

**Canon Inc.**  
**2024 Corporate Strategy Conference**

# **Canon Overall Strategy**


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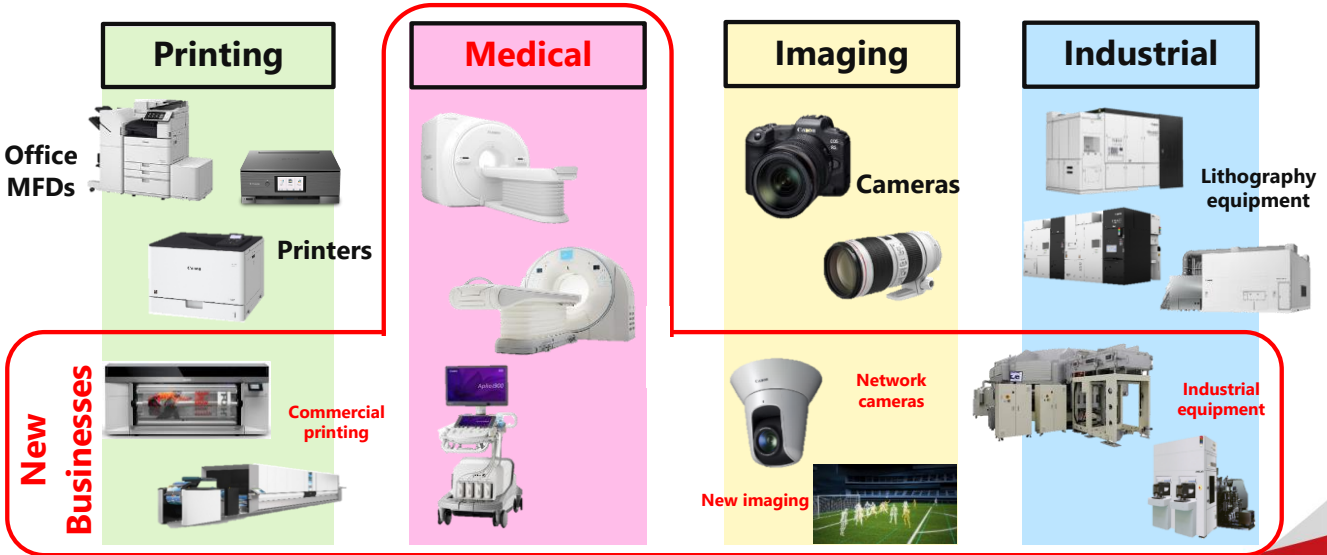
## Excellent Global Corporation Plan Phase VI

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■ Review up to 2023

# Review up to 2023

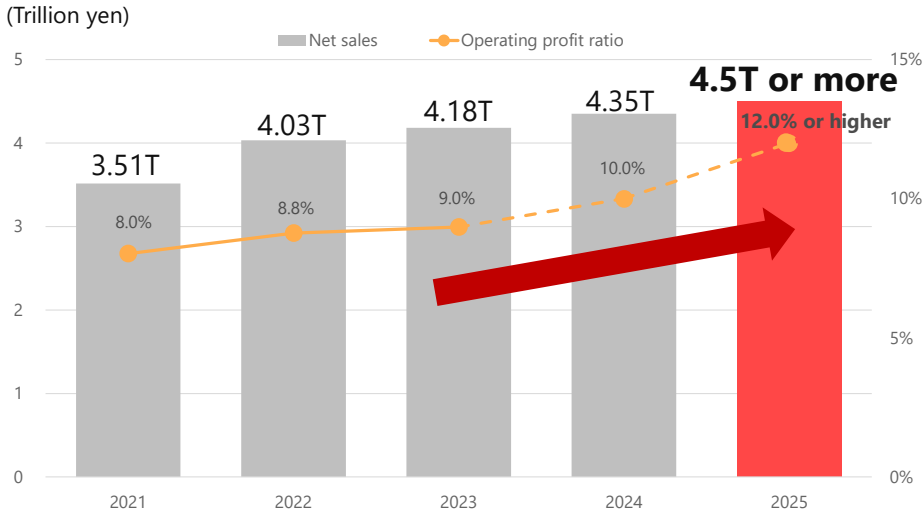
Strengthened business competitiveness and built structure that realizes new growth



Canon consolidated its existing businesses, such as printing equipment and cameras, which have supported the company, and four new businesses, namely commercial printing, medical, network cameras and industrial equipment, which were acquired mainly through M&A, into four industry-oriented groups to strengthen its business competitiveness and realize new growth. Each group brings together technology to create new products and services and bring them to market under an integrated strategy, while streamlining the organization and increasing efficiency.

