

Canon Marketing Japan Inc. Third Quarter 2016 Results

October 26, 2016
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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 Third Quarter 2016 Results



Net sales **¥147.5 B (Y/Y -8.0B, -5%)**

✓ Net sales decreased, reflecting a decline in shipments of compact cameras and inkjet printers in Imaging System and a review of the business structure in Medical.

Operating Income **¥5.5 B (Y/Y -1.6B, -23%)**

✓ Operating income decreased, reflecting a decline in profit associated with a decline in sales in Imaging System.

Reference	Operating income (Jan. to Sep.)	¥15.8 B (Y/Y +0.2B, +1%)
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**Profit attributable to
owners of parent** **¥3.4 B (Y/Y -0.8B, -20%)**

Summary of Results

3Q 2016 Actual
(from July 1 to September 30)

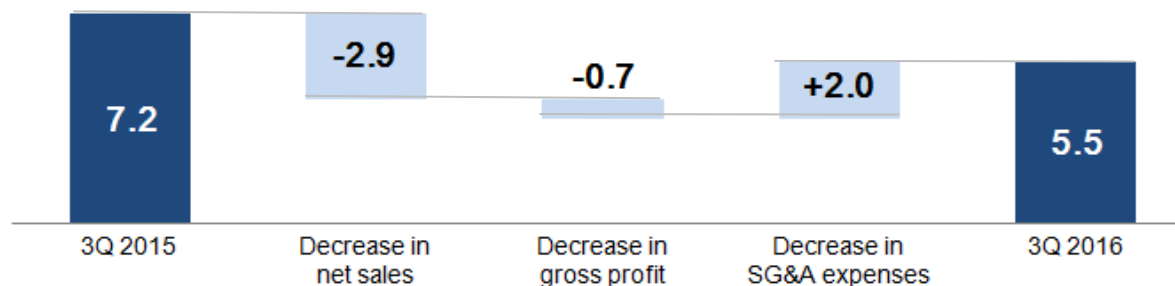


(Billions of yen)

Summary of Results

	3Q 2015	3Q 2016	Changes	
			Amount	%
Net Sales	155.4	147.5	-8.0	-5%
Gross Profit	(36.9%) 57.4	(36.5%) 53.8	(-0.5%) -3.6	-6%
Operating income	(4.6%) 7.2	(3.8%) 5.5	(-0.9%) -1.6	-23%
Ordinary income	(4.7%) 7.3	(3.8%) 5.6	(-0.9%) -1.7	-23%
Profit attributable to owners of parent	(2.7%) 4.2	(2.3%) 3.4	(-0.4%) -0.8	-20%

Op. Income Variance Analysis



Segment Outline

3Q 2016 Actual
(from July 1 to September 30)



(Billions of yen)

	3Q FY2015		3Q FY2016		Changes	
	Net Sales	Op. Income	Net Sales	Op. Income	Net Sales	Op. Income
Business Solutions	79.9	2.4	79.2	2.6	-0.6	+0.1
IT Solutions	34.2	1.1	34.1	0.9	-0.1	-0.2
Imaging System	41.4	3.6	35.0	1.8	-6.3	-1.9
Industrial / Medical	6.6	-0.1	5.6	0.1	-1.1	+0.2
Other	-6.6	0.1	-6.5	0.2	+0.2	+0.0
Total	155.4	7.2	147.5	5.5	-8.0	-1.6

“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 2016 Actual
(from January 1 to September 30)

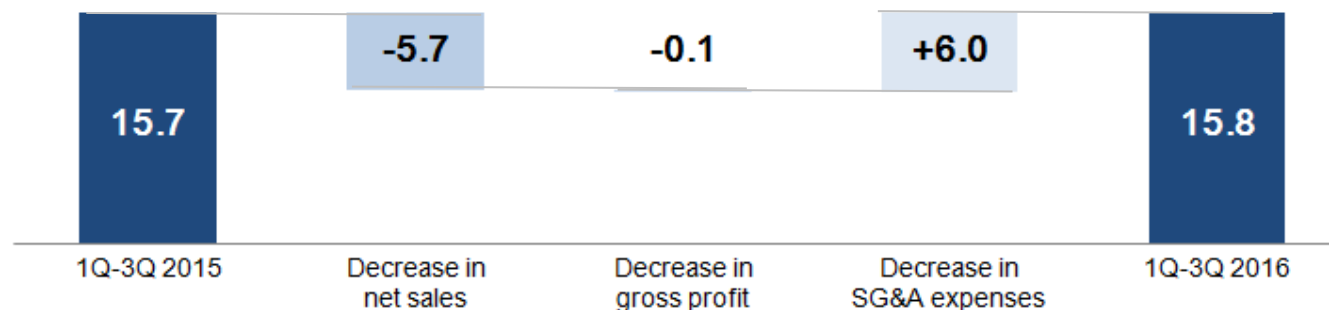


(Billions of yen)

■ Summary of Results

	1Q-3Q 2015	1Q-3Q 2016	Changes	
			Amount	%
Net Sales	469.5	453.7	-15.8	-3%
Gross Profit	(36.1%) 169.5	(36.1%) 163.7	(-0.0%) -5.8	-3%
Operating income	(3.3%) 15.7	(3.5%) 15.8	(+0.2%) +0.2	+1%
Ordinary income	(3.6%) 16.9	(3.7%) 16.9	(+0.1%) -0.0	-0%
Profit attributable to owners of parent	(2.0%) 9.3	(2.2%) 10.0	(+0.2%) +0.7	+8%

