

FY2018 2Q Results

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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 2018 2Q Results



Net sales **¥149.7 B (Y/Y -1.1B, -1%)**

- ✓ Although we achieved increased sales in each of the Enterprise, Area and Professional segments, the Consumers Segment suffered decreased sales, resulting in lower net sales.

Operating Income **¥5.9 B (Y/Y +0.6B, +12%)**

- ✓ Operating income increased due to company-wide cost-cutting measures and other efforts.

**Profit attributable to
owners of parent** **¥4.9 B (Y/Y +0.5B, +12%)**

1

Although operating income declined substantially in the Consumers segment, a sharp improvement in sales at Canon IT Solutions and cost reductions throughout the company led to increased income.

Summary of Results

2Q 2018 Actual
(from April 1 to June 30)

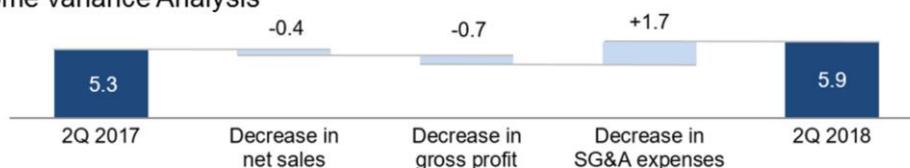


(Billions of yen)

■ Summary of Results

	2Q 2017	2Q 2018	Changes	
			Amount	%
Net sales	150.8	149.7	-1.1	-1%
Gross profit	54.1 (35.9%)	53.0 (35.4%)	-1.1 (-0.4%)	-2%
Operating income	5.3 (3.5%)	5.9 (4.0%)	+0.6 (+0.5%)	+12%
Ordinary income	6.1 (4.0%)	6.9 (4.6%)	+0.8 (+0.6%)	+14%
Profit attributable to owners of parent	4.4 (2.9%)	4.9 (3.3%)	+0.5 (+0.4%)	+12%

■ Op. Income Variance Analysis



2

Although gross profit declined ¥1.1 billion due to the deterioration of the gross profit ratio, chiefly in the Consumers segment, operating income posted a ¥600 million increase due to the reduction of SG&A expenses.

As for SG&A expenses, mainly advertising expenses and personnel expenses decreased.

As for personnel expenses, bonuses etc. linked to business results decreased.

Segment Outline

2Q 2018 Actual
(from April 1 to June 30)



(Billions of yen)

	2Q 2017		2Q 2018		Changes	
	Net sales	Op. Income	Net sales	Op. Income	Net sales	Op. Income
Consumers	38.0	2.3	34.2	1.0	-3.8	-1.2
Enterprise	44.3	1.7	47.5	2.4	+3.2	+0.7
Area	62.8	2.0	63.0	3.1	+0.2	+1.1
Professional	12.2	-0.7	12.5	-0.5	+0.3	+0.2
Other	-6.4	0.1	-7.5	-0.0	-1.1	-0.1
Total	150.8	5.3	149.7	5.9	-1.1	+0.6

Notes

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

Summary of Results

2Q 2018 Actual
(from January 1 to June 30)



(Billions of yen)

Summary of Results

	1Q-2Q 2017	1Q-2Q 2018	Changes	
			Amount	%
Net sales	303.7	300.5	-3.1	-1%
Gross profit	(35.5%) 107.8	(34.9%) 105.0	(-0.6%) -2.8	-3%
Operating income	(3.6%) 11.0	(3.2%) 9.7	(Δ0.4%) -1.3	-12%
Ordinary income	(3.9%) 11.8	(3.7%) 11.0	(+0.2%) -0.8	-7%
Profit attributable to owners of parent	(2.8%) 8.4	(2.5%) 7.4	(Δ0.3%) -0.9	-11%

Op. Income Variance Analysis



Segment Outline

2Q 2018 Actual
(from January 1 to June 30)



(Billions of yen)

	1Q-2Q 2017		1Q-2Q 2018		Changes	
	Net sales	Op. Income	Net sales	Op. Income	Net sales	Op. Income
Consumers	70.6	2.6	61.0	-1.1	-9.6	-3.7
Enterprise	89.2	3.6	94.7	4.8	+5.5	+1.3
Area	131.1	5.5	129.4	6.0	-1.8	+0.6
Professional	25.7	-1.0	29.0	-0.2	+3.2	+0.7
Other	-13.0	0.3	-13.5	0.1	-0.5	-0.2
Total	303.7	11.0	300.5	9.7	-3.1	-1.3

Notes

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

Segment Information Consumers Segment



Net sales : 34.2 B (Y/Y -3.8B, -10%)

➤ While sales of mirrorless cameras increased beyond the growth of the market, digital interchangeable lens cameras overall has decreased. Sales of inkjet printer units has also fallen, resulting in lower net sales.

