

# FY2018 1Q Results

April 25, 2018  
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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 2018 1Q Results



**Net sales**                      **¥150.8 B**    **(Y/Y -2.0B, -1%)**

- ✓ The Enterprise and Professional segments achieved sales growth, while the Consumers and Area segments suffered a sales decline. Net sales declined.

**Operating Income**            **¥3.7 B**    **(Y/Y -1.9B, -34%)**

- ✓ Operating income fell mainly due to the shrinkage of the gross profit in the Consumers segment.

**Profit attributable to  
owners of parent**            **¥2.5 B**    **(Y/Y -1.5B, -37%)**

# Summary of Results

1Q 2018 Actual  
(from January 1 to March 31)

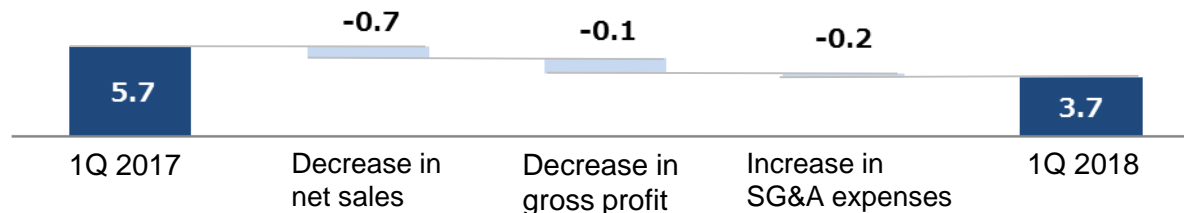


(Billions of yen)

## Summary of Results

	1Q 2017	1Q 2018	Changes	
			Amount	%
Net sales	152.8	150.8	-2.0	-1%
Gross profit	(35.1%) 53.7	(34.5%) 52.0	(-0.7%) -1.7	-3%
Operating income	(3.7%) 5.7	(2.5%) 3.7	(-1.2%) -1.9	-34%
Ordinary income	(3.8%) 5.8	(2.7%) 4.1	(-1.0%) -1.7	-29%
Profit attributable to owners of parent	(2.6%) 4.0	(1.7%) 2.5	(-0.9%) -1.5	-37%

## Op. Income Variance Analysis



# Overview of New Segments

## Consumers

Selling Canon products such as digital camera and ink jet printers and products from external suppliers to general individual customers

## Enterprise

Providing IT solutions and services catering to the needs of each business category in addition to sales of I/O devices to large enterprises  
<Principal group companies>  
Canon IT Solutions Inc.  
Canon Biz Attenda Inc.

## Area

Providing IT solutions including management solutions in addition to sales of I/O devices primarily to medium- and small-sized enterprises across the country  
<Principal group company>  
Canon System & Support Inc.

## Professional

Providing solution businesses targeting customers in specialized fields of each area

### Production Printing

Providing continuous feed printings and high-speed cut sheet printings primarily to the printing industry  
<Principal group company>  
Canon Production Printing Systems Inc.

### Industrial Equipment

Providing semiconductor manufacturing equipment and inspection and measurement equipment primarily to manufacturers of semiconductors and other electronic devices

### Healthcare

Providing pharmaceutical equipment, IT systems and others to healthcare and health checkup providers  
<Principal group companies>  
Canon Lifecare Solutions Inc.  
Canon ITS Medical Inc.

### Imaging Solutions

Providing network camera solutions for surveillance and commercial video equipment to broadcasters

# Segment Outline

1Q 2018 Actual  
(from January 1 to March 31)



(Billions of yen)

	1Q 2017		1Q 2018		Changes	
	Net sales	Op. Income	Net sales	Op. Income	Net sales	Op. Income
Consumer	<b>32.7</b>	<b>0.3</b>	<b>26.8</b>	<b>-2.1</b>	<b>-5.8</b>	<b>-2.4</b>
Enterprise	<b>44.2</b>	<b>2.0</b>	<b>47.1</b>	<b>2.5</b>	<b>+2.9</b>	<b>+0.5</b>
Area	<b>68.1</b>	<b>3.5</b>	<b>66.4</b>	<b>2.9</b>	<b>-1.7</b>	<b>-0.5</b>
Professional	<b>13.5</b>	<b>-0.2</b>	<b>16.5</b>	<b>0.3</b>	<b>+2.9</b>	<b>+0.5</b>
Other	<b>-5.7</b>	<b>0.2</b>	<b>-6.0</b>	<b>0.1</b>	<b>-0.3</b>	<b>-0.1</b>
Total	<b>152.8</b>	<b>5.7</b>	<b>150.8</b>	<b>3.7</b>	<b>-2.0</b>	<b>-1.9</b>

## Notes

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

# Segment Information Consumer Segment

Net sales : 26.8 B ( Y/Y -5.8B, -18%)

- While sales of mirrorless cameras surged after the introduction of new products, digital interchangeable lens cameras as a whole declined. Sales and sales volume of inkjet printers and ink cartridges fell due to the impact of an increase in store stock.

Operating income -2.1 B ( Y/Y -2.4B, -%)

- Operating income fell following a decrease in the gross profit due to the sales decline and the additional fee to promote the sales of store stock.

