

## Message from the CEO



Based on Canon's philosophy of *kyosei* and targeting new growth via the transformation of our business portfolio, we are working with all our stakeholders worldwide to help create a better society.

### Performance in 2020

The entire world's resilience and perseverance were called into question during 2020 with the emergence of a novel coronavirus (COVID-19) as a threat to humanity. We would like to offer our deepest condolences to all who have lost their lives and extend our sympathy to everybody affected by the pandemic. We wish to express our utmost respect and heartfelt gratitude to all those involved in fighting the virus around the world, especially frontline healthcare workers and government leaders.

The COVID-19 outbreak, which began at the end of 2019, spread rapidly worldwide, leading to national border closures, citywide lockdowns and curfews. These actions placed severe restrictions on the movement of people and goods, hurting trade and sparking a global recession. Governments tried to find ways of balancing measures to stop the spread of infection against economic and social activity, and economies started to recover gradually as the lifting of restrictions enabled corporate activity to restart. However, amid the additional outbreak of infections due to new COVID variants, the situation remains highly uncertain.

Canon's performance was significantly affected by these conditions. We reported our first ever quarterly loss for the three months to the end of June 2020, and our full-year sales and profits declined significantly year on year. With more people working from home, reduced use of company offices significantly lowered demand for office equipment such as multifunction devices and laser printers. While we saw strong growth in orders for industrial equipment used in the manufacture of semiconductors and OLED displays, strict travel restrictions led to delays and suspensions in machinery installations. In the medical equipment business, our sales activities were somewhat restricted by the strict access rules that many hospitals imposed in response to COVID-19.

On the other hand, sales of inkjet printers rose substantially on a volume basis in advanced and other countries due to the sudden shift to working and studying from home. In cameras, our new full-frame mirrorless models were a big hit as well, and our results in these parts of the business exceeded expectations.

## Results of Phase V of the Excellent Global Corporation Plan

The year was also the final one in the five-year Phase V of the Excellent Global Corporation Plan, originally begun in 2016. During Phase V, under the policy slogan of “embracing the challenge of new growth through a grand strategic transformation” in response to the rapid maturation of sectors, such as cameras and office equipment, that have supported Canon’s growth to date, we pursued an aggressive M&A strategy and transformed the Group’s business portfolio. We sought to reinforce and expand operations in four selected areas of business: commercial printing, most notably low-volume, fast-turnaround printing jobs for promotional catalogs, direct mail, and other printed materials; network cameras, which help protect public safety using secure urban infrastructure; healthcare, to support human health by helping to develop advanced treatments that leverage the latest technology; and industrial equipment to support technical innovation in areas such as next-generation displays, IoT and AI.

In commercial printing, building on our entry into the sector through the acquisition in 2010 of Netherlands-based Océ, we formulated a business strategy to optimize our operations in printing across the Group and implemented a new system for developing technology and products. In 2020, to enhance the Group’s presence in the commercial printing sector, we integrated the Océ and Canon product ranges under the Canon brand and renamed these operations Canon Production Printing.

In network cameras, the Canon Group entered the sector through the acquisitions of Denmark-based Milestone Systems (2014), Sweden-based Axis Communications (2015), and Israel-based BriefCam (2018). We have created a set-up that enables the Group to deliver solutions integrating camera hardware with proprietary software for managing, processing and analyzing video. We have also accelerated the development of various applications of the technology. These include Volumetric Video, a technology to recreate a 3D space from captured video images, and vehicle-mounted cameras.

In healthcare, which we view as a core business for the future, we welcomed Toshiba Medical Systems (now Canon Medical Systems) into the Group in 2016. We have also sought to reinforce our competitiveness in the field using multiple acquisitions to obtain critical MRI technologies expected to contribute towards future growth in market share and to bring in-house the production of key components.

In industrial equipment, we entered the market for OLED display production equipment in 2007 by

welcoming Tokki into the Canon Group. In 2020, Canon Tokki saw a significant increase in demand as smartphone displays began to migrate to OLED technology. We have developed a fully integrated Group set-up for mass-producing these products.

By 2017, we had assembled Canon’s business portfolio in its current state. In that year, we recorded our best performance since the global financial crisis of 2008, with sales of ¥4,800 billion and net profit of ¥242.1 billion.

## Entering Phase VI of the Excellent Global Corporation Plan

In 2021, we embark on the five-year Phase VI of the Excellent Global Corporation Plan. Looking at the global economic forecast, although the economy is improving, it cannot be said that it will be smooth sailing. Amid the continuing global COVID-19 outbreak, while mass vaccination programs are progressing across Europe, the US and Japan, the hit to consumer confidence caused by the pandemic could take a few years to reverse.

