

Canon Marketing Japan Inc. Second Quarter 2016 Results

July 26, 2016
Yoshiyuki Matsusaka
Director , Senior Vice President

Canon
Canon Marketing Japan Inc.

-
- * 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 Second Quarter 2016 Results

Net sales **¥150.2 B (Y/Y -8.5B, -5%)**

- ✓ Net sales were driven by B To B transactions in Business Solutions, IT Solutions, and Industrial.
- ✓ B To C transactions declined due to the weak market.

Operating Income **¥5.1 B (Y/Y +0.1B, +1%)**

- ✓ Operating income rose, reflecting an increase in sales, particularly sales of services and consumable goods, and an overall revision of expenses.

**Profit attributable to
owners of parent** **¥3.7 B (Y/Y +0.4B, +14%)**

Summary of Results

2Q 2016 Actual
(from April 1 to June 30)

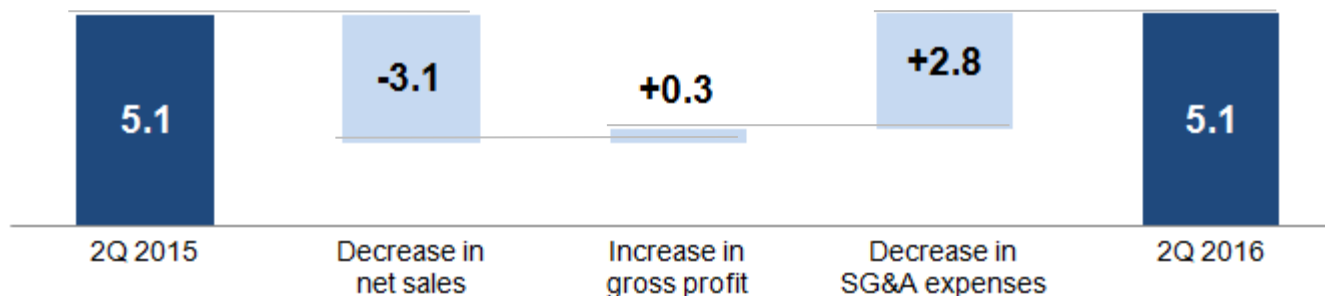


(Billions of yen)

■ Summary of Results

	2Q 2015	2Q 2016	Changes	
			Amount	%
Net Sales	158.7	150.2	-8.5	-5%
	(36.4%)	(36.7%)	(+0.2%)	
Gross Profit	57.8	55.1	-2.7	-5%
	(3.2%)	(3.4%)	(+0.2%)	
Operating income	5.1	5.1	+0.1	+1%
	(3.7%)	(3.9%)	(+0.2%)	
Ordinary income	5.8	5.8	+0.0	+0%
	(2.0%)	(2.4%)	(+0.4%)	
Profit attributable to owners of parent	3.2	3.7	+0.4	+14%

■ Op. Income Variance Analysis



Segment Outline

2Q 2016 Actual
(from April 1 to June 30)



(Billions of yen)

	2Q FY2015		2Q FY2016		Changes	
	Net Sales	Op. Income	Net Sales	Op. Income	Net Sales	Op. Income
Business Solutions	79.9	1.7	79.9	1.9	-0.1	+0.2
IT Solutions	34.9	0.5	34.9	1.2	+0.0	+0.6
Imaging System	44.1	3.1	36.3	2.1	-7.8	-1.0
Industrial / Medical	6.8	-0.4	5.9	-0.1	-0.9	+0.3
Other	-6.9	0.1	-6.7	0.1	+0.3	-0.0
Total	158.7	5.1	150.2	5.1	-8.5	+0.1

“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-2Q 2016 Actual
(from January 1 to June 30)

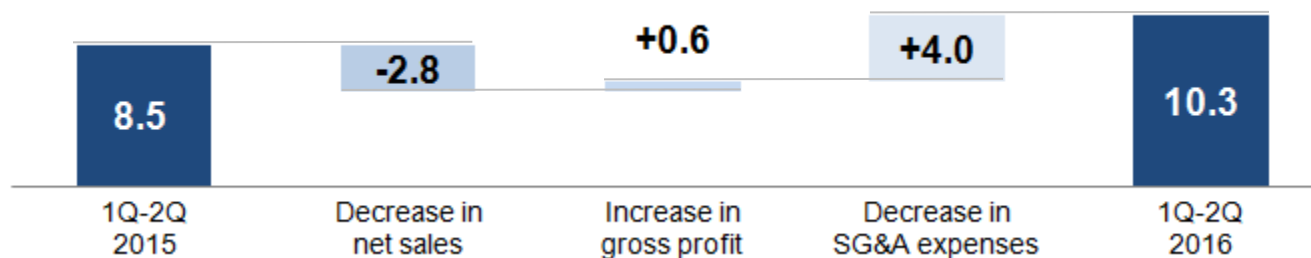


(Billions of yen)

■ Summary of Results

	1Q-2Q 2015	1Q-2Q 2016	Changes	
			Amount	%
Net Sales	314.1	306.2	-7.9	-3%
Gross profit	(35.7%) 112.1	(35.9%) 109.9	(+0.2%) -2.2	-2%
Operating income	(2.7%) 8.5	(3.4%) 10.3	(+0.7%) +1.8	+21%
Ordinary income	(3.1%) 9.6	(3.7%) 11.2	(+0.6%) +1.6	+17%
Profit attributable to owners of parent	(1.6%) 5.1	(2.2%) 6.6	(0.6%) +1.6	+31%

■ Op. Income Variance Analysis



Segment Outline

1Q-2Q 2016 Actual
(from January 1 to June 30)