■ 2018 Actual v. 2017 Actual

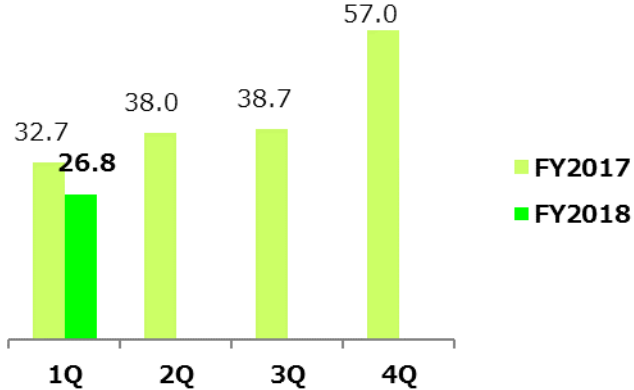
	1Q 2017	1Q 2018	Changes
Net sales	32.7	26.8	-5.8
Op. income	0.3	-2.1	-2.4

■ Net sales - Growth rate (Y/Y)

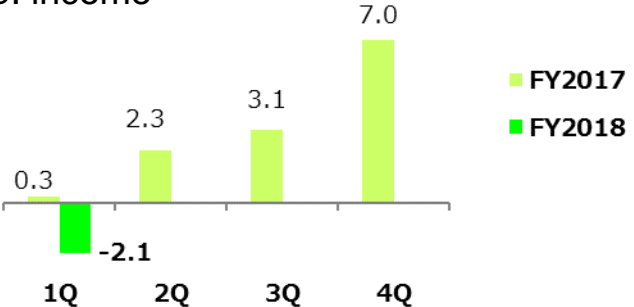
	1Q	2Q	3Q	4Q	FY
FY2018	-18%				

■ Net sales

(Billions of Yen)



■ Op. income



# Segment Information **Enterprise Segment**

Net sales : 47.1 B ( Y/Y +2.9B, +7%)

➤ Net sales increased after a growth in sales of industry-specific solutions for large companies and SI services of Canon IT Solutions.

Operating income 2.5 B ( Y/Y +0.5B, +28%)

➤ Operating income surged mainly due to an increase in the profitability of SI services.

■ 2018 Actual v. 2017 Actual

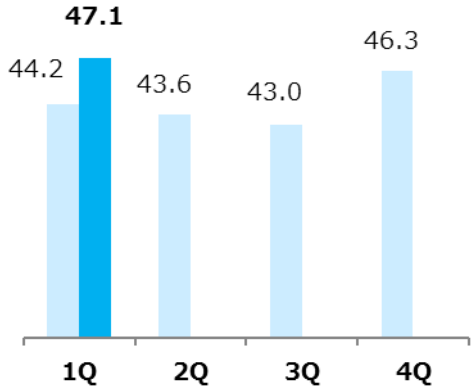
	1Q 2017	1Q 2018	Changes
Net sales	44.2	47.1	+2.9
Op. income	2.0	2.5	+0.5

■ Net sales - Growth rate (Y/Y)

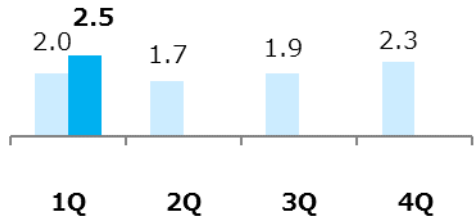
	1Q	2Q	3Q	4Q	FY
FY2018	+7%				

■ Net sales

(Billions of Yen)



■ Op. income



# Segment Information **Area Segment**

Net sales : 66.4B ( Y/Y -1.7B, -3%)

➤ Net sales declined after a fall in sales of main hardware and maintenance services.

Operating income 2.9B ( Y/Y -0.5B, -15%)

➤ Operating income fell following a decrease in the gross profit due to the sales decline.

■ 2018 Actual v. 2017 Actual

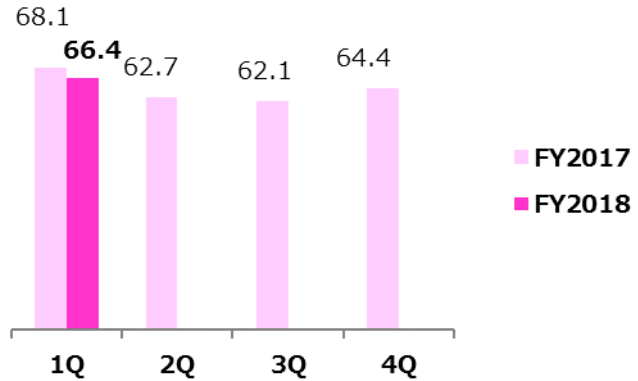
	1Q 2017	1Q 2018	Changes
Net sales	68.1	66.4	-1.7
Op. income	3.5	2.9	-0.5

■ Net sales - Growth rate (Y/Y)

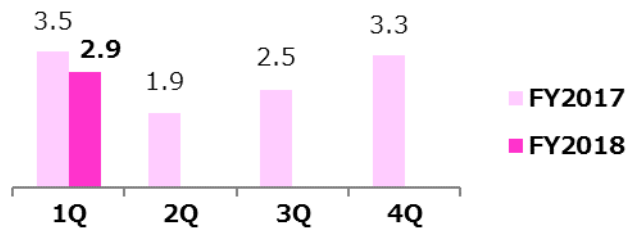
	1Q	2Q	3Q	4Q	FY
FY2018	-3%				

■ Net sales

(Billions of Yen)



■ Op. income





# Segment Information Professional Segment

Net sales : 16.5 B ( Y/Y +2.9B, +22%)

- Net sales grew after brisk sales of semiconductor manufacturing equipment and inspection and measurement equipment among industrial equipment.

