

FY2018 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 Results

4Q 2018 Actual

(from October 1 to December 31)



(Billions of yen)

Summary of Results

	4Q 2017	4Q 2018	Changes	
			Amount	%
Net sales	175.9	173.7	-2.3	-1%
Gross profit	(34.8%) 61.2	(35.2%) 61.1	(+0.4%) -0.1	-0%
Operating income	(6.8%) 12.0	(7.5%) 13.0	(+0.7%) +1.0	+9%
Ordinary income	(6.9%) 12.2	(7.6%) 13.2	(+0.7%) +1.1	+9%
Profit attributable to owners of parent	(4.6%) 8.2	(5.3%) 9.3	(+0.7%) +1.1	+14%

Op. Income Variance Analysis



Segment Outline

4Q 2018 Actual
(from October 1 to December 31)

Canon

(Billions of yen)

	4Q 2017		4Q 2018		Changes	
	Net sales	Op. Income	Net sales	Op. Income	Net sales	Op. Income
Consumers	57.0	7.0	53.9	7.0	-3.1	-0.0
Enterprise	46.5	2.3	48.6	2.9	+2.1	+0.6
Area	64.5	3.4	65.1	3.8	+0.6	+0.4
Professional	14.1	-0.7	12.4	-0.3	-1.7	+0.4
Other	-6.1	0.1	-6.4	-0.2	-0.3	-0.3
Total	175.9	12.0	173.7	13.0	-2.3	+1.0

Notes

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

*2 Starting from the third quarter of 2018, the reporting segment for Canon BizAttenda Inc., which had been included in "Enterprise", was changed to "Other." As a result of the change, results for fiscal 2017 and the first and second quarters of FY2018 have been reclassified. ³

Summary of Results

FY 2018 Actual
(from January 1 to December 31)

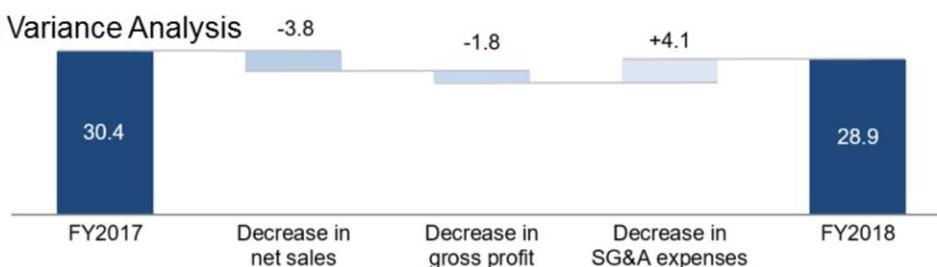


(Billions of yen)

Summary of Results

	FY 2017	FY 2018	Changes	
			Amount	%
Net sales	632.2	621.6	-10.6	-2%
Gross profit	(35.4%) 223.8	(35.1%) 218.2	(-0.3%) -5.6	-3%
Operating income	(4.8%) 30.4	(4.7%) 28.9	(-0.2%) -1.5	-5%
Ordinary income	(5.0%) 31.5	(4.9%) 30.5	(-0.1%) -1.0	-3%
Profit attributable to owners of parent	(3.3%) 20.7	(3.4%) 20.8	(+0.1%) +0.1	+1%

Op. Income Variance Analysis



4

Profit attributable to owners of parent increased due to the booking of an impairment loss in non-current assets and the loss on non-current assets in the previous fiscal year.

Segment Outline

FY 2018 Actual
(from January 1 to December 31)



(Billions of yen)

	FY 2017		FY 2018		Changes	
	Net sales	Op. Income	Net sales	Op. Income	Net sales	Op. Income
Consumers	166.3	12.7	150.2	7.3	-16.0	-5.3
Enterprise	177.6	7.7	187.7	9.6	+10.1	+1.9
Area	257.9	11.4	255.9	13.0	-2.0	+1.6
Professional	54.1	-1.9	52.4	-0.9	-1.7	+0.9
Other	-23.8	0.4	-24.7	-0.1	-0.9	-0.5
Total	632.2	30.4	621.6	28.9	-10.6	-1.5

Notes

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

*2 Starting from the third quarter of 2018, the reporting segment for Canon BizAttenda Inc., which had been included in "Enterprise", was changed to "Other." As a result of the change, results for fiscal 2017 and the first and second quarters of FY2018 have been reclassified. ⁵

Net sales : 53.9 B (Y/Y -3.1B, -5%)

- Although mirrorless cameras remained steady, sales of digital interchangeable lens cameras declined overall. Inkjet printer sales also remained weak, resulting in decreased sales for the segment overall.

