

# Canon Inc.

## Corporate Strategy Conference 2018

**March 6, 2018**

**Fujio Mitarai, Chairman & CEO**

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## **Excellent Global Corporation Plan Phase V (2016 – 2020)**

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(Basic Policy)

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

(Key Strategies)

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

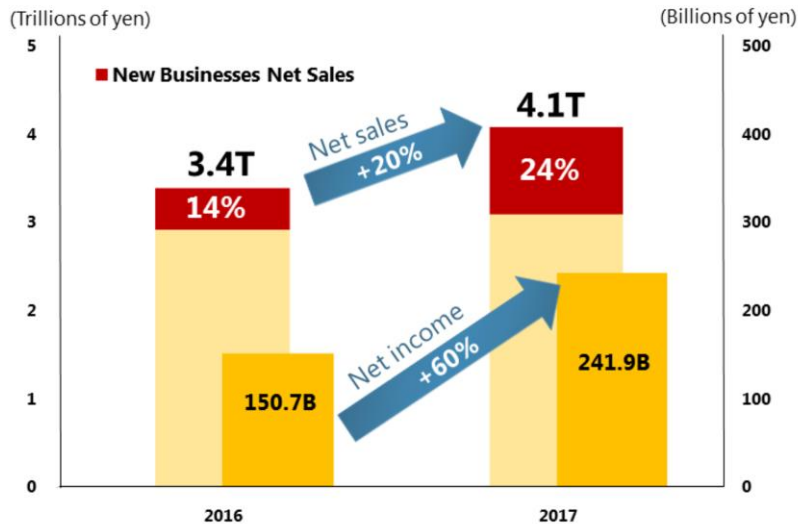
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In 2016, Canon launched Phase V of the Excellent Global Corporation Plan, a five-year initiative that follows a fundamental policy of “Embracing the challenge of new growth through a grand strategic transformation.”

Today, I will review the progress we made last year and then discuss our initiatives for 2018 onwards.

## Excellent Global Corporation Plan Phase V (2017 Achievements)

- First time in 4 years to post overall sales and profit growth, first time in 9 years to post sales exceeding 4 trillion yen
- Doubled sales of new businesses. Expanded proportion of sales to 24%



In 2017, we significantly raised our performance, comprehensively strengthening existing businesses and promoting the expansion of new ones.

We posted strong sales and profit growth in all existing businesses thanks to such factors as recoveries in our laser printer and camera businesses as well as healthy sales growth of lithography equipment.

As for new businesses, we established four pillars, namely commercial printing, network cameras, industrial equipment and healthcare, which accounted for 24% of total net sales, a significant jump from the 14% in 2016.

As a result, we posted overall sales and profit growth for the first time in 4 years. We also exceeded 4 trillion yen in net sales for the first time since 2009, when the global economic slump started due to Lehman Brothers. In this way, 2017 was an epoch-making year in that we made significant progress in solidifying the foundation that will allow us to once again strive towards achieving our target of 5 trillion yen in sales in 2020.

## **Phase V**

### **Future Initiatives and Priority Measures**

(Fundamental Policy)

**Pursue total optimization and  
prioritize profits to complete our  
grand strategic transformation**

(Major Measures)

- Thoroughly strengthen manufacturing prowess
- Strengthen product development capability
- Reform sales organization to reflect market changes

