

Summary Report of Consolidated Financial Results

for the third quarter ended September 30, 2019

Registered company name: **Canon Marketing Japan Inc.**
 Stock listing: Tokyo Stock Exchange, First Section
 Code number: 8060
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Dividend payable date (as planned): -
 U.S. Accounting Standards Applied: No

1. Consolidated business results for the nine months ended September 30, 2019 (From January 1, 2019 to September 30, 2019)

(1) Consolidated Results of Operations

(Amounts less than one million yen are truncated)

(Percentage represents increases or decreases from the previous year)

	Net sales		Operating income		Ordinary income		Profit attributable to owners of parent	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
Nine months ended								
September 30, 2019	463,029	3.4	23,889	50.2	24,914	44.0	16,506	42.9
September 30, 2018	447,923	(1.8)	15,899	(13.6)	17,306	(10.5)	11,551	(7.7)

[Note] Comprehensive Income: Nine months ended September 30, 2019 : 20,334 million yen [54.3%]
 Nine months ended September 30, 2018 : 13,177 million yen [13.1%]

	Basic earnings per share	Diluted earnings per share
Nine months ended	Yen	Yen
September 30, 2019	127.30	127.29
September 30, 2018	89.09	-

(2) Consolidated Financial Position

(Amounts less than one million yen are truncated)

	Total assets	Net assets	Equity ratio	Net asset per share
	Millions of yen	Millions of yen	%	Yen
Third quarter ended September 30, 2019	491,726	314,462	63.8	2,420.50
Year ended December 31, 2018	498,790	303,570	60.8	2,336.97

[Reference] Shareholders' equity: Third quarter ended September 30, 2019 : 313,857 million yen
 Year ended December 31, 2018 : 303,027 million yen

2. Dividends

	Dividend per share				
	First quarter-end	Second quarter-end	Third quarter-end	Year-end	Annual
	Yen	Yen	Yen	Yen	Yen
Year ended December 31, 2018	-	25.00	-	35.00	60.00
Year ending December 31, 2019	-	30.00	-		
Year ending December 31, 2019 (forecast)				30.00	60.00

[Note] Revision of cash dividend forecast for this period : No

3. Consolidated financial forecast for the fiscal year ending December 31, 2019

(Amounts less than one million yen are truncated)

(Percentage represents increases or decreases from the previous year)

	Net sales		Operating income		Ordinary income		Profit attributable to owners of parent		Basic earnings per share
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%	Yen
Full year	623,000	0.2	31,000	7.1	32,200	5.5	21,500	3.2	165.81

[Note] Revision of forecast for this period : Yes

*Others

(1) Material changes in subsidiaries during this period

(Changes in scope of consolidations resulting from change is subsidiaries) : None

(2) Application of a specified accounting procedure :

Yes

(3) Changes in accounting policies and accounting estimates, retrospective restatement

(i) Changes in accounting policies based on revisions of accounting standard : Yes

(ii) Changes in accounting policies other than (i) : None

(iii) Changes in accounting estimates : None

(iv) Retrospective restatement : None

(4) Number of issued and outstanding shares (common stock)

(i) Number of issued and outstanding shares at the end of the period (including treasury stock)

As of September 30, 2019 : 151,079,972

As of December 31, 2018 : 151,079,972

(ii) Number of treasury stock at the end of the period

As of September 30, 2019 : 21,413,392

As of December 31, 2018 : 21,412,840

(iii) Average number of shares

As of September 30, 2019 : 129,666,867

As of September 30, 2018 : 129,667,869

* Audits by CPAs or audit corporations are not required for quarterly financial results.

Disclaimer :

Earnings projections are based on information available at the time these materials were announced, and the Company cannot guarantee that they will be realized. Also, actual results may differ from the estimated figures given due to various factors.

