

FY2018 2Q Results

July 26, 2018
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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%)

Summary of Results

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

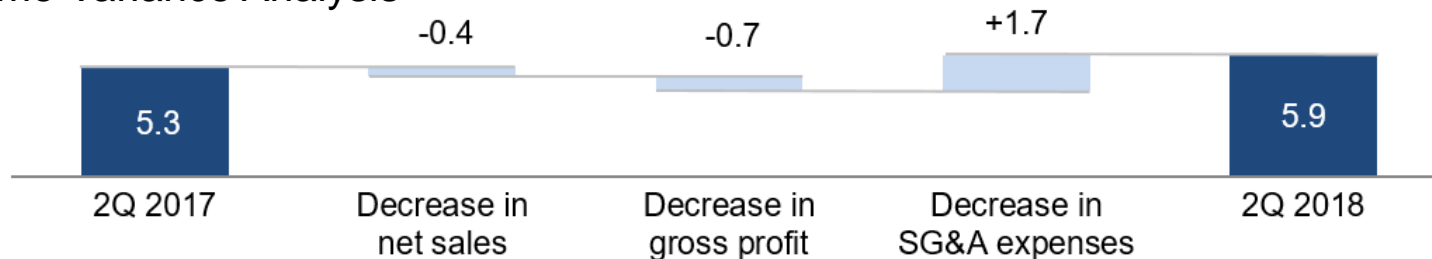


(Billions of yen)

Summary of Results

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

Op. Income Variance Analysis



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)

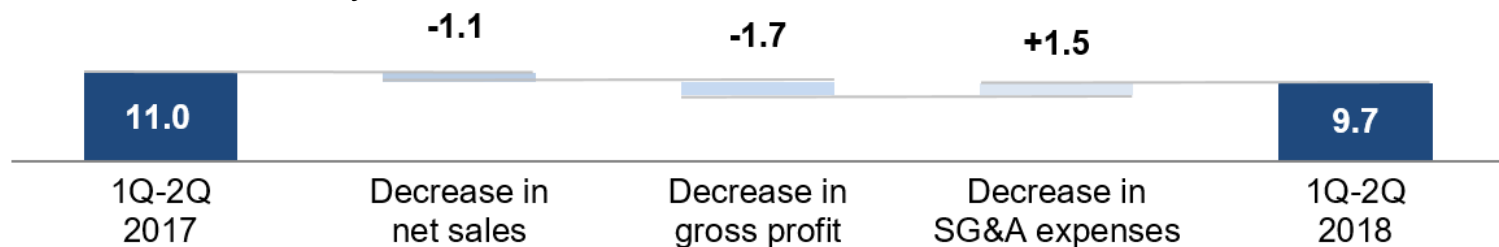


(Billions of yen)

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.

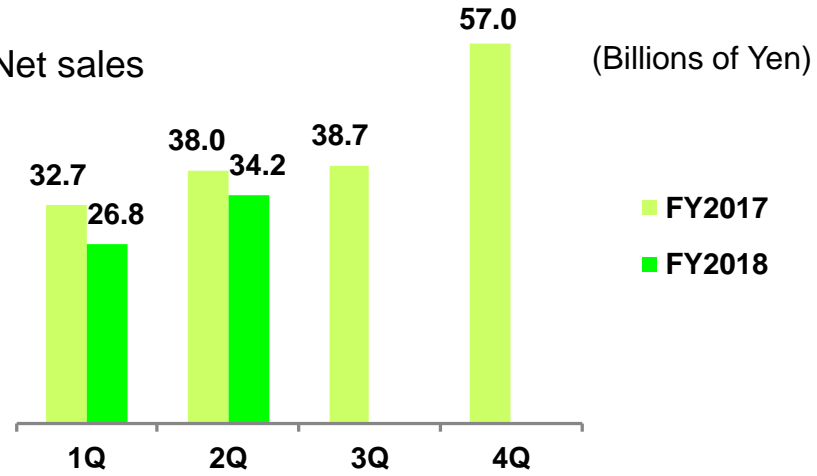
Operating income 1.0 B (Y/Y -1.2B, -54%)

