

TO OUR SHAREHOLDERS

**Canon will further promote  
a grand strategic transformation  
by accelerating reforms.**



**FUJIO MITARAI**  
Chairman & CEO  
Canon Inc.

## Performance in 2020

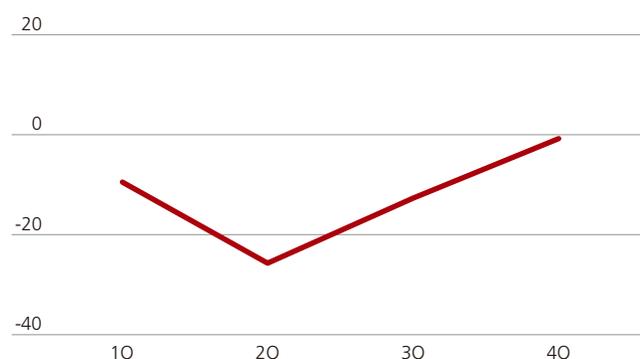
In 2020, the spread of the COVID-19 pandemic and resulting economic restrictions and stagnation led to a significant global economic contraction. In the second half of the term, economic activities gradually resumed and the Chinese and other major economies started to show signs of a recovery. However, the pandemic is far from over, as COVID-19 cases have once again surged in Europe and have continued to spread in the U.S. Overall, economic conditions were challenging throughout the year. Amid such an environment, in this term, which is the final year of Phase V of our “Excellent Global Corporation Plan” series of five-year management plans, the Canon Group worked to expand our four new business of commercial printing, network cameras, medical and industrial equipment to achieve the Phase V key strategy of accelerating a grand strategic transformation of our business portfolio. Meanwhile, in existing businesses such as office machines and cameras, the Canon Group worked to further improve product and service competitiveness by aiming to acquire and maintain a high market share and securing a high profit margin.

However, the COVID-19 pandemic had a significant impact on our business, and office products such as multifunction

devices (MFDs) and laser printers experienced a decrease in demand for both machines and consumable supplies. Furthermore, interchangeable-lens digital cameras continued to face severe market conditions amid ongoing market contraction, although sales of new mirrorless cameras were brisk. On the other hand, sales of inkjet printers were strong, supported by an increase in home-use demand. In medical systems, amid the stagnation of capital investment by medical institutions in response to the COVID-19 pandemic, sales were kept at a slight decrease thanks to demand for COVID-19 related products. Semiconductor and OLED lithography equipment increased sales, but amid restrictions on overseas travel and urban activity, sales of Flat Panel Display (FPD) lithography equipment were significantly impacted and decreased due to pandemic-related delayed installation. Furthermore, sales of network cameras also grew.

As a result of the above, consolidated net sales for this term was 3,160.2 billion yen (down 12.1% from the previous term). Consolidated income before income taxes was 130.3 billion yen (down 33.4% from the previous term). Consolidated net income attributable to Canon Inc. was 83.3 billion yen (down 33.3% from previous term).

**Trend in Y/Y Sales Growth (%)**



# Excellent Global Corporation Plan

## Phase I to Phase IV 1996–2015

Canon launched the Excellent Global Corporation Plan in 1996, and has strengthened its management base through each of the plan’s five-year initiatives, from Phase I through Phase IV.