Consolidated Quarterly Balance Sheets

(Amounts less than one million yen are truncated)

	As of December 31, 2018	As of September 30, 2019
Assets		
Current assets		
Cash and deposits	65,071	54,773
Notes and accounts receivable	117,041	107,267
Securities	70,500	5,500
Merchandise and finished goods	31,182	33,565
Work in process	1,191	212
Raw materials and supplies	647	632
Short-term loans receivable	90,014	160,012
Other current assets	7,792	7,108
Allowance for doubtful receivables	(91)	(100)
Total current assets	<u>383,349</u>	<u>368,972</u>
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	28,657	27,232
Machinery, equipment and vehicles, net	112	102
Tools, furniture and fixtures, net	3,059	3,448
Rental assets, net	10,842	9,840
Land	28,918	28,918
Leased assets, net	63	38
Construction in progress	333	9,509
Total property, plant and equipment	<u>71,987</u>	<u>79,090</u>
Intangible assets		
Software	4,940	4,522
Lease assets	5	2
Utilization rights	316	315
Other intangible assets	2	3
Total intangible assets	<u>5,265</u>	<u>4,844</u>
Investments and other assets		
Investment in securities	7,985	10,405
Long-term loans receivable	36	35
Net defined benefit assets	304	299
Deferred tax assets	23,039	21,285
Lease deposits	4,423	4,370
Other investments and other assets	2,832	2,811
Allowance for doubtful receivables	(432)	(388)
Total investments and other assets	<u>38,188</u>	<u>38,819</u>
Total non-current assets	<u>115,441</u>	<u>122,754</u>
Total assets	<u>498,790</u>	<u>491,726</u>

Consolidated Quarterly Balance Sheets

(Amounts less than one million yen are truncated)

	As of December 31, 2018	As of September 30, 2019
Liabilities		
Current liabilities		
Notes and accounts payable	75,831	50,853
Lease obligations	100	79
Accrued expenses	16,676	14,086
Accrued income taxes	6,967	3,122
Consumption taxes payable	4,063	3,778
Provision for bonuses	3,437	13,098
Provision for directors' bonuses	79	41
Provision for product warranties	447	607
Provision for loss on order received	147	238
Other current liabilities	22,151	27,778
Total current liabilities	129,903	113,685
Long-term liabilities		
Lease obligations	116	119
Deferred tax liabilities	29	0
Allowance for long-term continuous service rewards	1,019	952
Net defined benefit liabilities	59,887	58,991
Other long-term liabilities	4,264	3,515
Total long-term liabilities	65,317	63,578
Total liabilities	195,220	177,263
Net assets		
Stockholders' equity		
Common stock	73,303	73,303
Capital surplus	82,820	82,820
Retained earnings	189,957	197,039
Treasury stock	(31,924)	(31,925)
Total stockholders' equity	314,156	321,236
Accumulated other comprehensive income (loss)		
Net unrealized gains on available-for-sale securities	2,518	3,393
Deferred gains or losses on hedges	1	1
Foreign currency translation adjustments	75	37
Remeasurements of defined benefit plans	(13,725)	(10,811)
Total accumulated other comprehensive income (loss)	(11,129)	(7,379)
Non-controlling interests	542	605
Total net assets	303,570	314,462
Total liabilities and net assets	498,790	491,726

Consolidated Quarterly Statements of Income

(Amounts less than one million yen are truncated)

	Nine months of FY2018 (from January 1, 2018 to September 30, 2018)	Nine months of FY2019 (from January 1, 2019 to September 30, 2019)
Net sales	447,923	463,029
Cost of sales	290,889	313,953
Gross profit	157,034	149,075
Selling, general and administrative expenses	141,134	125,186
Operating income	15,899	23,889
Non-operating income		
Interest income	153	144
Dividend income	115	110
Insurance income	544	481
Gain on investments in partnership	455	199
Other non-operating income	324	232
Total non-operating income	1,593	1,168
Non-operating expenses		
Interest expense	9	9
Other non-operating expenses	177	133
Total non-operating expenses	187	142
Ordinary profit	17,306	24,914
Extraordinary income		
Gain on sales of fixed assets	124	9
Gain on sales of investment securities	489	2
Gain on sales of shares of subsidiaries and associates	214	-
Total extraordinary income	828	11
Extraordinary losses		
Loss on sales and disposal of fixed assets	257	169
Loss on impairment of fixed assets	15	82
Loss on valuation of investment securities	94	8
Expenses for restructuring of business bases	57	-
Other extraordinary losses	59	4
Total extraordinary losses	485	266
Profit before income taxes	17,650	24,659
Income taxes	6,044	8,072
Profit	11,606	16,587
Profit attributable to non-controlling interests	54	80
Profit attributable to owners of parent	11,551	16,506