In 2021 and 2022, impact on the economy from the spread of COVID-19 remained strong. On top of this, we were busy dealing with parts shortages, mainly semiconductors, and logistical disruptions. However, as the situation started to settle down from the beginning of 2023 last year, we have resumed and accelerated our planned growth strategy. Each group is investing heavily in new business areas with high growth potential, while in our existing businesses, we are working to strengthen profitability so that we can continue to generate sufficient cash to support the growth of new businesses.

## A New Canon through Business Portfolio Transformation



### 2025 Targets

- Net Sales: 4.5 trillion yen or more
- Op. Profit Ratio: 12% or higher
- Net Income Ratio: 8% or higher
- ROE: 10% or higher

As a result, in 2023, even amid economic slowdown in China due to the weak real-estate market, and economic weakness in Europe due to interest rate hikes to control inflation and increased geopolitical risks, from the latter half of the year, driven by the growth of new businesses, we posted our third consecutive year of sales and profit growth. The net sales of new businesses approached 1.2 trillion yen, reaching 28% of the total and overall net sales was at a level second only to our record high of 2007.

As for sales, we are making steady progress towards our target of 4.5 trillion yen in 2025. With regard to profit, however, impacted by the rise in personnel expenses and material and component costs, Russia's invasion of Ukraine, the conflict in the Middle East as well as inflation linked to the shortage of labor, we will pursue a fundamental reform of our profit structure over the next two years.

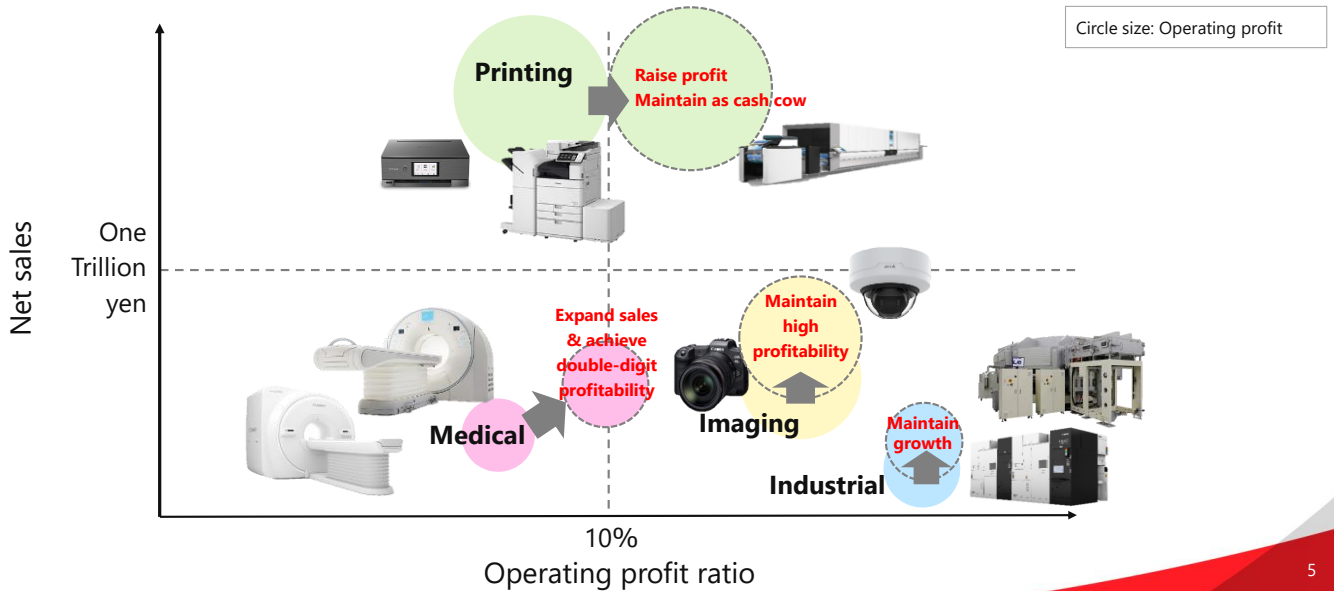
## Measures Over Next Two Years

1. Strengthen and Expand Industry-oriented Business Groups
2. Review Business Structure
3. Restructure Global Production System
4. Strengthen Technology Research Capability

To achieve our 2025 targets and also realize growth from there, over the next two years, we will work on the following four policies.

