

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

1 Review of 2018

2 Three-Year Management Plan 2019-2021

3 Structural reforms/strategic investment/ return to shareholders

■ 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%

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.

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

1 Review of 2018

2 Three-Year Management Plan 2019-2021

3 Structural reforms/strategic investment/
return to shareholders

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%

Net Sales and Operating Income Targets of Individual Segments

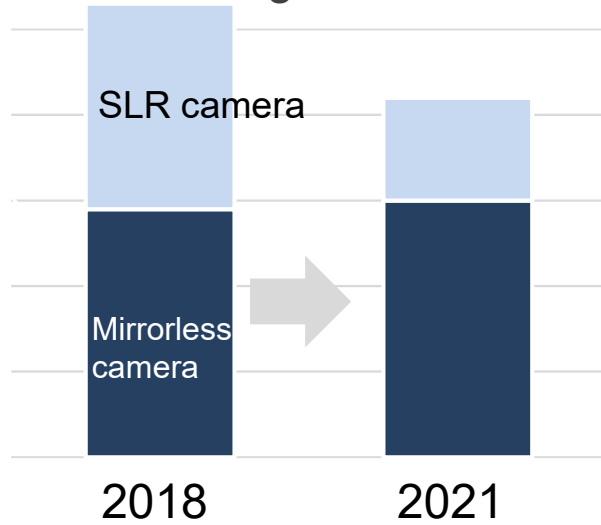


(Billions of Yen)

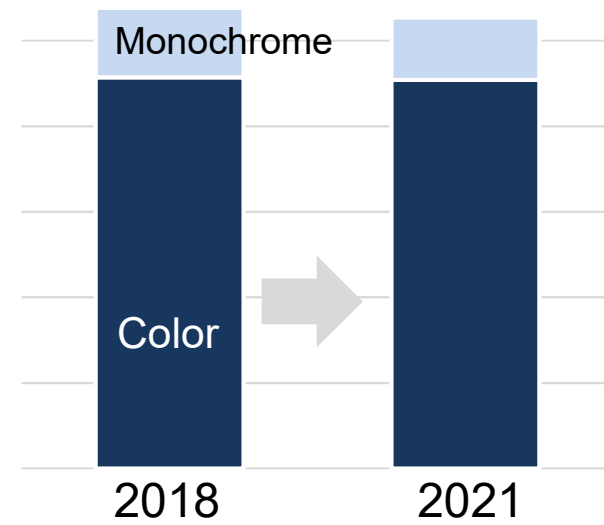
	Actual		Three-Year Management Plan					
	2018		2019		2020		2021	
	Net sales	Operating income	Net sales	Operating income	Net sales	Operating income	Net sales	Operating income
	Growth rate	Income ratio	Growth rate	Income ratio	Growth rate	Income ratio	Growth rate	Income ratio
Consumers	150.2	7.3	138.8	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%

Market outlook of major products (Number of shipped units in Japan)

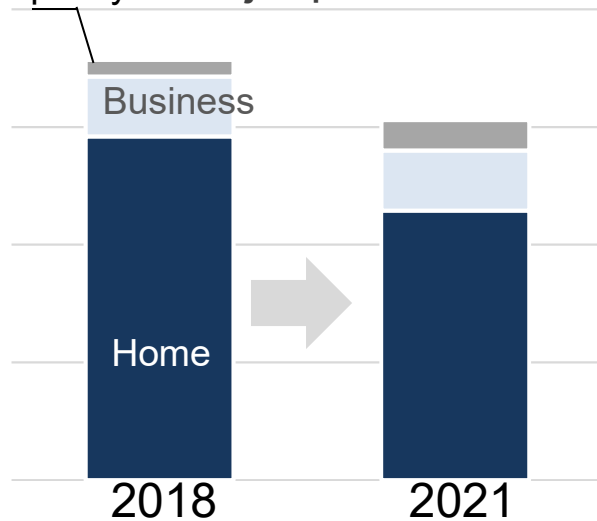
Digital interchangeable lens cameras



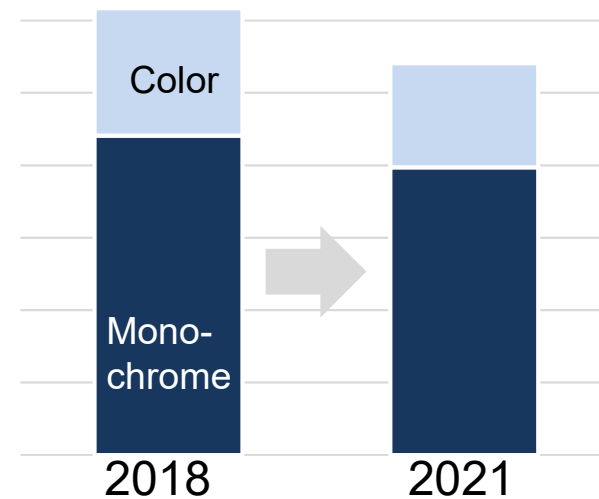
MFP



Large capacity Ink jet printers



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.