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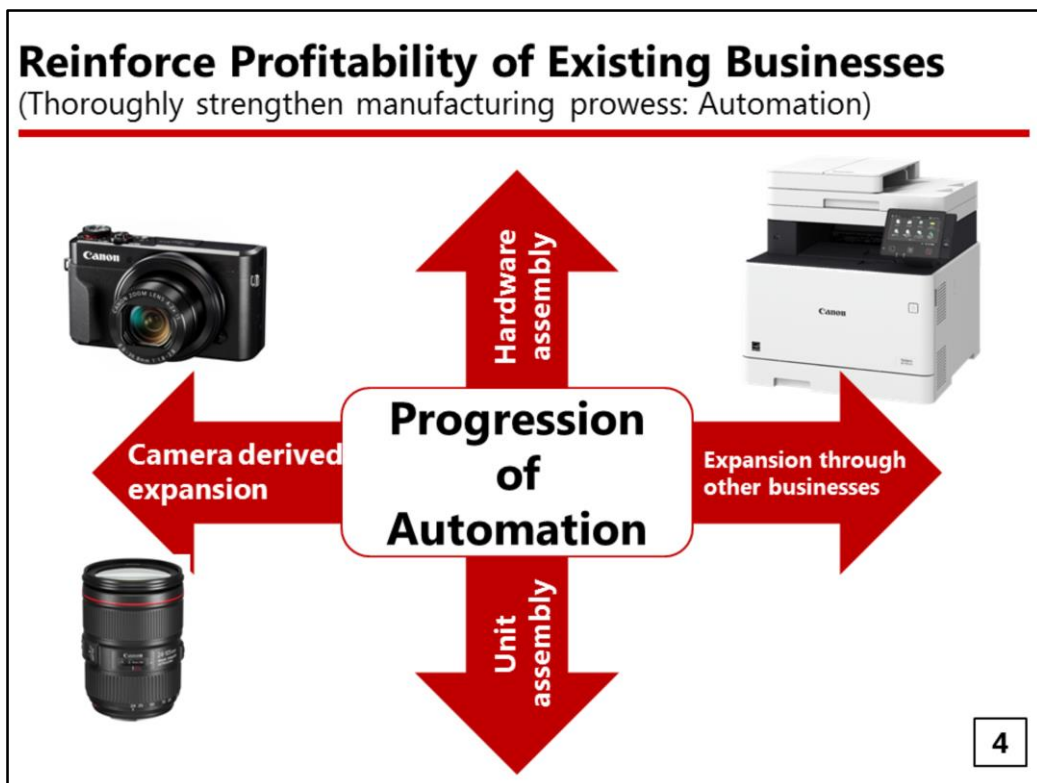
This year – the half way point of our five-year plan – we will strive for new growth, continuing efforts to complete the grand strategic transformation that we have promoted in order to sustain growth.

In the coming IoT era, we will see significant changes in our everyday life and society as a whole due to big data and artificial intelligence (AI). Moreover, we expect the pace of this kind of technological innovation to accelerate in the future. We cannot be complacent and must continuously evolve and always innovate.

I will now discuss the strategies we will employ to achieve this grand transformation, highlighting existing and new businesses separately.

## Reinforce Profitability of Existing Businesses

(Thoroughly strengthen manufacturing prowess: Automation)



First, measures we have for existing businesses.

Existing businesses form the basis of Canon's business foundation. They are a core source of profit and in order to generate stable cash and to support growth of the entire company, we will comprehensively strengthen the profitability of these businesses with a focus on office equipment and cameras.

First, from a manufacturing perspective, we will work to thoroughly strengthen our manufacturing prowess, which remains a cornerstone of cost reduction.

The key to this is automation. In the areas of cameras, we are currently promoting automation based product design, with product development and plant departments cooperating with each other. Moving forward, we will accelerate automation from two perspectives. One is broadening the manufacturing process from current hardware to unit assembly, and the other is applying this camera automation into other products such as laser printers.

## Reinforce Profitability of Existing Businesses

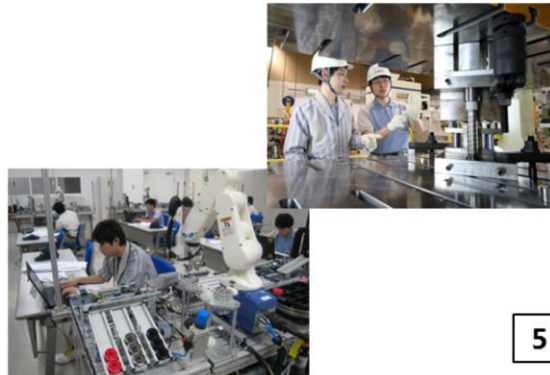
(Thoroughly strengthen manufacturing prowess: In-house Production)