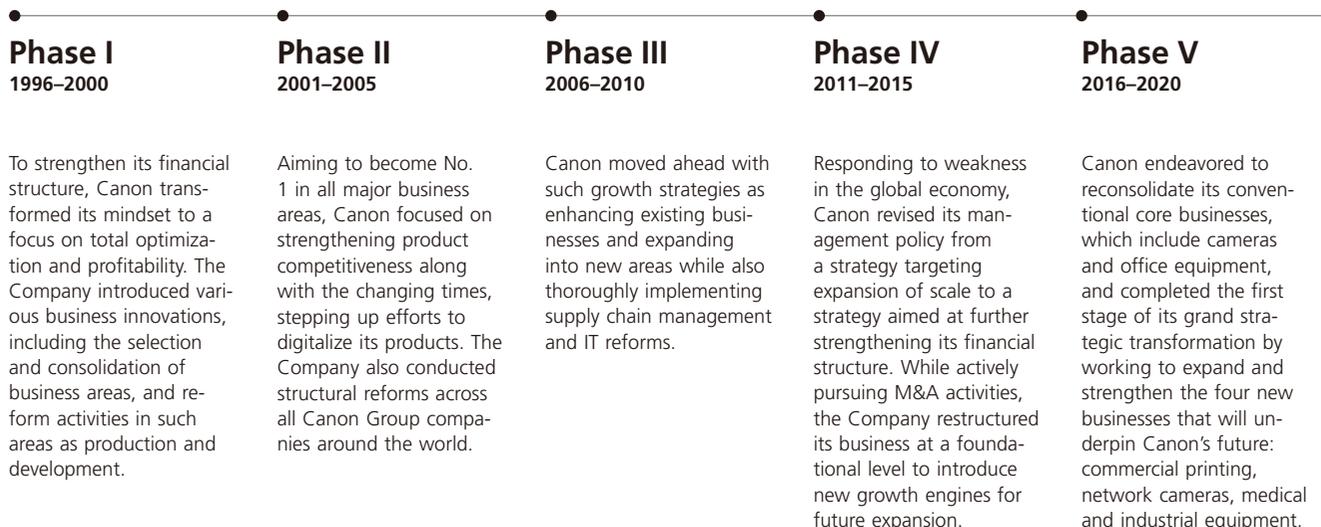
During Phase I, we stressed thorough cash-flow management and significantly boosted productivity through the introduction of our cell production system, along with other measures. In Phase II, we stepped up efforts to digitalize our copying machines and camera offerings, while building the foundation for a robust financial structure.

In Phase III, we rode the globalization and digitization wave to sharply increase sales and build income and profit. In 2007, sales reached our highest ever levels of 4,481.3 billion yen and net profit reached a remarkable 488.3 billion yen. That same year, we turned our attention to OLED for use as the read display for our digital cameras and welcomed OLED panel manufacturing equipment maker Canon Tokki (formerly Tokki) into the Group. In 2010 we brought Netherlands-based

printer manufacturer Canon Production Printing (formerly Océ) into the Group, firmly establishing our plan to enter the high-growth-potential industrial equipment and commercial printing markets.

As the markets for our core businesses—such as cameras and office equipment—were maturing, during Phase IV that commenced in 2011 we promoted diversification via the lateral expansion of our existing businesses, such as the Cinema EOS System, while also accelerating our M&A strategy. In this manner, we set out a clear direction for shifting our focus for growth from B2C to B2B. We subsequently reinforced and expanded our rapidly growing network camera business by making Milestone Systems (“Milestone”) a subsidiary in 2014, followed by Axis Communications (“Axis”) in 2015.

Additionally, Canon Nanotechnologies, formerly Molecular Imprints, became a subsidiary in 2014, and we are accelerating the development of next-generation semiconductor manufacturing equipment that uses nanoimprint lithography, which will make it possible to achieve both miniaturization



and cost reductions for semiconductor devices.

As a manufacturer, Canon strives unceasingly to implement production reforms and thorough cost reductions. At the same time, we stay on top of opportunities to add excellent companies to the Group, in order to shift our focus towards changing growth markets, with the aim of unlocking new growth potential.

### Phase V (2016–2020) achievements

In Phase V of the Excellent Global Corporation Plan, the fifth five-year plan launched in 2016, Canon made progress toward a full-fledged entry into the medical field by welcoming Canon Medical Systems Corporation (formerly Toshiba Medical Systems) into the Group in 2016. Thus, we completed our present business makeup, guided by the basic policy of “embracing the challenge of new growth through a grand strategic transformation.” While working to reconstitute our core businesses, such as office equipment and cameras, we made a combined effort to reconstitute our business portfolio

by working to expand and strengthen the four new businesses that we believe will underpin Canon’s future: commercial printing, network cameras, medical and industrial equipment.

Comparing results in 2015 with 2020, the percentage of Canon’s total sales from new businesses increased sharply from 9% to 28%—a sure sign that they are steadily becoming the foundation that will support the Canon Group. During these five years, amid a turbulent environment that included a worldwide economic downturn and the COVID-19 pandemic, we accomplished the remarkable feat of what can be regarded as the biggest portfolio transformation in Canon’s history.

Despite this Group-wide portfolio transformation through M&A, our financial health did not falter thanks to the solid financial foundation that we have built over the years. When we welcomed Canon Medical Systems into the Group, we borrowed 660 billion yen as operating capital. Since then, we have been steadily paying off this debt, and as of the end of last year that balance had been reduced to roughly half.