# 1. Strengthen and Expand Industry-oriented Business Groups

## Improved performance through bus. sphere expansion



First, strengthen and expand industry-oriented business groups.

As for the Printing group which accounts for more than half of Canon's sales and profits, even in a mature market, we will work to expand our business sphere in the growing area of digital commercial printing as well as maintain the level of sales by gaining market share. And mainly through expense savings, we will work to improve profitability and maintain existing businesses as cash cows.

As for the Medical Group, which is expected to become the core business in the future, we will achieve above-market growth by increasing our market share, through a continued strengthening of our sales network overseas, particularly in the United States. We will also work to innovate our medical business, supported by a committee set up to achieve double-digit profitability at an early stage.

As for the Imaging Group, we will continue to grow our network camera and other new businesses, including VR, volumetric video and other 3D imaging products, which have expanded to 300 billion yen in sales. And for interchangeable-lens cameras, as a leading company, we will work to maintain high profitability, introducing new products that stimulate users' interests.

As for the Industrial Group, we will increase unit sales of semiconductor lithography equipment where we expect demand to expand even in the future, while increasing our ability to supply product. Additionally, this group will grow significantly by introducing leading-edge semiconductor lithography equipment based on nanoimprint technology and other new manufacturing equipment.

## 2. Review Business Structure

### Sales • New businesses (B-to-B): Enhance sales capability

Develop sales engineers that can propose solutions

### • Mature businesses: Improve efficiency

Review structure of sales organization

### • Sale of assets, consolidation of administrative operations

### R&D Thorough selection and focus

### Medical Bus. Improve operations by fully investing Canon's resources and know-how

	2023	2024	2025
Net sales (Billions of yen)	4,181	4,350	4,500
Gross profit ratio	47.1%	47.5%	
Op. expense ratio	38.1%	37.5%	
Op. profit ratio	9.0%	10.0%	<b>12.0%</b>

**Aiming to improve expense efficiency and profitability**

Second, review business structure.

Over the next two years, we will strive to raise productivity through a total review of our business structure, including develop, production, and sales & marketing.

Canon, under a new business portfolio, is working to grow its business. And the proportion of sales attributable to new businesses, which include B-to-B businesses such as medical, industrial equipment and commercial printing, is growing. We will strengthen our sales capabilities by developing sales engineers who can understand customer needs and propose solutions using Canon products.

Conversely, for mature businesses such as office MFDs and cameras, we will review the structure of our sales organization to improve efficiency, thereby raising profitability.

Additionally, as a technology-oriented company, we actively invest in development to achieve sustainable growth. Here, we will work to further raise the efficiency of our development investment, we will conduct through selection and focus, targeting areas that will lead to future businesses.

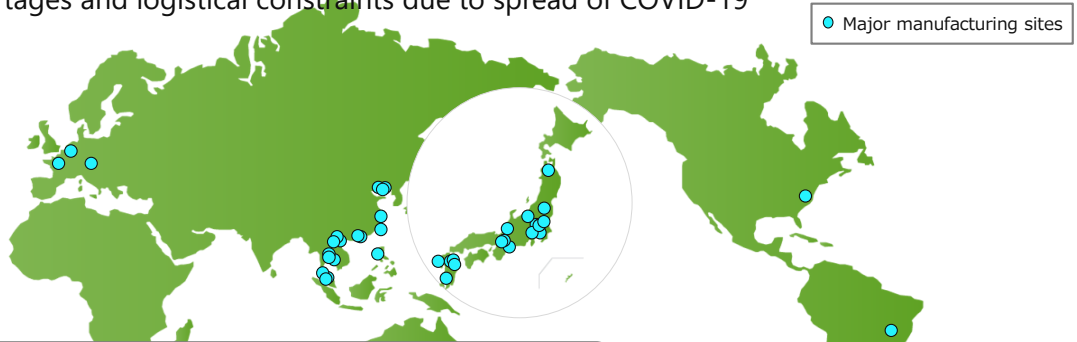
Especially for our medical business, we will fully invest our resources and know-how in development, production, procurement, logistics, and administrative areas to improve profit profitability.



