

October 25, 2022  
Canon Marketing Japan Inc.

FY2022/12 3Q Financial Results  
Q&A at Presentation Meeting for Analysts

Date and Time: October 25, 2022, 16:30-17:30

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

For business equipment, the Enterprise and Area segments show different year-on-year increases and decreases in sales. The supply constraints affecting both segments have been eliminated as you explained, but are ongoing telework initiatives having a greater effect on the Enterprise segment?

A1-1

The situation is roughly the same in terms of hardware supply constraints, but the nature of print volume differs between large companies and SMEs. At large companies, telework initiatives are being pursued and print volume is not increasing.

At SMEs, the degree of decline is smaller than at large companies with COVID-19 infections subsiding.

---

Q1-2

There are activities at large companies to the extent that contract renewals have been prolonged during the spread of COVID-19 infections, and I think performance with hardware is strong, but since business equipment has fallen by 2%, is there a large downturn in non-hardware?

A1-2

For our customers who are major companies, even in the midst of supply constraints, we have been able to make deliveries as planned to some extent because the delivery schedules are decided over the long term. With SMEs, there are direct sales and sales for their business partners, but we have been able to deliver accumulated orders all at once. Regarding the passing on of prices, for direct sales we are carefully explaining the situation to customers.

---

Q1-3

In the full-year forecast, volumes for digital interchangeable lens cameras, office MFPs, network cameras and other products are down. Are supply constraints a major factor in this?

A1-3

For digital interchangeable lens cameras, the entry-level models we had planned to ship in Q3 were affected by supply constraints. The EOS R7 and R10 have been incredibly well received and we have shipped more units than forecast. Since unit sales prices have been increased, even with lower sales volume, the impact on net sales and income has been limited. From Q4 onward, supply constraints will quiet down and we will be in a position to continue with shipments, but since that will not be enough to make up for the shortfall in Q3, the forecast number of units for the full year was reduced. For office MFPs, supply recovered from Q3 onwards, but semiconductor shortages have newly emerged, putting us in the situation of inconveniencing customers and business partners. We lowered projected units shipped based on the determination that we cannot make up for that shortfall in the full year.

Demand is strong for network cameras, but we offer many types of cameras and while we are working hard with manufacturers, supply constraints have persisted for some products, and our revised projects reflect that.

---

Q1-4

You mentioned passing on price increases. Looking at Q4, it seems that things like IT expenses are one of the factors in the forecast for lower income, but if the passing on of prices goes as expected to some extent, could an upswing in these figures be possible?

A1-4

At the moment we will proceed based on the forecasts we have announced. President Adachi and those under him do not see declining income as good. If all employees push these initiatives, we believe that an upswing is also possible. This is tied not only to volume but how unit sales prices turn out. We intend to proceed while maintaining dialogue with suppliers.

---

Q1-5

For industrial equipment, Q3 was lower than the first half of the year, but still maintained a high level. Looking ahead to next year, is there a possibility that customers' appetite for investment will go down another rung from this level?

A1-5

According to the person in charge of industrial equipment, they have not heard talk of reducing investments from our customers. Although there have been articles in the press about reductions to investment, we have heard that our customers intend to continue making investments as planned.

---

Q2-1

Regarding the current status of office MFPs whose prices have risen, of the number of units operating do you have an idea of what percentage will change under new contracts this year and next year? What kinds of negotiations take place in terms of balancing hardware with consumables? In terms of your business model, I think it would be tough if print volume decreased, but is it possible that you will switch to a business model that resists the decline in consumables, or adjust the balance between the hardware and consumables on the price front?

A2-1

Allow me to explain about the increases in the prices of main units and consumables. Our sales people have already informed our direct sales customers of the changes individually. Although this hasn't yet been announced on the website, we have also started to inform our business partners. We will implement the price rises at an early stage next year. To coincide with these changes, we will improve our ability to develop proposals and suggest high value-added solutions to customers in a way that is linked with improved value.

Replacements of the office MFPs installed at customer premises are often five-year leases, or three-year rental for major customers, but there are also cases where these periods are extended, so it is difficult to give a general number. We negotiate with customers on three-year periods, five-year periods and some period on top of that. We can negotiate over price revisions with customers who accept our proposals together with a system, but we cannot escape price competition with single functions like copying and printing. In many ways we want to take action by improving our ability to develop proposals and delivering new value to customers.

---

Q2-2

I would also like to know about the business model.

A2-2

The business model tends to be difficult to change. Something we have been working on for several years is reducing costs by implementing measures to boost productivity regarding our maintenance structure, in order to minimize having to pass on price changes to customers as much as possible. This is an approach we are looking to continue.