- 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

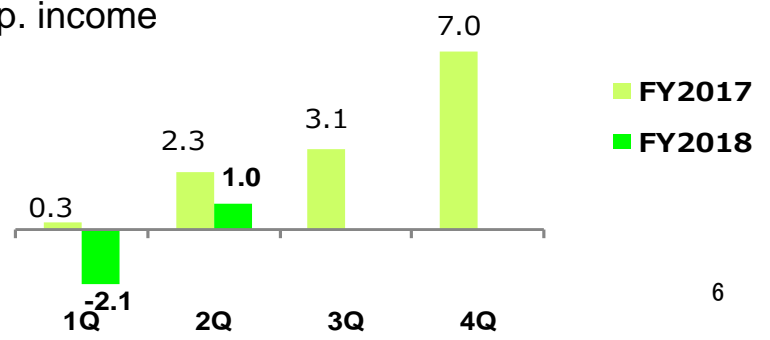
■ Net sales



■ Net sales - Growth rate (Y/Y)

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

■ Op. income



Segment Information **Enterprise Segment**

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

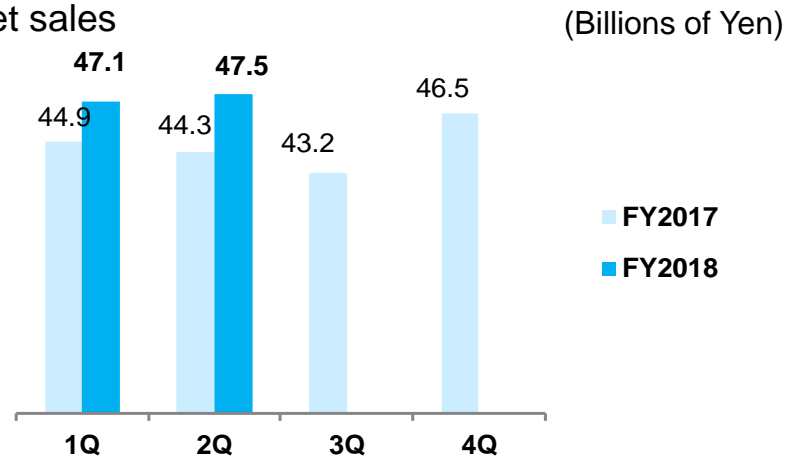
Operating income 2.4 B (Y/Y +0.7B, +41%)

- 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

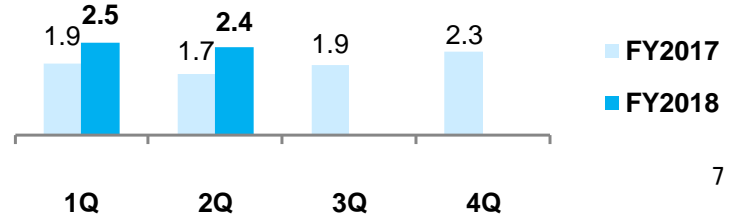
■ Net sales



■ Net sales - Growth rate (Y/Y)

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

■ Op. income



Segment Information Area Segment

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.

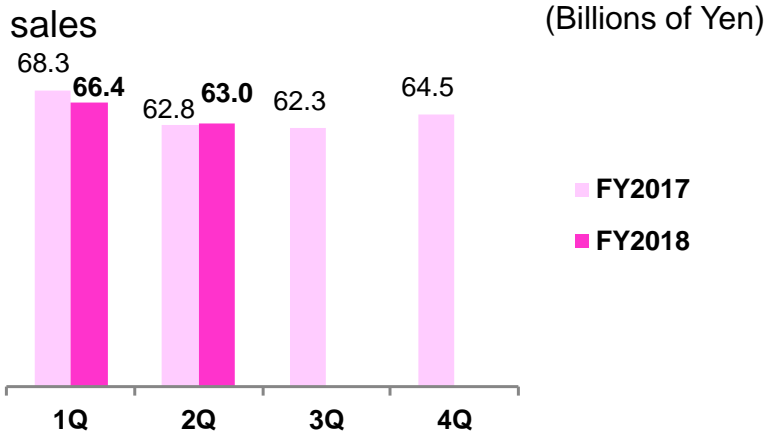
Operating income 3.1B (Y/Y +1.1B, +57%)

- 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

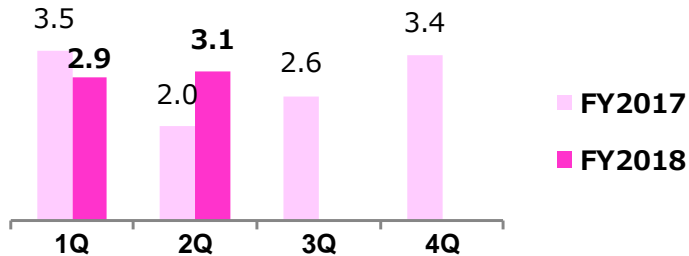
■ Net sales



■ Net sales - Growth rate (Y/Y)