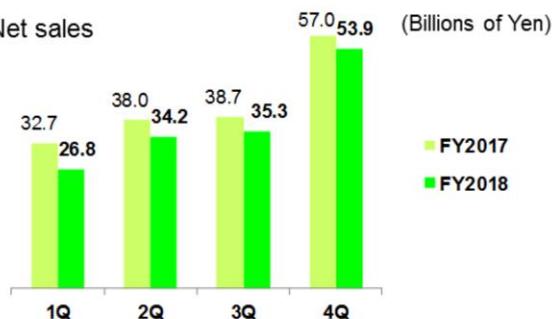
Operating income 7.0 B (Y/Y -0.0B, -0%)

- We took steps to focus on higher-priced products and reduce SG&A expenses, resulting in operating income remaining at the same level.

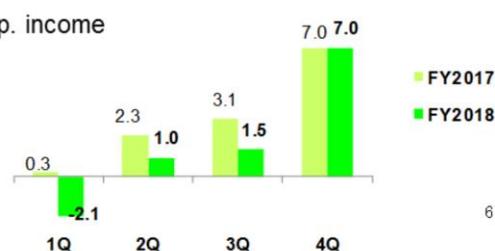
■ 2018 Actual v. 2017 Actual

	FY 2017	FY 2018	Changes
Net sales	166.3	150.2	-16.0
Op. income	12.7	7.3	-5.3

■ Net sales



■ Op. income



■ Net sales - Growth rate (Y/Y)

	1Q	2Q	3Q	4Q	FY
FY2018	-18%	-10%	-9%	-5%	-10%

[Consumer]

(Digital SLR Cameras)

The number of units sold was down by 30% year on year due to the growing trend toward mirrorless cameras and the sluggish market affected by the shrinking of the market.

(Mirrorless Cameras)

The number of units sold increased by 20% year on year due to increases in the EOS Kiss M and the full-size mirrorless camera EOS R.

(Compact Digital Cameras)

The number of units sold increased by 10% year on year due to fewer competitors and an increase in sales of high magnification models.

(Inkjet Printers)

The number of shipments decreased by 9% year on year due to the sluggish market resulting from a decline in demand. Moreover, sales of ink cartridges also decreased by 1% year on year.

(IT Products)

Gaming PCs and mobile batteries, etc. remained favorable, resulting in higher sales.

Segment Information Enterprise Segment



Net sales : 48.6 B (Y/Y +2.1B, +5%)

➤ The solution business expanded, mainly for the financial and manufacturing sectors. The SI and data center businesses also remained strong, resulting in increased sales.

Operating income 2.9B (Y/Y +0.6B, +27%)

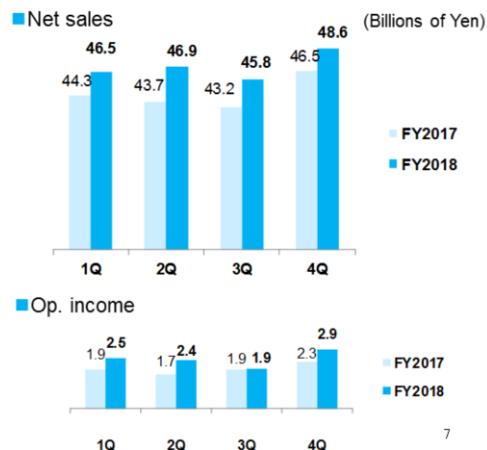
➤ We secured an increase in income from the increase in gross profits attributable to the higher sales and reductions in SG&A expenses.

