

Canon Inc.

Second Quarter 2020 Results

July 28, 2020
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Agenda

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External Environment

- Impact from COVID-19 growing more serious as it has persisted longer and become more widespread compared with 1Q
- Record GDP decline in major countries and regions

Business Performance

- Sank into the red for the first time on a quarterly basis due to rapid decline in actual demand and restrained business activity

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The COVID-19 infection that seriously started from March, rapidly spread to over 180 countries and regions around the world.

The lockdown of cities, which lasted for about two months from the end of March to May, saw 41 of the 50 U.S. states issue some kind of stay-at-home or shelter-in-place order. Due to COVID-19's wide ranging impact, a stagnation of economic activity was unavoidable.

As a result, major countries and regions such as Europe, the United States, and Japan, most likely experienced record decline in second quarter GDP growth, exceeding the decline caused by Lehman Brothers.

For us as well, the impact of global economic stagnation was inevitable as we faced rapid drops in actual demand in various businesses and were confronted with limited business activity. As a result, we sank into the red for the first time on a quarterly basis.

FY 2020 Financial Results

(2Q 2020 Actual versus 2Q 2019 Actual)

■ Impact of COVID-19 directly hit performance

(Billions of yen)	2Q 2020 Actual	2Q 2019 Actual	% Change
Net Sales	673.3	905.9	-25.7%
Gross Profit (% of Net Sales)	275.3 40.9%	406.4 44.9%	-32.3%
Op. Expenses	293.1	363.3	
Op. Profit (% of Net Sales)	-17.8 -2.6%	43.1 4.8%	-
IBT	-7.2	51.1	-
Net Income (% of Net Sales)	-8.8 -1.3%	34.5 3.8%	-
USD	107.59	109.80	
EURO	118.66	123.39	

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In the second quarter, net sales declined 25.7% to 673.3 billion yen and operating profit and net income were a negative 17.8 billion yen and 8.8 billion yen, respectively.

We saw unexpected events originating from COVID-19 occurring around the world, such as the closure of corporations and retail establishments, the standstill of business negotiation, and the implementation of overseas travel restrictions.

Our estimation of the impact of COVID-19 on each of our businesses shows around 210.0 billion yen on net sales and around 70.0 billion yen on operating profit.

On a half year basis, we remained in the black, securing an operating profit of 15.1 billion yen.

FY 2020 Financial Results by Business Unit (2Q 2020 Actual versus 2Q 2019 Actual)



- Office and Industry & Others: In the red
- Imaging System: Secured profit despite significant sales decline, Medical System: Profit growth

(Billions of yen)		2Q 2020 Actual	2Q 2019 Actual	% Change
Office	Net Sales	307.5	440.8	-30.2%
	Op. Profit	-0.9	40.4	-
Imaging System	Net Sales	141.7	204.7	-30.8%
	Op. Profit	0.8	12.7	-93.9%
Medical System	Net Sales	101.9	105.1	-3.1%
	Op. Profit	5.9	3.4	+75.5%
Industry & Others	Net Sales	139.3	179.5	-22.4%
	Op. Profit	-2.4	9.5	-
Corporate & Eliminations	Net Sales	-17.1	-24.2	-
	Op. Profit	-21.2	-22.9	-
Total	Net Sales	673.3	905.9	-25.7%
	Op. Profit	-17.8	43.1	-

Note: Certain businesses that were included in Industry & Others are now included in Office. Results for the previous year have been restated to confirm with the new presentation.

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As for the Office Business Unit, during the time cities were in lockdown, little progress was made in business negotiations and equipment installation, as many companies were closed. Furthermore, as fewer people were coming to the office, demand for printing also declined. As a result, net sales declined 30% and operating profit was in the red as both hardware sales and service revenue decreased.

As for the Imaging System Business Unit, due to the cancellation of events, restrictions placed on people's movement as well as shop closures, camera sales were less than half of those in the same period last year. Despite this, we were able to secure a profit by steadily capturing demand for home printing through inkjet printers.

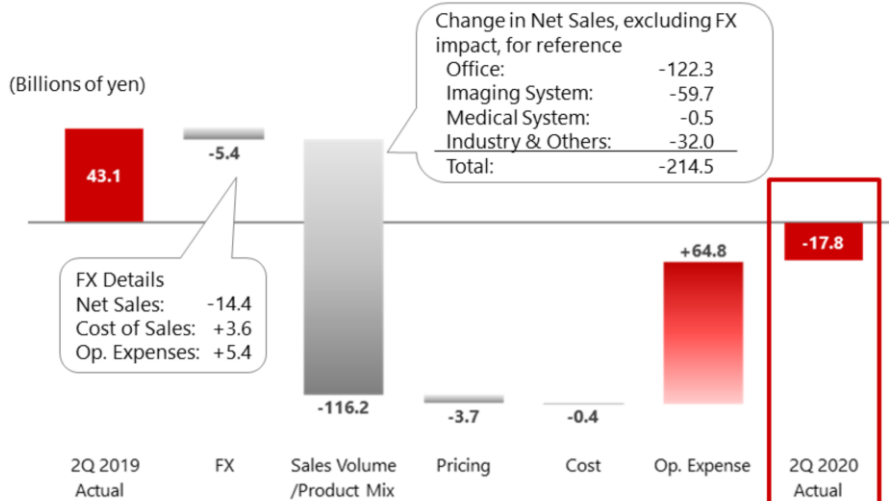
As for the Medical System Business Unit, although net sales were down, due to limited business negotiations and equipment installation, as medical institutions remained on alert for continuing COVID-19 infections, operating profit increased thanks to comprehensive expense management.