### 3. Restructure Global Production System

#### Importance of supply chain reconfirmed

- Uncertain, unstable global situation
- Parts shortages and logistical constraints due to spread of COVID-19



#### Consolidate sites in politically and socially stable countries and regions

- Return production of high added-value products to Japan

Enhance automation, in-house technology



- Stable manufacturing, stable supply
- Cost competitiveness
- Asset reduction

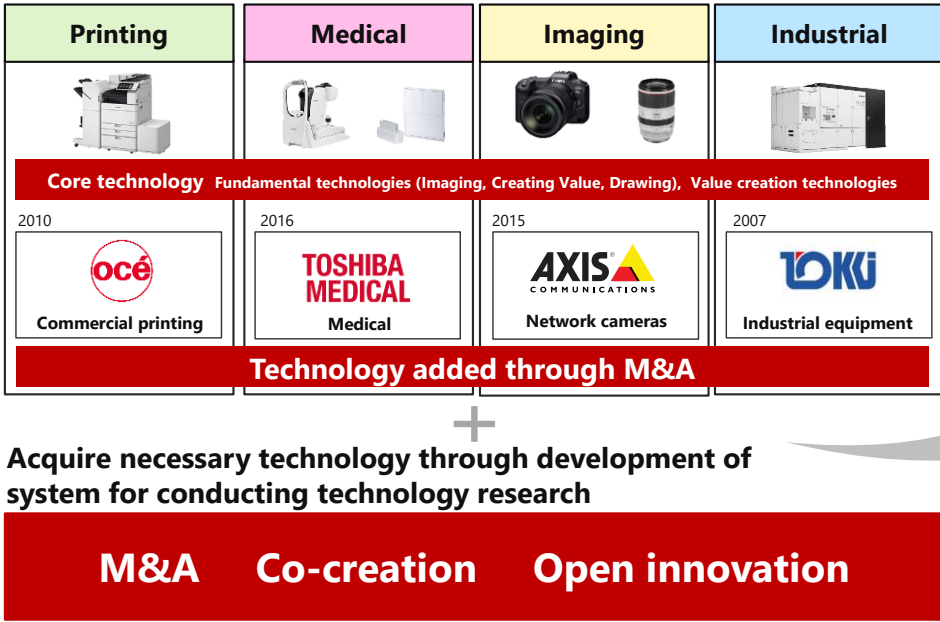
Third, restructure global production system.

In an unclear and unstable world situation, the supply chain is the lifeline of a manufacturer and not only from an economic, but also from a stability and sustainability perspective, we have to reorganize.

In fact, over the past several years, there have been plant shutdowns due to the spread of COVID-19, shortages of semiconductors and other components as well as logistical disruptions, resulting in a continued inability to supply enough products to meet demand. Although we demonstrated our superiority in being able to supply products, even in this environment, we also reaffirmed the importance of supply chains and plan to conduct a review.

Currently, we are conducting a review of around 60 production sites around the world with the aim of realizing a stable production and supply system, consolidating production into countries and regions where we see political and social stability. As for high value-added products, we are working to bring their production back to Japan, focusing on technologies for automation and in-house production through cooperation among design, production technology and manufacturing sites and at the same time working to raise cost competitiveness.

# 4. Strengthen Technology Research Capability



Fourth, strengthen technology research capability.

Under four business groups that were broadly reorganized by industry, Canon is working to develop new products and solutions using proprietary technologies that combine the core technologies it has cultivated with the technologies of companies it has added through M&A.