Operating income 1.0 B (Y/Y -1.2B, -54%)

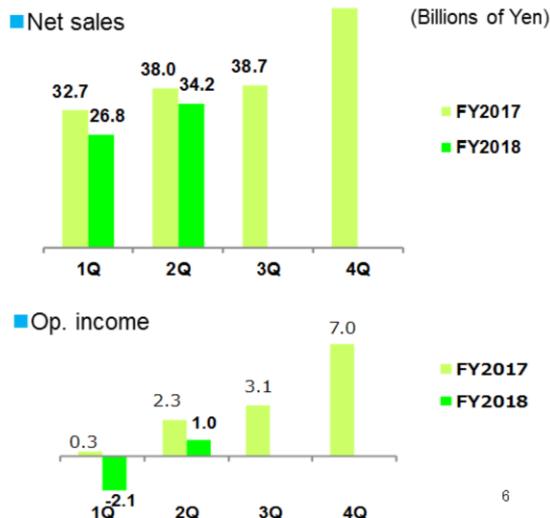
➤ Operating income fell due to declining gross profits associated with lower net sales and decrease in highly profitable products.

■ 2018 Actual v. 2017 Actual

	1Q-2Q 2017	1Q-2Q 2018	Changes
Net sales	70.6	61.0	-9.6
Op. income	2.6	-1.1	-3.7

■ Net sales - Growth rate (Y/Y)

	1Q	2Q	3Q	4Q	FY
FY2018	-18%	-10%			



[Consumers]

(Digital SLR Cameras)

Due to the effects of the downturn in the market and a migration from entry-level digital SLR cameras to mirrorless cameras, the unit volume was down 34% from the previous year.

(Mirrorless Cameras)

“EOS Kiss M” mirrorless cameras remained strong and were up 47% from the previous year.

(Digital Interchangeable Lens Cameras)

Since the ratio of digital SLR cameras is high, unit sales of digital interchangeable lens cameras overall fell 15%.

(Compact Digital Cameras)

Although the market is slow, high unit price, high-zoom models grew and the unit volume was up 1% from the previous year.

(Inkjet Printers)

Although business ink jet printers remained steady, ink jet printers for home use remained sluggish and unit sales were down 23% from the previous year. Sales of ink cartridges fell 2% year on year because the reduction of the print volume continued.

(IT Products)

I gaming PCs and peripherals performed steadily, and sales increased substantially.

Net sales : 47.5 B (Y/Y +3.2B, +7%)

➢ Net sales increased due to the increase in industry-specific solutions for major companies, SI services/data centers from Canon IT Solutions, and so on

Operating income 2.4 B (Y/Y +0.7B, +41%)

➢ Operating income rose due to increased gross profit from higher sales and reduced SG&A expenses, etc.

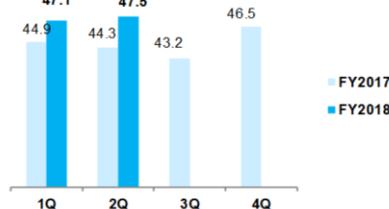
■ 2018 Actual v. 2017 Actual

	1Q-2Q 2017	1Q-2Q 2018	Changes
Net sales	89.2	94.7	+5.5
Op. income	3.6	4.8	+1.3

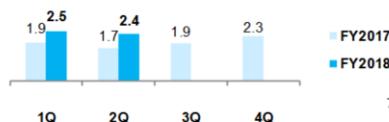
■ Net sales - Growth rate (Y/Y)

	1Q	2Q	3Q	4Q	FY
FY2018	+5%	+7%			

■ Net sales (Billions of Yen)



■ Op. income



(Financial)

Large-scale system integration for credit card providers continued to be steady. We began providing cloud services of investment product sales support systems for Shinkin banks nationwide, and received orders of sales support terminal camera application development projects for life insurers. As a result of these developments, sales for financial institutions increased.

