

2Q 2019 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 2Q 2019 Results



Net sales **¥151.9 B (Y/Y +2.2B, +1%)**

✓Sales increased due to higher sales mainly for IT Solutions in the Enterprise and Area segments, offsetting decreased sales in the Consumers segment of digital interchangeable lens cameras and other products.

Operating Income **¥6.4 B (Y/Y +0.5B, +8%)**

✓Operating income increased due to higher profits achieved by the Area and Professional segments, offsetting decreased profits in the Consumers and Enterprise segments.

Profit attributable to owners of parent **¥4.7 B (Y/Y -0.3B, -5%)**

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Sales increased by 1%, to 151.9 billion yen, reflecting higher sales in the Enterprise and Area segments, where IT Solutions performed strongly, despite decreased sales in the Consumers segment, where decline in digital interchangeable lens cameras continued.

Operating income increased by 0.5 billion yen, to 6.4 billion yen, reflecting higher profits in the Area and Professional segments, offsetting decreased profits in the Consumer and Enterprise segments.

Profit attributable to owners of parent decreased by 0.3 billion yen year on year, to 4.7 billion yen because, in the same period a year ago, extraordinary income increased due to sales of investment securities and shares of subsidiaries.

Summary of Results

2Q 2019 Actual
(from April 1 to June 30)

Canon

(Billions of yen)

■ Summary of Results

	2Q 2018	2Q 2019	Changes	
			Amount	%
Net sales	149.7	151.9	+2.2	+1%
Gross profit	(35.4%) 53.0	(31.7%) 48.1	(-3.8%) -4.9	-9%
Operating income	(4.0%) 5.9	(4.2%) 6.4	(+0.2%) +0.5	+8%
Ordinary income	(4.6%) 6.9	(4.7%) 7.1	(+0.1%) +0.2	+3%
Profit attributable to owners of parent	(3.3%) 4.9	(3.1%) 4.7	(-0.2%) -0.3	-5%

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This slide shows a summary of the results of the second quarter.

Starting from this year, expenses related to service businesses which have been posted as expenses so far are reclassified as cost of sales.

I would like to give an explanation based on the results before reclassification shown on the next slide.

Summary of Results

Comparisons with Results
before the Reclassification

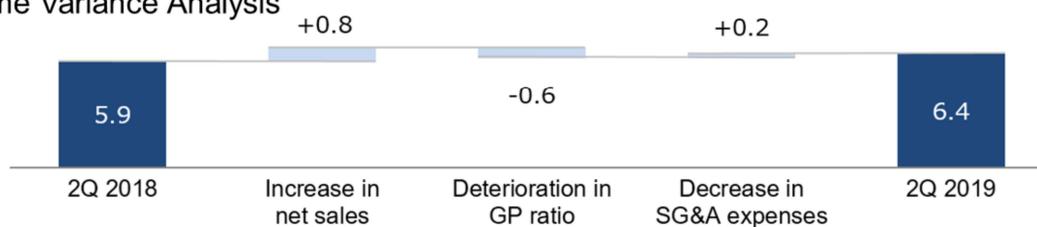


(Billions of yen)

Summary of Results

	2Q 2018	2Q 2019	Impact of the reclassification of services	2Q 2019 (before the reclassification)	Changes	
					Amount	%
Net sales	149.7	151.9	-	151.9	+2.2	+1%
Gross profit	(35.4%) 53.0	(31.7%) 48.1	5.1	(35.0%) 53.2	(-0.4%) +0.2	+0%
Operating income	(4.0%) 5.9	(4.2%) 6.4	-	(4.2%) 6.4	(+0.2%) +0.5	+8%
Ordinary income	(4.6%) 6.9	(4.7%) 7.1	-	(4.7%) 7.1	(+0.1%) +0.2	+3%
Profit attributable to owners of parent	(3.3%) 4.9	(3.1%) 4.7	-	(3.1%) 4.7	(-0.2%) -0.3	-5%

Op. Income Variance Analysis



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The slide shows comparisons based on the assumption of making the conditions for the financial results of the second quarter equal to those last year by resetting the impact of the reclassification of services.

As shown on the slide, gross margins increased slightly.

For a breakdown of SG&A expenses, please refer to slide 25.

Personnel expenses increased by 0.8 billion yen, but this was mainly due to an increase in retirement benefit expenses.

Segment Outline

2Q 2019 Actual
(from April 1 to June 30)



(Billions of yen)

	2Q 2018		2Q 2019		Changes	
	Net sales	Op. Income	Net sales	Op. Income	Net sales	Op. Income
Consumers	34.2	1.0	31.8	1.0	-2.4	-0.0
Enterprise	46.2	2.1	48.8	2.0	+2.6	-0.1
Area	63.4	2.8	65.2	3.2	+1.8	+0.4
Professional	11.1	-0.0	11.1	0.5	-0.1	+0.5
Other	-5.3	0.0	-4.9	-0.3	+0.3	-0.3
Total	149.7	5.9	151.9	6.4	+2.2	+0.5

Notes

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

*2 Visual Solutions, a sub-segment of the Professional segment, was transferred to the Enterprise and Area segments in 2019. In addition, the planning and development functions of the security business, which had been dispersed throughout the Group, were integrated into the marketing administration department operated solely by Canon Marketing Japan, resulting in changes in the amount of inter-segment transactions. The segments for the results of the previous year are restated according to the classification method for the current period.

Summary of Results

1Q-2Q 2019 Actual
(from January 1 to June 30)

Canon

(Billions of yen)

■ Summary of Results

	1Q-2Q 2018	1Q-2Q 2019	Changes	
			Amount	%
Net sales	300.5	302.9	+2.3	+1%
Gross profit	(34.9%) 105.0	(32.0%) 96.8	(-3.0%) -8.2	-8%
Operating income	(3.2%) 9.7	(4.4%) 13.4	(+1.2%) +3.8	+39%
Ordinary income	(3.7%) 11.0	(4.7%) 14.3	(+1.1%) +3.4	+30%
Profit attributable to owners of parent	(2.5%) 7.4	(3.1%) 9.4	(+0.6%) +2.0	+27%

Summary of Results

Comparisons with Results
before the Reclassification

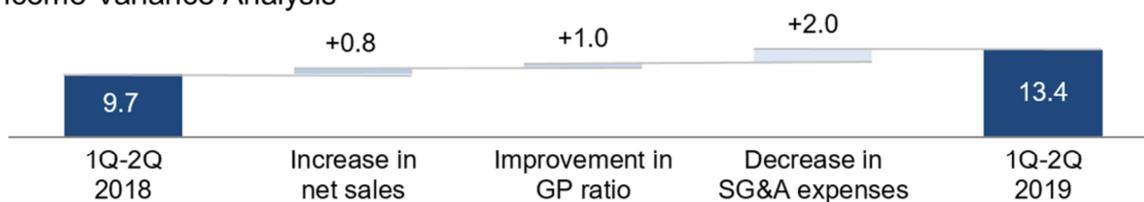


(Billions of yen)

