Canon Inc.
2Q 2024 Analyst Meeting
Q&A Session Summary

Q1. How has the business environment changed from your initial outlook for this year?

A1. As for exchange rates, the yen has been weaker than we initially expected. Other than that, in Printing, due to the consolidation of platforms and increasing non-hardware sales, resulting from the shift to color, profitability has been higher-than-expected. Furthermore, cameras, network cameras, and laser printers, which have long been affected by inventory adjustments, have rebounded steadily since the second quarter.

Q2. 2025 is the final year under your current medium- to long-term management plan (Excellent Global Corporation Plan Phase VI). What is your outlook for business performance from next year?

A2. We expect to achieve our initial target for sales, which was 4.5 trillion yen in 2025, this year, and are in the process of setting additional targets for sales and profits next year. As for Phase VII, we are using this and next year to draw up our plans.

Q3. For printing, you raise your full-year outlook for office MFD and laser printer sales growth on a local currency basis. Please explain the background behind this.

A3. As for office MFDs, color machines, as a proportion of our install base is increasing, leading to growth in service revenue. Additionally, in IT solutions, with a focus of Canon Marketing Japan, we are seeing increasing sales, which also reflects M&A activity. Even excluding the impact of foreign exchange, office sales are expected to increase overall.

Regarding laser printers, efforts to adjust shipments which lasted until last year were completed. As a result, sales have been recovering steadily since the second quarter, and we believe we can maintain year-on-year sales growth from the second half on.

Q4. Please explain the trend in office MFDs by region.

A4. In China and Europe, we lowered our sales projection to reflect the continuation of restrained investment due to deterioration in business confidence. On the other hand, we see strong sales in Japan and the Americas, mainly for color machines.

Q5. Please explain the reasons for office MFD non-hardware sales improving.

A5. Print volume has declined approximately 30% compared to pre-COVID 2019. However, service revenue is increasing as color machines, which generate more revenue per click, are becoming a larger portion of our install base, increasing approximately 5% compared to last year.

Q6. Please explain the reasons for raising your sales projections for cameras and network cameras on a local currency basis.

A6. For cameras, the overall market is more active than expected, and the two high-end mirrorless models announced in July are expected to contribute significantly to sales in the second half. As for network cameras, the level of market inventory was very high in the fourth quarter of last year. However, it has returned to normal since April and we expect our sales to continue growing at a typical double-digit rate.

Q7. For Printing and cameras, you are not expecting market growth. Under this scenario, what is your outlook for business performance from next year?

A7. This year, we expect the camera market to be 5.95 million units, which is the same level as last year. From next year on, we expect the market to continue hovering around 6 million units. Although we believe that the printing market overall will not grow, we also believe that we can maintain our current level of performance by increasing our install base of printing machines, especially color models, from which we can expect service revenue. And by increasing our market share, we believe we can maintain our current level of performance going forward.

Q8. Please explain the reasons for lowering your full-year sales projection for industrial equipment within Industrial.

A8. This is due to the lowering of our projection for OLED vapor deposition equipment. We are making good progress in producing our first next-generation large-size vapor deposition tool for IT panels. However, the next investment project was delayed by the customer.

Q9. Please provide more detail about the review of your business structure. I can envision the need for further efficiency and productivity improvements in 2025. Do you have plans to take further actions?

A9. There are three pillars to our business structure reform, sales structure reform, production structure reform, and medical business innovation. In our revised budget, we factored in 30.0 billion yen to accelerate these efforts. Some of the costs were incurred in the first half of the year and the remaining reforms will be implemented by the end of this year, with the aim of making improvements as soon as possible in 2024. As for sales companies, although most of the structural reforms will be completed by the end of the year, some expenses will be incurred in 2025 as we continue to strengthen competitiveness and optimize our organization.

At this point in time, we are focused on structural reform of sales companies and business innovation in the medical business. However, in 2025 and 2026, we intend to promote structural reform of production lines with current actions aimed at improving asset efficiency and ROE.

Q10. Please provide a breakdown of structural reform costs and effects in the first half and the second half. Are you looking to reduce fixed costs by optimizing personnel and improving asset efficiency?

A10. About a quarter of the costs were incurred in the first half. However, most of the effects will be realized in the second half. There are various plans, workforce optimization and asset efficiency improvements are just a couple.

Q11. This year, you expect the net impact of structural reform to be a negative 23.0 billion yen. In 2025, you expect the positive effect to be 21.0 billion yen. As you are not showing structural reform costs in 2025, can we assume the total benefit in 2025 will be about 50.0 billion yen?

A11. That is our hope.

Q12. Please provide a breakdown of structural reform costs and effects by segment.

A12. We cannot provide a detailed breakdown at this point as some of the measures will be implemented from here on. About 80% of the costs and benefits generated by mainly sales companies are for printing, and the rest are for B-to-C, cameras and inkjets.

Q13. Is it possible that you will need to incur additional structural reform costs?

A13. All the costs we need to incur this year are included.

Q14. From 2025, you plan to conduct a review of your production structure. If the sale of assets is included, can we assume the net cost of this activity will be limited?

A14. As for production sites, we are verifying whether the number of factories we have is appropriate for production volume. Within this, we are currently formulating plans to consolidate production bases and return high-value-added products to Japan. As a result, if one of our plants becomes vacant, it could be sold, but nothing has been decided yet.

Q15. You raised your full-year outlook for profit but left your dividend plan unchanged. As a result, your payout ratio will be below 50%. Please explain the reasons for not changing your dividend plan.

A15. A dividend of 150 yen per share represents a payout ratio of 43%, which is within the scope of our policy of targeting a dividend payout ratio of 50%. Although we want to return the dividend to 160 yen per share as soon as possible, we would like to determine the final dividend amount as a shareholder return policy while considering options such as share buybacks.

Q16. Regarding Canon Marketing Japan's TOB, please explain what you hope to accomplish.

A16. Canon Marketing Japan proposed to improve the ratio of outstanding shares from its current low 38% to around 45% and further improve ROE and PBR, which Canon accepted. For Canon to maintain its parent and subsidiary listing, it only needs to maintain a voting rights ratio of at least 50%. In addition, the sale of excess shares will lead to the correction of our holdings, and the proceeds from the sale will allow us to reduce our substantial borrowings from Canon Marketing Japan.

Q17. Please explain your position regarding listed subsidiaries.

A17. We had eight listed subsidiaries in the past. After reviewing them from a group management perspective, we now have two, Canon Marketing Japan and Canon Electronics. In addition to our business, Canon Marketing Japan and Canon Electronics are engaged in IT solutions and space industry, respectively. To maintain a business environment conducive to raising funds and hiring employees at their own discretion, and because being listed is linked to employee pride and motivation, we plan to maintain this current structure. However, we understand that there are various ways of thinking in terms of corporate governance regarding parent-child listing, and we will continue to consider what form is appropriate while listening to various opinions.

Q18. Canon Marketing Japan plans to cancel the shares that it acquires through this TOB. Is there a possibility that you will cancel treasury stock in the future?

A18. We have no plans to cancel treasury stock at this time. We are not in financial difficulties, and there is no re-release of treasury stock into the market to raise funds, which investors may be concerned about. Therefore, even if we don't cancel treasury stock the situation is not substantially different.