(Billions of yen)

	1Q-2Q FY2015		1Q-2Q FY2016		Changes	
	Net Sales	Op. Income	Net Sales	Op. Income	Net Sales	Op. Income
Business Solutions	164.9	4.4	165.6	5.1	+0.7	+0.7
IT Solutions	71.1	1.5	72.4	2.6	+1.3	+1.1
Imaging System	78.6	2.6	68.1	1.7	-10.5	-0.9
Industrial / Medical	14.1	-0.3	14.0	0.7	-0.1	+1.0
Other	-14.7	0.2	-13.8	0.2	+0.8	-0.0
Total	314.1	8.5	306.2	10.3	-7.9	+1.8

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

Segment Information



Net sales: ¥79.9 billion (down ¥0.1 billion, or 0% year on year)

➤ Sales of page printer cartridges, IT solutions, and network cameras rose, while sales of page printers and production printing declined. Overall sales were about the same level as a year ago.

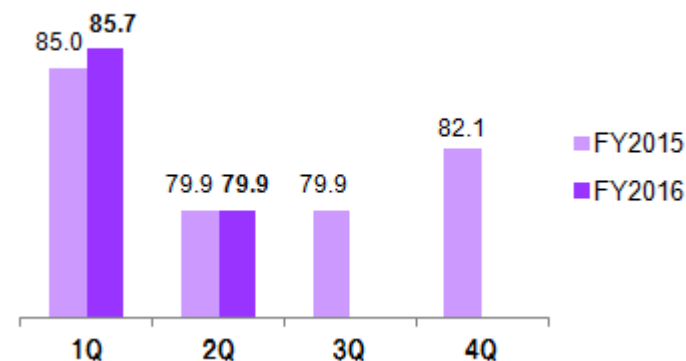
Operating income: ¥1.9 billion (up ¥0.2 billion, or 10% year on year)

➤ Operating income climbed from a year ago, chiefly reflecting an increase in stock business, which is highly profitable, and a reduction in SG&A expenses.

2016 Actual v. 2015 Actual

	1Q-2Q FY2015	1Q-2Q FY2016	Changes
Net Sales	164.9	165.6	+0.7
Op. income	4.4	5.1	+0.7

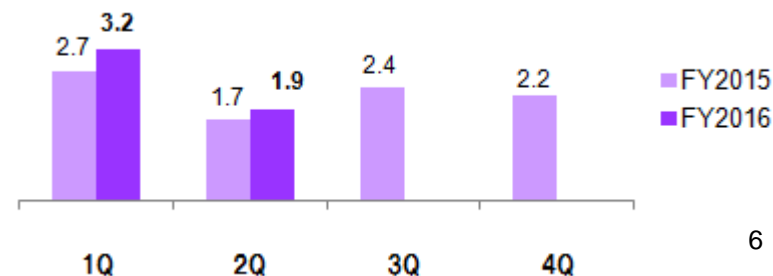
Net sales (Billions of yen)



Net sales - Growth rate

	1Q	2Q	3Q	4Q	FY
FY2015	-8%	+3%	+2%	+0%	-1%
FY2016	+1%	-0%	-	-	+0%

Op. income



Segment Information



Net sales: ¥34.9 billion (up ¥0.04 billion, or 0% year on year)

➤ Although sales from data center services and the product business were strong, sales in the segment rose only slightly largely because of a decline in the embedded software business.

Operating income: ¥1.2 billion (up ¥0.6 billion, or 113% year on year)

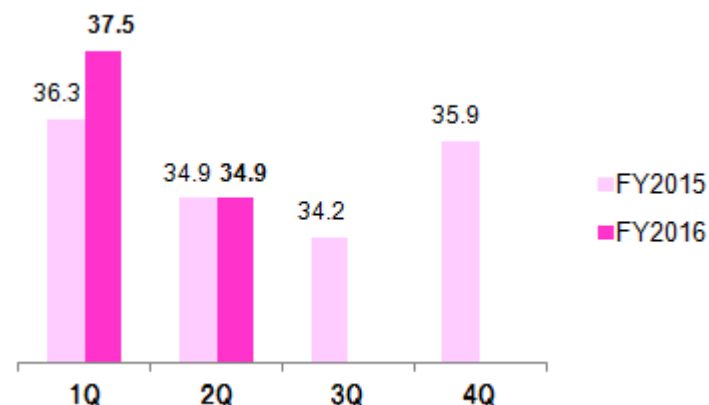
➤ Operating income increased mainly due to an improvement in the gross margin ratio and a reduction in SG&A expenses.

2016 Actual v. 2015 Actual

	1Q-2Q FY2015	1Q-2Q FY2016	Changes
Net Sales	71.1	72.4	+1.3
Op. income	1.5	2.6	+1.1

Net sales

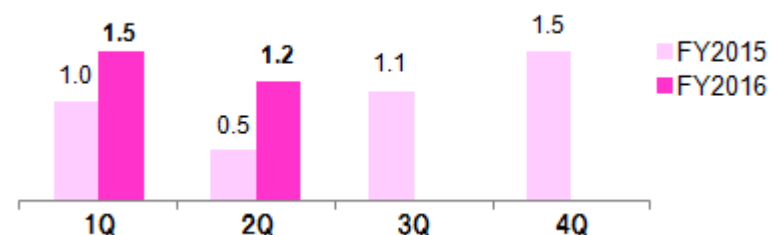
(Billions of yen)



Net sales - Growth rate

	1Q	2Q	3Q	4Q	FY
FY2015	-17%	-3%	+2%	+1%	-5%
FY2016	+3%	+0%	-	-	+2%

Op. income



[Reference] Overall sales of IT Solutions



(Billions of yen)