### Key strategies

- 1 Establish a new production system to achieve a cost-of-sales ratio of 45%
- 2 Reinforce and expand new businesses while creating future businesses
- 3 Restructure our global sales network in accordance with market changes
- 4 Enhance R&D capabilities through open innovation
- 5 Complete the Three Regional Headquarters management system capturing world dynamism

## Phase VI basic policy and key strategies

In 2021 we commenced a new five-year management plan—Phase VI of the Excellent Global Corporation Plan. Phase VI picks up where Phase V left off, under the basic policy “accelerate our corporate portfolio transformation by improving productivity and creating new businesses.” We also advance two key strategies: (1) enhance competitiveness through company-wide realignment into a new industry-oriented business group structure; and (2) improve group-wide productivity through extensive reinforcement of Canon’s global head-quarter functions. For 2025, the final year of Phase VI, we are targeting record sales of 4,500 billion yen. By executing the aforementioned strategies, we also aim for an operating profit ratio of 12% or greater, a net profit ratio of 8% or higher, and a shareholder equity of 60% or greater.

### Key strategies

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

Until now, Canon had a business division structure vertically aligned around individual products. These business divisions established competitiveness in their respective markets and acquired and developed the leading technology they needed to make better products. But new partners have joined the Group through M&A, and the Canon Group has now become a company possessing a truly diverse range of technologies. So that we can aim to create synergy among our businesses, boost new product development and manufacturing division productivity, capture changing market needs, further strengthen existing businesses and create new ones, we will be expanding and reorganizing our existing businesses operations and related companies into four business groups according to their affinity with each other: Printing, Optical Industry, Industrial Equipment, and Medical. Furthermore, the Frontier business operation that had been a new business has been upgraded to a business headquarters. Utilizing the wide range of technology cultivated over our long history, we will accelerate the materials business and the commercialization of its solutions for production technology and component sales to outside businesses.

### Strategy 1

#### Printing Group



The continuous feed press ProStream 1000

The Printing Group consists of office multifunction devices, inkjet printers, laser printers and the commercial and industrial printers of Canon Production Printing. This group aims to further expand and strengthen its product lineup based on electrophotography and inkjet technologies. In addition to expanding its digital commercial printing lineup, which has significant growth potential, the group plans to expand its industrial printing operations, which include label printing and package printing. Moreover, even though it is a maturing market, the office market remains Canon’s biggest source of income and profit, the group will leverage the advantages of both electrophotography and Bubble Jet technologies in a way that puts together a uniquely Canon product lineup, while at the same time effectively responding to digital transformation by offering a cloud-based on-demand printing environment.

## Optical Industry Group



Network cameras at a Fukuoka City Subway station (Fukuoka, Japan)

The Optical Industry Group includes cameras and lenses, broadcast equipment, industrial cameras, network cameras, vehicle on-board cameras. This group will leverage the optical and sensor device technologies that Canon has cultivated over its long history, as well as video analytics technology, network technology, and cloud-based imaging AI technology, to expand beyond the conventional camera industry and into the broader field of the optical industry—the backbone of the digital society. More specifically, the group will not only aim to expand operations mainly in the vehicle on-board camera development business by utilizing its optical and network technologies, but also seek to expand the business domain of the network camera business into such areas of social infrastructure as smart cities and integrated resorts.

Moreover, the camera business is Canon's original business and the foundation of the Canon brand. For that reason, the group will strive to defend Canon's top position in the camera industry by demonstrating its overwhelming competitive edge in the mirrorless segment.

## Industrial Equipment Group



Nanoimprint semiconductor lithography equipment

The Industrial Equipment Group comprises such equipment as semiconductor and flat panel display (FPD) lithography systems, Canon Tokki's OLED panel manufacturing systems, Canon Anelva's vacuum thin-film deposition equipment, Canon Machinery's die bonders. For OLED panel manufacturing equipment, the group leverage its production technology in order to continuously reduce costs. The group will also aim to establish its position as the industry standard in fields where growth is expected. This includes large display panels that demand increasingly higher definition, as well as smart glass applications. Additionally, in the area of semiconductor lithography systems, the group will work to maintain the dominant position of i-line systems by satisfying a diverse range of needs and develop new equipment with outstanding productivity for KrF systems with the goal of increasing Canon's market share. The group will also utilize nanoimprint lithography technology to enter the leading-edge segment of semiconductor production. Currently, most of the technical challenges related to nanoimprint lithography have been solved. Going forward, the group will work with a semiconductor device manufacturer to start mass production and will commence testing with the goal of expanding the usage of this technology.