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

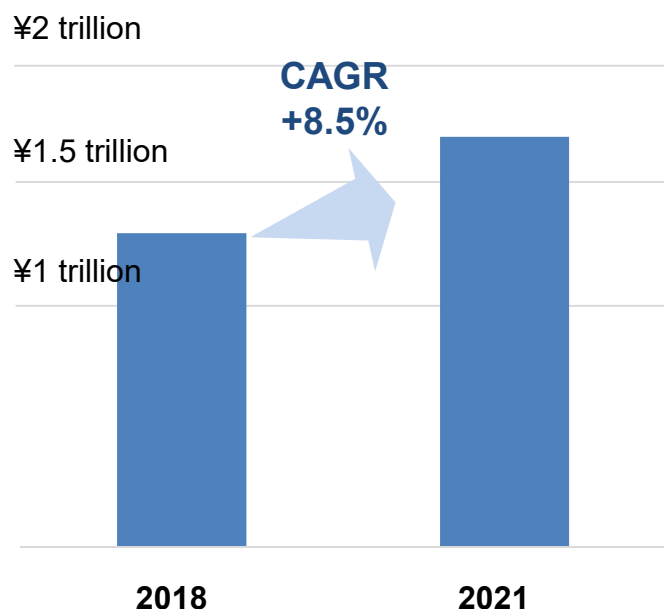
Expansion of the security business

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

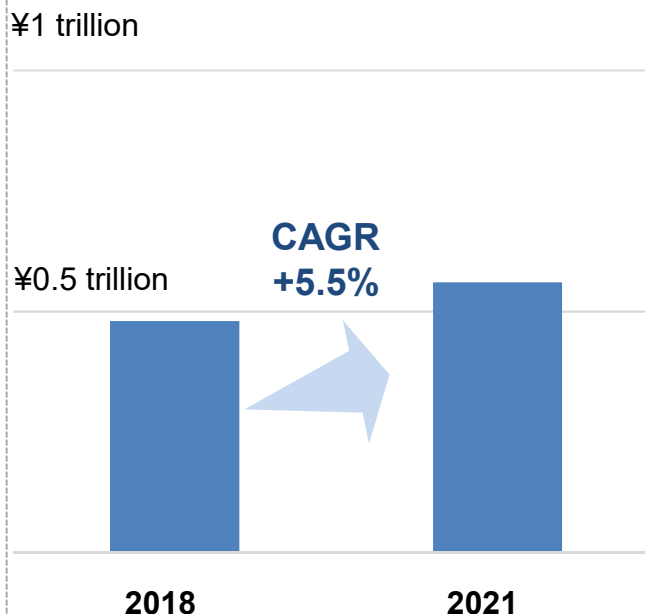
*The Nishi-Tokyo Data Center obtained the "Management and Operations (M&O)" certificate of the data center management standard, which makes it the second company to hold this certificate in Japan.