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

■ Op. income



Segment Information Professional Segment



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, -%)

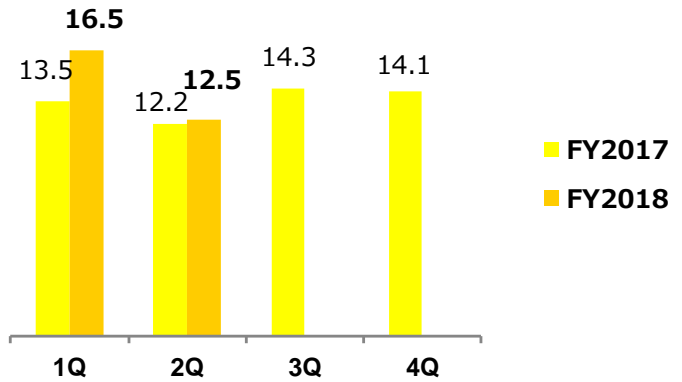
- While industrial equipment produced higher income, performance in other sub-segments was sluggish, resulting in reduced operating income.

■ 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

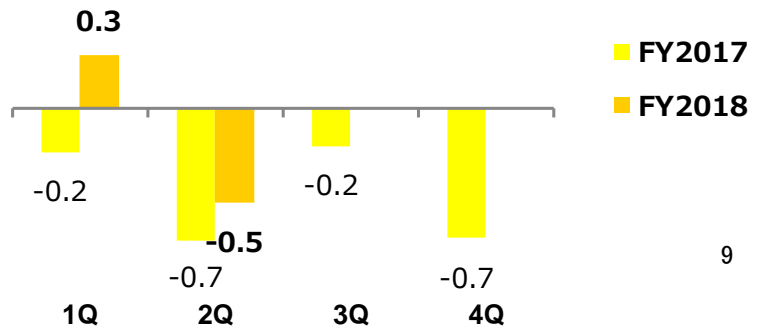
(Billions of Yen)



■ Net sales - Growth rate (Y/Y)

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

■ Op. income



■ 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%

Summary of Projections



■ There is no revision of projection for FY2018.

(Billions of Yen)

	FY2018		Changes		【Reference】		Changes	
	FY2018 Previous projection	FY2018 Current Projection	Amount	%	FY2017 Actual	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.

Summary of Projections by Segment



FY2018 Projection v. FY2017 Actual

(Billions of Yen)

	FY2017		FY2018		Changes		
	Actual		Current Projection				
	Net Sales	Op. Income	Net Sales	Op. Income	Net Sales Amount	%	Op. 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.

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.