## Strategy 1

### Medical Group



Canon Medical's Health Care IT Platform

A reorganization is already underway in the Medical Group, which aims to expand the medical diagnostic equipment business and lower the base cost of the CT, MRI, diagnostic ultrasound systems and other core products. Regarding cost reductions, the group will take full advantage of the production technology cultivated through Canon's production reform activities by developing product platforms and part unit systems. The group will also push manufacturing innovation through such advancements as automated assembly and in-house production. Looking ahead, in addition to improving product performance, the group will work to boost the competitiveness of diagnostic solutions and image analysis applications that utilize AI to expand sales not only in Japan, but also in North America, Europe and emerging markets. Furthermore, in the field of in-vitro diagnostics, the group will utilize Canon's core technologies used in products such as cameras and printers to collaborate with external medical institutions, venture firms, and major medical corporations in an effort to expand its business presence.

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

Canon will also focus on strengthening its head office setup to function effectively across these industry-aligned groups. First of all, we will look to reinforce thorough cash flow management—the basis of our Excellent Global Corporation Plan—and further strengthen our financial foundation in preparation for a major investment or the next economic crisis. While making every effort to establish a more dynamic and merit-based HR management system and improve the productivity of each and every employee, we will expand our in-house training system—which includes the Canon Institute of Software Technology (CIST), manufacturing training centers and other initiatives that provide personnel training aligned to our new business portfolio—and implement a personnel policy that assigns each employee in their most suitable role. We will also promote cost reduction efforts across the whole Group in order to further improve automation and in-house production capabilities by way of a combined effort by production technology, development, design, procurement and factories on a complete overhaul of product and device design.

## In conclusion

As we proceed with Phase VI of our Excellent Global Corporation Plan, the five-year period through 2025 is a critically important one in Canon's next big leap forward. Now, more than ever, we need to practice the Enterprising Spirit and the San-ji Spirit that have been part of Canon's DNA since our founding and fearlessly move forward, making every effort to further transform our business portfolio and build a resilient Canon Group that can overcome the challenges we face in any age.

We look forward to your continued support and understanding.



**Fujio Mitarai**  
Chairman & CEO  
Canon Inc.

# BUSINESS STRATEGY

<b>EXISTING BUSINESS</b>	<b>10</b>
<b>NEW BUSINESS</b>	<b>12</b>
MEDICAL .....	12
NETWORK CAMERAS .....	14
COMMERCIAL PRINTING .....	16
INDUSTRIAL EQUIPMENT .....	17

## EXISTING BUSINESS

**We seek to further expand market share  
and continually reinforce profitability**



### Multifunction Devices

Sales of office multifunction devices (“MFDs”) have been brisk with the newly launched imageRUNNER ADVANCE DX, which features improved scanning and cloud functionality. Up ahead, we are promoting efficiency in product development and reduction in production cost through the sharing of product platforms, and aim to grow our market share by combining durability, reliability, and other quality advantages—attributes rated highly by the market—with price competitiveness.

### Laser Printers

Low-speed laser printer models met some of the expanding demand resulting from working and learning from home. Going forward, under a strategy that places greater emphasis on profitability, in order to achieve steady sales of consumables, we will strengthen sales of medium- and high-speed models for the office where we can expect higher print volume.

### Cameras

For our range of interchangeable-lens digital cameras, we launched three new mirrorless cameras and eight types of lenses. Sales of the EOS R5 and EOS R6 were particularly brisk. Also, the COVID-19 pandemic caused the creation of new demand for goods to be consumed inside the house. As one COVID-19 initiative in 2020, we released EOS Webcam Utility Beta software that enables the use of Canon interchangeable-lens cameras as web cameras. We will work to further strengthen our lineup of EOS R System cameras and RF lenses to facilitate our aim of expanding our market share among professional and advanced amateur users where demand is solid.

- A. The EOS R5 features a more advanced AF system using deep learning technology. It enables high-speed continuous shooting at up to 20 frames-per-second, 8K video recording, and handheld shooting with up to 8 stops of in-body image stabilizer. It expands creative possibilities of not only photos but movies.
- B. Our office multifunction devices, imageRUNNER ADVANCE models, are equipped with robust security features and make working with documents a breeze. By connecting to the cloud service, they contribute to the improvement of productivity and the implementation of flexible working styles and also accelerate digital transformation.

