October 23, 2024

Canon Marketing Japan Inc.

FY2024/3Q Financial Results

Q&A at Presentation Meeting for Analysts

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

Format: Zoom webinar

Presenters:

- 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)

[Q1-1]

What were the approximate sales, operating income and amortization expenses for goodwill, etc. in the third quarter for TCS Inc. (TCS), Primagest, Inc. (Primagest) and A&A Co., Ltd. (A&A)? And what is the full-year outlook for these figures?

[A1-1]

First I will explain about amortization expenses for goodwill, etc. In the third quarter, the combined amortization expenses for goodwill, etc. at Primagest and TCS were about 800 million yen. We expect this will be about 2.7 billion yen for the full year.

We expect to incur roughly 600 million yen in such expenses annually at TCS, and we will incur these evenly this year and the following year. For Primagest, we project amortization expenses of roughly 2.1 billion yen for the nine months of this year. From the next year and beyond, we will incur amortization expenses for full one-year periods. We explained that customer-related intangible assets will be amortized using a weighted average, but the amortization periods vary depending on the details. For TCS, this year and in the years beyond we expect to post operating income in excess of amortization expenses for goodwill, etc. For Primagest, amortization expenses for goodwill, etc. are significant this year and next year, but from 2026 and beyond we expect to be posting operating income exceeding it. Additionally, for TCS and Primagest (in the nine months since it joined the Group) we are projecting annual sales of approximately 9 billion yen and 15 billion yen respectively. We expect ever further gains will be made starting next year, but the current impact we see is as stated.

[Q1-2]

For both TCS and Primagest, what are your forecasts for operating income before amortization for goodwill, etc.?

[A1-2]
We do not disclose figures for non-consolidated income. TCS will generate income that exceeds amortization expenses from goodwill, etc. this year. Primagest will not offset these expenses from income this year or next year, so income will be negative, but from 2026 and beyond we project that income will exceed these expenses on a non-consolidated basis. The key point for us is whether we can produce synergies, and this is something the Group is pursuing in a unified fashion. TCS will be consolidated with Canon IT Solutions Inc. in July next year. In addition, Primagest has a close relationship with the MA Headquarters in the Enterprise segment and sales activities are underway. We hope to produce significant numbers and see big returns in the future.

[Q1-3]
Have you disclosed the impact on sales and profit for the third quarter due to the transfer of shares in A&A?

[A1-3]
We have not disclosed those figures but they are not significant. As this was a company generating annual sales in the several billion yen range, you can imagine the impact as being around a quarter of that.

[Q1-4]
What are the factors behind your projection that operating income will increase in the fourth quarter after declining in the first nine months (company-wide)? You have forecast an increase in operating income in the "Other" segment only in the fourth quarter. Is this due to the seasonality of Primagest?

[A1-4]
The main factor is that Primagest falls under the "Other" segment.

[Q1-5]
Looking only at the fourth quarter, does that mean you will produce a profit even when amortization expenses for goodwill, etc. are deducted?

[A1-5]
Looking on a year-on-year basis, it is mainly the impact from Primagest. However, as this also includes performance from other Group companies running BPO businesses, it is not only from Primagest.

[Q1-6]
It is my understanding that when looking only at Primagest, profit will be negative due to amortization expenses for goodwill, etc., but why will profit have increased year on year in "Other"?

[A1-6]
As Primagest joined the Group in April this year, there is an increase when looked at on a year-on-year basis.

[Q1-7]
Is it correct to say that looking only at Primagest, operating income in the fourth quarter will be negative? If that is the case, are there other factors behind operating income increasing 900 million yen from the previous year?

[A1-7]
The figures for operating income and goodwill amortization expenses of Primagest explained earlier are annual. Looking only at the fourth quarter, we expect operating income to exceed amortization expenses by around 600 million yen. The reason for the reversal in the fourth quarter compared to the first three quarters is that the profits earned by Primagest are concentrated in the fourth quarter.

[Q2-1]
You explained that some projects had been pushed back in the Healthcare business and network camera areas. How much of an impact will this have? Is it safe to assume that this will have a corresponding positive impact on performance in the fourth quarter?

[A2-1]
For network cameras, there is a possibility that some projects will be pushed back to the fourth quarter or even next year in relation to acceptance inspection, so we slightly reduced our forecasts. For the Healthcare business, we expect to recognize those sales in the fourth quarter.

[Q2-2]
Is the impact from these projects being pushed back significant? And is this unusual compared with previous years?

[A2-2]
Due to synergies produced from the transfer of the Healthcare business from Canon Medical Systems

in January 2023, the number of projects increased, and some projects have been pushed back in connection with that. Sales have shown an extremely high growth rate on a year-on-year basis.

[Q2-3]
SI services was revised from +10% year on year to +8% year on year. You mentioned that sales declined due to the transfer of A&A, but it seems that this transfer took place in the first half of the year. It seems that the reason for changing the outlook at this time is not related to that. What is the situation with SI services on a basis that excludes A&A? Could you please provide a little more supplementary information?

[A2-3]
We previously said that progress is largely in line with plans but we had planned to cover the decrease in sales from A&A. However, looking at the results from the third quarter and our outlook for the fourth quarter, we determined that we would not be able to fully cover this decrease. As a result we revised the forecast down by 2%. In the Area segment, there was a surge in projects for SMEs last year due to the Electronic Books Preservation Act and the invoice system. We had expected to be able to cover the decrease in sales from A&A by capitalizing on that trend, but since we fell a little short, we made the revision. Canon IT Solutions Inc. in the Enterprise segment, the MA Headquarters and the IT solutions business in the GB Solution Headquarters are performing strongly. If anything, the impact was the greatest in the Area segment, which led to the explanation from before.

[Q3-1]
Regarding digital interchangeable lens cameras, my understanding is that the positive turnaround in the third quarter was an effect of new product releases. You mentioned that you expect your own products to perform well in the fourth quarter, but what is your view of the domestic market?

[A3-1]
For the full year, we expect the market to increase slightly year on year. For the third quarter, we have data suggesting that the figures did not grow as much as we had expected for in-store sales. There are no major changes in the market as a whole, but in our case we project growth in the fourth quarter due to the new products we have released. In the third quarter the market was a little weak, but each company has been coming out with new products, there was neither significant growth nor a decline.

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

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