	2Q 2015	2Q 2016	Changes	
			Amount	%
Sales of IT Solutions	34.9	34.9	+0.0	+0%
Sales other than the IT Solutions segment	13.4	14.9	+1.5	+11%
Intersegment (elimination), etc.	-7.0	-6.7	+0.3	-%
Total	41.3	43.1	+1.8	+4%

	2015年 1Q-2Q	2016年 1Q-2Q	Changes	
			Amount	%
Sales of IT Solutions	71.1	72.4	+1.3	+2%
Sales other than the IT Solutions segment	29.2	31.2	+2.0	+7%
Intersegment (elimination), etc.	-14.7	-13.9	+0.8	-%
Total	85.7	89.8	+4.1	+5%

【Reference】 Overall IT Security net sales	YoY 2015 v 2016	
	2Q	1Q-2Q
	Overall IT Security	+15%

Segment Information



Net sales: ¥36.3 billion (down ¥7.8 billion, or 18% year on year)

➤ Sales of digital cameras, in particular, fell.

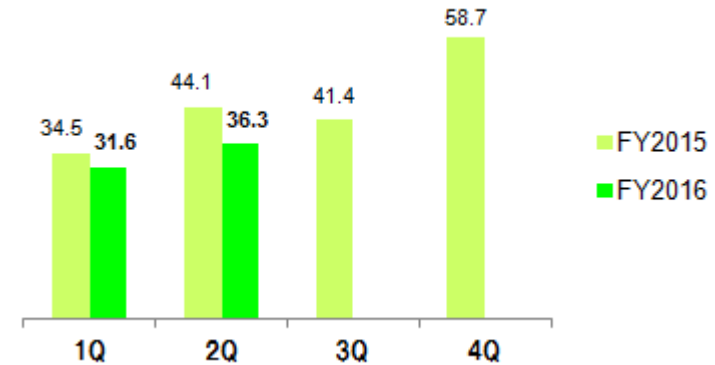
Operating income: ¥2.1 billion (down ¥1.0 billion, or 33% year on year)

➤ Operating income fell due to a decline in the gross margin associated with a decrease in sales.

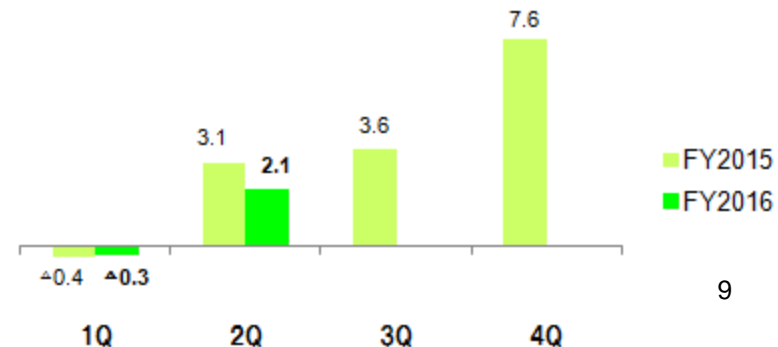
2016 Actual v. 2015 Actual

	1Q-2Q FY2015	1Q-2Q FY2016	Changes
Net Sales	78.6	68.1	Δ10.5
Op. income	2.6	1.7	Δ0.9

■ Net sales (Billions of yen)



■ Op. income



Net sales - Growth rate

	1Q	2Q	3Q	4Q	FY
FY2015	-28%	+26%	+4%	-6%	-4%
FY2016	-8%	-18%	-	-	-13%

Segment Information



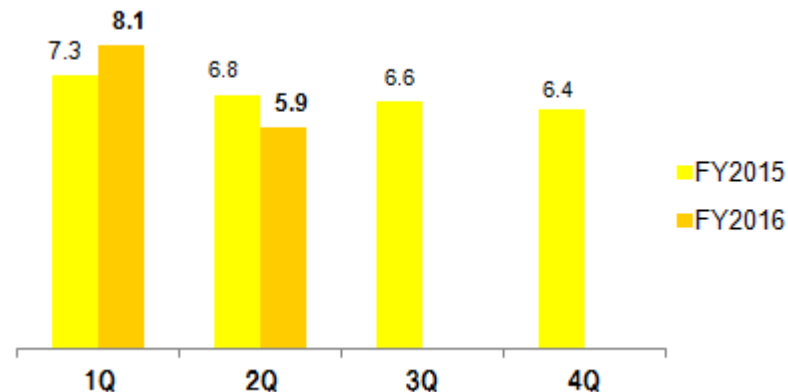
Net sales: ¥5.9 billion (down ¥0.9 billion, or 14% year on year)

➤ Net sales fell, chiefly reflecting a decrease in sales of X-ray film and sterilizers in Medical business

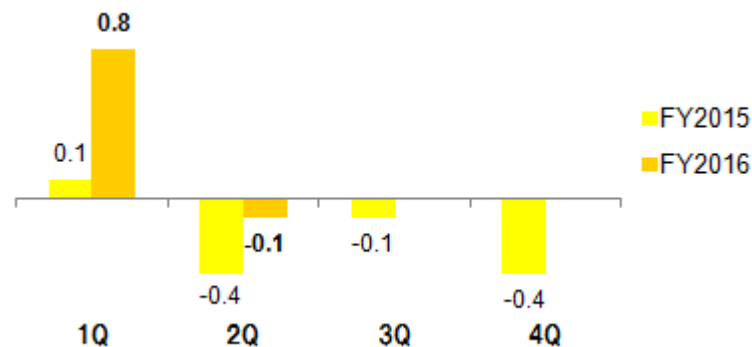
Operating income: -¥0.1 billion (up ¥0.3 billion, or - % year on year)

➤ Income improved due to cost-cutting in Industrial and a review of the earnings structure in Medical.

