

Canon Inc.

First Quarter 2019 Results

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Agenda

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Steady progress in transforming business portfolio

- Created four new business pillars through M&A since 2005
- New businesses expected to grow this year as well
- Raising new business ratio to 25% of total sales

Multiple changes in external environment leading to stagnant performance, but new businesses are showing reliable growth

⇒ Further accelerate transformation of business portfolio, linking this to recovery from next year on

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Even before the shock of Lehman Brothers, when we were posting positive results, we started preparation to transform our business portfolio recognizing its necessity, with the anticipation of possible market maturity of our core businesses. As a first step, we started acquiring industrial equipment companies from 2005. Later, we sequentially added acquisitions in areas such as commercial printing and network cameras. And in 2016, we ushered in Medical. As a result, we now have four new businesses.

In general, each of the new businesses is growing, and this year's total new business sales ratio to our company's overall sales is expected to increase to 25%, whereas it was only 9% in 2015. The transformation of the business portfolio is progressing as we planned aligned with our mid-term direction. As a result, our company has changed itself from a traditional camera and office equipment oriented company to one that now has new business spheres.

Steady progress in transforming business portfolio

- Created four new business pillars through M&A since 2005
- New businesses expected to grow this year as well
- Raising new business ratio to 25% of total sales

Multiple changes in external environment leading to stagnant performance, but new businesses are showing reliable growth

⇒ Further accelerate transformation of business portfolio, linking this to recovery from next year on

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As for existing businesses such as cameras, we expect the market contraction to continue for another two to three years, due to the rise of the smartphones. That said, there is a portion of the market that will certainly remain, in particular segments serving the needs of professionals and advanced amateurs. Therefore, in order to defend our top market share position, we will sustain our maximum business efforts. At the same time, we are taking measures to shift our business focus toward B2B, expanding our business sphere to automotive and industry use.

This year, environmental changing factors such as the global economic slowdown triggered by trade friction between the U.S. and China and faster than expected camera market contractions, are impacting our results, temporarily stalling our business performance.

That said, the new businesses as a whole are growing steadily realizing business portfolio transformation as we have planned. Thus, we will further accelerate and try to link to recovery from next year on.

External environment

- Economic slowdown centered in China and Europe
- Ongoing depreciation of euro and other currencies compared to last year

Business environment

- Accelerated pace of camera market contraction
- Continued restraint in customer investment in regard to industrial equipment

⇒ Sales and profits declined, reflecting last year's high profitability and this year's lower sales volume, partially offset by lower expenses

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The first quarter was impacted by significant deterioration in the external environment compared to the previous year, underlined by economic slowdown in China and Europe and depreciation of the euro. Additionally, even in our business areas, for interchangeable-lens cameras we saw rapid contraction of the DSLR market due to the rise of smartphones, and the overall market shrank as sales of mirrorless cameras could not cover this drop. Furthermore, lower sales of OLED vacuum deposition equipment and lithography equipment, due to postponed customer investment, led to a double-digit decline in total sales

From a profit perspective, in addition to the large impact from lower volumes of higher margin products, profits showed a large decline as last year's profitability was at a relatively high level due to increased sales of industrial equipment.

FY 2019 Financial Results

(1Q 2019 Actual versus 1Q 2018 Actual)

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- Compared to last year: Double-digit decline in sales and profits due to lower sales of cameras and industrial equipment as well as currency impact

(Billions of yen)	1Q 2019 Actual	1Q 2018 Actual	% Change
Net Sales	864.5	960.7	-10.0%
Gross Profit (% of Net Sales)	390.4 45.2%	444.7 46.3%	-12.2%
Op. Expenses	350.0	367.6	
Op. Profit (% of Net Sales)	40.4 4.7%	77.1 8.0%	-47.6%
Non-operating Income	5.7	8.7	
IBT	46.1	85.8	-46.2%
Net Income (% of Net Sales)	31.3 3.6%	57.1 5.9%	-45.2%
USD	110.31	108.03	
EURO	125.17	133.10	

FY 2019 Financial Results by Business Unit

(1Q 2019 Actual versus 1Q 2018 Actual)

- Decline in sales and profits of all business units, in particular Imaging System and Industry & Others

(Billions of yen)		1Q 2019 Actual	1Q 2018 Actual	% Change
Office	Net Sales	425.6	442.7	-3.9%
	Op. Profit	45.1	51.7	-12.8%
Imaging System	Net Sales	176.3	212.5	-17.0%
	Op. Profit	4.7	25.7	-81.6%
Medical System	Net Sales	109.4	117.1	-6.5%
	Op. Profit	6.7	10.5	-36.0%
Industry & Others	Net Sales	176.5	212.8	-17.1%
	Op. Profit	5.3	15.4	-65.7%
Corporate & Eliminations	Net Sales	-23.3	-24.4	-
	Op. Profit	-21.4	-26.2	-
Total	Net Sales	864.5	960.7	-10.0%
	Op. Profit	40.4	77.1	-47.6%

Note: Businesses such as broadcast equipment and cinema use video cameras that were included in Imaging System were reclassified to Industry & Others. (The impact on first-quarter 2018 sales and op. profit was 9.3 and -1.9 billion yen, respectively)

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In Office, we grew unit sales of MFDs, mainly new models that are compatible with external cloud services, capturing demand from users seeking greater operational efficiency. Overall, however, Office sales and profits were down due to lower sales of laser printer consumables, particularly in Europe.

As for Imaging System, the contraction of the market for interchangeable-lens cameras, mainly for DSLRs, continued in step with the proliferation of smartphones, resulting in a significant decline in sales and profits.

For Medical as well, we posted lower sales and profits. However, this was mainly due to temporary impact of postponed customer investment caused by economic slowdown in Europe.