- Expand scope of in-house production to manufacturing equip.  
➡ maximize cost saving throughout the entire factory

Key components



Production equipment



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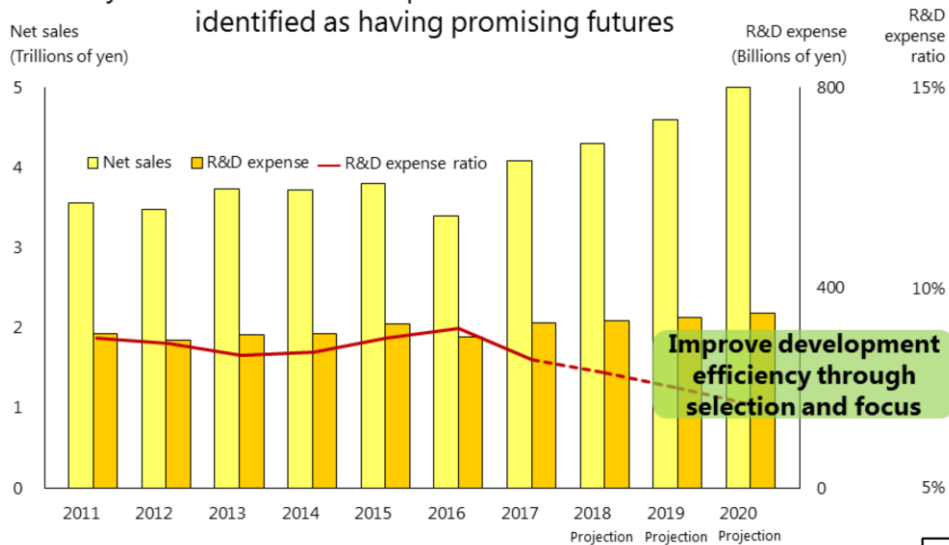
Along with automation, another key initiative is to reduce cost through in-house production. Here, we are taking active steps to also internally-produce manufacturing equipment in addition to key components, which we already promote. Instead of purchasing general-purpose equipment which currently needs customization, we can reduce costs by internally producing equipment that incorporates only the features that we need. By promoting the in-house production of manufacturing equipment, which is the ultimate goal of in-house production, we are working to expand cost savings in all areas of production.

Additionally, we will not only focus on in-house production, but also promote the internal development of software. Nowadays, product development is not limited to the mechanics and electronics of hardware. Software has become an important element that determines the performance of a product. Due to the growing importance of software development, it has become difficult for us to do everything by ourselves, and we have had to outsource a certain portion. In light of this, we are working to enhance our software development workforce, and are currently constructing a dedicated internal training facility. We will work to promote active measures to internalize the development of software.

## Reinforce Profitability of Existing Businesses

(Strengthen Product Development Capacity)

- Heavily invest resources into specific themes



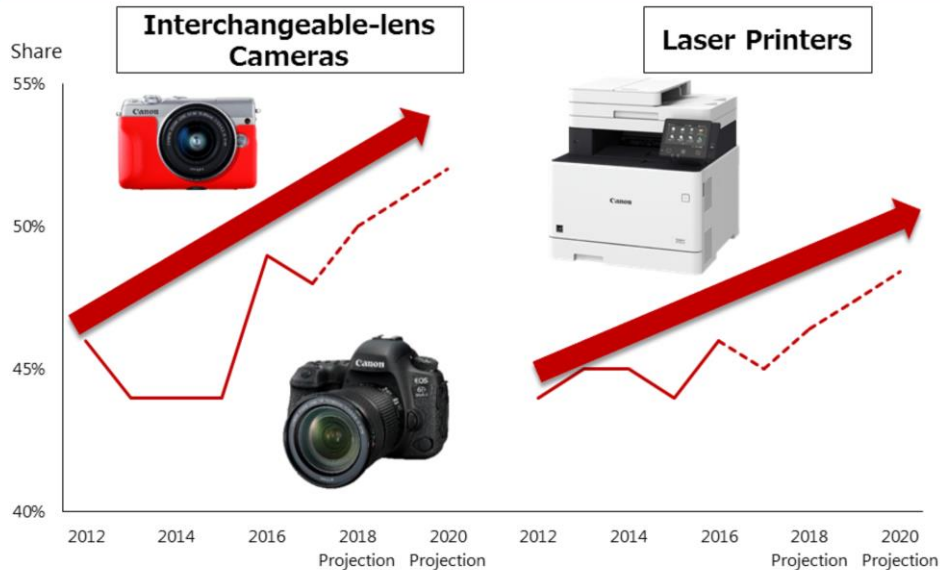
Next, from a development perspective, we will work to improve efficiency through such measures as identifying product development themes with the best future prospects and then allocating resources to them in a more focused manner.