---

Q2-3

What will print volume look like for the Enterprise and Area segments from the end of this year onwards? When looking the figure quarter on quarter, do you expect that the Enterprise segment will not return to previous levels and the Area segment will move into positive territory because it has started to recover. What is your vision for the next year?

A2-3

Basically the situation has remained unchanged since the start of the COVID-19 pandemic. Large companies will make faster progress going paperless. We suspect that print volume per unit will decline by several percentage points each year. SMEs are lagging behind in this trend, but their print volume will also decline. Amid this difficult outlook, we will continue to focus our efforts on how we can increase revenue and how we can provide customers with value.

---

Q3-1

Regarding the increase in purchase prices, specifically from around when did purchase prices increase in a way that was reflected in your costs? I don't think you directly purchase many products in foreign currency, but with the USD-JPY exchange rate nearing 150 yen recently, is it necessary to consider the risk of purchase prices rising further in the future?

A3-1

The rise in purchase prices began last year. We have revised prices of consumer products and LBP consumables multiple times. At this time it is difficult to give quantitative figures in monetary terms. In addition, in terms of the foreign exchange impact, we import excellent overseas products as part of the industrial equipment we offer, but rather than making purchases right away and delivering them to customers, we make purchases after speaking with customers from more than a year prior before delivering them to customers. Since we have been conducting business in that way for some time, we are not affected by a sudden weakening of the yen that much. However, various costs have risen due to the depreciating yen and the international situation, and since we are not able to predict that things will go back to normal this year or next year, we must adopt an increasingly leaner structure. For that reason, we will strengthen our relationships with customers and invest in IT to boost internal productivity, making the company a more comfortable place to work at while improving business performance.

---

Q3-2

Regarding the foreign exchange impact, purchases from your parent company Canon are denominated

in yen, but I think products like printers are being produced overseas. It seems that some changes will emerge on the funding side between Canon and Canon Marketing Japan. What are your thoughts on the risk of rising purchase prices in the future taking that into account?

A3-2

Since our Group is consolidated with the parent company Canon, the delivery of products from the parent company to Canon Marketing Japan does not affect the parent company's business results. Business results are only realized when products are delivered from us to the customer. We have appropriate discussions on cost burdens while looking at the market. Compared to last year through to the first half of this year when semiconductor prices rose sharply, we have heard that prices have now calmed down somewhat, but since there are issues with fuel due to the situation in Ukraine and purchase prices are on the rise, we will make any determinations while engaging in ongoing discussions.

---

Q3-3

Regarding the outlook for digital interchangeable lens cameras, the strong market trend towards products in a fairly high price range has continued, but how sustainable is that? Also, differences in domestic and overseas prices have emerged. If the number of foreign visitors to Japan increases in the future, will opportunities to capture demand from inbound consumption come into view?

A3-3

As a certain number of customers are photography enthusiasts, we will continue to convey to those customers how joyful the experience of taking pictures is. We can continue to deliver good products at reasonable prices to customers in that demographic. We also think that some degree of inbound demand will emerge, and we have moderate expectations of that.

---

Q3-4

Orders received and the outstanding orders have been quite strong for Canon IT Solutions. Have you won major project orders, or is this the continuation of a strong trend? What is your outlook for how much of the outstanding orders you expect to realize in sales and income in Q4?

A3-4

In Q3 we recorded orders for the Second Data Center in bulk. In the Enterprise segment, Canon Marketing Japan and Canon IT Solutions are collaborating on sales activities aimed at customers, and orders have excellent. Even excluding the bulk orders recorded from the data center, we have achieved double-digit growth, and we expect the strong performance will continue. As for what is behind this

strong performance, there is a recognition that the trend of system investment in response to changing working styles due to the COVID-19 pandemic has shown no signs of abating. We believe it is important to take on orders appropriately while talking with customers.

Note that under these circumstances, I believe there are concerns over shortages of SEs, but we will conclude capital and business alliances with system partners and take other actions to strengthen relationships while working together with them to deal with customers in an effort to raise productivity on both sides.

---

Q4-1

Canon IT Solutions has a very high number of orders received and large outstanding orders. A large part of these are data center-related, and even excluding those, you mentioned that double-digit growth had been achieved. However, looking at the figure for Q4 in the segment information on page 17, the figures for the Enterprise and Area segments have not shown rapid progress. Is that due to some sort of time lag, careful decision-making, or something else?

A4-1

The situation in the Enterprise and Area segments differs. For the Enterprise segment, last year multiple BPO projects overlapped, and sales and income have declined due to those projects wrapping up. The state of current orders, as well as sales at Canon IT Solutions, have continued to be strong.