Summary of Results

	1Q-2Q 2018	1Q-2Q 2019	Impact of the reclassification of services	1Q-2Q 2019 (before the reclassification)	Changes	
					Amount	%
Net sales	300.5	302.9	-	302.9	+2.3	+1%
Gross profit	(34.9%) 105.0	(32.0%) 96.8	10.0	(35.3%) 106.8	(+0.3%) +1.8	+2%
Operating income	(3.2%) 9.7	(4.4%) 13.4	-	(4.4%) 13.4	(+1.2%) +3.8	+39%
Ordinary income	(3.7%) 11.0	(4.7%) 14.3	-	(4.7%) 14.3	(+1.1%) +3.4	+30%
Profit attributable to owners of parent	(2.5%) 7.4	(3.1%) 9.4	-	(3.1%) 9.4	(+0.6%) +2.0	+27%

Op. Income Variance Analysis



Segment Outline

1Q-2Q 2019 Actual
(from January 1 to June 30)



(Billions of yen)

	1Q-2Q 2018		1Q-2Q 2019		Changes	
	Net sales	Op. Income	Net sales	Op. Income	Net sales	Op. Income
Consumers	61.0	-1.1	57.7	-0.3	-3.4	+0.8
Enterprise	93.4	4.3	98.7	5.5	+5.3	+1.2
Area	130.2	5.5	132.8	7.0	+2.6	+1.5
Professional	26.2	0.8	23.2	1.3	-3.0	+0.5
Other	-10.3	0.2	-9.6	-0.1	+0.7	-0.2
Total	300.5	9.7	302.9	13.4	+2.3	+3.8

Notes

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

*2 Visual Solutions, a sub-segment of the Professional segment, was transferred to the Enterprise and Area segments in 2019. In addition, the planning and development functions of the security business, which had been dispersed throughout the Group, were integrated into the marketing administration department operated solely by Canon Marketing Japan, resulting in changes in the amount of inter-segment transactions. The segments for the results of the previous year are restated according to the classification method for the current period. ⁸

Segment Information Consumers Segment



Net sales : 31.8 B (Y/Y -2.4B, -7%)

➤ Sales decreased due to a decline in sales of digital interchangeable lens cameras.

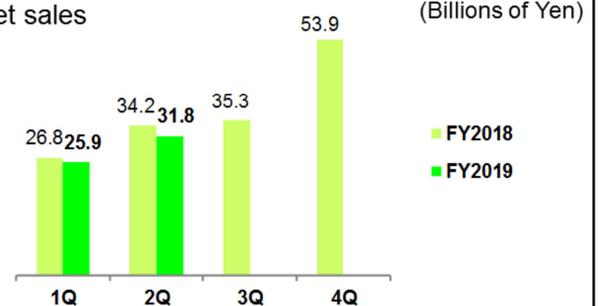
Operating income 1.0 B (Y/Y -0.0B, -3%)

➤ Although SG&A expenses decreased, gross profit also declined significantly due to the lower sales, and operating income decreased.

■ 2019 Actual v. 2018 Actual

	1Q-2Q 2018	1Q-2Q 2019	Changes
Net sales	61.0	57.7	-3.4
Op. income	-1.1	-0.3	+0.8

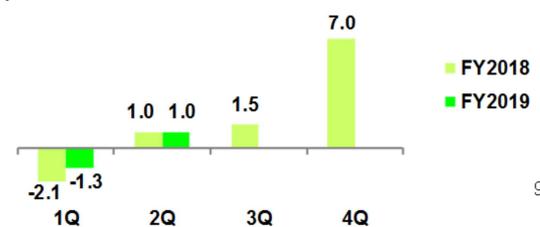
■ Net sales (Billions of Yen)



■ Net sales - Growth rate (Y/Y)

	1Q	2Q	3Q	4Q	FY
FY2019	-3%	-7%	-	-	-

■ Op. income



(Digital SLR Cameras)

The number of units sold was down by 34% year on year amid market contraction caused by the growing trend toward mirrorless cameras and other factors.

(Mirrorless Cameras)

The number of units sold decreased by 27% year on year in the absence of substantial growth in shipments of EOS Kiss M, which got off to a flying start, in the same period last year. The domestic market reported a negative growth rate of 5% on a sell-out basis. The Company maintained top market share position in terms of unit sales.

(Digital Interchangeable Lens Cameras)

As a result, the total number of digital interchangeable lens cameras sold decreased by 31% year on year.

(Compact Digital Cameras)

The number of units sold increased by 5% year on year, with the Company substantially increasing its market share despite market contraction.

(Inkjet Printers)

With respect to printers, the number of shipments increased by 8% year on year, reflecting strengthening of the lineup of business inkjet printers and the launch of a new product featuring GIGA TANK, a large capacity ink tank, in June. Sales of ink cartridges declined by 4% year on year, as a result of a decrease in MIF (Machines in Field) for home inkjet printers.

(IT Products)

Sales of IT products increased due to the continued solid performance of gaming PCs, among other products.

Net sales : 48.8 B (Y/Y +2.6B, +6%)

➤ Sales increased, reflecting the steady performance of IT Solutions, such as SI services and IT infrastructure services.

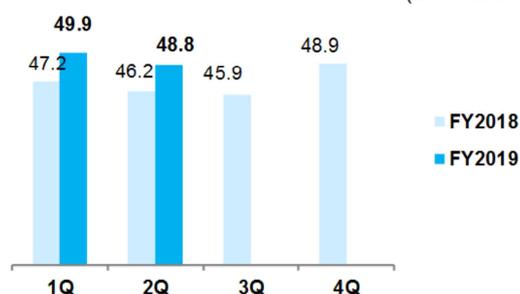
Operating income 2.0B (Y/Y -0.1B, -5%)

➤ Operating income decreased mainly due to unprofitable projects in Canon IT Solutions Inc. and increased SG&A expenses.

