

April 25, 2022
Canon Marketing Japan Inc.

FY2022/12 1Q Financial Results
Q&A at Presentation Meeting for Analysts

Date and Time: April 25, 2022, 16:30-17:30 (JST)

Format: Zoom webinar

Presenters:

- Hatsumi Hirukawa, Director and Vice President (in charge of group planning and group communications)
- Tsuyoshi Osato, Director and Vice President (in charge of group accounting)

【Q1-1】

How much do actual sales and income results for 1Q differ from projections at the beginning of fiscal year? For 1Q, operating income was a high ¥14.8 billion. I imagine that your projections suggest that income will fall year on year for the second and subsequent quarters. Is it that the projections for 2Q and after are unchanged from those at the beginning of the fiscal year? Is it soaring expenses that will cause income to decline?

【A1-1】

Please understand that the improvement in income reflected the upward revision of the annual result forecast.

As we explained in January, we foresee that expenses for this year will be higher than in the previous year. We anticipate that, after the end of the pandemic, sales activities will be more active which will increase promotion expenses and travel and transportation expenses. IT investment expenses will also increase. In addition, we are planning to establish satellite offices and other bases in line with the work style reforms. We also expect to increase education expenses. Our president has been saying that personnel are important.

【Q1-2】

In the first quarter, overall expenses were down year on year. In the second and subsequent quarters, will the higher expenses be intentional? Or is it that expenses will swell as a result of the economic recovery? Is it that the rise of expenses that was supposed to occur in the first quarter following the

economic recovery was actually slower than expected?

【A1-2】

In the first quarter, personnel expenses were down year on year. Expenses were lower than expected, partly because of the cancelled offline CP+ event. In the second and following quarters, we intend to increase investments for growth.

【Q1-3】

How much growth was achieved in the first quarter in areas which you said would be a focus such as Edge solutions and IT cloud services in ITS?

【A1-3】

President Masachika Adachi will present quantitative data in January next year. Sales grew as planned in the first quarter.

【Q2-1】

The orders that Canon IT Solutions has been receiving have been at a high level. It is possible that customers may have increased in the January-March period since it is the end of their fiscal year. Can we expect that this momentum will continue in and after the second quarter?

【A2-1】

Our current order status is strong. Seasonal factors have not much impact. Our past efforts have consequently produced results. We expected to see orders grow in the second and subsequent quarters.

【Q2-2】

You explained that you will make IT investments while continuing to receive good orders. Should we consider that those investments may have an impact on your income?

【A2-2】

Yes. In addition, please note that, as Mr. Osato explained in January, net sales for the first quarter includes some sales that were delayed from the previous fourth quarter.

【Q2-3】

I think the industrial equipment sales figure also includes some sales that were delayed from the previous year. What degree of impact did it have? What were the sales purely earned during the period under review?

【A2-3】

Regarding industrial equipment, customers determine their annual investment plans. If they make capital investments as planned, our sales will rise accordingly. In the first quarter of the current year, we saw an unprecedented level of sales. In the second half, we forecast a certain level of sales. At the moment, we are conducting sales activities with an eye towards coming years.

【Q2-4】

For industrial equipment, apart from the sales delayed from the previous year, is the sales concentration in 1Q also due to seasonal factors?

【A2-4】

Products in the industrial equipment category are imported, which generates unknown factors such as the actual timing of those products arrive at us. Therefore, sales in this category are, in some aspects, hard to predict, and first-quarter sales happened to be this high.

【Q2-5】

What was the influence of supply constraints in the first quarter? There were lockdowns in China. Will their future impact be serious?

【A2-5】

We officers are all concerned. At the beginning of the year, we reported that we had heard from manufacturers that they would struggle in 1Q and 2Q and that they would be back to normal from 3Q. We have drawn up a plan based on that. Delays in logistics occur from time to time, and we manage to keep it under control. The same goes for PCs and peripherals. The plan was based on the assumption that the impact would be huge from the second half of last year to 1Q and that it would return to normal going forward.

【Q3-1】

Strong income figures were achieved in the Enterprise and Professional segments in 1Q. However, the full-year projections do not reflect them. Should we understand that the first-quarter income results were as expected?

【A3-1】

In the Enterprise segment, the portion in ITS for which acceptance inspections were not finished in 4Q of last year was recorded in 1Q. That acted as an increasing factor. Orders received stayed strong. MA Headquarters had a number of BPO projects in 4Q of last year. The absence of those would reflect on the results.

In the Professional segment, industrial equipment and healthcare achieved big results. As for industrial equipment, sales are concentrated on 1Q as the sales composition. In healthcare, Canon ITS Medical won a large project. That results in a high figure for the first quarter. Even if it is disregarded, orders have been steadily gained.

【Q3-2】

In the Enterprise segment, income increased as expected in 1Q. For the second half, you foresee that income will shrink due to special reasons. Do you mean that 1Q's strong results will not contribute well to an increase in full-year income? In the Professional segment, industrial equipment sales were as expected for the first quarter and the full-year projection has not been revised. Does the full-year income rise reflects an improvement in the Consumers segment?

【A3-2】

Yes.

【Q3-3】

As regards industrial equipment, what products sold in 1Q?

【A3-3】

They include film formation equipment and inspection and measurement equipment for semiconductors. These are the products that we regularly deal with, but we have a major deal for them in 1Q.

【Q3-4】

Are they manufactured by Mattson? Will you have any other major deals this year?

【A3-4】

Yes. In addition to Mattson's products, we handled EUV Tech's inspection and measuring instruments. Within the year, we do not expect to have any project as large as the one we received in the first quarter.

【Q4-1】

You explained that sales of high-priced inkjet printer models remained strong. Is the continued briskness of high priced models due to the tight supply? Or is it that consumers became used to the price increase? Is it acceptable for us to think that it will not return to the previous state even after supply normalizes?

【A4-1】

We will not change our stance of offering high value-added products. However, customers have diverse needs. In 3Q and later, the supply quantity will recover and we will be able to fulfill these diverse needs. While preventing the unit prices from returning to their previous levels, we will offer products matched to customers' needs.

【Q4-2】

The first-quarter results may be hard to understand because of the cartridge price revision. What is the current demand for inkjet printers and cartridges under the trend of people working from home?

【A4-2】

Demand was strong in the past two years. In comparison to that, current demand is calm. Monochrome printing remains the mainstream. No change has been observed in number of sheets printed.

【Q4-3】

Growth of IT solutions sales differ significantly between the Enterprise segment and the Area segment. How should we understand the 2% year-on-year rise in IT solutions sales in the Area segment? Was it because of a weak market or because of strong results in the same period a year earlier? Personally, I think the 2% growth is insufficient.

【A4-3】

In comparison with the Enterprise segment, the Area segment is characterized by its sales shares of the document business and the IT products still being high. Small and medium enterprises tend to purchase software packages and hardware rather than building their own original systems. In the first quarter in question, IT product sales did not grow as expected because of the semiconductor shortage. Despite this, we focused on highly profitable security- and infrastructure-related solutions and were able to achieve income growth.

【Q4-4】

Is it that this figure was due to the supply shortage although actual demand was higher?

【A4-4】

In addition to Canon products sales, sales of PCs and peripherals were also impacted by the semiconductor shortage. We endeavored to secure as much inventory as possible but failed to keep pace with demand. We have formulated projections on the assumption that the supply will be back to normal from 3Q onwards.

*The content reflects some additions and modifications to enable it to be better understood.

* Disclaimer

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 materially from these projections.