

Canon

Canon Marketing Japan Group

Three-Year Management Plan 2019 to 2021

January 30, 2019
Canon Marketing Japan Inc.
Masahiro Sakata, President

1 Review of 2018

2 Three-Year Management Plan 2019-2021

3 Structural reforms/strategic investment/
return to shareholders

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- Sales decreased due to a year-on-year decrease, mainly in sales of the BtoC business, especially cameras and inkjet printers, despite an increase in sales of the BtoB business. Operating income also decreased, despite a reduction in SG&A expenses, which was not sufficient to offset the drop in gross profit due to the sales decrease.
- Both sales and operating income fell below the initial plan, mainly due to a slump in the digital SLR camera market that was more serious than the forecast at the beginning of the fiscal year. However, operating income exceeded the level that was revised and announced externally in October.

	Actual results for 2017	Plan at start of 2018	Actual results for 2018	Compared with Previous Year
Sales	¥632.2 billion	¥645.0 billion	¥621.6 billion	-1.7%
SGA ratio	30.6%	30.2%	30.4%	-0.2%
Operating income	¥30.4 billion	¥32.0 billion	¥28.9 billion	¥-1.5 billion
Operating income ratio	4.8%	5.0%	4.7%	-0.2%
Profit attributable to owners of parent	¥20.7 billion	¥21.7 billion	¥20.8 billion	¥+0.1 billion
ROE	7.2%		6.9%	-0.3%

2018 General Overview - Weight Shift towards Growth Areas -



- In the independent growth areas, significant growth was achieved in IT solutions, especially SI for large enterprises, the data center service and the security business. In addition, industrial equipment also grew by riding the growth trend of the market.
- In Canon's growth areas, the expected growth was not achieved, mainly due to a delay in the launch of new products in production printing, despite growth in sales of network cameras.
- In Canon's profitability growth areas, sales decreased due to the sluggish market of home-use inkjet printers, despite significant growth in mirrorless cameras, which was not sufficient to cover the decrease in sales of SLR cameras.

	Actual results for 2017	Actual results for 2018	%
Independent Growth Areas (IT solutions, industrial equipment, medical imaging solutions, etc.)	33% (¥207.6 billion)	36% (¥221.7 billion)	+3% (¥+14.1 billion) (+6.8%)
Canon's Growth Areas (Production printing, network cameras, etc.)	7% (¥46.0 billion)	7% (¥46.2 billion)	+0% (¥+0.2 billion)
Canon's Profitability Growth Areas (MFP, laser printers, digital cameras, ink jet printers, etc.)	60% (¥378.6 billion)	57% (¥353.7 billion)	-3% (¥-24.9 billion) (-6.6%)
Sales	¥632.2 billion	¥621.6 billion	-1.7%

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- We have always conducted business based on a desire to help individual customers realize their hobbies, interests and aspirations and to solve problems for BtoB customers and support their growth.
- These percentages are ultimately the result of these efforts.

Growth in IT Solutions

(Billions of Yen)

	2017	2018	%
Enterprise segment	108.5	119.0	+10%
Area segment	54.8	58.1	+6%
Other	18.7	20.6	+10%
Group IT solutions total	182.0	197.7	+9%

Increase in SI services for the financial and manufacturing industries and the public sector

ITS for middle-ranking or small and mid-sized firms grew in each of the hardware, software and maintenance businesses.

Expansion of security business

Full occupancy of the Nishi-Tokyo Data Center Phase I Building/preparation for construction of the Phase II Building is underway.

- SE technology and knowhow is being accumulated and the fruits of this are now evident in the SI field.
- A major issue at middle-ranking or small and mid-sized firms is a shortage of labor. With firms saying they have no other option than to cover this shortage with IT, demand is strong.
- Demand for security is strong among all firms regardless of size. Our business is also expanding steadily.
- The amount of data in the world today has increased enormously. The spread of cashless and online businesses inevitably results in an increase in data volumes. The next question will be where to store this data and demand for robust data centers will increase. We expect this need to continue growing in the future.

Shifting to a framework that caters to customer and market needs

Shifting to a new framework

Aim

Change to the business unit system by customer, which achieves the mutual use of the customer bases of the respective Group companies and offering new solutions starting from customers

Increase in specialization by the consolidation of crossover functions within the Group and the maximum use of the Group's sales channels

Results/progress

- Progress in mutual use of customer bases within the same business unit, centered around SI
- Acceleration of promotion of the sales style using proposals to meet general IT issues among small and middle-sized companies, in addition to document solutions
- New establishment of an organization in charge of planning and centralized control of the ITS business for small and middle-sized companies, covering both direct sales and indirect sales, in January 2019
- New establishment of the center for centralized control of BPO in July 2018 to strengthen the organization structure
- Consolidation of the planning functions for security products in January 2019 to increase specialization and ensure the maximum use of the Group's sales channels
- New establishment of the headquarters for centralized control of the contact centers to accelerate efficiency improvement and cost reduction

• Anticipating that non-face-to-face sales without direct visits by sales personnel will increase in the future, we established the new headquarters for centralized control of contact centers. Currently we are consolidating internal resources and seeking to improve efficiency but in the future we will expand contact centers in line with our vision of non-face-to-face, low-cost sales.