### Inkjet Printers

Sales of inkjet printers increased as a result of capturing the demand for working and learning from home in countries such as Europe, the United States and China as well as the recovery in demand in some emerging countries. Going forward, we will leverage our strength of having a balanced lineup that includes both cartridge and refillable ink tank models, as we work to capture printing demand from the home to office environments.

### Lithography Equipment

In the semiconductor market the demand for data centers and IoT devices has been growing as a result of the development of 5G networks and advancements in autonomous vehicles. Canon expects its lithography equipment business to grow as well. And in the display panel market, large-screen televisions and smartphones are offering increasingly higher definition. We will work to expand flat panel display (FPD) business over the medium- to long-term.

Amid travel restrictions caused by COVID-19, Canon aims to establish a stable earnings structures with flexible manufacturing through accurate demand forecasting, cost reduction and strengthening predictive maintenance services.



## Reinforcing business operations and expanding business domains to achieve global growth



## Business expansion centering on Canon Medical Systems

Medical institutions were beset by a challenging business environment in 2020 mainly because the spread of COVID-19 infections meant fewer people were able to access usual medical care. Nevertheless, there was still strong demand for sophisticated medical care and even though we were unable to undertake adequate sales activities because of restrictions placed on face-to-face meetings, we still secured orders for mainly diagnostic imaging equipment. As such, sales decreased only slightly year on year. Going forward, we will strengthen the competitiveness of our core products including CT, magnetic resonance imaging (MRI), and diagnostic ultrasound systems, as well as diagnostic solutions and image analysis applications that make use of AI, to expand our medical diagnostic equipment business. Furthermore, we will push ahead with enhancing our sales and marketing activities in Europe, North America, and emerging markets. We will also aim to boldly enter domains on the periphery of diagnostic equipment, such as test reagents and accelerate business growth by making the most of the comprehensive capabilities of the Canon Group. For CT, MRI, diagnostic ultrasound systems, and other mainstay products, in order to fully leverage Canon's superior production technology with the aim of further shoring up and expanding the medical business—one of the Group's growth businesses—we will endeavor to implement production reform activities by developing product platforms and part unit systems. We will also push manufacturing innovation by means of automated assembly, in-house production, and so on, in an all-out effort to further reduce costs.

- A. Canon Medical's MRI scanner maximizes high-resolution imaging performance while minimizing space requirements and energy consumption.
- B. Canon Medical's diagnostic ultrasound systems harness a technology to send and receive detailed and uniform ultrasound beams at all depths and at high density. This technology delivers crystal-clear and high-definition images with little noise.

## Response to COVID-19

Given the spread of the COVID-19 pandemic, in 2020 Canon developed and offered a suite of total solutions required for diagnosing COVID-19 infections; for example, CT equipment, diagnostic X-ray systems, diagnostic ultrasound systems, rapid genetic testing for COVID-19, and rapid antigen testing. In Japan, we partnered with Nagasaki University to develop and launch a set of reagents for clinical COVID-19 RNA testing that can quickly detect novel coronavirus genes. This testing kit was used by the authorities to test the crew members and passengers of a cruise ship docked in Nagasaki. Further, we launched sales of a COVID-19 antigen test kit, developed through joint research with Yokohama City University. In the UK, the Bradford Royal Infirmary took delivery of a Relocatable CT Scanner equipped with a complete X-ray CT diagnostic system. This mobile CT solution makes possible diagnostic imaging whenever and wherever needed, and contributes to reducing the risk of infection among healthcare workers. With no end in sight to the global pandemic, Canon will continue to contribute to safety and security in society by lending its support to medical practitioners involved in the treatment of patients infected with COVID-19 and to all related parties in other industries.



## Solutions business that addresses demands in the smart city era



## Network camera systems that combine all of the Canon Group's extensive strengths

As innovation accelerates at a rapid pace driven by IoT and AI, network camera systems that can perform advanced video analytics, including face recognition and abnormality detection, have become essential in the infrastructure for a safe and secure society that constitutes the basis of a smart city.

Canon entered the network camera market with the technology cultivated through camera development, and strengthened the business, welcoming Axis Communications ("Axis"), Milestone Systems ("Milestone"), and BriefCam Ltd. ("BriefCam") into the Group. These companies are leaders in the fields of network cameras, video management systems, and video content analytics solutions respectively.

