

# FY2017 1Q Results

April 26, 2017  
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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 2017 Results



**Net sales**                      **¥152.8 B (Y/Y - 3.2B, - 2%)**

- Although net sales in Business Solutions segment increased, those of IT solutions segment, Imaging System segment and Industrial / Medical segment decreased. As a result, overall net sales decreased.

**Operating Income**            **¥5.7 B (Y/Y +0.5B, +9%)**

- Operating income increased due to the company-wide reduction in SG&A expenses while gross profit decreased with the decrease in net sales.

**Profit attributable to  
owners of parent**              **¥4.0 B (Y/Y +1.0B, +34%)**

# Summary of Results

1Q 2017 Actual  
(from January 1 to March 31)

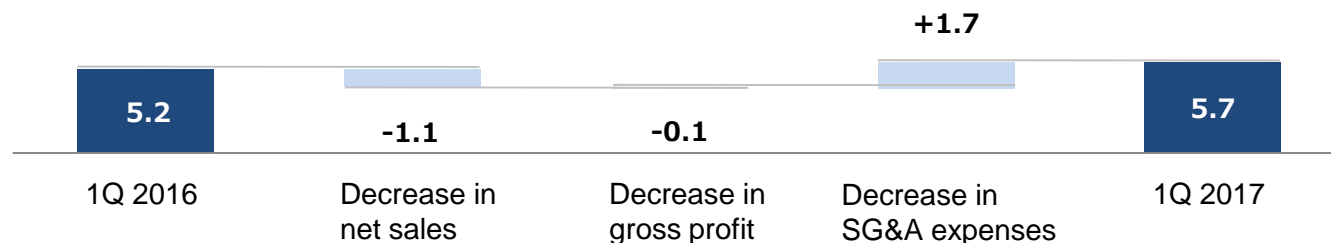


## Summary of Results

(Billions of yen)

	1Q 2016	1Q 2017	Changes	
			Amount	%
Net sales	<b>156.0</b>	<b>152.8</b>	<b>-3.2</b>	<b>-2%</b>
Gross profit	(35.2%) <b>54.9</b>	(35.1%) <b>53.7</b>	(-0.0%) <b>-1.2</b>	<b>-2%</b>
Operating income	(3.3%) <b>5.2</b>	(3.7%) <b>5.7</b>	(+0.4%) <b>+0.5</b>	<b>+9%</b>
Ordinary income	(3.4%) <b>5.4</b>	(3.8%) <b>5.8</b>	(+0.3%) <b>+0.4</b>	<b>+7%</b>
Profit attributable to owners of parent	(1.9%) <b>3.0</b>	(2.6%) <b>4.0</b>	(+0.7%) <b>+1.0</b>	<b>+34%</b>

## Op. Income Variance Analysis



# Segment Outline

1Q 2017 Actual  
(from January 1 to March 31)



(Billions of yen)

	1Q 2016		1Q 2017		Changes	
	Net sales	Op. Income	Net sales	Op. Income	Net sales	Op. Income
Business Solutions	<b>86.6</b>	<b>3.4</b>	<b>88.5</b>	<b>3.8</b>	<b>+1.9</b>	<b>+0.4</b>
IT Solutions	<b>33.8</b>	<b>1.1</b>	<b>33.1</b>	<b>1.1</b>	<b>-0.7</b>	<b>-0.0</b>
Imaging System	<b>31.8</b>	<b>-0.3</b>	<b>29.5</b>	<b>0.1</b>	<b>-2.3</b>	<b>+0.4</b>
Industrial / Medical	<b>10.4</b>	<b>0.8</b>	<b>8.8</b>	<b>0.6</b>	<b>-1.6</b>	<b>-0.2</b>
Other	<b>-6.6</b>	<b>0.1</b>	<b>-7.0</b>	<b>0.1</b>	<b>-0.4</b>	<b>-0.1</b>
Total	<b>156.0</b>	<b>5.2</b>	<b>152.8</b>	<b>5.7</b>	<b>-3.2</b>	<b>+0.5</b>

## Notes

1. "Other" includes the intersegment sales, the shared service businesses and the corporate expenses that are not allocated to each segment.
2. The intersegmental business transfer of Canon Biz Attenda Inc., A&A Co., Ltd. And Canon ITS Medical Inc. is reflected in the figures of FY2016 1Q.

# Segment Information



Business Solutions



## Net Sales 88.5B (Y/Y +1.9B, +2%)

- Net sales increased, reflecting the steady performance in major hardware, consumables and IT solutions and others.

## Operating Income 3.8B (Y/Y +0.4B, +11%)

- Operating income rose from a year ago, chiefly due to an increase in the high-margin stock business and a decrease in SG&A expenses.