(Manufacturing)

Sales grew due to migration projects for building material manufacturers and demand prediction solutions, etc. for beverage manufacturers and others.

(Distribution)

We achieved an increase in sales to the distribution industry, driven by sales support systems development projects for retailers.

(Education)

In this field, where our main customers are universities, sales increased due to the delivery of large-scale IT infrastructure development projects including in Campus, which provides IT infrastructure systems for in-campus information distribution and learning management, etc.

(Major Business Equipment)

For business equipment in the Enterprise segment, we gained multiple major projects and achieved growth in MFP shipments. Sales of maintenance services grew as well. Laser printers remained low. Cartridge shipments increased mainly for the distribution industry, resulting in increased sales.

[Standalone Performance of Canon IT Solutions]

■ For SI services, we recorded a 7% increase in sales year on year as system development and system integration projects remained steady and migration projects grew.

■ For IT infrastructure services, data center services and security products such as ESET performed strongly, leading to a 1% rise in year-on-year sales.

■ In Engineering, external sales of embedded software and CAD license sales grew, and sales were up 7% year on year.

As a result of these developments, we recorded sales of ¥21.6 billion, a 5% jump over the previous year, and posted ¥1.8 billion in operating income, an increase of ¥500 million.

[Orders and Order Backlog]

For SI services, system integration projects for financial institutions such as credit card providers and banks increased, and there was an increase in order receipts in migration projects. Orders rose 8% and the order backlog rose 22%.

Net sales : 63.0B (Y/Y +0.2B, +0%)

- While there was a fall for major hardware, we recorded a slight increase in net sales thanks to improvement in IT solutions.

Operating income 3.1B (Y/Y +1.1B, +57%)

- Operating income rose due to an increase in gross profit from higher sales from laser printer cartridges, etc. and reduced SG&A expenses.

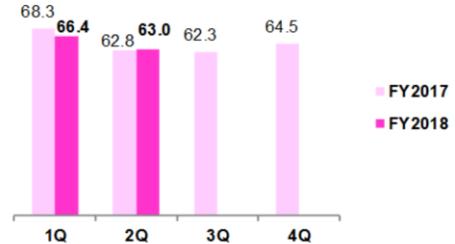
■ 2018 Actual v. 2017 Actual

	1Q-2Q 2017	1Q-2Q 2018	Changes
Net sales	131.1	129.4	-1.8
Op. income	5.5	6.0	+0.6

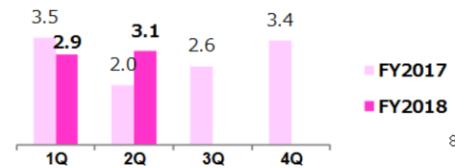
■ Net sales - Growth rate (Y/Y)

	1Q	2Q	3Q	4Q	FY
FY2018	-3%	+0%			

■ Net sales (Billions of Yen)



■ Op. income



<Business Equipment>

Shipments of office MFP units declined due to a decrease in shipments for small-sized businesses. For maintenance services, sales fell slightly due to a drop in unit price. Sales of laser printers declined due to the continuing migration to MFPs and sluggish sales of lot projects. For cartridges, shipments to specific industries remained strong, resulting in increased sales.

<IT Solutions>

The HOME IT support cloud service for small-to-medium-sized businesses and the ESET anti-virus software continued to enjoy strong sales, and IT products including business PCs driven by replacement with Windows 10 and IT support for customers grew, resulting in a rise in sales.

[Canon Systems and Support]

While performance was weak in the area of business equipment, the IT Solution business overall remained steady. Sales increased 1% year over year, to ¥29.1 billion, while operating income recorded a ¥500 million increase, ending at ¥900 million.

Net sales : 12.5 B (Y/Y +0.3B, +3%)

> We recorded increased net sales from steady performance of industrial equipment and visual solutions.

