

# Canon Inc.

## Corporate Strategy Conference 2019

**March 1, 2019**

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# Agenda

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# Excellent Global Corporation Plan Phase V 2016 – 2020

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(Basic Policy)

**Embrace the challenge of new growth  
through a grand strategic transformation**

(Key Strategies)

1. Achieve a cost-of-sales ratio of 45%
2. Strengthen and expand new businesses
3. Restructure global sales network
4. Enhance R&D capabilities through open innovation
5. Complete the Three Regional Headquarters management system

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Under Phase V of the Excellent Global Corporation Plan – a five-year initiative started in 2016 – we have been working towards reform under the basic policy of “Embracing the challenge of New Growth Through a Grand Strategic Transformation.”

Last year marked the third-year, and midway point of this plan. Today, I will individually discuss existing and new businesses, highlighting strategies and measures we will employ over the next two years, which are based on the progress and achievements we have made over the past three years, and the new insights into challenges we face.

## M&As for Business Portfolio Transformation

2005-2007	Tokki, Anelva, & Machinery	Industrial Equipment
2010		Commercial Printing
2014		Network Cameras
2015		Network Cameras
2016		Medical

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Under this five-year plan, our number one focus is to complete a transformation of our business portfolio. For us to achieve the sustainable growth that we envision, we need to shift into business areas where higher growth can be expected.

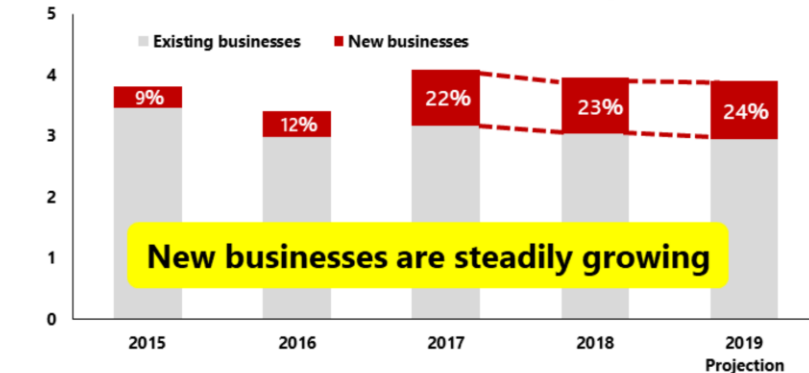
With this understood, even before the collapse of Lehman Brothers, when we were posting strong results thanks to replacement demand for cameras driven by digitalization, we were implementing measures to further this initiative. As a part of this, we started acquiring industrial equipment companies from 2005. Then, in 2010, we acquired Océ, a company known for its high-speed printing technology to gain a foothold in the commercial printing area. Furthermore, we set our sights on the fundamental human necessities of safety and security. On the security side, we acquired Axis, the global leader in network cameras, in 2015; and for safety, we welcomed Toshiba Medical into the Canon Group in 2016.

With these four new businesses, we were finally able to make great strides towards transforming our business portfolio.

# Excellent Global Corporation Plan Phase V (2016 – 2018 Update)

- Steady progress in portfolio transformation
- New business sales expanded to 23%

(Trillions of yen) Total net sales and new business composition



Raise to  
around  
30%

As a result, sales of new businesses in 2018 rose to account for 23% of total revenue, as compared to 9% in 2015, which was before the start of our current 5-year plan. And by 2020, the end of the plan, we expect that this will account for almost 30%. On the other hand, existing businesses account for more than 70% of total sales and an even higher percentage of profits, which supports the entire company. That being said, it is essential to reinforce existing businesses.

## **Existing Businesses**

# Revitalization of Existing Businesses (Launch Competitive New Products)

## ■ Aim to raise market share through products offering superior features



**MFD  
Color Mkt.  
Shr.**  
'16⇒'18  
17% ⇒ **19%**

Growth thanks to total cost of ownership improvement

Color MFDs Y/Y Growth Rate (Canon Unit Sales)



**Semi-  
conductor  
Mkt. Shr.**  
'16⇒'18  
26% ⇒ **32%**

Highly evaluated by the market for high productivity and leading customer support capability

Semiconductor Lith. Equip. (Canon Unit Sales)



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Now, I will discuss the thorough revitalization of existing businesses. Although the markets of existing businesses are maturing, we have steadily gained market share through the successive launch of competitive new products, since the start of the current five-year plan.