### 2017 Actual v. 2016 Actual

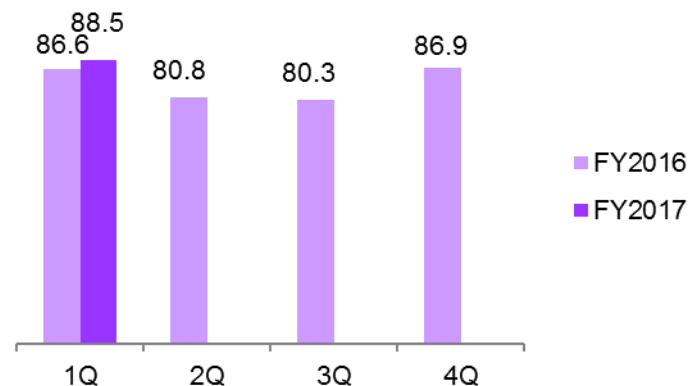
	1Q 2016	1Q 2017	Changes
Net sales	86.6	88.5	+1.9
Op. income	3.4	3.8	+0.4

### Net sales - Growth rate

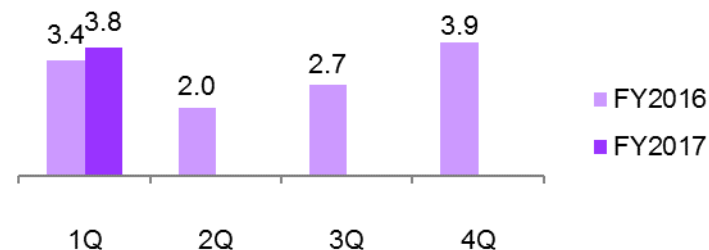
	1Q	2Q	3Q	4Q	FY
FY2016	+1%	-0%	-1%	+4%	+1%
FY2017	+2%				

### Net sales

(Billions of yen)



### Op. income



# Segment Information



IT Solutions

Canon

**Net Sales 33.1B (Y/Y - 0.7B, - 2%)**

➤ Although sales of the SI service business rose, sales in this segment decreased, largely due to the weak performance of the IT infrastructure & service business and the embedded software business.

**Operating Income 1.1B (Y/Y - 0B, - 3%)**

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

■ 2017 Actual v. 2016 Actual

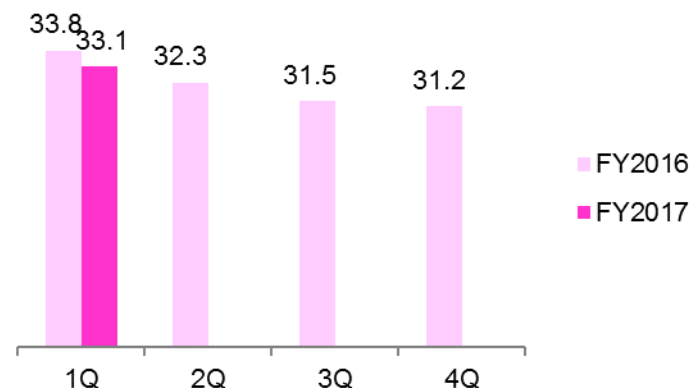
	1Q 2016	1Q 2017	Changes
Net sales	33.8	33.1	-0.7
Op. income	1.1	1.1	-0.0

■ Net sales - Growth rate

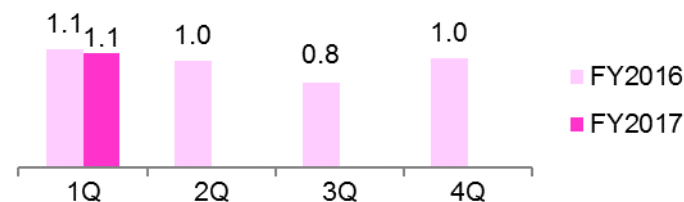
	1Q	2Q	3Q	4Q	FY
FY2016	+3%	+0%	-0%	-4%	-0%
FY2017	-2%				

■ Net sales

(Billions of yen)



■ Op. income



# Overall sales of IT Solutions



(Billions of Yen)

	1Q 2016	1Q 2017	Changes	
			Amount	%
Sales of IT solutions	33.8	33.1	-0.7	-2%
Sales other than the IT Solutions segment	19.8	20.8	+1.0	+5%
Intersegment elimination, etc.	-6.6	-7.0	-0.4	-%
<b>Total</b>	<b>47.0</b>	<b>46.9</b>	<b>-0.1</b>	<b>-0%</b>

[Reference] Overall IT Security net sales	YoY 2016 vs 2017
	1Q
<b>Overall IT Security</b>	<b>+6%</b>

# Segment Information



## Net Sales 29.5B (Y/Y -2.3B -7%)

➤ Sales of compact digital cameras rose due to the elimination of the effect of the Kumamoto Earthquake, and sales of inkjet printers increased, reflecting a rise in the ratio of high-priced items in the segment. However, overall sales in the segment fell due to a decline in sales of digital interchangeable lens cameras.

