

# AN INTERVIEW WITH THE PRESIDENT



*M. Sakata*

**Masahiro Sakata**  
President

**Q What was fiscal 2018 like for Canon MJ?**

**Markets for business-to-consumer (BtoC) products shrank more than envisaged.**

Net sales decreased 1.7%, to ¥621,591 million. Operating income was down 4.8%, to ¥28,941 million. Profit attributable to owners of parent was up 0.7%, however, to a record ¥20,826 million. Return on equity

(ROE) decreased 0.3 percentage point, to 6.9%. Markets in which the Group maintains high shares, BtoC products in particular, shrank more than we envisaged.

**Q How did you perform in Canon's core product areas of cameras, inkjet printers, office multifunction printers (MFPs), and laser beam printers (LBPs)?**

**Approaches to date with regard to BtoC products no longer worked. The situation with business-to-business (BtoB) offerings was as expected.**

Conditions in BtoC and BtoB areas differed.

In BtoC areas, our sales efforts have long conveyed the joys of photography and inkjet printing. However, with the pace of market shrinkage becoming significant, the current situation will not change much in our favor if we persist with current sales and marketing approaches.

For BtoB products, markets are gradually shrinking in an increasingly paperless atmosphere, but this is to be expected, and I believe we can deal with this to a certain extent.

**Q IT solutions sales grew 8.6% in fiscal 2018. This reflected greater demand for systems integration (SI) services for the finance, manufacturing, and public sectors, IT solutions for small-to-medium-sized enterprises, and gains in security and data center services. Does this mean that markets expanded and that the Group's strategies succeeded?**

**Our strategies factored into this, but the prime driver was market growth.**

Since I became president in 2015, I have recognized that it would be difficult to expand as before with Canon products. I therefore declared that IT solutions would be our growth driver, and implemented measures accordingly. Our sector-specific SI initiatives and efforts to bolster data center services have delivered results. Nonetheless, a major factor in fiscal 2018 was that our performance

benefited less from our measures than from expansion of the IT market, which propelled the Group's IT solutions growth. In IT solutions for small-to-medium-sized enterprises, the appetite for investment among customers has been solid, partly because of the end of support for Windows 7 and labor shortages, so our real growth lies ahead of us.

**Q Tell us about your hopes for the second stage of the Nishi-Tokyo Data Center once it is constructed.**

**We anticipate stable sales and earnings growth.**

The data center business looks after customer data, so it naturally handles IT infrastructure for customers, including operations and maintenance. Compared with SI, whose sales fluctuate according to whether or not there are large deals, the data center business is extremely stable. Our Nishi-Tokyo Data Center has reached capacity,

and its second stage is expected to enhance sales stability for the Group. As such, we have great hopes in these operations. They have already delivered results, so we will keep investing in the data center to further stabilize sales and profits.

**Q By shifting from a product-based organizational framework to a customer-centric framework, you accelerated efforts to mutually employ customer infrastructures and develop IT solutions operations. You have also set up a business process outsourcing (BPO) center and otherwise stepped up cross-functional capabilities. Have things progressed as you expected?**

**We now have a structure in place, including in terms of improving employee awarenesses. How things function is further down the road.**

Transforming our framework clarified how we need to act and the issues we face. Still, it took us a year to change employee awarenesses and adapt to the new framework. I do not think framework changes have generated results yet in terms of mutually using customer infrastructures and developing IT solutions operations for small-to-medium-sized enterprises. It is in this context that I believe it was a good idea to launch the BPO center so as to

concentrate such functions in one place within the Group, as there is a tremendous need—particularly among large customers—to outsource noncore operations. So, while we transformed employee consciousnesses through framework changes and put in place a platform for using resources within the Group, I think it will be some time before the new framework fully functions.