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1. Maintenance of income from major products of Canon

(Digital interchangeable lens camera/inkjet printer/MFP/laser printer (LBP))

2. Realization of increases in both sales and profits in the market expansion areas, particularly IT solutions

(IT solutions/industrial equipment)

3. Establishment of the revenue base in Canon's business whose growth is expected

(Network camera/production printing/healthcare)



To become a vibrant and highly profitable Group

(Billions of Yen)

	Actual Results	Three-Year Management Plan		
	2018	2019	2020	2021
Net sales	621.6	622.0	635.0	655.0
(%)	(-)	(+0.1%)	(+2.1%)	(+3.1%)
Operating income	28.9	29.5	31.0	33.5
(ratio)	(4.7%)	(4.7%)	(4.9%)	(5.1%)
Ordinary income	30.5	30.7	32.0	34.8
(ratio)	(4.9%)	(4.9%)	(5.0%)	(5.3%)
Profit attributable to owners of parent	20.8	20.9	21.7	23.0
(ratio)	(3.4%)	(3.4%)	(3.4%)	(3.5%)
EPS	¥16.1	¥16.1	¥16.7	¥17.8
ROE	6.9%	6.7%	6.8%	6.9%

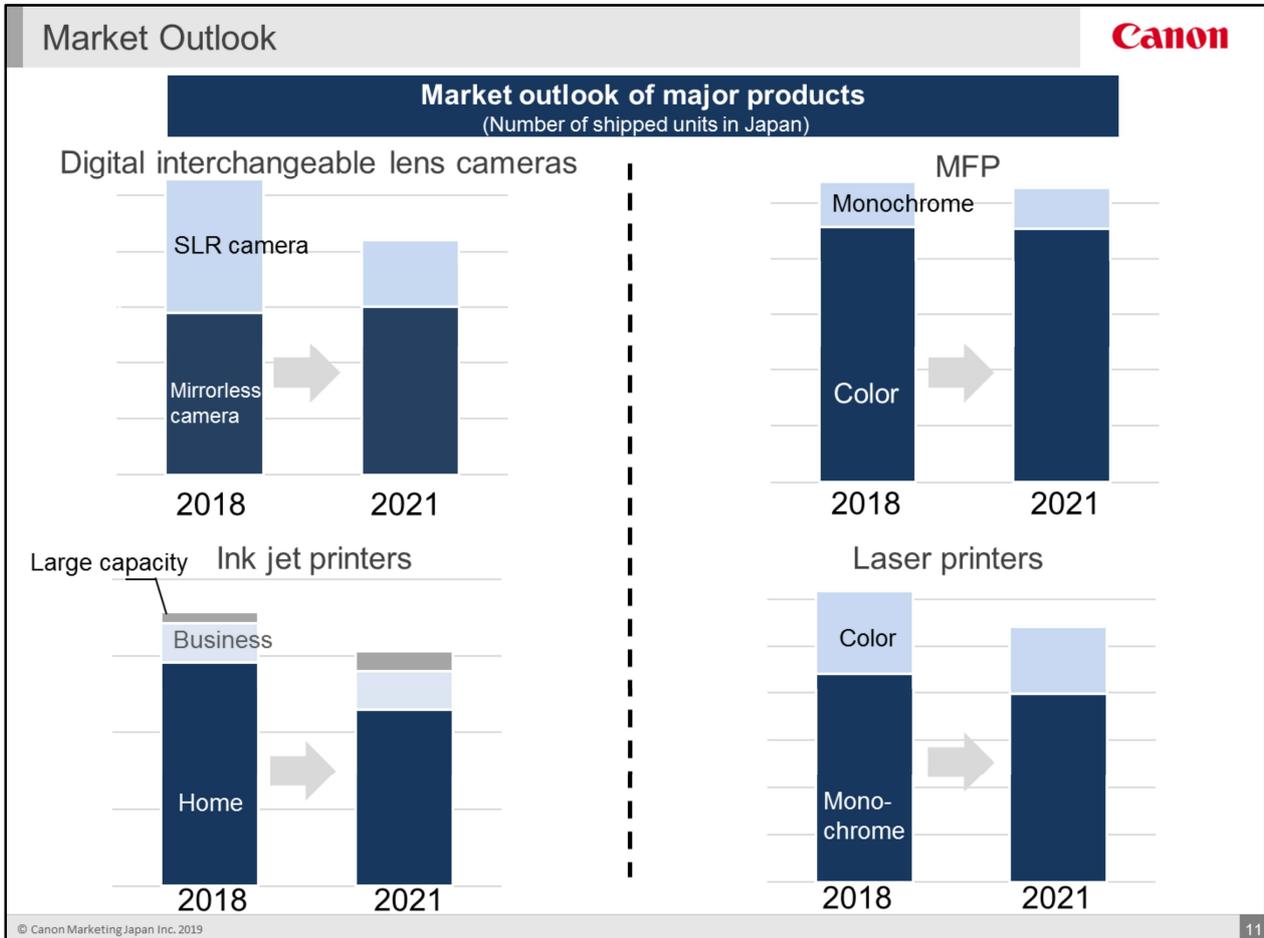
- When aiming to become a dynamic, highly profitable enterprise, it is more important to pursue profits than to pursue topline growth.
- Our targets may be pessimistic but we have come up with these forecasts because we expect the decline in cameras to continue.