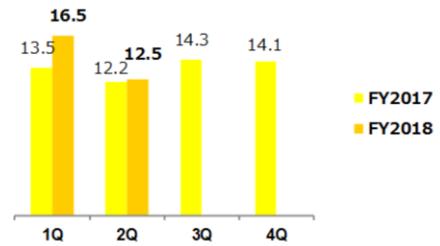
Operating income -0.5 B (Y/Y +0.2B, -%)

> While industrial equipment produced higher income, performance in other sub-segments was sluggish, resulting in reduced operating income.

■ 2018 Actual v. 2017 Actual

	1Q-2Q 2017	1Q-2Q 2018	Changes
Net sales	25.7	29.0	+3.2
Op. income	-1.0	-0.2	+0.7

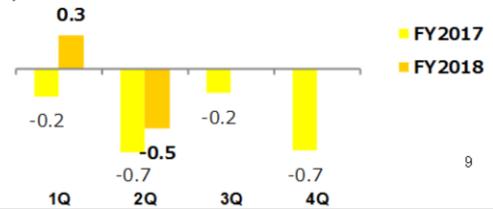
■ Net sales (Billions of Yen)



■ Net sales - Growth rate (Y/Y)

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

■ Op. income



I will explain the status of the sub-segments on the following pages.

■ Net sales - Growth rate (Y/Y)

	FY2018
	2Q Results
Production Printing	-4%
Industrial Equipment	+20%
Healthcare Business	-8%
Visual Solutions	+12%

■ **Production Printing**

We recorded falling sales due to declining performance for high-speed continuous feed printers.

■ **Industrial Equipment**

Healthy performance among new products for semiconductor manufacturing equipment and industrial components, etc. resulted in higher sales.

■ **Healthcare Business**

We recorded lower sales due to sluggish performance for modality projects aimed at hospitals.

■ **Visual Solutions**

While the network camera business declined, we achieved increased sales thanks to strong performance of products for broadcasters.

Overall Sales of IT Solutions



■ Sales of IT Solutions by Segment

(Billions of Yen)

	2Q 2017	2Q 2018	Changes	
			Amount	%
Enterprise segment	27.3	29.9	+2.6	+10%
Area segment	13.4	14.6	+1.2	+9%
Other	3.0	3.4	+0.3	+11%
Total	43.7	47.9	+4.1	+9%

	1Q-2Q 2017	1Q-2Q 2018	Changes	
			Amount	%
Enterprise segment	54.7	60.5	+5.8	+11%
Area segment	28.6	29.7	+1.0	+4%
Other	6.9	7.9	+1.0	+14%
Total	90.2	98.0	+7.9	+9%

■ Reference: Overall IT Security

	Y/Y 2017 vs 2018	
	2Q	1Q-2Q
Overall IT Security Amount	-2%	-1%

11

The IT Solution business in the Enterprise segment and in the Area segment remained favorable.

As for Security, as there was a significant increase in backup solutions in the same quarter of the previous year, and sales decreased year on year. However, ESET, security software for which we are focusing on a rise in sales, remained strong.

Summary of Projections



(Billions of Yen)

- There is no revision of projection for FY2018.

	FY2018	FY2018	Changes		【Reference】		
	Previous projection	Current Projection	Amount	%	FY2017 Actual	Changes	
						Amount	%
Net Sales	645.0	625.0	- 20.0	-3%	632.2	-7.2	-1%
Operating Income	(5.0%) 32.0	(4.6%) 28.5	(-0.4%) - 3.5	-11%	(4.8%) 30.4	(-0.2%) -1.9	-6%
Ordinary Income	(5.1%) 33.0	(4.8%) 30.0	(-0.3%) - 3.0	-9%	(5.0%) 31.5	(-0.2%) -1.5	-5%
Profit attributable to owners of parent	(3.4%) 21.7	(3.2%) 20.2	(-0.1%) - 1.5	-7%	(3.3%) 20.7	(-0.0%) -0.5	-2%

Summary of Projections by Segment



FY2018 Current Projection v. Previous Projection

(Billions of Yen)

	FY2018		FY2018		Changes		
	Previous Projection		Current Projection				
	Net Sales	Op. Income	Net Sales	Op. Income	Net Sales Amount	%	Op. Income
Consumers	163.0	11.6	154.5	9.4	-8.5	-5%	-2.2
Enterprise	183.0	8.5	185.0	8.5	+2.0	+1%	-
Area	261.0	13.2	256.5	11.8	-4.5	-2%	-1.4
Professional	61.0	-1.3	55.5	-1.2	-5.5	-9%	+0.1
Other	-23.0	0.0	-26.5	0.0	-3.5	-	-
Total	645.0	32.0	625.0	28.5	-20.0	-3%	-3.5

Notes

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

13

I will explain the reasons for the revisions by segment later on.