**Q How do you evaluate the Canon MJ strengths and core competencies of your customer base and sales capabilities, technological capabilities for IT solutions, and Canon brand strengths?**

**Recognition of our IT solutions will be key to improving our superior position.**

Our solid customer base and sales capabilities over the years have given us a competitive edge. We have amassed a strong record of technological capabilities for IT solutions. I think that the Canon brand is well recognized and the customers have favorable feeling toward the brand. However, it is difficult to see how much positive effect we gain from the Canon brand in developing IT solutions business. Canon is strongly associated with cameras, inkjet printers, copiers and MFPs, and LBPs. Unfortunately, very few equate Canon MJ with customer IT solutions.

In December 2017, we set about bridging that perception gap by broadcasting television commercials to heighten our profile as a provider of IT solutions. By enhancing awareness through such an approach, I think we will further extend our edge in terms of our customer base and sales capabilities and our technological capabilities for IT solutions.

**Q What was your stance on prevailing Japanese economic conditions when you formulated three-year management plan for fiscal 2019–21?**

**It is important to lift productivity to alleviate labor shortages and to reform work practices.**

I do not believe that Japanese economic conditions are poor. Regional economies are benefiting from inbound tourism, so they are a little brighter than before. Setting aside labor shortage problems, I do not think that the economy will deteriorate for at least the next two or three years.

Given that situation, labor shortages have worsened in recent

years. There have been calls for work practice reforms during that time, and improving productivity has become an urgent challenge for companies, so demand for IT solutions should inevitably increase. We formulated our management plan for fiscal 2019–21 so we would naturally reach our objectives.

**Q What will be the focus for growth under your medium-term management plan for the Consumers, Enterprise, Area, and Professional segments?**

**We will strengthen IT solutions and be highly specialized.**

The Consumers segment accounts for the bulk of Canon brand offerings. The presence of e-commerce is increasing in various fields, and will likely account for a rising proportion of sales in this segment. We will focus on leveraging the e-commerce capabilities of our partners and the Group to build segment sales. Another priority will be to broaden BtoC areas in IT products. This will eventually lift the ratio of non-Canon brands in overall sales of this segment.

In the Enterprise segment, we are doing very well with Canon IT solutions. The key in this segment will be to work out ways to generate synergies between Canon IT solutions and the customer base

of Canon MJ's direct sales unit for large enterprises, from which I hail.

MFPs and LBPs represent high proportions of sales in the Area segment. We consider it important to broaden our products and services, and put in place a structure for that purpose. We will drive growth by increasing the proportion of sales from IT solutions to small-to-medium-sized enterprises.

For the Professional segment, as I mentioned last year, our challenge is to enhance our expertise, which we currently lack in this area. We are hiring extensively, and the key to growth will be our ability to attract and cultivate highly skilled and knowledgeable people.

**Q In fiscal 2015–18, the Group's IT solutions sales expanded an average 4.7% annually. This exceeded average IT market growth during that period of around 3%. Will you concentrate resources in high-growth fields to boost IT solutions sales to ¥300 billion?**

**We must concentrate resources on IT solutions.**

Exactly. We need our people to begin thinking of ways to transform us into an IT solutions company and concentrate resources accordingly. The added value from hardware has declined comparatively, and we have to become an entity that can resolve the concerns and issues of

customers. Many Group employees have experienced selling superior hardware, but that alone does not provide solutions. As an added value, IT solutions are indispensable. I think we have to allocate resources in that area.

**Q I think you need to secure systems engineers to drive growth in IT solutions. Are you progressing well in securing people?**

**Graduate hiring is proceeding as planned. However, attracting experienced people is proving a great challenge.**

We have been able to secure the targeted number of new graduates. At the same time, our efforts to acquire midcareer professionals have been inadequate. To deal with orders we have received, we need more experienced people. Lots of companies have the technologies and engineers needed to build systems that customers want, and most IT

firms need engineers in the artificial intelligence (AI) and digital transformation (DX) fields. On top of that, many customers are developing overseas operations, and they need English language-based support. It is in view of this situation that we are hiring people of various nationalities.

