

Two projects were newly established to improve the marketing activities and resource utilization.

## ✓ **Strengthening the Outsourcing and Security Businesses**

The Company Group continue to focus on these businesses as a cross-sectional priority growth area.

## ✓ **Development of New Business**

The company invested in the venture funds featuring FinTech and next generation ICT respectively to promote the alliance with startups.

# Supplementary Information

# [Reference] Overall sales of IT Solutions

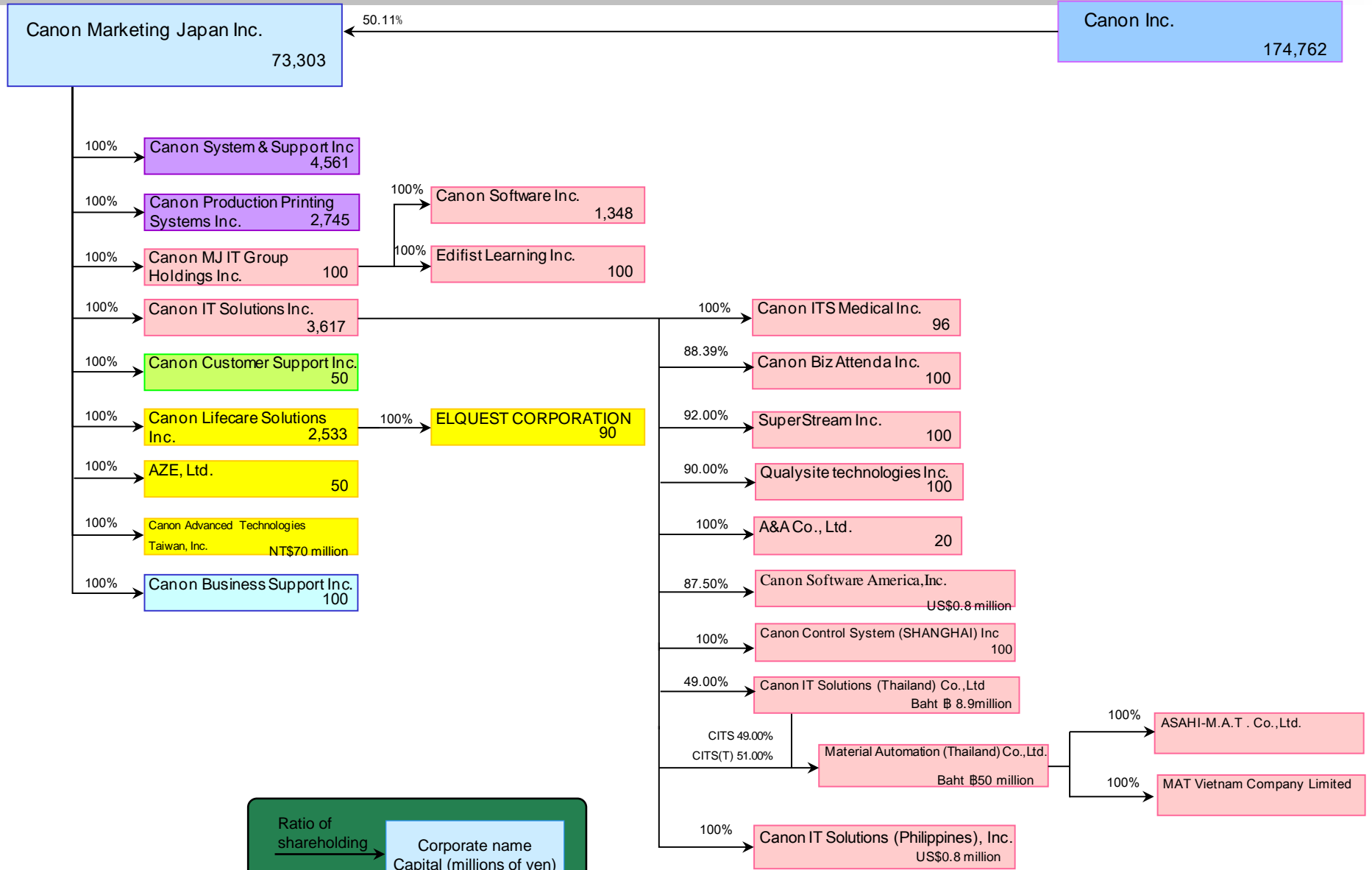


(Billions of yen)