In Industry & Others, although customer capital investment demand remained strong, overseas travel restrictions continued to prevent us from installing FPD lithography equipment and OLED vacuum deposition equipment. As a result, business unit net sales declined and operating profit was in the red.

FY 2020 Operating Profit Analysis

(2Q 2020 Actual versus 2Q 2019 Actual)

- Sales volume: All business units record net sales decline
- Op. expenses: Decline in those related to sales & marketing due to reduced demand and restrained sales and equipment installation



As for changes in foreign exchange rates, the overall impact was a negative 14.4 billion yen on net sales and a negative 5.4 billion yen on operating profit due to the yen's appreciation against the U.S. dollar and euro.

COVID-19 impacted all of our businesses. Gross profit declined 116.2 billion yen due to factors such as decreases in sales volume and lower plant capacity utilization rates.

As for expenses, those related to sales decreased significantly due to lower demand, and stagnant business and installation activity. Additionally, there was a benefit from last year's structural reform. As a result, total expenses declined by 64.8 billion yen.

Key Message

(FY 2020 Projection)

FX Assumptions

			Impact of exchange rate movement (2H impact given a one yen change)	
	2H 2020	FY 2020	Net Sales	Op. Profit
USD/Yen	105.00 yen	106.60 yen	5.3 billion yen	1.7 billion yen
EUR/Yen	118.00 yen	118.72 yen	2.7 billion yen	1.1 billion yen

External Environment

- Expect uptick in economy thanks to fiscal-stimulus packages and monetary policies, but pace of recovery will be limited

FY 2020 Outlook

- Expect only gradual recovery in our performance also
- Implement further structural reforms due to unexpected deterioration in business environment

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As economies gradually reopen and thanks to large-scale fiscal-stimulus packages and bold monetary policies of each country, we assume that the future economy will rise from its current bottom. However, we expect the pace of economic recovery in the second half of this year to be constrained as we are unable to predict when the situation surrounding COVID-19 settles down.

For our performance as well, though we expect improvement from this second half, we believe the recovery will be slow as it will take time for certain businesses to fully recover.

While last year, in line with contraction of both the office and camera markets, and investing around 30.0 billion yen into structural reform, this year we are unexpectedly facing deterioration of our business environment due to COVID-19.

To return back to high profitability and also get off to a good start when we embark on our sixth five-year plan next year, we will invest an additional amount of around 15.0 billion yen into structural reform this year. This will facilitate the development of a solid foundation from which we can enhance our ability to generate profit.

FY 2020 Financial Projection (Full Year)



- Double-digit sales decline and significant decline in profit due to COVID-19

(Billions of yen)	FY 2020 Current Projection	FY 2019 Actual	% Change
Net Sales	3,080.0	3,593.3	-14.3%
Gross Profit (% of Net Sales)	1,318.4 42.8%	1,610.0 44.8%	-18.1%
Op. Expenses	1,273.4	1,435.3	
Op. Profit (% of Net Sales)	45.0 1.5%	174.7 4.9%	-74.2%
IBT	70.0	195.7	-64.2%
Net Income (% of Net Sales)	43.0 1.4%	125.1 3.5%	-65.6%
USD	106.60	109.03	
EURO	118.72	122.03	

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In the second half of the year, our exchange rate assumptions are 105 yen to the U.S. dollar and 118 yen to the euro, which reflects an appreciation of the yen from current levels.

We now expect net sales to decline 14.3% to 3 trillion 80.0 billion yen, operating profit to decline 74.2% to 45.0 billion yen, and net income to decline 65.6% to 43.0 billion yen.

As for COVID-19, while we expect the impact on our performance to decrease in the second half, we still estimate a full-year impact of around 480.0 billion yen on net sales and around 170.0 billion yen on operating profit.

FY 2020 Financial Projection by Business Unit **Canon** (Full Year)

- Office, Imaging System, and Industry & Others: Sales & profit decline
- Medical System: Sales & profit growth

(Billions of yen)		FY 2020 Current Projection	FY 2019 Actual	% Change
Office	Net Sales	1,423.4	1,752.1	-18.8%
	Op. Profit	82.6	165.0	-49.9%
Imaging System	Net Sales	643.9	807.4	-20.3%
	Op. Profit	16.1	48.2	-66.6%
Medical System	Net Sales	441.4	438.5	+0.7%
	Op. Profit	26.8	26.7	+0.2%
Industry & Others	Net Sales	654.3	688.4	-5.0%
	Op. Profit	0.4	19.4	-97.9%
Corporate & Eliminations	Net Sales	-83.0	-93.1	-
	Op. Profit	-80.9	-84.6	-
Total	Net Sales	3,080.0	3,593.3	-14.3%
	Op. Profit	45.0	174.7	-74.2%

Note: Certain businesses that were included in Industry & Others are now included in Office. Results for the previous year have been restated to confirm with the new presentation.