Due to technological innovation and increasingly severe competition, development themes cover a wide range of topics. As a result, in recent years, our development expense ratio has remained high.

We have already established a special company-wide committee that scrutinizes each development theme, but against this backdrop, this committee will take into consideration future changes in the business environment and advances made in infrastructure technology, so that we can more fairly evaluate the future contribution of each theme. Amid prioritized development-related investment into areas where market growth is expected, future prospects will be used as a key evaluation factor to split R&D themes into more clearly defined categories. From this, we will work to raise R&D efficiency, through the enhanced levels of selectivity and focus.

## Reinforce Profitability of Existing Businesses

(Gain Market Share)



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From a sales and marketing perspective, we will work to grow sales through improvements in market share. We already maintain high market share in each of our businesses, however, we are confident that further market share gain is possible. To realize this, we will continue to launch competitive new products this year as well.

Within existing businesses, there are market areas that are growing, such as color devices in MFDs and laser printers, and mirrorless in cameras. In these segments, by launching differentiated products that only we can provide, we will stimulate the market, grow our sales, and secure additional market share. For example, in our core camera business, in addition to our overwhelming share of the DSLR market, we will go on the offensive and work to expand our sales in the mirrorless camera market, which is exhibiting remarkable growth. This will allow us to reach our goal of 50% market share of the entire interchangeable-lens camera market.



## **Expand and Improve Profitability of New Businesses (4 New Businesses expected to drive overall growth)**

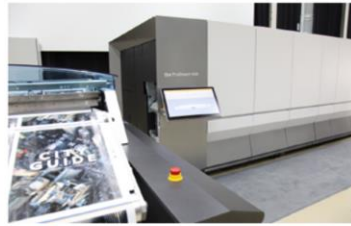
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- Entering new phase that not only focuses on expanding sales, but also improving profits

### **Healthcare**



### **Commercial Printing**



### **Network Cameras**



### **Industrial Equipment**



Last year, we finally lined up our four new businesses, namely healthcare, network cameras, commercial printing, and industrial equipment. This year, in addition to expanding sales of these new businesses, we will enter a second stage, which focuses on improving their profitability.

## Expand and Improve Profitability of New Businesses (Healthcare: Products that leverage high definition)

- CT system that realizes the first significant improvement in resolution in 30 years



Conventional



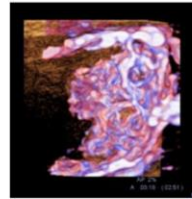
New Product



Clearly visualize peripheral vascular level detail that has been difficult to accomplish with conventional CT systems.

Image source: FUJITA HEALTH UNIVERSITY HOSPITAL

- Ultrasound system that can visualize minute blood flows without the use of a contrast agent



First, healthcare. In 2050, the world's population is expected to exceed 10 billion people. Against this backdrop, we expect the healthcare-related market to continue to expand as well. Within our healthcare related business, we will work to expand sales of our core diagnostic imaging systems.