I am not pessimistic about the future, however, because I believe in the wisdom of humanity and the power of innovation. Time after time, it is innovation – the fruit of knowledge and intellect, combined with human creativity and technological progress – that is the wellspring of societal transformation. Innovation has continuously helped to create new industries, thereby developing the economy and generating culture. Innovation has not ceased even under the harsh conditions of the pandemic. Digitalization is transforming all areas of society, enhancing both lifestyles and convenience. There is also a renewed focus on a “green recovery,” a form of economic recovery policy that promotes decarbonization of our society. These are all positive signs that new markets will continue to emerge.

At Canon, we will respond to societal demands by reinforcing our innovation-based approach so that we can provide products and services with greater value. Since Canon was founded in 1937, we have always expanded into different business areas by generating innovation to meet the needs of the time. In the early years, Canon enriched people’s lives through cameras. In the period of Japan’s rapid economic growth, we helped boost office productivity with copiers, fax machines and other equipment. We have also contributed to the electronics industry with the development of semiconductor lithography equipment. Today, along with the spread of IT, we are supporting the information society by adapting all Canon products for the digital age.

## Message from the CEO

Phase VI of the Excellent Global Corporation Plan, which we are starting in 2021, inherits the themes of Phase V. Under the basic policy to “accelerate our corporate portfolio transformation by improving productivity and creating new businesses,” we aim to support enriched lifestyles in the Consumer domain; to create more accommodating business environments in the Office and Industrial domains; and to help build a safer and more secure society in the Social domain.

We are pursuing two key strategies to realize these aims. The first is to “enhance competitiveness through company-wide realignment into a new industry-oriented business group structure.” Canon businesses have traditionally been organized along product lines, but M&A activity over the years has brought many new colleagues into the Canon Group, resulting in a varied and diverse range of technologies. Our aim is to generate synergy by deepening the intra-Group ties that support the sharing of technologies so that we can further strengthen existing operations while also creating new businesses. To this end, we are reorganizing business units and affiliates into four groups: Printing, Imaging, Medical, and Industrial.

The Printing Group will comprise office multifunction devices, inkjet printers, laser printers, commercial printing and industrial printing equipment. We plan to extend Canon’s product range further, based on our expertise in areas such as electro-photographic and inkjet technologies.

The Imaging Group will cover cameras, lenses, broadcasting equipment, commercial video cameras, network cameras and vehicle-mounted cameras. Based on the optical, sensor device and image-processing technologies that Canon has developed over many years, along with network technologies and cloud-based imaging AI technologies, we will significantly broaden our presence in the field to transform the traditional camera industry into an optics industry that supports today’s digital society.

The Medical Group will supply Canon’s range of CT diagnostic systems and MRI systems, diagnostic ultrasound systems and other diagnostic equipment. Besides these products, we will look to reinforce our

competitiveness by developing diagnostic solutions, AI-based video analysis applications and other products, while also expanding into peripheral areas such as diagnostic reagents to accelerate the growth of the business.

The Industrial Group will handle lithography equipment for manufacturing semiconductors and flat panel displays, along with OLED lithography equipment, vacuum deposition equipment, and die bonders. As well as focusing on the development of new products to satisfy diverse requirements, we aim to expand into new business areas through reinforcing materials development.

In other initiatives to strengthen the creation of new businesses, our recently created Frontier Business Promotion Headquarters is looking to leverage technologies and other expertise that Canon has developed to accelerate our business development in life sciences, materials and other areas, and to develop services-based solutions.

Our second key strategy is to “improve Group-wide productivity through extensive reinforcement of Canon’s global headquarter functions.” With the aim of strengthening and expanding operations in the four business groups, we will thoroughly reinforce central functions to oversee cross-group optimization.

There are four issues we must address to achieve these aims. The first is to implement thorough cash flow management to reinforce our financial position in preparation for the next economic crisis without missing major investment opportunities.

The second issue is to create a more dynamic and merit-based HR management system. The COVID-19 pandemic has unexpectedly led to greater diversity in hiring and employment practices. The next challenge is to update our HR system to incentivize higher individual employee productivity. At the same time, we will upgrade our internal education systems to help us develop the people we need for the new business portfolio, while promoting the use of internal transfers and career shifts so we can assign the right person to each position.

