

FY2018 Results

January 30, 2019
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Director, Senior Vice President

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 4Q Results



Net sales **¥173.7 B (Y/Y -2.3B, -1%)**

✓ Although we achieved increased sales in the Enterprise and the Area segment where IT Solution remained steady, the Consumers and Professional segments posted decreased sales, resulting in lower net sales.

Operating Income **¥13.0 B (Y/Y +1.0B, +9%)**

✓ We took steps for company-wide cost-cutting measures for SG&A expenses, and posted an increase in income.

Profit attributable to owners of parent **¥9.3 B (Y/Y 1.1B, +14%)**

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%
	(34.8%)	(35.2%)	(+0.4%)	
Gross profit	61.2	61.1	-0.1	-0%
	(6.8%)	(7.5%)	(+0.7%)	
Operating income	12.0	13.0	+1.0	+9%
	(6.9%)	(7.6%)	(+0.7%)	
Ordinary income	12.2	13.2	+1.1	+9%
	(4.6%)	(5.3%)	(+0.7%)	
Profit attributable to owners of parent	8.2	9.3	+1.1	+14%

Op. Income Variance Analysis



Segment Outline

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



(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.

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



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.

Segment Information Consumers Segment

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.

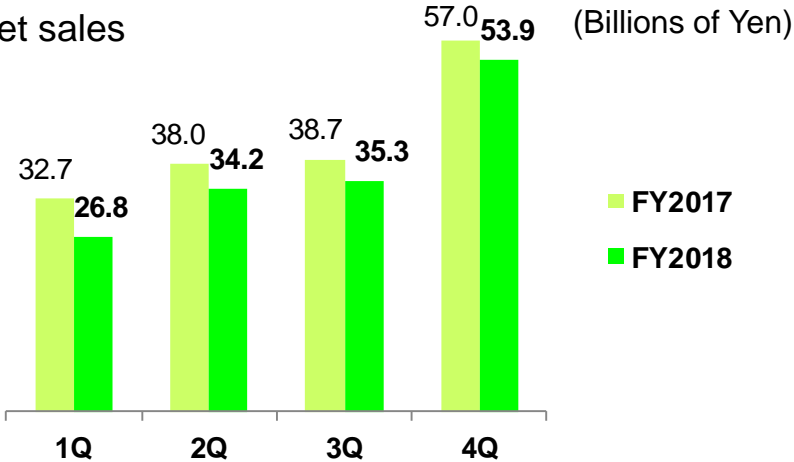
Operating income 7.0 B (Y/Y -0.0B, -0%)

- 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

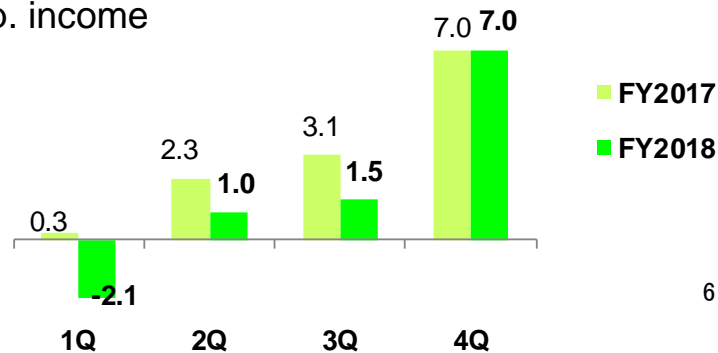
■ Net sales



■ Net sales - Growth rate (Y/Y)

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

■ Op. income



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.