Area

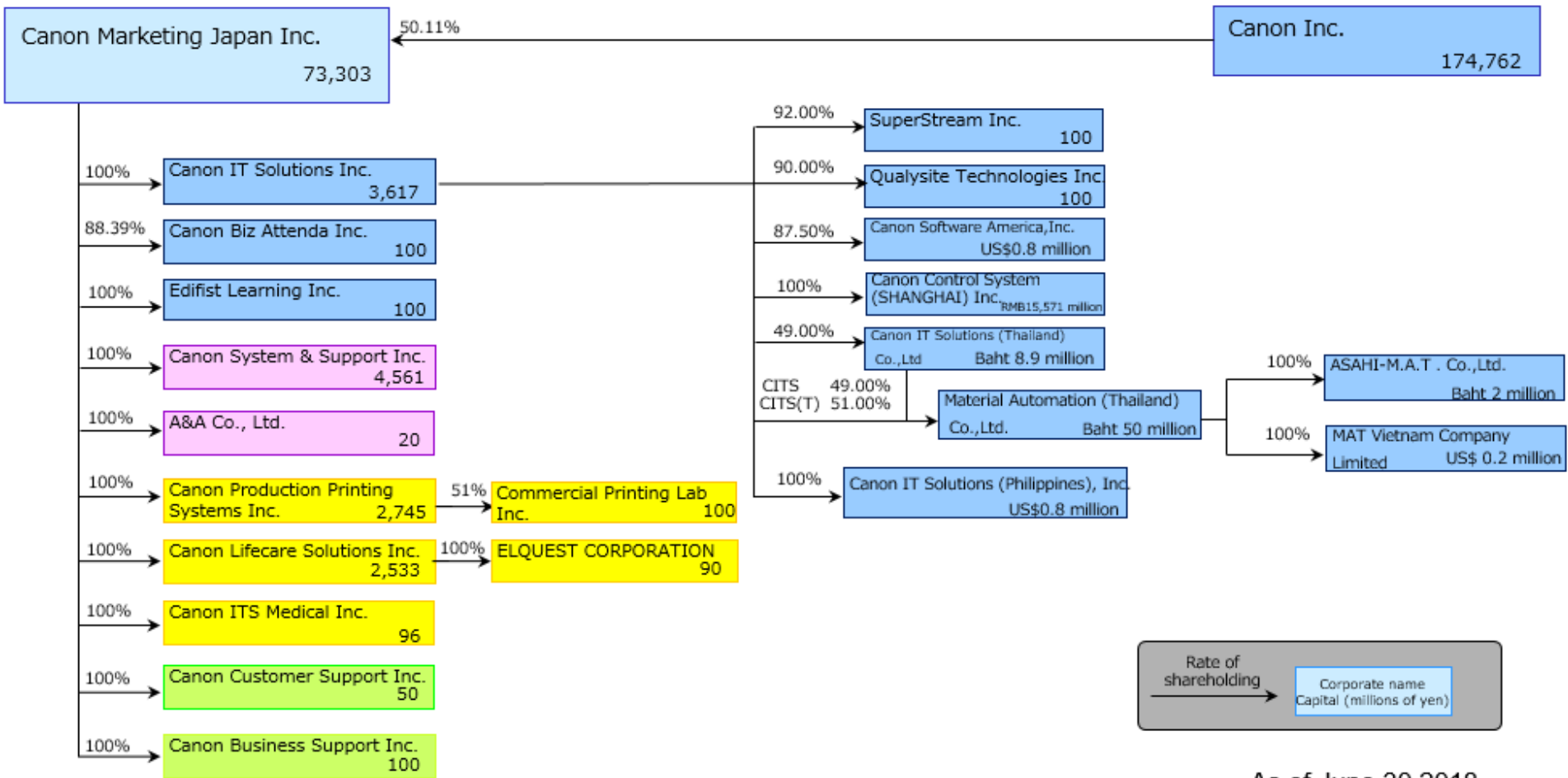
- Willingness to invest in IT will continue at high levels for small and medium-sized businesses.
- We will make efforts to expand sales of the HOME cloud service for small and medium-sized businesses and security solutions such as ESET. We also expect to make gains among IT products, primarily business 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.

Supplementary Information

Capital Relationship Diagram



Rate of shareholding → Corporate name
Capital (millions of yen)

As of June 30, 2018

Results of main consolidated companies



(Billions of Yen)

		2Q FY2017		2Q FY2018		Changes	
						Amount	%
Enterprise							
Canon IT Solutions Inc.	Net sales	20.6		21.6		+1.0	+5%
	Op. income	1.3	(6.2%)	1.8	(8.4%)	+0.5	(+2.2%)
Area							
Canon System & Support Inc.	Net sales	28.8		29.1		+0.3	+1%
	Op. income	0.4	(1.5%)	0.9	(3.2%)	+0.5	(+1.7%)
Professional							
Canon Production Printing Systems Inc.	Net sales	3.5		3.4		-0.1	-4%
	Op. income	-0.0	(-)	-0.0	(-)	-0.0	(-)
Canon Lifecare Solutions Inc.	Net sales	2.9		2.7		-0.2	-6%
	Op. income	-0.1	(-)	0.0	(1.2%)	+0.2	(-)

Results of main consolidated companies



(Billions of Yen)

		1Q-2Q FY2017		1Q-2Q FY2018		Changes	
						Amount	%
Enterprise							
Canon IT Solutions Inc.	Net sales	41.0		43.5		+2.5	+6%
	Op. income	2.6	(6.2%)	3.6	(8.3%)	+1.0	(+2.0%)
Area							
Canon System & Support Inc.	Net sales	61.0		59.7		-1.3	-2%
	Op. income	1.7	(2.7%)	1.7	(2.9%)	+0.1	(+0.2%)
Professional							
Canon Production Printing Systems Inc.	Net sales	6.7		6.3		-0.4	-6%
	Op. income	-0.2	(-)	-0.3	(-)	-0.0	(-)
Canon Lifecare Solutions Inc.	Net sales	6.8		6.1		-0.7	-10%
	Op. income	0.0	(0.2%)	0.2	(2.9%)	+0.2	(+2.7%)

SG&A expenses



(Billions of Yen)