■ Op. Income Variance Analysis



Segment Outline

1Q-3Q 2016 Actual
(from January 1 to September 30)



(Billions of yen)

	1Q-3Q FY2015		1Q-3Q FY2016		Changes	
	Net Sales	Op. Income	Net Sales	Op. Income	Net Sales	Op. Income
Business Solutions	244.8	6.8	244.8	7.6	+0.1	+0.8
IT Solutions	105.3	2.6	106.5	3.6	+1.1	+0.9
Imaging System	120.0	6.3	103.1	3.5	-16.9	-2.8
Industrial / Medical	20.7	-0.4	19.6	0.8	-1.2	+1.2
Other	-21.3	0.3	-20.3	0.3	+1.0	+0.0
Total	469.5	15.7	453.7	15.8	-15.8	+0.2

“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: ¥79.2 billion (down ¥0.6 billion, -1% year on year)

- Sales of MFP, page printer cartridges, and network cameras, among other items, increased. However, net sales decreased marginally, mainly reflecting the decline in sales of production printing.

Operating income: ¥2.6 billion (up ¥0.1 billion, +6% year on year)

- Operating income rose from a year ago, chiefly due to an increase in stock business, which is highly profitable, and a decrease in SG&A expenses.

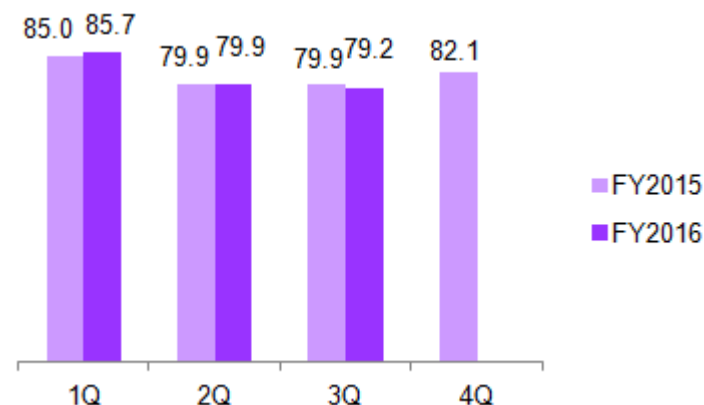
2016 Actual v. 2015 Actual

	1Q-3Q FY2015	1Q-3Q FY2016	Changes
Net Sales	244.8	244.8	+0.1
Op. income	6.8	7.6	+0.8

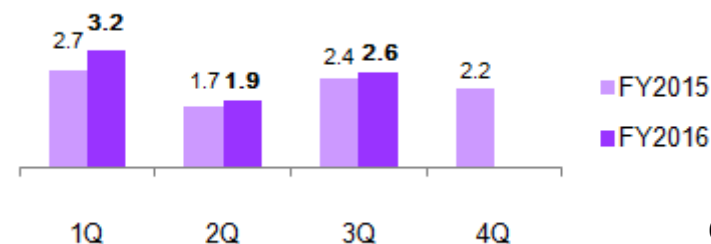
Net sales - Growth rate

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

Net sales (Billions of yen)



Op. income



Segment Information



Net sales: ¥34.1 billion (down ¥0.1 billion, -0% year on year)

- Although sales of SI services and the IT infrastructure service business increased, sales in the segment decreased largely due to a decline in the embedded software business.

Operating income: ¥0.9 billion (down ¥0.2 billion, -15% year on year)

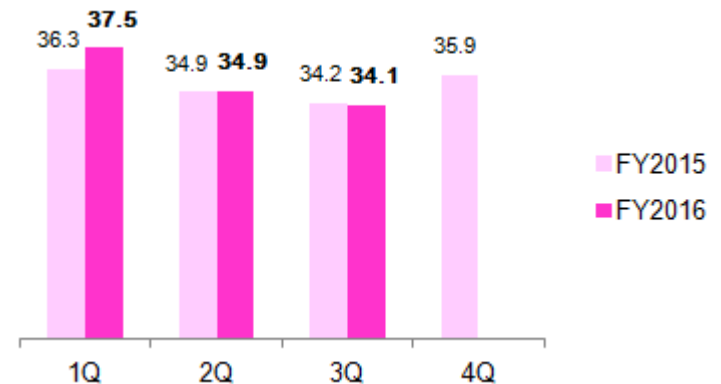
- Operating income fell due to a decline in profit associated with a decline in sales.

■ 2016 Actual v. 2015 Actual

	1Q-3Q FY2015	1Q-3Q FY2016	Changes
Net Sales	105.3	106.5	+1.1
Op. income	2.6	3.6	+0.9

■ Net sales

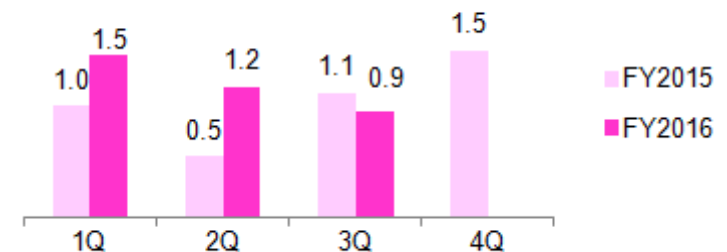
(Billions of yen)



■ Net sales - Growth rate

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

■ Op. income



[Reference] Overall sales of IT Solutions



(Billions of yen)