## Operating Income -0.1B (Y/Y +0.4B, -%)

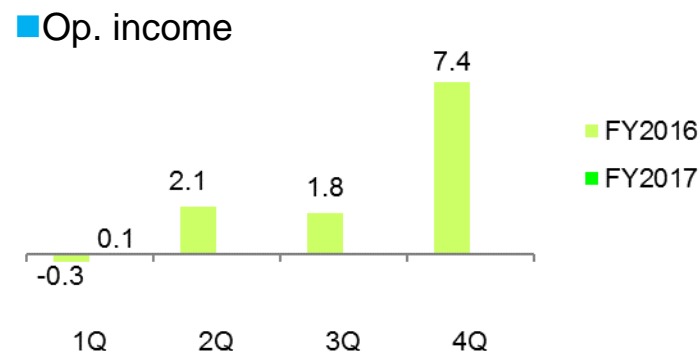
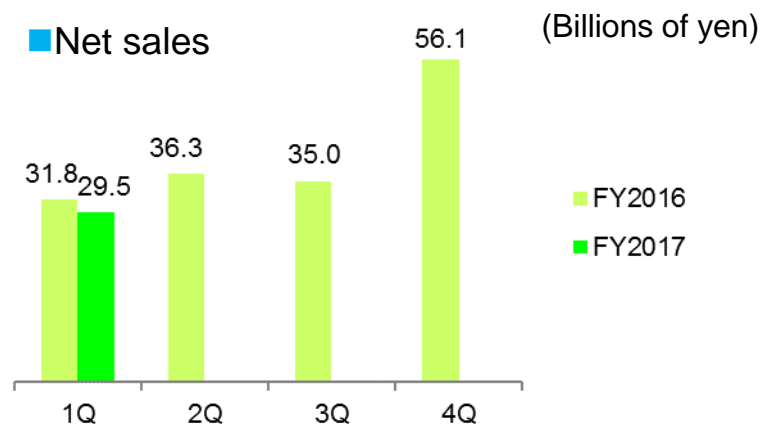
➤ Operating income improved 0.4 billion yen with the decrease in SG&A expenses.

■ 2017 Actual v. 2016 Actual

	1Q 2016	1Q 2017	Changes
Net sales	31.8	29.5	-2.3
Op. income	-0.3	0.1	+0.4

■ Net sales - Growth rate

	1Q	2Q	3Q	4Q	FY
FY2016	-8%	-18%	-15%	-4%	-11%
FY2017	-7%				





# Segment Information



Industrial / Medical

Canon

## Net Sales 8.8B (Y/Y -1.6B, -16%)

- Sales in the Industrial segment declined, reflecting a difference in the timing of delivery inspections from a year ago. Sales fell also in the Medical segment in reaction to large-scale projects in the same quarter of the previous fiscal year.

## Operating Income 0.6B (Y/Y - 0.2B, - 25%)

- Operating income fell in both the Industrial and Medical segments due to falls in sales.

### ■ 2017 Actual v. 2016 Actual

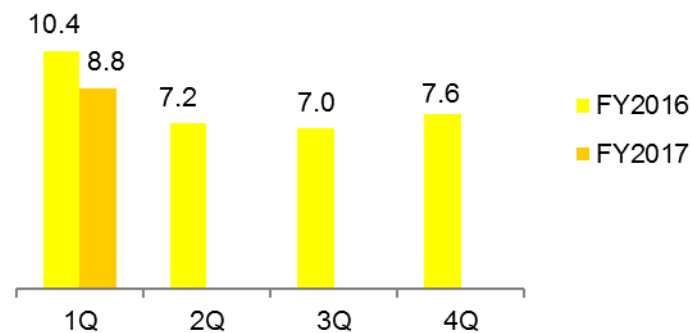
	1Q 2016	1Q 2017	Changes
Net sales	10.4	8.8	-1.6
Op. income	0.8	0.6	-0.2

### ■ Net sales - Growth rate

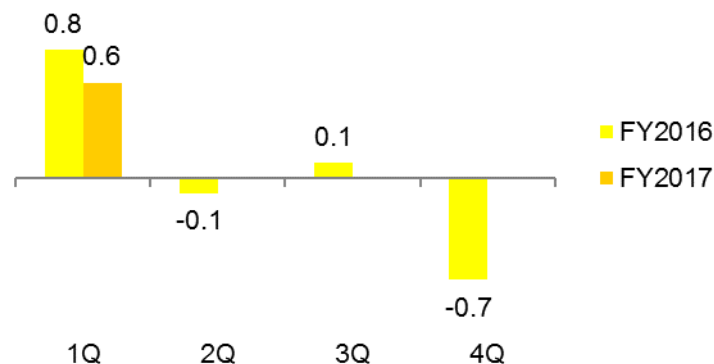
	1Q	2Q	3Q	4Q	FY
FY2016	+11%	-14%	-16%	-7%	-6%
FY2017	-16%				

### ■ Net sales

(Billions of yen)



### ■ Op. income



# Summary of Projections

- There is no revision for FY2017 projection.