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

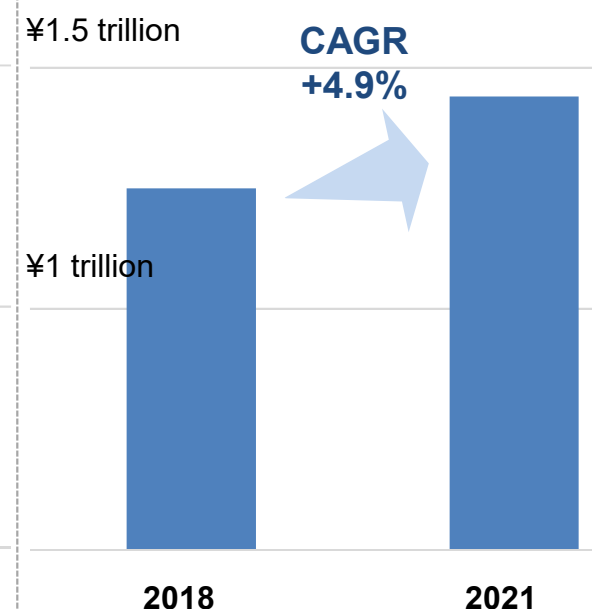
Data Centers



IT Security



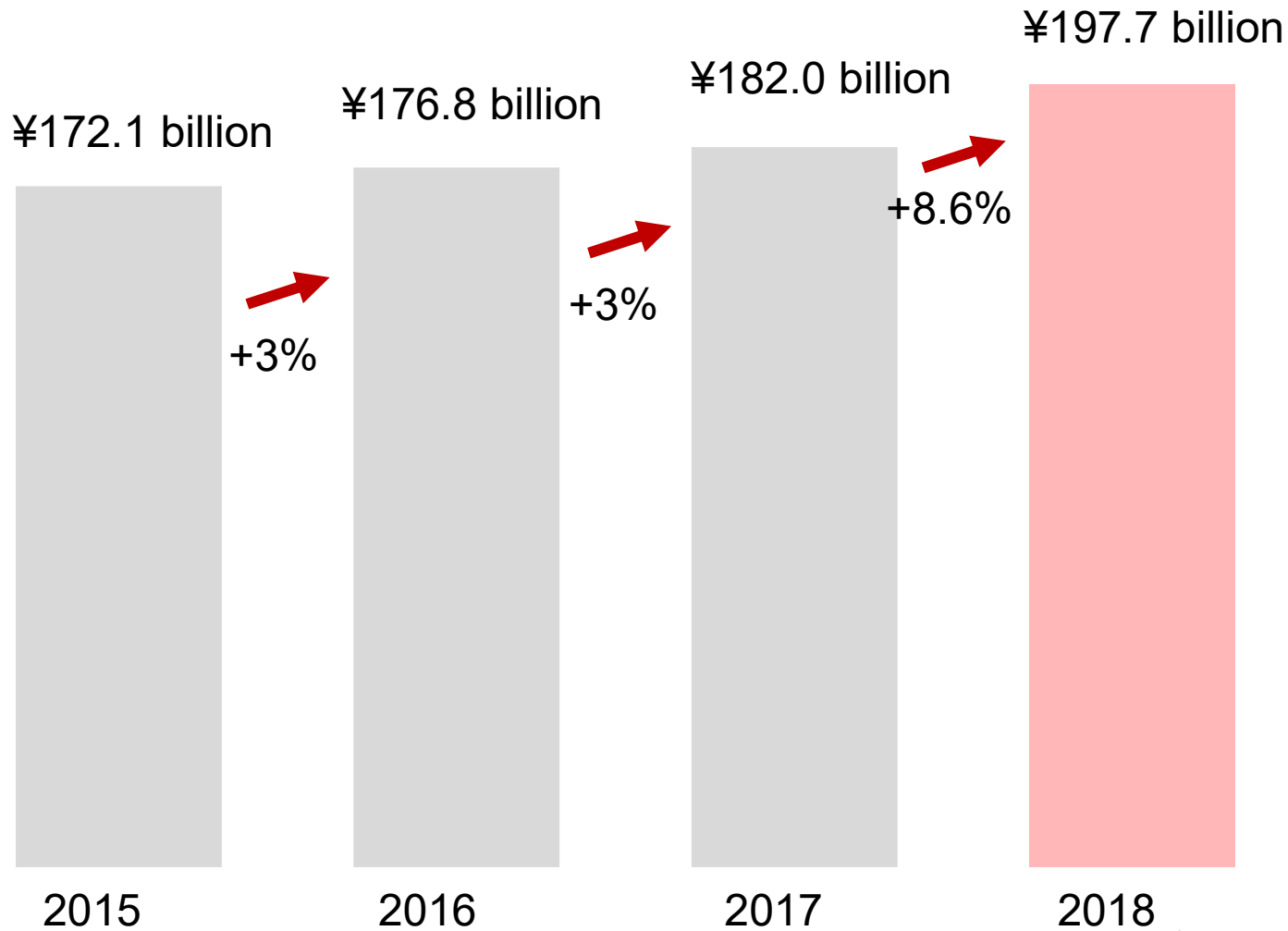
BPO



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.).