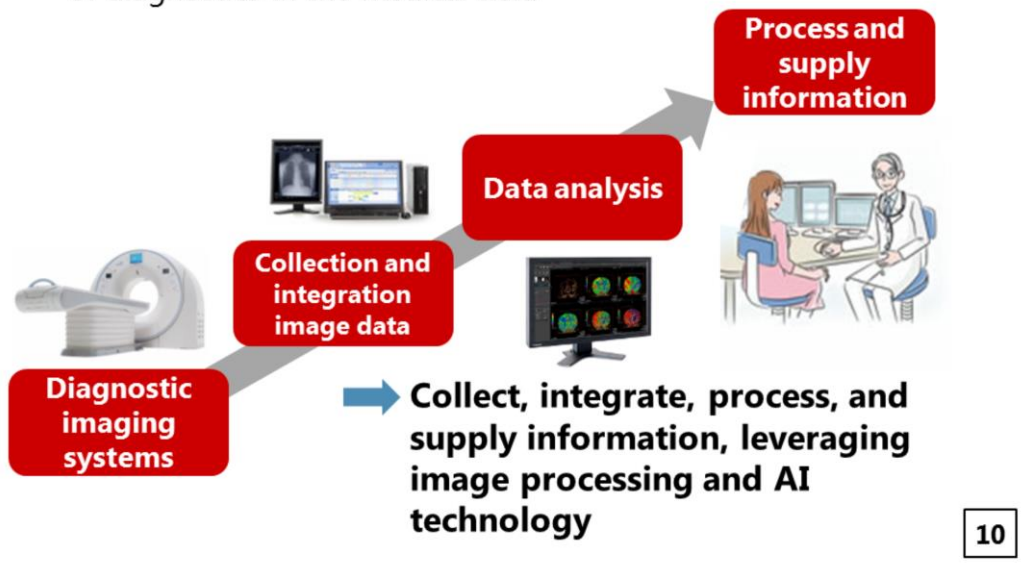
Our strength lies in our high-resolution technological prowess. Last year, we launched an ultra-high-resolution CT system that realizes the first significant improvement in resolution in 30 years. Additionally, sales of an ultrasound system that incorporates proprietary technology, which allows for the visualization of minute blood flows without the use of a contrast agent, made a significant contribution to sales. We can expect these kinds of high-resolution medical equipment to play an important role in the early detection and early treatment of diseases.

As such, we will work to expand sales, continuously rolling out these kinds of differentiated products, while maintaining prices.

## Expand and Improve Profitability of New Businesses

### (Healthcare: Medical IT Solutions)

- Medical IT Solutions that support the speeding up and precision of diagnostics in the medical field

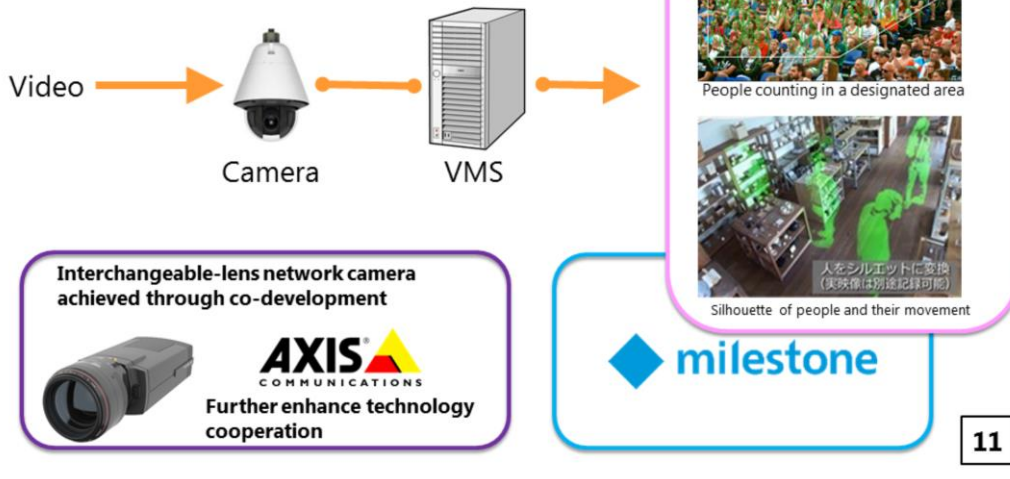


We will also put more energy into medical IT solutions in order to realize an efficient medical system, leveraging the enormous amount of imaging information obtained from these kinds of hardware. In order for physicians to offer patients the most appropriate diagnostic evaluation, we will work to integrate all information, including patient records and diagnostic images. Additionally, by using artificial intelligence to process and analyze data, we will offer solutions beyond what we can provide today, combining our diagnostic imaging equipment with these solutions, we will work to improve profitability as well.