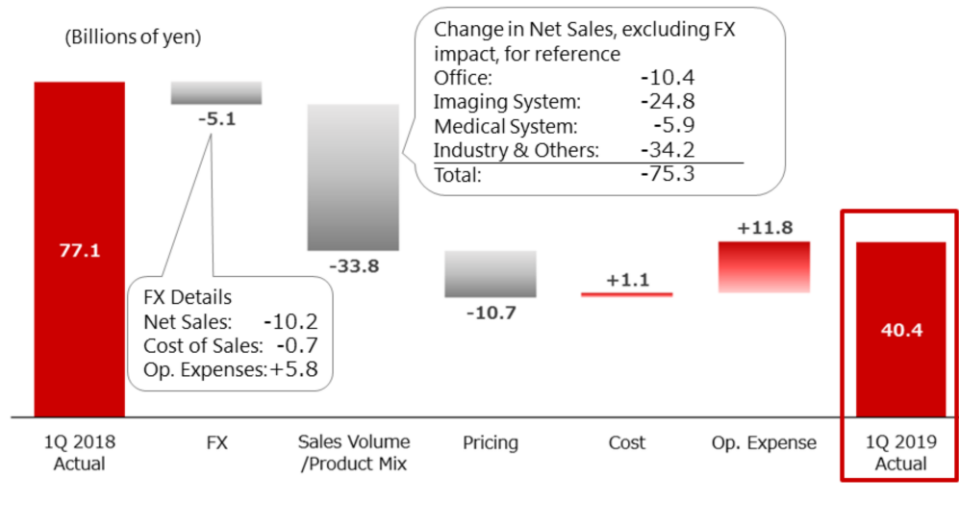
Next, a look at Industry & Others. For network cameras, one of our new businesses, we continued to grow at a rate of more than 10%. For the Business Unit overall, however, sales and profits declined, reflecting the impact of restrained capital spending by customers for lithography and OLED vacuum deposition equipment. The willingness of customers to invest in areas other than memory, however, remains strong. We also expect the trend towards OLED panels to turnaround at an early stage as motivation to invest in the future has not changed.

Broadcast equipment, cinema cameras and other B2B type businesses that were previously included in Imaging System, have from this year been reclassified and are now included in Industry & Others. Note that past figures have also been adjusted to reflect their new classification.

FY 2019 Operating Profit Analysis

(1Q 2019 Actual versus 1Q 2018 Actual)

- Sales volume: Negative impact on profit due to sales decline of cameras and industrial equipment
- Op. expenses: Controlled below last year's level



Changes in exchange rates had a negative impact on both sales and profits, reflecting the significant depreciation of the euro against the yen.

As for changes in sales volume, this mainly reflects the impact of the shrinking camera market and lower volumes of lithography equipment and OLED vacuum deposition equipment due to customer actions to restrain capital expenditure.

As for price reduction, this reflect efforts to deal with the challenging business environment, mainly for DSLRs.

As for cost reduction, although we made little progress in reducing fixed costs due to lower production volumes of cameras and industrial equipment, we did make steady progress in reducing variable costs, thanks to improvement in the supply and demand of electronic parts where prices were soaring due to last year's tight supply and demand situation.

As for expenses, we were able to keep this below the level of last year by means of a concerted efforts of the Canon Group.

Key Message

(FY 2019 Projection)

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FX Assumptions

			Impact of exchange rate movement (2Q-4Q impact given a one yen change)	
	2Q-4Q 2019	FY 2019	Net Sales	Op. Profit
USD/Yen	105.00 yen	106.20 yen	10.1 billion yen	3.4 billion yen
EUR/Yen	125.00 yen	125.04 yen	4.8 billion yen	2.4 billion yen

External Environment

- Expect global economic growth to be gradual, but still have a sense of uncertainty about the future, including concerns of economic slowdown in major regions

FY 2019 Outlook

- Lowered projection for sales and profits by around 50 billion yen each, mainly due to cameras and lithography equip.
- Projecting recovery in second half thanks to new products in existing businesses and growth of new ones

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As for the economy, thanks to the United States, we expect the gradual pace of global economic growth to continue. Recently, the IMF lowered their outlook for 2019 and left their outlook for 2020 unchanged. Based on this, we expect economic recovery to come in the second half of this year.

Taking this macro environment into account, we decided to keep our assumptions unchanged for the last 9 months of this year at 105 yen to the U.S. dollar and 125 yen to the euro.

Regarding our performance, with economic slowdown centered on China and Europe, an accelerating rate of market contraction for cameras, and postponement of customer investment in semiconductor lithography equipment for memory until next year, the business environment is more challenging than expected, and we have decided to revise our plan.

On the other hand, for such businesses as MFDs, laser printers and cameras, we have focused the launch of new products heavily in the first half, and we expect positive effects to emerge in the second half. Additionally, we also expect unit sales of semiconductor lithography equipment to increase with each passing quarter, as we capture the strong demand for non-memory semiconductor production. Furthermore, for such new businesses as Medical and Network Cameras, we expect growth to continue in line with our plan. With this in mind, we feel it is possible to post sales and profit growth in the second half, and even if we take into consideration our performance in the first quarter, we expect to limit the downward revision of our previously announced sales and profits to around 50 billion yen each for the full year.

FY 2019 Financial Projection

(FY 2019 Current Projection versus FY 2018 Actual and
FY 2019 Previous Projection)

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- Lowered projection for sales and op. profit by 50 and 51 billion yen, respectively
- Expect to secure 200 billion yen in net income

(Billions of yen)	FY 2019 Current Projection	FY 2018 Actual	% Change	FY 2019 Previous Projection	Amount Change
Net Sales	3,850.0	3,951.9	-2.6%	3,900.0	-50.0
Gross Profit (% of Net Sales)	1,732.2 45.0%	1,835.6 46.4%	-5.6%	1,759 45.1%	-26.8
Op. Expenses	1,458.2	1,492.6		1,434.0	-24.2
Op. Profit (% of Net Sales)	274.0 7.1%	343.0 8.7%	-20.1%	325.0 8.3%	-51.0
Non-operating Income	21.0	19.9		22.5	-1.5
IBT	295.0	362.9	-18.7%	347.5	-52.5
Net Income (% of Net Sales)	200.0 5.2%	252.8 6.4%	-20.9%	240.0 6.2%	-40.0
USD	106.20	110.43		105.00	
EURO	125.04	130.29		125.00	

FY 2019 Financial Projection by Business Unit **Canon** (Full Year)

- Imaging System and Industry & Others: Lowered full-year projection
- Office: Continues to support entire co. by expanding sales of new products
- Medical: Projection unchanged, still expect sales and profit growth

(Billions of yen)		FY 2019 Current Projection	FY 2018 Actual	% Change	FY 2019 Previous Projection	Amount Change
Office	Net Sales	1,772	1,807.3	-1.9%	1,764.0	+8.5
	Op. Profit	204.0	220.8	-7.6%	212.5	-8.5
Imaging System	Net Sales	889.0	970.4	-8.4%	928.5	-39.5
	Op. Profit	94.0	126.7	-25.8%	110.5	-16.5
Medical System	Net Sales	479.5	437.6	+9.6%	477.0	+2.5
	Op. Profit	36.2	28.8	+25.5%	35.0	+1.2
Industry & Others	Net Sales	815.5	842.9	-3.3%	845.0	-29.5
	Op. Profit	28.3	55.7	-49.2%	39.5	-11.2
Corporate & Eliminations	Net Sales	-106.5	-106.3	-	-114.5	+8.0
	Op. Profit	-88.5	-89.0	-	-72.5	-16.0
Total	Net Sales	3,850.0	3,951.9	-2.6%	3,900.0	-50.0
	Op. Profit	274.0	343.0	-20.1%	325.0	-51.0

Note: Businesses such as broadcast equipment and cinema use video cameras that were included in Imaging System were reclassified to Industry & Others. (The impact on full-year 2018 sales and op. profit was 37.8 and -9.7 billion yen, respectively. On full-year 2019 projection, 40.5 and -8.5 billion yen, respectively.)