	1Q 2015	1Q 2016	Changes	
			Amount	%
Sales of IT Solutions	36.3	37.5	+1.2	+3%
Sales other than the IT Solutions segment	15.8	16.3	+0.5	+3%
Intersegment (elimination), etc.	-7.7	-7.2	+0.5	-
Total	44.4	46.7	+2.3	+5%



# Capital Relationship Diagram



Ratio of shareholding → Corporate name  
Capital (millions of yen)

as of March 31, 2016

Supplementary Information

# Results of main consolidated companies



(Billions of yen)

		1Q 2015		1Q 2016		Changes	
						Amount	%
<b>Business Solutions</b>							
Canon System & Support Inc.	Net sales	<b>31.4</b>		<b>32.8</b>		<b>+1.5</b>	<b>+5%</b>
	Op. income	<b>1.1</b>	(3.5%)	<b>1.4</b>	(4.2%)	<b>+0.3</b>	(+0.7%)
Canon Production Printing Systems Inc.	Net sales	<b>3.1</b>		<b>2.8</b>		<b>-0.3</b>	<b>-10%</b>
	Op. income	<b>-0.1</b>	(-)	<b>-0.2</b>	(-)	<b>-0.1</b>	(-)
<b>IT Solutions</b>							
Canon MJ IT Group Holdings (Consolidated)	Net sales	<b>27.4</b>		<b>28.3</b>		<b>+0.9</b>	<b>+3%</b>
	Op. income	<b>1.5</b>	(5.3%)	<b>1.8</b>	(6.3%)	<b>+0.3</b>	(+1.0%)
<b>Industrial / Medical</b>							
Canon Lifecare Solutions	Net sales	<b>4.6</b>		<b>4.5</b>		<b>-0.1</b>	<b>-2%</b>
	Op. income	<b>0.0</b>	(0.5%)	<b>0.3</b>	(7.5%)	<b>+0.3</b>	(+7.0%)

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

\* Results of Canon System & Support Inc. for the 1Q of 2015 is adjusted considering the effect of the business transfer of GB Sales Headquarters of Canon Marketing Japan Inc. dated January 1, 2016.

# SG&A expenses



(Billions of yen)

	<u>FY 2015</u>	<u>FY 2016</u>	<u>Changes</u>
	1Q	1Q	1Q
Advertising expenses	<b>2.6</b>	<b>2.2</b>	<b>-0.4</b>
Promotion expenses	<b>1.3</b>	<b>1.2</b>	<b>-0.0</b>
Warranty expenses	<b>1.8</b>	<b>1.5</b>	<b>-0.4</b>
Other direct selling expenses	<b>5.3</b>	<b>5.3</b>	<b>+0.1</b>
Personnel expenses	<b>31.3</b>	<b>31.3</b>	<b>-0.0</b>
Depreciation and amortization	<b>0.5</b>	<b>0.5</b>	<b>+0.0</b>
Other selling expenses	<b>8.1</b>	<b>7.7</b>	<b>-0.4</b>
<b>Total</b>	<b>50.8</b>	<b>49.7</b>	<b>-1.2</b>

# Non-operating income and expenses

(Billions of yen)

## ■ Non-operating income

	FY 2015	FY 2016	Changes
	1Q	1Q	1Q
Interest income	<b>0.1</b>	<b>0.1</b>	<b>+0.0</b>
Dividend income	<b>0.0</b>	<b>0.0</b>	<b>+0.0</b>
Insurance income	<b>0.0</b>	<b>0.0</b>	<b>-0.0</b>
Other	<b>0.3</b>	<b>0.2</b>	<b>-0.1</b>
<b>Total</b>	<b>0.4</b>	<b>0.3</b>	<b>-0.1</b>