Net Sales and Operating Income Targets of Individual Segments



(Billions of Yen)

	Actual		Three-Year Management Plan					
	2018		2019		2020		2021	
	Net sales	Operating income	Net sales	Operating income	Net sales	Operating income	Net sales	Operating income
	Growth rate	Income ratio	Growth rate	Income ratio	Growth rate	Income ratio	Growth rate	Income ratio
Consumers	150.2	7.3	138.8	6.9	135.0	7.0	132.5	7.0
	-	4.9%	-7.6%	5.0%	-2.7%	5.2%	-1.9%	5.3%
Enterprise	188.2	8.7	190.0	9.7	199.0	10.3	210.0	11.5
	-	4.6%	+1.0%	5.1%	+4.7%	5.2%	+5.0%	5.5%
Area	257.6	12.1	262.9	12.1	265.0	12.5	272.5	13.0
	-	4.7%	+2.1%	4.6%	+0.8%	4.7%	+2.8%	4.8%
Professional	46.4	0.9	48.7	1.1	55.0	1.5	60.0	2.5
	-	1.8%	+4.9%	2.3%	+12.9%	2.7%	+9.1%	4.2%
Other	-20.8	-0.1	-18.4	-0.3	-19.0	-0.3	-20.0	-0.5
Consolidated total	621.6	28.9	622.0	29.5	635.0	31.0	655.0	33.5
	-	4.7%	+0.1%	4.7%	+2.1%	4.9%	+3.1%	5.1%



- In digital interchangeable lens cameras, we forecast growth in mirrorless cameras but decline in SLR cameras.
- In inkjet printers, New Year's greeting cards have also fallen to almost half their peak level. The home market is expected to contract. We forecast expansion in business and large-capacity ink jet printers. However, overall, a trend towards contraction will be seen.
- No major decline in MFPs is expected.
- As for laser printers, the shift to MFPs will continue but we expect that there will be no decline in special-purpose laser printers.

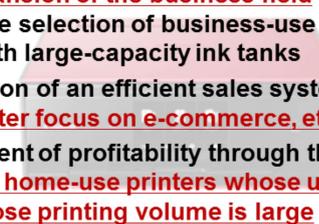
Digital interchangeable lens cameras

- Sales expansion by **increasing the selection of mirrorless cameras**
- **Increase of sales of middle-class interchangeable lens** whose unit price is high
- Provision of services/solutions for **revitalization of the photo imaging market**, which the leading company should provide



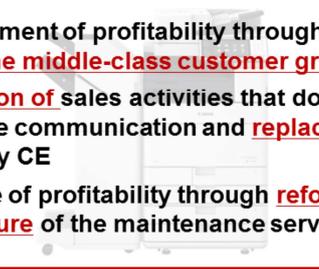
Ink jet printers

- **Sales expansion of the business field** by increasing the selection of business-use printers and those with large-capacity ink tanks
- Construction of an efficient sales system **through greater focus on e-commerce, etc.**
- Improvement of profitability through the **sales expansion of home-use printers whose unit price is high and whose printing volume is large**



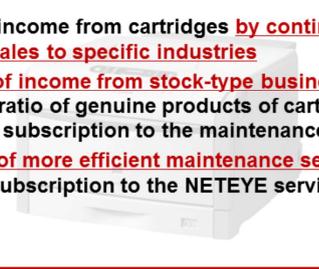
MFP

- Improvement of profitability through **greater focus on the middle-class customer group**
- **Promotion of sales activities** that do not involve face-to-face communication and **replacement activities** by CE
- Increase of profitability through **reforms of the cost structure** of the maintenance service



Laser printers

- Increase of income from cartridges **by continuing expansion of sales to specific industries**
- **Expansion of income from stock-type business** by improving the ratio of genuine products of cartridges and the rate of subscription to the maintenance service
- **Realization of more efficient maintenance services** by promotion of subscription to the NETEYE service



*NETEYE is the online support service that provides an environment for comfortable use through constant monitoring of the state of multifunctional products (MFP) and laser printers (LBP), among other machines, by using the Internet.

- In digital interchangeable lens cameras, we will increase the selection of mirrorless cameras and interchangeable lens.
- In inkjet printers, given the insufficient product lineup of business-use printers and their lack of appeal, we intend to expand sales of inkjet printers and laser printers at the lower end of the price range.
- As for MFPs, we will expand customer group with high printing volume. This has been a weak area before.