The third issue is to promote cost-reduction initiatives across the whole Group. Leveraging our in-house



Continuous feed presses deliver high-quality, high-speed printing



Network camera operating in a subway station

# Excellent Global Corporation Plan Phase VI (2021-2025)

## Key strategies

### 1. Enhance competitiveness through company-wide realignment into a new industry-oriented business group structure

#### Reorganization of product-based divisions into industry-oriented groups

##### — Printing Group

- Expand Commercial Printing business and establish Industrial Printing business
- Reinforce Canon's product lineup by leveraging our strengths in electrophotography and inkjet technologies, as well as our digital transformation capability

##### — Imaging Group

- Establish Smart Mobility business by leveraging our optical and network technologies
- Expand business scope of network cameras to encompass the social infrastructure market and maintain the top position in the digital camera industry

##### — Medical Group

- Expand the business by reducing costs of core products and boosting their sales in Europe, the Americas and emerging markets
- Make full-scale entry into diagnostic equipment-adjacent markets including test reagents

##### — Industrial Group

- Further improve OLED manufacturing systems
- Increase market share of semiconductor lithography systems and FPD manufacturing systems by introducing competitive products

##### — Frontier Business

New business creation using proprietary Canon technologies

- Accelerate development of new businesses including life science, materials and solutions services

### 2. Improve group-wide productivity through extensive reinforcement of Canon's global headquarter functions

#### Reinforcement of central functions to support growth strategies of industry-oriented groups

##### — Thorough cash flow management

##### — Establish a more dynamic and merit-based HR management system

##### — Promote cost reduction initiatives across the whole Group

##### — Focus on innovations that advance business

production technology and the cooperative links between development, design, procurement and manufacturing teams to revise product and machinery designs from scratch, we are targeting greater automation of assembly processes and in-house production of critical components to help lower the cost of sales. We are pursuing a globally optimized procurement network so purchasing decisions reflect foreign exchange movements, tariffs and other factors, while also optimizing the logistics around procurement, production and sales in a bid to reduce lead times, expenses and inventories.



World-leading production equipment for OLED displays

The fourth issue is to focus on innovations that advance business. We are strengthening R&D capabilities for the new technologies we need in each business group, based on a more well-defined role for our central R&D Division.

The annual sales target for 2025, the final year of the Phase VI plan, is ¥4,500 billion, which would exceed Canon's previous peak sales set in 2007. Our other targets are minimum profit margins of 12% at the operating level and 8% at the net level, and a shareholders' equity ratio of at least 60%.



Clinical laboratory system for analyzing blood samples

## Message from the CEO

### Towards the Realization of *Kyosei*

Throughout human history, we have faced and overcome many pandemics. Many argue that pandemics tend to accelerate any underlying societal changes while stimulating long-term structural reform. My view is the COVID-19 pandemic will be no different in that it is likely to speed up existing trends and hasten social transformation.

I think there are a few points to consider here. The first concerns existing divisions in society. Economic globalization has helped countries and regions to become rich and prosperous. On the other hand, economic inequalities have widened due to the concentration of wealth in certain industries and individuals, combined with the impact on the middle class of policies relating to immigration and intakes of refugees. While the pandemic has inflicted significant economic and social damage across the world, the disproportionate impact on the poor and the vulnerable has highlighted growing insecurities and social disparities. In some countries and regions, it has also caused serious racial, education-based and other forms of discrimination to surface. There are concerns about its destabilizing impact on local communities and the erosion of the bonds connecting the international community.

The second point is the digital transformation (DX) of society. Online services delivered via the Internet existed before, but their use tended to be limited and penetration rates were not rising. COVID-19 has forced a shift to non-face-to-face and contactless ways of operating, with mass adoption of practices such as remote working, online medical consultations, and distance learning. People's values and behavior have changed substantially. Along with these shifts, there is an active digital transformation underway using AI, IoT, 5G and other digital technologies that will bring sweeping changes to our society and the economy, and reform industrial structures. As this gathers pace, the digitalization of societies worldwide is likely to result in radical reforms, affecting our legal and regulatory systems and social norms.

The third point concerns sustainability. The COVID-19 pandemic has changed the daily experience of people everywhere, threatening the existence of companies and leaving people concerned about their health and safety and that of their family members. At a time when the issue of climate change has become more serious due to the growing global incidence of forest fires, droughts and other extreme weather events, urban lockdowns and travel restrictions have resulted in a short-term lull in CO<sub>2</sub> emissions and improvement of air pollution. Those changes have vividly illustrated

the environmental damage wrought by economic activity at the planetary level. The lens of the COVID-19 pandemic has given people a better understanding of sustainability, and many are taking global environmental and social issues more seriously.

Faced with this "new normal" amid an ongoing structural transformation, companies are now expected to become sustainable enterprises by working to supply the products and services that people want, maintain employment and grow, while also striking a productive balance between economic, social and environmental value.

Canon's corporate philosophy is *kyosei*. In Japanese, the word "*kyosei*" describes the idea of harmonious coexistence. *Kyosei* expresses our shared aspiration to create a society in which all people live and work together harmoniously for the common good into the future, regardless of race, religion or culture. We are constantly renewing the commitment of Canon to realizing the philosophy of *kyosei*, based on the material issues we have identified of "Creating New Value and Solving Social Issues," "Protecting and Conserving the Environment," and "Responding to People and Society as a Good Corporate Citizen."