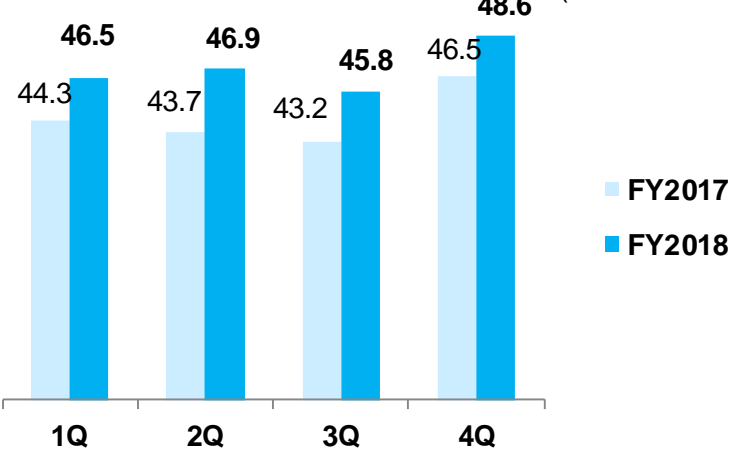
Operating income 2.9B (Y/Y +0.6B, +27%)

- 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

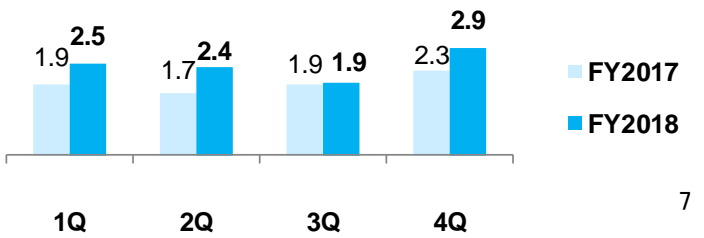
■ Net sales (Billions of Yen)



■ Net sales - Growth rate (Y/Y)

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

■ Op. income



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%)

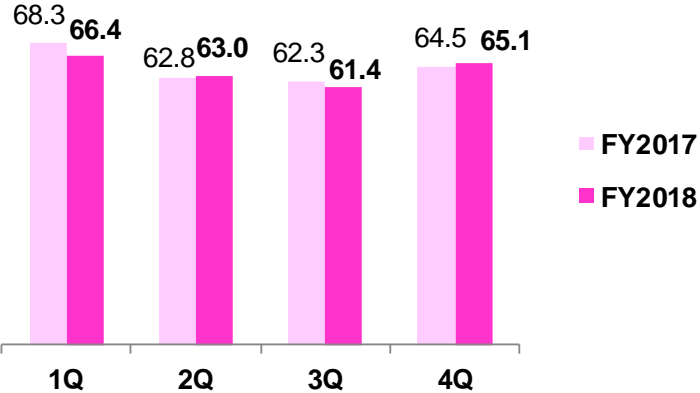
- We secured an increase in income following an increase in gross profits attributable to higher sales and reductions SG&A expenses.

■ 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

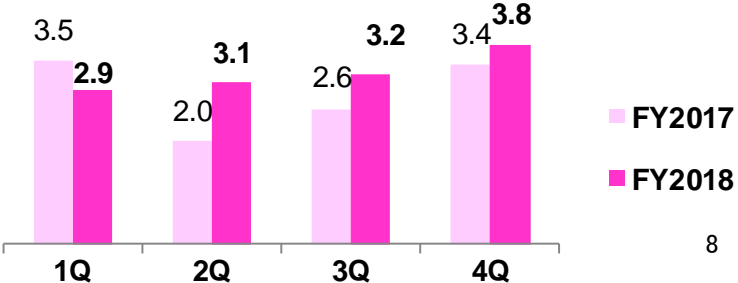
(Billions of Yen)



■ Net sales - Growth rate (Y/Y)

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

■ Op. income



Segment Information Professional Segment

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

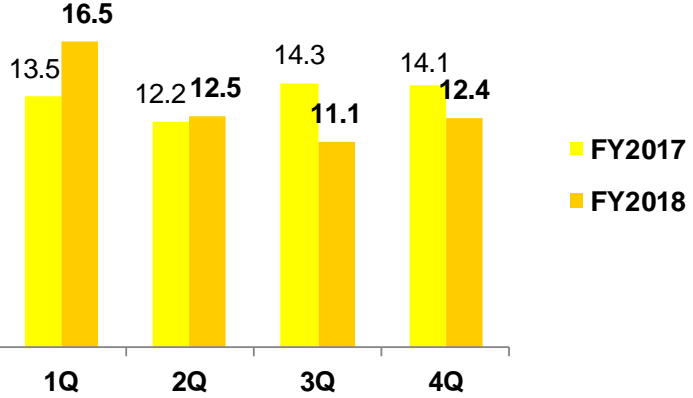
	FY 2017	FY 2018	Changes
Net sales	54.1	52.4	-1.7
Op. income	-1.9	-0.9	+0.9