While strengthening network camera hardware, Canon is also focused on developing video analytics technologies that make use of AI and fostering technological collaboration between Group companies. Canon continues to deliver network camera systems that meet the needs of the times by combining the Group's capabilities in the areas of network cameras, video management systems, and video content analytics software.

## Expanding and strengthening the solutions business

Canon is stepping up efforts to develop new solution businesses, combining the high-quality, high-resolution images captured by its network cameras with video content analytics software to analyze the movement of people.

In 2020 during the COVID-19 pandemic, Canon strengthened its sales activities based on diversified applications made possible by video analytics for such purposes as remote monitoring and monitoring of crowded and confined areas, as well as conventional market needs including crime prevention

- A. Canon's high resolution network cameras are installed at Showa Denko Budo Sports Center where sports games are held frequently. The cameras allow to check the site in detail if there is an incident. Canon contributes to creating environments where visitors can be enthusiastic at sporting events while still feeling safe.(Oita, Japan)
- B. Canon provides Office Density Alert Solution to support safe and secure office environment management by enabling management departments to keep track of congestion levels in office areas in real time.

and disaster monitoring tools. In Japan, Canon has started providing cloud-based video recording services using network cameras to facilitate remote operations such as in healthcare and at retail stores, as well as solutions that monitor and alert of office congestion.

With our strength, which originates from our large number of high quality products that excel in areas such as low-light sensitivity and image quality, and our large number of sales partners located around the world, we will firmly capture market growth. Going forward, by combining the Groups strengths in hardware and software, Canon will expand the breadth of our solutions and aim to expand business operations with a view to providing social infrastructure, such as smart cities and integrated resorts.



## Consolidating the Canon brand and accelerating business expansion in response to trends in digitalization



The continuous feed press ProStream 1000 can print on offset coated paper thanks to Canon's newly developed ink and ColorGrip technology.

### **Achieving unprecedented high-quality images in digital printing**

In the so-called commercial printing market, which includes the production of books, magazines, brochures, direct mailings, and catalogs, demand is rapidly shifting from plate-based high-volume offset printing to short-run production for broad range of applications quick-turnaround digital printing. In 2010, Canon Production Printing (formerly Océ) was added to the Canon Group. Based in the Netherlands, this company boasts a strong track record in the field of commercial printing.

In 2020 Canon consolidated all products under the Canon brand, further strengthened brand unity across all areas of our printing business, and established a system for products and services that meet the diversifying needs of digital

printing. Canon also launched a new high-speed cut-sheet inkjet printer and a new large-format printer for the graphic arts market, which is especially expected to grow. And they have garnered strong support from the market. In addition to this, for large-format printers, we will create a tailwind that will support market share gain, enhancing our sales network by adding new dealers that have extensive experience and a broad customer base in graphic arts. Also, Canon plans to strengthen its presence in industrial printing such as label and other package printing fields expected to demonstrate strong market growth.

## Concentrating resources on high value-added businesses and sustaining advanced technological capabilities



Canon Tokki produces OLED panel manufacturing equipment with high-level technologies, including vacuum evaporation technology for depositing organic materials onto panel substrates in a vacuum and automated supply lines for glass substrates.

### Focusing on development of next-generation manufacturing equipment with innovative technology

Canon Tokki is the first company to have produced OLED panel manufacturing equipment in the world, and our manufacturing capabilities in mainly vacuum evaporation technology establish us in a dominant position as the industry standard. OLEDs are rapidly being adopted for the next-generation display panels in smartphones and televisions.

We have been establishing a solid profit foundation by reducing costs and making its installation operation more efficient through close collaboration with not only Canon Tokki, which has contributed to OLED panel mass production, but other Group companies like Canon ANELVA and Canon Machinery. The former boasts strengths in sputtering

equipment such as vacuum thin-film deposition equipment essential to the production of hard disk drives and LEDs, while the latter commands a large share of the market for die bonders, the equipment used to attach a semiconductor chip to a substrate.

On the other hand, in the semiconductor lithography equipment business, which marks 50 years since entering the lithography equipment business on a full scale, we have developed nanoimprint lithography technology with a method that is significantly different from conventional methods in order to achieve circuit pattern miniaturization at low manufacturing cost. In the future, we aim to expand the applications of nanoimprint lithography equipment and to develop new fields by utilizing the technologies cultivated in conventional exposure equipment.