* Starting from the first quarter of the current fiscal year, the Company recorded a portion of personnel expenses and others, which had previously been posted as selling expenses, as the cost of sales. This is because the Company changed the aggregation range of costs as a result of examining the positioning of costs for the performance obligation of services, which has been increasingly important in recent years in the wake of the early adoption of the Accounting Standard for Revenue Recognition in the first quarter of the current fiscal year. Compared with the previous method, this change caused an increase of 14,915 million yen in the cost of sales and a decrease in gross profit by the same amount in the nine-month period of the current fiscal year. There is no impact on operating income, ordinary income and profit before income taxes.

Consolidated Quarterly Statements of Comprehensive Income

(Amounts less than one million yen are truncated)

	Nine months of FY2018 (from January 1, 2018 to September 30, 2018)	Nine months of FY2019 (from January 1, 2019 to September 30, 2019)
Profit	11,606	16,587
Other comprehensive income (loss)		
Net unrealized gains or losses on available-for-sale securities	792	875
Deferred gains or losses on hedges	23	(0)
Foreign currency translation adjustments	(0)	(41)
Remeasurements of defined benefit plans, net of tax	756	2,914
Total other comprehensive income (loss)	1,571	3,747
Comprehensive income	13,177	20,334
Comprehensive income attributable to		
Owners of parent	13,122	20,255
Non-controlling interests	55	78

Consolidated Quarterly Statements of Cash Flows

(Amounts less than one million yen are truncated)

	Nine months of FY2018 (from January 1, 2018 to September 30, 2018)	Nine months of FY2019 (from January 1, 2019 to September 30, 2019)
Cash flows from operating activities		
Profit before income taxes	17,650	24,659
Depreciation	10,196	9,172
Loss on Impairment of fixed assets	15	82
Increase (decrease) in allowance for doubtful receivables	141	(35)
Increase (decrease) in net defined benefit liabilities	947	3,347
Decrease (increase) in net defined benefit assets	(50)	(11)
Increase (decrease) in provision for bonuses	9,467	9,660
Interest and dividend income	(268)	(255)
Interest expense	9	9
Loss (gain) on sales and disposal of property, plant and equipment, net	131	154
Loss (gain) on sales of investment securities	(488)	(2)
Loss (gain) on investments in partnership	(455)	(199)
Decrease (increase) in notes and accounts receivable-trade	21,087	10,321
Decrease (increase) in inventories	(544)	(2,108)
Increase (decrease) in notes and accounts payable-trade	(17,606)	(24,981)
Other, net	(9,035)	(7,598)
Subtotal	31,197	22,217
Interest and dividends received	268	253
Interest paid	(9)	(9)
Income taxes paid	(8,676)	(10,943)
Net cash provided by (used in) operating activities	22,780	11,518
Cash flows from investing activities		
Payments for purchases of property, plant and equipment	(8,109)	(5,748)
Proceeds from sales of property, plant and equipment	255	10
Payments for purchases of intangible assets	(1,139)	(1,321)
Payments for purchases of investment in securities	(668)	(1,205)
Proceeds from sales of investments in securities	1,490	275
Proceeds from sales of shares of subsidiaries resulting in change in scope of consolidation	526	-
Decrease (increase) in short-term loans receivable, net.	(30,005)	(69,998)
Other, net	(29)	(278)
Net cash provided by (used in) investing activities	(37,679)	(78,266)
Cash flows from financing activities		
Increase (decrease) in short-term loans payable, net	45	-
Repayments of finance lease obligations	(99)	(87)
Payments for purchases of treasury stock	(2)	(1)
Dividends paid	(7,782)	(8,421)
Dividends paid to non-controlling shareholders	(11)	(15)
Other, net	0	(2)
Net cash provided by (used in) financing activities	(7,851)	(8,528)
Effect of exchange rate changes on cash and cash equivalents	1	(21)
Net increase (decrease) in cash and cash equivalents	(22,749)	(75,298)
Cash and cash equivalents at beginning of period	136,979	135,571
Cash and cash equivalents at end of period	114,230	60,273

