

Q&A at Third Quarter 2019 Results Presentation Meeting for Analysts

Date and time: October 28, 2019, 10:00-10:45

Venue: Hall S at the head office of Canon Marketing Japan Inc.

Answerers:

- Senior Vice President Yoshiyuki Matsusaka
- Senior Vice President Masachika Adachi
- Vice President Shiro Hamada
- Vice President Kunihiko Kubo

【Q1】

What is the level of contribution made by special demand such as a last-minute surge in demand ahead of the consumption tax hike and business PC replacements from the perspective of operating performance? Do you have any relevant numbers?

【A1】

We don't have numbers because it is impossible to indicate the contribution separately in a non-confusing manner. Having said that, looking at the full-year forecasts in the table showing the number of units sold, upward swings in the third quarter and decreases in the fourth quarter, sales of ink cartridges, for example, are down by 5% on a full-year basis and by 4% in the first six months, but they increased 6% in the third quarter. With the printing volume itself not rising during the third quarter in particular, you can consider the increase to be an upward swing. We don't express impacts on sales and profits as numbers. Even so, if I may discuss your question from the perspective of the Consumer segment alone, in terms of which of two factors had more significant effects, namely year-on-year decreases in the fourth quarter resulting from the reactionary decline after the consumption tax hike and negative impacts attributable to the contraction of markets for digital SLR cameras and inkjet printers, the percentage of negative impacts attributable to market contraction was greater.

【Q2】

Did you witness any impacts related to a last-minute surge in demand ahead of the consumption tax hike with respect to digital SLR cameras?

【A2】

In terms of sell-outs, sales increased slightly in the final week of September, but basically we had not witnessed any such impacts before then. There was a slightly positive impact with respect to inkjet printers.

【Q3】

Over the past 15 to 20 years, you have been saying continuously that you are a promoter of good quality photo culture. With photo culture becoming mature and a range of products available today, I suspect that you are being left behind. In addition to the Olympic models that will apparently be released by 2020, what steps will you take? I consider 2020 to be a milestone year. Are you working on any recovery measures?

【A3】

With regard to mirrorless cameras, it is true that we were late to launch new products, particularly full-frame models. Traditionally, we allocate extensive resources for SLR cameras, but for the past one or two years, we have been shifting these resources to mirrorless cameras. Since last year, we have been releasing the EOS R and RP mirrorless cameras with a focus on the full-frame camera market. Looking ahead to the next year and beyond, the Company is making preparations to implement initiatives for the turnaround and go on the offensive as a challenger in the full-frame camera business. In terms of being a promoter of photo culture, we don't count on traditional digital lens interchangeable cameras alone, and the other day, we received orders for 1,000 units of the iNSPiC series REC camera for smartphone users in one day on a certain cloud funding website. With an eye on new markets, we will continue to take on challenges for the next year to create a new photo culture.

【Q4】

You have revised the full-year projection for production printing downward. When do you expect the downward trend to stop?

【A4】

It is true that orders for color inkjet printers or monochrome inkjet printers are behind schedule. Still, we released the ProStream, a new product, in July. It will take some time before the product starts to move because few products sell well immediately after their release. We will achieve a recovery next year.

【Q5】

With respect to production printing, it appears that you have been revising your projections downwards at every briefing. Do you think that you should take drastic steps?

【A5】

We have been implementing a range of structural reforms and sales structure reorganization. Meanwhile, drupa2020 (an international printing/media industries exhibition), which is a major event, will be held next year. We should take into consideration the possibility that customers are taking a cautious approach in the introduction of new products because manufacturers will align the timing of new launches with that of the exhibition.

【Q6】

Were consumables for office MFPs affected by the consumption tax hike?

【A6】

With respect to office MFPs, the Company basically provides the click charge alone and does not sell consumables. Accordingly, the consumption tax hike had no impact. That said, consumables for laser printers and inkjet printers were affected.

【Q7】

Am I correct in understanding that a decrease of 2% in the maintenance service in the fourth quarter projection does not reflect a reactionary decline?

【A7】

No reactionary decline is reflected.