■ 2018 Actual v. 2017 Actual

	FY 2017	FY 2018	Changes
Net sales	177.6	187.7	+10.1
Op. income	7.7	9.6	+1.9

■ Net sales - Growth rate (Y/Y)

	1Q	2Q	3Q	4Q	FY
FY2018	+5%	+7%	+6%	+5%	+6%



7

(Financial)

Sales increased due to strong performance in solutions specializing in industry such as risk management system projects for non-life insurers, and MFP large projects for banks.

(Manufacturing)

Sales increased due to order receipts of demand forecast system projects for beverage makers and large network camera projects for plants.

(Other)

In the Distribution/Education Sectors, sales declined due to a reaction to large projects in the same period of the previous fiscal year, but those for the Public Sector increased thanks to large-scale migration projects or large-scale hardware projects. In addition, IT products, mainly business PCs, continued to remain steady, resulting in a substantial increase in sales.

(Major Business Equipment)

Shipments of MFPs themselves declined due to a backlash from large rental projects in the previous fiscal year.

Sales of maintenance services increased slightly year on year due to a rise in useware and hardware installation-related services.

Further to 3Q, the number of laser printers sold rose sharply due to multiple large projects, etc. Cartridges remained at about the same level as the previous fiscal year.

[Non-consolidated results of CITS]

■ SI services remained strong for the Financial Sector/the Manufacturing Sector/the Public Sector, resulting in a 10% increase in sales year on year.

■ IT infrastructure services posted a 1% decrease in sales year on year due to a backlash from large projects in the previous fiscal year, despite a strong performance in data center services or security products, including ESET, etc.

■ Sales of engineering decreased by 4% year on year due to a decline in engineering for specific clients in the Manufacturing Sector, although external sales of embedded software or license sales of CAD, etc. continued to be steady.

[Orders and Order Backlog]

Orders posted an 18% increase and Order Backlog recorded an 11% rise due to rises in SI for multiple financial institutions or large infrastructure establishing projects, showing strong performance.

Segment Information Area Segment



Net sales : 65.1 B (Y/Y +0.6B, +1%)

➢ Although main hardware remained sluggish, IT solutions continued to increase, resulting in higher sales.

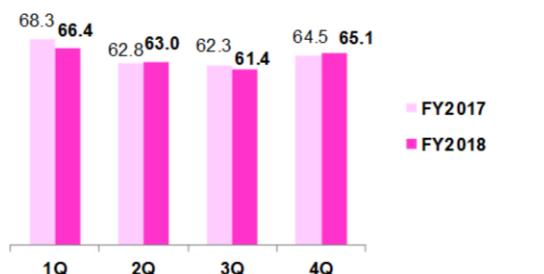
Operating income 3.8 B (Y/Y +0.4B, +11%)

➢ We secured an increase in income following an increase in gross profits attributable to higher sales and reductions SG&A expenses.

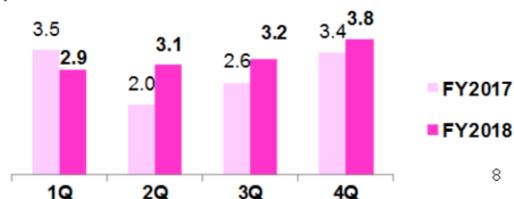
■ 2018 Actual v. 2017 Actual

	FY 2017	FY 2018	Changes
Net sales	257.9	255.9	-2.0
Op. income	11.4	13.0	+1.6

■ Net sales (Billions of Yen)



■ Op. income



■ Net sales - Growth rate (Y/Y)

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

<Business Equipment>

The number of Office MFPs sold declined due to a decrease in shipments to small-sized corporate customers, although shipments to medium-sized corporate customers upon which we focus increased. Sales of maintenance services decreased slightly due to a drop in maintenance unit prices, although print volumes increased due to a rise in the number of units operating in the market.

The number of laser printers sold declined year on year due to a decrease in large projects, etc. The number of cartridges sold decreased due to a reaction to the rush demand before price revisions in 3Q.