■ Net sales - Growth rate (Y/Y)

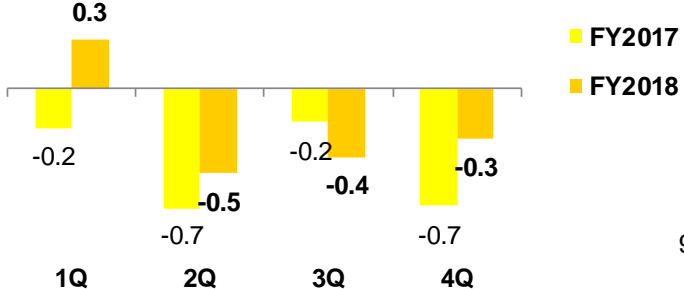
	1Q	2Q	3Q	4Q	FY
FY2018	+22%	+3%	-23%	-12%	-3%

■ 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.

Overall Sales of IT Solutions

■ Sales of IT Solutions by Segment

(Billions of Yen)

	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

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

Summary of Projections



(Billions of Yen)

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

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, resulting in changes in the amount of the inter-segment transactions.

Summary of Projections by Segment



FY2019 Projection v. FY2018 Actual

(Billions of Yen)

	FY2018		FY2019		Changes		
	Actual		Projection				
	Net Sales	Op. Income	Net Sales	Op. Income	Net Sales Amount	%	Op. 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.

Area

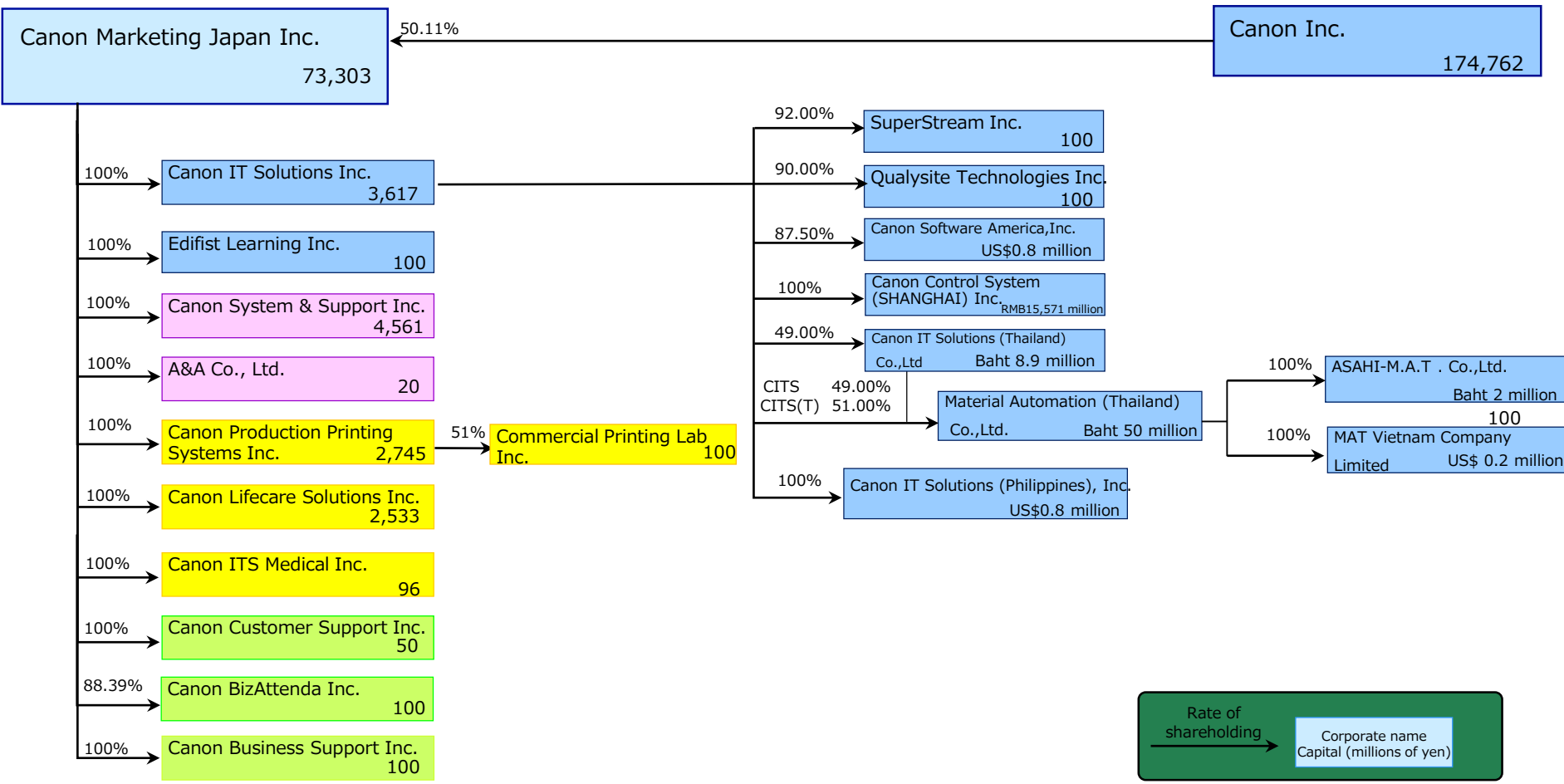
- Net sales are expected to be 262.9 billion yen, a 2% increase year on year due to the increased sales with the release of new Office MFP and sales expansion in IT Solutions.
- The consumables business is likely to be affected by the reduced number of operating days than the previous year, although 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.