Regarding the Area segment, I think the intent of your question is to suggest that the growth rate is inadequate by comparison, but for SME customers, we are focusing on business PCs, infrastructure and services to provide maintenance and operation of networks. The unit prices for these contracts are small, but since they are recurring contracts, once customers sign up, we can perform highly profitable maintenance and operation with a minimal personnel footprint. We operate these services through our call center, and we have dedicated engineers provide maintenance and operation services to customers online rather than visiting customers on-site to solve their issues. The growth rate is low, but profitability is certainly rising.

In the IT Solutions business we are pursuing strategies that are mindful of profitable growth.

Additionally, when the COVID-19 pandemic calms down even further and sales activities become more active, members of the Area segment are confident in their ability to usher in double-digit growth.

---

Q4-2

The section on industrial equipment in the Professional segment on page 12 shows growth of almost 80% in Q3. However, looking at industrial equipment for the Professional segment on page 17, Q4 is shaping up to fall into the red. What went wrong between Q3 and Q4?

A4-2

The industrial equipment customers and market environment have not changed; rather, the timing of sales and acceptance inspection with customers was skewed from Q1 to Q3. Customers and the market are not holding off on investments, and this should be recognized as simply a case where the timing of delivery and acceptance inspections fell heavily into certain periods.

---

Q4-3

What projects or products were associated with the increase in industrial equipment in Q3?

A4-3

We received a higher than expected amount of orders from customers for things like parts and service, so we made an upward revision.

---

Q4-4

Is the projection of industrial equipment moving into the red in Q4 simply because performance was so solid from Q1 to Q3? There are concerns that this could be a destabilizing factor when considering the next fiscal year. Considering the modulation in the market, will you need to look at next year somewhat cautiously?

A4-4

Although some in the press take that view, we have not heard from the person in charge of industrial equipment about any reports from our customers looking to downsize their investments. We recognize that this is not the case with our customers.

The units handled by the industrial equipment subsegment are not the kind of thing that completes acceptance inspection the moment it is delivered. The process takes a long time. Our staff are engaged in activities to create sales for the second half of next year. In our view, there is no need for that much concern.

---

Q4-5

It appears that another semiconductor shortage has occurred and you have adjusted your sales plans for products such as digital interchangeable lens cameras due to supply constraints. In an environment in which semiconductor supply constraints are easing, when does Canon Marketing Japan expect supply issues to be resolved and become a positive for the company?

A4-5

That is difficult to answer. The number of semiconductors used varies by product, and at this stage all

we can say is that supply issues will continue for a while. Looking at the recent situation, we think that the worst of these issues occurred from the second half of last year to the first half of this year, but next year we still think it is possible that there will be shortages of some general-purpose semiconductors. Unfortunately, we cannot give a clear answer as to when the situation will return to normal.

---

Q5-1

In the IT Solutions subsegment of the Area segment, some products were affected by semiconductor shortages. What kinds of products were impacted? Regarding office MFPs, you mentioned that supply was on track for recovery but that semiconductor shortages had materialized. Is the shortage related to regular semiconductors that go into any product? Additionally, is being outbid by other companies a factor in the shortage?

A5-1

In the Area segment, supply issues for business PCs and servers have calmed down, but there are still shortages affecting network cameras and related devices. Those areas are the most affected. Office MFPs use a large number of semiconductors but availability from a certain manufacturer is declining. I cannot say whether we are being outbid or not, but since we've heard that the shortage is in general-purpose semiconductors, it might be due to increased demand. We are not aware whether or not other companies are using these same components.

---

Q6-1

Your annual sales volume plan for office MFP main units was reduced from +29% to +10%. Assuming these figures are based on solid figures up to the first half of the year, that is quite a large drop. Did sales proceed as expected in Q3? Or will sales volume undergo such a large change in Q4?

A6-1

We were unable to ship the planned number of units in Q3. There were slight supply constraints, but more than anything, since we have a considerable backlog of orders already received from customers, we concentrated on delivering those units, and fell behind on activities to receive new orders. In Q4, we revised the number of units downward due to the late arrival of deliveries from a new semiconductor manufacturer.

---

Q6-2

Up to the first half of the year, supply was already difficult among MFP manufacturers overall. The

sales plan was to sharply pivot upwards during the second half of the year across all companies. When looking at the actual numbers in terms of units, has there been growth when comparing Q2 with Q3?

A6-2

Since supply constraints have eased, we were able to deliver back orders to customers, and the actual number of units increased.

---

Q6-3

Regarding semiconductor shortages, over the last one and a half years each company has been working to replace the components expected to experience shortages, but is the semiconductor shortage occurring in Q4 due to a shortage of the chips that were replaced? In addition, do you have a current opinion about how long it will continue?

A6-3

As we are in the process of discussions with manufacturers to solve semiconductor shortages, at this stage we cannot comment on this.

---

Q6-4

Do you know whether this relates to the newly replaced chips?

A6-4

We have no comment about this.