■ Net sales (Billions of yen)



■ Op. income



■ 2016 Actual v. 2015 Actual

	1Q-2Q FY2015	1Q-2Q FY2016	Changes
Net Sales	+14.1	+14.0	-0.1
Op. income	-0.3	+0.7	+1.0

■ Net sales - Growth rate

	1Q	2Q	3Q	4Q	FY
FY2015	-21%	+33%	+7%	-14%	-3%
FY2016	+11%	-14%	-	-	-1%

Summary of Projections



(Billions of yen)

	FY2016	FY2016	Changes		FY2015	Changes	
	Previous projection	Projection	Amount	%	Actual	Amount	%
Net Sales	660.0	650.0	-10.0	-2%	646.0	+4.0	+1%
	(4.1%)	(4.2%)	(+0.1%)		(4.1%)	(+0.0%)	
Operating Income	27.0	27.0	-	-	26.6	+0.4	+1%
	(4.3%)	(4.3%)	(+0.1%)		(4.3%)	(-0.0%)	
Ordinary Income	28.2	28.2	-	-	28.0	+0.2	+1%
	(2.7%)	(2.7%)	(+0.0%)		(2.4%)	(+0.3%)	
Profit attributable to owners of parent	17.7	17.7	-	-	15.7	+2.0	+13%

Projections Summary Outline



FY2016 Current Projection v. Previous Projection

(Billions of yen)

	FY2015		FY2016		Changes		
	Previous projection		Current projection		Net Sales	Op. income	
	Net Sales	Op. income	Net Sales	Op. income			
Business Solutions	334.1	9.2	334.1	9.2	-	-	-
IT Solutions	145.8	4.4	145.8	4.7	-	-	+0.3
Imaging System	180.3	13.3	170.3	12.7	-10.0	-6%	-0.6
Industrial / Medical	26.7	-0.3	26.7	0.0	-	-	+0.3
Other	-26.9	0.4	-26.9	0.4	-	-	-
Total	660.0	27.0	650.0	27.0	-10.0	-2%	-

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

Projections Summary Outline



FY2016 Projection v. FY2015 Actual

(Billions of yen)

	FY 2015		FY 2016		Changes		
	Actual		Projection		Net Sales	Op. income	
	Net Sales	Op. income	Net Sales	Op. income			
Business Solutions	326.9	9.0	334.1	9.2	+7.2	+2%	+0.2
IT Solutions	141.2	4.1	145.8	4.7	+4.6	+3%	+0.6
Imaging System	178.7	13.8	170.3	12.7	-8.4	-5%	-1.1
Industrial / Medical	27.2	-0.7	26.7	0.0	-0.5	-2%	+0.8
Other	-27.9	0.4	-26.9	0.4	+1.0	-%	-0.1
Total	646.0	26.6	650.0	27.0	+4.0	+1%	+0.4

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

Projections Summary Outline



Comparison between results in the first and second halves in FY 2015 and those in FY 2016

		FY 2015		FY 2016		1Q-2Q		3Q-4Q	
		1Q-2Q (Actual)	3Q-4Q(Actual)	1Q-2Q (Actual)	3Q-4Q (Projection)	Changes		Changes	
Business Solutions	Net Sales	164.9	162.0	165.6	168.5	+0.7	+0%	+6.5	+4%
	Op. income	4.4	4.6	5.1	4.1	+0.7	+15%	-0.5	-10%
IT Solutions	Net Sales	71.1	70.1	72.4	73.4	+1.3	+2%	+3.3	+5%
	Op. income	1.5	2.6	2.6	2.1	+1.1	+71%	-0.5	-20%
Imaging System	Net Sales	78.6	100.1	68.1	102.2	-10.5	-13%	+2.1	+2%
	Op. income	2.6	11.2	1.7	11.0	-0.9	-34%	-0.2	-2%
Industrial / Medical	Net Sales	14.1	13.0	14.0	12.7	-0.1	-1%	-0.3	-3%
	Op. income	-0.3	-0.5	0.7	-0.7	+1.0	-	-0.2	-
Other	Net Sales	-14.7	-13.3	-13.8	-13.1	+0.8	-	+0.2	-
	Op. income	0.2	0.2	0.2	0.2	-0.0	-15%	-0.0	-9%
Total	Net Sales	314.1	331.9	306.2	343.8	-7.9	-3%	+11.9	+4%
	Op. income	8.5	18.1	10.3	16.7	+1.8	+21%	-1.4	-8%

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

Projections by Segment

Business Solutions

✓ Sales are expected to increase from 3Q due to the effect of new MFPs and expansion in network cameras. Sales are projected to increase for the full year.

IT Solutions

✓ Sales are forecast to rise from 3Q, reflecting strong performance in the IT Infrastructure & Service Business and Product Business, primarily in SI service and data center service. Full-year sales are also expected to rise.

Imaging System

✓ Sales are projected to climb from 3Q due to the expansion of sales of interchangeable lens digital cameras.
 ✓ For the full year, sales are forecast to fall because of low sales in the first half.

Industrial / Medical

✓ From 3Q, sales in the Industry business are expected to remain flat, and sales in Medical business are projected to fall.
 ✓ For the full year, sales in Industry business are expected to increase, but sales in Medical business, whose business structure is being reviewed, are forecast to decline. Overall sales are also projected to fall.