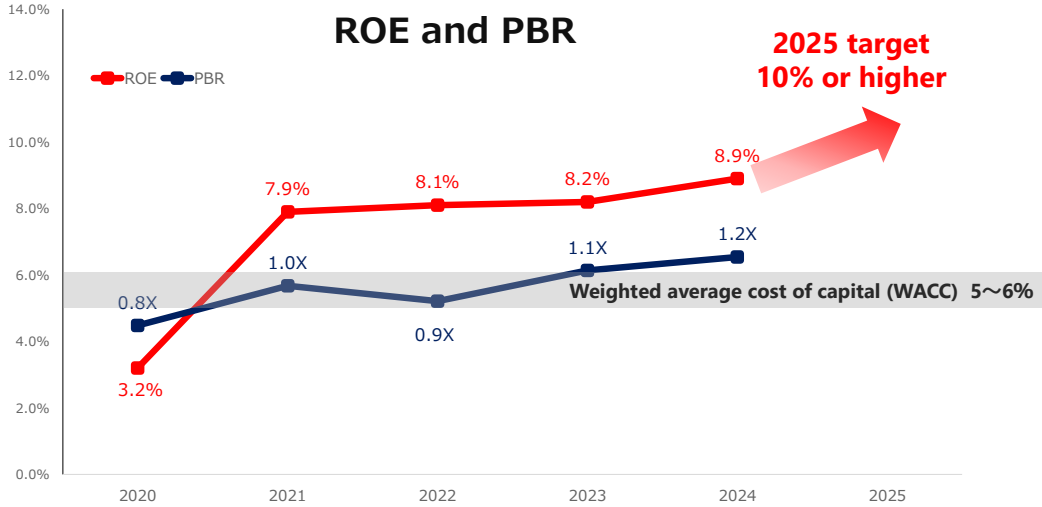
On top of this, in today's business environment where technological innovations that have the potential to significantly change the world continuously emerge, we need to further enhance the added value of our products by actively incorporating the latest technology on a consistent basis. For this, we are setting up a system for wide-ranging global research, investing in companies that develop cutting-edge technologies and will quickly acquiring necessary technologies through M&A.

At Canon EXPO, held in October of last year, in addition to our latest products and solutions, we were able to show how we have transformed by showcasing the various cutting-edge technologies that we possess. And based on these technologies, we will work to create new businesses while we explore co-creation with companies and research institutions outside the Canon Group.

■ Financial Strategy

# Return on Capital

**ROE recovers from COVID-19 impact to 8.2% in 2023  
Aiming for 10% or higher in 2025**



Return on capital over the past few years.

Although ROE was at a low level of 3.2% in 2020 due to the impact of the COVID-19 pandemic, it has remained around 8% since then.

The recovery in profitability has led to a rise in our stock price, with PBR recovering to more than 1X last year and now being around 1.3X.

As for ROE, we aim to reach a double-digit ratio of 10% or higher by 2025.

# Measures to Improve ROE

Looking to achieve ROE of 10% or higher in 2025

$$\text{ROE} = \text{Net income ratio} \times \text{Total asset turnover ratio} \times \text{Financial leverage}$$

**Net income ratio**

**Profitability improvement**

2025 targets: Op. profit ratio of 12% or higher, net income ratio of 8% or higher

- Optimize expense ratio through review of business structure
- Raise profitability of Medical business
- Focused investment in growth areas expected to generate more than a certain level of profitability

**Total asset turnover ratio**

**Asset efficiency improvement**

- Inventory reduction
- Consolidation of manufacturing sites

**Financial leverage**

**Financial leverage (Capital structure)**

- Pursue optimal balance between debt and equity

In order to achieve an ROE of 10% or higher, we will first increase our net income ratio to 8% or higher in 2025, which is a target of our 5-year plan.

In addition to expanding gross profit through sales growth, we will review our business structure to achieve an optimal expense ratio and aim to raise operating profit to a double-digit ratio even for Medical, which is lower than the other groups.

From the viewpoint of competitive advantage, we will focus our investments on areas offering high profitability.

Next, to improve our total asset turnover ratio, we will promote further inventory reduction this year. Finished goods inventory declined significantly in the fourth quarter of last year, the year-end selling season. This year, however, we need to adjust the inventory of parts and materials to an appropriate level. Furthermore, we expect benefits from the consolidation of production sites from 2025 in the form of an improved total asset turnover.

With regard to financial leverage, based on the concept of optimal capital structure, we will optimize debt and equity to improve ROE.

# Actions to raise ROE by Group

## Operating profit & Total assets

(Billions of yen)

2023	Printing	Medical	Imaging	Industrial	Corp. & Others	Total
Net sales	2,346.1	553.8	861.6	314.7	104.8	4,181.0
Op. profit	228.3	31.6	145.6	58.6	-88.8	375.4
Op. profit ratio	9.7%	5.7%	16.9%	18.6%	-84.7%	9.0%
Total assets	1,247.7	361.3	406.4	244.3	3,180.2	5,439.8

## Areas of action by Group

		Printing	Medical	Imaging	Industrial
<b>Profitability</b>	Sale expansion		◎		◎
	Lower expense ratio	◎	◎		
<b>Total asset turnover ratio</b>	Reduce assets	◎		○	

Each group has different business characteristics and circumstances, as such, the strategies they pursue differs.