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As for Office, although the style of work within corporations may not be the same as before, the number of people returning to the office is increasing. From this, we feel the worst is behind us and that we will see a return of business negotiations and print demand. However, we expect recovery in the second half of the year to be slow as time is needed for the workforce attendance to stabilize.

As for Imaging System, though we expect home demand for inkjet printers to continue, we also believe it will take time for camera demand to recover. As a result, we expect both net sales and operating profit to decline for the full year as well.

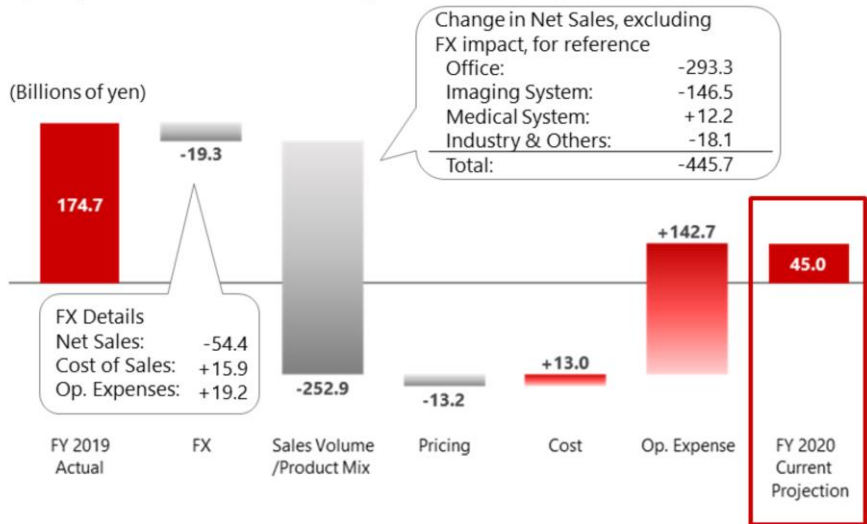
As for Medical, medical institutions are slowly getting back to normal. In the second half of the year, we will work to capture demand in a market where we expect gradual recovery, facilitating our aim of full-year sales and profit growth.

For Industry & Others, although customer demand for capital spending remains strong, we expect full-year sales and profit to decline, since we do not expect to recover from the impact of travel restriction we faced in the first half of the year.

FY 2020 Operating Profit Analysis

(FY 2020 Current Projection versus FY 2019 Actual)

- Sales volume: Significant decline due to lower Office and Imaging System sales
- Op expenses: Lower sales, expense efficiency, benefit from structural reform



As for changes in foreign exchange rates, we project a negative impact of 19.3 billion yen on operating profit as we expect the yen to appreciate against the U.S. dollar, from 109.03 yen to 106.60 yen, and against the euro, from 122.03 to 118.72 yen.

As for changes in sales volume, although we expect Medical System sales to increase, the overall impact is projected to be a negative 252.9 billion yen as we expect significant sales decline, particularly in Office and Imaging System.

As for price reduction, we expect to basically offset the impact on profit through cost savings.

As for expenses, in addition to the impact of lower sales, the Canon Group will work in a concerted effort to raise expense efficiency all areas. As a result, we expect a reduction of 142.7 billion yen.

As for structural reform, last year we invested 30.0 billion yen. This year we will invest 15.0 billion yen. The total effect on restructuring is expected to be 37.0 billion yen this year, reflecting 15.0 billion yen in lower restructuring expenses and 22.0 billion yen positive effects.

Office / Inkjet

- Support remote work
- Respond to diverse needs with rich product lineup

Cameras

- Accelerate measures to streamline operations
- Expand business areas that utilize optical technology

Medical / Network cameras

- Cultivate into core businesses by concentrating resources on need for safety and security

Industrial equipment

- Increased importance due to acceleration of digitalization

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As for office equipment, print volume in the office will decline as more and more people work from home. With the increase in sales of inkjet printers for remote working and learning, however, we have been able to reconfirm that paper is still essential. Going forward, we will support remote working, from both a hardware and software perspective, by providing security and payment methods suitable for home and shared offices. Additionally, we will supply products that respond to the needs of the market, leveraging our strength, which comes from having both laser and inkjet printing technology, in our lineup that ranges from MFDs to home-use printers.

As for cameras, although the current pace of market contraction has accelerated, our view that sooner or later the market will settle down and consist solely of users that are particular about imaging has not changed. We are taking every step to accelerate the streamlining of business activities such as development, production, and sales as well as our product lineup to ensure profitability even when the market reaches this point. We will work to facilitate our aim of switching business domains, leveraging the optical technology we have cultivated so far, and reallocating resources to new fields such as automobiles and industrial-use sensors.

On the other hand, for the new businesses of medical and network cameras, we are seeing their importance increasing even more, as products that respond to the primitive human needs of safety and security, which fits this era in particular. We will work to cultivate these into core businesses that support Canon by intensively investing resources also in the future.

As for industrial equipment, we are seeing an increase in demand due to the acceleration of digitization and the important role they play in the production of key components that support social infrastructure. For our lithography equipment and OLED vacuum deposition equipment as well, we will work to expand sales, capturing strong capital investment demand by responding to the diversifying needs of customers.