Supplementary Information

Capital Relationship Diagram



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

As of December 31, 2018

Results of main consolidated companies



(Billions of Yen)

		4Q FY2017	4Q FY2018	Changes		
				Amount	%	
Enterprise						
Canon IT Solutions Inc.		Net sales	22.7	23.3	+0.7	+3%
		Op. income	1.5 (6.5%)	2.3 (10.0%)	+0.9 (+3.5%)	
Area						
Canon System & Support Inc.		Net sales	28.8	29.2	+0.4	+1%
		Op. income	1.1 (3.7%)	1.2 (4.0%)	+0.1 (+0.3%)	
Professional						
Canon Production Printing Systems Inc.		Net sales	4.1	3.4	-0.6	-15%
		Op. income	-0.1 (-)	0.1 (1.8%)	+0.1 (-)	
Canon Lifecare Solutions Inc.		Net sales	2.8	2.8	+0.0	+1%
		Op. income	0.1 (2.5%)	0.1 (3.8%)	+0.0 (+1.4%)	

Results of main consolidated companies



(Billions of Yen)

		FY2017		FY2018		Changes	
						Amount	%
Enterprise							
Canon IT Solutions Inc.	Net sales	84.7		89.6		+4.9	+6%
	Op. income	5.4	(6.4%)	7.4	(8.3%)	+2.0	(+1.9%)
Area							
Canon System & Support Inc.	Net sales	119.0		117.4		-1.6	-1%
	Op. income	3.4	(2.9%)	3.9	(3.3%)	+0.5	(+0.5%)
Professional							
Canon Production Printing Systems Inc.	Net sales	13.7		12.7		-1.0	-8%
	Op. income	-0.4	(-)	-0.3	(-)	+0.2	(-)
Canon Lifecare Solutions Inc.	Net sales	13.7		11.4		-2.3	-17%
	Op. income	0.3	(2.1%)	0.2	(2.0%)	-0.1	(-0.1%)

SG&A expenses



(Billions of Yen)