	FY 2017		FY 2018		Changes	
	2Q	1Q-2Q	2Q	1Q-2Q	2Q	1Q-2Q
Advertising expenses	2.3	4.1	1.9	3.8	-0.4	-0.3
Promotion expenses	1.2	2.3	1.1	2.3	-0.0	-0.1
Warranty expenses	1.3	2.7	1.1	2.4	-0.2	-0.3
Other direct selling expenses	5.2	10.2	4.9	9.7	-0.2	-0.5
Personnel expenses	31.0	61.8	30.4	61.9	-0.6	+0.1
Depreciation and amortization	0.5	1.0	0.3	0.6	-0.2	-0.4
Other selling expenses	7.4	14.6	7.3	14.6	-0.1	+0.1
Total	48.8	96.8	47.1	95.3	-1.7	-1.5

Non-operating income and expenses

(Billions of Yen)

■ Non-operating income

	FY 2017		FY 2018		Changes	
	2Q	1Q-2Q	2Q	1Q-2Q	2Q	1Q-2Q
Interest income	0.0	0.1	0.1	0.1	+0.0	+0.0
Dividend income	0.1	0.1	0.1	0.1	+0.0	+0.0
Insurance income	0.5	0.5	0.5	0.5	-0.0	-0.0
Gain on investments in partnership	-	-	0.2	0.5	+0.2	+0.5
Other	0.2	0.3	0.1	0.3	-0.1	-0.0
Total	0.8	1.0	1.0	1.5	+0.2	+0.5

■ Non-operating expenses

	FY 2017		FY 2017		Changes	
	2Q	1Q-2Q	2Q	1Q-2Q	2Q	1Q-2Q
Interest expense	0.0	0.0	0.0	0.0	+0.0	+0.0
Other	0.0	0.1	0.1	0.1	+0.0	+0.0
Total	0.0	0.1	0.1	0.1	+0.0	+0.0

Extraordinary income and expenses

(Billions of Yen)

■ Extraordinary income

	FY 2016		FY 2018		Changes	
	2Q	1Q-2Q	2Q	1Q-2Q	2Q	1Q-2Q
Gain on sales of fixed assets	0.8	0.8	0.0	0.1	-0.8	-0.7
Gain on sales of investments in securities	-	0.5	0.4	0.4	+0.4	-0.1
Gain on sales of shares of subsidiaries and associates	-	-	0.2	0.2	+0.2	+0.2
Other	0.1	0.1	-	-	-0.1	-0.1
Total	0.9	1.4	0.6	0.7	-0.3	-0.7

■ Extraordinary expenses

	FY 2017		FY 2018		Changes	
	2Q	1Q-2Q	2Q	1Q-2Q	2Q	1Q-2Q
Loss on sales and disposal of fixed assets	0.2	0.2	0.1	0.1	-0.1	-0.1
Loss on impairment of fixed assets	-	-	0.0	0.0	+0.0	+0.0
Loss on valuation of investments in securities	-	0.0	-	0.1	-	+0.1
Special extra retirement payments	0.1	0.1	-	-	-0.1	-0.1
Expenses for restructuring of business bases	-	-	-	0.0	-	+0.0
Other	0.0	0.0	0.0	0.0	+0.0	+0.0
Total	0.3	0.3	0.1	0.3	-0.2	-0.1