## ■ Non-operating expenses

	FY 2015	FY 2016	Changes
	1Q	1Q	1Q
Interest expenses	<b>0.0</b>	<b>0.0</b>	<b>-0.0</b>
Foreign exchange losses	<b>0.0</b>	<b>0.0</b>	<b>+0.0</b>
Other	<b>0.1</b>	<b>0.1</b>	<b>+0.0</b>
<b>Total</b>	<b>0.1</b>	<b>0.1</b>	<b>+0.0</b>

(Billions of yen)

■ Extraordinary income

	FY 2015	FY 2016	Changes
	1Q	1Q	1Q
Gain on sales of non-current assets	0.0	0.0	+0.0
Insurance income on disaster	0.0	-	-0.0
Other	-	0.0	+0.0
<b>Total</b>	<b>0.0</b>	<b>0.0</b>	<b>-0.0</b>

■ Extraordinary expenses

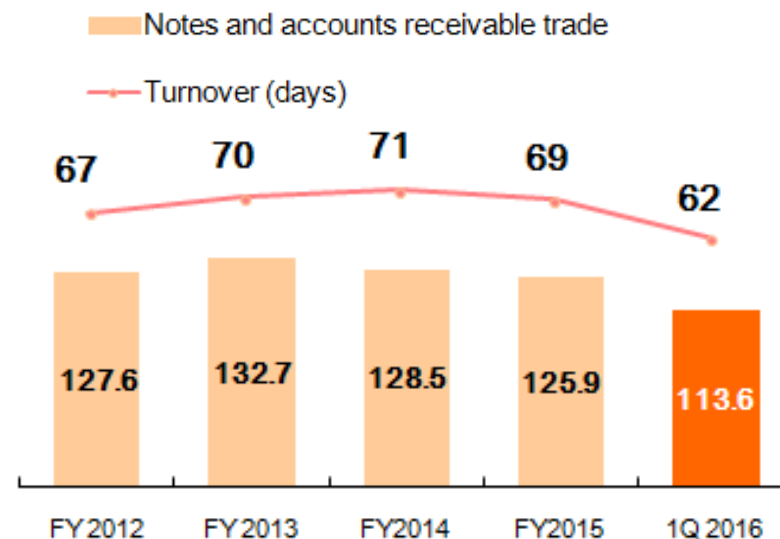
	FY 2015	FY 2016	Changes
	1Q	1Q	1Q
Loss on sales and retirement of non-current assets	0.0	0.1	+0.0
Impairment loss	-	0.1	+0.1
Loss on disaster	0.0	-	-0.0
Other	0.0	0.0	-0.0
<b>Total</b>	<b>0.1</b>	<b>0.2</b>	<b>+0.1</b>