	FY 2017		FY 2018		Changes	
	4Q	FY	4Q	FY	4Q	FY
Advertising expenses	2.4	8.5	2.6	8.4	+0.2	-0.0
Promotion expenses	1.8	5.2	1.2	4.4	-0.6	-0.8
Warranty expenses	1.3	5.2	1.2	4.8	-0.1	-0.4
Other direct selling expenses	5.2	20.4	5.1	19.5	-0.1	-0.8
Personnel expenses	30.6	123.1	30.6	122.1	-0.1	-1.0
Depreciation and amortization	0.4	1.9	0.3	1.3	-0.1	-0.6
Other selling expenses	7.5	29.2	7.1	28.7	-0.4	-0.5
Total	49.2	193.4	48.1	189.2	-1.1	-4.1

Non-operating income and expenses

(Billions of Yen)

■ Non-operating income

	FY 2017		FY 2018		Changes	
	4Q	FY	4Q	FY	4Q	FY
Interest income	0.0	0.2	0.0	0.2	+0.0	+0.0
Dividend income	0.0	0.1	0.0	0.2	+0.0	+0.0
Insurance income	0.0	0.5	0.0	0.5	-0.0	-0.0
Gain on investments in partnership	-	-	0.0	0.5	+0.0	+0.5
Other	0.1	0.5	0.1	0.4	-0.0	-0.1
Total	0.2	1.3	0.2	1.8	+0.0	+0.5

■ Non-operating expenses

	FY 2017		FY 2018		Changes	
	4Q	FY	4Q	FY	4Q	FY
Interest expense	0.0	0.0	0.0	0.0	+0.0	+0.0
Foreign exchange losses	-0.0	0.0	-	-	+0.0	-0.0
Other	0.0	0.2	0.0	0.2	+0.0	-0.0
Total	0.0	0.2	0.0	0.2	+0.0	-0.0

Extraordinary income and expenses

(Billions of Yen)

■ Extraordinary income

	FY 2017		FY 2018		Changes	
	4Q	FY	4Q	FY	4Q	FY
Gain on sales of fixed assets	0.0	0.9	0.0	0.1	-0.0	-0.8
Gain on sales of investments in securities	-	0.5	-	0.5	-	-0.1
Gain on sales of shares of subsidiaries and associates	-	-	-	0.2	-	+0.2
Other	-	0.1	-	-	-	-0.1
Total	0.0	1.5	0.0	0.8	-0.0	-0.7

■ Extraordinary expenses

	FY 2017		FY 2018		Changes	
	4Q	FY	4Q	FY	4Q	FY
Loss on sales and disposal of fixed assets	0.1	0.9	0.1	0.3	-0.0	-0.6
Loss on impairment of fixed assets	0.2	1.0	-	0.0	-0.2	-1.0
Loss on disaster	-	-	0.0	0.1	+0.0	+0.1
Loss on valuation of investments in securities	-	0.0	0.1	0.2	+0.1	+0.2
Special extra retirement payments	-	0.1	-	-	-	-0.1
Expenses for restructuring of business bases	-	0.0	-	0.1	-	+0.1
Other	0.0	0.0	0.0	0.0	+0.0	+0.0
Total	0.3	2.1	0.2	0.6	-0.2	-1.4

Balance Sheets

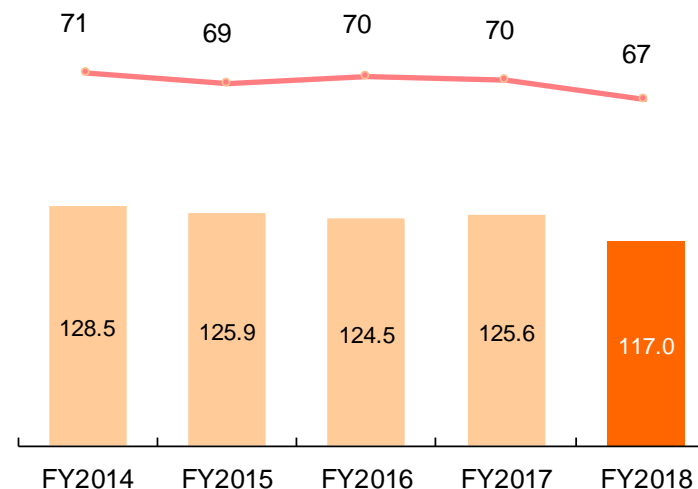


(Billions of Yen)