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As for Office, sales and profit declined due to the impact of changes in exchange rates. In MFDs, however, we renewed our lineup through the launch of new products that have enhanced security features. As for laser printers, we worked to successively launch new products that offer such advantages as low energy consumption through the use of new toner. Through new product effects, we will continue to raise our performance and work to support the performance of the entire company from the second quarter on,

As for Imaging System, we revised our outlook significantly for the pace of market contraction, mainly for interchangeable-lens cameras. As a result, we lowered our sales and profit projection. We will, however, work to recover profitability as we head towards the second half of the year by strengthening efforts to improve our product mix and activities to reduce costs.

As for Medical, we have launched a series of new products over the past several years, which have started to yield results, particularly in the United States. Accordingly, we decided to maintain our previous projection and will aim for sales and profit growth.

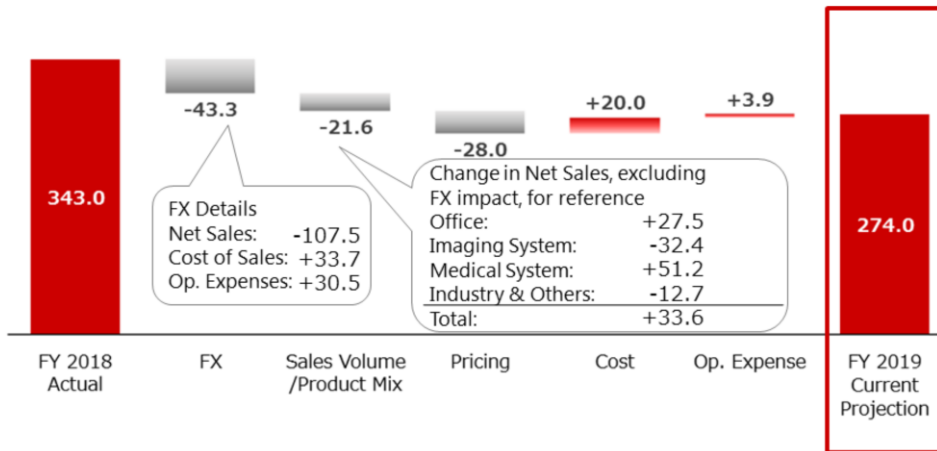
As for Industry & Others, sales and profits declined as a result of restrained capital investment by customers. Furthermore, we lowered our projection for sales of semiconductor lithography equipment. On the other hand, for OLED vacuum deposition equipment where customer capital investment has been experiencing a prolonged adjustment phase, although we expect sales to decline, we feel the worst is behind us and expect to return to growth in the second half of the year.. In addition, for Network Cameras, we will work to realize double-digit growth for the full year by maintaining strong sales.

FY 2019 Operating Profit Analysis

(FY 2019 Current Projection versus FY 2018 Actual)

- FX: Significant impact coming from yen's appreciation
- Sales volume: Lower profit due to decrease in camera and industrial equipment sales

(Billions of yen)



Changes in exchange rates are projected to have a negative impact, given our outlook for yen appreciation against both the U.S. dollar and the euro.

As for changes in sales volumes, although we expect sales to grow for our existing Office business and such new businesses as Medical and Network Cameras, this is not expected to fully compensate for projected declines in camera and industrial equipment sales, and we expect to see a negative impact on sales volumes overall.

As for price reduction, even though we expect a challenging business environment for cameras, we will emphasize profitability. In doing so, we will work to limit the full-year impact of price reduction to 28.0 billion yen, which is a lower level than last year.

As for cost reduction, in addition to prices for parts and material currently settling down, particularly for electronic components, we will generate cost reduction through such activities as in-house production. Taking these combined factors into account, we expect cost reduction to be 20.0 billion yen for the full year.

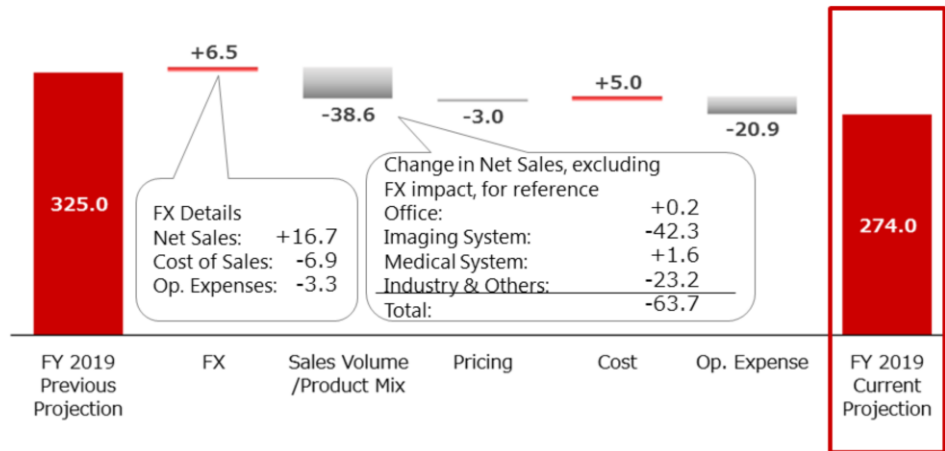
As for expenses, we will work to keep this at a level below that of last year through sustained group-wide efforts to improve.

FY 2019 Operating Profit Analysis

(FY 2019 Current Projection versus FY 2019 Previous Projection)

- Lower projection for mainly cameras and lithography equipment
- Increased cost reduction thanks to improvement in parts procurement environment
- Increase in op. expense due to one-off factor

(Billions of yen)



As we kept our exchange rate assumption for the second quarter on, the impact of changes in exchange rates is limited to the first quarter.

As for sales volumes, because we lowered our sales projection, mainly for cameras and lithography equipment, we also expect profits to be lower.

As for price reduction, taking the challenging business environment of shrinking markets into account, we raise our projection for price reduction by 3 billion yen

On the other hand, for cost reduction, we raised our projection by 5.0 billion yen, reflecting efforts to strengthen cost reduction activities in such areas as the procurement of parts and production related fixed costs, facilitating our aim for a further improvement in profit.

As for expenses, to accelerate the shift from B2C to B2B, we increased this by about 20 billion yen to account for the reorganization of mainly sales companies.