# Balance Sheets

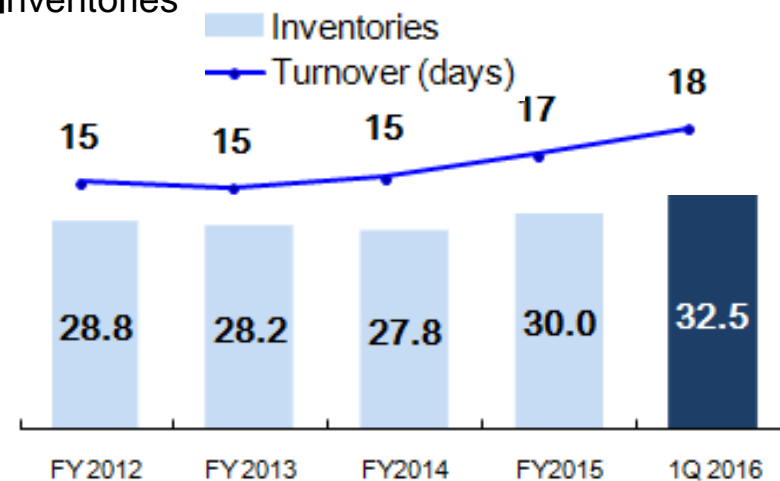
	Dec. 31 2015	Mar. 31 2016	Changes
<b>Assets</b>	<b>486.5</b>	<b>474.1</b>	<b>-12.4</b>
Current assets	<b>347.5</b>	<b>336.5</b>	<b>-11.0</b>
Cash and deposits	<b>99.6</b>	<b>98.4</b>	<b>-1.2</b>
Notes and accounts receivable trade	<b>125.9</b>	<b>113.6</b>	<b>-12.3</b>
Inventories	<b>30.0</b>	<b>32.5</b>	<b>+2.5</b>
Other	<b>92.1</b>	<b>92.0</b>	<b>-0.0</b>
Noncurrent assets	<b>139.0</b>	<b>137.6</b>	<b>-1.4</b>
Property, plant and equipment	<b>99.3</b>	<b>100.0</b>	<b>+0.7</b>
Intangible assets	<b>9.5</b>	<b>9.1</b>	<b>-0.4</b>
Investments and other assets	<b>30.2</b>	<b>28.5</b>	<b>-1.6</b>
<b>Liabilities</b>	<b>209.1</b>	<b>195.4</b>	<b>-13.7</b>
Current liabilities	<b>159.7</b>	<b>149.4</b>	<b>-10.3</b>
Notes and accounts payable-trade	<b>101.8</b>	<b>92.4</b>	<b>-9.5</b>
Other	<b>57.8</b>	<b>57.0</b>	<b>-0.8</b>
Noncurrent liabilities	<b>49.4</b>	<b>46.0</b>	<b>-3.4</b>
<b>Net assets</b>	<b>277.4</b>	<b>278.7</b>	<b>+1.3</b>
Shareholders' equity	<b>275.2</b>	<b>275.0</b>	<b>-0.3</b>
(Treasury stock)	<b>-31.9</b>	<b>-31.9</b>	<b>-0.0</b>
Total accumulated other comprehensive income	<b>1.8</b>	<b>3.3</b>	<b>+1.5</b>
Minority interests	<b>0.4</b>	<b>0.4</b>	<b>-0.0</b>
<b>Equity ratio</b>	<b>57%</b>	<b>59%</b>	<b>+2%</b>

(Billions of yen)