Changes in sales of the Group IT solutions

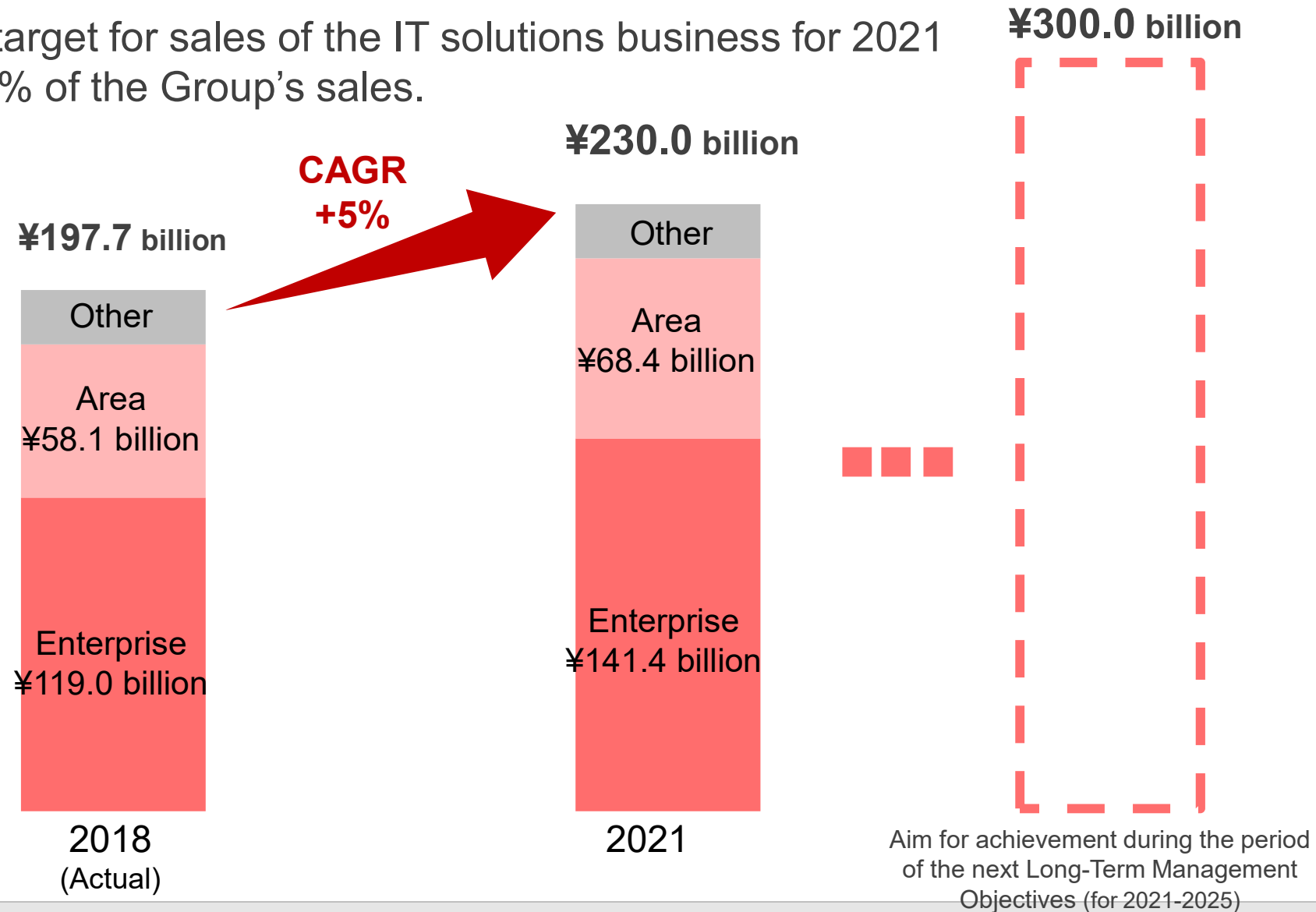


Achievement of growth exceeding market growth

*IT market growth: CAGR of approximately 3%

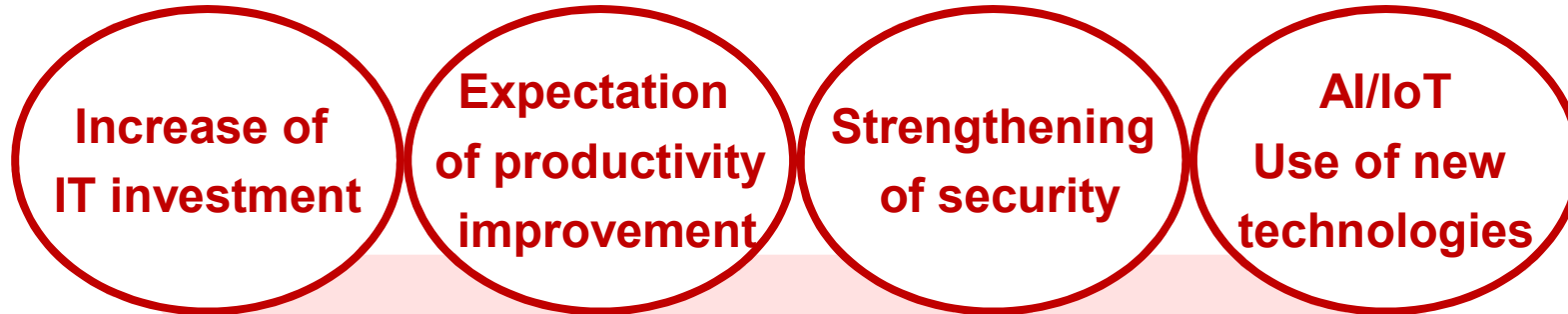
Sales plan of the Group IT solutions

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

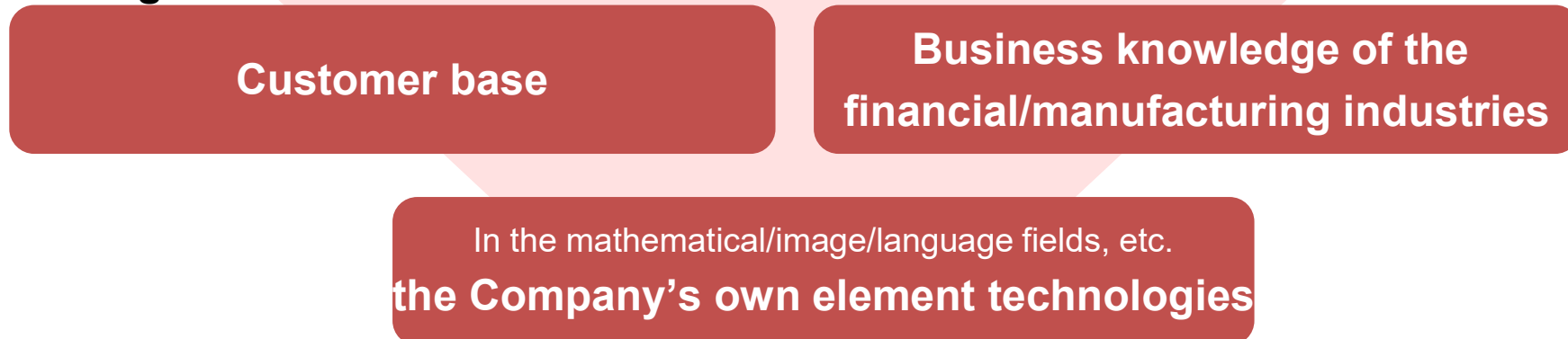


	Keywords for ITS expansion	Three-Year Management Plan for 2019-2021	ITS3000	Main growth driver
Strategy by customer group	Enterprise segment			<ul style="list-style-type: none"> ● Package-type SI expansion ● Creation of the business offering services ● Expansion of the area of solutions for business 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