<IT Solutions>

Small- and medium-sized companies made active investments in IT to enhance productivity, work style reform, and the reinforcement of security. As a result, mainly sales at Canon System and Support rose. 4Q continued to see strong replacement demand for business PCs and a sharp increase in IT products. At the same time, the PC setup business and IT services including the disaster recovery of networks/equipment increased as well.

The IT support solution “HOME” for offices of small- and medium-sized companies in response to the growing demand for Microsoft Office 365 rose substantially.

As a result, sales of IT Solutions in the segment increased.

[Canon Systems and Support]

Although business equipment remained weak, the IT solution business continued to be favorable. Sales came to 29.2 billion yen, a 1% sales increase year on year. Operating income was 1.2 billion yen, 0.1 billion higher than the previous fiscal year due to a reduction in SG&A expenses.

Net sales : 12.4 B (Y/Y -1.7B, -12%)

➢ We recorded a decline in sales given a poor performance in Production Printing and Industrial Equipment.

Operating income -0.3 B (Y/Y +0.4B, -%)

➢ Operating income rose mainly due to the improved gross profit ratio and the reduction in SG&A expenses.

■ 2018 Actual v. 2017 Actual

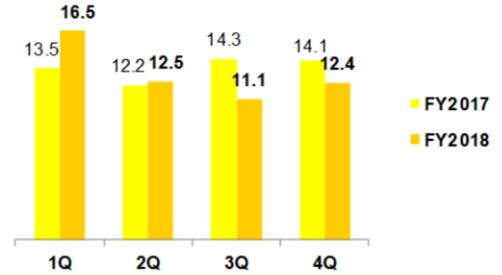
	FY 2017	FY 2018	Changes
Net sales	54.1	52.4	-1.7
Op. income	-1.9	-0.9	+0.9

■ Net sales - Growth rate (Y/Y)

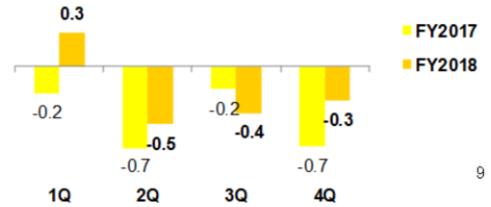
	1Q	2Q	3Q	4Q	FY
FY2018	+22%	+3%	-23%	-12%	-3%

■ Net sales

(Billions of Yen)



■ Op. income



■ Net sales - Growth rate (Y/Y)

	FY2018
	4Q Results (from October 1 to December 31)
Production Printing	-15%
Industrial Equipment	-38%
Healthcare Business	+10%
Visual Solutions	+0%

■ **Production Printing**

We posted lower sales due to a decline in high-speed continuous feed printers and high-speed cut sheet printers.

■ **Industrial Equipment**

We recorded lower sales due to the settlement of installments for main clients in the semiconductor sector and the termination of a sales distributorship agreement with an overseas client in the non-semiconductor sector.

■ **Healthcare Business**

We recorded higher sales due to expanded medical information systems, etc.

■ **Visual Solutions**

While the network camera business increased, sales remained almost unchanged due to a decline in businesses for broadcasters.

10

[Professional] Sub-segment

Supplementary explanation

(Industrial Equipment)

It is feared that the business environment surrounding the industry will deteriorate in 2019. However, we will continue to expand our business, contributing to solving clients' issues while expanding our products and services.

(Visual Solutions)

Although network camera businesses saw higher sales due to the market development by our partners or the capturing of large projects, businesses for broadcasters declined.

Overall Sales of IT Solutions

(Billions of Yen)

■ Sales of IT Solutions by Segment

	4Q 2017	4Q 2018	Changes	
			Amount	%
Enterprise segment	28.9	31.1	+2.2	+8%
Area segment	12.8	14.5	+1.7	+13%
Other	5.8	6.5	+0.7	+12%
Total	47.5	52.1	+4.6	+10%

	FY 2017	FY 2018	Changes	
			Amount	%
Enterprise segment	108.5	119.0	+10.4	+10%
Area segment	54.8	58.1	+3.3	+6%
Other	18.7	20.6	+1.9	+10%
Total	182.0	197.7	+15.7	+9%

■ Reference: Overall IT Security

	YY 2017 vs 2018	
	4Q	1Q-4Q
Overall IT Security Amount	+9%	+2%

11

IT solutions remained steady both for major companies and small to medium-sized companies.