■ 2019 Actual v. 2018 Actual

	1Q-2Q 2018	1Q-2Q 2019	Changes
Net sales	93.4	98.7	+5.3
Op. income	4.3	5.5	+1.2

■ Net sales (Billions of Yen)



■ Net sales - Growth rate (Y/Y)

	1Q	2Q	3Q	4Q	FY
FY2019	+6%	+6%			

■ Op. income



(Financial)

In the Financial Sector, sales decreased mainly due to the absence of large SI projects for megabanks and large projects involving office MFPs in the previous year, despite a solid performance in SI projects for securities companies and orders received for investment product sales support system projects for shinkin banks, among other projects.

(Manufacturing)

In the Manufacturing Sector, sales increased, mainly reflecting solid results in areas such as system integration platform development projects for the construction industry and demand forecast system projects for beverage makers and food makers.

(Others)

In the Others Sector, sales increased mainly due to orders for large projects involving operational data collection terminals for local governments in the public sector and orders received for platform construction projects for universities in the education sector. Meanwhile, IT Products also performed strongly, especially business PCs.

(Main Business Equipment)

In the Business Equipment Sector of the Enterprise Segment, shipments of office MFPs decreased mainly due to sluggish market conditions and withdrawal from unprofitable projects. Shipments of laser printers increased, driven by large projects for the Financial Sector.

(Affiliated Companies)

The sales of Canon IT Solutions increased by 8% year on year, to 22.63 billion yen, and its operating income rose by 0.07 billion yen, to 1.84 billion yen.

■ SI services posted year-on-year sales growth of 6%, reflecting solid performances in SI projects for securities companies and migration projects for local governments

■ IT infrastructure services posted year-on-year sales growth of 15%, reflecting solid performances in data center services, products such as ESET as well as the infrastructure business.

■ Sales of engineering decreased by 6% year on year, mainly reflecting decline in projects for specific customers in the manufacturing sector and the 3D solution business despite solid performances in areas such as embedded systems for in-vehicle use and electric equipment manufacturers.

[Orders and Order Backlog]

Orders suffered a temporary 8% decline due to the absence of large SI projects for the financial sector and migration projects for local governments ordered last year and also because it was part of the year when business was slack. However, orders are expected to pick up from 3Q. The Order Backlog grew by 25% mainly due to the receipt of orders for the data center II in 1Q.

Segment Information Area Segment

Net sales : 65.2 B (Y/Y +1.8B, +3%)

- Sales increased due to a rise in sales of IT solutions for small and medium enterprises, which offset a decline in sales of the main business equipment.

Operating income 3.2 B (Y/Y +0.4B, +13%)

- Operating income increased, mainly reflecting higher gross profit resulting from increased sales in the IT Solution business and reductions in SG&A expenses.

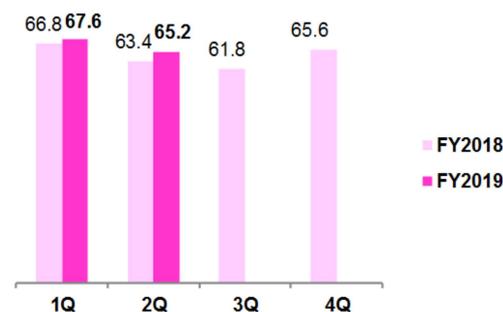
■ 2019 Actual v. 2018 Actual

	1Q-2Q 2018	1Q-2Q 2019	Changes
Net sales	130.2	132.8	+2.6
Op. income	5.5	7.0	+1.5

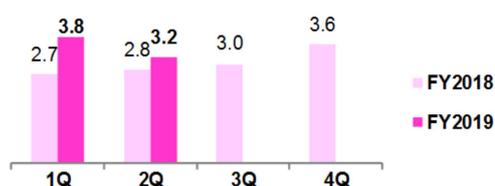
■ Net sales - Growth rate (Y/Y)

	1Q	2Q	3Q	4Q	FY
FY2019	+1%	+3%			

■ Net sales (Billions of Yen)



■ Op. income



(Business Equipment)

With respect to Business Equipment, the number of Office MFPs shipped decreased slightly due to weak market conditions, despite multiple lot projects. Shipments of laser printers increased, mainly due to the acquisition of large projects for the retail industry in addition to efforts made to promote sales for specific industries.

(IT Solutions)

IT solutions maintained the strong performance seen in Q1 thanks to the progress in the replacement of business PCs attributable to the termination of extended support services for Windows 7 as well as a combined proposal of the HOME IT support cloud service for the Office 365 and the ESET antivirus software. In addition, shipments of different types of software for operation efficiency improvements, for which demand is growing among small- and medium-sized companies, remained strong mainly due to demand for updates ahead of the tax hike.

(Affiliated Companies)

Although Canon System & Support Inc.'s business equipment performed sluggishly, IT solutions remained strong, and sales increased by 5% year on year, to 30.69 billion yen. Operating income rose 0.27 billion yen year on year, to 1.2 billion yen.

[Main Business Equipment]

For details of the overall performance of Business Equipment, please refer to the Business Equipment section in the Supplementary Material.

(Network Cameras)

Looking at Group total 2Q results for network cameras, outlined in the Supplementary Material, sales of network cameras for monitoring applications to plants, stores and stadiums were brisk, and the VisualStage cloud service, Xprotect and other video platform projects also increased as business that adds values to the existing network camera equipment business, and net sales increased sharply, rising 35% year on year.

Segment Information Professional Segment



Net sales : 11.1 B (Y/Y -0.1B, -1%)

- Sales decreased due to the poor performance of the production printing business, which was offset by the steady performance of the healthcare business..

Operating income 0.5 B (Y/Y +0.5B, -%)

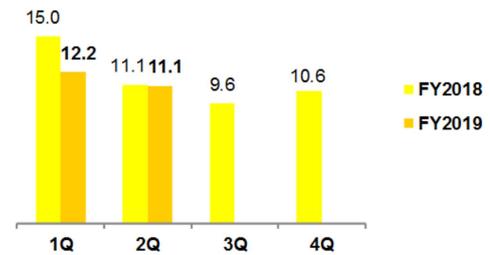
- Profits improved, mainly reflecting reductions in SG&A expenses.

■ 2019 Actual v. 2018 Actual

	1Q-2Q 2018	1Q-2Q 2019	Changes
Net sales	26.2	23.2	-3.0
Op. income	0.8	1.3	+0.5

■ Net sales

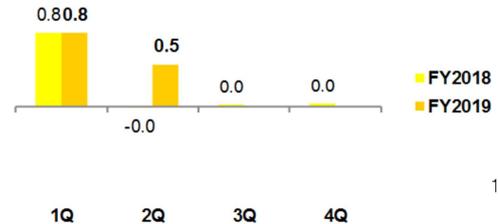
(Billions of Yen)



■ Net sales - Growth rate (Y/Y)

	1Q	2Q	3Q	4Q	FY
FY2019	-19%	-1%			

■ Op. income



Segment Information Professional Segment



■ Net sales - Growth rate (Y/Y)

	FY2019	
	1Q Results	2Q Results
Production Printing	+1%	-22%
Industrial Equipment	-34%	-2%
Healthcare Business	-13%	+19%

■ Production Printing

Sales decreased, mainly due to the poor performance of monochrome and color continuous feed printers.