- 2Q: Significant decline in both hardware sales and service revenue due to office closures
- Hit bottom in 2Q, expect gradual recovery from 3Q

(Billions of yen)

	2Q			Full Year		
	2020 Actual	2019 Actual	% Change	2020 Current Projection	2019 Actual	% Change
MFDs	99.7	166.4	-40.1%	512.8	645.6	-20.6%
LPs	111.5	155.0	-28.1%	495.9	628.3	-21.1%
Others	96.3	119.4	-19.3%	414.7	478.2	-13.3%
Net Sales	307.5	440.8	-30.2%	1,423.4	1,752.1	-18.8%
Op. Profit	-0.9	40.4	-	82.6	165.0	-49.9%
(% of Net Sales)	-0.3%	9.2%		5.8%	9.4%	

Note: Certain businesses that were included in Industry & Others are now included in "Others" within Office. Results for the previous year have been restated to confirm with the new presentation.

Net Sales Growth Rate Y/Y (Local Currency)

	2Q Actual	Full year Projection
MFDs	-38.8%	-19.0%
LPs	-26.6%	-20.0%
Others	-17.8%	-11.8%
Total	-28.8%	-17.4%

Unit Growth Rate Y/Y

MFDs	2Q Actual	Full year Projection
Monochrome	-38%	-15%
Color	-37%	-17%
Total	-37%	-16%



imageRUNNER ADVANCE DX Series

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At the beginning of the year, we expected the office equipment market to remain solid. We now assume significant contraction this year. For hardware, this reflects the closing of offices in many regions due to COVID-19 which limited progress in business negotiation and equipment installation. For consumables, this reflects an increase in remote working due to the previously mentioned office closures.

As for MFDs, the restrictions placed on people's movement in each region from March had an impact throughout the second quarter. Our hardware sales and service revenue dropped the most in April and May, particularly in Europe and the U.S. where restrictions were particularly severe.

Despite the challenging global situation, in China where the market started to recover first, sales of new color models, specifically designed for this market, which achieved a good balance between features and price, remained strong. In fact, sales in May and June recovered to a level that was in line with the same period last year. Markets are gradually improving in other regions as well, and from the third quarter onward, we expect a gradual recovery.

This year, we launched the imageRUNNER ADVANCE DX, a new series of MFDs that accelerates digital transformation of offices. This product offers enhanced scanning and cloud capabilities, which allows it to automatically file documents by type and by date. In the second half of this year, we will work to accelerate sales of this product, which promotes further fusion of paper and digital information.

- 2Q: Significant sales decline due to lower demand for medium- to high-speed office equipment and consumables
- 2H: Recovery signs already appearing, but lack strength_(Billions of yen)

	2Q			Full Year		
	2020 Actual	2019 Actual	% Change	2020 Current Projection	2019 Actual	% Change
MFDs	99.7	166.4	-40.1%	512.8	645.6	-20.6%
LPs	111.5	155.0	-28.1%	495.9	628.3	-21.1%
Others	96.3	119.4	-19.3%	414.7	478.2	-13.3%
Net Sales	307.5	440.8	-30.2%	1,423.4	1,752.1	-18.8%
Op. Profit	-0.9	40.4	-	82.6	165.0	-49.9%
(% of Net Sales)	-0.3%	9.2%		5.8%	9.4%	

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Net Sales Growth Rate Y/Y (Local Currency)

	2Q Actual	Full year Projection
MFDs	-38.8%	-19.0%
LPs	-26.6%	-20.0%
Others	-17.8%	-11.8%
Total	-28.8%	-17.4%

Unit Growth Rate Y/Y

LPs	2Q Actual	Full year Projection
Monochrome	-33%	-17%
Color	-22%	-13%
Total	-31%	-16%

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Where we were expecting sales of low-speed models to be impacted by China's economic slowdown from the beginning of the year, we also saw a significant decline in medium- to high-speed equipment demand, particularly in Europe and the U.S. due to office closures in each country.

Our hardware sales in the second quarter were significantly below those of last year. For consumables as well, print volumes declined as the number of people in offices declined.

As we enter the second half of the year, we have seen some signs of recovery in actual demand for both hardware and consumables. However, as restrictions on people's movement have not been fully removed, we expect the recovery to lack strength and that the recovery in our sales will be gradual.

In a shrinking market, we will also support our OEM partner plans to roll out a business model that bundles hardware and consumable sales into a blanket contract.

- 2Q: Sales decline due to restrained printing equipment installation and sales & marketing activity
- 2H: Recovery in sales of mainly new products while utilizing online demonstrations

(Billions of yen)

	2Q			Full Year		
	2020 Actual	2019 Actual	% Change	2020 Current Projection	2019 Actual	% Change
MFDs	99.7	166.4	-40.1%	512.8	645.6	-20.6%
LPs	111.5	155.0	-28.1%	495.9	628.3	-21.1%
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Op. Profit	-0.9	40.4	-	82.6	165.0	-49.9%
(% of Net Sales)	-0.3%	9.2%		5.8%	9.4%	

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Net Sales Growth Rate Y/Y
(Local Currency)

	2Q Actual	Full year Projection
MFDs	-38.8%	-19.0%
LPs	-26.6%	-20.0%
Others	-17.8%	-11.8%
Total	-28.8%	-17.4%



High-speed cut-sheet inkjet printer
varioPRINT iX-series

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In the second quarter, hardware sales declined significantly, showing the effects of stagnate printing equipment installation and limited sales & marketing activity as well as the cancellation or delay of large-scale exhibitions in the major markets of Europe and the U.S. Additionally, due to the cancellation of events and closing of commercial facilities, consumable sales dropped due to a decline in print demand, particularly for posters, catalogs and other graphic arts oriented print jobs.