	3Q 2015	3Q 2016	Changes	
			Amount	%
Sales of IT Solutions	34.2	34.1	-0.1	-0%
Sales other than the IT Solutions segment	14.9	14.4	-0.5	-3%
Intersegment (elimination), etc.	-6.9	-6.5	+0.4	-%
Total	42.2	42.0	-0.2	-1%

	2015 1Q-3Q	2016 1Q-3Q	Changes	
			Amount	%
Sales of IT Solutions	105.3	106.5	+1.1	+1%
Sales other than the IT Solutions segment	44.1	45.6	+1.5	+3%
Intersegment (elimination), etc.	-21.5	-20.3	+1.2	-%
Total	127.9	131.8	+3.9	+3%

【Reference】 Overall IT Security net sales	YoY 2015 v 2016	
	3Q	1Q-3Q
Overall IT Security	+14%	+15%

Segment Information



Imaging System



Net sales: ¥35.0 billion (down ¥6.3 billion, -15% year on year)

- Overall sales of consumer products declined largely due to sluggish consumer spending. Sales of compact digital cameras decreased significantly from a year ago, which were particularly affected by the Kumamoto Earthquake.

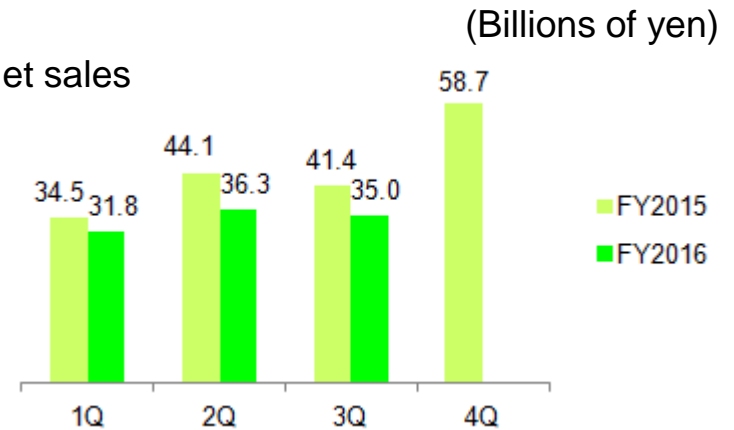
Operating income: ¥1.8 billion (down ¥1.9 billion, -52% year on year)

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

2016 Actual v. 2015 Actual

	1Q-3Q FY2015	1Q-3Q FY2016	Changes
Net Sales	120.0	103.1	-16.9
Op. income	6.3	3.5	-2.8

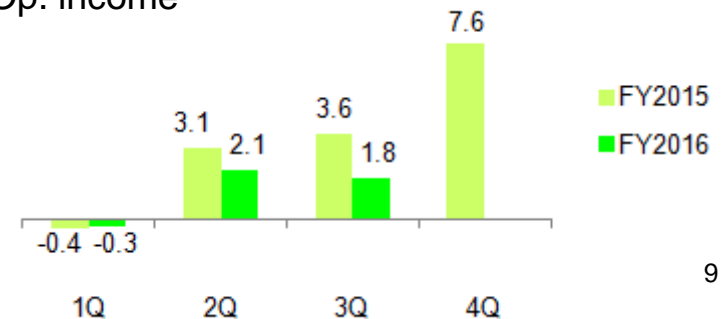
Net sales



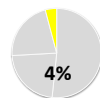
Net sales - Growth rate

	1Q	2Q	3Q	4Q	FY
FY2015	-28%	+26%	+4%	-6%	-4%
FY2016	-8%	-18%	-15%	-	-14%

Op. income



Segment Information



Industrial / Medical



Net sales: ¥5.6 billion (down ¥1.1 billion, -16% year on year)

➤ Sales decreased due to a backlash to the strong performance a year ago in Industrial as well as a review of the earnings structure in Medical.

Operating income: ¥0.1 billion (up ¥0.2 billion, - % year on year)

➤ Operating income increased due to cost reductions and a review of earnings structures.

2016 Actual v. 2015 Actual

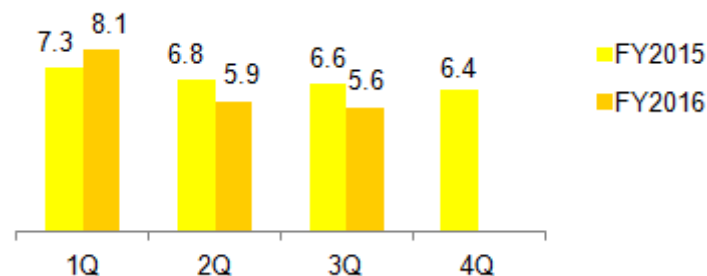
	1Q-3Q FY2015	1Q-3Q FY2016	Changes
Net Sales	20.7	19.6	-1.2
Op. income	-0.4	0.8	+1.2