■ Industrial Equipment

Sales decreased due to the termination of sales agency agreements with overseas manufacturers with which a sizable amount of businesses had been conducted in the non-semiconductor sector, offsetting the strong performance of the semiconductor sector.

■ Healthcare Business

Sales increased, reflecting the significant growth of medical IT for hospitals as well as a rise in sales of digital radiography.

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[Professional] Subsegments

(Production Printing)

Sales decreased by 22% year on year mainly due to the poor performance of monochrome and color continuous feed printers.

As for affiliated companies, Canon Production Printing Systems posted sales of 2.47 billion yen, down by 25% year on year, and operating income of 0.04 billion yen, an improvement of 0.08 billion yen year on year, partly due to lower personnel expenses as a result of reassignment of personnel within the Group and other initiatives.

The second row down from "Business Products" in the Supplementary Material shows the year-on-year increase in sales for "Group Commercial Printing," which is production printing plus production printing business for which sales are recorded in other segments. "Group Commercial Printing" posted decline of 11% in 2Q, with growth in cut sheet printer business in the Enterprise and Area segments.

(Industrial Equipment)

Sales decreased by 2% year on year, mainly due to the termination of sales agency agreements with overseas manufacturers with which a sizable amount of business had been conducted in the non-semiconductor sector despite strong performances in inspection and measurement equipment and maintenance services.

(Healthcare)

Sales increased by 19% year on year, reflecting substantial growth in medical IT i.e. SI and platform construction for hospitals, and increased sales of digital radiography.

As for affiliated companies, Canon Lifecare Solutions posted sales of 2.69 billion yen, down 2% year on year due to a decrease in unit sales of sterilizers in the infection management field. Operating income was also down slightly, to 0.03 billion yen.

Overall Sales of IT Solutions



(Billions of Yen)

■ Sales of IT Solutions by Segment

	2Q 2018	2Q 2019	Changes	
			Amount	%
Enterprise segment	28.7	32.7	+4.0	+14%
Area segment	14.6	17.7	+3.1	+21%
Other	4.5	5.5	+1.0	+22%
Total	47.8	55.9	+8.1	+17%

	1Q-2Q 2018	1Q-2Q 2019	Changes	
			Amount	%
Enterprise segment	58.0	64.5	+6.5	+11%
Area segment	29.8	35.6	+5.8	+20%
Other	10.1	11.1	+1.0	+10%
Total	97.9	111.1	+13.3	+14%

■ Reference: Overall IT Security

	Y/Y 2018 vs 2019	
	2Q	1Q-2Q
Overall IT Security Amount	+0%	+1%

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This slide shows overall sales of IT solutions.

Overall, sales increased by 17%, reflecting continued solid performances in each of the Enterprise and Area segments as well as growth in medical IT.

IT security sales were mostly unchanged year on year.

Summary of Projections



FY2019 Current Projection v. Previous Projection

(Billions of Yen)

	FY2019 Previous projection	FY2019 Current Projection	Changes		【Reference】		
			Amount	%	FY2018 Actual	Changes	
						Amount	%
Net Sales	622.0	622.0	-	-	621.6	+0.4	+0%
Operating Income	(4.7%) 29.5	(4.8%) 30.0	(+0.1%) +0.5	+2%	(4.7%) 28.9	(+0.2%) +1.1	+4%
Ordinary Income	(4.9%) 30.7	(5.0%) 31.2	(+0.1%) +0.5	+2%	(4.9%) 30.5	(+0.1%) +0.7	+2%
Profit attributable to owners of parent	(3.4%) 20.9	(3.4%) 21.0	(+0.0%) +0.1	+0%	(3.4%) 20.8	(+0.0%) +0.2	+1%

Summary of Projections by Segment



FY2019 Current Projection v. Previous Projection

(Billions of Yen)

	FY2019		FY2019		Changes		
	Previous Projection		Current Projection				
	Net Sales	Op. Income	Net Sales	Op. Income	Net Sales Amount	%	Op. Income
Consumers	138.8	6.9	138.8	6.9	-	-	-
Enterprise	190.0	9.7	191.0	9.9	+1.0	+1%	+0.2
Area	262.9	12.1	261.9	12.6	-1.0	-0%	+0.5
Professional	48.7	1.1	48.7	1.2	-	-	+0.1
Other	-18.4	-0.3	-18.4	-0.6	-	-	-0.3
Total	622.0	29.5	622.0	30.0	-	-	+0.5

Notes

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

*2 Visual Solutions, a sub-segment of the Professional segment, was transferred to the Enterprise and Area segments in 2019. In addition, the planning and development functions of the security business, which had been dispersed throughout the Group, were integrated into the marketing administration department operated solely by Canon Marketing Japan, resulting in changes in the amount of inter-segment transactions. The segments for the results of the previous year are restated according to the classification method for the current period.

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This slide shows a summary of projections by segment.

In light of progress made in the first six months, the Company has slightly adjusted its sales projections for the Enterprise and Area segments and raised its operating income projections for each of the Enterprise, Area and Professional segments, as you can see.

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	191.0	9.9	+2.8	+2%	+1.2
Area	257.6	12.1	261.9	12.6	+4.3	+2%	+0.5
Professional	46.4	0.9	48.7	1.2	+2.3	+5%	+0.3
Other	-20.8	-0.1	-18.4	-0.6	+2.4	-	-0.5
Total	621.6	28.9	622.0	30.0	+0.4	+0%	+1.1

Notes

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

*2 Visual Solutions, a sub-segment of the Professional segment, was transferred to the Enterprise and Area segments in 2019. In addition, the planning and development functions of the security business, which had been dispersed throughout the Group, were integrated into the marketing administration department operated solely by Canon Marketing Japan, resulting in changes in the amount of inter-segment transactions. The segments for the results of the previous year are restated according to the classification method for the current period.