In 4Q, the security business saw a 9% sales increase year on year due to a continuous increase in ESET or the strong performance of firewall equipment.

Summary of Projections

(Billions of Yen)

	FY2019 Projection	【Reference】	Changes	
		FY2018 Actual	Amount	%
Net Sales	622.0	621.6	+0.4	+0%
Operating Income	(4.9%) 29.5	(4.7%) 28.9	(+0.1%) +0.6	+2%
Ordinary Income	(4.9%) 30.7	(4.9%) 30.5	(-0.0%) +0.2	+1%
Profit attributable to owners of parent	(3.4%) 20.9	(3.4%) 20.8	(+0.0%) +0.1	+0%

Comparison of impact by reclassification of actual results for 2018



FY2018 Before reclassification v. After reclassification (Billions of Yen)

	FY2018		FY2018		Net Sales Amount	Op. Income
	Before reclassification		After reclassification			
	Net Sales	Op. Income	Net Sales	Op. Income		
Consumers	150.2	7.3	150.2	7.3	-	+0.0
Enterprise	187.7	9.6	188.2	8.7	+0.5	-0.9
Area	255.9	13.0	257.6	12.1	+1.7	-0.9
Professional	52.4	-0.9	46.4	0.9	-6.0	+1.8
Other	-24.7	-0.1	-20.8	-0.1	+3.9	+0.0
Total	621.6	28.9	621.6	28.9	-	-

Notes

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

*2 Starting from the third quarter of 2018, the reporting segment for Canon BizAttenda Inc., which had been included in "Enterprise", was changed to "Other." As a result of the change, the first and second quarters of FY2018 have been reclassified.

*3 Visual Solutions, a sub-segment of the Professional segment was transferred to the Enterprise and Area segments in 1Q, 2019.

In addition, security businesses that were spread out in the Group were consolidated into the non-consolidated Canon Marketing Japan, ¹³ resulting in changes in the amount of the inter-segment transactions.

Before the annual forecast by segment, I will explain the main impacts of the segment transfer that were generated by the restructure of the Group dated January 2019 for business expansion.

Of Visual Solutions under the Professional Segment, the network camera division was transferred to each segment of the Enterprise Segment and the Area Segment, and the imaging solution division, consisting of broadcasting equipment, etc., was transferred to the Enterprise Segment.

Moreover, the development/planning of security products mainly at Canon IT Solutions Inc. was transferred to the non-consolidated Canon Marketing Japan and established a structure that enabled business development in every channel in order to expand security business sales under the unified strategy in the Group.

Accordingly, please be aware that the figures of the results for 2018 will be replaced by the ones you are seeing now after the reclassification.

Summary of Projections by Segment



FY2019 Projection v. FY2018 Actual

(Billions of Yen)

	FY2018		FY2019		Changes		
	Actual		Projection		Net Sales		Op.
	Net Sales	Op. Income	Net Sales	Op. Income	Amount	%	Income
Consumers	150.2	7.3	138.8	6.9	-11.4	-8%	-0.4
Enterprise	188.2	8.7	190.0	9.7	+1.8	+1%	+1.0
Area	257.6	12.1	262.9	12.1	+5.3	+2%	+0.0
Professional	46.4	0.9	48.7	1.1	+2.3	+5%	+0.2
Other	-20.8	-0.1	-18.4	-0.3	+2.4	-%	-0.2
Total	621.6	28.9	622.0	29.5	+0.4	+0%	+0.6

Notes

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

*2 Starting from the third quarter of 2018, the reporting segment for Canon BizAttenda Inc., which had been included in "Enterprise", was changed to "Other." As a result of the change, the first and second quarters of FY2018 have been reclassified.