Looking at color MFDs for example, we are steadily increasing sales of our third generation imageRUNNER ADVANCE series, which was designed to significantly reduce hardware maintenance. This is linked to a lower total cost of ownership and has been well received by customers. The launch of this strategic lineup has also lifted sales. Overall unit sales of color models over the past three years has grown at an average yearly rate of around 8%. This high growth rate exceeds overall market expansion and supports our Office business.

For semiconductor lithography equipment, we also increased sales significantly, posting a doubling of unit sales over the past three years, thanks to the high productivity of our equipment and the high praise we have received for our customer support capabilities. In this way, even while markets mature, we feel it is possible to increase our market share, achieving market exceeding growth through the launch of products that have superior features.

Going forward, we will continue work to revitalize existing businesses by successively launching new competitive products.

# Revitalization of Existing Businesses

(Cameras: Focus on growth areas amid continuing market contraction)

- Support camera bus., concentrating mgmt. resources on mirrorless
- Plan to stabilize business over medium term, shifting to B2B areas



On the other hand, among existing businesses, for cameras, which are mainly a consumer-oriented product, the overall market continues to shrink due to improvement in smartphone camera features. Even against this backdrop, however, we continue to see positive growth in mirrorless cameras, known for their compact and light-weight designs, thanks to improvements in performance, which is now on par with DSLRs.

Although we have been taking a cautious approach to mirrorless cameras until recently, we have begun to successively launch strategic models, and will strive to further enhance our lineup going forward as well. The overall market will continue to shrink for some time, however, we will work to support our camera business by focusing management resources on the growing market segment of mirrorless cameras. Additionally, from a medium-term perspective, we will work to facilitate our aim to stabilize this business, promoting a shift to B2B, in such areas as automotive and industrial.



## Revitalization of Existing Businesses

(Improve Profitability – Expansion of automated assembly)

### Expand range of products

Apply automation to mirrorless cameras and lenses

### Expand range of processes

In addition to assembly of end goods and units, use automation in investigation and packaging processes

- Improved workforce efficiency more than doubled that of last year through automation
- Re-aligned workforce to in-house production etc.

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In addition to measures from a product perspective, strengthening existing businesses to further raise profitability is of the utmost importance. Here, we are keenly focused on measures aimed at lowering our cost-of-sales ratio. A prime example of this is the automation of product assembly. Our camera business is leading the pack in this area. Initially used in the assembly of DSLRs, we have now expanded automated assembly to mirrorless cameras and interchangeable lenses, and we expect even further cost reduction going forward.

Furthermore, we will work to expand the use of automated processes not only to end products, but also to unit assembly as well as further utilizing automation for inspection and packaging processes. As a result, we expect to be able to free up and better utilize over 100 employees working in camera manufacturing, more than double the number from last year. Through this and the in-house production of key components and production equipment, we will continue to make progress on reducing costs.

**New Businesses**

## Progress and Future Measures of New Businesses (4 new businesses that will drive future growth)

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**Commercial Printing**



**Network Cameras**



**Medical**

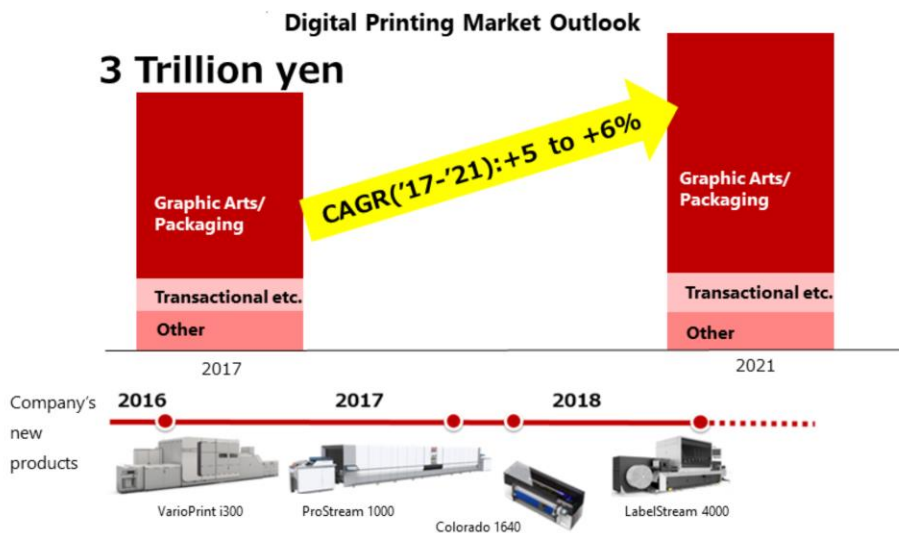


**Industrial Equipment**

Next, I will discuss the new businesses that will drive our future growth—namely commercial printing, network cameras, medical, and industrial equipment—focusing on the progress we have made and results we have achieved so far as well as the challenges we expect to face and the future measures we plan to take.