As we enter the second half of the year, we are already seeing a steady increase in print volume. Additionally, as economic activity recovers we expect customers to resume purchasing of hardware. With a focus on new products such as the highly evaluated varioPRINT iX series which was launched in April this year and other new product, we will work to stimulate a recovery in sales through customized online product demonstrations and other measures.

Imaging System – Cameras

- Significant decline in net sales this year as fewer image capturing opportunities leads to significant market decline
- Launch of "EOS R5" and "EOS R6." Accelerate shift to high added-value products
- Role of cameras expanding from image capturing and sharing device to communication tool

(Billions of yen)

	2Q			Full Year		
	2020 Actual	2019 Actual	% Change	2020 Current Projection	2019 Actual	% Change
Cameras	55.7	122.6	-54.5%	305.3	466.8	-34.6%
I/Js	77.9	68.4	+13.9%	297.3	288.1	+3.2%
Others	8.1	13.7	-41.6%	41.3	52.5	-21.3%
Net Sales	141.7	204.7	-30.8%	643.9	807.4	-20.3%
Op. Profit	0.8	12.7	-93.9%	16.1	48.2	-66.6%
(% of Net Sales)	0.5%	6.2%		2.5%	6.0%	

Net Sales Growth Rate Y/Y (Local Currency)

	2Q Actual	Full year Projection
Cameras	-53.0%	-32.8%
I/Js	+17.3%	+5.5%
Total	-28.7%	-18.3%

Units (Millions) & Unit Growth Rate Y/Y

	2Q Actual		Full year Projection	
	Units	% Change	Units	% Change
DILCs	0.50	-54%	2.50	-40%
DCs	0.26	-62%	1.40	-46%



EOS R5 EOS R6 14-1

As for the second quarter, due to restrictions placed on people's movement, there were fewer image capturing opportunities, such as travel and other events. As a result, the willingness of consumers to purchase cameras dropped significantly, leading to a large decline in our sales as well.

As for camera demand, despite the resumption of economic activity, initially in China, and now in the United States and Europe where we saw demand bottom out in April and start to improve from May, we believe it will take time for sales to recover as cameras are considered a luxury item. For the full year, we expect the interchangeable-lens camera market to be down 40% to 5.4 million units. In terms of our own unit sales, we expect a similar rate of decline.

Although the environment that surrounds this business is very challenging, we will simultaneously launch two models in the third quarter, the EOS R5 and EOS R6, facilitating our shift to high value-added products. These two models, offer significantly improved performance in every way, including auto-focus, image stabilization, and video capture. These are important new cameras that strengthen our lineup of full-frame mirrorless systems that have evolved since the release of the EOS R in October 2018. By enhancing our lineup of dedicated lenses at the same time, we will raise the appeal of the entire system and solidify our position in the full-frame camera market.

Imaging System – Cameras

- Significant decline in net sales this year as fewer image capturing opportunities leads to significant market decline
- Launch of "EOS R5" and "EOS R6." Accelerate shift to high added-value products
- Role of cameras expanding from image capturing and sharing device to communication tool

(Billions of yen)

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Net Sales Growth Rate Y/Y (Local Currency)

	2Q Actual	Full year Projection
	Cameras	-53.0%
I/Js	+17.3%	+5.5%
Total	-28.7%	-18.3%

Units (Millions) & Unit Growth Rate Y/Y

	2Q Actual		Full year Projection	
	Units	% Change	Units	% Change
DILCs	0.50	-54%	2.50	-40%
DCs	0.26	-62%	1.40	-46%



EOS R5 EOS R6 14-2

Triggered by COVID-19, cameras, which have traditionally been used for image capturing and image sharing, are taking on even more roles, including communication. For example, as the world of telecommunication expands to include remote meetings etc., the need for even higher precision and accuracy will raise. We are positioning ourselves to capture new demand, for example, addressing the rapidly growing demand for video meetings, we released software that allows our EOS cameras to be used as web cameras. We are also preparing camera bundles that include necessary image capturing accessories for video creators.

Furthermore, we will enhance our new concept camera initiative, which gives no regard to traditional camera concepts, as we prepare to launch the new models within this year.

Imaging System – Inkjet Printers

- 2Q: Sales growth mainly in developed countries due to expansion of remote working and learning
- Full-year sales growth as home print volume increase acts as tailwind

(Billions of yen)

	2Q			Full Year		
	2020 Actual	2019 Actual	% Change	2020 Current Projection	2019 Actual	% Change
Cameras	55.7	122.6	-54.5%	305.3	466.8	-34.6%
IJPs	77.9	68.4	+13.9%	297.3	288.1	+3.2%
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Net Sales Growth Rate Y/Y
(Local Currency)

	2Q Actual	Full year Projection
Cameras	-53.0%	-32.8%
IJPs	+17.3%	+5.5%
Total	-28.7%	-18.3%

Unit Growth Rate Y/Y

	2Q Actual	Full year Projection
IJPs	+9%	-1%



Entry-class inkjet printer
PIXUS TS3330

As for the market, although we expect the trend of gradual contraction to continue over the medium- to long-term, this year, we expect inkjet printer demand to be underpinned by the expansion of remote working and learning in developed countries and China.