Through these kind of measures, we will cultivate healthcare into a core business that supports the Canon Group while working to reduce costs through the promotion of measures that leverage our production technology. We have already, started to see concrete results. For example, in the product assembly process, by leveraging production engineering innovations we have cultivated over many years, we have seen a shortening of manufacturing lead-time through measures aimed at eliminating waste in the manufacturing process.

## Expand and Improve Profitability of New Businesses (Network Cameras)

- Expand business from both hardware and software perspectives, strengthening cooperation with AXIS and Milestone



Next, network cameras.

The market continued to grow at a double-digit rate fueled by a shift from analog to digital technology and growing concerns surrounding global crime and disaster prevention. Against this backdrop, in addition to our high-performance cameras and software, we are expanding sales through our robust sales network based on strong partnerships with dealers.

As for network cameras, we have steadily promoted technological cooperation between Canon and Axis. In addition to cameras offering high-resolution and high-sensitivity image capture, we will launch future products suitable for the IoT era.

## Expand and Improve Profitability of New Businesses (Network Cameras)

- Expand usage to various other segments, promoting development of video analytical solutions

### Security



Crime prevention, people tracking, evacuation



Traffic monitoring, urban development



### Marketing



Customer base, people-flow analysis, improve productivity

### Entertainment



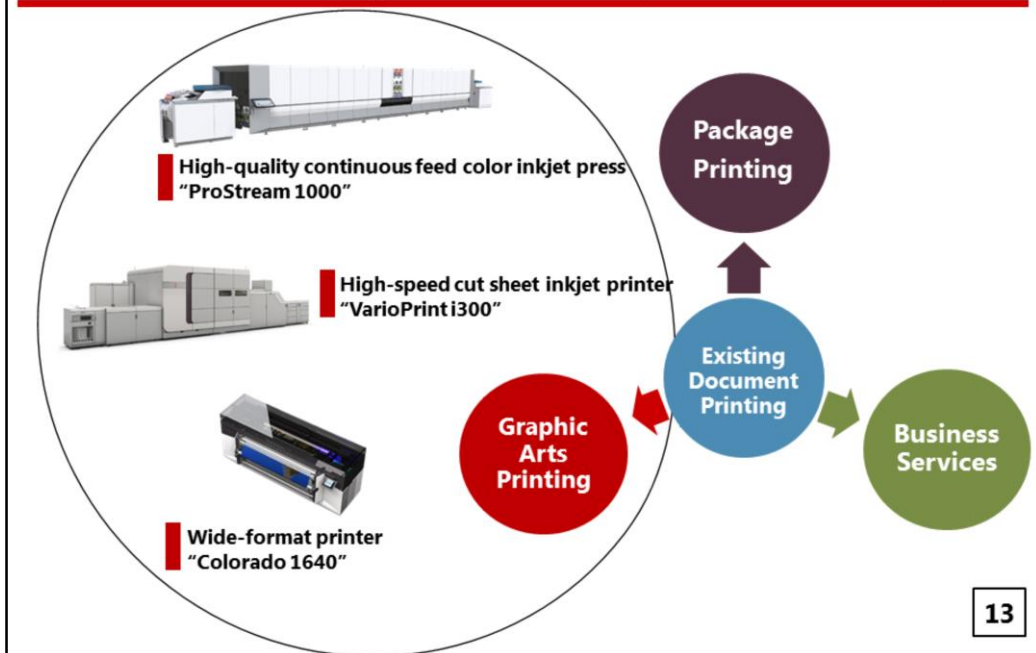
Live streaming and sports analysis

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Additionally, by promoting the development of video analytic software that make use of AI, we will continue to expand the potential application of network cameras beyond security, to a variety of other industries, such as marketing and entertainment. We will work to improve profitability, not only through hardware, but also by focusing on solutions that combine cameras offering high performance with software that can extract the best information from captured images.

