

April 23, 2024  
Canon Marketing Japan Inc.

FY2024/1Q Financial Results  
Q&A at Presentation Meeting for Analysts

Date and Time: April 23, 2024, 16:30-17:30

Format: Zoom webinar

Participants:

- Hatsumi Hirukawa, Director and Senior Vice President (in charge of group planning and group communications)
  - Tsuyoshi Osato, Director and Vice President (in charge of group accounting)
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【Q1-1】

You mentioned that ITS outperformed expectations in 1Q with both sales and income exceeding projections. Can you identify which parts of ITS contributed significantly to this?

【A1-1】

SI services, and maintenance and operation service/outsourcing in the Enterprise and Area segments performed well. TCS, which became a part of the Group last year, also significantly contributed to the total sales of the Group.

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【Q1-2】

Did the Enterprise and Area segments perform significantly better than projection?

【A1-2】

Your understanding is correct. Results exceeded projections overall, driven by the Enterprise and Area segments. ITS, in particular, contributed significantly to this.

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【Q1-3】

Healthcare seems to have grown significantly from a year ago. Were there any special projects? Was progress largely in line with your projections?

【A1-3】

Your understanding is correct.

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【Q1-4】

The Consumers segment does not seem to have exceeded the projection. I understand that the results were affected by the absence of new big-ticket items launched last year. In any case, the operating margin appears to have fallen compared to the past year. Do you need to consider changes in market trends? What is your outlook?

【A1-4】

The results in the Consumers segment were in line with our plan. The camera market has remained unchanged since last year. The results reflected the relationship between our sales to volume retailers and their sales to end users. Inkjet printers were slightly weak, and we revised the forecast downward. We have forecast that results will improve in the second half. We now anticipate improved results from 2Q.

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【Q1-5】

Why is the inkjet printer market soft?

【A1-5】

The domestic inkjet printer market is primarily driven by replacement purchases. Replacement purchases ran their course during the COVID-19 pandemic, and it is possible that this had a stronger impact. Our strategy remains unchanged. We will maintain profitability by raising the percentage of high-value-added products. We will execute the strategy steadily in 2Q and onwards.

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【Q1-6】

What is the position of Primagest? It is included in the Other segment, which makes its position uncertain. Since it is believed that Primagest excels in services for major financial institutions, I think the easiest thing would have been to put it in the Enterprise segment to generate synergy. Are you planning to make Primagest an independent entity? Primagest will naturally create synergy. What is Primagest's position in relation to existing Group businesses?

【A1-6】

In 2018, we created segments based on customer types. Primagest mainly works with large corporations, and we are already exploring opportunities to quickly develop synergy with Enterprise members. Meanwhile, because we can develop its BPO services in the Area or Professional segments, we have placed it as an entity that will provide BPO services to customers in all segments. This BPO unit provides services common to each segment and is positioned at the same level as the head office divisions. Primagest is positioned in that unit. BPO sales are increasing, and Primagest and Enterprise

segment are very connected to each other. Considering this, we will discuss the position that Primagest will take.

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【Q1-7】

Primagest will engage in a range of operations in the Enterprise segment. However, since its services can be provided to customers in the Area section, it is placed in a separate unit. Is this right?

【A1-7】

Yes. Primagest will be positioned this way for some time to come.

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【Q2-1】

What was the amount of goodwill amortization for Primagest and TCS in 1Q?

【A2-1】

Goodwill amortization for TCS alone is recorded in 1Q. The amount of this amortization is hundreds of millions of yen. Since Primagest was incorporated into the Group towards the end of March, only the balance sheets have been affected in 1Q. No goodwill amortization is recorded for Primagest in the statements of income. We will carefully examine the goodwill associated with Primagest. We will recognize customer-related intangible assets and will consider how the amount of goodwill amortization and amortization period should be recorded in the statements of income.

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【Q2-2】

What will be the annual amount of goodwill amortization associated with TCS?

【A2-2】

We estimate the amount to be hundreds of millions of yen.

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【Q2-3】

You mentioned that you will be calculating the amount of goodwill for Primagest. Could we expect that Primagest will not significantly impact earnings in the entire year because the goodwill amortization will be offset by its organic income?

【A2-3】

We are examining the amount that can be recorded as intangible assets and the period of amortization of the remaining goodwill, so we cannot determine the exact annual amount of goodwill associated with Primagest. Primagest's organic income may be slightly more than offset by goodwill amortization

this year and next year. However, any amortization exceeding organic income can be offset by overall income, and we do not plan to change our total income target.

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【Q2-4】

In the previous presentation, you said that personnel expenses will decrease year on year. Has the incorporation of Primagest changed your view?

【Q2-4】

Annual SG&A expenses will exceed the previous year due to the consolidation of Primagest. However, as we have stated, we control the SG&A ratio and aim to maintain the ratio at the same level as in the previous year. As in 1Q, IT and education-related investment is expected to increase for the entire year, and personnel expenses are expected to decline due to a decrease in retirement benefit expenses and attrition, except for the effect of the consolidation of Primagest. We plan to spend more on advertising expenses and promotion expenses than in 1Q, but we will flexibly make decisions on these expenses depending on the situation.

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【Q3-1】

You mentioned that high-value-added ITS is rising in the Area segment. Since the increase in income in the previous fiscal year was mainly due to ITS, I believe the profit structure has improved significantly. You mentioned that the demand for security waned. Meanwhile, I noticed that the word “proposal” was used more frequently in the presentation than before. Should we understand that you have entered a new phase? Should we feel that you captured temporary demand due to legal changes or other factors? Security products are generally generic in nature. Can we assume that you are now capable of meeting individual customer requirements better than before?

【A3-1】

In the Area segment, sales generated per negotiation are low, and changing the profit structure requires time. However, the structure has been improving steadily due to the efforts of many employees. At Canon System & Support, sales have increased due to the Makasete IT DX series, which is easy to understand for customers and sales staff who propose it to customers. The key to success has been identifying customer issues and proposing solutions that customers will accept. Additionally, we have been proposing the use of subsidies and maintaining a high acceptance rate. We have been developing an effective system for sales staff and employees who support them, which has significantly increased sales. ESET and other security products are selling well.

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【Q3-2】

Do you often sell high-value-added security products through cross-selling?

【A3-2】

We use a variety of approaches in sales activities. Canon System & Support President Takeshi Hiraga is saying we should increase customer lifetime value and foster loyalty among customers. The employees have also adopted this mindset.

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

#### Disclaimer

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