Advancement/development of the ITS business achieved to date

Business expansion by using the differentiated technologies of the Company

System development by using the technologies for demand forecast/migration/security/image analysis

Strengthening of the IT infrastructure business by using the Nishi-Tokyo Data Center

Quality of management rated as global level (*)

Improvement of profitability

Securing larger projects/prime shift/quality improvement

Expansion of the business field for small and medium-sized companies

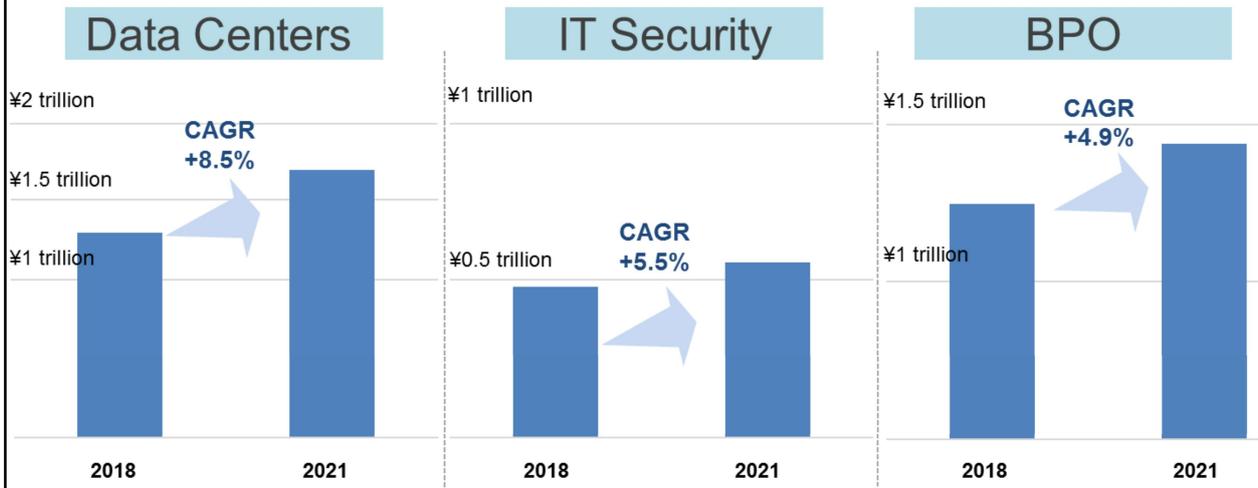
In addition to document solutions, expansion of infrastructure/security/business system

Expansion of the security business

Development and market penetration of unique products such as ESET/FortiGate

*The Nishi-Tokyo Data Center obtained the "Management and Operations (M&O)" certificate of the data center management standard, which makes it the second company to hold this certificate in Japan.

Market outlook for the area on which the Company will particularly focus

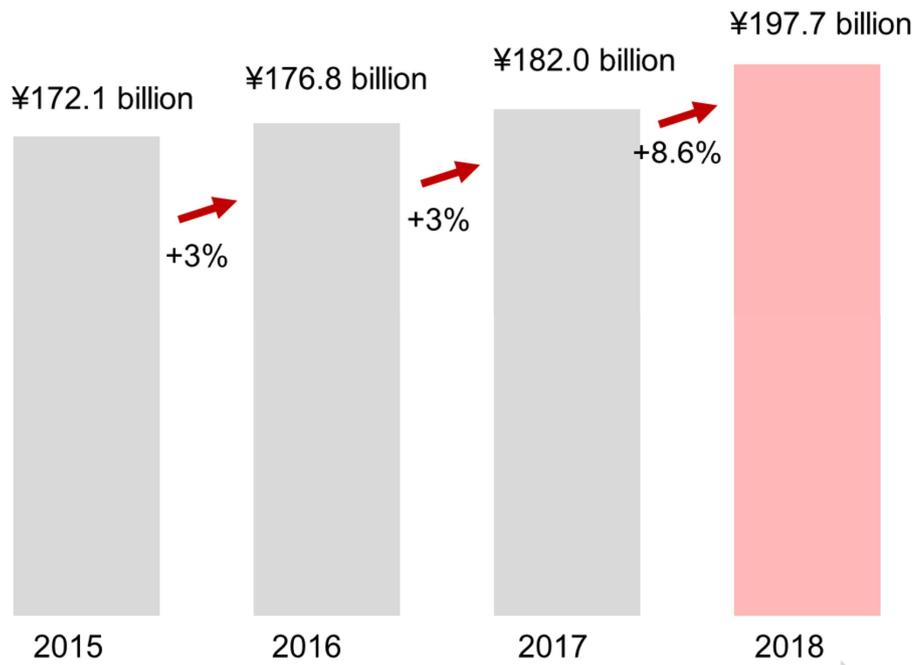


While the domestic IT market is expected to expand at an annual growth rate of 2% (2018 to 2021) on average, we will expand the business mainly in areas of high growth.

*The market outlook is provided by the Company based on the forecasts announced externally (IDC/Yano Research Institute Ltd.).

- The market areas on which the Company will particularly focus are expected to expand.