Alternatively, there is growing demand for network camera systems where the initial investment is less of a barrier as well as systems that have improved ease-of-use with mobile devices. Due to these trends, we are seeing growing importance in coordinating with cloud services. Last year, leveraging the technological assets of MileStone, we established a subsidiary in the U.S. that is working to accelerate the full-scale entry into a cloud-based business of managing and utilizing images.

## Expand and Improve Profitability of New Businesses (Commercial Printing: Focus on Graphic Arts Market)



Next, commercial printing.

In the digital commercial printing market, which is our primary target market, we continue to see a shift from analog to digital printing, reflecting increasing demand for a wide variety of short run printing jobs.

We have particularly high expectation for growth in the graphic arts sphere, where high image quality is required. Here, we have launched such new products as high-speed continuous feed and cut sheet printers that incorporate inkjet technology, and a high-resolution wide-format printer that realizes a significant advantage in terms of running cost.

Although this cut-sheet printer has only really been on the market for 2 years, its strong reputation continues to grow and unit sales are increasing with each passing period. Customer response has also been very good for the continuous feed model and the wide-format model that have only been in the market since the second half of last year, and we expect to significantly grow sales this year. In the commercial printing industry, customer requirements on the quality of printed material are demanding, which is why the use of genuine consumables is high in this business. Going forward, we will work to improve profitability, driving significant growth in consumable sales by expanding sales of new products to build up our MIF.

Furthermore, in order to enhance our position even further in the market, we are stepping up our investment into product development with a view of entering the package printing market, which is also a new growth area. We will work to accelerate the enhancement of our product lineup to facilitate future growth.

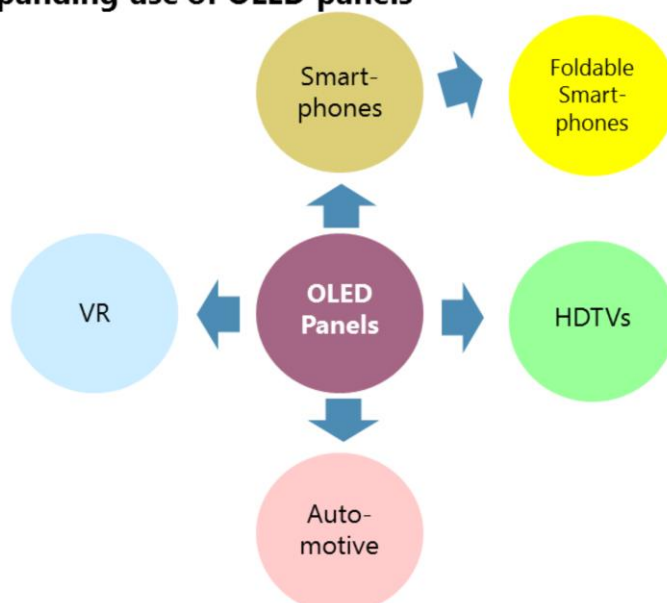
## Expand and Improve Profitability of New Businesses (Commercial Printing: Sales Engineer Training)



Additionally, from a sales and marketing perspective, we need a highly skilled sales engineering force. Commercial printing is a B2B business. Our customers are not end-users, but companies that provide printed material to consumers as a service. Due to this, the level of demand for performance and quality, as well as low costs is very high. In response, we need to consider both the product and customer needs and offer the most appropriate advice to various printing companies. We are rushing to train excellent sales engineers to accelerate new product sales in the graphic arts and package printing markets.