Consolidated Quarterly Segment Information

I. Nine months of FY2018 (from January 1, 2018 to September 30, 2018)

Information on net sales and income (loss) by reportable segment (Amounts less than one million yen are truncated)

	Reportable segment				Other	Total	Adjustment	Consolidated
	Consumer	Enterprise	Area	Professional				
Net sales								
Sales - external customers	96,274	132,996	181,765	34,394	2,493	447,923	-	447,923
Sales - intersegment	68	6,301	10,219	1,395	3,395	21,380	(21,380)	-
Total	96,343	139,297	191,984	35,790	5,888	469,304	(21,380)	447,923
Operating income	383	6,023	8,495	818	150	15,869	29	15,899

[Note]

1. Other includes call center business and BPO service business, which are not included in reportable segments.
2. Adjustment of Operating income is the elimination of intersegment transactions.
3. Total amount of Operating income for Reportable segments, Other and Adjustment is equal to the Operating income of Consolidated Quarterly Statements of Income.

II. Nine months of FY2019 (from January 1, 2019 to September 30, 2019)

Information on net sales and income (loss) by reportable segment (Amounts less than one million yen are truncated)

	Reportable segment				Other	Total	Adjustment	Consolidated
	Consumer	Enterprise	Area	Professional				
Net sales								
Sales - external customers	91,800	142,587	193,046	32,573	3,021	463,029	-	463,029
Sales - intersegment	42	7,001	9,134	1,290	4,129	21,598	(21,598)	-
Total	91,843	149,589	202,180	33,864	7,150	484,628	(21,598)	463,029
Operating income (loss)	2,577	8,267	11,653	1,675	(382)	23,791	98	23,889

[Note]

1. Other includes call center business and BPO service business, which are not included in reportable segments.
2. Adjustment of Operating income (loss) is the elimination of intersegment transactions.
3. Total amount of Operating income (loss) for Reportable segments, Other and Adjustment is equal to the Operating income of Consolidated Quarterly Statements of Income.

NOTE

(Changes in Reporting Segments)

Starting from the first quarter of the current year, the Company transferred “Visual Solutions,” which was a subsegment of the “Professional” segment, to the “Enterprise” and “Area” segments. In addition, the amount of intersegment transactions changed because the Company consolidated the planning and development functions of the security business, which were scattered across group companies, into the business units with marketing oversight at Canon Marketing Japan. Prior-year segment information has been restated accordingly to reflect these changes.

(Changes in Accounting Policy)

Starting from the beginning of the first quarter of the current year, the Company applied the revenue recognition accounting standard and guidance and since the Company changed its accounting methods for revenue recognition, it also changed its measurement methods for the segment income or loss of its business segments accordingly.

Compared to the previous method, in the nine-month period of the current year, this change caused a decrease of 1,325 million yen in net sales and an increase of 14 million yen in segment income in the “Consumer” segment, a decrease of 188 million yen in net sales and a decrease of 28 million yen in segment income in the “Enterprise” segment, a decrease of 164 million yen in net sales and a decrease of 63 million yen in segment income in the “Area” segment, a decrease of 28 million yen in net sales and a decrease of 10 million yen in segment income in the “Professional” segment, and a decrease of 9 million yen in net sales and a decrease of 0 million yen in segment income in the “Other” segment.