More focus on the area of digital business to be created together with customers

- ✓ Enhancement of the model for providing services by utilizing extensive knowledge of industries/business operations
- ✓ Improvement of productivity by shifting from the model for development upon contract to increase of SI core/package SI

Course of action

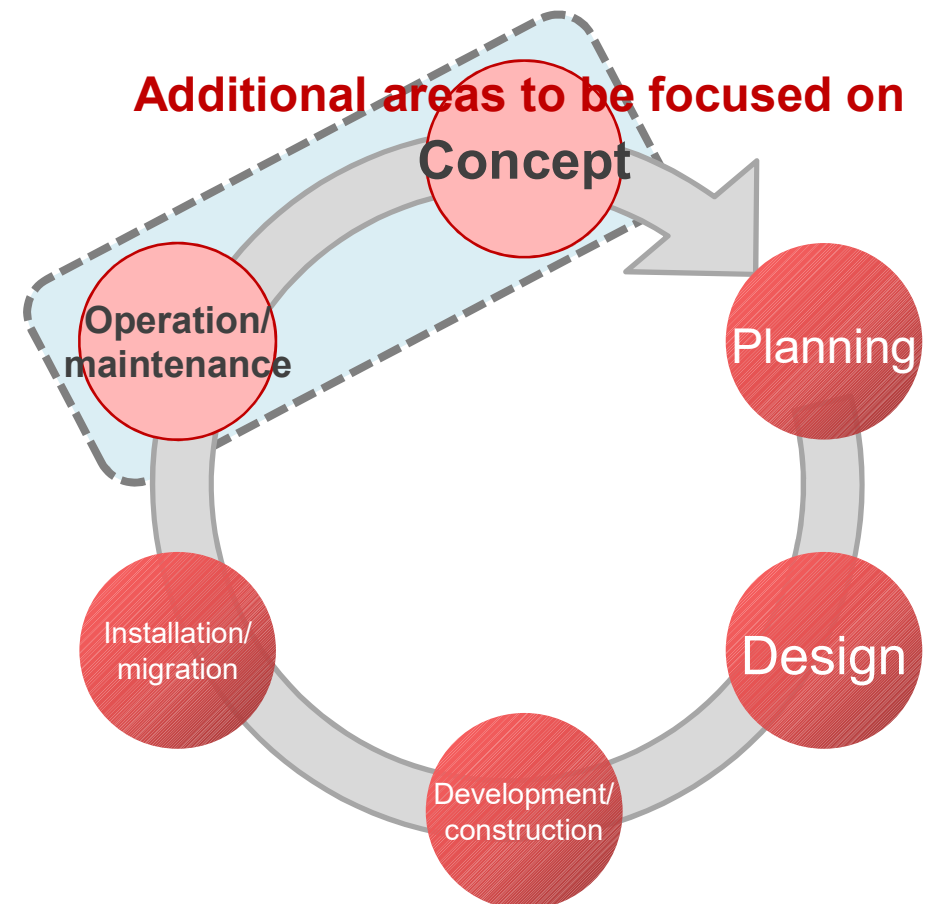
Enhancement of response throughout the IT life cycle from planning to operation/maintenance

- ✓ 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



Changes/needs of customers

Labor shortage
Productivity
improvement

Security
BCP response

Absence of
persons exclusively
in charge of IT

Strengths

Community-based customer base

Nationwide system for
assistance/support for installation

Provision of diverse kinds of value
Solutions for business operations/industries; total security
IT infrastructure construction (hardware/software)/
maintenance/support

Course of action

To become a partner for customers' IT utilization (IT concierge)