In the second quarter, amid continuing measures that restrict the movement of people, we saw an increase in home printing opportunities, particularly in developed countries. As a result of this and our leveraging of the online channel that we have developed so far, we increased sales of both hardware and consumables significantly.

As for the second half of this year, although we expect demand for hardware to settle down, we expect sales of consumables to continue to expand, driven by increased printing at home. As a result, we expect net sales to increase for the full year.

- 2Q: Secured increase in profit through comprehensive expense management
- 2H: Capture recovering demand and aim for full-year sales and profit growth

(Billions of yen)

	2Q			Full Year		
	2020 Actual	2019 Actual	% Change	2020 Current Projection	2019 Actual	% Change
Net Sales	101.9	105.1	-3.1%	441.4	438.5	+0.7%
Op. Profit	5.9	3.4	+75.5%	26.8	26.7	+0.2%
(% of Net Sales)	5.8%	3.2%		6.1%	6.1%	

Net Sales Growth Rate Y/Y (Local Currency)

	2Q Actual	Full year Projection
Total	-0.5%	+2.8%



CT
Aquilion Start



MRI
Vantage Orian

In addition to restrained sales & marketing activity and equipment installation due to COVID-19, we are seeing a general review of medical equipment purchasing plans as medical institutions focus human resources and funds on treating patients and preventing the spread of infection.

In the second quarter, while we grew sales of CT and X-ray systems as well as their key components, overall sales were slightly below those of last year. This reflects stalled business negotiations, and delays in equipment installation, both linked to restricted entry to medical institutions. Despite this, we realized an increase in profit through comprehensive expense management.

In the second half of the year, in addition to a gradual step up in economic activity, we expect the government policies of each country for improving medical systems, to act as a market tailwind. Furthermore, to firmly secure this recovery in demand, we will work to achieve sales and profit growth for the full year by making steady progress in strengthening our sales system, through such measures as setting up a joint venture for the purpose of expanding sales in Russia and other Commonwealth of Independent States (CIS) countries.

Industry & Others – Lithography Equipment

- Increase in semiconductor lithography equipment unit sales by capturing demand for memory related devices
- Decrease in FPD lithography equipment unit sales due to overseas travel restrictions

(Billions of yen)

	2Q			Full Year		
	2020 Actual	2019 Actual	% Change	2020 Current Projection	2019 Actual	% Change
Litho. Equip.	28.1	45.4	-38.1%	151.4	157.2	-3.7%
Others	111.2	134.1	-17.1%	502.9	531.2	-5.3%
Net Sales	139.3	179.5	-22.4%	654.3	688.4	-5.0%
Op. Profit	-2.4	9.5	-	0.4	19.4	-97.9%
(% of Net Sales)	-1.7%	5.3%		0.1%	2.8%	

Note: Certain businesses that were included in Industry & Others are now included in "Others" within Office. Results for the previous year have been restated to confirm with the new presentation.

Net Sales Growth Rate Y/Y (Local Currency)

	2Q Actual	Full year Projection
Litho. Equip.	-38.4%	-3.6%
Others	-16.2%	-4.3%
Total	-21.8%	-4.1%

Lithography Equipment (Units)

	2Q 2020 Actual	2Q 2019 Actual	Full year Projection	FY 2019 Actual
IC	31	21	131	84
FPD	4	15	35	50



Semiconductor lithography equipment
FPA-8000iW

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As for the semiconductor lithography equipment market, despite concerns that demand will shrink for such things as cars and smartphones due to macroeconomic deterioration caused by COVID-19, we expect unit sales to expand thanks to recovery in investment for memory chips used in datacenters, computers, and other areas.

As for our unit sales in the second quarter, we also posted unit sales growth amid strong demand, particularly for image sensors and memory devices. This also reflected our ability to further the installation of equipment in overseas markets through local subsidiaries with support from Japan while traveling to customer sites was restricted. For the full year as well, in order to address the expected recovery in equipment demand, we will work to raise the ability of local staff to install equipment and take other steps to achieve our full-year target of 131 units, which significantly surpasses the unit sales of last year.

As for FDP lithography equipment, due to the fact that travel restrictions are still in place in regions where panel manufacturers are concentrated, the postponement of equipment installation could not be avoided. As a result, second quarter unit sales declined. As we entered this month, the installation of equipment has restarted at customer sites taking comprehensive measures to prevent the spread of infection. The willingness of customers to invest continues. We will do our best to install as many units as we can. However, it will be difficult to completely recover from the delay we experienced in the first half of the year. As a result, we expect full-year unit sales to be 35 units, 15 units less than last year.

- Aiming to increase full-year sales by advancing installation work of OLED vacuum deposition equipment
- Extend network camera growth over the medium- to long-term through solutions enhancement

(Billions of yen)

	2Q			Full Year		
	2020 Actual	2019 Actual	% Change	2020 Current Projection	2019 Actual	% Change
Litho. Equip.	28.1	45.4	-38.1%	151.4	157.2	-3.7%
Others	111.2	134.1	-17.1%	502.9	531.2	-5.3%
Net Sales	139.3	179.5	-22.4%	654.3	688.4	-5.0%
Op. Profit	-2.4	9.5	-	0.4	19.4	-97.9%
(% of Net Sales)	-1.7%	5.3%		0.1%	2.8%	

Note: Certain businesses that were included in Industry & Others are now included in "Others" within Office. Results for the previous year have been restated to confirm with the new presentation.