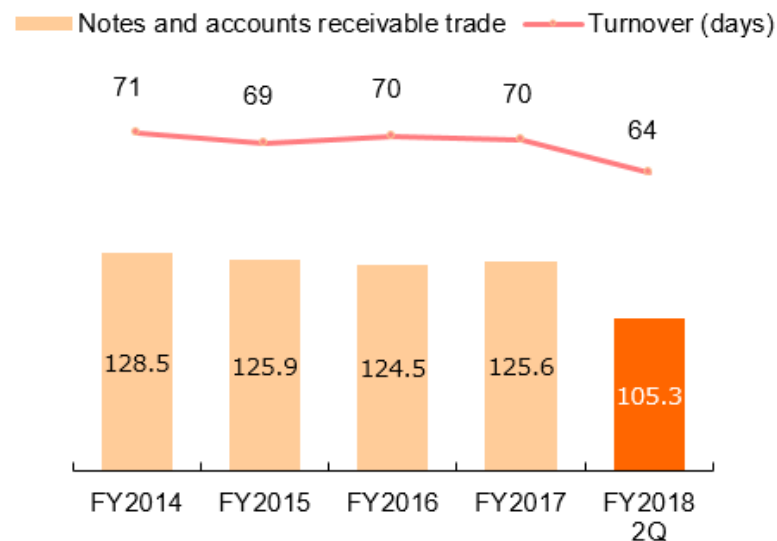
Balance Sheets



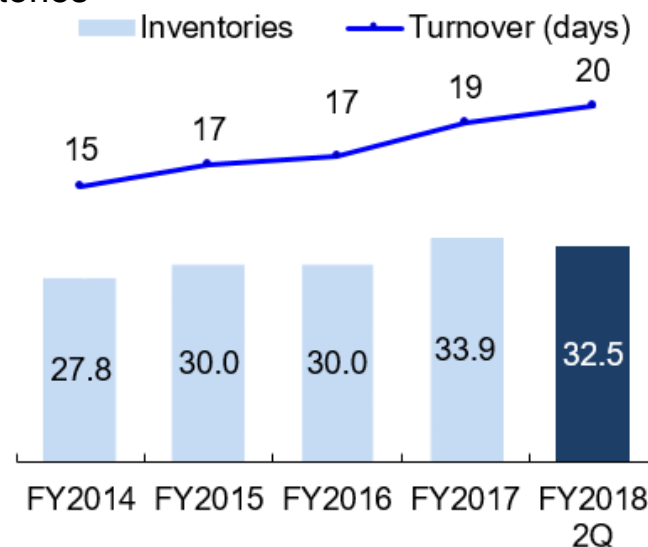
(Billions of Yen)

	Dec. 31 2017	Jun. 30 2018	Changes
Assets	510.8	490.2	-20.7
Current assets	397.5	378.5	-19.0
Cash and deposits	137.0	107.4	-29.5
Notes and accounts receivable	125.6	105.3	-20.4
Inventories	33.9	32.5	-1.4
Other (current assets)	101.0	133.3	+32.3
Non-current assets	113.3	111.6	-1.7
Property, plant and equipment	75.1	74.3	-0.8
Intangible assets	5.5	5.0	-0.5
Investments and other assets	32.8	32.3	-0.4
Liabilities	213.3	188.8	-24.5
Current liabilities	157.4	133.8	-23.6
Notes and accounts payable	100.9	78.6	-22.3
Other (current liabilities)	56.5	55.2	-1.2
Long-term liabilities	55.9	54.9	-1.0
Net assets	297.5	301.4	+3.9
Stakeholders' equity	301.1	304.0	+2.9
(Treasury stock)	-31.9	-31.9	-0.0
Total accumulated other comprehensive income (loss)	-4.1	-3.1	+1.0
Non-controlling interests	0.5	0.5	+0.0
Equity ratio	58%	61%	+3%