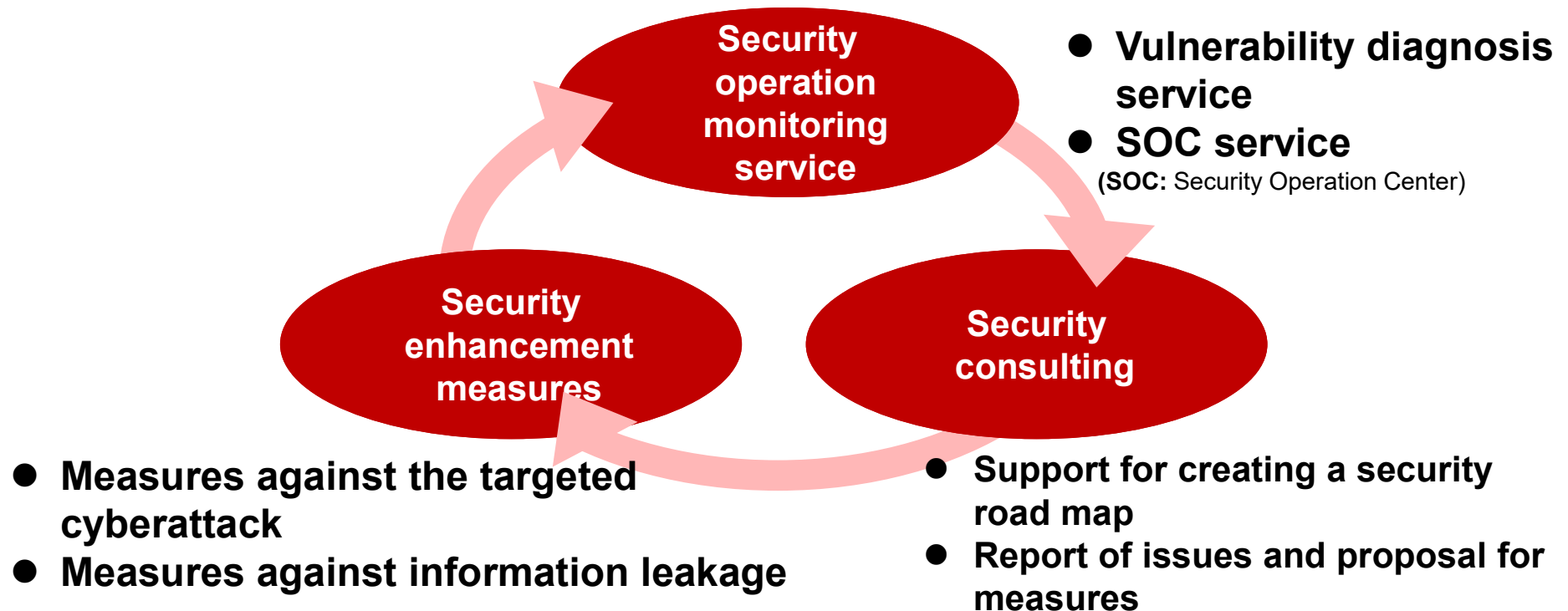
- ✓ To make a proposal to solve issues to cover the absence of persons exclusively in charge of IT
- ✓ Unique maintenance/operation services by combining off-site and on-site operations

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



Course of action

Establishment of the BPO model exclusively for business operations

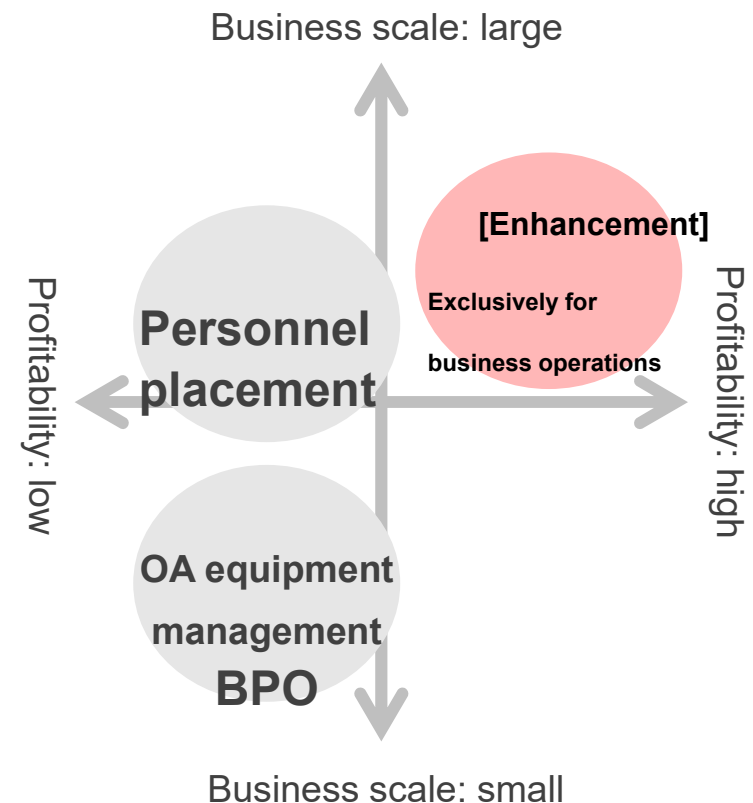
- ✓ Establishment of high-quality BPO services
- ✓ Enhancement of the proposal style to solve issues of customers with IT solutions and BPO
- ✓ Acceleration of growth by acquisition of professional human resources and M&A

