Canon Inc.
Q4 2017 Analyst Meeting
Q&A Session Summary (English Translation)

Q1. For medical, you target 600 billion yen in net sales and an operating profit margin of 10% or above, in 2020. You already mentioned service revenue as a challenge you recognize. Including synergy effects, what else do you need to do to realize your goals?

A1. Medical is a very important business for the future of Canon. At the beginning of January this year, when we changed the name of Toshiba Medical Systems Corporation (TMSC) to Canon Medical Systems Corporation (CMSC), we talked about the direction of this business's medium-term performance in an interview with mass media. Growing net sales is not easy and expanding service revenue is just one measure. We also have others including those listed below.

1. Joint development of new products that make use of the image processing technology we have
2. Strengthen worldwide sales structure, combining sales networks etc.
3. Leverage the production engineering technologies we have cultivated over many years
4. Enhance ability to reduce variable costs, utilizing Canon's procurement function

We assembled a project team that is already addressing these issues.

Q2. In your company-wide target for 2020, did you include factors such as future M&As that may arise?

A2. We do not have any specific acquisition targets. Our basic stance towards future acquisitions is to consider those that may thicken the stems of the four new businesses. Although we do not have any specific acquisition target for medical, to a certain extent, we do include this as a factor in our own financial targets.

Q3. You project net cash used in investing activities to be 330 billion yen in 2018. This is basically two times that of last year. I understand that investing in new businesses is a major focus. Could you tell me what kind of investment you plan to make? Could you also tell us whether your budget includes anything for M&A?

A3. I cannot comment about specially M&As, however, at the beginning of the year, we indicated that over the next three years we are thinking about investing 300 to 400 billion yen into M&As. A simple average shows that investments would be around 100 billion yen a year, which we built into our funding plan. Efforts to further strengthen the four new businesses we discussed is necessary as such we will ensure that future M&As are even more effective.

Q4. Regarding the impairment loss, you looked at business valuation from a three-year perspective. Does that mean you expect to return to a path of growth from the four year on?

A4. In the commercial printing market where competition has become increasing severe, in order to establish a firm position, we determined it was necessary to further raise investment into R&D. This will put downward pressure on the profitability of this business over the next three years. After numerous discussions with our accounting firm, we decided to recognize an impairment loss. Once we realize the expected effect of this additional investment, we should be able to get back on track to our original plan for net sales and profit from the fourth year on.

Q5. In July of 2017, you received a statement of objections from the European Commission regarding the acquisition of TMSC. What is the current status?

A5. We have not made much progress as the Commission extended our deadline to respond to its statement of objections. Preparations that allow use to submit our opinion are in place.