Changes in sales of the Group IT solutions

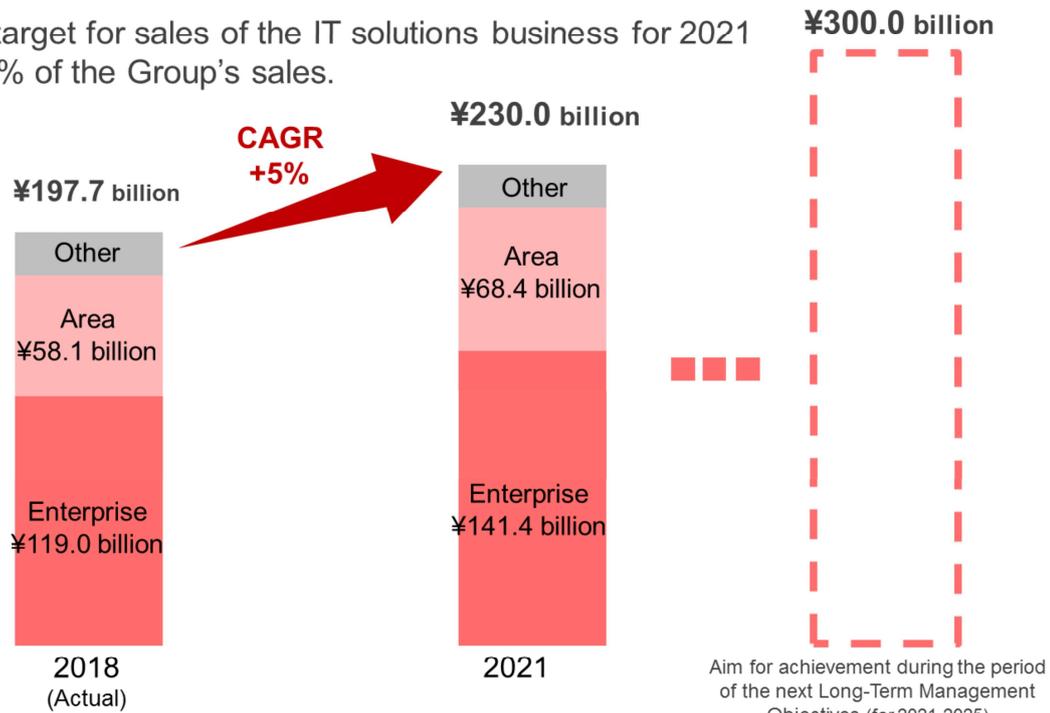


Achievement of growth exceeding market growth

*IT market growth: CAGR of approximately 3%

Sales plan of the Group IT solutions

The target for sales of the IT solutions business for 2021 is 35% of the Group's sales.



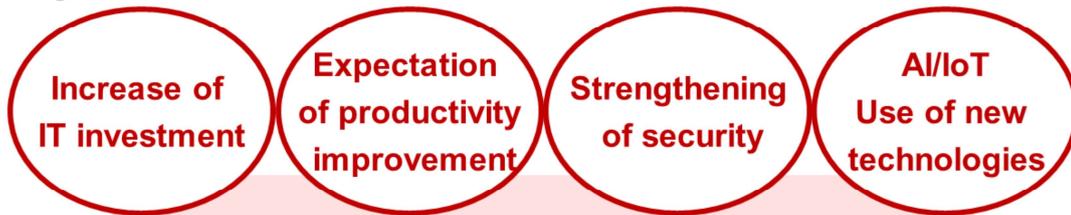
• If we can achieve this level of growth, we will also be closer to achieving our original sales target of 300.0 billion yen.

Growth Image for ITS3000

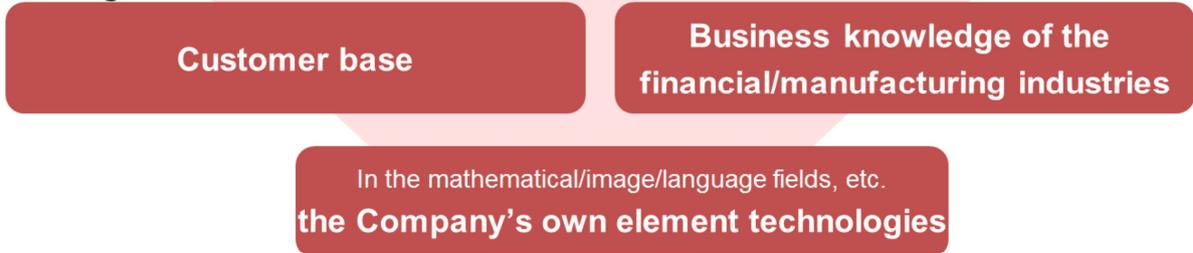


	Keywords for ITS expansion	Three-Year Management Plan for 2019-2021	ITS3000	Main growth driver
Strategy by customer group	Enterprise segment			<ul style="list-style-type: none"> ● Package-type SI expansion ● Creation of the business offering services ● Expansion of the area of solutions for business operations/industries (including M&A)
	Area segment			<ul style="list-style-type: none"> ● Expansion into partner channels ● Expansion of the area of maintenance support ● Increase of the selection of solutions (including M&A)
Crossover business areas	IT infrastructure service			<ul style="list-style-type: none"> ● Expansion of the scale of the data center ● Business expansion to support the IT life cycle including operation/planning
	Security			<ul style="list-style-type: none"> ● Establishment of the model to propose total security
	BPO			<ul style="list-style-type: none"> ● Expansion of BPO exclusively for business operations (including M&A)

Changes/needs of customers



Strengths



Course of action



• Throughout every type of industry, IT investment will be made to minimize the use of human resources as much as possible in the execution of operations.