Net Sales Growth Rate Y/Y (Local Currency)

	2Q Actual	Full year Projection
Litho. Equip.	-38.4%	-3.6%
Others	-16.2%	-4.3%
Total	-21.8%	-4.1%



OLED vacuum deposition equipment



Video analytics solution
Crowded Office Alert Solution

We expect demand for OLED vacuum deposition equipment to be higher than last year as the number of smartphones incorporating OLED panels that display highly vibrant colors increases, and the full-scale roll out of 5G, the next-generation of wireless network technology, stimulates replacement demand.

In the second quarter, traveling to customer sites was not possible, similar to lithography equipment. However, as vacuum deposition equipment is accounted for using the percentage of completion method, sales increased. This reflects the booking of sales that represents the progress in production that was made in Japan. At this time, the installation of equipment at customer sites has resumed. Although it will be difficult to fully recover from the delay we experienced in the first half of the year, we will work to achieve our aim of full-year sales growth, proceeding with installation as quickly as possible.

As for network cameras, in the second quarter, we saw delays in urban development and the construction of commercial facilities due to the lockdown of cities in each country. As a result, our sales in the second quarter also declined. For the full year, we expect a pause in what has up to now been continuous market growth. From the standpoint of preventing COVID-19 infection, however, we expect demand for network cameras to grow even more as the need for non-face-to-face interaction increases.

We will work to capture demand, enhancing our software to respond to new needs such as software that can count the number of people in an image and in this manner detect and give warning of crowded situations and labor saving software that supports the process of entering and exiting commercial facilities, event sites, and airports, through enhanced facial-recognition.

- Imaging System: Reduced inventory in terms of value through camera production adjustment
- Industry & Others: Increase caused by delay in installation due to travel restrictions

(Billions of yen)		FY 2019				FY 2020	
		1Q	2Q	3Q	4Q	1Q	2Q
Office	Amt.	215.5	206.1	201.3	191.9	194.9	191.6
	Days	43	43	42	40	42	50
Imaging System	Amt.	156.2	151.6	156.9	127.9	130.1	113.3
	Days	62	73	73	55	61	70
Medical System	Amt.	93.8	93.0	92.3	97.5	97.5	100.1
	Days	75	79	77	79	84	91
Industry & Others	Amt.	185.4	180.4	183.8	167.5	178.1	198.7
	Days	105	112	114	102	112	141
Total	Amt.	650.9	631.1	634.3	584.8	600.6	603.7
	Days	62	65	65	59	63	76

Note: Certain businesses that were included in Industry & Others are now included in Office. Results for the previous year have been restated to confirm with the new presentation.

Inventory turnover in days was longer at the end of June due to lower sales. However, in value term, we were able to hold inventory down to around the same level as the end of March even though we faced a significant decline in sales in a short period of time.

As for Imaging System, in cameras where we faced a rapid decline in demand, by drastically adjusting production in the second quarter, inventory in value terms was lower than it was at the end of March. We believe market inventory was at an appropriate level as well. Going forward, we will continue to closely monitor the status of sales recovery and make every effort to ensure that we do not end up in an excess inventory situation.

As for industrial equipment, inventory at the end of June increased as travel restrictions limited our ability to install equipment. From this month, the process of installing equipment has resumed at customer sites, and we believe inventory levels will normalize going forward.

From the second half of the year, we expect sales as a whole to move towards recovery. However, we are still in a situation where making a projection is particularly difficult. That is why we will need to make more careful decisions regarding production volume and will work in a concerted group-wide effort to reduce inventory even further.

Cash Flow

(Full Year)

- Significant drop in free cash flow due to unprecedented economic downturn
- Interim dividend 40 yen per share in order to secure sufficient cash-on-hand to invest in growth

(Billions of yen)	FY 2020 Current Projection	FY 2019 Actual
Net cash provided by operating activities	182.0	358.5
Net cash used in investing activities	-235.0	-228.6
Free cash flow	-53.0	129.9
Net cash provided by (used in) financing activities	49.9	-232.6
Effect of exchange rate changes on cash and cash equivalents	-9.7	-5.1
Net change in cash and cash equivalents	-12.8	-107.8
Cash and cash equivalents at end of period	400.0	412.8
Cash-on-hand (In months of Net sales) (Note)	1.5	1.4
Capital expenditures	160.0	178.1
Depreciation & Amortization	200.0	237.3

Note: 2020 current projection and 2019 actual are calculated using second half net sales

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Canon continues to prioritize cash flow and take steps to comprehensively manage expenses and reduce capital expenditures as well as inventory. However, this year, due to the unprecedented economic downturn, we project a significant drop in free cash flow.

In order to allow investment in new businesses for future growth and secure sufficient funds during the uncertain business environment, we decided to distribute an interim dividend of 40 yen per share, which was 80 yen per share last year, and left our year-end dividend per share amount undetermined.

Sustainability Measures

Canon's COVID-19 Response

Canon is working to prevent the spread of COVID-19, and is also actively providing locally rooted support and services around the world, under the corporate philosophy of *kyosei*.