Execution of Growth Strategies (Progress in Long-Term Management Objectives Phase III 2016 to 2020)

✓ **Group-wide reorganization of education business**

Consolidating operations related to education, which are spread across different segments, within the ITS company to expand the education business

✓ **Enhancement of sales of IT security**

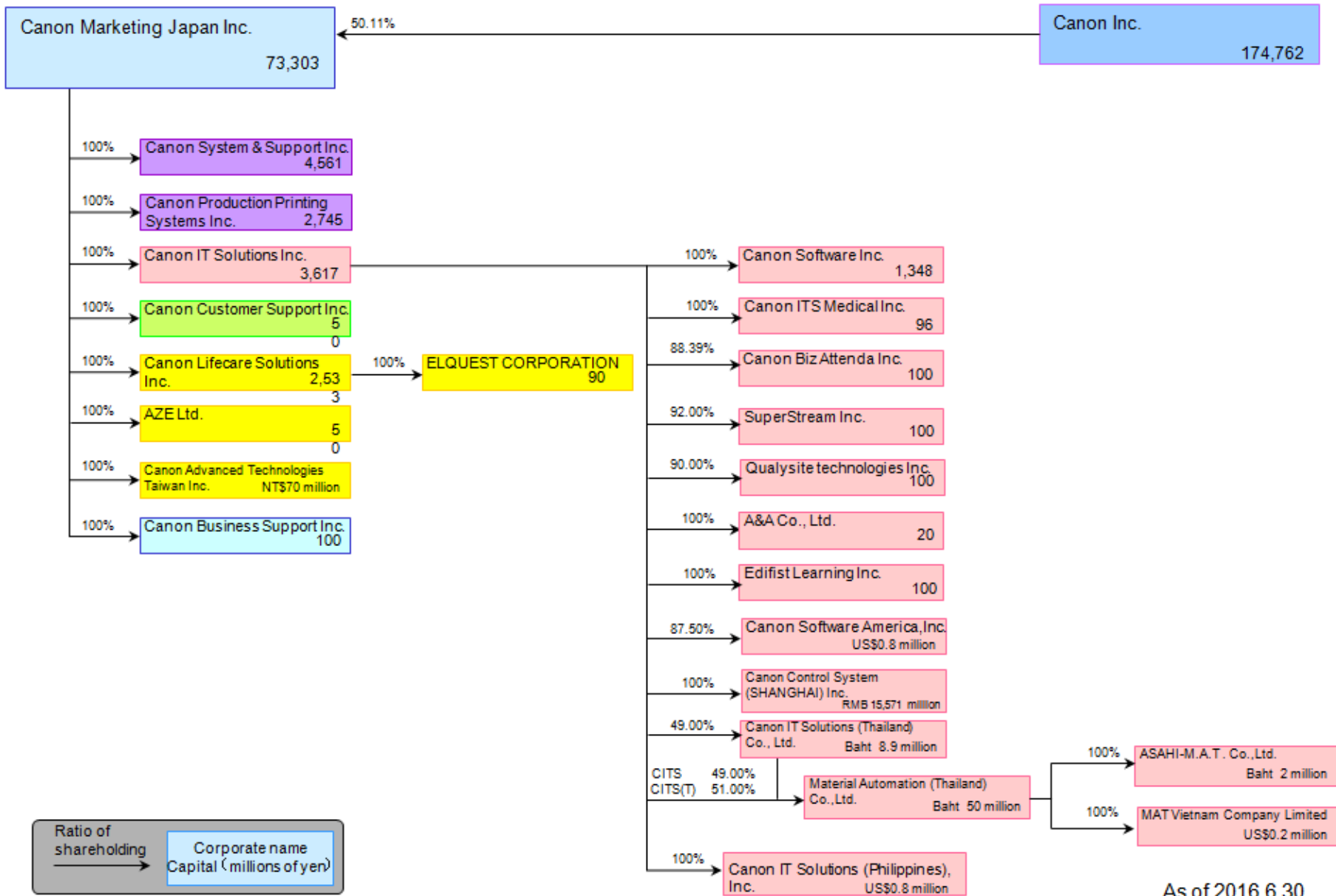
Setting up a section that deals with resources in the Group's security business, which is expected to grow significantly

✓ **Launch of an after-the-sale service innovation project (August 1)**

Launching a project to build an optimal Group-wide service system in order to respond to innovative changes in business and improve productivity

Supplementary Information

Capital Relationship Diagram



As of 2016.6.30

Results of main consolidated companies



(Billions of yen)

		2Q 2015		2Q 2016		Changes	
						Amount	%
Business Solutions							
Canon System & Support Inc.	Net Sales	29.2		30.2		+1.1	+4%
	Op. Income	0.8	2.8%	0.8	2.5%	-0.1	-0.3%
Canon Production Printing Systems Inc.	Net Sales	4.7		3.3		-1.3	-28%
	Op. Income	0.3	6.1%	0.1	1.8%	-0.2	-4.3%
IT Solutions							
Canon IT Solutions (Consolidated)	Net Sales	27.1		26.5		-0.7	-2%
	Op. Income	1.1	4.0%	1.5	5.8%	+0.5	1.8%
Industrial / Medical							
Canon Lifecare Solutions	Net Sales	3.9		3.0		-1.0	-24%
	Op. Income	-0.1	(-)	-0.0	(-)	+0.1	(-)

*1. The amounts are before intersegment elimination.

*2. The results of Canon System & Support Inc. for 2015 are adjusted in consideration of the effect of the business transfer from the GB Sales Headquarters of Canon Marketing Japan Inc.