- 1Q: Strong sales of color MFDs and growth in high-speed presses
- FY: Expand sales of new products with enhanced security features

(Billions of yen)

	1Q			Full Year				
	2019 Actual	2018 Actual	% Change	2019 Current Projection	2018 Actual	% Change	2019 Previous Projection	Amount Change
MFDs	158.1	163.5	-3.3%	683.7	684.3	-0.1%	675.2	+8.5
LPs	162.0	176.2	-8.0%	662.5	706.5	-6.2%	664.4	-1.9
Others	105.5	103.0	+2.5%	426.3	416.5	+2.3%	424.4	+1.9
Net Sales	425.6	442.7	-3.9%	1,772.5	1,807.3	-1.9%	1,764.0	+8.5
Op. Profit	45.1	51.7	-12.8%	204.0	220.8	-7.6%	212.5	-8.5
(% of Net Sales)	10.6%	11.7%		11.5%	12.2%		12.0%	

2019 Net Sales Growth Rate Y/Y (Local Currency)

	1Q Actual	Full year Projection
	MFDs	-1.8%
LPs	-8.1%	-3.4%
Others	+4.1%	+5.0%
Total	-3.0%	+1.0%

2019 Unit Growth Rate Y/Y

MFDs	1Q Actual	Full year Projection
	B&W	+1%
Color	+6%	+7%
Total	+4%	+4%

**imageRUNNER ADVANCE
3rd Generation 3rd Edition**

- Inherits high reliability of existing devices
- Enhanced security feature
- Strengthened coordination with cloud services

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We expect the overall market to remain firm, supported by demand for MFDs with advanced features against the backdrop of demand for increased efficiency in office operations and the shift to color models, mainly in emerging markets.

In the first quarter, we continued to grow unit sales of color MFDs, which offer user authentication and print management functions as standard features that have been highly rated for enhancing user-friendliness through compatibility with external cloud services. Additionally, looking at high-speed production models for high volume printing, we have received high marks for the competitive strength of our products that offer a good balance between price and performance, which has contributed to unit sales growth, particularly in Europe and the Americas.

Additionally, we have worked to renew our lineup with new models that offer significant improvements in security features, which are being successively launched in each region. Through these new products, which offer even more advantages, we will realize unit sales growth that continues to exceed the overall market. And through this we will absorb the impact of yen's appreciation and work to increase sales to the same level as last year.

- 1Q: Lower revenue due to decline in consumable sales
- FY: Expand sales of new products that utilize new toner

(Billions of yen)

	1Q			Full Year				
	2019 Actual	2018 Actual	% Change	2019 Current Projection	2018 Actual	% Change	2019 Previous Projection	Amount Change
MFDs	158.1	163.5	-3.3%	683.7	684.3	-0.1%	675.2	+8.5
LPs	162.0	176.2	-8.0%	662.5	706.5	-6.2%	664.4	-1.9
Others	105.5	103.0	+2.5%	426.3	416.5	+2.3%	424.4	+1.9
Net Sales	425.6	442.7	-3.9%	1,772.5	1,807.3	-1.9%	1,764.0	+8.5
Op. Profit (% of Net Sales)	45.1 10.6%	51.7 11.7%	-12.8%	204.0 11.5%	220.8 12.2%	-7.6%	212.5 12.0%	-8.5

2019 Net Sales Growth Rate Y/Y
 (Local Currency)

	2019 Net Sales Growth Rate Y/Y (Local Currency)		2019 Unit Growth Rate Y/Y	
	1Q Actual	Full year Projection	LPs	1Q Actual / Full year Projection
MFDs	-1.8%	+3.0%	B&W	-3% / -3%
LPs	-8.1%	-3.4%	Color	0% / +5%
Others	+4.1%	+5.0%	Total	-3% / -2%
Total	-3.0%	+1.0%		

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As for the market, we expect it to remain flat overall, underpinned by solid demand for color MFPs and demand in emerging markets.

In the first quarter, although sales of hardware remained firm, consumable revenue declined. This mainly reflects the impact of economic slowdown in China, and the impact of gradually expanding sales of non-genuine consumables by third-parties in Europe.

Against this backdrop, from the second quarter on, we will successively launch 4 new medium-speed models that incorporate newly developed toner. The new toner can be fixed at a lower temperature than existing toners to realize a further reduction in energy consumption. By working to actively penetrate the market in this way, we will raise our unit sales and at the same time, link this to increased sales of genuine consumables in the future through the increase in MIF of new products.

Additionally, for those vendors that infringe upon our IP, we will be even more aggressive in the steps we take to protect our brand and promote the advantages we have in terms of quality and from an environmental perspective. Through this, we will raise the proportion of genuine consumables as we work to improve profitability.

- Further strengthen competitiveness of new products for graphic arts
- Improve profitability, expanding service revenue through MIF expansion

(Billions of yen)

	1Q			Full Year				
	2019 Actual	2018 Actual	% Change	2019 Current Projection	2018 Actual	% Change	2019 Previous Projection	Amount Change
MFDs	158.1	163.5	-3.3%	683.7	684.3	-0.1%	675.2	+8.5
LPs	162.0	176.2	-8.0%	662.5	706.5	-6.2%	664.4	-1.9
Others	105.5	103.0	+2.5%	426.3	416.5	+2.3%	424.4	+1.9
Net Sales	425.6	442.7	-3.9%	1,772.5	1,807.3	-1.9%	1,764.0	+8.5
Op. Profit (% of Net Sales)	45.1 10.6%	51.7 11.7%	-12.8%	204.0 11.5%	220.8 12.2%	-7.6%	212.5 12.0%	-8.5

**2019 Net Sales Growth Rate Y/Y
(Local Currency)**

	1Q	Full year
	Actual	Projection
MFDs	-1.8%	+3.0%
LPs	-8.1%	-3.4%
Others	+4.1%	+5.0%
Total	-3.0%	+1.0%



VarioPrint i300



ProStream 1000



Colorado 1640

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The digital commercial printing market continues to grow at a rate of around 5%, driven by package printing and graphic arts printing, which includes posters and catalogs.

Over the past several years, we have been working to penetrate the market, launching three new presses for the graphic arts market. Among them is the ProStream 1000, a continuous feed press that offers industry leading high resolution and print speed and the Colorado 1640, a wide-format press that realizes high productivity and low running cost, both of which enjoy solid sales. In the graphic arts market, depending on the needs of the customer, the ability to handle a broad range of substrates is quite important. Accordingly, in order to further raise the competitiveness of these new products, we will work to capture an even broader range of demand, with our plans to broaden the substrate capabilities to include thick paper etc.

Through these measures, we will work to improve the sales and profits of the business overall, expanding our MIF and linking this to increased service revenue.

