



Canon Inc.

First Quarter 2017

Analyst Meeting

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Speech Summary (English Translation)

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Q1 2017 RESULTS

Q1 2017 (Slide 3)

The pace of economic recovery in Japan and Europe remained modest. In China, however, government efforts to shore up the economy through public investment have halted the slowdown in economic growth. In the U.S., we saw increases in corporate investment and consumer spending accompanied by improvements in the employment situation. And in emerging markets, we saw a recovery in economic activity thanks to the stabilization of natural resource prices. Globally, the economy continued on a path of modest recovery.

Against this backdrop, changes in exchange rates, which had an impact on our performance last year, were not a major negative factor.

As for our sales, our laser printer business, which was in an adjustment phase last year, return to positive unit sales growth. Our interchangeable-lens camera business as well, extended the favorable sales trend that began from the second half of last year. Additionally, in our FPD lithography equipment business, we posted an increase in unit sales, capturing demand for OLED panels.

Amid this steady recovery of existing businesses, we also expanded sales of new businesses such as network cameras, and OLED display manufacturing equipment, and with the addition of Toshiba Medical Systems Corporation (“TMSC”), we posted significant sales and profit growth overall.

Transition in Sales and Op. Profit – Q1 2017 Actual v. Q1 2016 Actual (Slide 5)

As for changes in exchange rates, the negative impact of this was not a huge factor like it was last year.

As for changes in sales volume, in addition to the recovery in sales of existing businesses such as copiers, laser printers and cameras, we also posted significant growth in the sales of new businesses such as TMSC, which was newly added to our consolidation, AXIS, which is central to our network camera business, and industrial equipment.

In “Others,” the impact of price reduction on net sales was 3.7 billion yen in the quarter, less than the 4.8 billion yen in the same quarter last year, thanks to efforts to limit the lowering of sales prices. Cost reduction was 8.5 billion yen, exceeding the 6.4 billion yen in the same quarter last year, mainly due to increased volumes.

Expenses increased due to new consolidations, however, excluding this factor shows that expenses declined by 9.1 billion yen, mainly reflecting lower development-related spending.

FY2017 PROJECTIONS

Exchange rate assumptions (Slide 6)

As for exchange rates, based on expectation of an economic recovery, particularly in the U.S., we assumed 110 yen to the U.S dollar and 120 yen to the euro.

Overview of Latest Projections (Slide 7)

In Europe and Japan, although the employment situation is improving, the rise in personal income and wages is slowing down. For this reason, we expect only modest economic recovery in Europe and Japan. In China, we expect public investment to lessen the impact of slowdown in personal consumption and private investment. In the U.S., we see a strengthening trend of economic recovery, amid the continued expansion of internal demand. As for emerging markets, economic recovery is expected in some regions, thanks to the stabilization of national currencies and the natural resource prices. Overall, we expect the global economy to be better than last year.

In our businesses as well, we expect steady improvement in existing ones that are sources of profit. Furthermore, we plan to significantly raise sales of new businesses that will be drivers of our future growth.

In existing businesses, amid the ongoing shift to color in the office market, we expect new copier and laser printers to remain the driver of sales. For cameras, we will work to maintain our already high market share through advanced amateur and mirrorless models. Furthermore, amid ongoing strong demand for lithography equipment used in the manufacturing of mid- to small-size panels, we leverage our competitive advantage and expect unit sales to double.

As for new businesses, we expect significant expansion. This reflects the impact of adding TMSC to the Canon Group and the strong performance of other new businesses such as network cameras and OLED panel production equipment, which performed in line with our plan in the first quarter, and are expected to follow this trend throughout the year.

From a profit perspective as well, in addition to cost reduction coming from increases in volume, ongoing efforts to thoroughly manage expenses on an entire company basis, we aim to achieve double-digit growth in both net sales and profits.

Taking into account our results in the first quarter, we raised our projections for net sales and operating profit by 20 billion yen and 15 billion yen, respectively. Looking at recent world events, however, we still feel the need to monitor the situation closely as geopolitical risks and uncertainties regarding the new U.S. administration are rising.

FY 2017 Current Projection v. FY 2017 Previous Projection (Slide 9)

As for changes in exchange rates, as we left our assumptions for the U.S. dollar and euro unchanged, there was no significant impact.

As for changes in sales volume, compared to our previous projection, we slightly lowered our projections for goods like cameras and inkjet printers due to changes in product mix. As for our Industry and Others Business Unit, we raised our projection, mainly due to an expected increase in lithography equipment unit sales.

In “Others,” following our results in the first quarter, we now expect the dampening effect of price cutting on net sales to be 25 billion yen for the full year, 5 billion yen less than our previous projection of 30 billion yen. As for cost reduction, our full-year projection of 30 billion yen remains unchanged.

As for expenses, we have lowered our projection by 10 billion yen, to align it with our current plan.