Operating income 0.3 B ( Y/Y +0.5B, -%)

- Operating income increased due to sales growth of industrial equipment.

■ 2018 Actual v. 2017 Actual

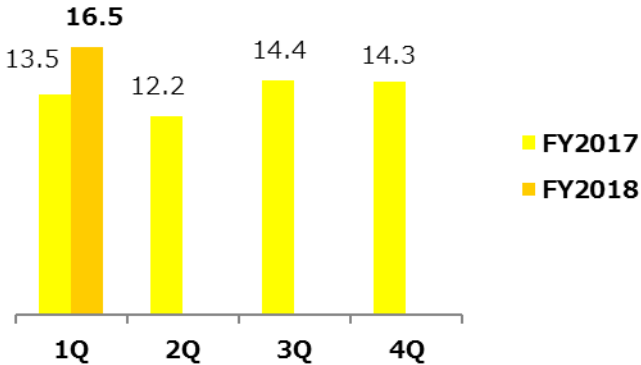
	1Q 2017	1Q 2018	Changes
Net sales	13.5	16.5	+2.9
Op. income	-0.2	0.3	+0.5

■ Net sales - Growth rate (Y/Y)

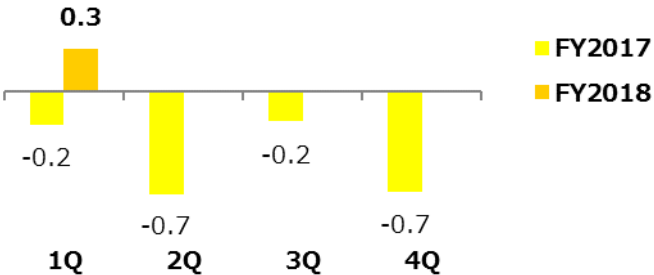
	1Q	2Q	3Q	4Q	FY
FY2018	+22%				

■ Net sales

(Billions of Yen)



■ Op. income



■ Net sales - Growth rate (Y/Y)

	FY2018
	1Q Results
Production Printing	-7%
Industrial Equipment	+125%
Healthcare Business	-5%
Imaging Solutions	-9%

■ **Production Printing**

Sales dropped as a result of sluggish sales of continuous feed printers.

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■ **Industrial Equipment**

Sales jumped after brisk sales of semiconductor manufacturing equipment, inspection and measurement equipment, industrial components and others.

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■ **Healthcare Business**

Sales slid due mainly to the weakness of modality projects for hospitals.

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■ **Imaging Solutions**

Sales fell due to the postponement of network camera deals despite healthy sales of products for broadcasters.

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# Overall Sales of IT Solutions



(Billions of Yen)

## ■ Sales of IT Solutions by Segment

	1Q 2017	1Q 2018	Changes	
			Amount	%
Enterprise segment	26.6	29.9	+3.3	+12%
Area segment	15.2	15.1	-0.1	-1%
Other	4.6	5.2	+0.6	+13%
<b>Total</b>	<b>46.4</b>	<b>50.2</b>	<b>+3.7</b>	<b>+8%</b>

## ■ Reference: Overall IT Security

	Y/Y 2017 vs 2018
	<b>1Q</b>
<b>Overall IT Security Amount</b>	<b>+0%</b>

# Summary of Projections

(Billions of Yen)

- There is no revision of projection for FY2018.

	FY2018 Projection	FY2017 Actual	Changes	
			Amount	%
Net Sales	<b>645.0</b>	<b>632.2</b>	<b>+12.8</b>	<b>+2%</b>
	(5.0%)	(4.8%)	(+0.2%)	
Operating Income	<b>32.0</b>	<b>30.4</b>	<b>+1.6</b>	<b>+5%</b>
	(5.1%)	(5.0%)	(+0.1%)	
Ordinary Income	<b>33.0</b>	<b>31.5</b>	<b>+1.5</b>	<b>+5%</b>
	(3.4%)	(3.3%)	(+0.1%)	
Profit attributable to owners of parent	<b>21.7</b>	<b>20.7</b>	<b>+1.0</b>	<b>+5%</b>

# Summary of Projections by Segment



## FY2018 Current Projection v. Previous Projection

(Billions of Yen)

	FY2018	FY2018		Changes	
	Previous Projection	Current Projection			
	Net Sales	Net Sales	Op. Income	Net Sales Amount	%
Consumer	<b>163.4</b>	<b>163.0</b>	<b>11.6</b>	<b>-0.4</b>	<b>-0%</b>
Enterprise	<b>182.7</b>	<b>183.0</b>	<b>8.5</b>	<b>+0.3</b>	<b>+0%</b>
Area	<b>263.3</b>	<b>261.0</b>	<b>13.2</b>	<b>-2.3</b>	<b>-1%</b>
Professional	<b>61.5</b>	<b>61.0</b>	<b>-1.3</b>	<b>-0.5</b>	<b>-1%</b>
Other	<b>-25.9</b>	<b>-23.0</b>	<b>0.0</b>	<b>+2.9</b>	<b>-</b>
Total	<b>645.0</b>	<b>645.0</b>	<b>32.0</b>	<b>-</b>	<b>-</b>

