



## **Canon Inc.**

### **FY 2024 Analyst Meeting**

### **Q&A Session Summary**

**Q1. Your operating profit for 2024 was below your projection, even when you exclude the impact of impairment loss. What were the factors behind this?**

A1. First, market conditions in China and Europe did not improve. Additionally, for Printing, Medical and Industrial, although we did secure orders, the installation of equipment was delayed due to customer reasons. Furthermore, as for sales of cameras and inkjet printers, which were expected during the year-end selling season in the United States, although unit sales were within expectations, revenue fell short due to a higher mix of low-cost models.

**Q2. In 2025, your projection shows an operating profit ratio that is below your Phase VI target of 12%. In your next 5-year plan, when do you expect to achieve this?**

A2. As we decided to spend money and focus on structural reforms in 2025, we do not expect to achieve our operating profit ratio target. However, by improving profitability through these structural reforms, we aim to achieve 12% as soon as possible. To achieve this goal, we are assuming a gross profit ratio of 47% or higher and an expense ratio of 35% or lower and will focus our efforts to lower our expense ratio.

**Q3. As for your operating expense ratio, from a medium- to long-term perspective, how far can you reduce this as a percentage of sales?**

A3. Our expense ratio was below 35% in this fourth quarter, when sales were at their highest. In addition to implementing structural reforms and improving the expense ratio, by steadily increasing sales toward 5 trillion yen per year, we believe we can achieve an operating expense ratio of 34% to 33%.

**Q4. How do you see sales growing in your next 5-year plan that starts in 2026?**

A4. A detailed study of our next five-year plan really starts from now. However, the core of our growth is new businesses, namely commercial printing, medical, network cameras, and industrial equipment, where we will continue to invest. In commercial printing, in addition to being in a period of transition from analog to digital, our partnership with Heidelberg, which was announced last year, will contribute to increasing sales this year. In medical, to achieve our goal of growing this business to nearly 30% of total sales in the future, we will need to take measures including M&A. Additionally, for semiconductor lithography equipment, we will increase our production capacity to meet the growing demand.

**Q5. What was the premise for reviewing your plans for medical? Additionally, for medical, network cameras, and commercial printing, are there risks of booking additional impairment losses on goodwill?**

A5. In calculating our plans for medical under the impairment test, we assumed growth in Japan and Europe would be around 2%, which is in line with market growth in developed countries. We also assumed that growth in the U.S., which continues to be strong, as well as growth in other emerging markets such as India and Saudi Arabia, would be around 7%. Our review is based on sales assumptions that are conservative and achievable, therefore we do not foresee any risk for additional losses.

As for the goodwill of our network cameras business that is linked to the acquisition of Axis and Milestone, on top of strong sales, particularly for Axis, profitability is rising, so we see no problem. As for commercial printing, for the goodwill related to Canon Production Printing (formally Océ), in addition to booking some of this as an impairment loss in 2017, this company has returned to the black and profitability is rising. As such, we do not foresee additional risks for losses here as well.

**Q6. For Medical, when do you expect to achieve your target of 600 billion yen in net sales and an operating profit ratio of 10%?**

A6. As for our sales target, our plan for 2025 is already close to the targeted sales level and we think we can achieve it in 2026. In terms of profitability, the Business Innovation Committee has implemented improvement measures and believes that the target can be achieved. However, some measures are effective in a short period of time and others require more time, overall, more time will be needed.

**Q7. As for production structural reforms, please explain the timing and scale of effects that you are expecting.**

A7. To improve productivity, we will consolidate our production sites over several years starting this year. For production site that have low utilization rates or those in areas where geopolitical risks are high, we will conduct reviews and through this, we aim to not only lower costs by improving utilization rates, but also increase asset efficiency. However, the move of production equipment and new investment will lead to higher costs, and the results will not be immediate. We can't say much more at this point, but we will share more information when our plans become firm.

**Q8. As for cameras, excluding the impact of changes in foreign exchange rates, your sales grew 0.4% in 2024. From this perspective, your target of 9.3% growth in 2025 seems high. How do you plan to achieve this?**

A8. In 2024, a market inventory adjustment in the first quarter led to lower sales growth for the full year. At the end of 2024, market inventory was healthy, so we don't expect to start with slow growth as in 2024. Additionally, the competitive products that we launched in the second half of last year, namely the EOS R5 Mark II and EOS R1, will contribute to sales growth throughout 2025, leading to an increase in higher priced model sales and expanding demand for RF lenses.

Furthermore, we are seeing very strong demand for compact cameras among young people, and currently have large backorders. This year, we will work to increase production and link this to sales expansion.

**Q9. As for cameras, please talk about the risks of your average selling price declining in 2025.**

A9. Our average selling price will rise in 2025 as the EOS R5 Mark II and EOS R1, which were launched in the second half of last year, contribute to sales throughout the year. And as sales of more high-end models increase, demand for RF lenses will rise. Additionally, the compact cameras, for which we have large backorders, are selling at higher prices, and will also contribute to sales and profit growth.

**Q10. As for Industrial, the growth you are projecting for operating profit in 2025 seems low compared to the growth you are projecting for sales. What is the reason for this?**

A10. In addition to the sales of semiconductor lithography equipment, profitability increased in 2024 due to sales of equipment options with higher gross profit ratios. As for 2025, if sales increase, there is a possibility of overshooting our plan. Additionally, a new plant under construction in Utsunomiya is scheduled to be completed in June, so depreciation costs will increase slightly.

**Q11. Please provide an update regarding nanoimprint sales.**

A11. In 2024, we shipped one unit to the Texas Institute of Electronics, a research institute, and booked sales in the fourth quarter. At this point in time, we have not incorporated any sales of nanoimprint in our 2025 plan, but we are making good progress in evaluating and testing with customers.

**Q12. If you have a policy regarding total return, including dividends and share buybacks, can you please share it with us?**

A12. As for dividends, we target a dividend payout ratio of 50%. As for share buybacks, we conduct them at the best possible time and do not have a clear policy.

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