DETAILS BY BUSINESS

Office – Q1 2017 Actual (Slide 10)

Amid the copier market's ongoing transition to color, we have been achieving growth that exceeds the market by enhancing our lineup of imageRUNNER ADVANCE models through new product launches.

In the first quarter, these new products contributed to double-digit color copier growth. The performance of the C3300 series, which targets mid- to small-offices, has been consistently strong since its launch in 2015. On top of this, the C5500 series, a core product that was launched in the second half of last year, showed significant growth in the U.S. and Europe.

As for commercial printing, sales were lower, reflecting a large deal that was signed in the previous year. Excluding this factor, however, shows that we exceeded last year's sales thanks to continued strong demand for our 100 ppm and light-production models that excel in terms of productivity and durability.

The laser printer market returned to positive growth. Regionally, color and MFP unit sales continued to grow in developed countries. In China, a market that has a large impact on unit sales, we saw a clear trend of recovery, reinforcing our view that the trend of recovery we saw in emerging markets in the second-half of last year continued.

Against this backdrop, sales of new products that we have been enhancing our lineup with outpaced the overall market, leading to market share gain. We attribute this to such user-friendly features as reduced print times and easy installation, which have been well received by the market. Furthermore, our strategy to raise profitability is starting to have an impact as the steady shift from low-end to higher-end products is gradually materializing.

As for consumables, since the second half of last year, sales have been improving, recovering to a point where we could post positive year-on-year growth in the first quarter.

Office –2017 Full-year Projection (Slide 11)

We expect the overall copier market to remain basically flat.

Against this backdrop, we launched in February the successor to the C3300, a series of copiers in our lineup that has consistently performed well. With this, we completed our lineup of next-generation imageRUNNER ADVANCE models, which we have been working to expand and innovate since February of last year. We will continue our aim to grow faster than the market, leveraging the advantages that our products offer, such as the industry's highest level of image quality, low service maintenance cost, and reduced wait time for printing.

As for commercial printing, at the end of last year, we started to introduce devices that replaced existing ones in our light-production lineup. These new products, in addition to offering enhanced basic functions such as print speed, also include features to cope with various printing needs such as color and black & white duplex long sheet printing. With these new products and the 100 ppm model that is performing well, we aim for continued positive growth for the full year.

Moreover, in the second half of this year, we plan to launch “ProStream,” a new continuous feed press that realizes the industry’s highest level of print quality and print speed. In the wide-format printer area, we will launch new products that offer a significantly reduced running cost and other advantages. Along with the high-speed cut-sheet inkjet printer for which the number of business deals has been increasing, we will strive to increase our sales for the year.

As for laser printers, we expect the market to be around the same level as last year, as emerging markets, which continued to shrink last year, are now recovering.

Against this backdrop, we will work to expand hardware sales, focusing on the new products that we have spent the last two years launching to enhance our lineup, as a way to raise the proportion of new products in our install base.

As for consumables, along with the introduction of new hardware, we changed to a new type of toner. As the proportion of new products in our install base increases, so will the proportion of genuine consumables usage, which will lead to increased consumables sales.

For the full year, we expect our hardware and consumables sales to pick up and register steady growth, which is the same outlook that we had at the beginning of the year. In the first quarter, however, our performance was slightly better than our plan due to economic recovery in emerging markets. Thus, we raised our full-year projection by that amount.

Imaging System – Q1 2017 Actual (Slide 12)

The interchangeable-lens camera market in developed countries continued to recover from last year’s earthquake. In emerging markets, we also saw an easing in market contraction, particularly in China.

Against this backdrop, we expanded sales of the EOS 5D Mark IV, which captures customer demand for such features as high-speed AF and 4K video recording.

Additionally, in Asia, where mirrorless cameras make up a large percentage of the interchangeable-lens camera market, we expanded our lineup, broadened our sales channel beyond camera specialty shops, and strengthened our advertising activity. As a result, we exceeded our unit sales and market share of last year.

On top of this, this quarter, we launched our new products earlier than usual. As a result, our unit sales increased 6% to 1.08 million units.

As for the compact camera market, the situation of higher-than-normal demand, resulting from the supply shortage caused by the earthquake, continued. As a result, our unit sales only declined 6% to 1 million units.

We continue to strengthen our premium model lineup of G series cameras. By launching new products that respond to diverse needs, such as high sensitivity and high zoom ratio, our unit sales in this category increased 25%, leading to an overall improvement in our compact camera market share and profitability.

The market for home-use inkjet printers continues to shrink. Against this backdrop, however, we secured the same level of unit sales as last year.

The strategic home-use models that were launched in the fall of last year in Japan were highly rated by the market for their stylish design and compact size. This fueled sales in Japan, where volumes were higher than last year. From the first quarter, we started to expand sales of these products to Europe and the Americas, with the aim of further increasing sales.

Additionally, we are posting steady sales growth of refillable ink tank models, as we strengthened our lineup by adding a model with a built-in fax feature at the end of last year.