Imaging System – Cameras

- Revised full year outlook for market and own unit sales due to faster than expected entry-level DSLR market contraction and economic slowdown in China
- Aiming to recover profitability, mainly through expanded sales of full-size mirrorless cameras and lenses

(Billions of yen)

	1Q			Full Year				
	2019 Actual	2018 Actual	% Change	2019 Current Projection	2018 Actual	% Change	2019 Previous Projection	Amount Change
Cameras	97.9	127.2	-23.0%	508.5	594.9	-14.5%	555.9	-47.4
IJPs	65.7	72.0	-8.8%	319.7	320.2	-0.2%	314.7	+5.0
Others	12.7	13.3	-4.5%	60.8	55.3	+9.9%	57.9	+2.9
Net Sales	176.3	212.5	-17.0%	889.0	970.4	-8.4%	928.5	-39.5
Op. Profit	4.7	25.7	-81.6%	94.0	126.7	-25.8%	110.5	-16.5
(% of Net Sales)	2.7%	12.1%		10.6%	13.1%		11.9%	

Note: Businesses such as broadcast equipment and cinema use video cameras that were included in Imaging System were reclassified to Industry & Others.

2019 Net Sales Growth Rate Y/Y
(Local Currency)

2019 Units (Millions) & Unit Growth Rate Y/Y

Full-Frame Mirrorless
EOS RP

	2019 Net Sales Growth Rate Y/Y		2019 Units (Millions) & Unit Growth Rate Y/Y				
	1Q Actual	Full year Projection	1Q Actual		Full year Projection		
			Units	% Change	Units	% Change	
Cameras	-21.5%	-11.2%	DILCs	0.85	-19%	4.20	-17%
IJPs	-7.2%	+2.8%	DCs	0.51	-14%	2.60	-18%
Total	-15.4%	-5.2%					



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In the first quarter, sales of interchangeable-lens cameras were down 19% to 850 thousand units. This reflects the combined impact of accelerated market contraction for DSLRs, in particular entry-level models, and economic slowdown in China, which is a sizeable market for interchangeable-lens cameras.

The habit of capturing images with smartphones with improved cameras has become a part of daily lives of consumers. As a result, the market for entry-level DSLRs is contracting at a pace that exceeds the outlook we had at the beginning of the year. That said, we expect the user base of professionals and advanced-amateur, people who value the image quality and expressive possibilities afforded by cameras with large sensors and an abundance of interchangeable-lenses to remain. For the market overall, however, we expect the trend of market contraction to continue for some time.

In light of these circumstances, we decided to reexamine our full-year projections for the market and our own unit sales. We now expect the market and our own unit sales to decline 17% to 8.6 million units and 4.2 million units, respectively.

Mirrorless cameras, known for being small and lightweight, are increasing their presence in the market. Amid this situation, we will steadily shift our focus from DSLR to mirrorless cameras with the aim of maintaining our overwhelming competitiveness, which we have built upon DSLRs.

Imaging System – Cameras

- Revised full year outlook for market and own unit sales due to faster than expected entry-level DSLR market contraction and economic slowdown in China
- Aiming to recover profitability, mainly through expanded sales of full-size mirrorless cameras and lenses

(Billions of yen)

	1Q			Full Year				
	2019 Actual	2018 Actual	% Change	2019 Current Projection	2018 Actual	% Change	2019 Previous Projection	Amount Change
Cameras	97.9	127.2	-23.0%	508.5	594.9	-14.5%	555.9	-47.4
I/Js	65.7	72.0	-8.8%	319.7	320.2	-0.2%	314.7	+5.0
Others	12.7	13.3	-4.5%	60.8	55.3	+9.9%	57.9	+2.9
Net Sales	176.3	212.5	-17.0%	889.0	970.4	-8.4%	928.5	-39.5
Op. Profit	4.7	25.7	-81.6%	94.0	126.7	-25.8%	110.5	-16.5
(% of Net Sales)	2.7%	12.1%		10.6%	13.1%		11.9%	

Note: Businesses such as broadcast equipment and cinema use video cameras that were included in Imaging System were reclassified to Industry & Others.

2019 Net Sales Growth Rate Y/Y

(Local Currency)

2019 Units (Millions) & Unit Growth Rate Y/Y

Full-Frame Mirrorless

EOS RP

	2019 Net Sales Growth Rate Y/Y		2019 Units (Millions) & Unit Growth Rate Y/Y				
	1Q Actual	Full year Projection	1Q Actual		Full year Projection		
			Units	% Change	Units	% Change	
Cameras	-21.5%	-11.2%	DILCs	0.85	-19%	4.20	-17%
I/Js	-7.2%	+2.8%	DCs	0.51	-14%	2.60	-18%
Total	-15.4%	-5.2%					



15-2

In the first quarter as well, we grew our unit sales of mirrorless cameras at a pace far exceeding the overall market, thanks to such new products as the EOS M50 and EOS R. Additionally, at the end of the quarter, we further enhanced our lineup, with the launch of the EOS RP, a smaller and lighter mirrorless camera equipped with a full-frame sensor and the same new mount found on the EOS R. Additionally, we plan to release six new models of RF lenses within the year. Users have not only praised the performance of these bodies and lenses, but also expressed their high expectations for the R system overall having felt our sense of urgency in strengthening our lineup over a short period of time. We will work to maintain sales growth of the EOS RP, which got off to a flying start, while also successively launching new RF lenses as we work to further stimulate sales of our strengthened mirrorless lineup.

From a profit perspective, in the full-frame sensor category where particularly high growth continues, even among mirrorless models, we will work to improve our product mix, actively expanding sales of both R System products. Additionally, for lenses with high profitability, we will not only promote sales of RF lenses, but also continue to promote the appeal of our broad range of EF lenses. Furthermore, we will work to expand automation initiatives not only to other products, but also other processes, raising our cost competitiveness and linking this to a recovery in profitability.

Next, compact cameras.

For the full-year, we expect the market to shrink by 19% to 8.5 million units and our unit sales to decline 18% to 2.6 million units. This is the same outlook we had at the beginning of the year. Going forward, we will continue our efforts to expand sales of premium G-series models in our effort to link this to a recovery in profitability.

Imaging System – Inkjet Printers

- 1Q: Unit sales decline due to market contraction
- FY: Aiming for market exceeding growth through strengthened lineup of refillable ink tank models and investment into sales & marketing

(Billions of yen)

	1Q			Full Year				
	2019 Actual	2018 Actual	% Change	2019 Current Projection	2018 Actual	% Change	2019 Previous Projection	Amount Change
Cameras	97.9	127.2	-23.0%	508.5	594.9	-14.5%	555.9	-47.4
IJPs	65.7	72.0	-8.8%	319.7	320.2	-0.2%	314.7	+5.0
Others	12.7	13.3	-4.5%	60.8	55.3	+9.9%	57.9	+2.9
Net Sales	176.3	212.5	-17.0%	889.0	970.4	-8.4%	928.5	-39.5
Op. Profit	4.7	25.7	-81.6%	94.0	126.7	-25.8%	110.5	-16.5
(% of Net Sales)	2.7%	12.1%		10.6%	13.1%		11.9%	

Note: Businesses such as broadcast equipment and cinema use video cameras that were included in Imaging System were reclassified to Industry & Others.