### Notes

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

# Summary of Projections by Segment



## FY2018 Projection v. FY2017 Actual

(Billions of Yen)

	FY2017		FY2018		Changes		
	Actual		Current Projection		Net Sales		Op.
	Net Sales	Op. Income	Net Sales	Op. Income	Amount	%	Income
Consumer	<b>166.3</b>	<b>12.7</b>	<b>163.0</b>	<b>11.6</b>	<b>-3.3</b>	<b>-2%</b>	<b>-1.1</b>
Enterprise	<b>177.1</b>	<b>7.9</b>	<b>183.0</b>	<b>8.5</b>	<b>+5.9</b>	<b>+3%</b>	<b>+0.6</b>
Area	<b>257.3</b>	<b>11.2</b>	<b>261.0</b>	<b>13.2</b>	<b>+3.7</b>	<b>+1%</b>	<b>+2.0</b>
Professional	<b>54.5</b>	<b>-1.9</b>	<b>61.0</b>	<b>-1.3</b>	<b>+6.5</b>	<b>+12%</b>	<b>+0.6</b>
Other	<b>-23.0</b>	<b>0.5</b>	<b>-23.0</b>	<b>0.0</b>	<b>-0.0</b>	<b>+0%</b>	<b>-0.5</b>
Total	<b>632.2</b>	<b>30.4</b>	<b>645.0</b>	<b>32.0</b>	<b>+12.8</b>	<b>+2%</b>	<b>+1.6</b>

### Notes

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

## Consumers

- Sales of digital SLR cameras is expected to be weak and to shrink despite a rally in the shipment of some models as a result of the rectification of store stock. As for mirrorless cameras, positive promotional activities will be conducted with a focus on new models and a massive sales rise is anticipated. The segment aims to achieve growth in all models for beginners.
- The compact digital camera market is forecasted to remain weak. However, the segment will make intensive efforts to expand sales of high magnification models with high unit prices.
- For inkjet printers, sales volume is expected to fall, but efforts will be made to promote high capacity cartridge models and high unit price models. The segment will aim to achieve sales growth of all printers, including printers for SOHO and laser printers.

## Enterprise

- Net sales is expected to rise year-on-year, because the manufacturing sector will make a strong investment in boosting operational efficiency. The segment will strive to win new SI development projects and to propose and offer strong financial solutions to the financial industry with a view toward sales growth. For cultural and educational institutions, it will increase Canon's unique solutions, such as the *in Campus* series, to speed up the shift from hardware to solutions and to attain a rise in sales.
- The segment anticipates that data center services in the category of IT infrastructure services will expand, and will continue with the shift of the embedded business to external sales, with a focus on the industrial field, including automotive control systems, to external sales.
- With respect to business equipment, the segment foresees a slight decline in sales of MFPs and sales growth in laser printers as a result of large deals.

## Area

- The Area segment should see an increase in office MFP shipments, reflecting proposals that will broaden the range of situations in which customers use them in business by linking it with cloud computing. For production MFPs, the segment will endeavor to gain new customers in a bid to expand Machine in Field (MIF). For laser printers, while foreseeing a decline in quantity due to integration into MFPs and a decrease in deals, the segment will continue its promotion of applications for specific purposes in a bid to achieve growth of cartridge sales.
- For IT solutions, the segment will make proposals aimed at increasing customers' security in the area of security solutions to achieve sales growth. In addition, a sales of "HOME" and IT Maintenance Services will continue to increase .