(Billions of Yen)

	FY2017 Projection	FY2016 Actual	Changes	
			Amount	%
Net Sales	<b>645.0</b>	<b>629.3</b>	<b>+15.7</b>	<b>+2%</b>
	(4.5%)	(4.4%)	(+0.1%)	
Operating Income	<b>28.8</b>	<b>27.7</b>	<b>+1.1</b>	<b>+4%</b>
	(4.6%)	(4.6%)	(+0.0%)	
Ordinary Income	<b>29.6</b>	<b>28.7</b>	<b>+0.9</b>	<b>+3%</b>
	(3.1%)	(2.9%)	(+0.2%)	
Profit attributable to owners of parent	<b>19.8</b>	<b>18.2</b>	<b>+1.6</b>	<b>+9%</b>

# Summary of Projections

- There is no revision of FY2017 projection.

(Billions of Yen)

	FY2016		FY2017		Changes		
	Actual		Projection		Net Sales	Op. Income	Op. Income
	Net Sales	Op. Income	Net Sales	Op. Income			
Business Solutions	334.6	12.1	345.0	12.3	+10.4	+3%	+0.2
IT Solutions	128.8	4.0	130.0	4.1	+1.2	+1%	+0.1
Imaging System	159.2	10.9	161.0	11.0	+1.8	+1%	+0.1
Industrial / Medical	32.2	0.2	33.5	1.2	+1.3	+4%	+1.0
Other	-25.5	0.6	-24.5	0.2	+1.0	-%	-0.4
Total	629.3	27.7	645.0	28.8	+15.7	+2%	+1.1

## Notes

1. "Other" includes the intersegment sales and the corporate expenses that are not allocated to the shared service businesses or to each segment.
2. The Intersegmental Business Transfer of Canon Biz Attenda Inc., A&A Co.,Ltd. and Canon ITS Medical Inc. is reflected in the figures of FY2016 Actual.

## Business Solutions

- ✓ Net sales are expected to rise with the increase in unit sales of MFPs in the market for medium-sized customers associated with the expansion of sales of third-generation MFPs and the expansion of new growth segments such as production printing and the network camera business.
- ✓ Operating income is also expected to increase, primarily as a result of the growth of profitable maintenance services and sales of laser printer cartridges.

## IT Solutions

- ✓ Net sales are expected to increase, particularly due to the growth of the SI service business, where inquiries are increasing in the financial and manufacturing industries, and the IT infrastructure service, where the data center business is performing well, offsetting a decline expected in the embedded software business.
- ✓ Operating income is expected to increase year on year due to growth in gross profit as a result of increased sales.