*3. The results of Canon IT Solutions (Consolidated) for 2015 are the consolidated results of Canon MJ IT Group Holdings Inc.

Results of main consolidated companies



(Billions of yen)

		1Q-2Q 2015		1Q-2Q 2016	Changes	
					Amount	%
Business Solutions						
Canon System & Support Inc.	Net Sales	60.5		63.1	+2.5	+4%
	Op. Income	1.9	(3.2%)	2.1	+0.2	(+0.2%)
Canon Production Printing Systems Inc.	Net Sales	7.8		6.2	-1.6	-21%
	Op. Income	0.2	(2.9%)	-0.1	-0.3	(-)
IT Solutions						
Canon IT Solutions (Consolidated)	Net Sales	54.5		54.8	+0.2	+0%
	Op. Income	2.5	(4.7%)	3.3	+0.8	(+1.4%)
Industrial / Medical						
Canon Lifecare Solutions	Net Sales	8.5		7.5	-1.0	-12%
	Op. Income	-0.1	(-)	0.3	+0.4	(-)

*1. The amounts are before intersegment elimination.

*2. The results of Canon System & Support Inc. for 2015 are adjusted in consideration of the effect of the business transfer from the GB Sales Headquarters of Canon Marketing Japan Inc.

*3. The results of Canon IT Solutions (Consolidated) for 2015 are the consolidated results of Canon MJ IT Group Holdings Inc.

SG&A expenses



(Billions of yen)

	FY 2015		FY 2016		Changes	
	2Q	1Q-2Q	2Q	1Q-2Q	2Q	1Q-2Q
Advertising expenses	3.4	6.0	2.2	4.4	-1.2	-1.6
Promotion expenses	1.1	2.3	1.3	2.5	+0.2	+0.2
Warranty expenses	1.9	3.7	1.4	2.9	-0.4	-0.8
Other direct selling expenses	5.2	10.5	5.3	10.7	+0.1	+0.2
Personnel expenses	32.4	63.7	31.6	62.9	-0.7	-0.8
Depreciation and amortization	0.5	1.0	0.5	1.1	+0.0	+0.0
Other selling expenses	8.3	16.4	7.5	15.2	-0.8	-1.2
Total	52.8	103.6	50.0	99.6	-2.8	-4.0

Non-operating income and expenses

(Billions of yen)

■ Non-operating income

	FY2015		FY2016		Changes	
	2Q	1Q-2Q	2Q	1Q-2Q	2Q	1Q-2Q
Interest income	0.1	0.1	0.1	0.1	-0.0	-0.0
Dividend income	0.1	0.1	0.1	0.1	+0.0	+0.0
Insurance income	0.6	0.6	0.6	0.6	+0.0	+0.0
Other	0.2	0.5	0.1	0.3	-0.0	-0.1
Total	0.9	1.3	0.8	1.1	-0.0	-0.1

■ Non-operating expenses

	FY2015		FY2016		Changes	
	2Q	1Q-2Q	2Q	1Q-2Q	2Q	1Q-2Q
Interest expenses	0.0	0.0	0.0	0.0	-0.0	-0.0
Foreign exchange losses	0.0	0.0	0.0	0.1	+0.0	+0.0
Other	0.1	0.1	0.1	0.2	+0.0	+0.0
Total	0.1	0.2	0.1	0.2	+0.0	+0.0

Extraordinary income and expenses

(Billions of yen)

■ Extraordinary income

	FY2015		FY2016		Changes	
	2Q	1Q-2Q	2Q	1Q-2Q	2Q	1Q-2Q
Gain on sales of non-current assets	0.0	0.0	0.2	0.2	+0.2	+0.2
Insurance income on disaster	0.0	0.0	-	-	-0.0	-0.0
Other	-	-	0.0	0.0	+0.0	+0.0
Total	0.0	0.0	0.2	0.2	+0.1	+0.1

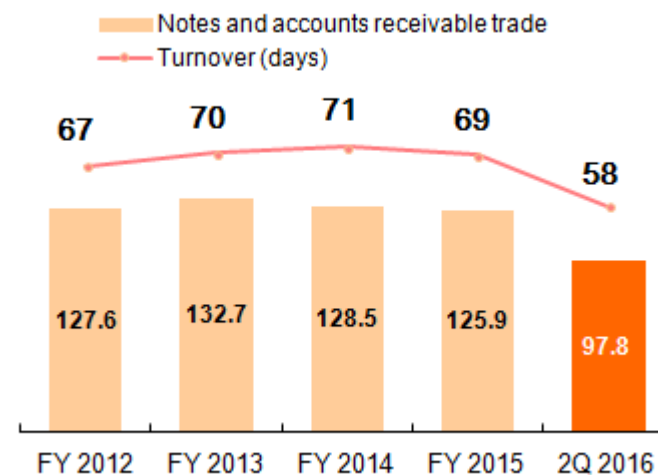
■ Extraordinary expenses

	FY2015		FY2016		Changes	
	2Q	1Q-2Q	2Q	1Q-2Q	2Q	1Q-2Q
Loss on sales and retirement of non-current assets	0.1	0.1	0.1	0.2	+0.1	+0.1
Impairment loss	-	-	0.0	0.1	+0.0	+0.1
Loss on disaster	-	0.0	-	-	-	-0.0
Group reorganization expenses	0.1	0.1	-	-	-0.1	-0.1
Other	0.1	0.1	0.1	0.1	+0.0	+0.0
Total	0.2	0.3	0.3	0.4	+0.0	+0.1