## Progress and Future Measures of New Businesses (Commercial Printing)

- Continuing to grow 5 to 6% per year, supported by shift to digital
- Change in printing technology trend from toner to inkjet



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The first of our four new businesses I will look at is commercial printing. The digital portion of the market, where Canon competes, continues to grow thanks to the shift from offset to digital against the backdrop of rising demand for a high-variety short-run printing. We expect the market for graphic arts, where high image quality is required, and packaging, which includes labels, to continue to drive growth. The digital market, which includes presses and consumables, is currently around 3 trillion yen and is expected to continue growing at a rate of around 5 to 6%. In contract, over the past several years, this business has experienced significant change in the environment that surrounds it, including a shift in printing technology from toner to inkjet.

## **Progress and Future Measures of New Businesses** (Commercial Printing)

### **Progress and Achievements**

- Launched 3 new products into graphic arts market where high growth is expected
- Also launched new product into packaging market, with the aim of building a position in this market

### **Challenges and Measures over the next 2-years**

- Accelerating the pace of market penetration of new products that were launched
  - ✓ Increase number of high-level sales engineers that are able to properly address customer challenges
  - ✓ Employ sales structure that was successful in North America to Europe

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In response to this change in print technology, over the past three years, we launched three new inkjet-based products targeting the graphic arts segment, where high growth is expected. We have worked to penetrate the market, growing unit sales with each passing year and will work to accelerate market penetration going forward. Another promising market segment is packaging, where we also launched a new product at the end of last year. We expect this product to make a meaningful contribution to our results from this year on.

In order to accomplish this, we feel it is important for us to increase the number of highly knowledgeable sales engineers that can act as consultants that appropriately respond to challenges customers are facing, while also increasing familiarity with our products. In North America we have already set up an expanded sales organization of highly experienced people, which has shown positive results. This is considered a best practice and in Europe, the second largest market after North America, we will swiftly introduce the same structure, in an effort to expand sales.

We will promptly strengthen our sales structure, securing MIF in line with market growth, which will allow us to capture demand for consumables and link this to both sales growth and profitability improvement.

## Progress and Future Measures of New Businesses (Network Cameras)

- **High market growth thanks to demand for security and shift to digital**
- **Expanding use from security to marketing analytics**

■ Camera hardware, Video management systems –  
CAGR ('17-'21) +8 to +9%

■ Video analytics software – CAGR ('17-'21) +20% or more



Network camera market expected to grow more than 10% overall in the medium term

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Next, network cameras. The market continues to grow at a high rate thanks to increasing demand for security and replacement demand coming from a shift in technology from conventional analog to digital. Recently, with the advent of the age of AI and the capacity to conduct sophisticated analysis of recorded video, we are seeing a growing need for various applications. The market for network cameras has expanded from home users to offices, smart-city infrastructure and the defense industry. Moreover, network cameras are being used beyond security in such areas as marketing analysis in retail spaces. Based on this, we expect the market to continue growing at a rate of 10% or more.

## Progress and Future Measures of New Businesses (Network Cameras)

### Progress and Achievements

- Achieved market exceeding CAGR of more than 20%
- Expanded industry-leading global partner network to 90 thousand
- Acquired BriefCam, a company known for strength in video synopsis technology

### Challenges and Measures over the next 2-years

- Strengthening ability to handle customer needs in line with swiftly expanding market sphere
  - ✓ In addition to proprietary development, enhance applications through M&As
  - ✓ Promptly respond to diversifying needs for cloud-based management services etc.

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Under these conditions, Axis, which is at the core of our network camera business, does not only have a broad lineup of camera hardware and software, but also an industry-leading global partner network. The number of partners responsible for sales in each country at the time we acquired Axis was already above 70 thousand. It is now, through continued expansion, a strengthened sales network of 90 thousand companies spanning 179 countries.