	Dec. 31 2017	Dec. 31 2018	Changes
Assets	510.8	498.8	-12.0
Current assets	397.5	387.2	-10.3
Cash and deposits	137.0	135.6	-1.4
Notes and accounts receivable	125.6	117.0	-8.6
Inventories	33.9	33.0	-0.9
Other (current assets)	101.0	101.6	+0.6
Non-current assets	113.3	111.5	-1.8
Property, plant and equipment	75.1	72.0	-3.1
Intangible assets	5.5	5.3	-0.2
Investments and other assets	32.8	34.3	+1.5
Liabilities	213.3	195.2	-18.1
Current liabilities	157.4	129.9	-27.5
Notes and accounts payable	100.9	75.8	-25.1
Other (current liabilities)	56.5	54.1	-2.4
Long-term liabilities	55.9	65.3	+9.4
Net assets	297.5	303.6	+6.0
Stakeholders' equity	301.1	314.2	+13.0
(Treasury stock)	-31.9	-31.9	-0.0
Total accumulated other comprehensive income (loss)	-4.1	-11.1	-7.0
Non-controlling interests	0.5	0.5	+0.1
Equity ratio	58%	61%	+3%

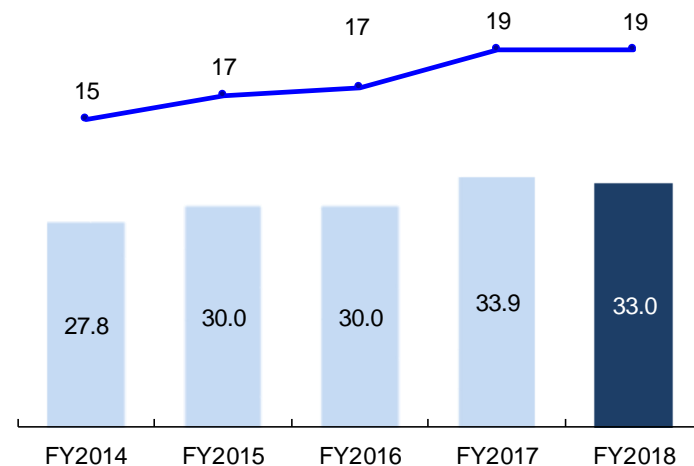
Notes and accounts receivable trade

Notes and accounts receivable trade Turnover (days)



Inventories

Inventories Turnover (days)