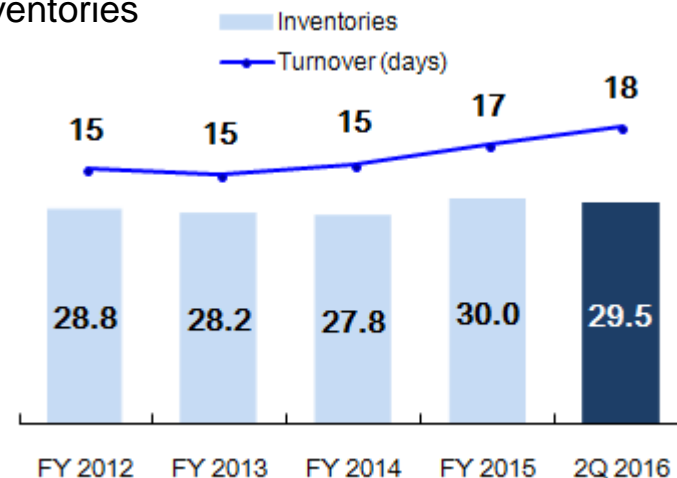
(Billions of yen)

	Dec. 31 2015	Jun. 30 2016	Changes
Assets	486.5	462.7	-23.8
Current assets	347.5	326.4	-21.1
Cash and deposits	99.6	96.8	-2.8
Notes and accounts receivable trade	125.9	97.8	-28.2
Inventories	30.0	29.5	-0.5
Other	92.1	102.4	+10.3
Noncurrent assets	139.0	136.3	-2.7
Property, plant and equipment	99.3	99.7	+0.4
Intangible assets	9.5	8.4	-1.1
Investment and other assets	30.2	28.3	-1.9
Liabilities	209.1	180.9	-28.1
Current liabilities	159.7	134.9	-24.8
Notes and accounts receivable trade	101.8	80.7	-21.1
Other	57.8	54.2	-3.6
Noncurrent liabilities	49.4	46.0	-3.4
Net assets	277.4	281.7	+4.3
Shareholders' equity	275.2	278.6	+3.4
(Treasury stock)	Δ31.9	Δ31.9	-0.0
Accumulated other comprehensive income	1.8	2.7	+0.9
Minority interests	0.4	0.4	+0.0
Equity ratio	57%	61%	+4%