## Imaging System

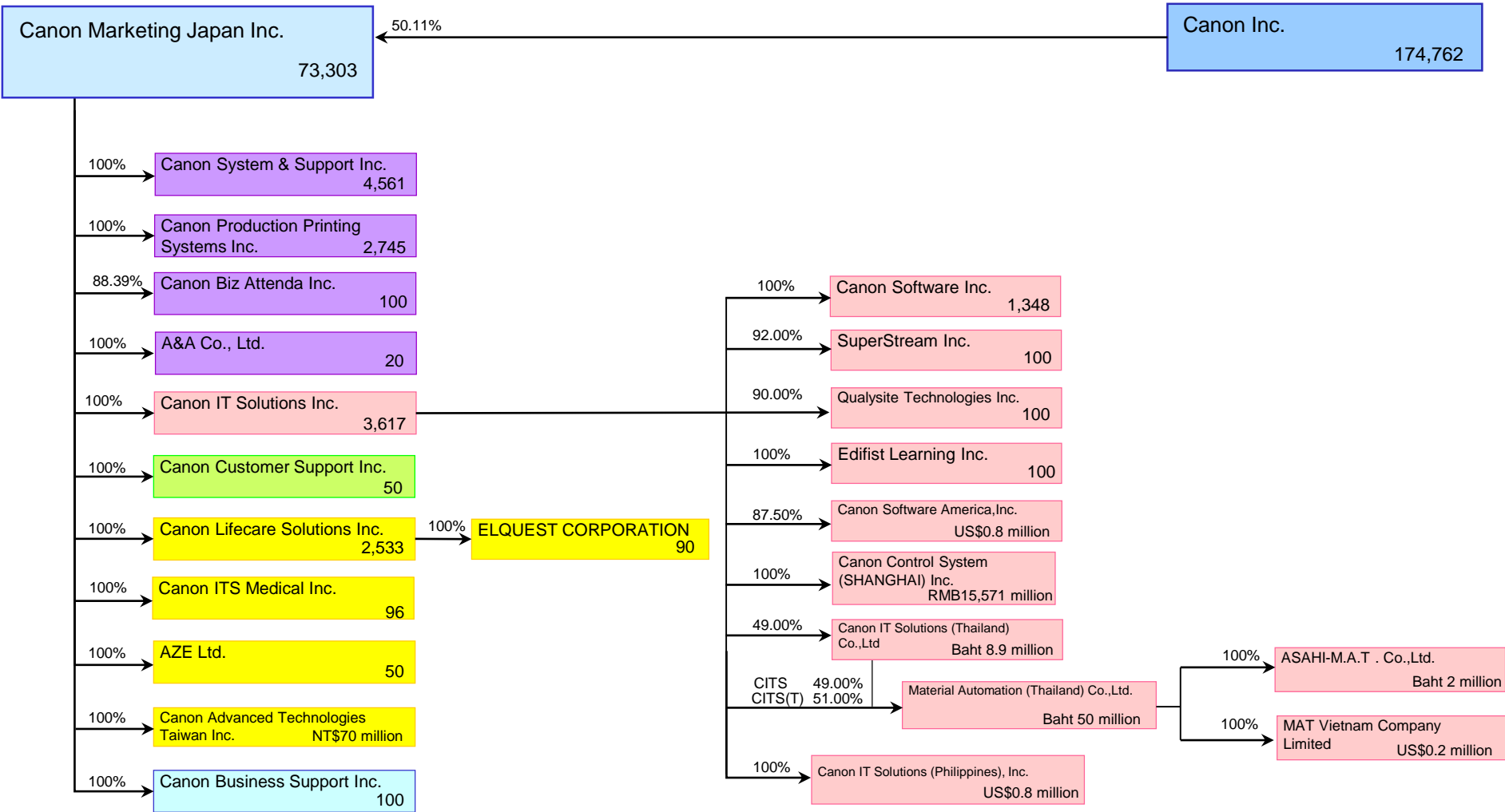
- ✓ For DILC\*s, the Company expects to maintain the quantity sold in the previous year during the current year by improving the product line of mirrorless cameras. It believes it will retain the largest share in the total market, including SLR cameras. The volume of compact cameras sold is expected to increase as the impact of last year's Kumamoto Earthquake subsides.
- ✓ As for inkjet printers, the Company will ensure adequate profitability by increasing the ratio of printers with high unit prices.
- ✓ Overall, a year-on-year increase in both sales and profit is expected.

## Industrial/ Medical

- ✓ The Industrial segment should see an increase in sales and profits, reflecting solid sales of products and services in the semiconductor market and efforts to expand sales of 3D printers and machine vision equipment.
- ✓ The Medical segment is also anticipating growing sales and profits due to an increase in sales of new digital radiography products and non-mydriatric fundus cameras and synergies with Canon ITS Medical.

# Supplementary Information

# Capital Relationship Diagram



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

As of 2017.3.31

# Results of main consolidated companies



(Billions of Yen)

		1Q 2016		1Q 2017		Changes	
						Amount	%
<b>Business Solutions</b>							
Canon System & Support Inc.	Net sales	31.9		32.7		+0.8	+3%
	Op. income	1.3	(3.9%)	1.3	(3.9%)	+0.0	(-0.0%)
Canon Production Printing Systems Inc.	Net sales	2.8		3.2		+0.4	+13%
	Op. income	-0.2	(-)	-0.2	(-)	-0.1	(-)
<b>IT Solutions</b>							
Canon IT Solutions Inc.	Net sales	18.7		18.0		-0.7	-4%
	Op. income	1.0	(5.6%)	1.1	(6.3%)	+0.1	(+0.7%)
Canon Software Inc.	Net sales	2.9		2.6		-0.4	-12%
	Op. income	0.2	(8.2%)	0.2	(6.2%)	-0.1	(-2.0%)
<b>Industrial / Medical</b>							
Canon Lifecare Solutions	Net sales	4.5		3.9		-0.6	-13%
	Op. income	0.3	(7.5%)	0.1	(3.8%)	-0.2	(-3.7%)

## Notes

1. The amounts are before intersegment elimination.



# SG&A expenses



(Billions of Yen)

	<u>FY 2016</u>	<u>FY 2017</u>	<u>Changes</u>
	1Q	1Q	1Q
Advertising expenses	2.2	1.8	-0.3
Promotion expenses	1.2	1.2	-0.1
Warranty expenses	1.5	1.4	-0.0
Other direct selling expenses	5.3	5.1	-0.3
Personnel expenses	31.3	30.9	-0.4
Depreciation and amortization	0.5	0.5	-0.0
Other selling expenses	7.7	7.2	-0.5
<b>Total</b>	<b>49.7</b>	<b>48.0</b>	<b>-1.7</b>

# Non-operating income and expenses

## ■ Non-operating income

(Billions of Yen)