This philosophy has its roots in Takeshi Mitarai, Canon's first president. In 1937, when Canon was founded, Japan was still a society divided along class lines. However, he insisted that all employees should be treated the same on a fair and equal basis, without any discrimination due to status, gender, age or whether they worked in factory or office-based positions. His stance was based on a complete respect for humanity.

Our corporate philosophy of *kyosei*, to set the goal of human happiness and prosperity above the profits earned by any single company or nation, was adopted in 1988 by Canon's third president, Ryuzaburo Kaku. It expresses our commitment to a respect for humanity as a global aspiration. At the time, the world faced serious issues, including trade imbalances, the North-South divide (the gap between advanced and



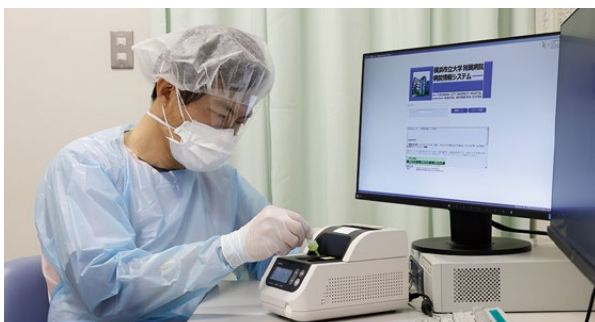
Printer cartridge recycling at Canon Bretagne plant

developing countries in each hemisphere) and environmental pollution. Working to address issues of global scale is something global enterprises can do to complement the efforts of governments and administrative authorities worldwide. Indeed, it is our responsibility to act.

Since 1988, based on this philosophy of *kyosei*, we have worked as a truly global enterprise to build good relationships with customers and local communities, with governments at all levels, and with the Earth and nature. Grounded in the concept of *kyosei*, we have actively tried to address societal issues through corporate activities. Our philosophy of *kyosei* is also consistent with the SDGs, and we see Canon's varied activities as contributing to their achievement, if only in a modest way.

We have consistently taken our environmental responsibilities as a global corporate citizen seriously. We introduced a system for printer cartridge recycling in 1990. Since then, we have worked throughout our organization to reduce the lifecycle CO<sub>2</sub> emissions of Canon products at every stage from R&D, design, procurement and production to distribution, sale, servicing and post-use collection and recycling. Working with customers, governments, industry bodies and business partners, we have also promoted the collection and recycling of products as part of efforts to realize a circular economy.

In 2020, supply chain disruptions caused by the COVID-19 pandemic led to some late deliveries of parts and materials to our factories. In the market, the closure of retail outlets and offices meant we could not fully undertake sales activities. Even so, Canon's development and production teams worked to get new products out into the global marketplace as planned, and our sales personnel diligently supported the businesses of our customers by ensuring the uninterrupted supply of products and services. In our medical business, we worked to maintain production at full capacity to give emergency support to medical institutions worldwide, despite the declaration of a



COVID-19 antigen testing kits

state of emergency in Japan. We also started developing genetic and antigen tests to enable quick and simple diagnoses of COVID-19 infections.

Alongside this, Canon Group companies have used camera and printer technologies to assist local communities. In Mexico, we took photos of medical professionals who cannot take off personal protective equipment while working so patients could be reassured by their smiles. In Spain, in collaboration with partner firms, we printed and distributed free-of-charge some 12,000 books for children to help households lacking any network connection with distance learning during lockdown. In addition, Canon Group factories across the world used parts and materials on hand to make face shields, cloth masks and other items for donation to medical institutions.

I cannot introduce all the support activities that we undertook here, but in every single case this was about Canon Group employees taking the initiative to help local communities as part of Canon's role as a responsible global corporate citizen. This attitude reflects Canon's *San-ji Spirit* ("Three Selves": self-motivation, self-management, and self-awareness) that we have inherited from our earliest years. It makes me proud to know Canon Group employees are working in partnership with local communities, business partners and customers around the world to realize our philosophy of *kyosei* in line with the *San-ji Spirit*.

While it remains unclear when the COVID-19 pandemic will end, I am confident that the power of innovation will help humanity overcome this crisis. Based on the philosophy of *kyosei*, Canon will continue to address the issues faced by countries and regions around the world while engaging in dialogue with all customers and stakeholders as part of our efforts to realize a better society. By focusing resources on the transformation of our business portfolio to create new growth, we will strive to make a continuous contribution to society through technological innovation, so that Canon may remain a company worthy of admiration and respect the world over.

In closing, I humbly ask for your continued support.

Fujio Mitarai  
Chairman & CEO  
Canon Inc.