*3 Visual Solutions, a sub-segment of the Professional segment was transferred to the Enterprise and Area segments in 1Q, 2019.

In addition, security businesses that were spread out in the Group were consolidated into the non-consolidated Canon Marketing Japan, ¹⁴ resulting in changes in the amount of the inter-segment transactions.

Consumers

- While we make efforts for further expansion of sales of mirrorless cameras, net sales are expected to be 138.8 billion yen, 8% decrease year on year due to the declining performance for DSLR cameras and inkjet printers.
- While we aim to focus on high-value added products and reduce SG&A expenses, operating income is expected to come to 6.9 billion yen, down by 0.4 billion yen year on year.

Enterprise

- We forecast that net sales will be 190.0 billion yen, up 1% year on year due to a continuous increase in solutions for the financial and manufacturing sectors and businesses for SI/data center services/security, although net sales for main hardware are likely to decline.
- Operating income is expected to come to 9.7 billion yen, an 1 billion yen increase year on year, reflecting the provision of high-value added solutions and the raising of the stock ratio in the IT Solutions business.

15

Supplementary explanation

[Consumer]

Mirrorless cameras have remained steady so far. We will keep the momentum going in 2019 as well, make efforts for active sales expansion and aim for 5% growth year on year in terms of the number of units sold.

Meanwhile, digital SLR cameras are expected to decrease by 26% year on year in terms of the number of units sold because there is a growing trend toward mirrorless cameras and the market keeps shrinking.

Compact cameras are expected to decline by 22% year on year, given the impact of the market contraction.

As for inkjet printers, we will aim to raise the unit price by striving for the sales expansion of business inkjet printers, including high-capacity tank models. That said, since the home-use inkjet printer market is expected to be slow, a 5% year-on-year decrease is expected in terms of the number of units sold. As for inkjet cartridges, we forecast a 5% year-on-year decrease on a sales basis resulting from a decline in home-use inkjet printers.

[Enterprise]

- Sales from the Financial Sector are expected to increase because industry solutions or development projects such as in insurance/securities businesses will remain strong and large projects for laser printers are expected, although large projects for banks have settled down.

- Sales from the Manufacturing Sector are also expected to rise because the number of inquiries of our strong areas is on the increase. Such areas include production management systems or demand forecast systems, and individual operational solutions, migrations, etc.

- At Canon IT Solutions, our affiliate, higher sales are expected because SI services as mentioned just before remain favorable and the service businesses such as data centers and network outsourcing, ESET, are likely to expand in the IT infrastructure service business. Moreover, sales from the engineering business are expected to increase because we will drive forward a shift to external sales of the embedded business, mainly in automotive products, and the expansion of the 3D solution business in the design/manufacturing field is expected to increase.

- As for main business equipment, MFPs are expected to decline year on year. However, LBPs are expected to increase year on year due to lot projects for the Financial Sector, further to last year.

As a result, we forecast that sales will be 190 billion yen, a 1% increase year on year, and operating income is expected to be 9.7 billion yen, 1 billion yen higher than the previous fiscal year due to an increase in gross profits resulting from a rise in high value-added solutions and IT stock.

Area

- Net sales are expected to be 262.9 billion yen, a 2% increase year on year due to the increased sales with the release of new Office MFP and sales expansion in IT Solutions.
- The consumables business is likely to be affected by the reduced number of operating days than the previous year, although highly profitable business such as IT maintenance services, etc. will increase. Moreover, partly due to the increase in expenses associated with an increase in MFP shipments, operating income is expected to come to 12.1 billion yen, about the same level as the previous year.

Professional

- Production Printing : The segment is expected to achieve an increase in sales reflecting a focus on expanded sales of color inkjet continuous feed printers.
- Industrial Equipment : The segment is expected to achieve an increase in sales, although there is a postponement of capital investment resulting from production adjustment of clients in the semiconductor sector.
- Health Care : We forecast that we will post an 8% increase in sales year on year, reflecting a focus on expanded sales of new products and the winning of large projects.

[Area]

*** Please see the slide.**

[Professional]

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