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



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

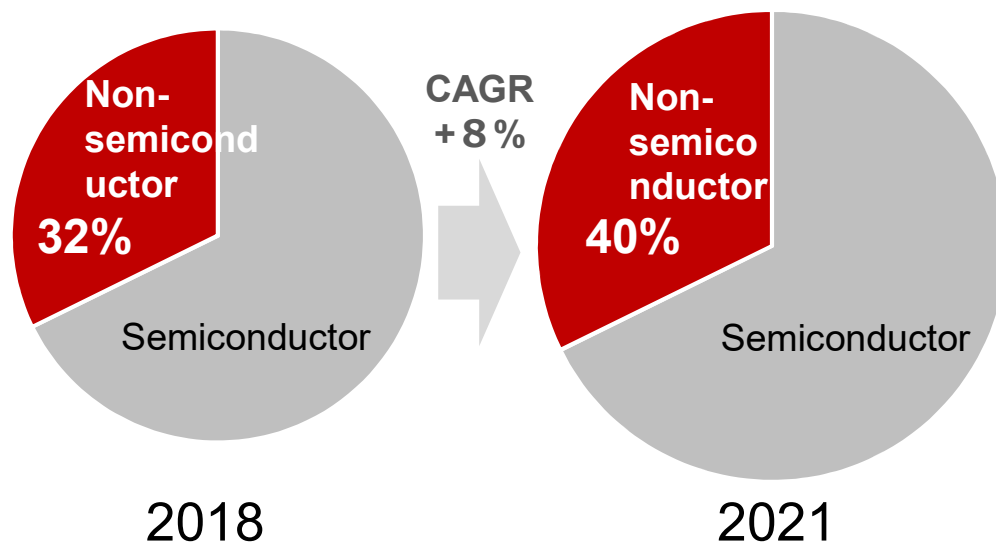
Data Center Services



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

Stable growth not affected by the economy

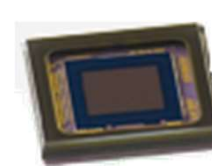
■ Growth by expansion of the non-semiconductor area