## Progress and Future Measures of New Businesses (Network Cameras)

- Market is swiftly expanding from office to infrastructure



Enhancing applications to respond to  
diversifying custom needs

### Marketing

Customer base/  
People flow analysis



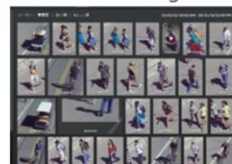
### Entertainment

People counter/  
Understand usage situation



### Security

Spot suspicious people/  
Human tracking



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Additionally, as for our response towards applications, we have actively introduced several proprietary applications, including software that can instantaneously count the number of people in a crowd of several thousand. However, we still need to further expand our lineup to address diversifying customer needs.

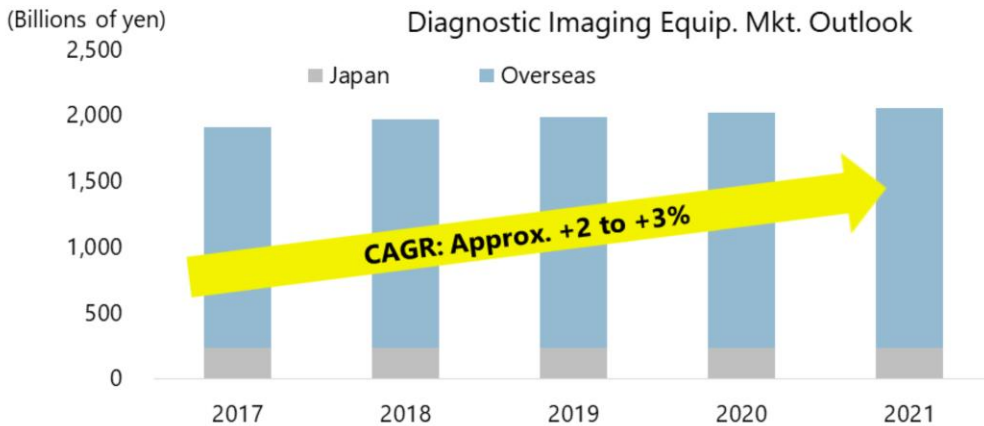
Going forward, we will work to further strengthen internal development and at the same time strive to strengthen applications through the use of M&As—such as last year's acquisition of BriefCam, an Israel-based company known for their strength in video synopsis technology. Furthermore, in the area of video management systems as well, we are seeing an increase in accelerated demand for scalable cloud-based solutions that reduce initial customer investments in addition to traditional server-based systems. In order to capture this kind of demand, we will offer cloud-based management services for corporations, leveraging the technology of Milestone, a subsidiary that deals with video management systems. In the second half of last year, Canon headquarters and Milestone together already established a subsidiary in the United States. We will fully deploy this business in North America in the future and follow this up with expansion in Europe and Japan.

Looking at our own performance; since the addition of Axis to the Canon Group in 2015, sales have continued to grow at an average rate of more than 20% over the past three years. And through these measures, we will work to continue growing at a rate that is around twice that of the overall market. Additionally, we will work to improve profitability and further raise cost competitiveness bringing back into the Group some of the production that Axis currently outsources to third-parties.



## Progress and Future Measures of New Businesses (Medical)

- Demand for leading-edge systems in developed countries and medical infrastructure development in emerging markets continues in the diagnostic imaging equipment market



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Next, Medical. For the diagnostic imaging systems market, which is our primary market, we expect growth to continue at a pace of around two to three percent, thanks to growing demand for leading-edge devices in developed countries and the rapid pace of medical infrastructure improvement in emerging markets as a result of economic expansion.

## Progress and Future Measures of New Businesses (Medical)

### Progress and Achievements

- Drastically renewed CT, MRI, ultrasound, and X-ray lineups
- Improved overseas awareness, collaborating with well-recognized universities
- Prepared for business field expansion through M&As, business partnerships etc.

### Challenges and Measures over the next 2-years

- Expanding sales in growing overseas markets as well as strengthening profitability
  - ✓ Expand sales force and local incorporation of distributors
  - ✓ Cost reduction through maximization of Group synergies
  - ✓ Continue strengthening lineup in each business area

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In this business environment, we have drastically renewed our lineup over the past three years, successively launching new products in such areas as CT, MRI, ultra-sound, and X-ray systems. Although certain new products had not initially received authorization outside of Japan, this was achieved at the end of last year and from this year on, these products will provide a boost in sales.

In addition to these kinds of product-oriented measures, over the past three years we have also invested in M&As and in tie-ups with third parties with the aim of expanding the scope of our business. Although these acquisitions weren't large—for example: Fysicon, a company based in the Netherlands known for advanced technology in the field of cardiovascular monitoring systems; and ACTmed, known for its strength in cancer genome analysis—they show that we are steadily laying the groundwork for further growth.