## Notes and accounts receivable trade

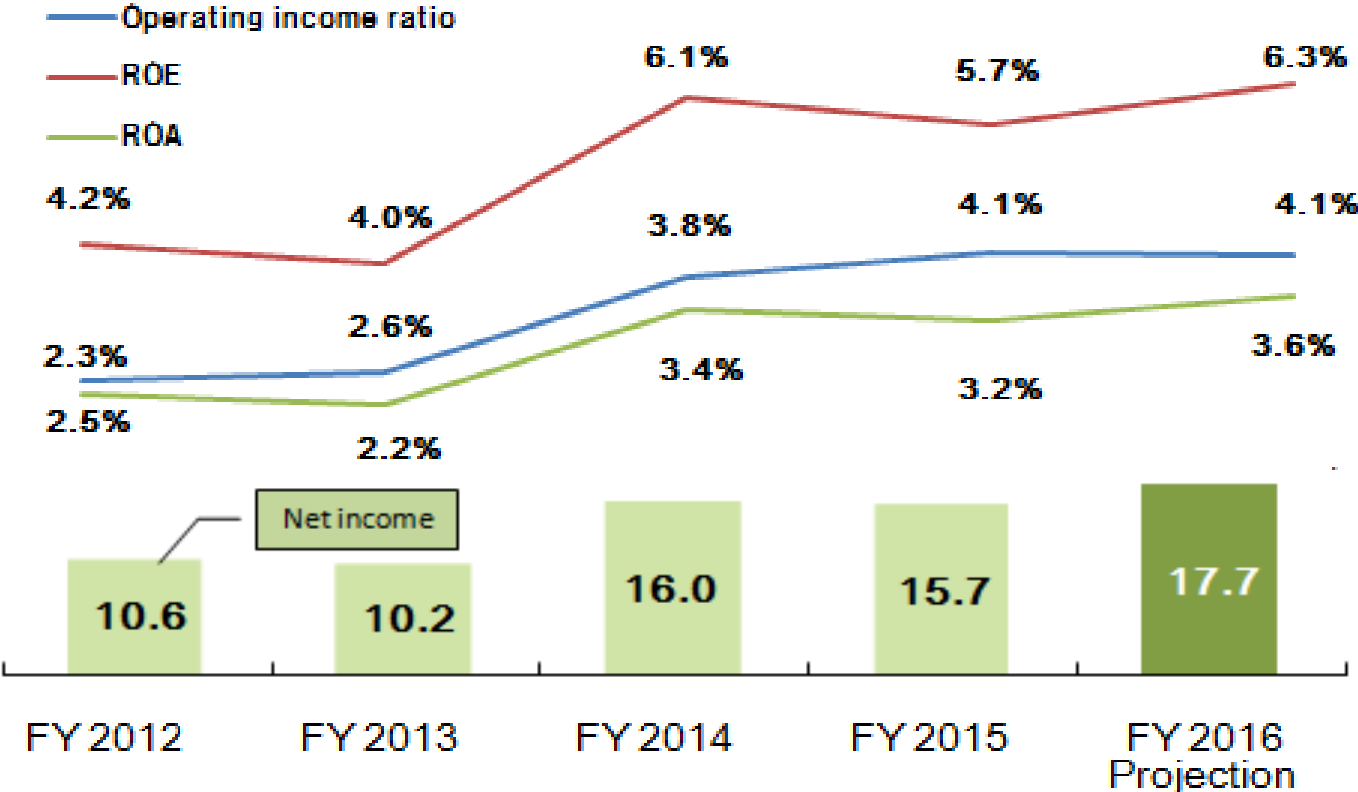


## Inventories



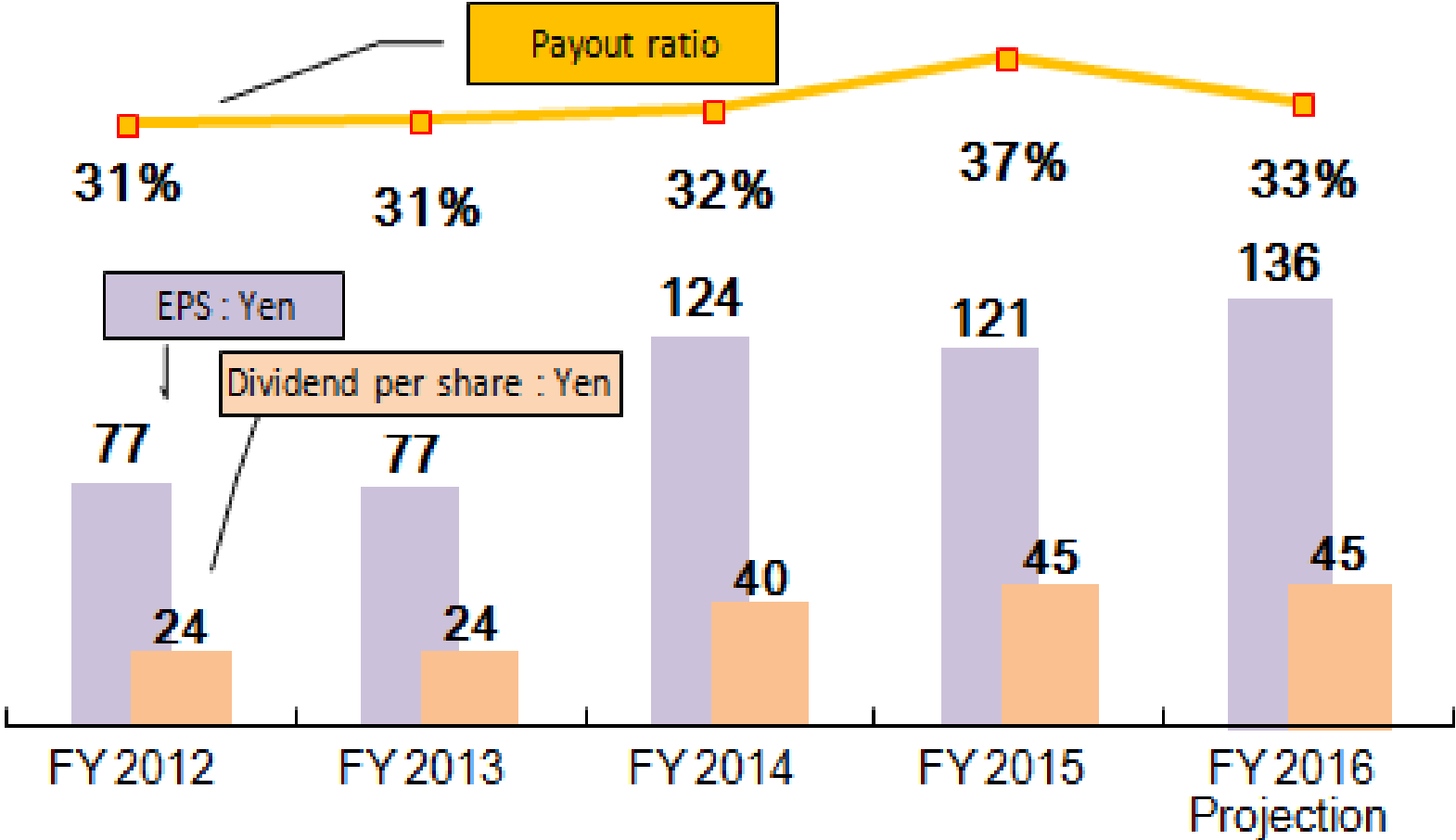
(Billions of yen)