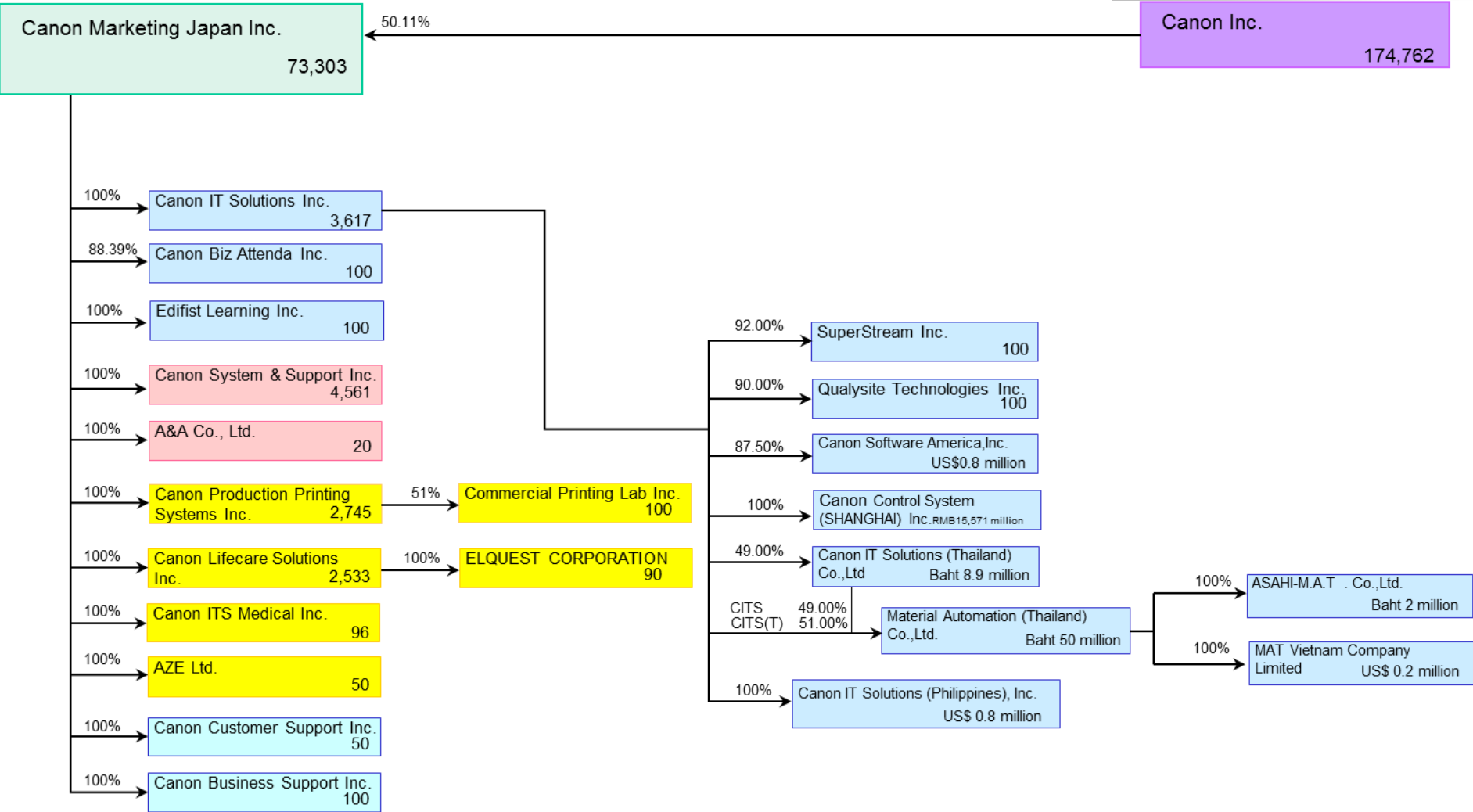
## Professional

- Production Printing: Growth in sales volume and sales after the release of new models of color light printers for cut sheets and replacing monochrome continuous feed printers to color ones is forecast.
- Industrial Equipment: An increase in sales based on the continued briskness of the semiconductor market is anticipated.
- Healthcare: A sales hike arising from the sales expansion of digital radiography systems and medical IT systems is expected.
- Imaging Solutions: Deals with broadcasters relating to replacements with 4K-ready equipment are expected to increase. The segment will promote network cameras for customers operating multiple stores in a bid to attain sales growth.

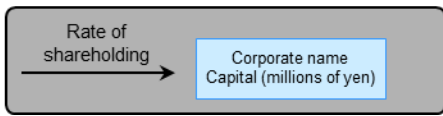


# Supplementary Information

# Capital Relationship Diagram



As of 2018.3.31



# Results of main consolidated companies



(Billions of Yen)

		1Q FY2017		1Q FY2018		Changes	
						Amount	%
<b>Enterprise</b>							
Canon IT Solutions Inc.	Net sales	20.4		21.9		+1.5	+7%
	Op. income	1.3	(6.3%)	1.8	(8.2%)	+0.5	(+1.9%)
<b>Area</b>							
Canon System & Support Inc.	Net sales	32.1		30.6		-1.6	-5%
	Op. income	1.2	(3.8%)	0.8	(2.6%)	-0.4	(-1.2%)
<b>Professional</b>							
Canon Production Printing Systems Inc.	Net sales	3.2		2.9		-0.2	-7%
	Op. income	-0.2	(-)	-0.2	(-)	+0.0	(-)
Canon Lifecare Solutions Inc.	Net sales	3.9		3.4		-0.5	-13%
	Op. income	0.1	(3.8%)	0.1	(4.3%)	-0.0	(+0.5%)

# SG&A expenses



(Billions of Yen)

	<u>FY 2017</u>	<u>FY 2018</u>	<u>Changes</u>
	1Q	1Q	1Q
Advertising expenses	<b>1.8</b>	<b>1.9</b>	<b>+0.1</b>
Promotion expenses	<b>1.2</b>	<b>1.1</b>	<b>-0.0</b>
Warranty expenses	<b>1.4</b>	<b>1.3</b>	<b>-0.1</b>
Other direct selling expenses	<b>5.1</b>	<b>4.8</b>	<b>-0.3</b>
Personnel expenses	<b>30.9</b>	<b>31.5</b>	<b>+0.7</b>
Depreciation and amortization	<b>0.5</b>	<b>0.3</b>	<b>-0.2</b>
Other selling expenses	<b>7.2</b>	<b>7.3</b>	<b>+0.1</b>
<b>Total</b>	<b>48.0</b>	<b>48.3</b>	<b>+0.2</b>