2019 Net Sales Growth Rate Y/Y
(Local Currency)

	1Q Actual	Full year Projection
Cameras	-21.5%	-11.2%
IJPs	-7.2%	+2.8%
Total	-15.4%	-5.2%

2019 Unit Growth Rate Y/Y

	1Q Actual	Full year Projection
IJPs	-4%	+2%



Inkjet A3 MFD

As for the inkjet printer market, despite expectations for continued growth in emerging markets where sales of refillable ink tank models continue to expand, we expect the overall market to contract slightly, due to shrinking demand for home-use models in developed countries.

In the first quarter, our unit sales declined due to the current market environment.

Against this backdrop, we will work to accelerate sales of refillable ink tank models for which there is strong demand, particularly in emerging markets, by further strengthening our product lineup in an effort to capture users that tend to print in high volumes. Additionally, we will work to achieve our target of market-exceeding growth for the full year by actively investing in sales and marketing activities in emerging markets.

Furthermore, for small- and medium-size offices, from the end of last year we commenced sales of our first A3 MFD to incorporate a line head. This product targets users seeking fast and inexpensive high-volume printing. Already marketed in Japan, we will fully deploy this to overseas markets going forward. And through this, we will work to cultivate new users.

- 1Q: Although sales declined, progress was made penetrating the market with new products
- FY: Aiming for sales and profits growth, accelerating sales of strong selling new products
- Work to improve profitability, strengthening ongoing group efforts

(Billions of yen)

	1Q			Full Year				
	2019 Actual	2018 Actual	% Change	2019 Current Projection	2018 Actual	% Change	2019 Previous Projection	Amount Change
Net Sales	109.4	117.1	-6.5%	479.5	437.6	+9.6%	477.0	+2.5
Op. Profit	6.7	10.5	-36.0%	36.2	28.8	+25.5%	35.0	+1.2
(% of Net Sales)	6.1%	8.9%		7.5%	6.6%		7.3%	

2019 Net Sales Growth Rate Y/Y (Local Currency)

	1Q Actual	Full year Projection
Total	-5.1%	+11.7%



**CT
Aquilion Start**



**MRI
Vantage Orián**

For the diagnostic imaging equipment market, we expect gradual growth over the medium- to long-term, supported by the improvement of medical infrastructure in emerging markets, and an increasing need for advanced medical care.

In the first quarter, customers postponed capital investment against a backdrop of economic slowdown in Europe and other factors, resulting in sales declining overall. However, we maintained sales growth in the United States, which is a key market. This reflects the effects of such new products as CT and MRI systems that we have launched so far, and steady signs that our efforts to enhance our sales structure since the beginning of the year are starting to appear.

Accordingly, in order to further accelerate the market penetration of new products, from the second quarter on, we will continue to strengthen the personnel and human resources of our sales organizations, particularly in Europe and the United States. Through these measures and through new product effects, we will gain momentum from the second quarter, as we work to grow sales by nearly 10% in line with our previous projection.

- 1Q: Although sales declined, progress was made penetrating the market with new products
- FY: Aiming for sales and profits growth, accelerating sales of strong selling new products
- Work to improve profitability, strengthening ongoing group efforts

(Billions of yen)

	1Q			Full Year				
	2019 Actual	2018 Actual	% Change	2019 Current Projection	2018 Actual	% Change	2019 Previous Projection	Amount Change
Net Sales	109.4	117.1	-6.5%	479.5	437.6	+9.6%	477.0	+2.5
Op. Profit	6.7	10.5	-36.0%	36.2	28.8	+25.5%	35.0	+1.2
(% of Net Sales)	6.1%	8.9%		7.5%	6.6%		7.3%	

2019 Net Sales Growth Rate Y/Y (Local Currency)

	1Q Actual	Full year Projection
Total	-5.1%	+11.7%



17-2

For high-end CT systems, in particular, orders for systems recognized for both reduced radiation exposure and high image quality through the use of artificial intelligence (AI) are increasing in developed countries. Additionally, from January of this year, we launched a new competitively priced system that features as standard the noise reduction technology found in high-end models. This balance between cost and performance is linked to increasing orders in emerging markets, which will fully contribute to sales from the second quarter on.

As for cost reduction, we have mainly promoted measures that focus on production, leveraging the manufacturing knowhow that Canon has cultivated over many years. From last year, we expanded the scope of activities pertaining to procurement, for example, we aggregated suppliers of such key parts as motherboards and CPUs, with the aim of standardization and increased their use among our various products, as a way to reduce costs. We will continue efforts to raise the operating profit ratio of this business, further promoting cost reduction in cooperation with the wider Canon Group.

- Semiconductor Litho. Equip.: Full-year projection revised to reflect postponed investment into memory
- FPD Litho. Equip.: In line with plan, full-year projection unchanged
- Network cameras: Double-digit growth leveraging broad lineup and sales network

(Billions of yen)

	1Q			Full Year				
	2019 Actual	2018 Actual	% Change	2019 Current Projection	2018 Actual	% Change	2019 Previous Projection	Amount Change
Litho. Equip.	39.0	53.9	-27.6%	184.6	199.8	-7.6%	204.5	-19.9
Others	137.5	158.9	-13.5%	630.9	643.1	-1.9%	640.5	-9.6
Net Sales	176.5	212.8	-17.1%	815.5	842.9	-3.3%	845.0	-29.5
Op. Profit	5.3	15.4	-65.7%	28.3	55.7	-49.2%	39.5	-11.2
(% of Net Sales)	3.0%	7.2%		3.5%	6.6%		4.7%	

Note: Businesses such as broadcast equipment and cinema use video cameras that were included in Imaging System were reclassified to Industry & Others.