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Consumers

- 3Q and 4Q: Both sales and operating income are expected to decrease due to the continuous decline in sales of digital SLR cameras, coupled with lower sales of inkjet printers for home use.
- Full year: The numbers for digital interchangeable lens cameras and inkjet printers expected to be sold have been revised downwards. Earnings forecasts remain unchanged, mainly reflecting rises in sales price. Accordingly, net sales will be 138.8 billion yen, or a decrease of 8% year on year, and operating income will decline 0.4 billion yen year on year, to 6.9 billion yen.

Enterprise

- 3Q and 4Q: Sales are expected to decrease due to the absence of a number of large projects related PCs for business use that were won in the previous year, offsetting large orders for the main business equipment and the continuous strong performance of Canon IT Solutions Inc. Operating income is expected to remain flat, mainly due to an increase in personnel expenses, despite higher gross profit resulting from the solid performance of IT Solutions.
- Full year: Net sales, which have been revised upwards by 1.0 billion yen, mainly reflecting large orders for the main business equipment and the strong performance of IT Solutions in the first half, are expected to be 191.0 billion yen, or an increase of 2% year on year. Operating income, which has been revised upwards by 0.2 billion yen year on year, is expected to increase 1.2 billion yen year on year, to 9.9 billion yen, reflecting higher gross margins resulting from increased sales in the first half.

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[Consumers]

In the second half, both sales and operating income are expected to decrease due to the continuous decline in sales of digital SLR cameras, coupled with lower sales of inkjet printers and cartridges for home use mainly as a result of falling demand for New Year's cards.

As for the full-year projections, the numbers for digital interchangeable lens cameras and inkjet printers expected to be sold have been revised downwards. However, earnings forecasts remain unchanged, mainly reflecting rises in sales price.

Please refer to the Supplementary Material for full-year projections by product as these have changed in light of progress in the first half.

The projection for digital interchangeable lens cameras has been lowered, together with that for digital SLR and mirrorless cameras, and has been revised down from a year-on-year decrease of 15% to a decrease of 21%. The projection for inject printers has also been revised down from a year-on-year decrease of 5% to a decrease of 7%.

[Enterprise]

Sales are expected to decrease due to the absence of a number of large projects related PCs for business use that were won in the previous year, offsetting large orders for the main business equipment and the continuous strong performance of Canon IT Solutions Inc.

Operating income is expected to remain flat, mainly due to an increase in personnel expenses and other SG&A expenses, despite higher gross profit resulting from the solid performance of IT Solutions.

On a full-year basis, net sales, which have been revised upwards by 1.0 billion yen, mainly reflecting large orders for the main business equipment and the strong performance of IT Solutions in the first half, are expected to be 191.0 billion yen, or an increase of 2% year on year. Operating income, which has been revised upwards by 0.2 billion yen year on year, is expected to increase 1.2 billion yen year on year, to 9.9 billion yen, reflecting higher gross margins resulting from increased sales of IT solutions.

Area

- 3Q and 4Q: Sales are expected to increase, mainly due to higher sales in security and operation/maintenance services and the proactive sales promotion of office MFP, although a spike in demand for the replacement of PCs for business use will be mitigated. Operating income is expected to decline, mainly due to rises in and SG&A expenses, such as sales promotion expenses and personnel expenses, resulting from the sales promotion of office MFP.
- Full year: Sales, which have been revised downwards by 1.0 billion yen in consideration of the progress in the first six months, are expected to be 261.9 billion yen, or an increase of 2% year on year. Operating income is expected to rise 0.5 billion yen year on year, to 12.6 billion yen, mainly reflecting an increase in gross profit resulting from higher sales related to IT Solutions.

Professional

- 3Q and 4Q: Sales are expected to rise in production printing, industrial equipment and healthcare businesses.
- Full year: There is no change from the previous projection. Sales are expected to increase 5% year on year. Operating income has been revised upwards by 0.1 billion yen from the previous projection, reflecting the upward swing in the first half, and is expected to rise 0.3 billion yen year on year, to 1.2 billion yen.

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[Area]

In the second half, the IT solutions business is expected to grow due to higher sales of security and operation/maintenance services as a result of growing IT investment demand among small and mid-sized enterprises wanting to improve operational efficiency and productivity and this will offset less intensive replacement of PCs for business use. Sales of office MFPs will also be actively expanded, especially the new product released in January, and overall segment sales are expected to increase. However, operating income is expected to decline, mainly due to rises in SG&A expenses, such as sales promotion expenses and personnel expenses, resulting from the sales promotion of office MFP.

On a full-year basis, sales, which have been revised downwards by 1.0 billion yen in consideration of the progress in the first six months, are expected to be 261.9 billion yen, or an increase of 2% year on year. The operating income projection has been raised to reflect an increase in gross profit resulting from higher sales related to IT Solutions and reduction in SG&A expenses, and operating income is now expected to rise 0.5 billion yen year on year, to 12.6 billion yen.

Looking at the full-year "Business Products" sales projections across all segments, shown in the Supplementary Material, although the full-year projection for Office MFP has been lowered from a year-on-year increase of 3% to year-on-year decline of 0%, the projections for maintenance services and laser printers have both been raised, from a 2% decline to a 1% decline and from a 2% decrease to a 0% increase respectively.

[Professional]

(Production Printing)

In the second half, sales are expected to increase on anticipation of orders received for Océ monochrome and color continuous feed printers mainly in 4Q. On a full-year basis, sales are expected to rise by 6% year on year, with no change to the previous projection.

(Industrial Equipment)

In the second half, sales are expected to rise due to solid performance in inspection equipment and maintenance services for semiconductor manufacturers. On a full-year basis, sales are expected to rise by 1% year on year, with no change to the previous projection, despite concern over the impact of postponement of capital investment associated with customers' production adjustments.

(Healthcare)

Medical IT will remain solid and growth in digital radiography is expected. Given that new products in areas such as ophthalmic equipment will also be released, sales are expected to increase in the second half. On a full-year basis, there is no change to the previous projection, and sales are expected to climb by 8% year on year.

As a result, sales in the Professional segment are expected to increase 5% year on year on a full-year basis, to 48.7 billion yen. Operating income has been revised upwards by 0.1 billion yen from the previous projection, reflecting the upward swing in the first half, and is expected to rise 0.3 billion yen year on year, to 1.2 billion yen.