The operating income of each segment has been revised, taking into account the progress up to June and the business outlook in July and beyond.

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
Consumers	166.3	12.7	154.5	9.4	-11.8	-7%	-3.3
Enterprise	178.8	7.7	185.0	8.5	+6.2	+3%	+0.8
Area	257.9	11.4	256.5	11.8	-1.4	-1%	+0.4
Professional	54.1	-1.9	55.5	-1.2	+1.4	+3%	+0.7
Other	-25.0	0.5	-26.5	0.0	-1.5	+6%	-0.5
Total	632.2	30.4	625.0	28.5	-7.2	-1%	-1.9

Notes

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

14

Consumers

- We will aim for a further expansion by actively expanding mirrorless camera sales but this will not cover the drop in DSLR camera sales and we expect poor performance for digital interchangeable lens cameras overall.
- Although we will concentrate on expanding sales of high unit price, high-zoom models for compact digital cameras, due to the downturn in the overall market, we expect a decline in shipments.
- We expect ink jet printer unit shipments to decrease due to factors including a slower replacement cycle, but we will raise the composition of business ink jet printers and high unit price models in an effort to boost profitability.

Enterprise

- For the financial sector, we expect higher sales thanks to strong performance with projects for the insurance and securities sectors.
- We expect strong performance from migration projects in the manufacturing sector to continue. We expect higher sales from increased projects for production control systems and demand forecasting systems, etc.
- At Canon IT Solutions, we expect to boost sales by expanding the SI service, IT infrastructure service and engineering businesses.
- For business equipment, although we expect MFPs to perform on par with the previous year, we forecast an increase for laser printers due to major projects.

15

Supplementary explanation

[Enterprise]

- We have received an order of a large-scale migration project for Kyoto city, and this should contribute to sales in 2H and beyond.
- Although office MFP remained on the rise year on year until Q2, in view of the current status of orders received in 2H, the annual number of shipments is expected to remain at approximately the same level as in the previous year. We have received orders for large projects for customers in the financial industry with regard to laser printers, so we expect a rise in the annual number of shipments of the products compared to the previous year.

Area

- Willingness to invest in IT will continue at high levels for small and medium-sized businesses.
- We will make efforts to expand sales of the HOME cloud service for small and medium-sized businesses and security solutions such as ESET. We also expect to make gains among IT products, primarily business PCs, as well as infrastructure solutions including the building and maintenance of IT systems.
- For office MFPs, we will actively expand sales to mid-level customers with high print volume.

Professional

- Production Printing: For high-speed cut sheet printers, we will focus on low and mid-level machines, and look to new model replacements for high-speed continuous feed printers. Even so, we expect a drop in sales.
- Industrial Equipment: The semiconductor industry continues to show strong results and we expect to see higher sales.
- Healthcare: We predict increased sales due to digital radiography, ophthalmologic equipment and medical IT.
- Visual Solutions: Although we expect a slight decline in the network camera business due to the fall in unit prices of camera units and the impact of transferring projects to other business units, we expect a total increase in sales due to increased demand for upgrades to 4K among broadcasters.

16

Supplementary explanation

[Area]

We expect that small-to-medium-sized businesses will be more willing to invest in IT going forward amid demand for replacement with Windows 10, execution of the government's subsidies for the installation of IT, productivity enhancement and demand for security measures, etc.

[Professional]

(Production Printing)

Some projects are postponed because of a delay in customer inspections of high-speed continuous feed printers.

(Industrial Equipment)

In the non-semiconductor business, we expect effects due to a decrease in sales as a result of the termination of distributorship agreements with some overseas business partners. Meanwhile, we expect the semiconductor market to remain strong.

Canon

Canon Marketing Japan Inc.