■ Operating income ratio/ROA/ROE



(Billions of yen)

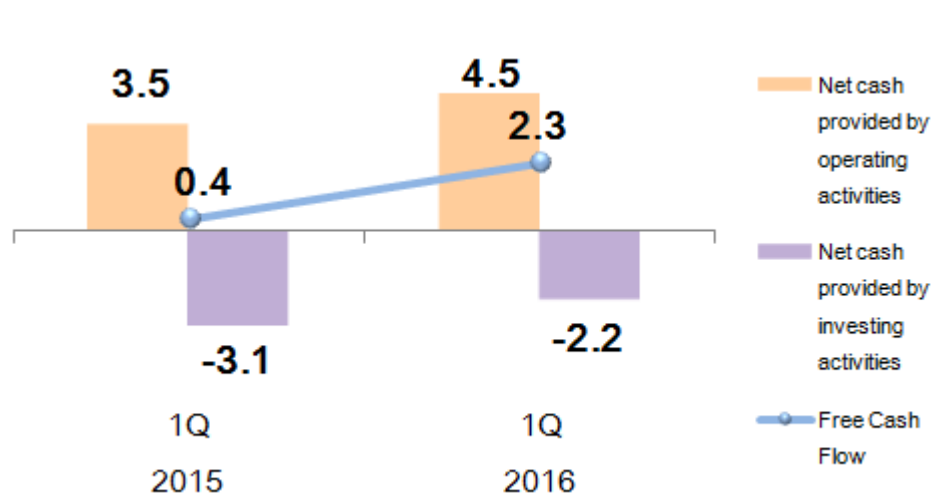
## ■ Payout ratio/EPS/Dividend per share





(Billions of yen)

## Cash Flow



## Investment

	1Q Actual	2Q-4Q Projection	FY Projection
FY 2015	3.8	10.7	14.6
FY 2016	4.3	14.9	19.2

## Depreciation and amortization

	1Q Actual	2Q-4Q Projection	FY Projection
FY 2015	4.0	11.5	15.5
FY 2016	3.8	11.6	15.4

**Canon**

Canon Marketing Japan Inc.