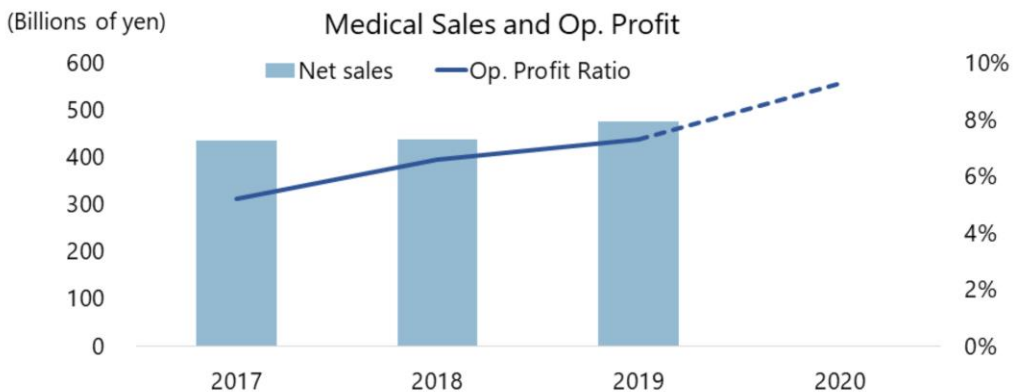
One challenge we do have with this medical business, is the fact that almost half of our sales are generated in the Japanese market. In order to improve this situation, over the past one or two years, we have been working with top-notch universities and institutes that are highly respected in the medical field, such as Johns Hopkins University in the United States and Bordeaux University in France, to increase our brand recognition in overseas markets.

While we lay the groundwork that will support efforts to expand overseas sales, we will also give priority to strengthening our overseas sales structure. Specifically, we will focus on expanding our sales force in the United States, the largest market in the world. At the same time, we will actively promote the development of localized distribution networks, particularly in emerging markets.

By steadily executing product-oriented and sales-&-marketing-oriented measures, we will work to further accelerate sales outside of Japan to realize a growth rate that is twice that of the overall market. From a profitability perspective, we will work to actively capture high-margin service revenue through localized distribution networks for improvement.

## Progress and Future Measures of New Businesses (Medical)

- Cost reduction on parts through cooperation with Canon HQ's procurement div., reduced lead-time by leveraging production tech.
- Swiftly achieve operating profit ratio of 10% or more, maximizing Group synergies



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Additionally, from a cost reduction perspective, we have been working to realize lower costs through synergies over the past two year, through cross-departmental project teams that span the entire company.

Cost reduction, for example, has been realized through cooperation with the procurement division of Canon headquarters in the price negotiation of parts. Leveraging the production technologies we have developed has also allowed us to reduce the lead-time of production startup. As a result, we expect our operating profit ratio to improve to around 7% this year, which was around 4% on a pre-acquisition basis three years ago.

We are still in the early stages of our efforts to reduce costs, and there is plenty of room to make improvements. With this in mind, we will work towards realizing our goal to achieve an operating profit ratio of more than 10%.

## Progress and Future Measures of New Businesses (Industrial Equipment)

### Progress and Achievements

- Established high-definition technology which meets panel manufacturers expectations
- Achieved overwhelming market share in the OLED vacuum deposition equipment market

### Challenges and Measures over the next 2-years

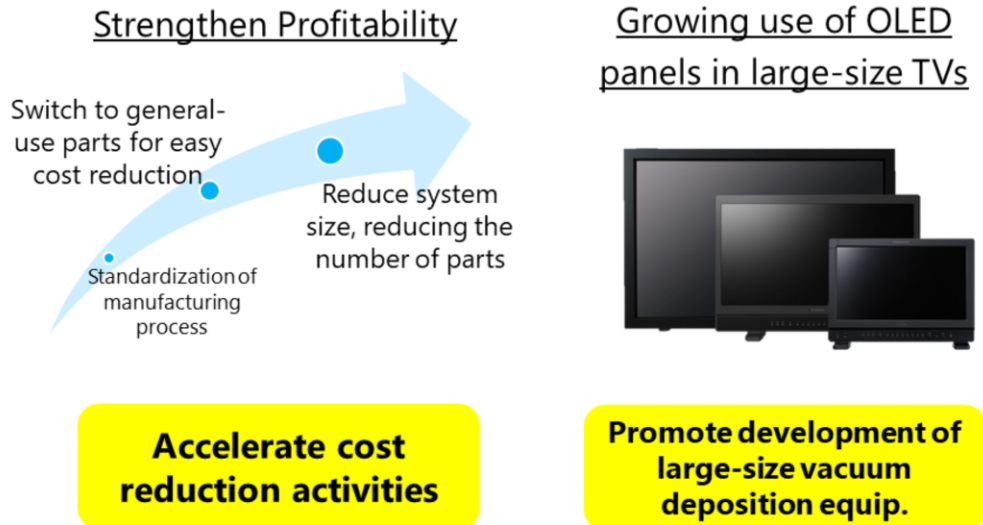
- Preparation for recovery phase, during period of completed one round manufacturer investment
- ✓ Accelerate cost reduction activities to improve profitability  
(Reducing system size, switch to general-use parts, standardize manufacturing process)
- ✓ Promote development of large-size vacuum deposition equip. in anticipation of expanding demand for large TVs