【Q8】

Following the previous briefing, you spoke about the possibility of withdrawing from projects with low profitability with respect to office MFPs. What are your concrete criteria for judgment? For example, do you have criteria in terms of print volumes that are less than the expected levels, prices that are lower than certain levels or a business scale? How long does it take before you stop engaging in projects with low profitability?

【A8】

I will refrain from touching on the criteria for judgement. With equipment usually operating for

five to six years, please understand that such criteria are based on the assumption that certain profits should be obtained from projects during their operation periods. With respect to your question regarding when unprofitable projects will be terminated, we think that profitability will improve if we continue to engage in activities based on the assumption of a five- to six-year cycle in the replacement of products.

【Q9】

Is it wrong to assume that the number of unprofitable projects is increasing in specific businesses?

【A9】

We don't have any specific businesses that have an extraordinarily large number of unprofitable businesses.

【Q10】

With respect to the sales trend of interchangeable lenses, what was the actual result in the third quarter, and what is your outlook for the fourth quarter?

【A10】

Sales of interchangeable lenses are linked to two factors, namely the sales of cameras and the impact of the sales of new lenses as single units. Due to the business environment of cameras, sales of interchangeable lenses are experiencing a declining trend. In addition, we plan to limit the product lineup of currently available RF lenses for mirrorless cameras to approximately 10 types by the end of the year. Ordinarily, we offer more than 60 types of EF lenses. Due to a shift in demand, we are offering interchangeable lenses mainly for use with mirrorless cameras, making the lineup of lenses insufficient. Consequently, sales of such lenses are experiencing a decreasing trend.

【Q11】

I understand that you released RF lenses at the beginning of the year, and seven to eight types were available at the end of September. Are you expecting any increase in sales in the October to December period?

【A11】

Sales of RF lenses as single units are increasing, but not so much as to offset a decrease in the sales of EF lenses.

【Q12】

What is your outlook with respect to the situation next year?

【A12】

We plan to further increase the sales of RF lenses next year. As with cameras, however, based on current expectations, it is too early to expect that sales of RF lenses will rise significantly enough to offset the decline in sales of EF lenses next year.

【Q13】

Shipments of mirrorless cameras are expected to decrease 2% from the projection in the fourth quarter. With new products launched in the current fiscal year, I think that sales should be a little better. What are your thoughts?

【A13】

With the EOS R launched in the fourth quarter last year and the EOS M6 Mark II and other products released in the third quarter, matters related to the shipment of new products are somewhat affected. A decrease of 2% in shipments is our plan, but we will be able to achieve an increase in the monetary amount because the unit prices are increasing.

【Q14】

The Area segment looks favorable, and IT solutions are showing strong numbers. What is your outlook for next year? Am I correct in understanding that sales will be affected as a result of the termination of support for Windows7? Or will the base portion of IT solutions continue to rise? I would like to learn about the direction in which you will be moving next year.

【A14】

Based on the current outlook, our assumptions are that a strong tail wind such as the termination of support for Windows7 that occurred this year will decline next year, although things depend on changes in the market environment. Even so, the direction of making up labor shortages with IT technologies will continue next year at small and medium companies, coupled with workstyle reforms. As a result, by providing a range of solutions as we have been doing so far, we expect to achieve solid results for IT solutions.

【Q15】

Are these results solid from the perspective of sales? Are you expecting to increase sales by offsetting the Windows7-related decline?

【A15】

We will do our best to achieve these results.

【Q16】

Your strategy is to focus on medium-sized companies. What level of positive effects do you expect to be generated this year and next year?

【A16】

Looking at the customers of Canon System and Support Inc. and our business partners, we can say that they are searching for IT administrators, the greatest challenge for small- and medium-sized companies, and a partner who follows up on overall IT-related matters, comprehensively. For these customers' requirements, we as the Canon MJ Group will prepare solutions in a satisfactory manner. The style of entrusting IT-related assignments overall is becoming more common than ever. Accordingly, the Company's competitive edge is that we have an established system to provide services, including support, at any time to customers who have replaced business PCs this year, when they decide to work on their next projects.