Net sales - Growth rate

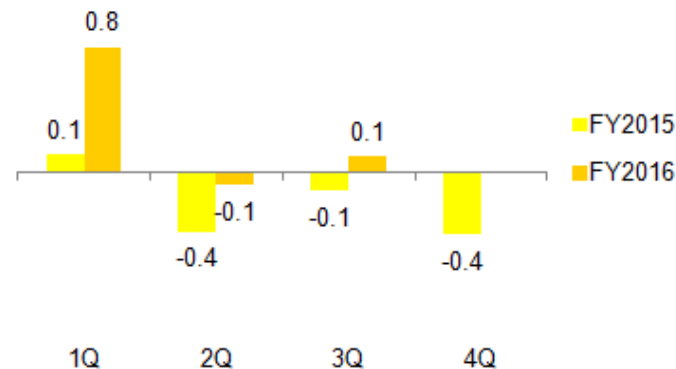
	1Q	2Q	3Q	4Q	FY
FY2015	-21%	+33%	+7%	-14%	-3%
FY2016	+11%	-14%	-16%		-6%

Net sales

(Billions of yen)



Op. income



Summary of Projections



(Billions of yen)

	FY2016 Previous projection	FY2016 Current Projection	Changes		FY2015 Actual	Changes	
			Amount	%		Amount	%
Net Sales	650.0	638.0	-12.0	-2%	646.0	-8.0	-1%
	(4.2%)	(4.2%)	(+0.1%)		(4.1%)	(+0.1%)	
Operating Income	27.0	27.0	-	-	26.6	+0.4	+1%
	(4.3%)	(4.4%)	(+0.1%)		(4.3%)	(+0.1%)	
Ordinary Income	28.2	28.2	-	-	28.0	+0.2	+1%
	(2.7%)	(2.8%)	(+0.1%)		(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)

	FY2016		FY2016		Changes		
	Previous projection		Current projection				
	Net Sales	Op. income	Net Sales	Op. income	Net Sales		Op. income
Business Solutions	334.1	9.2	331.0	9.2	-3.1	-1%	-
IT Solutions	145.8	4.7	142.5	4.7	-3.3	-2%	-
Imaging System	170.3	12.7	165.6	12.3	-4.7	-3%	-0.4
Industrial / Medical	26.7	0.0	25.6	0.4	-1.1	-4%	+0.4
Other	-26.9	0.4	-26.7	0.4	+0.2	-	+0.0
Total	650.0	27.0	638.0	27.0	-12.0	-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)

	FY2015 Actual		FY2016 Projection		Changes		
	Net Sales	Op. income	Net Sales	Op. income	Net Sales		Op. income
Business Solutions	326.9	9.0	331.0	9.2	+4.1	+1%	+0.2
IT Solutions	141.2	4.1	142.5	4.7	+1.3	+1%	+0.6
Imaging System	178.7	13.8	165.6	12.3	-13.1	-7%	-1.5
Industrial / Medical	27.2	-0.7	25.6	0.4	-1.6	-6%	+1.1
Other	-27.9	0.4	-26.7	0.4	+1.2	-%	-0.0
Total	646.0	26.6	638.0	27.0	-8.0	-1%	+0.4

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

Projections by Segment

Business Solutions

- ✓ 4Q: The Company forecasts an increase in sales largely due to the effects of new MFP models and the commencement of shipments of monochrome continuous feed printing systems. Operating income is expected to decrease mainly due to an increase in expenses for the release of new products.
- ✓ Full year: The Company forecasts an increase in sales, although a slight downward revision will be made to the previous plan, as a result of the adjustment to shortfalls during the first three quarters. Operating income, which remains unchanged from the previous announcement, is expected to increase from a year ago.

IT solutions

- ✓ 4Q: The Company forecasts an increase in sales for the SI service business, while the IT infrastructure service business is anticipated to decrease. As a result, overall sales are expected to remain at the same level. Operating income is projected to decrease due to the impact of strategic investments which will work over the next few years.
- ✓ Full year: The Company forecasts an increase in sales, although a slight downward revision will be made to the previous plan, as a result of shortfalls in the IT infrastructure service and embedded businesses. Operating income, which remains unchanged from the previous announcement, is projected to increase from a year ago.