**Q You aim to augment MFP and LBP maintenance and cartridge revenue model with growth in cloud services, IT maintenance and operations services, and data center services. To what extent do you expect demand to increase?**

**We expect these areas to more than offset downturns in MFP and LBP maintenance and cartridge sales.**

One factor of rising demand for IT maintenance and operations services and data center services is the wide spread of e-commerce. Payments are becoming cashless with e-commerce penetration. This means that payments are becoming data, and cashless payments will cause data volumes to surge. Data center usage volumes and frequencies are accordingly increasing.

As sales steadily decline from MFP and laser beam printer maintenance services and cartridges, we anticipate revenue growth from IT maintenance and operations services and data center services. In other words, as product-related services revenues decline we will work to generate growth through new IT solutions services. Services revenues overall would therefore rise.

**Q You have undertaken business process reforms and shared your call center systems infrastructure as part of efforts to overhaul your cost structure. What benchmark are you using to measure the resulting productivity improvements?**

**We are focusing on gross profit per employee.**

The Group handles a range of products, for which it maintains multiple sales channels. We therefore emphasize gross profit per employee. Sales of IT products are high, for example, but gross margins are low. If we were to make sales a benchmark, we would encourage

marketing that ignores profitability, and that is why the focus is on earnings. Another priority is selling, general and administrative expenses as a percentage of revenues for each business segment.

**Q On the capital expenditure front, you are constructing the second stage of the Nishi-Tokyo Data Center. What are your specific plans for acquisition investments?**

**We are pushing ahead with practical initiatives centered on the IT solutions area.**

We are exploring acquisitions, centered on the IT solutions field, but the costs per transaction are a little on the high side. We previously rolled out a policy to invest ¥40 billion strategically over three years,

and that approach remains unchanged. At this stage, our more specific measures are to push ahead with investment projects and recruit executives.

**Q What is your stance on ESG?**

**We seek to meet customer expectations through business and contribute to social progress.**

Japan's society and market has changed throughout the 51 years since the Group's establishment, and our products and services have accordingly evolved in various ways. But the fundamentals of our business have remained constant; we are committed to meeting customer expectations through business and contributing to social progress. We currently aim to help resolve social issues through the IT solutions on which we are focusing. These endeavors relate deeply to

realizing societies that pursue progress in terms of the United Nations' Sustainable Development Goals (SDGs) and the Paris Accord.

We will reinforce our commitment to good corporate citizenship and faithfully cater to social requests and expectations by undertaking environmental measures and initiatives to help resolve social issues. We will also create positive work environments and enhance corporate governance.

**Q You established your Nomination and Remuneration Committee in fiscal 2018. With that in mind, how do you assess your efforts to ensure management transparency from governance perspectives and oversight of the Board of Directors?**

**We have enhanced transparency.**

We will endeavor to enhance transparency and disclose our management decision-making approach from corporate governance

perspectives. Based on requests from shareholders and investors, we are endeavoring to further strengthen corporate governance.

**Q For fiscal 2018, you kept cash dividends at ¥60 per share based on a policy that comprehensively factors in a medium-term earnings outlook based on a payout ratio of 30%, investment plans, and cash flows. Your payout ratio was therefore 37.4%, exceeding the 35% average for the past few years. Do you consider this level appropriate?**

**We are maintaining an appropriate payout ratio.**

I think that our current payout ratio is about right. We will keep generating returns through dividends in keeping with our shareholder

returns policy. We consider it important to produce returns for shareholders by boosting earnings.

**Q What is your outlook for fiscal 2019?**

**We will endeavor to further improve profitability.**

The Group is focusing on global political and economic trends because it purchases from foreign companies in the software and industrial equipment fields. As I mentioned earlier, I do not think that Japanese economic conditions are poor. I expect this situation to continue.

While I explained that the Group's efforts would center on IT solutions, Canon products will still account for a high proportion of sales. I therefore do not expect a major increase in overall revenues.

For the foreseeable future, we will concentrate on further increasing profitability. Once we enter a period in which we bolster sales, we aim to further improve earnings through high profitability. Management will step up efforts to produce further shareholder returns through dividends. I look forward to the ongoing support and encouragement of shareholders regarding our efforts.