The infographic features a central green map of the world with callouts to various countries, each with a small photo and text describing Canon's activities. The countries and their respective actions are: UK (X-ray CTs loaded on mobile containers), Netherlands (Production support of ventilators), India (Donations of food and necessities), Thailand (Food aid), Philippines (Donation of masks), Japan (Development of a fan equipped visor, Support for telework, and a declaration for not exercising intellectual property rights), USA (Release of software for cameras, Donation of masks), Spain (Support for education), Italy (Donation of Canon products), and Mexico (Taking and printing ID photos of healthcare professionals).

We aim to realize *kyosei*, contributing to the resolution of social issues facing each country

Canon's Response to COVID-19 is posted on its website. URL:<https://global.canon/en/info/covid-19/>

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Canon Group companies are working to prevent the spread of infection and protecting the safety of employees based on the government policies of each country. At the same time, they are actively providing locally rooted support and services around the world.

For example, in Japan, Canon joined the COVID-19 Countermeasure Declaration as a founding member. Canon has been inviting numerous other companies to join, and through an industry-government-academia collaboration is promoting the free use of patents with the aim of ending the spread of COVID-19.

Additionally, our medical business supplied mobile CT solutions to numerous hospitals in Europe. In the container, is a complete set of X-ray and CT diagnostic equipment, which makes it possible to conduct diagnostic imaging whenever and wherever it is needed. This solution reduces the risk of medical professionals becoming infected with COVID-19 and we are seeing increasing demand for this solution in other regions as well.

In addition to this, our other activities include donating not only our products, but also daily necessities as well as supporting the production of ventilators in Europe. By working together with communities to achieve sustainable development and contributing to the resolution of social issues facing each country, we aim to realize *kyosei*.

Sustainability Measures

Canon's COVID-19 Response

Canon is working to prevent the spread of COVID-19, and is also actively providing locally rooted support and services around the world, under the corporate philosophy of *kyosei*.

The infographic is centered around a green map of the world. It features several country-specific boxes, each with a flag and a title. The boxes contain images and text describing Canon's activities in that region. The countries included are UK, Netherlands, India, Thailand, Philippines, Japan, USA, Spain, Italy, and Mexico. A central box for Japan includes a circular logo with the text 'CORONA VISION' and 'DAIICHI KAGAKU' around the perimeter, and 'DAIICHI KAGAKU' at the bottom. Below the Japan box is a disclaimer: '* A declaration for not exercising any intellectual property rights against activities whose sole purpose is to stop the spread of COVID-19, including development and manufacturing.'

We aim to realize *kyosei*, contributing to the resolution of social issues facing each country

Canon's Response to COVID-19 is posted on its website. URL:<https://global.canon/en/info/covid-19/>

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Although volatility in the global economy seems to be settling down, we remain in a highly unpredictable situation.

We are seeing a big change in people's lives and ways of working. We will be left behind if we merely follow the strategy we have used so far. As we embark on our sixth 5-year plan next year, we will conduct additional structural reform this year and promote rapid business portfolio transformation to new businesses.

Supplementary Information

Net Sales Growth Rate of Hardware & Non-hardware

		FY 2020		FY 2019	
		2Q Actual	Full Year Projection	2Q Actual	Full Year Actual
MFDs					
JPY	Hardware	-40%	-22%	-8%	-7%
	Non-hardware	-40%	-20%	-6%	-5%
LC	Hardware	-39%	-20%	-6%	-4%
	Non-hardware	-39%	-18%	-4%	-2%
LPs					
JPY	Hardware	-31%	-21%	-3%	-5%
	Non-hardware	-26%	-21%	-23%	-15%
LC	Hardware	-29%	-20%	-3%	-3%
	Non-hardware	-25%	-20%	-21%	-13%
IJPs					
JPY	Hardware	+14%	+1%	-8%	-9%
	Non-hardware	+14%	+4%	-8%	-10%
LC	Hardware	+18%	+3%	-6%	-7%
	Non-hardware	+17%	+6%	-6%	-8%

Color Ratio (MFDs & LPs)

		FY 2020		FY 2019	
		2Q Actual	Full Year Projection	2Q Actual	Full Year Actual
MFDs	Net Sales	59%	60%	59%	59%
	QTY	60%	58%	59%	59%
LPs	Net Sales	52%	52%	52%	52%
	QTY	23%	21%	20%	20%

Sales Growth by Monochrome & Color MFDs

		FY 2020		FY 2019	
		2Q Actual	Full Year Projection	2Q Actual	Full Year Actual
JPY	Monochrome	-40%	-22%	-6%	-6%
	Color	-41%	-20%	-7%	-5%
LC	Monochrome	-38%	-21%	-5%	-4%
	Color	-39%	-18%	-5%	-2%

Interchangeable Lens Digital Camera Ratio

	FY 2020		FY 2019	
	2Q Actual	Full Year Projection	2Q Actual	Full Year Actual
Value Base	86%	86%	85%	85%
Unit Base	66%	64%	61%	62%

* Value Base Includes Interchangeable Lenses

IC Stepper Unit Breakdown by Light Source

(Units)

	FY 2020		FY 2019	
	2Q Actual	Full Year Projection	2Q Actual	Full Year Actual
KrF	4	27	8	22
i-Line	27	104	13	62
Total	31	131	21	84