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The last new business I will discuss is Industrial Equipment, which mainly consists of OLED vacuum deposition equipment. The number of smartphones adopting OLED panels is resulting in significant growth of the OLED panel market. Against this backdrop, our focus so far has been to keep up with demand to gain overwhelming share through our well-established technology, which allows for the manufacturing of high-definition panels that sufficiently satisfy the criteria of panel manufacturers. Currently, due to a slowdown of the smartphone market, we are basically seeing a completion of one-round of panel manufacturer investment. We expect, however, the market to move to a recovery phase in the near future with the shift to OLED panels, which have an advantage in terms of high definition image quality.

## Progress and Future Measures of New Businesses (Industrial Equipment)

### ■ Preparation for recovery phase, during period of completed one round manufacturer investment



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Up until now, we have been in a situation where we are increasing production in order to respond to abundant demand. In preparation for the coming phase of market expansion, we will further strengthen our profit structure. Specifically, we will accelerate activities aimed at bringing down costs, such as reducing the footprint of our equipment by reducing the number of parts, switching to general-purpose parts—which is a rather simple way to lower costs—and by standardizing manufacturing processes.

Additionally, looking at OLED panel usage overall, we expect demand to increase not only for panels used in smartphones, but also for large-size panels that are used in such other products as TVs. Furthermore, we will promote the development of large-size vacuum deposition equipment in step with this demand in order to capture this expanding market.

# Improve Company-wide Productivity

## Progress and Achievements

- Improve work force efficiency through automated assembly
- Expansion of highly specialized training facilities (Software, Manufacturing)

## Challenges and Measures

- Train and re-align human resources from production divisions
- Reallocate go-to-market resources from B2C to B2B



■ Canon Institute of Software Technology



■ Manufacturing (Monozukuri) Training

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Thus far, I have discussed our measures for both existing and new businesses. Going forward, to further accelerate our grand strategic transformation, it is also very important for us to improve the productivity of our work force, in areas spanning from product development and production to sales & marketing, to the level that is on par with that of leading global companies.

We have concrete measures to put in place in order to realize this goal—for example, the promotion of automation that I discussed earlier. Through automation, we can both create and make use of surplus personnel. Key to this is enhancing our highly specialized educational facilities. In addition to strengthening the Manufacturing Training Center for the in-house production of production equipment for internal use, last year, we established the Canon Institute of Software Technology here in Shimomaruko, which handles software training. Through these kinds of specialized educational facilities, we will work to improve company-wide productivity by re-aligning the human resources made newly available from manufacturing work to new businesses and development divisions in digital areas through retraining.

Additionally, even in sales companies, we will adjust our sales structure from B2C to B2B where growth is expected.



## **Summary**

(Achievement Goals by the end of Phase V 2020)

Return to path of growth by promoting measures in each business

Raise new business sales composition to around 30% of total company

Further reinforce transformed business portfolio

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Overall, despite the impact of changing market conditions for cameras and OLED vacuum deposition equipment, I am confident that we can return to a path of growth from next year by promoting the measures for each business that I just outlined.

Especially for new businesses, from this year until 2020 our plan is to drive top-line growth at a compounded average growth rate of 10% and above and to have new businesses account for around 30% of all sales. Based on this, we will work to exceed the overall sales level set in 2017, driving overall growth to around 5 or 6% next year.

Over the past three years, we completed the transformation of our business portfolio. Over the remaining two years, we will further strengthen our transformed business portfolio, and link this to a further leap forward from 2021.

**Canon**