As for the Printing Group, which accounts for more than half of Canon's total sales and profit, we are working to raise operating profit from approximately 10% in 2023 by lowering expenses and manufacturing costs. At the same time, we also see significant opportunity to reduce assets.

As for the Medical Group, although profitability is low at this point, we expect the market to continue expanding over the long-term, and through sales growth and by limiting expenses, we will significantly raise profitability.

As for the Imaging Group, although profitability is already at a high level, as we grow sales of network camera and other new businesses, we aim to further raise this by reducing assets linked to our camera business.

As for the Industrial Group, to address abundant market demand, we are actively investing in building a new factory, and through business expansion, we will raise profitability.

# Cash Allocation

## [Policy]

<b>Growth investment</b>	Capital expenditures: As a general rule kept within depreciation and amortization. However, be exceeded in cases judged necessary for growth. M&A: Cases where it complements growth of new businesses
<b>Shareholder return</b>	Dividend: Target payout ratio of 50% Share buyback: Will be considered if sufficient funds are available after making growth investments and paying dividends
<b>Debt repayment</b>	Debt: Ensure freedom to manage (Borrowing limit: 1 trillion yen) ⇒ Debt repayment

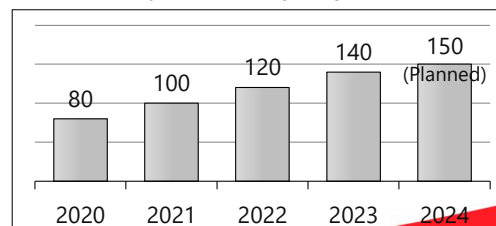
## Cash Flow Plan

	(Billions of yen)			
	2021	2022	2023	2024
<b>Operating Cash Flow</b>	<b>451.1</b>	<b>262.6</b>	<b>451.2</b>	<b>562.5</b>
Net income	214.7	244.0	264.5	305.0
Depreciation & Amortization	221.2	226.5	238.7	240.0
Other	15.2	-207.9	-52.0	17.5
<b>Investing Cash Flow</b>	<b>-207.3</b>	<b>-180.8</b>	<b>-275.4</b>	<b>-240.0</b>
Capital expenditures	-179.0	-188.5	-230.3	-240.0
M&A	-31.8	-5.9	-54.6	0.0
Other	3.5	13.6	9.5	0.0
<b>Free Cash Flow</b>	<b>243.8</b>	<b>81.8</b>	<b>175.8</b>	<b>322.5</b>
<b>Financing Cash Flow</b>	<b>-267.4</b>	<b>-146.8</b>	<b>-156.7</b>	<b>-345.0</b>
Dividend	-88.9	-119.3	-131.0	-145.2
Share buyback	0.0	-100.0	-100.0	-100.0
Repayment of debty etc.	-178.5	72.5	74.3	-99.8
Effect of exchange rate changes	17.3	25.7	20.1	-3.8
Net change in cash and cash equivalents	-6.3	-39.3	39.2	-26.3
<b>Cash and cash equivalents year-end</b>	<b>401.4</b>	<b>362.1</b>	<b>401.3</b>	<b>375.0</b>

## Stable and active shareholder return

### Target payout ratio 50%

Dividend per share (Yen)



Our top priority is to invest in growth.

As for capital expenditures, although our basic policy is to keep it within the range of depreciation and amortization, last year it exceeded 200 billion yen, and we project the same this year. Going forward, we plan to remain aggressive in this area. As for M&A, if there is a candidate that we feel is necessary for the growth of new businesses, we will take action.

Our next priority is shareholder returns. As for dividends, with our dividend payout ratio target of 50%, we will increase our dividend in accordance with expanding business performance. With regard to 2024, as we plan to ensure that the figures in our plan are realized, we already announced our plan to raise our dividend by 10 yen to 150 yen per share.

For share buybacks as well, we announced a 100 billion yen share buyback program that will be carried out over a one-year period.

As for debt, assuming there will be cases where we may need to make a major growth investment, we will basically promote repayment after investing in growth and carrying out our shareholder returns.

