Canon Inc.
FY 2023 Analyst Meeting
Q&A Session Summary

Q1. You mentioned a complete review of your cost structure, improving ROE and other things that seem to indicate Canon is moving in a new direction. What is behind this change?

A1. We have been improving the efficiency of expenses. However, due to changes in our business structure, we felt the need to conduct a review, particularly of our sales operations. We will carry out a global reform of our sales & marketing structure led by Kazuto Ogawa, the President of Canon U.S.A. until last year, who was appointed Group Executive of the Global Marketing Strategy Headquarters.
ROE would rise as a result of improved profitability, and it wasn't a major focus. However, we wanted to link this to our strategy and highlight this.

Q2. In your projection for 2024, did you factor in effects of the review of your cost structure? Is it correct to assume that the effects will largely be felt from next year on?

A2. Although some effects have been reflected in our projection for this year, major effects are expected next year.

Canon Inc.
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Q&A Session Summary

Q3. As for your medical business, please talk about your achievements and the challenges you have faced since the acquisition as well as the reason for establishing the business innovation committee.

A3. In the past, it took 10 years to increase sales by 100 billion yen. However, we were able to accomplish over the last 4 years, through synergies and product enhancements since the acquisition. Profits, on the other hand, have not grown as expected due to factors such as a rise in labor costs, and sales in Russia and China that did not grow as much as planned. With the aim of achieving a double-digit profit ratio as soon as possible, a committee was formed to optimize all operations, including production, procurement, logistics, and administration, by utilizing all of Canon's know-how and resources.

Q4. What will allow you to raise the profitability of Medical to 7.9% in 2024?

A4. In addition to the increase in sales, profitability is expected to improve due to the introduction of new products that incorporate additional cost reduction and the increase in high-profitability service revenue thanks to expansion in our install base.

Q5. How do you plan to grow the operating profit of Printing in 2024?

A5. By enhancing the competitiveness of our products, we are increasing our market share, particularly for office MFDs. In 2024 as well, we will expand sales, particularly for color models. Our MIF has been expanding. Increasing the number of color machines in operation will lead to high-profitability consumables sales. We will also increase profitability by introducing new products that incorporate additional cost reduction and by accelerating cost-cutting activities.

Canon

Canon Inc.
FY 2023 Analyst Meeting
Q&A Session Summary

Q6. In 2024, what is driving significant growth in semiconductor lithography equipment sales? Could you also talk about your outlook for OLED manufacturing equipment?

A6. Equipment demand for power semiconductors and advanced packaging for generative AI, is especially strong. We are seeing increasing orders for our products that offer features not available in competitor products. We already have orders for 70% of our planned sales. As for OLED manufacturing equipment, although we expect revenue to increase, we don't expect a full-scale recovery in market conditions until the latter half of 2024 to 2025.

Q7. What proportion of your semiconductor lithography equipment sales in 2024 is linked to packaging in the back-end process?

A7. We do not disclose this information. In our 2024 projection, however, we expect this to be double what it was in 2023.

Q8. How does nanoimprint factor into your plan for this year?

A8. In terms of sales and profit, we did not factor nanoimprint into our plan. We have received a number of inquiries and are now moving into the verification process. A little more time is needed before nanoimprint contributes to sales.

Q9. You are projecting a significant increase in Industrial sales, but almost no rise in profitability. What is behind this?

A9. This reflects an increase in R&D spending as we continue to invest in growth. Profitability is projected to improve compared to last year and remain at a high level.

Canon

Canon Inc.
FY 2023 Analyst Meeting
Q&A Session Summary

Q10. In 2024, you are projecting 40 billion yen in cost reduction. How does this break down by business?

A10. The break down is 24 billion yen for Printing, 3 billion yen each for Imaging and Medical, and 10 billion yen for Industrial.

Q11. In 2023, your operating profit was around 25 billion yen lower than your projection. What is behind this and how will this impact you in 2024?

A11. In addition to the larger-than-expected economic downturn in China and Europe, which mainly affected Printing, we were also impacted by intensified price competition. Additionally, our network camera business was temporarily impacted by dealers reducing inventory at the end of the year due to persistently high interest rates.
Additionally, the installation of semiconductor manufacturing equipment and medical equipment was delayed at customer sites and pushed out to 2024.
In 2024, while we expect effects of economic downturn in China and Europe to continue, we also expect price competition to settle down compared to last year. In addition to this, we expect the sales of semiconductor and medical equipment that were pushed out from 2023 and the growth in network camera sales from the second quarter after the completion of inventory adjustment to contribute to our performance this year.

Q12. In 2023, your operating profit for Imaging was lower than your projection. Was this mainly due to lower sales of network cameras? Additionally, are you seeing any problems with camera profitability?

A12. Camera profit was actually higher than what we projected back in October. The miss was mainly due to lower sales of network cameras due to market inventory adjustment.

Canon

Canon Inc.
FY 2023 Analyst Meeting
Q&A Session Summary

Q13. You announce your dividend projection, and your share buyback plan at the beginning of the year. What is behind this?

A13. As for our dividend forecast, we have received requests through discussions with shareholders to disclose this. And based on our policy of targeting a payout ratio of 50%, we decided to do it in conjunction with our results forecast. As for share buybacks, until now, we purchased shares over a short period of time, this time we will purchase shares over a one-year period, therefore we announced our plans at the beginning of the year.

Q14. As new businesses, especially BtoB businesses like Industrial and Medical become a large portion of total sales, from a structural perspective I would expect inventory turnover in days to increase. Are you still targeting 60 days or less?

A14. Clearly, BtoB businesses have longer lead times than cameras and printers. However, there is still room for operational improvements. New businesses will also see sales growth, therefore we believe 60 days or less is a realistic target.