Supplementary Information

FY2018



Financial results after the segment reclassification

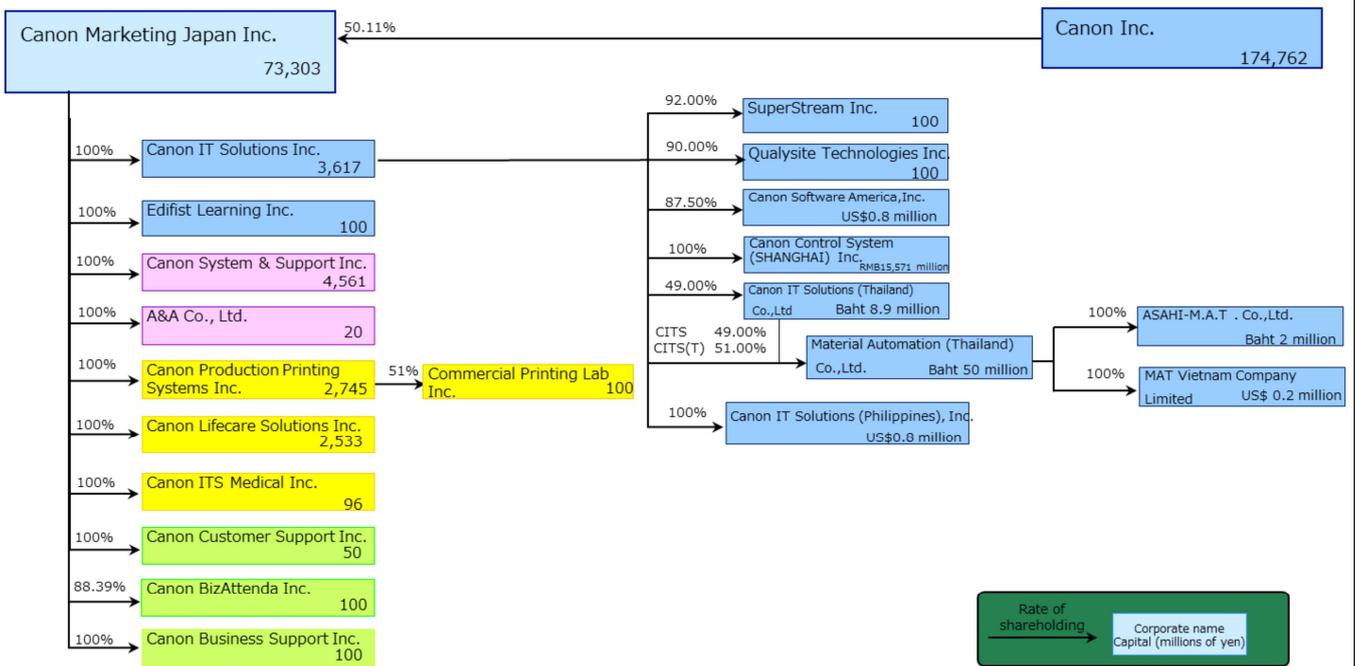
	FY2018								(Billions of Yen)
	1Q		2Q		3Q		4Q		
	Net sales	Op. Income							
Consumers	26.8	-2.1	34.2	1.0	35.3	1.5	53.9	7.0	
Enterprise	47.2	2.2	46.2	2.1	45.9	1.7	48.9	2.7	
Area	66.8	2.7	63.4	2.8	61.8	3.0	65.6	3.6	
Professional	15.0	0.8	11.1	-0.0	9.6	0.0	10.6	0.0	
Other	-5.0	0.2	-5.3	0.0	-5.2	0.0	-5.3	-0.2	
Total	150.8	3.7	149.7	5.9	147.4	6.2	173.7	13.0	

Notes

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

*2 Visual Solutions, a sub-segment of the Professional segment, was transferred to the Enterprise and Area segments in 2019. In addition, the planning and development functions of the security business, which had been dispersed throughout the Group, were integrated into the marketing administration department operated solely by Canon Marketing Japan, resulting in changes in the amount of inter-segment transactions. The segments for the results of the previous year are restated according to the classification method for the current period.

Capital Relationship Diagram



As of June 30, 2019

Results of main consolidated companies



(Billions of Yen)

		2Q FY2018		2Q FY2019		Changes	
						Amount	%
Enterprise							
Canon IT Solutions Inc.	Net sales	20.87		22.63		+1.75	+8%
	Op. income	1.78	(8.5%)	1.84	(8.1%)	+0.07	(-0.4%)
Area							
Canon System & Support Inc.	Net sales	29.23		30.69		+1.46	+5%
	Op. income	0.92	(3.2%)	1.20	(3.9%)	+0.27	(+0.7%)
Professional							
Canon Production Printing Systems Inc.	Net sales	3.29		2.47		-0.82	-25%
	Op. income	-0.04	(-)	0.04	(1.7%)	+0.08	(-)
Canon Lifecare Solutions Inc.	Net sales	2.74		2.69		-0.05	-2%
	Op. income	0.03	(1.2%)	0.03	(1.2%)	-0.00	(-0.0%)

* The results of the main affiliated companies for the previous year are also presented after the reclassification of such results due to changes in segment classification.

Results of main consolidated companies



(Billions of Yen)

		1Q-2Q FY2018		1Q-2Q FY2019		Changes	
						Amount	%
Enterprise							
Canon IT Solutions Inc.	Net sales	42.01		46.34		+4.33	+10%
	Op. income	3.49	(8.3%)	4.99	(10.8%)	+1.51	(+2.5%)
Area							
Canon System & Support Inc.	Net sales	59.89		62.01		+2.12	+4%
	Op. income	1.72	(2.9%)	2.44	(3.9%)	+0.73	(+1.1%)
Professional							
Canon Production Printing Systems Inc.	Net sales	6.15		5.37		-0.78	-13%
	Op. income	-0.26	(-)	0.10	(1.8%)	+0.35	(-)
Canon Lifecare Solutions Inc.	Net sales	6.15		5.80		-0.35	-6%
	Op. income	0.18	(2.9%)	0.14	(2.5%)	-0.04	(-0.4%)

* The results of the main affiliated companies for the previous year are also presented after the reclassification of such results due to changes in segment classification.