Projections by Segment

Imaging System

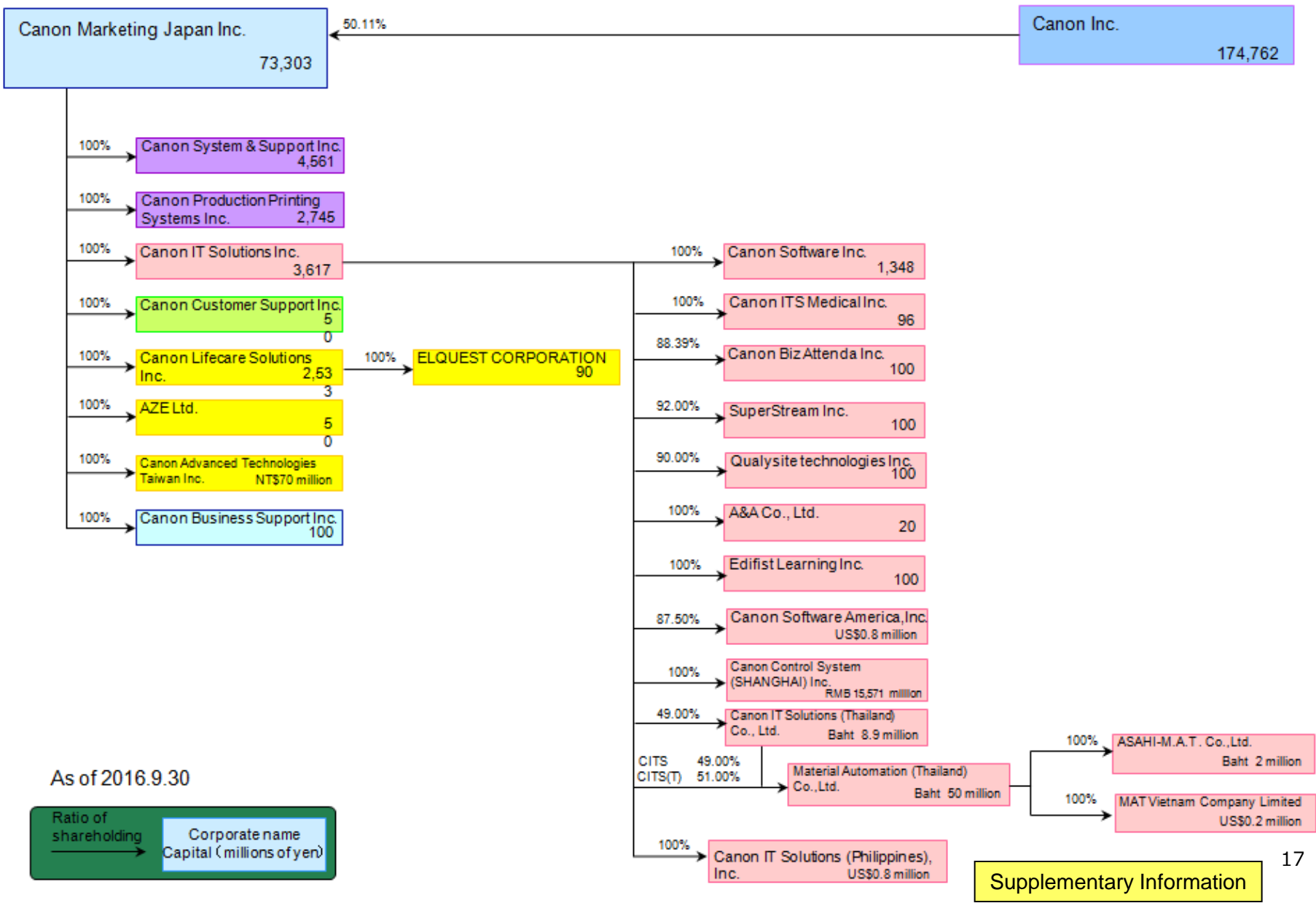
- ✓ 4Q: The Company forecasts an increase in sales due to efforts focused on the expansion of new interchangeable lens digital cameras and inkjet printers. Operating income is also projected to increase given an increase in the weighting of highly profitable products as well as cost reductions.
- ✓ Full year: The Company forecasts a greater decrease in sales, as a downward revision will be made to the previous plan to reflect shortfalls in the first three quarters. Operating income is also projected to decrease in association with the decline in sales.

Industrial / Medical

- ✓ 4Q: The Company forecasts a decrease in both sales and income, chiefly reflecting the reassessment of low-profit products in Medical.
- ✓ Full year: The Company forecasts a decrease in sales of 6% from a year ago, or by 1.1 billion yen from the previous plan. Operating income is projected to increase due to an increase in the weighting of maintenance services in Industrial on top of an improvement in profitability in Medical, as well as cost reductions in the two businesses.

Supplementary Information

Capital Relationship Diagram



Results of main consolidated companies



(Billions of yen)

		3Q 2015		3Q 2016		Changes	
						Amount	%
Business Solutions							
Canon System & Support Inc.	Net Sales	30.5		30.6		+0.1	+0%
	Op. Income	1.3	(4.3%)	1.1	(3.6%)	-0.2	(-0.7%)
Canon Production Printing Systems Inc.	Net Sales	3.3		2.9		-0.3	-10%
	Op. Income	-0.1	(-)	-0.2	(-)	-0.0	(-)
IT Solutions							
Canon IT Solutions (Consolidated)	Net Sales	26.9		25.5		-1.4	-5%
	Op. Income	1.5	(5.5%)	1.3	(5.0%)	-0.2	(-0.5%)
Industrial / Medical							
Canon Lifecare Solutions	Net Sales	3.5		3.0		-0.5	-15%
	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 considering the business transfer of the GB Sales Headquarters from 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-3Q 2015		1Q-3Q 2016		Changes	
						Amount	%
Business Solutions							
Canon System & Support Inc.	Net Sales	91.1		93.7		+2.6	+3%
	Op. Income	3.4	(3.7%)	3.3	(3.5%)	-0.1	(-0.2%)
Canon Production Printing Systems Inc.	Net Sales	11.0		9.1		-1.9	-18%
	Op. Income	0.1	(0.9%)	-0.3	(-)	-0.4	(-)
IT Solutions							
Canon IT Solutions (Consolidated)	Net Sales	81.4		80.2		-1.2	-1%
	Op. Income	4.0	(4.9%)	4.6	(5.7%)	+0.6	(+0.8%)
Industrial / Medical							
Canon Lifecare Solutions	Net Sales	12.0		10.4		-1.6	-13%
	Op. Income	-0.2	(-)	0.3	(2.9%)	+0.5	(-)

*1. The amounts are before intersegment elimination.