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

Non-semiconductor area

IoT vision



CMOS sensor

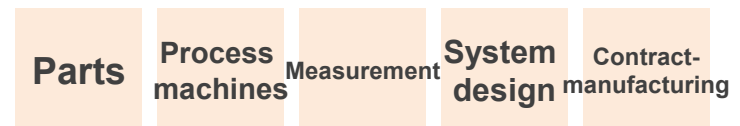


FA camera



Small camera for industrial use

Laser processing



New business

X-ray analysis equipment



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

1 Review of 2018

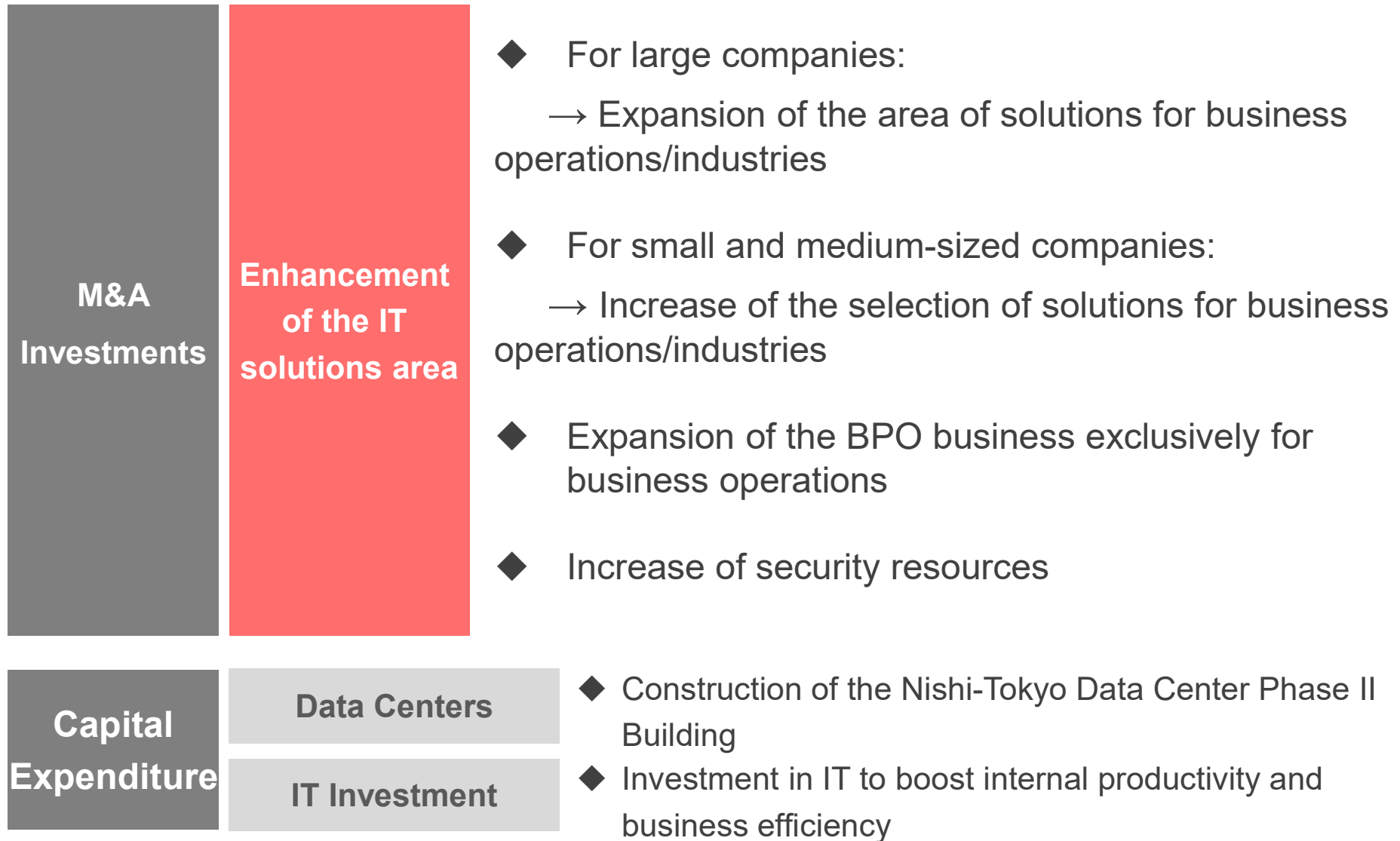
2 Three-Year Management Plan 2019-2021

3 Structural reforms/strategic investment/ return to shareholders

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

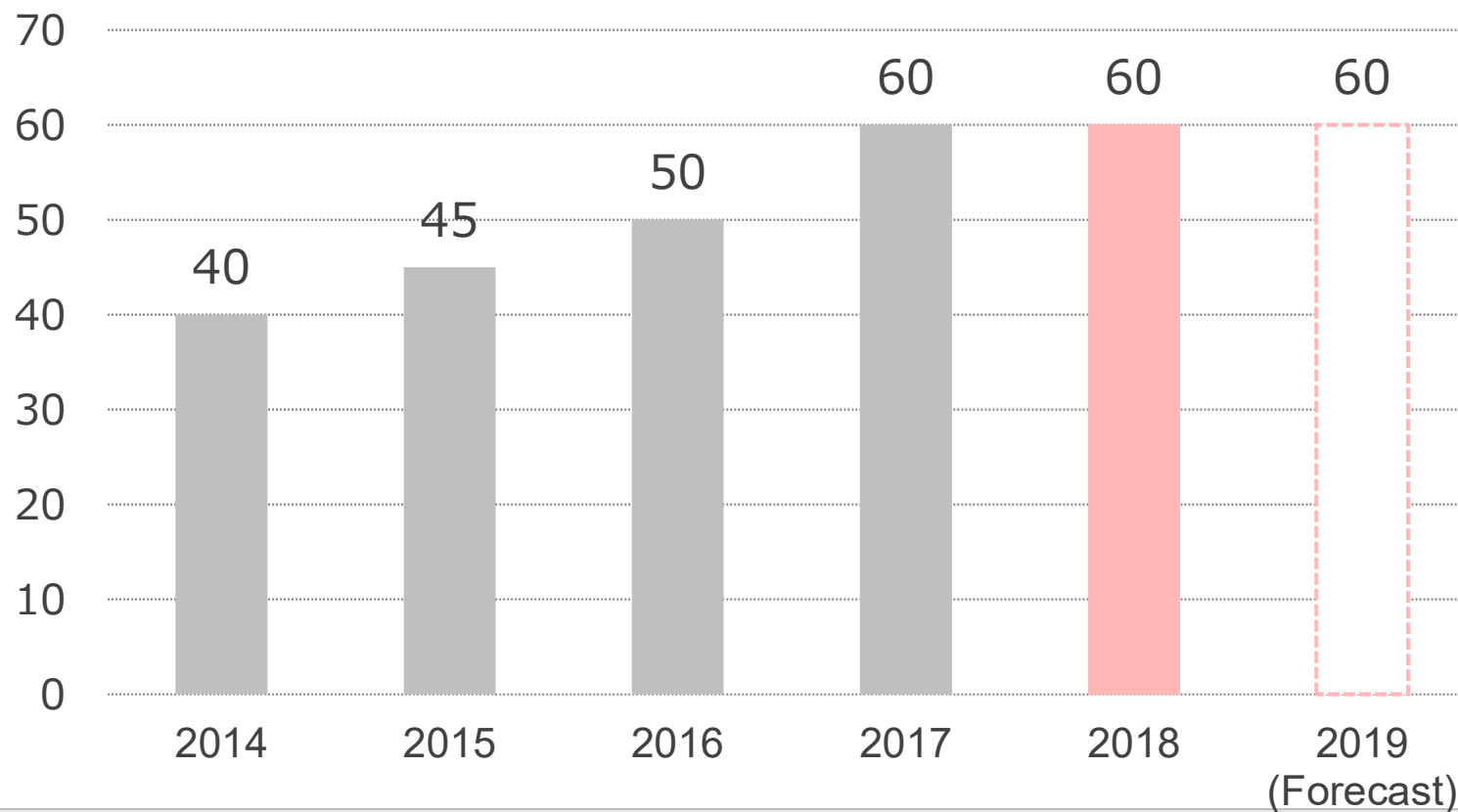




Dividend Policy

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.

Change in Annual Dividend Per Share (Yen)



Canon

Canon Marketing Japan Group

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.