2019 Net Sales Growth Rate Y/Y (Local Currency)

Lithography Equipment (Units)

	1Q Actual	Full year Projection		1Q 2018 Actual	1Q 2019 Actual	FY 2018 Actual	Full year Projection
	Litho. Equip.	-27.2%		-7.0%	IC	27	14
Others	-13.0%	+0.2%	FPD	21	15	69	56
Total	-16.6%	-1.5%					

18-1

As for semiconductor lithography equipment, first quarter unit sales declined due to a slowdown in capital investment by memory manufacturers. Additionally, we saw a portion of investment toward memory that we expected in the second half of this year pushed out to 2020 and now expect demand for memory through the year to be at a low level temporarily. Despite this however, we see solid customer investment for sensors and other semiconductors. Capturing this broad range of demand for these equipment, we revised our full-year projection for unit sales from 121 at the beginning of the year to 100. In the second half of the year, however, we expect to exceed the unit sales of last year in the same period. In order to achieve this, we will work to strengthen our well-defined customer support capabilities, to meet the various demands of manufacturers involved in different production and improve the productivity of customers through equipment upgrades.

As for FPD lithography equipment, due to a slowdown in smartphone sales, panel manufacturers continue to adjust their investment plans for small- and medium-size panels. Even in this situation, we are seeing increasing demand for investment into large-size high-resolution panels, such as those used in televisions. By leveraging our strength in one-shot lithography systems that are suitable for high resolutions panels, we aim to firmly secure this demand and achieve our previous projection of 56 units for the full-year.

- Semiconductor Litho. Equip.: Full-year projection revised to reflect postponed investment into memory
- FPD Litho. Equip.: In line with plan, full-year projection unchanged
- Network cameras: Double-digit growth leveraging broad lineup and sales network

(Billions of yen)

	1Q			Full Year				
	2019 Actual	2018 Actual	% Change	2019 Current Projection	2018 Actual	% Change	2019 Previous Projection	Amount Change
Litho. Equip.	39.0	53.9	-27.6%	184.6	199.8	-7.6%	204.5	-19.9
Others	137.5	158.9	-13.5%	630.9	643.1	-1.9%	640.5	-9.6
Net Sales	176.5	212.8	-17.1%	815.5	842.9	-3.3%	845.0	-29.5
Op. Profit	5.3	15.4	-65.7%	28.3	55.7	-49.2%	39.5	-11.2
(% of Net Sales)	3.0%	7.2%		3.5%	6.6%		4.7%	

Note: Businesses such as broadcast equipment and cinema use video cameras that were included in Imaging System were reclassified to Industry & Others.

2019 Net Sales Growth Rate Y/Y (Local Currency)

Lithography Equipment (Units)

	1Q Actual	Full year Projection		1Q 2018 Actual	1Q 2019 Actual	FY 2018 Actual	Full year Projection
	Litho. Equip.	-27.2%		-7.0%	IC	27	14
Others	-13.0%	+0.2%	FPD	21	15	69	56
Total	-16.6%	-1.5%					

18-2

As for OLED vacuum deposition equipment demand, due to a slowdown in sales of smartphones, we expect this to remain in a phase of adjustment for some time. Looking out a little further, however, we expect the steady shift from LCDs to OLEDs that have an advantage in terms of high definition, to continue. Amid these conditions, we will continue efforts to develop vacuum deposition equipment used in the manufacturing of large-size OLED panels such as those used in televisions. At the same time, we will continue efforts to reduce cost of sales through such efforts as the standardization of manufacturing processes as we prepare for when market growth returns in the future.

Next, network cameras. We expect the market to continue growing at a rate of more than 10%. In the first quarter, we maintained double-digit growth, leveraging the strength of our formidable product lineup and solid sales network, and we feel we can realize continued strong growth for the full-year.

Today, with security cameras connected to networks that are capable of gathering a variety of data, we are seeing a growing need to combat cyber security risks. In response, we will launch a new product in May featuring further enhanced in security features. As for high-end products used at government agencies and large corporations where the need for cyber security is particularly high, we will actively work to expand sales of new products, leveraging relationships of deep mutual trust we have built over a long period of time.

Inventory

- Imaging System: Swiftly bring down inventory to an appropriate level by adjusting production
- Medical and Industry & Others: Inventory built up in connection with future sales expansion

(Billions of yen)		FY 2018				FY 2019
		1Q	2Q	3Q	4Q	1Q
Office	Amt.	207.5	209.9	224.6	206.1	215.2
	Days	41	42	46	42	44
Imaging System	Amt.	140.5	145.2	173.8	139.6	156.2
	Days	47	57	67	50	62
Medical System	Amt.	80.4	86.0	89.3	90.6	93.8
	Days	66.0	74	80	73	75
Industry & Others	Amt.	160.1	158.3	172.7	175.0	185.7
	Days	73	75	86	91	101
Total	Amt.	588.5	599.4	660.4	611.3	650.9
	Days	52	56	62	56	62

Note: Businesses such as broadcast equipment and cinema use video cameras that were included in Imaging System were reclassified to Industry & Others. 19

Inventory turnover at the end of March was 62 days, 10 days longer than it was at the end of the same month last year.

Within Imaging System, the level of camera inventory was high due to a slowdown in sales of mainly DSLRs. We will work to bring this down to an appropriate level as soon as possible, paying close attention to market and customer behaviors while making adjustments to production at the same time.

For Medical, we increased inventory to prepare for expanded sales of new products from the second quarter on. Additionally, for industrial equipment, we temporarily built up inventory to align with our plan to increase sales in the second half of the year.

Going forward, we will strive for comprehensive inventory management, as we continue efforts to quickly respond to change in the external environment.

Cash Flow (Full Year)

- Maintaining projection for cash-on-hand at 500 billion yen
- Continue to secure funds for new businesses growth

(Billions of yen)	FY 2019 Current Projection	FY 2019 Previous Projection	FY 2018 Actual
Net cash provided by operating activities	570.0	595.0	365.3
Net cash used in investing activities	-260.0	-290.0	-195.6
Free cash flow	310.0	305.0	169.7
Net cash provided by (used in) financing activities	-325.0	-320.0	-354.9
Effect of exchange rate changes on cash and cash equivalents	-5.6	-5.6	-16.0
Net change in cash and cash equivalents	-20.6	-20.6	-201.2
Cash and cash equivalents at end of period	500.0	500.0	520.6
Cash-on-hand (In months of Net sales)(Note)	1.6	1.5	1.6
Capital expenditure	165.0	175.0	159.3
Depreciation	230.0	240.0	251.6

Note: Calculated using full-year net sales for 2019. Calculated using second-half net sales for 2018.

Compared with our previous projection, we lowered net income by 40 billion yen. This had the effect of lowering operating cash flow. Through a comprehensive review of our investment plan, however, we will work to curtail investment cash flow. As a result, we feel cash-on-hand at the end of the year can be maintain at 500 billion yen.

Compared to last year, we will work to significantly improve operating cash flow through such action as optimizing the level of inventory. For investments, however, we will continue to secure funds to support the future growth of new businesses.