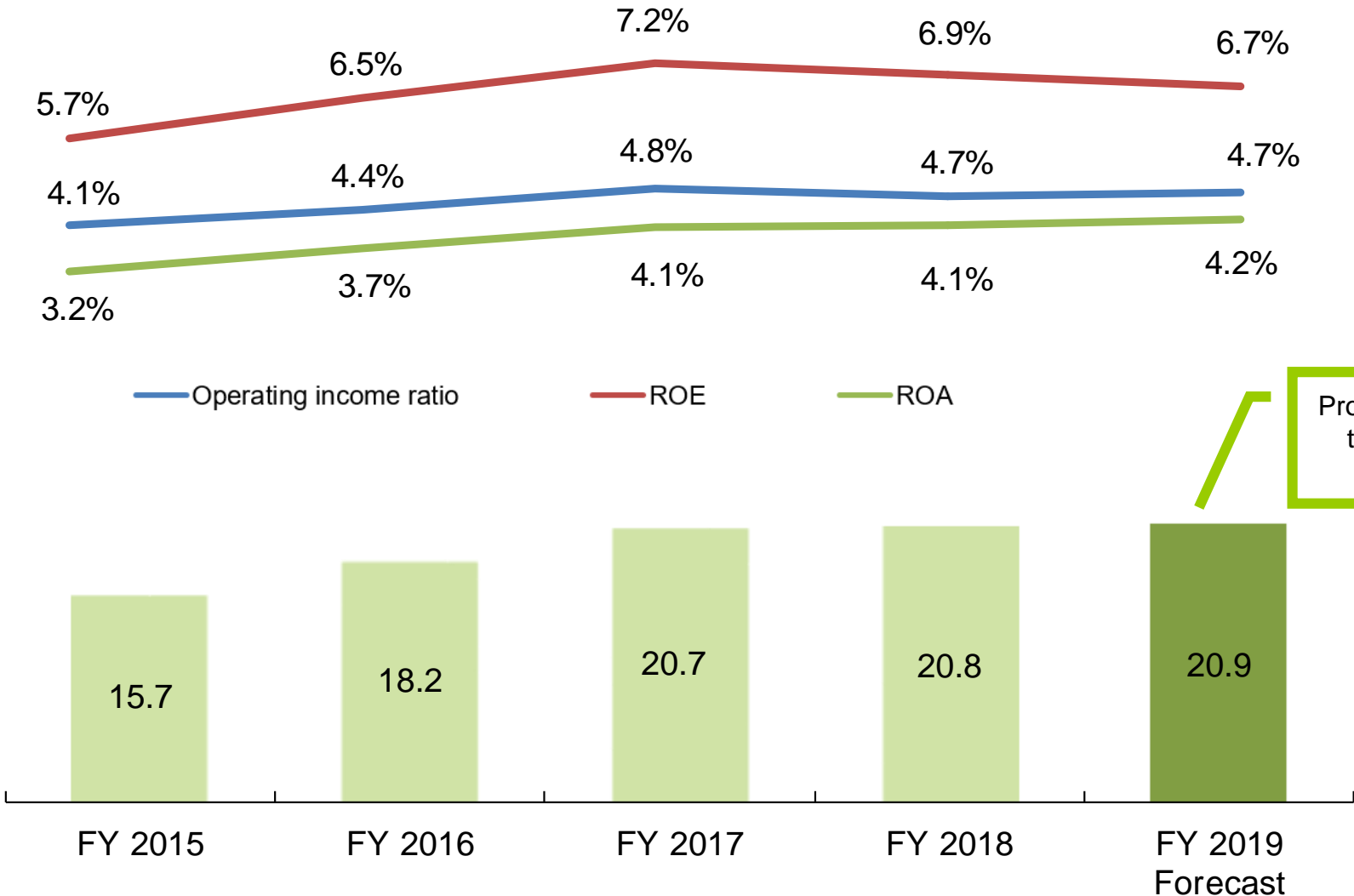


Financial Indicator



(Billions of Yen)