## Expand and Improve Profitability of New Businesses (Industrial Equipment)

### ■ Expanding use of OLED panels



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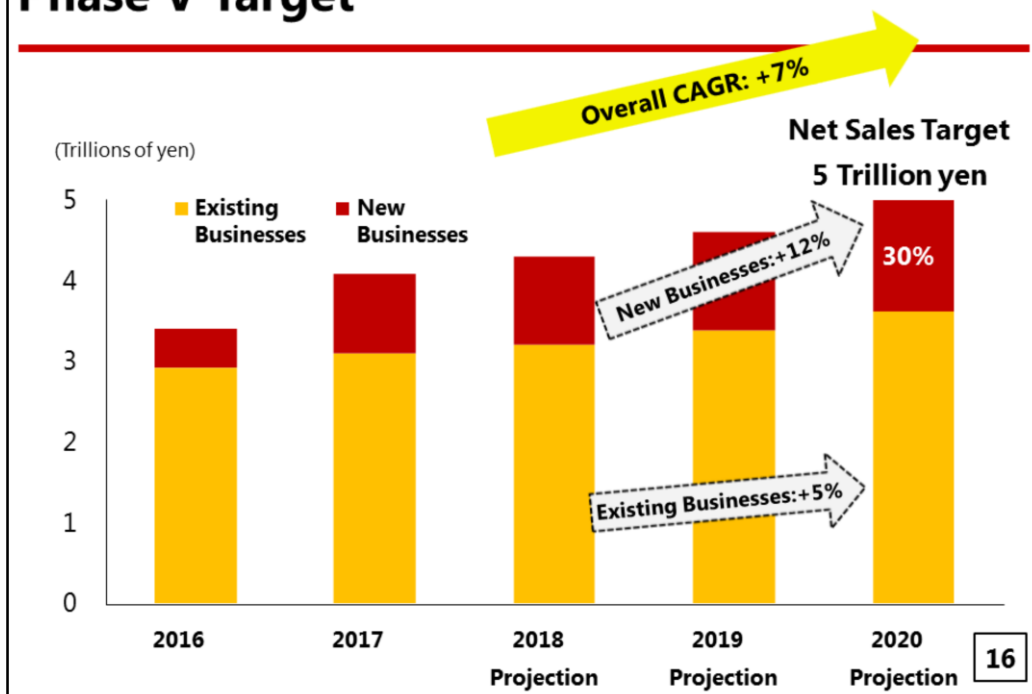
Next, industrial equipment.

Amid continued strong demand from OLED panel manufacturers, we enhanced our production capacity of OLED vacuum deposition equipment, leading to a doubling of sales. As for vacuum deposition equipment that addresses demand for high resolution panels, our equipment has earned high marks for productivity from panel manufacturing and we remain unrivalled in this area.

OLED panels are starting to be used in smartphones. Despite this trend, however, current demand is lower than what was expected. However, in addition to folding panels, which are a major focus of next-generation smartphones, OLED panels are being considered for use in televisions and automotive devices as well as for virtual reality. In other words, usage in other devices is being increasingly considered. We expect the OLED panel market to be promising in the future as well. We will continue efforts to maintain our technological advantage and expand our production capability to keep OLED vacuum deposition equipment a growth driver of total industrial equipment. We will also work to raise profitably through the promotion of cost savings that we can achieve through improvements in manufacturing processes.



## Phase V Target



Through these measures, in existing and new business areas, we will work to achieve our 2020 target of 5 trillion yen in net sales, realizing growth of around 7% on average for the entire company.

We expect the driver of this growth to be new businesses, which is projected to grow at an average rate of around 12% and accounting for more than 30% of total company sales in 2020.

Aside from the measures already discussed, we also have M&A in focus to support the achievement of our goal. We will invest about 300 to 400 billion yen over the next 3 years to strengthen and expand new businesses.

In 2017, Canon stock outperformed the Nikkei average, since last year's corporate strategy conference. We think this is due to many factors, such as the growth strategy, which we outlined in last year's conference, and our performance, which has improved with each passing quarter. We also believe that it reflects our positive stance towards shareholders return, evidenced by the commemorative dividend and share buybacks.

Going forward, to continue meeting your expectations, we will maintain the momentum we have built and we will work in a concerted effort, implementing reforms so that we can show a totally changed Canon, which realizes the grand strategic transformation we envision in 2020, the final year of our current five-year plan.

**Canon**