Notes and accounts receivable trade

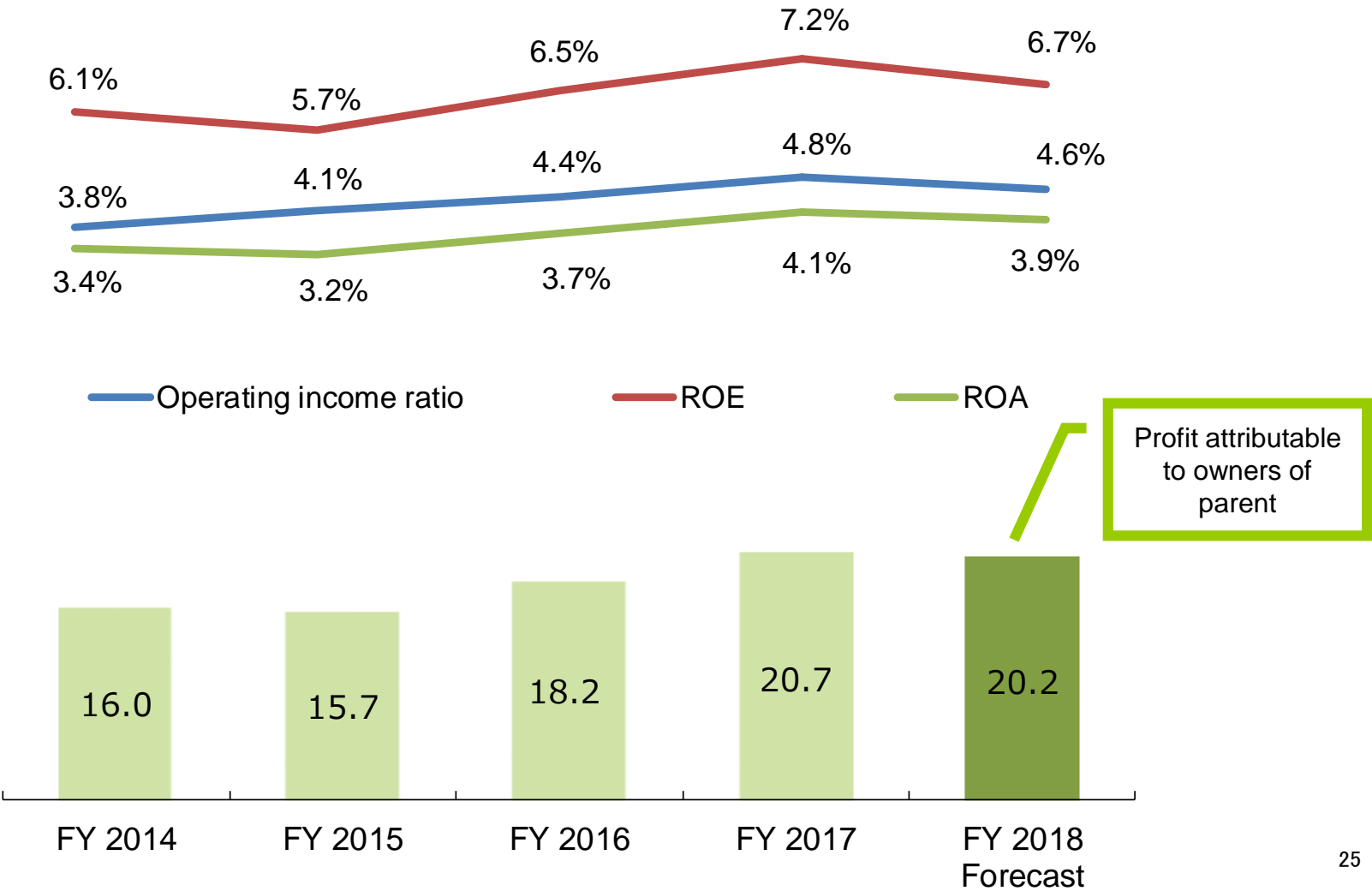


Inventories

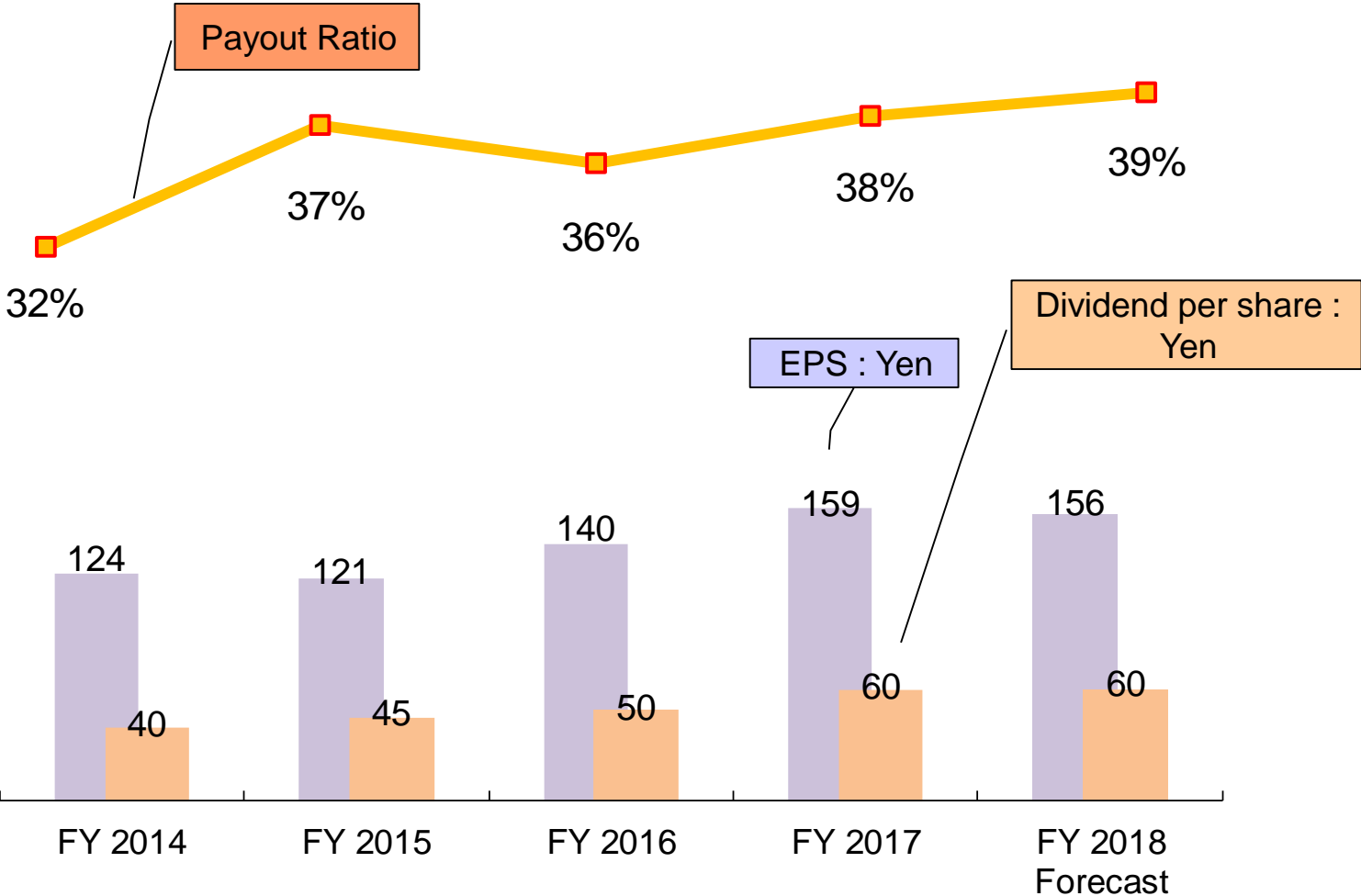


(Billions of Yen)

■ Operating income ratio / ROA / ROE



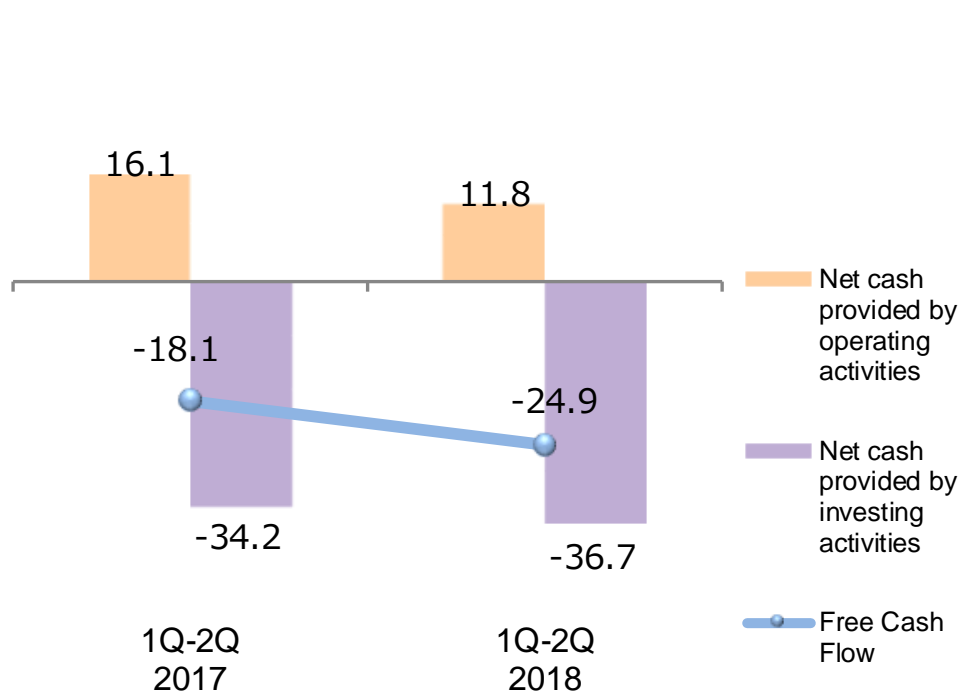
■ Payout Ratio / EPS / Dividend per share



Financial Indicator

(Billions of Yen)

Cash Flow



Investment

	1Q-2Q Actual	3Q-4Q Projection	FY Projection
FY 2017	6.2	7.5	13.7
FY 2018	5.9	10.7	16.5

Depreciation and amortization

	1Q-2Q Actual	3Q-4Q Projection	FY Projection
FY 2017	7.1	7.2	14.3
FY 2018	6.7	6.8	13.4

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