• Fortunately we have connections with many customers. We will fully utilize this customer base to achieve growth.

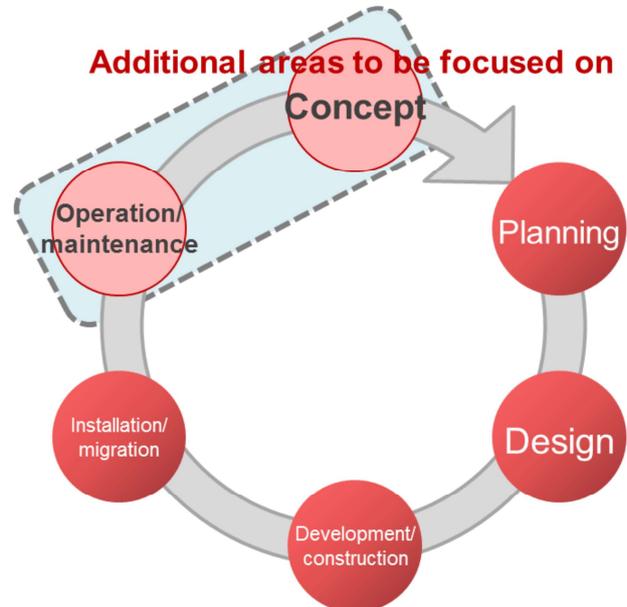
Course of action**Enhancement of response throughout the IT life cycle from planning to operation/maintenance**

- ✓ Expansion of the business of added value by use of the Data Center Phase II Building
- ✓ Comprehensive business expansion with an eye on operation to planning in addition to system development

Measures

Improvement of the business of added value including security/IT outsourcing, etc.

Business expansion by providing a series of services from planning/design through construction to operation for cloud computing



•The needs of our customers are system construction and ongoing support services.

•It will increasingly be the case in the future that, when customers start to think about their next IT system, we will be liaise with them closely from the planning stage to understand what kind of system to create and how to operate it before proposing a total solution.

•We intend to develop the necessary systems and master the technology and knowhow required to do this.

Changes/needs of customers



Strengths



Course of action



•We need to become an “IT concierge” that small and medium-sized firms come to for advice on all their IT concerns.

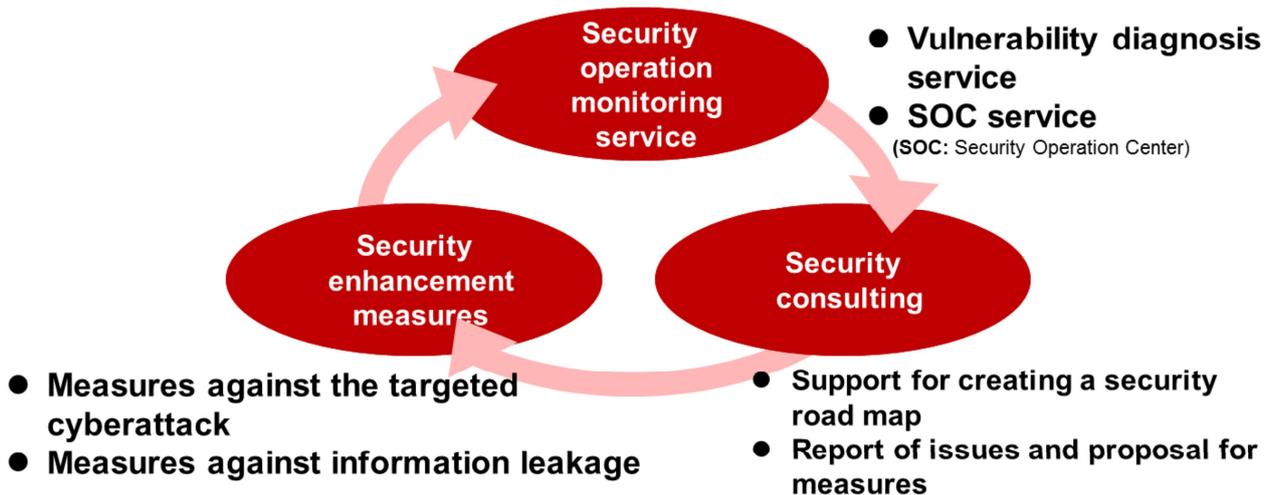
•We need to leverage the knowhow, technology and expertise we have built up in various sectors and operations to ensure that we can propose optimal solutions and support to customers.

Course of action

Realization of proposal for total security

- ✓ For large companies: to make a comprehensive proposal by increasing the number of security engineers
- ✓ For small and medium-sized companies: input of unique merchandise and maximum utilization of sales channels

Model for total security proposition



• There is strong demand for security among firms regardless of their size.