*2. The results of Canon System & Support Inc. for 2015 are adjusted considering the business transfer of the GB Sales Headquarters from 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	
	3Q	1Q-3Q	3Q	1Q-3Q	3Q	1Q-3Q
Advertising expenses	2.3	8.3	2.1	6.6	-0.2	-1.8
Promotion expenses	1.2	3.5	1.1	3.6	-0.1	+0.1
Warranty expenses	1.9	5.6	1.4	4.3	-0.6	-1.3
Other direct selling expenses	5.1	15.6	5.2	15.8	+0.1	+0.3
Personnel expenses	31.4	95.0	30.6	93.5	-0.7	-1.5
Depreciation and amortization	0.5	1.6	0.5	1.6	+0.0	+0.1
Other selling expenses	7.8	24.2	7.3	22.5	-0.5	-1.8
Total	50.2	153.8	48.2	147.9	-2.0	-6.0

Non-operating income and expenses

(Billions of yen)

■ Non-operating income

	FY2015		FY2016		Changes	
	3Q	1Q-3Q	3Q	1Q-3Q	3Q	1Q-3Q
Interest income	0.1	0.2	0.1	0.2	-0.0	-0.0
Dividend income	0.0	0.1	0.0	0.1	+0.0	+0.0
Insurance income	0.0	0.6	0.0	0.6	-0.0	+0.0
Other	0.2	0.6	0.1	0.4	-0.1	-0.2
Total	0.2	1.5	0.1	1.3	-0.1	-0.2

■ Non-operating expenses

	FY2015		FY2016		Changes	
	3Q	1Q-3Q	3Q	1Q-3Q	3Q	1Q-3Q
Interest expenses	0.0	0.0	0.0	0.0	-0.0	-0.0
Foreign exchange losses	0.1	0.1	-0.0	0.0	-0.1	-0.1
Other	0.0	0.2	0.1	0.2	+0.0	+0.0
Total	0.1	0.3	0.0	0.3	-0.1	-0.1

Extraordinary income and expenses

(Billions of yen)

■ Extraordinary income

	FY2015		FY2016		Changes	
	3Q	1Q-3Q	3Q	1Q-3Q	3Q	1Q-3Q
Gain on sales and non-current assets	0.0	0.0	0.6	0.8	+0.6	+0.8
Insurance income on disaster	-	0.0	-	-	-	-0.0
Other	0.0	0.0	0.0	0.0	+0.0	+0.0
Total	0.0	0.0	0.6	0.8	+0.6	+0.7

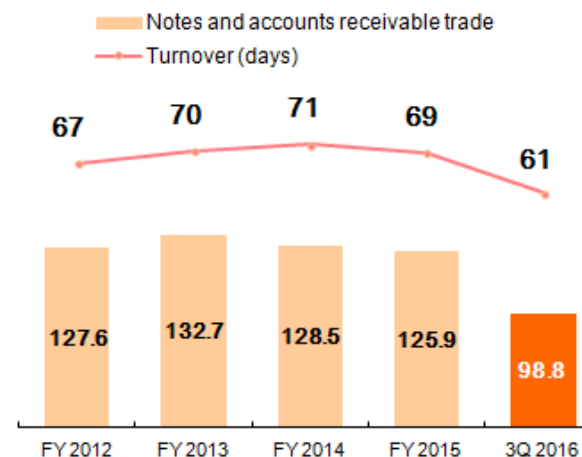
■ Extraordinary expenses

	FY2015		FY2016		Changes	
	3Q	1Q-3Q	3Q	1Q-3Q	3Q	1Q-3Q
Loss on sales and retirement of non-current assets	0.1	0.2	0.5	0.7	+0.4	+0.5
Impairment loss	-	-	0.0	0.1	+0.0	+0.1
Loss on disaster	0.0	0.0	0.0	0.0	+0.0	+0.0
Group reorganization expenses	0.0	0.1	-	-	-0.0	-0.1
Other	0.0	0.1	0.0	0.1	-0.0	+0.0
Total	0.1	0.4	0.6	1.0	+0.5	+0.6

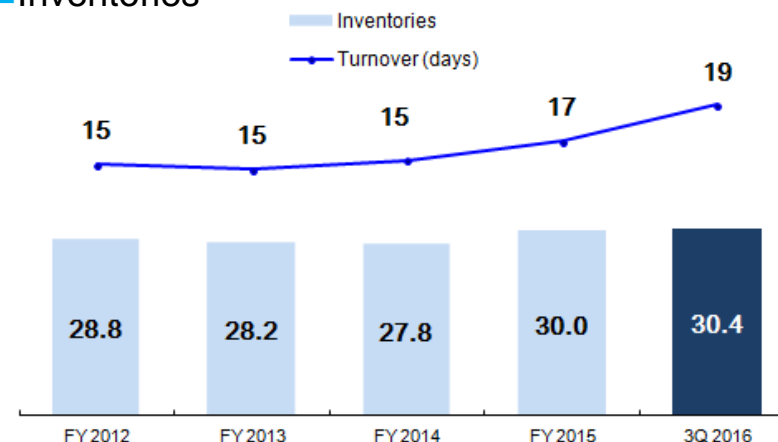
(Billions of yen)

	Dec. 31 2015	Sep. 30 2016	Changes
Assets	486.5	462.3	-24.2
Current assets	347.5	328.8	-18.7
Cash and deposits	99.6	68.0	-31.5
Notes and accounts receivable trade	125.9	98.8	-27.1
Inventories	30.0	30.4	+0.4
Other	92.1	131.5	+39.5
Noncurrent assets	139.0	133.5	-5.5
Property, plant and equipment	99.3	97.1	-2.2
Intangible assets	9.5	7.9	-1.6
Investment and other assets	30.2	28.5	-1.6
Liabilities	209.1	180.2	-28.9
Current liabilities	159.7	134.2	-25.5
Notes and accounts receivable trade	101.8	82.3	-19.6
Other	57.8	51.9	-5.9
Noncurrent liabilities	49.4	46.0	-3.4
Net assets	277.4	282.1	+4.7
Shareholders' equity	275.2	279.4	+4.2
(Treasury stock)	-31.9	-31.9	-0.0
Accumulated other comprehensive income	1.8	2.2	+0.5
Minority interests	0.4	0.4	+0.0
Equity ratio	57%	61%	+4%