Operating income ratio / ROA / ROE

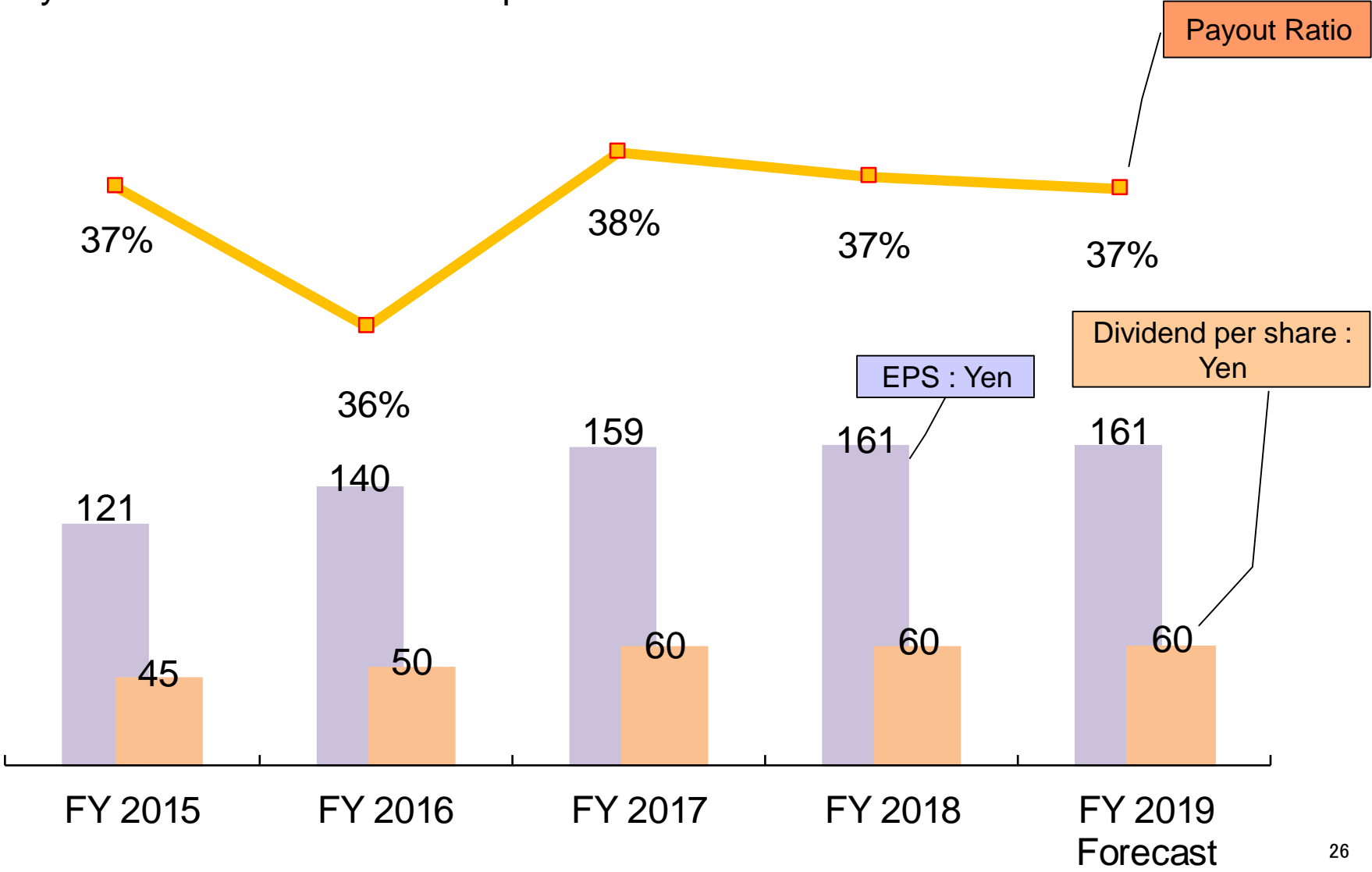


Profit attributable to owners of parent

Financial Indicator



■ Payout Ratio / EPS / Dividend per share

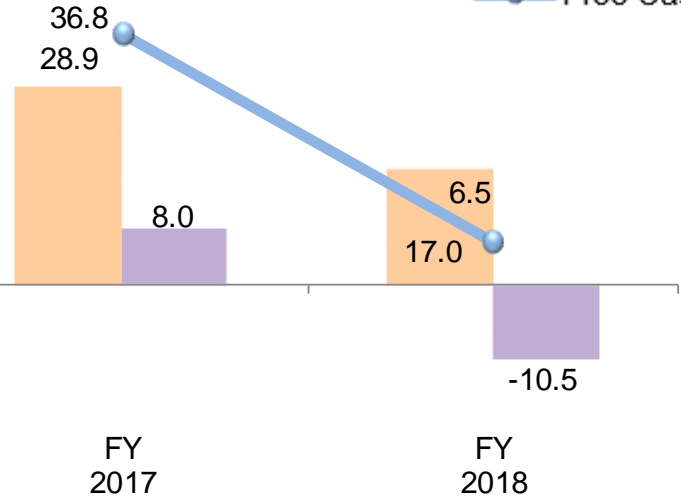


Financial Indicator

(Billions of Yen)

Cash Flow

- Net cash provided by operating activities
- Net cash provided by investing activities
- Free Cash Flow



Investment

Full Year

FY 2017	13.7
FY 2018	10.7
FY 2019	20.8

Depreciation and amortization

Full Year

FY 2017	14.3
FY 2018	13.3
FY 2019	13.1

Canon

Canon Marketing Japan Inc.