Course of action

Establishment of the BPO model exclusively for business operations

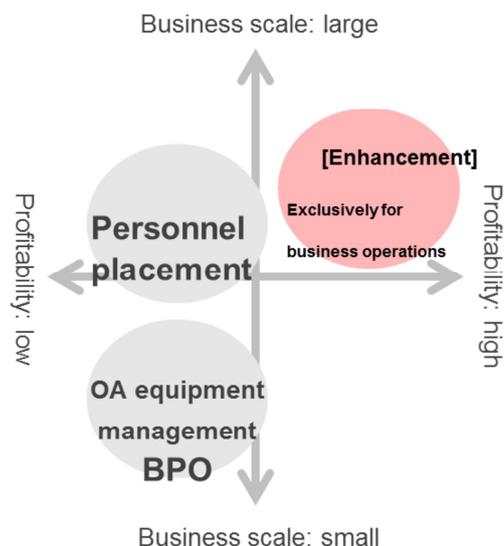
- ✓ Establishment of high-quality BPO services
- ✓ Enhancement of the proposal style to solve issues of customers with IT solutions and BPO
- ✓ Acceleration of growth by acquisition of professional human resources and M&A

Measures

Utilization of the existing customer base centered on large entities (especially the financial industry)

Construction of high-security system by using the company's own data centers

Enhancement of facilities/capabilities of the BPO center



• Customers are looking to steadily outsource their non-core processes to BPO services providers.

• We intend to understand the business processes of our customers and provide BPO services so that we can then propose cost reductions to customers and win more orders.

• To do this, human resources capable of analyzing business flows are required but are still in short supply. We will increase training for human resources but, in case of shortage, we will also acquire companies and human resources where necessary.

Conventional Revenue Models

**MFP
+ maintenance services**

**LBP
+ toner cartridges**

**Ink Jet Printers
+ ink cartridges**



Revenue Models to Grow in the Future

Cloud Services

IT Maintenance/Operation Services

Data Center Services

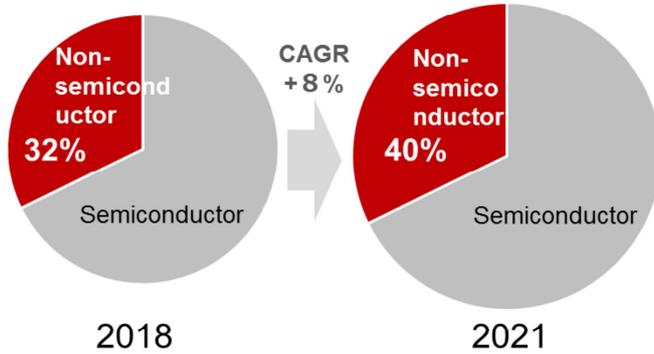


**Work to strengthen and create
stock businesses based on IT
solution technologies**

- While maintaining our conventional revenue models, we intend to create new revenue models by increasing new services.

Stable growth not affected by the economy

■ Growth by expansion of the non-semiconductor area



■ Increase of profitability through sales expansion of services, including maintenance contracts

Non-semiconductor area

IoT vision



Laser processing



New business



- Demand for semi-conductors is expected to be strong again in the future despite the lull until the end of the first half of this year.
- We also expect to see strong growth in other areas such as inspection equipment.
- In the interests of growth, we will need to expand the non-semiconductor business as well.

Network cameras

- **Efficient sales** by packaged camera (main unit)
- Expansion of **highly profitable business** with VMS*¹ and other solutions

Production cut sheet

- Sales expansion by **increase of proposal for added value/support** with the increased dedicated sales staff
- **Expansion of sales to small and medium-scale commercial printing and maintenance sales** by utilizing the customer base

Healthcare

- **Improvement/expansion of the HIS business*²** by increasing sales of electronic medical records to clinics
- **Expansion of the cloud services for medical treatment**

*1 Video Management System

*2 Hospital information system

- In network cameras, we have also handling much more AXIS products. However, cameras are only the start and the main focus of needs is shifting to where to store the images that are taken and how to use them.
- In this sense, we will need to expand the business by proposing solutions such as the VMS of Canon Group company Milestone Systems.
- In production printing, unfortunately, continuous feed printers cannot be said to be doing well. To begin with we thought there would be a shift towards inkjet and digital printers but this shift has been slower than expected. However, this year we plan to launch a inkjet color continuous feed printer and hope to accelerate the shift to digital and inkjet printers.
- The problems experienced in previous years have almost been resolved. There has also been an increase in MIF for production cut sheet printers. We intend to get the business back in shape.
- In the healthcare field, we are particularly strong in medical IT. We will promote the acquisition of large-scale projects and aim to become a prime vendor.