---

Q6-5

Regarding inkjet printers, looking at the year on year change in Q3 the number of main units was up 5% and cartridges were down 3%, but looking in terms of Q2 vs. Q3, what sense of direction is there in terms of increases and decreases? I think you previously viewed inkjet printers as weak, but is it safe to assume that for the full year performance will remain the same, for better or worse?

A6-5

As inkjet printers are subject to seasonal factors, the number of units was flat compared with Q2. There has been growth from the previous year, albeit nothing dramatic. Our plan is to achieve this figure, provided we are able to deliver our products during the year-end busy season in Q4.

---

Q6-6

Your full year projection for digital interchangeable lens cameras have been reduced from +26% to

+16%. You mentioned that since there is a downturn in the entry-level product line, it is not related to sales or income. When looking at high-end digital interchangeable lens cameras, is the number of units better than previous estimates?

A6-6

We have not said that entry-level products are unrelated to income. The EOS R7 and R10 have performed extremely well and we have shipped a higher volume than initially planned. As I have not heard about shortages of products in Q4, I think we will produce good results if we can fulfill this plan.

---

Q6-7

Is there any increase or decrease from your original forecast in the annual plan for interchangeable lenses?

A6-7

Interchangeable lenses have been performing extremely well and there is a slight upward revision.

---

Q7-1

I would like to clear up a few things regarding your supply issues. Explanations of the sense of shortages three months ago and now have seemed a little uneven up to now. What kinds of changes have occurred, what items are in the shortest supply, and what is there enough of? What I want you to clear up is that you mentioned that inkjet printers have declined, but your plan for the number of units has stayed the same. Are there any supply issues, and what is your sense of strength or weakness here?

A7-1

We have not yet eliminated the order backlog for inkjet printers, LBPs and network cameras. For office MFPs, we have had delivery plans pushed back, mainly by major customers, so we have an order backlog.

We believe we are on a recovery track for other products, since we have managed to secure purchase volumes from Q2 to Q3. As demand is very strong, even if we deliver the back orders, we will not deliver in sufficient volume to eliminate the backlog.

---

Q7-2

In terms of your current position within medium-term trends, even amid ongoing supply constraints, you have repeatedly made upward revisions and are in a very strong position. If things continue at this rate, I think the net sales of ¥650 billion and operating income of ¥50 billion which you announced as Long-Term Management Objectives come into view. I assume the upswing in income in the current

period is partly due to solid growth and accumulation in IT Solutions, and partly boosted by one-off factors such as non-use of SG&A expenses and profit earned from the gap with purchase prices. How does the management team interpret this? Since there was mention of operating income of ¥40 billion in the next fiscal period in your medium-term management plan, I would like you to clear that up.

A7-2

In 2018, Canon Marketing Japan shifted from a product-oriented organizational structure to a customer-oriented business unit system as a new framework. What then president Sakata said at the time was that we would work to reduce costs by slimming down the organization to prevent overlap in common components such as contact centers, service & support, marketing and head office members, and then have the customer-facing departments properly engage with the customers that are their counterparts. I believe that with this cross-structural organization, we have managed to first produce cost reduction effects.

We have continued to increase the number of SEs at Canon IT Solutions and engineers at Canon System & Support while reducing indirect staffing, and have boosted per-employee productivity as a result. The staff that deal directly with customers have implemented various reforms and those efforts are yielding results.

For the Consumers segment, we have invested in activities that help customers properly understand what makes our products good instead of running excessive sales promotions, and this has been reflected in income. Similarly at Canon System & Support which is responsible for SMEs, we have been able to properly deliver maintenance and operation services to customers grappling with IT issues. For our customers that are major companies, staff from Canon Marketing Japan and Canon IT Solutions have been visiting customers together to deliver high value-added solutions, and this has also yielded results in the form of ITO and BPO contracts, among other achievements.

This is a competitive world, and doing well today is not guarantee of doing well tomorrow. Without getting complacent, we will work to further reduce costs and improve the profitability of Canon products, add more value to our IT Solutions, and steadily achieve profitable growth.

By moving ahead of the curve in anticipation of declining printing volume, by our analysis even as COVID-19 infections were increasing we managed to response to some extent. In our understanding, the basis for our success was being able to foresee the risks and take measures in anticipation of them.

---

Q7-3

As there is a possibility that when the next fiscal year rolls around, you may begin by citing one-off factors in delivering guidance about reduced income, I thought there would be less of a shock if you explained about the one-off factors, and about the organic factors enabling proper growth. With that in mind, I want to ask if there are any sticking points as you see them.

A7-3

We are currently in the process of formulating our plans for the next year. Those plans will depend on how far we look at the risks of various costs increasing. As we have already established a base, we are now in the process of considering whether to implement new measures to cover those risks, and exploring measures to quickly and steadily implement the measures we have taken to date.

---

\*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.