■ Sustainability



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Realizing a sustainable society.

## Meeting stakeholder needs and expectations with innovation and technology

### Contributing through technology, products, and solutions



### Environmental conservation & resolving social issues



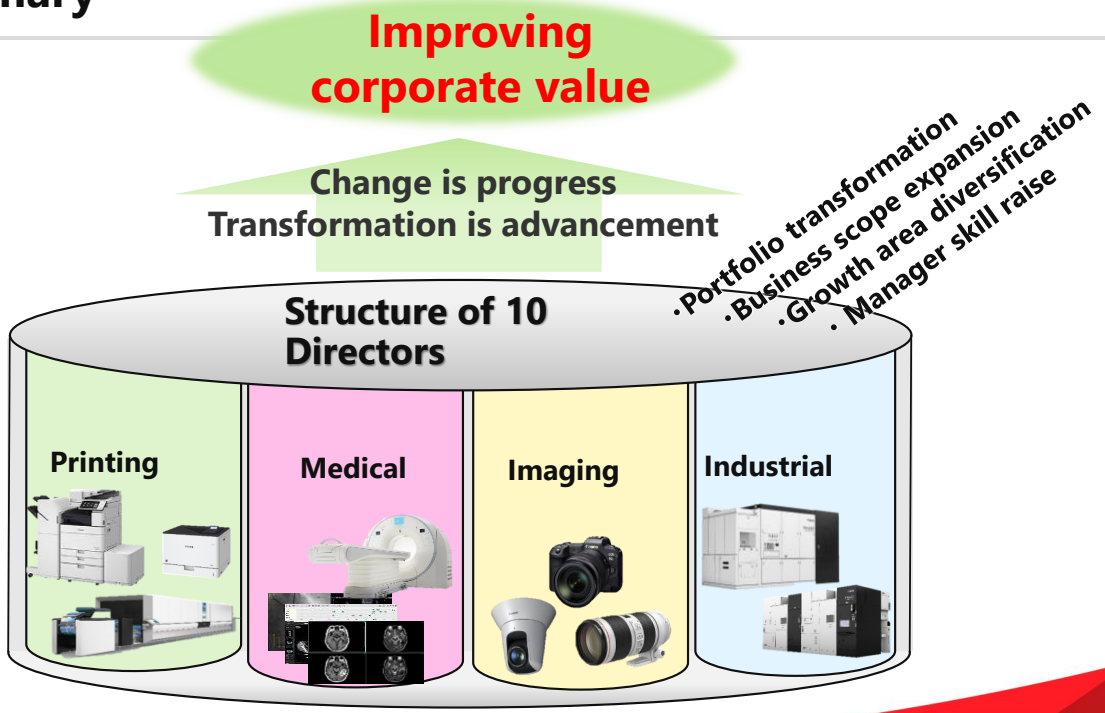
Next, sustainability measures.

Canon's corporate philosophy is *kyosei*. It conveys our dedication to seeing all people, regardless of culture, customs, language or race, harmoniously living and working together in happiness into the future. Based on this philosophy, we have been actively working to solve social issues fostering good relations with customers, local communities, countries and regions, the earth and nature through technology and business.

In particular, as environmental measures such as decarbonization and resource recycling are major components of business competitiveness, so we have positioned environmental measures as one of the main strategies in our medium- to long-term management plan and are working to further improve our activities.

As sustainability awareness is increasing around the world and industries, society, working styles and lifestyles are changing drastically, we will do our best to realize a sustainable society by responding to the needs and expectations of our stakeholders with the power of innovation and technology.

■ Summary



Canon, through its four industry-oriented groups of Printing, Medical, Imaging, and Industrial, plans to transform its business portfolio, expand its business areas, and strengthen its ability to respond to diversified growth areas. At the same time, from the standpoint of improving the skills and development of the next generation managers, Canon plans to add new members in April this year to steer management under a 10-member Board of Directors.

The business environment is becoming increasingly uncertain and complex, and the political economy is facing many turbulent factors. Management is required to respond quickly and appropriately to changes in society. Canon will continue to operate its business based on its strong commitment to "Change is evolution, transformation is forward."

The Canon Group will work in a concerted effort to not only achieve its targets for 2025, which is the last year under its 5-year plan, but also improve its corporate value going forward.