SG&A expenses



(Billions of Yen)

	FY 2018	FY 2019	Impact of the reclassification of services	FY 2019	Changes
	2Q	2Q		2Q (before the reclassification)	2Q
Advertising expenses	1.9	1.9	-	1.9	+0.0
Promotion expenses	1.1	0.8	-	0.8	-0.3
Warranty expenses	1.1	0.9	0.1	1.0	-0.2
Other direct selling expenses	4.9	4.7	-	4.7	-0.2
Personnel expenses	30.4	26.4	4.8	31.2	+0.8
Depreciation and amortization	0.3	0.2	-	0.2	-0.1
Other selling expenses	7.3	6.8	0.2	7.0	-0.3
Total	47.1	41.7	5.1	46.8	-0.2

SG&A expenses



(Billions of Yen)

	FY 2018	FY 2019	Impact of the reclassification of services	FY 2019	Changes
	1Q-2Q	1Q-2Q		1Q-2Q (before the reclassification)	
Advertising expenses	3.8	3.6	-	3.6	-0.2
Promotion expenses	2.3	1.7	-	1.7	-0.5
Warranty expenses	2.4	1.9	0.1	2.0	-0.3
Other direct selling expenses	9.7	9.3	-	9.3	-0.4
Personnel expenses	61.9	52.9	9.4	62.3	+0.4
Depreciation and amortization	0.6	0.4	-	0.4	-0.2
Other selling expenses	14.6	13.6	0.4	14.0	-0.6
Total	95.3	83.4	10.0	93.4	-2.0

Non-operating income and expenses



(Billions of Yen)

■ Non-operating income

	FY 2018		FY 2019		Changes	
	2Q	1Q-2Q	2Q	1Q-2Q	2Q	1Q-2Q
Interest income	0.1	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	-0.1	-0.1
Gain on investments in partnership	0.2	0.5	0.0	0.2	-0.2	-0.3
Other	0.1	0.3	0.1	0.2	+0.0	-0.1
Total	1.0	1.5	0.7	1.0	-0.3	-0.4

■ Non-operating expenses

	FY 2018		FY 2019		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	0.1	0.1	0.0	0.1	-0.0	-0.0
Total	0.1	0.1	0.0	0.1	-0.0	-0.0

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Extraordinary income and expenses



(Billions of Yen)

■ Extraordinary income

	FY 2018		FY 2019		Changes	
	2Q	1Q-2Q	2Q	1Q-2Q	2Q	1Q-2Q
Gain on sales of fixed assets	0.0	0.1	0.0	0.0	+0.0	-0.1
Gain on sales of investments in securities	0.4	0.4	-	-	-0.4	-0.4
Gain on sales of shares of subsidiaries and associates	0.2	0.2	-	-	-0.2	-0.2
Total	0.6	0.7	0.0	0.0	-0.6	-0.7

■ Extraordinary expenses

	FY 2018		FY 2019		Changes	
	2Q	1Q-2Q	2Q	1Q-2Q	2Q	1Q-2Q
Loss on sales and disposal of	0.1	0.1	0.1	0.1	+0.1	+0.0
Loss on impairment of fixed assets	0.0	0.0	-	-	-0.0	-0.0
Loss on valuation of investments in securities	-	0.1	0.0	0.0	+0.0	-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	0.1	0.3	0.1	0.2	+0.0	-0.1

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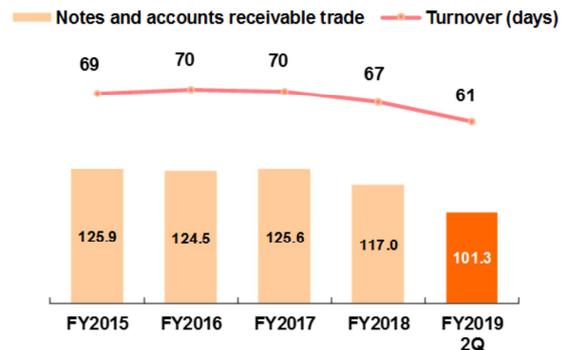
Balance Sheets



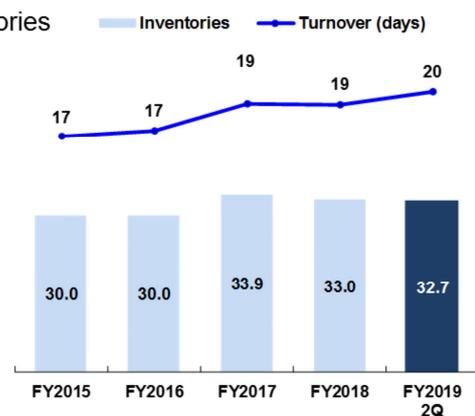
(Billions of Yen)

	Dec. 31 2018	Jun. 30 2019	Changes
Assets	498.8	479.5	-19.3
Current assets	387.2	361.4	-25.8
Cash and deposits	135.6	99.3	-36.2
Notes and accounts receivable	117.0	101.3	-15.7
Inventories	33.0	32.7	-0.4
Other (current assets)	101.6	128.1	+26.5
Non-current assets	111.5	118.1	+6.6
Property, plant and equipment	72.0	75.3	+3.3
Intangible assets	5.3	4.8	-0.5
Investments and other assets	34.3	38.0	+3.7
Liabilities	195.2	169.4	-25.8
Current liabilities	129.9	105.6	-24.3
Notes and accounts payable	75.8	46.2	-29.6
Other (current liabilities)	54.1	59.4	+5.3
Long-term liabilities	65.3	63.8	-1.5
Net assets	303.6	310.1	+6.5
Stakeholders' equity	314.2	318.1	+3.9
(Treasury stock)	-31.9	-31.9	-0.0
Total accumulated other comprehensive income (loss)	-11.1	-8.5	+2.6
Non-controlling interests	0.5	0.6	+0.0
Equity ratio	61%	65%	+4%