# Non-operating income and expenses

(Billions of Yen)

## ■ Non-operating income

	FY 2017	FY 2018	Changes
	1Q	1Q	1Q
Interest income	0.0	0.0	-0.0
Dividend income	0.0	0.0	+0.0
Gain on investments in partnership	-	0.2	+0.2
Other	0.1	0.2	+0.0
<b>Total</b>	<b>0.2</b>	<b>0.5</b>	<b>+0.3</b>

## ■ Non-operating expenses

	FY 2017	FY 2018	Changes
	1Q	1Q	1Q
Interest expenses	0.0	0.0	-0.0
Foreign exchange losses	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

(Billions of Yen)

## ■ Extraordinary income

	FY 2017	FY 2018	Changes
	1Q	1Q	1Q
Gain on sales of fixed assets	0.0	0.1	+0.1
Gain on sales of investment in securities	0.5	-	-0.5
Other	-	-	-
<b>Total</b>	<b>0.5</b>	<b>0.1</b>	<b>-0.4</b>

## ■ Extraordinary expenses

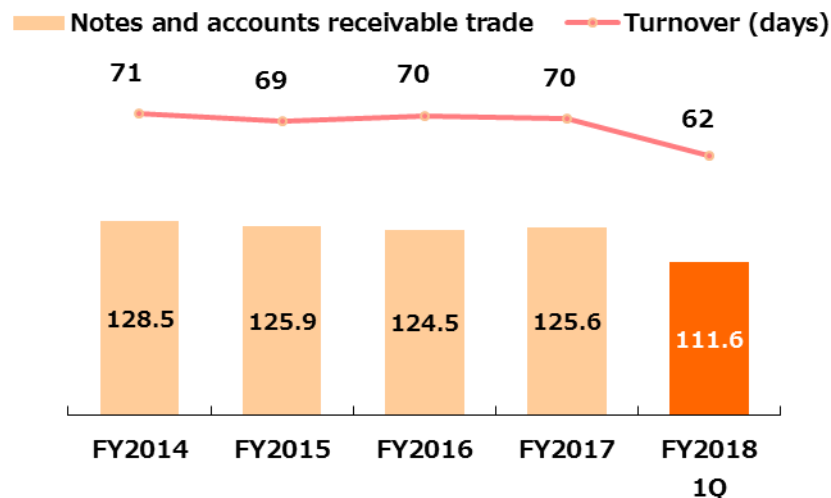
	FY 2017	FY 2018	Changes
	1Q	1Q	1Q
Loss on sales and disposal of fixed assets	0.0	0.1	+0.0
Loss on impairment of fixed assets	-	0.0	+0.0
Loss on valuation of investment securities	0.0	0.1	+0.1
Expenses for restructuring of business bases	-	0.0	+0.0
Other	0.0	0.0	-0.0
<b>Total</b>	<b>0.0</b>	<b>0.2</b>	<b>+0.2</b>

# Balance Sheets

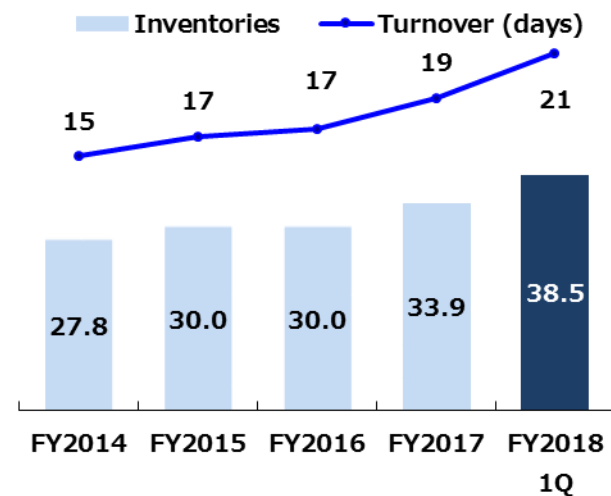
(Billions of Yen)

	Dec. 31 2017	Mar. 31 2018	Changes
<b>Assets</b>	510.8	493.2	-17.6
Current assets	397.5	380.3	-17.3
Cash and deposits	137.0	99.1	-37.8
Notes and accounts receivable	125.6	111.6	-14.1
Inventories	33.9	38.5	4.6
Other (current assets)	101.0	131.1	30.1
Non-current assets	113.3	112.9	-0.4
Property, plant and equipment	75.1	74.3	-0.8
Intangible assets	5.5	5.3	-0.1
Investments and other assets	32.8	33.3	0.6
<b>Liabilities</b>	213.3	197.4	-15.9
Current liabilities	157.4	141.8	-15.6
Notes and accounts payable	100.9	88.2	-12.7
Other (current liabilities)	56.5	53.6	-2.9
Long-term liabilities	55.9	55.6	-0.3
<b>Net assets</b>	297.5	295.8	-1.7
Stakeholders' equity	301.1	299.1	-2.0
(Treasury stock)	-31.9	-31.9	-0.0
Total accumulated other comprehensive income (loss)	-4.1	-3.8	0.3
Non-controlling interests	0.5	0.5	-0.0
<b>Equity ratio</b>	58%	60%	+2%