Notes and accounts receivable trade

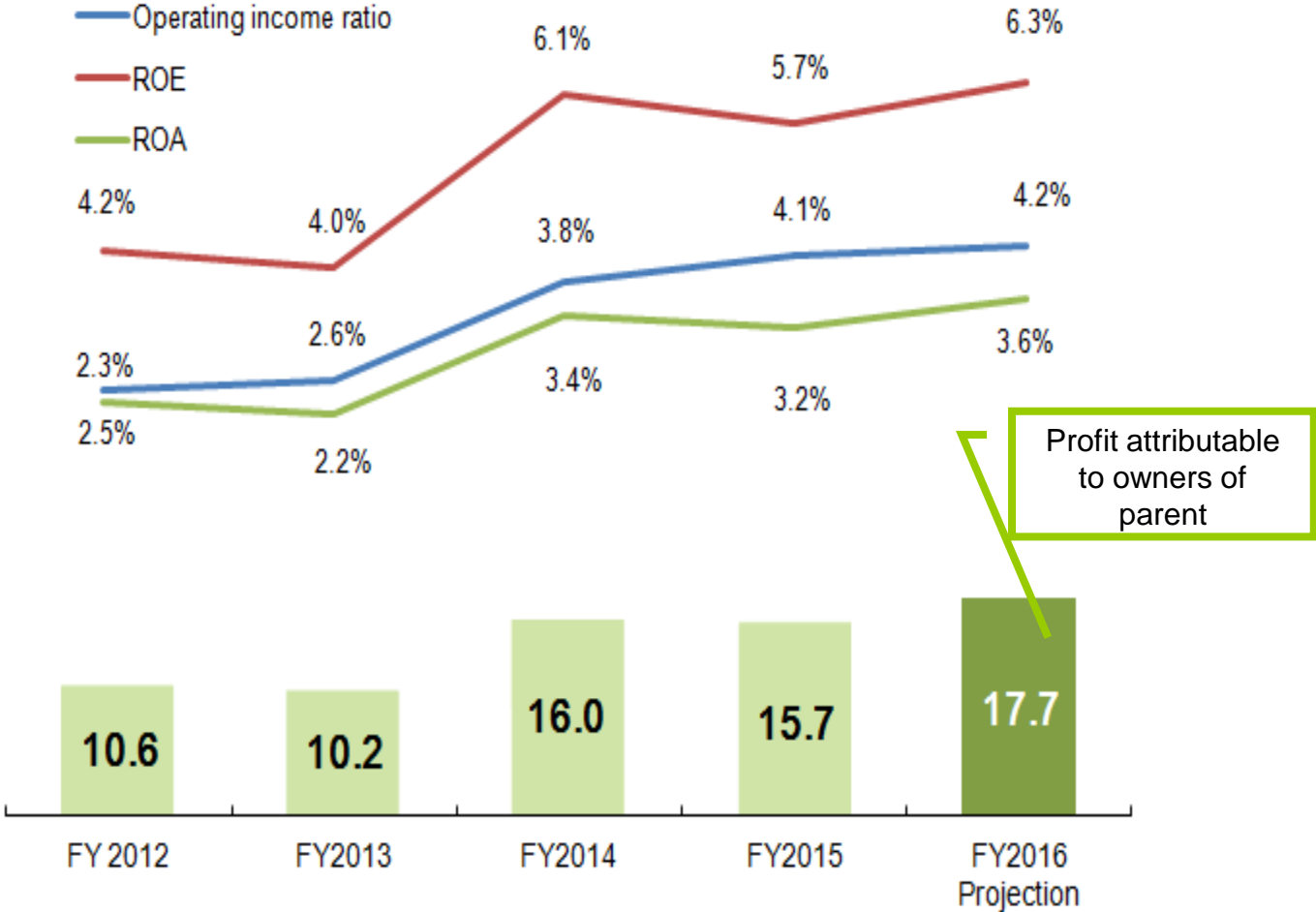


Inventories

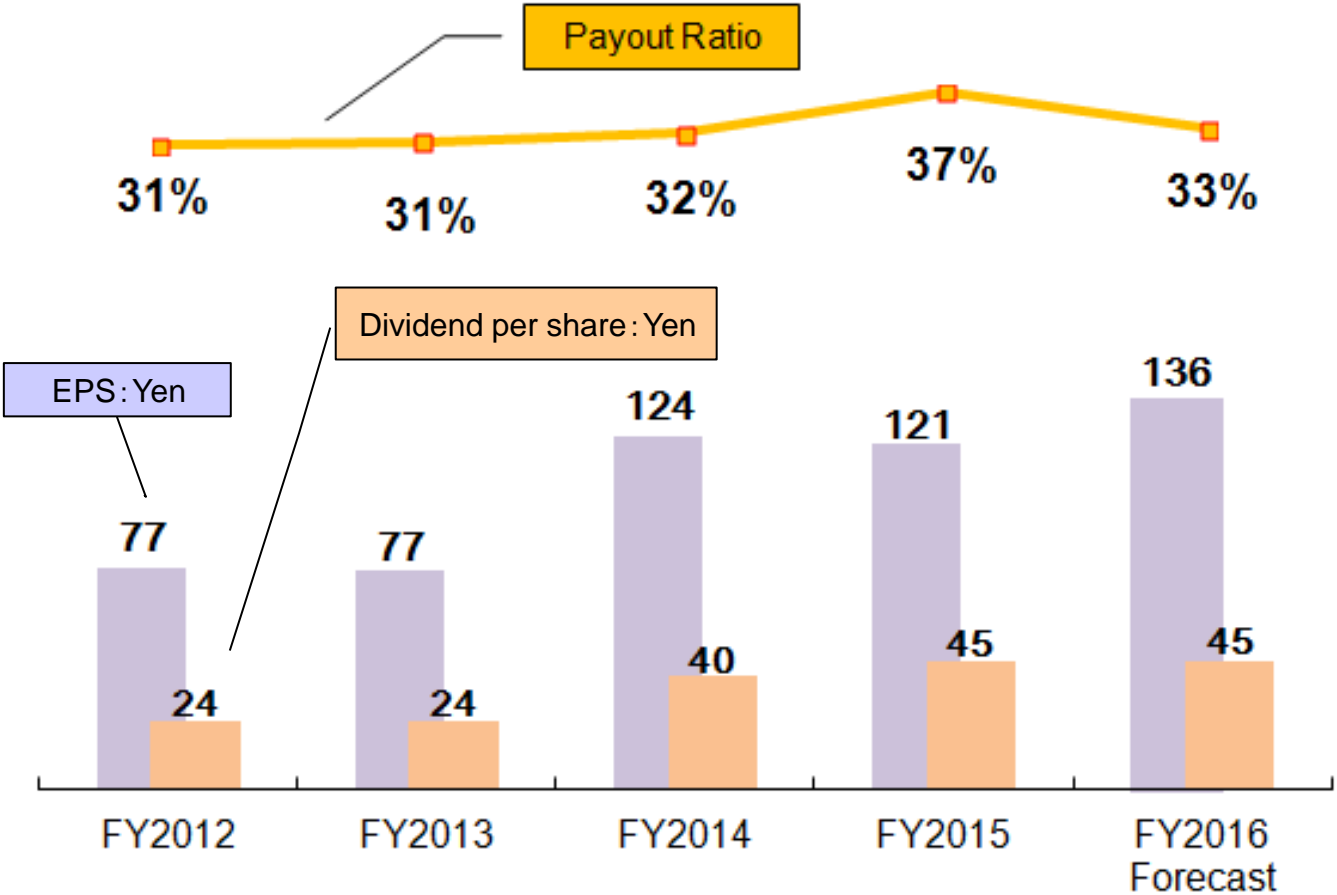


(Billions of yen)

Operating income ratio / ROA / ROE



■ Payout ratio / EPS / Dividend per share



Financial indicator

(Billions of yen)