	FY	FY	Change
	1Q	1Q	1Q
Interest income	0.1	0.0	-0.0
Dividend income	0.0	0.0	-0.0
Insurance income	0.0	0.0	-0.0
Other	0.2	0.1	-0.1
<b>Total</b>	<b>0.3</b>	<b>0.2</b>	<b>-0.1</b>

## ■ Non-operating expenses

	FY 2016	FY 2017	Change
	1Q	1Q	1Q
Interest expenses	0.0	0.0	-0.0
Foreign exchange losses	0.0	0.0	-0.0
Other	0.1	0.1	-0.0
<b>Total</b>	<b>0.1</b>	<b>0.1</b>	<b>-0.0</b>

# Extraordinary income and expenses

## ■ Extraordinary income

(Billions of Yen)

	FY 2016	FY 2017	Change
	1Q	1Q	1Q
Gain on sales of non-current assets	0.0	0.0	+0.0
Insurance income on disaster	-	0.5	+0.5
Other	0.0	-	-0.0
<b>Total</b>	<b>0.0</b>	<b>0.5</b>	<b>+0.5</b>

## ■ Extraordinary expenses

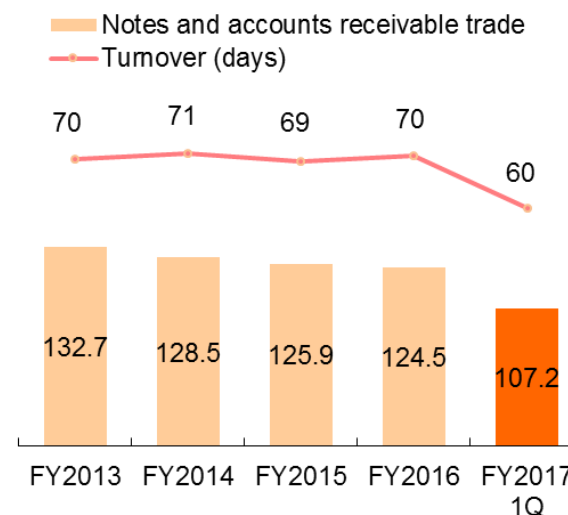
	FY 2016	FY 2017	Change
	1Q	1Q	1Q
Loss on sales and retirement of non-current assets	0.1	0.0	-0.0
Impairment loss	0.1	-	-0.1
Other	0.0	0.0	+0.0
<b>Total</b>	<b>0.2</b>	<b>0.0</b>	<b>-0.1</b>

# Balance Sheets

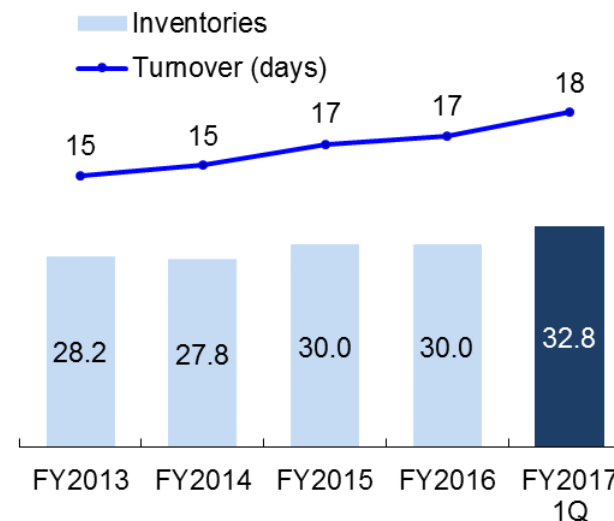
(Billions of Yen)

	Dec. 31 2016	Mar. 31 2017	Changes
<b>Assets</b>	497.7	482.9	-14.8
Current assets	362.1	349.2	-12.9
Cash and deposits	107.3	79.4	-27.9
Notes and accounts receivable trade	124.5	107.2	-17.3
Inventories	30.0	32.8	+2.8
Other	100.4	129.9	+29.5
Noncurrent assets	135.6	133.7	-1.9
Property, plant and equipment	96.7	95.4	-1.3
Intangible assets	6.8	6.6	-0.3
Investments and other assets	32.1	31.7	-0.3
<b>Liabilities</b>	216.8	202.3	-14.5
Current liabilities	157.0	142.8	-14.2
Notes and accounts payable-trade	102.7	91.3	-11.3
Other	54.3	51.4	-2.9
Noncurrent liabilities	59.8	59.5	-0.3
<b>Net assets</b>	280.9	280.7	-0.3
Shareholders' equity	287.6	287.7	+0.1
(Treasury stock)	-31.9	-31.9	-0.0
Total accumulated other comprehensive income	-7.1	-7.5	-0.4
Minority interests	0.4	0.4	-0.0
<b>Equity ratio</b>	56%	58%	+2%