Notes and accounts receivable trade



Inventories

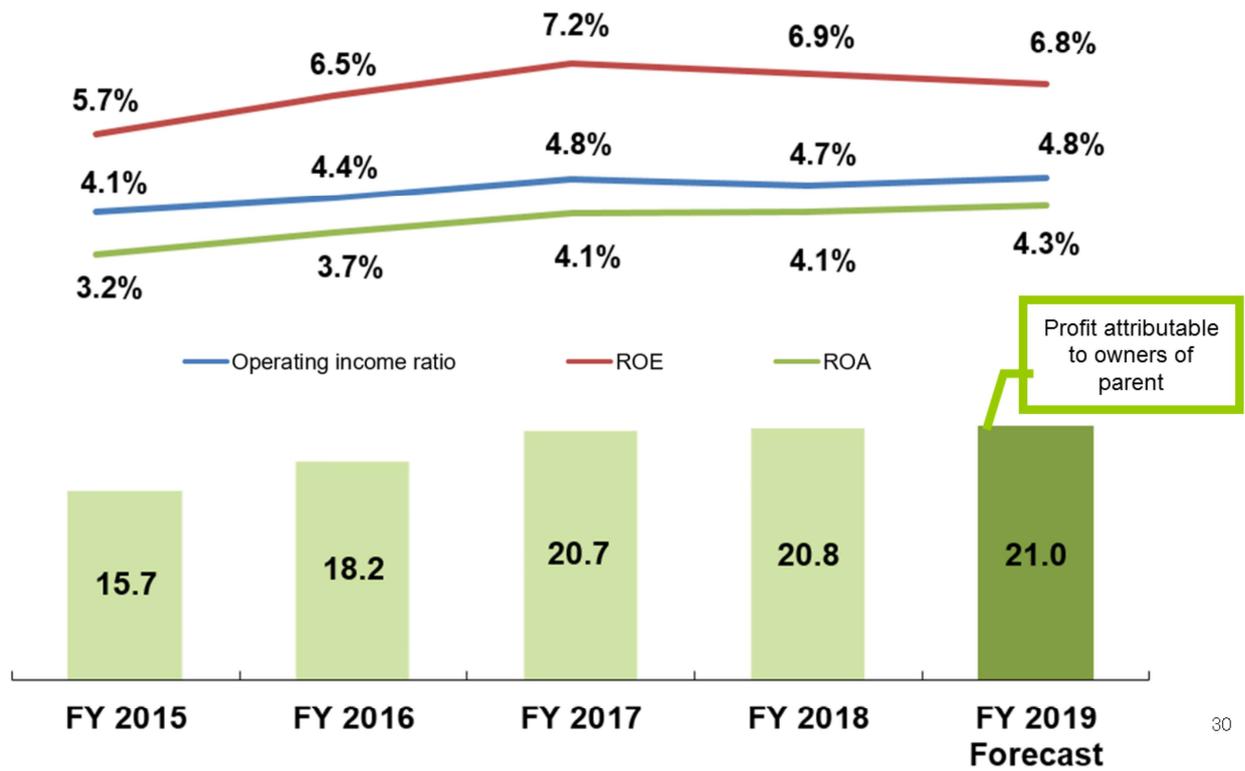


Financial Indicator



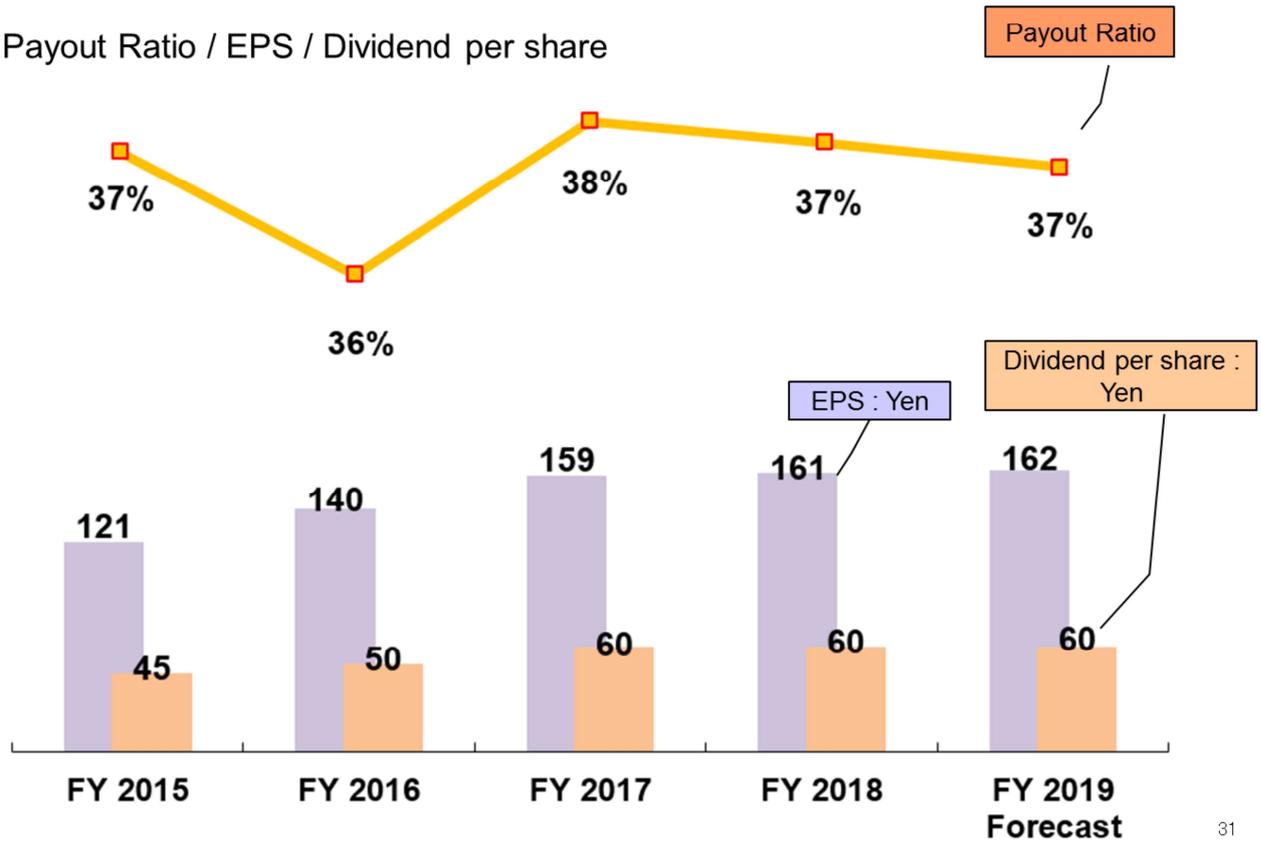
(Billions of Yen)

■ Operating income ratio / ROA / ROE



Financial Indicator

■ Payout Ratio / EPS / Dividend per share



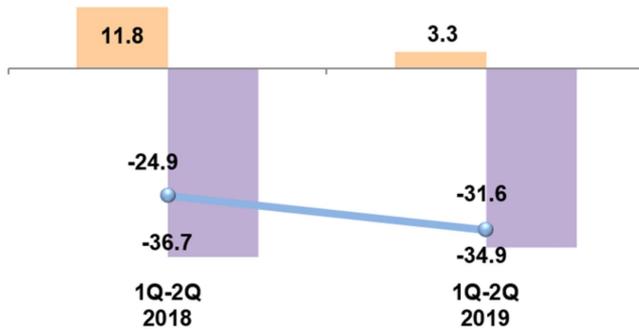
Financial Indicator



(Billions of Yen)

Cash Flow

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



Investment

	1Q-2Q Actual	3Q-4Q Projection	FY Projection
FY 2018	5.9	4.9	10.7
FY 2019	8.7	16.8	25.5

Depreciation and amortization

	1Q-2Q Actual	3Q-4Q Projection	FY Projection
FY 2018	6.7	6.6	13.3
FY 2019	6.1	6.5	12.6

Canon
Canon Marketing Japan Inc.