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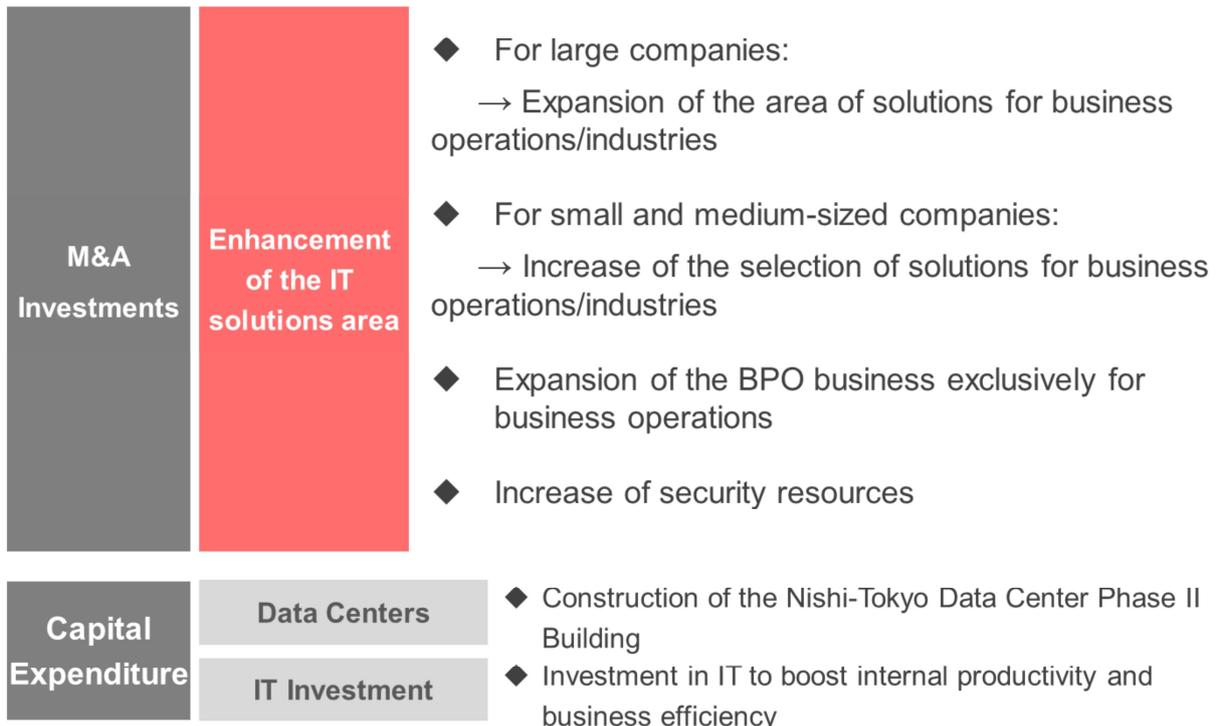
Thorough reduction of SG&A expenses through reforms of the cost structure

1. Reforms of the business operations process by utilizing RPA and other advanced IT technologies
2. Creation of the common base for the call center system and optimization of business bases/personnel
3. Promotion of in-house handling to reduce costs spent outside the company



• Since becoming president, I have been implementing reforms to turn the company into a lean company. We will promote business operation without using too much manpower.

• We will also move outsourced manufacturing processes back inhouse.

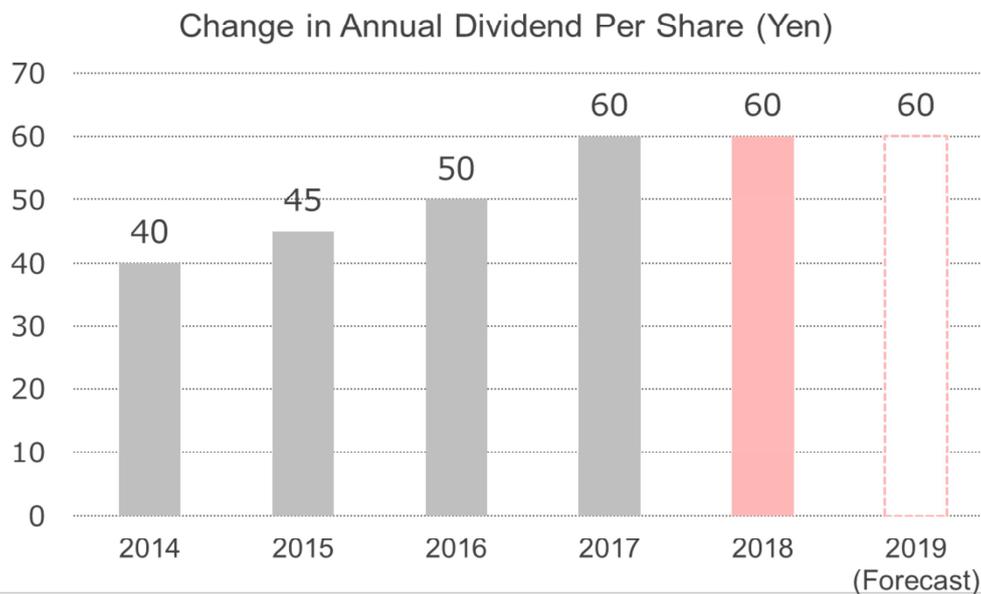


•To expand business in the IT solutions area, we need to expand business process/industry solutions for large enterprises and promote further rollout of packaged solutions rather than development from scratch. We will also need to actively engage in M&A activity and business collaboration.

•As for small and medium-sized firms, we will gain a clear understanding of customer goals through packaged software. We also plan to expand this business area.

Dividend Policy

Our basic policy is to pay dividends to shareholders based on a dividend payout ratio of at least 30%, while also taking into account overall issues such as medium-term profit outlook, investment plans and cash flow.



- Finally, let us look at dividends.
- We plan to pay a dividend of 60 yen.
- We hope to generate more profits and increase dividends.

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The performance and future projections made in this document are based on information available at the present time, and include potential risks and inaccuracies.
Owing to various factors, actual results may differ substantially from these projections.

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