## Notes and accounts receivable trade

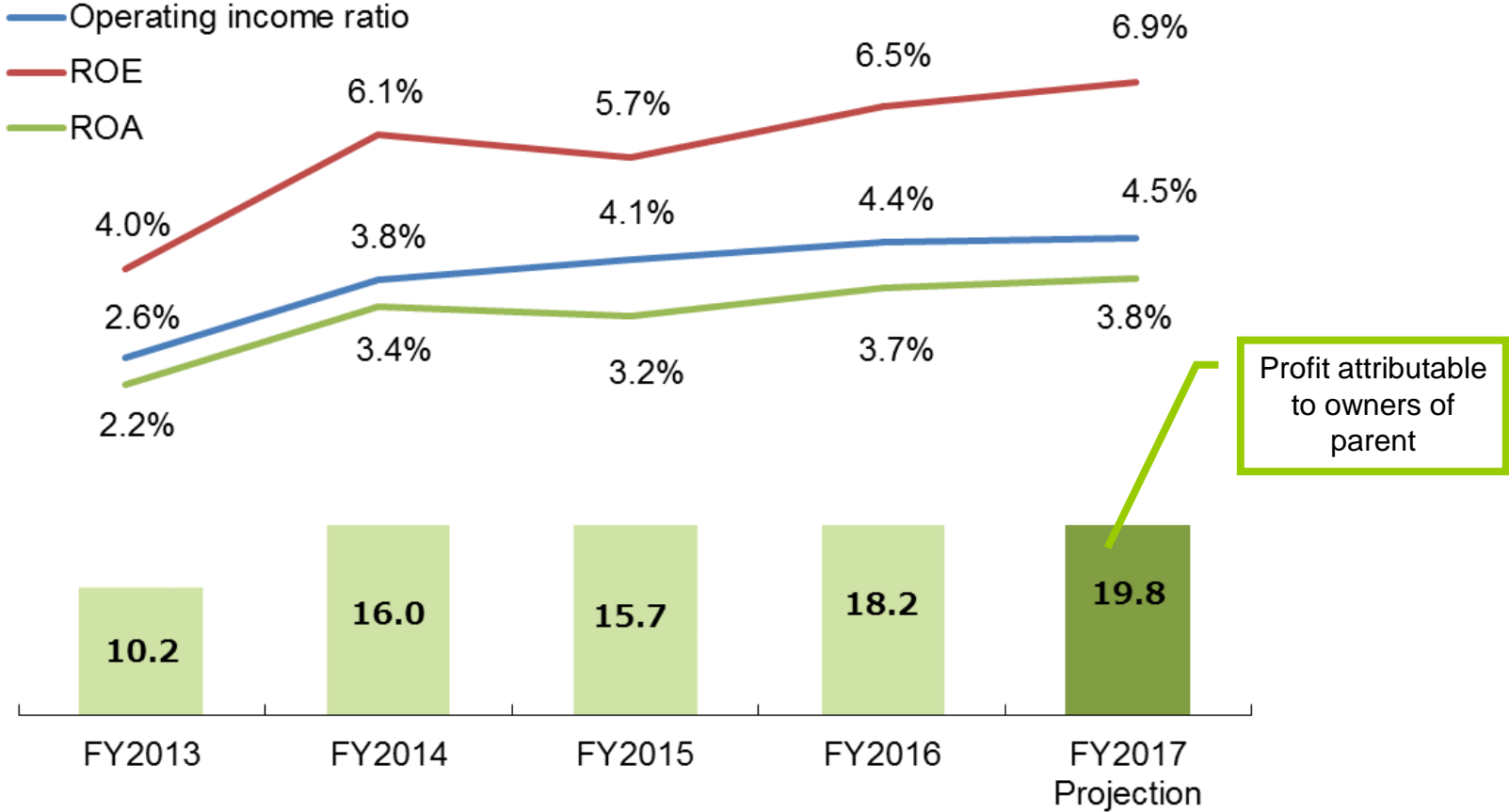


## Inventories

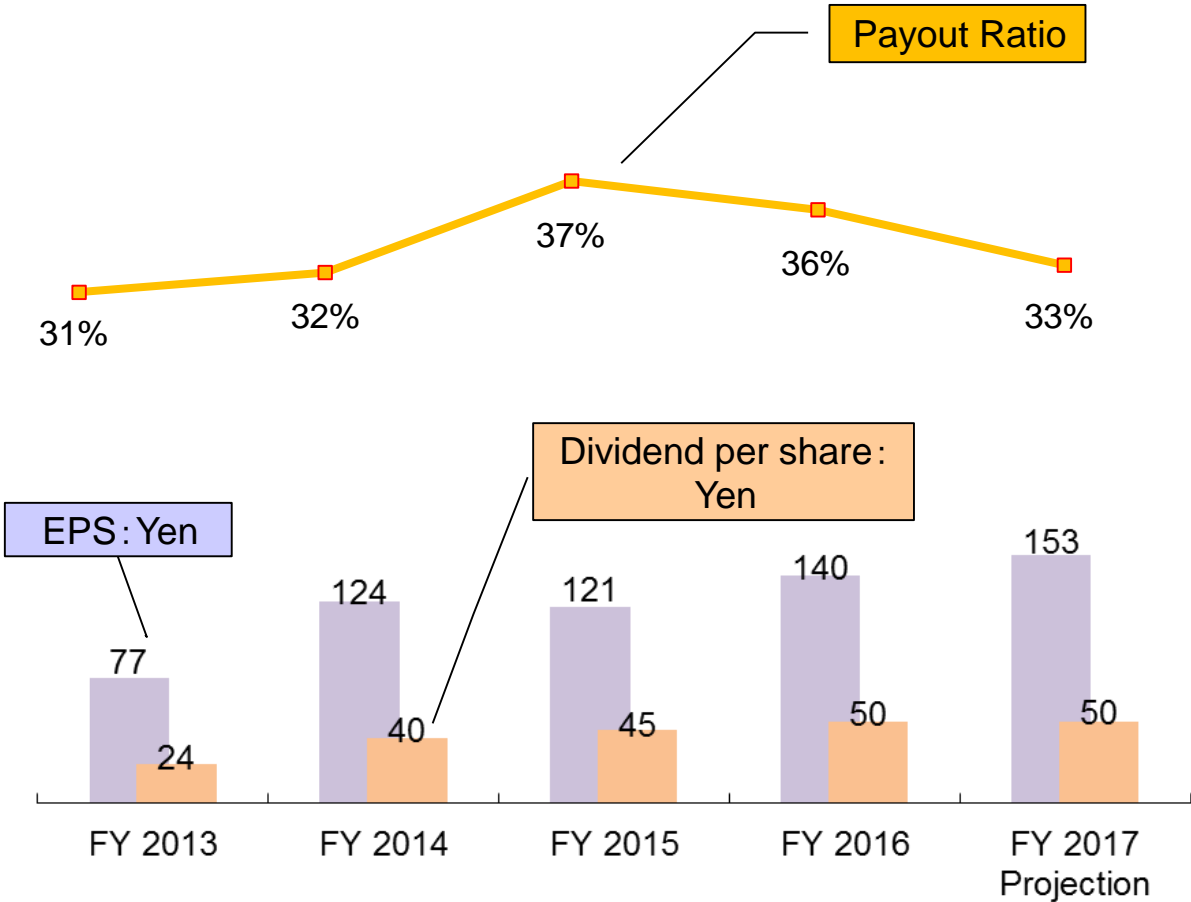


(Billions of Yen)

## Operating income ratio / ROA / ROE



## ■ Payout Ratio / EPS / Dividend per share



# Financial Indicator

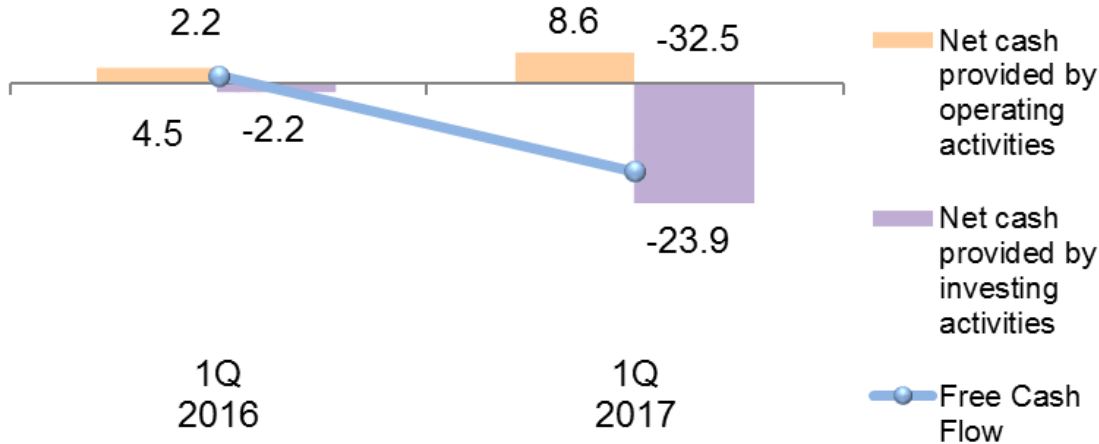
## Investment

	1Q Actual	2Q-4Q Projection	FY Projection
FY 2016	<b>4.3</b>	<b>8.9</b>	<b>13.2</b>
FY 2017	<b>2.0</b>	<b>13.4</b>	<b>15.3</b>

## Depreciation and amortization

	1Q Actual	2Q-4Q Projection	FY Projection
FY 2016	<b>3.8</b>	<b>11.1</b>	<b>14.9</b>
FY 2017	<b>3.5</b>	<b>11.0</b>	<b>14.5</b>

## Cash Flow



**Canon**

Canon Marketing Japan Inc.