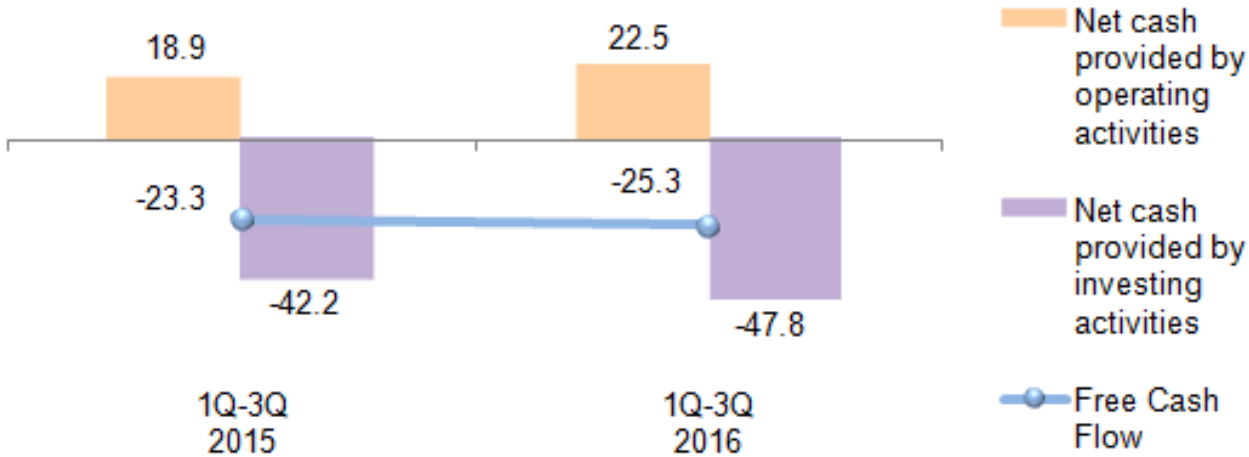
Investment

	1Q-3Q Actual	4Q Projection	FY Projection
FY2015	11.1	3.5	14.6
FY2016	9.8	4.9	14.7

Depreciation and amortization

	1Q-3Q Actual	4Q Projection	FY Projection
FY2015	11.7	3.8	15.5
FY2016	11.2	3.8	15.0

Cash Flow



Canon

Canon Marketing Japan Inc.