Notes and accounts receivable trade

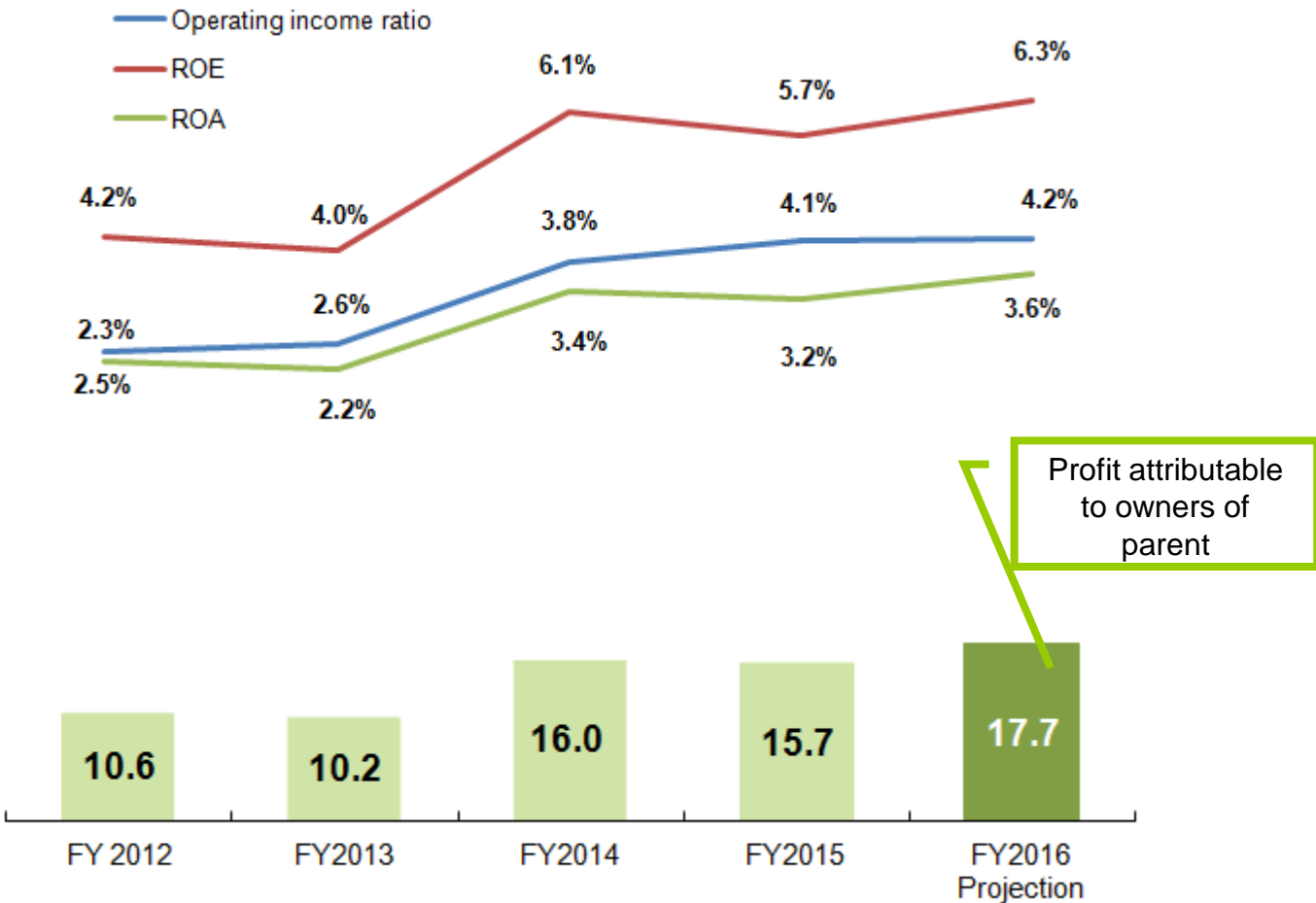


Inventories



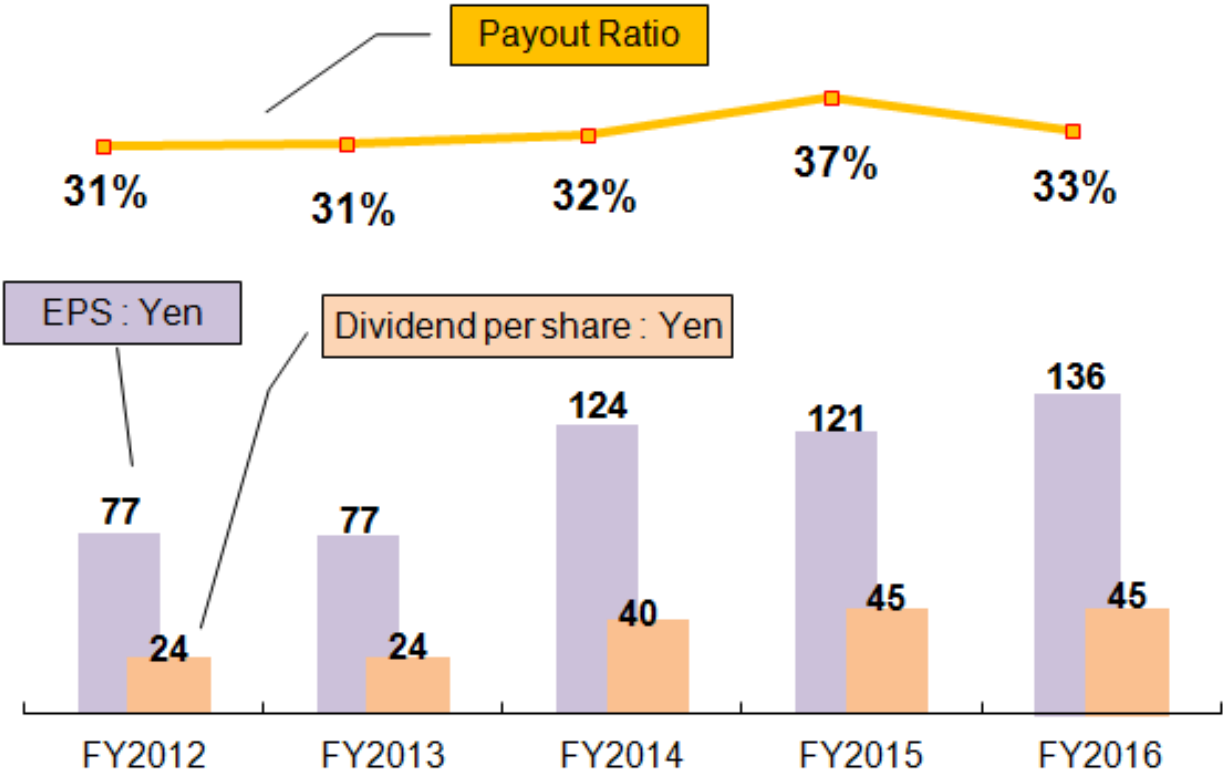
(Billions of yen)

■ Operating income ratio / ROA / ROE



(Billions of yen)

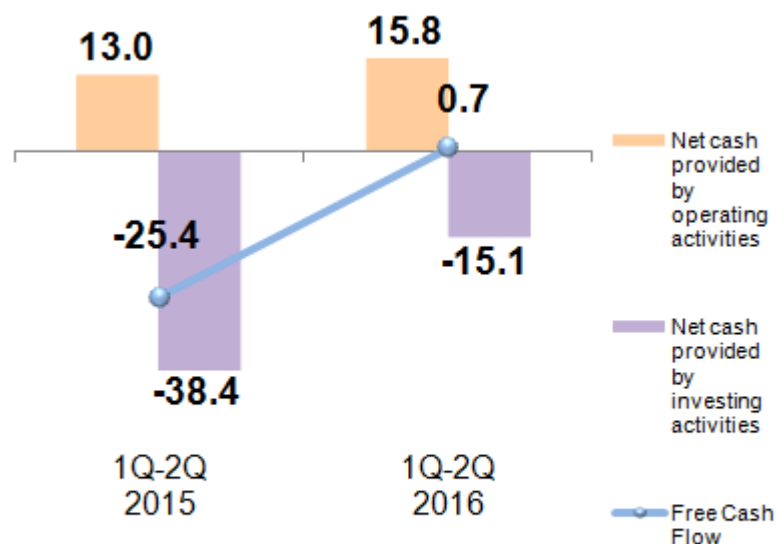
■ Payout ratio / EPS / Dividend per share



Financial indicator

(Billions of yen)

Cash Flow



Investment

	1Q-2Q Actual	3Q-4Q Projectio	FY Projection
FY2015	8.5	6.0	14.6
FY2016	7.8	8.5	16.3

Depreciation and amortization

	1Q-2Q Actual	3Q-4Q Projectio	FY Projection
FY2015	8.0	7.5	15.5
FY2016	7.5	7.7	15.2

Canon

Canon Marketing Japan Inc.