## Notes and accounts receivable trade

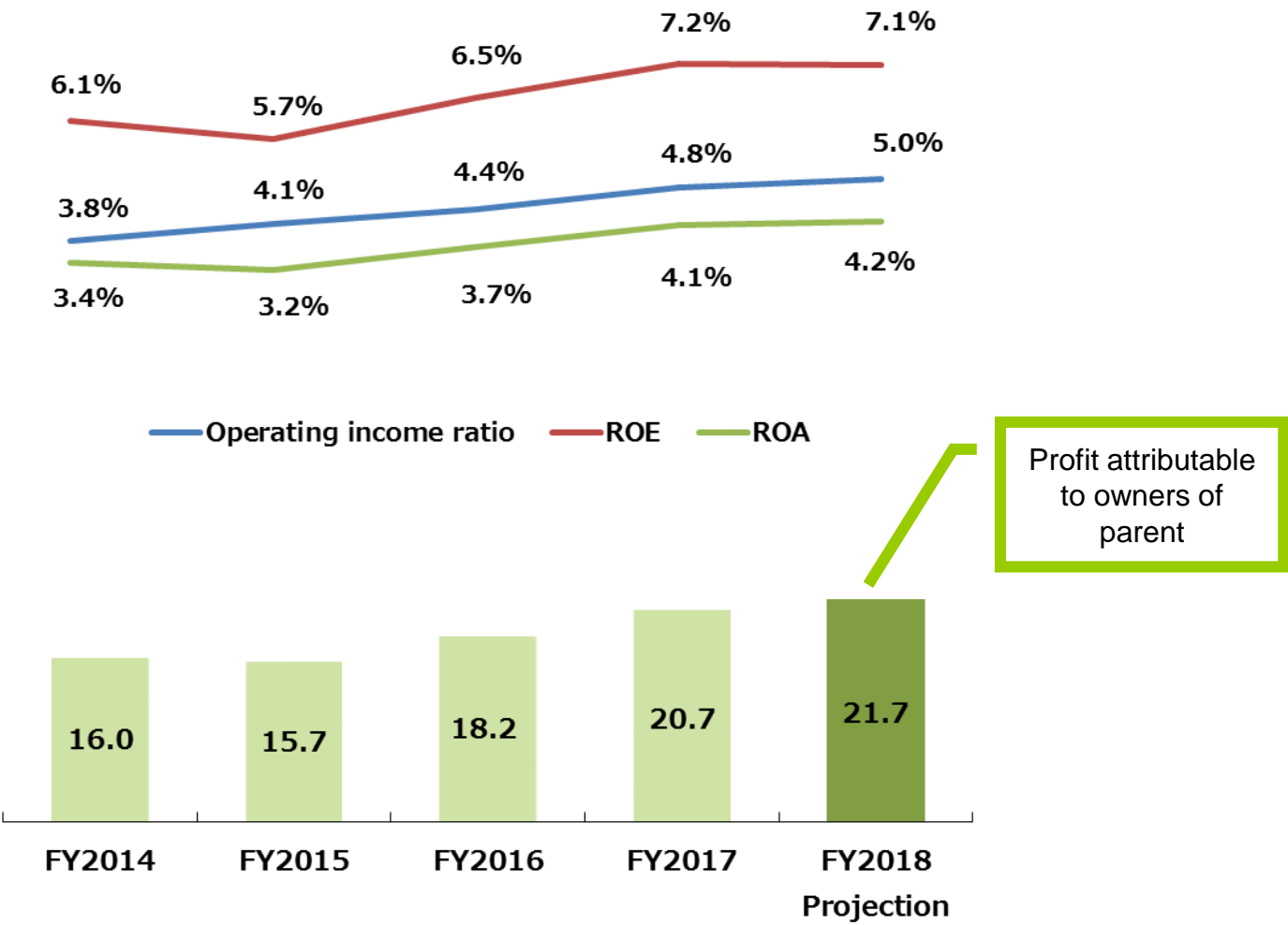


## Inventories



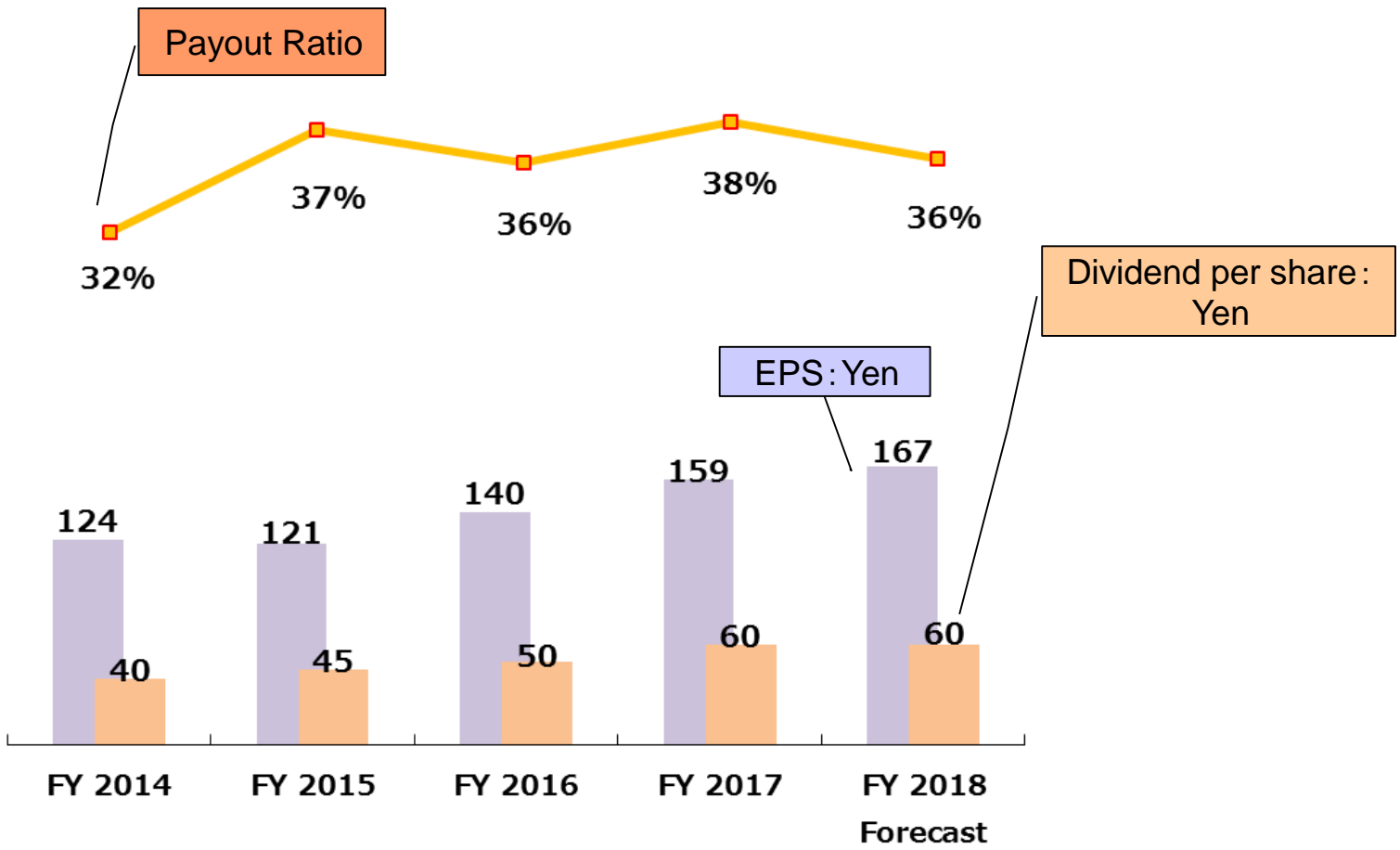
(Billions of Yen)

## Operating income ratio / ROA / ROE





## ■ Payout Ratio / EPS / Dividend per share



(Billions of Yen)

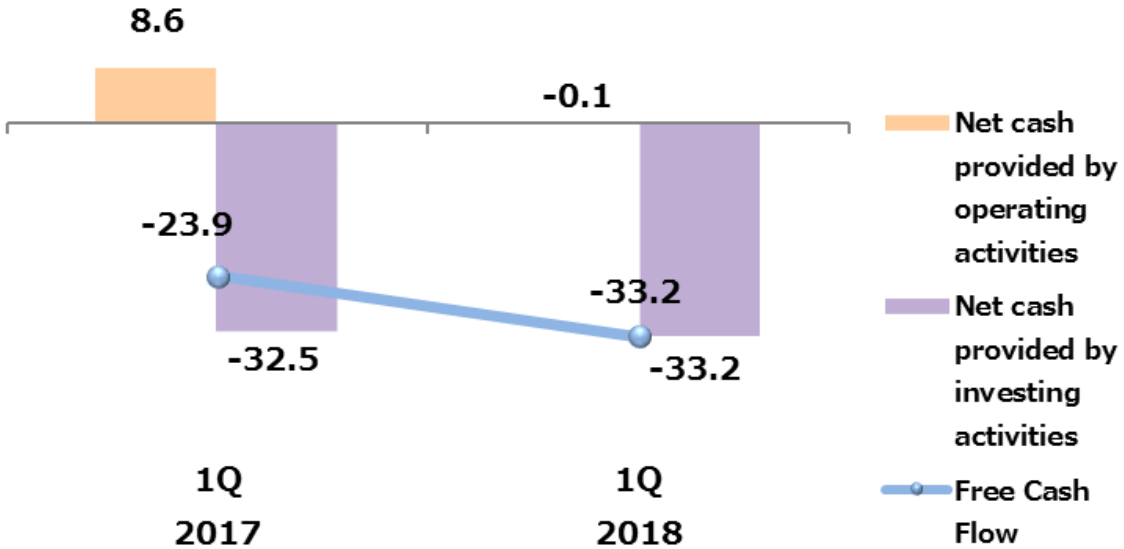
## Investment

	1Q Actual	2Q-4Q Projection	FY Projection
FY2017	2.0	11.7	13.7
FY2018	2.6	21.5	24.1

## Depreciation and amortization

	1Q Actual	2Q-4Q Projection	FY Projection
FY2017	3.5	10.8	14.3
FY2018	3.3	10.4	13.7

## Cash Flow



**Canon**

Canon Marketing Japan Inc.