Due to the global economic slowdown and changes in the business environment, we expect our situation to remain challenging. From the second quarter, however, we can expect benefits from new products. Additionally, we will work to improve our performance in the second half of the year by raising the proportion of sales attributable to new businesses. We will strive to ensure that our performance in the first quarter was the bottom, realize sales and profit growth in the second half, and link this to a real recovery in our performance from next year on.

Canon's Basic Stance Towards Social Responsibility

- Improve corporate value and contribute to realizing a better society through various activities, under Canon's corporate philosophy of *Kyosei*

Priority issues Canon is challenging for sustainable growth

- Creating new value and solving social issues
- Protecting and conserving the global environment
- Responding to people and society

Contribute to realizing a better society

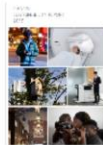
Various activities

Corporate philosophy of *Kyosei*
Excellent global corporation plan



■ Sustainability Report

- Enhancing reporting of non-financial information etc. to better explain our value creation
- Combining non-financial and financial strategy for integrated report



Issued date: April 18
Japanese version

Note: The report can be [downloaded](#) from Canon's website.

Up until this point, I have discussed topics usually covered during our earnings announcements, such as business and financial strategies. For us to continue sustainable growth into the future, however, we also recognize the importance of non-financial aspects of our business. Last week, we issued our sustainability report. From this time on, we will discuss our activity in relation to non-financial aspects as well.

Under the corporate philosophy of *kyosei*—living and working together for the common good—Canon aim to contribute to the sustainable development of society by raising its corporate value through its various business activities.

In 2015, Sustainable Development Goals (SDGs) were adopted by the United Nations. Moreover, we are seeing even more activities aimed at contributing to the sustainable development of society, from such organizations as the Climate Disclosure Project (CDP), a Non-Governmental Organization (NGO) that tackles environmental issues, and the Task Force on Climate-related Financial Disclosure (TCFD), who are increasingly calling for improved information disclosure.

Against this backdrop, as our sustainability report this year shows, we have adopted “creating new value and solving issues,” “protecting and conserving the global environment,” and “responding to people and society” as priority issues to continue sustainable growth.

Top Three Priority Issues

Creating new value and solving issues

Contribute to solving issues through innovation
Medical, Security, Industrial Robots etc.

Protecting and conserving the Global environment

Reduce environmental impact throughout the entire product life-cycle

Responding to people and society

Human rights, labor, social contribution, product responsibility, supply chain, diversity

Canon Eco Technology Park achieves a high level of resource efficiency with aim of leaving for future generations a sustainable society



Received the Minister of Economy, Trade and Industry Award for the Global Environment Award

22-1

In relation to the first issue, creating new value and solving issues, we feel we can contribute to the development of advanced medical care and realize a safe and secure society by expanding and strengthening our network camera and medical businesses, which is a core strategy of our medium- to long-term management plan.

Additionally, for protecting and conserving the global environment, as part of our philosophy of Kyosei, which is the basis of our corporate activities, we are working to achieve both efficiency in business activities and reductions in environmental impact, from a core management position of realizing a sustainably developing society where all human beings live and work together for the common good. Specifically, last year we opened the Eco Technology Park, a facility that realizes a high degree of resource recycling, where we will work to further advance activities aimed at the reuse and recycling of plastics.

Top Three Priority Issues

Creating new value and solving issues

Contribute to solving issues through innovation
Medical, Security, Industrial Robots etc.

Protecting and conserving the Global environment

Reduce environmental impact throughout the entire product life-cycle

Responding to people and society

Human rights, labor, social contribution, product responsibility, supply chain, diversity

Canon Eco Technology Park achieves a high level of resource efficiency with aim of leaving for future generations a sustainable society



Received the Minister of Economy, Trade and Industry Award for the Global Environment Award

22-2

Looking at our third priority of responding to people and society, in order to raise the sustainability of the corporation, we are strengthening product quality control and risk management. At the same time, we are promoting work style reforms and social contribution efforts. Looking specifically at social contribution, we are promoting a project that leverages Canon's technology with the aims of preserving cultural assets and leaving them for future generations. Through these measures, we will create new value and continue to develop management that is fully aware of the importance of productivity.

The activities that we promoted so far, have been highly evaluated by people outside the company. Among our activities towards protecting and conserving the global environment, our efforts to recycle toner cartridges from 1990 has received high marks for contributing to the realization of a recycling-oriented society. Very recently, we were also awarded the Minister of Economy, Trade and Industry Award under the Global Environment Award.

Going forward, we will continue working to do away with societal issues through our various corporate activities, from both a financial and non-financial perspective, as we work to achieve our goal of sustainable growth.

Supplementary Information

Net Sales Growth Rate of Hardware & Non-hardware

		FY 2019		FY 2018	
		1Q Actual	Full Year Projection	1Q Actual	Full Year Actual
MFDs					
JPY	Hardware	-3%	+3%	-5%	-1%
	Non-hardware	-4%	-3%	+2%	-1%
LC	Hardware	-2%	+6%	-6%	-2%
	Non-hardware	-2%	0%	0%	-2%
LPs					
JPY	Hardware	-2%	-5%	+2%	+1%
	Non-hardware	-12%	-7%	-4%	-1%
LC	Hardware	-2%	-2%	+3%	+1%
	Non-hardware	-12%	-4%	-2%	-1%
IJPs					
JPY	Hardware	-6%	+9%	-3%	-3%
	Non-hardware	-10%	-4%	-4%	-5%
LC	Hardware	-4%	+12%	-4%	-3%
	Non-hardware	-8%	-1%	-5%	-5%

Color Ratio (MFDs & LPs)

		FY 2019		FY 2018	
		1Q Actual	Full Year Projection	1Q Actual	Full Year Actual
MFDs	Net Sales	59%	60%	58%	59%
	QTY	58%	59%	57%	58%
LPs	Net Sales	52%	52%	51%	51%
	QTY	18%	19%	17%	18%

Sales Growth by Monochrome & Color MFDs

		FY 2019		FY 2018	
		1Q Actual	Full Year Projection	1Q Actual	Full Year Actual
JPY	Monochrome	-5%	-3%	-1%	-3%
	Color	-2%	+2%	-2%	0%
LC	Monochrome	-4%	0%	-2%	-3%
	Color	-1%	+5%	-3%	-1%

Interchangeable Lens Digital Camera Ratio

	FY 2019		FY 2018	
	1Q Actual	Full Year Projection	1Q Actual	Full Year Actual
Value Base	84%	85%	85%	85%
Unit Base	63%	62%	64%	61%

* Value Base Includes Interchangeable Lenses

IC Stepper Unit Breakdown by Light Source

(unit)

	FY 2019		FY 2018	
	1Q Actual	Full Year Projection	1Q Actual	Full Year Actual
KrF	5	29	7	32
i-Line	9	71	20	82
Total	14	100	27	114