Imaging System - FY 2017 Projection (Slide 13)

For interchangeable-lens cameras, as our unit sales in the first quarter were roughly in line with our plan, we left our forecast unchanged. We still expect the market to shrink by 4% to 11 million units and our unit sales to decline by 7% to 5.3 million units.

Against this backdrop, we will successively launch new products as we did last year in order to maintain our already high market share and expand our presence in the market.

In the DSLR category, we launched two models, the EOS 77D (EOS 9000D in Japan) and the EOS Rebel T7i (EOS Kiss X9i in Japan). In addition to offering improvements in such basic features as high sensitivity, these new cameras are the first entry-class models to incorporate high-speed AF technology that was originally reserved for use in advanced-amateur models.

We also launched new models in the mirrorless camera category, namely the EOS M6, the successor model to the EOS M3. We are working to capture replacement demand and acquire new users to expand our base. This, and the full-year contribution to sales of the EOS M5, a high-end model that we launched in the fall of last year, is tied to an improvement in profitability.

Subsequently, for compact cameras, we expect the situation of higher-than-normal demand, resulting from the supply shortage caused by the earthquake, to settle down. As a result, we left our projection unchanged and still expect the market to decline 13% to 13 million units and our unit sales to decline 13% to 3.5 million units.

As for inkjet printers, we aim to expand our unit market share by maintaining the same level of unit sales as last year.

In the B2B sector, which is a growth area, we renewed our lineup of MAXIFY-brand business models targeting the SOHO market. We also launched a new lineup of large-format printers, the imagePROGRAF PRO series, and going forward, we will continue to strengthen sales.

In addition to these B2B products, through new strategic models for home-use, and refillable ink tank models in emerging markets, we will work to raise profitability by improving our product mix.

Industry and Others – Q1 2017 Actual (Slide 14)

Demand for OLED panels is expanding significantly due to the shift from LCD to OLED displays used in smartphones.

Against this backdrop, our sales of FPD lithography equipment increased by 12 units to 20 units, reflecting strong sales of equipment used in the production of high-definition mid- to small-size panels. Additionally, efforts that began last year to enhance the production of Canon Tokki's OLED display manufacturing equipment, in response to strong demand, contributed to a doubling of sales of the industrial equipment businesses of Group subsidiaries.

Unit sales of IC lithography equipment, however, declined by 8 units to 11 units, basically reflecting a timing difference in customer investment plans.

For reference, the sales composition of "Others," excluding the impact of adding TMSC to our consolidation, was approximately 25% for network cameras and 30% for the industrial equipment businesses of Group subsidiaries.

Industry and Others - FY 2017 Projection (Slide 15)

As for IC lithography equipment, in addition to strong demand for memory and image sensors, increasing demand for 3D-NAND devices is having a positive impact on demand for i-line and KrF equipment. Capturing this demand, we raised our full-year projection by 9 units to 74 units.

As for FPD lithography equipment, orders are increasing for equipment that has been highly rated by customers for their high productivity. As a result, we expect our full-year unit sales to be more than twice as much as last year.

Additionally, for OLED display manufacturing equipment, which is also seeing an increase in orders, on top of working to realign our workforce within the Canon Group, we are also working to standardize and raise the efficiency of the manufacturing process in order to respond to the strong demand.

As for network cameras, which are one of our new business pillars, amid continued strong sales, we will work to maintain double-digit sales growth through the remainder of the year.

As for TMSC, which was made a subsidiary in December of last year, we will work to raise our market share in the diagnostic imaging area, which is a core business, and expect to post 415.0 billion yen in net sales for the full year.

For reference, the sales composition of "Others," excluding TMSC, is approximately 25% for network cameras and 35% for the industrial equipment businesses of Group subsidiaries.

FINANCIAL SITUATION

Inventories (Slide 16)

At the end of March, inventory turnover was 54 days, five days shorter than it was at the end of December 2016.

Compared with the end of March last year, inventory turnover was two days longer. This reflects an increase in work-in-process inventory heavily due to the new company added to our consolidation. Excluding this impact, our inventory turnover in days has actually improved, indicating that we have maintained inventories at an appropriate level.

Capital Expenditure / Free Cash Flow (Slide 17)

We will preserve our financial health, maintaining efforts to keep capital expenditures below depreciation and our aim to ensure comprehensive cash flow management.

Cash on Hand (Slide 18)

As for cash on hand, our projection remains unchanged. At the end of this year, we still expect it to be 600 billion yen or nearly two months worth of net sales.

Closing

Last year, we could not avoid posting significant declines in both sales and profits, due to the sharp appreciation of the yen. Our results in the first quarter of this year, however, show that we are making steady progress towards the goals we set out in Phase V of the Global Excellent Corporation Plan.

The external environment, including the geopolitical situation, is becoming increasingly unstable. Amid this environment, we aim to return to a path of growth, continuing concerted group-wide efforts to implement measures aimed at improving the profitability of existing businesses and expanding the scale of new ones.