Canon Inc.
3Q 2024 Analyst Meeting
Q&A Session Summary

Q1. How does your performance in the third quarter compare with your internal plan?

A1. Market conditions in China and Europe were worse than expected. This impacted our Inkjet, Medical, and Office businesses which were below plan. In order-driven businesses, due to deal extensions, some sales expected in the third quarter were pushed out to the fourth quarter.

Q2. In the fourth quarter, you are projecting a significant increase in sales and profit. How will you achieve this? It looks like you expect a large contribution from Industrial sales. Do you have a high level of confidence that this will be achieved?

A2. As for B-to-C products, we will expand fourth quarter sales and profits through new products, including cameras like the EOS R5 Mark II and EOS R1 and refillable ink tank printers. Additionally, for order-driven businesses, we expect to book sales of orders that were pushed out from the third quarter in the fourth quarter and will work to steadily turn orders for Medical and other equipment, which are at a higher level than in past years, into sales.

As for Industrial, although we are projecting a large number of unit sales, we are not worried as most of the units have been shipped and we have already allocated engineers for installation.

We have set a high target of 1.3 trillion yen in sales. However, we believe we can achieve it through these measures.

Q3. Your performance in the third quarter was below plan. Please explain why you raised your projection, excluding the exchange rate impact, for the full year?

A3. Businesses, such as Medical and Inkjet Printers, were impacted by economic weakness in China and Europe. As a result, we lowered our full-year projections. In our other businesses, however, we are over performing, and excluding the exchange rate impact, in real terms our performance overall is improving. In our Network Camera business, our performance up to the third quarter has been very strong, and we expect big growth in the fourth quarter. As for Production, with the large amount of deals we received at drupa, we expect sales to grow significantly. As for Industrial, though we lowered our projection for unit sales, we raised our plan to reflect upgrade options that increase selling prices as well as higher sales of various accessories and services.

Q4. For Medical, do you have any plans to revise your operating profit ratio target of 10% in 2025?

A4. Profitability in the third quarter declined due to economic slowdown in China and Europe and upfront investment costs. However, we expect to recover in the fourth quarter and aim for double-digit profitability in 2025. Furthermore, through structural reform, we aim to establish a structure that will enable it to achieve double-digit profitability from 2026 onward, with certainty.

Q5. As for Cameras, what did you see in the third quarter and what do you expect to see from the fourth quarter onward?

A5. In China, we are seeing growth due to very strong demand for cameras among young people. As a result of this and other factors, the camera market has been growing more than we, including competitors, initially expected. However, as competition intensifies to expand sales volume, it has become necessary to invest in sales promotion. We expect this trend to continue or become more severe in the fourth quarter during the year-end selling season.

Q6. As for Semiconductor Lithography Equipment, we are hearing that the orders of other companies are deteriorating. What is your outlook for next year, including your expectations for China?

A6. We have not experienced the same kind of situation that other companies are facing so far. We expect our Semiconductor Lithography Equipment business to grow by around 30% this year, and we expect further expansion next year. Because this is an order-driven business with long product lead time, we have already received orders for 2025 and some for 2026, so we can see that the business will expand. As for equipment sold in China, where the share of sales this year increased, looking at the order situation for next year, we don’t expect a big drop.

Q7. Due to the restructuring of your Medical business what will change? What level of benefit do you expect?

A7. Since joining the Canon Group in 2016, our Medical business performance has been steadily improving. However, to accelerate growth, we will promote activities to integrate the organizations and work methods of both companies. In February of this year, Canon and Canon Medical Systems established the Medical Business Innovation Committee, which aims to combine the resources of Canon and Canon Medical Systems, including technology, personnel, and facilities, to generate even greater synergies. Currently, we are implementing restructures to achieve results, such as moving Canon Medical Systems' R&D employees to Canon's Shimomaruko headquarters. It will take some time, and the effect cannot be estimated at present, but it is expected to have a large impact.

Q8. Please tell us what the costs and benefits of structural reform are by quarter.

A8. As for costs, for the full year we expect 22.5 billion yen. Of this, we incurred 7.8 billion yen in the third quarter. Over the first nine months of this year, the amount is approximately 15 billion yen. As for the benefits, we expect to generate around the same amount in both the third and fourth quarter.

Q9. In your previous plan, you showed structural reform costs being 30 billion yen. Why did you lower this by 7.5 billion yen?

A9. As restructuring was being implemented, the cost estimated by our sales companies decreased by 2 billion yen. We also saw a 5.5 billion yen decrease in the estimated cost of Medical business restructuring.

Medical, in the absence of a clear plan, we estimated 8 billion yen in costs. However, in the second half of the year, a concrete plan was drawn up and the breakdown of capital investment and expenses were clarified. As a result, we found that the impact this year would be limited to 2.5 billion yen. The combined capital investment and expenses are 5.5 billion yen in 2024 and 8 billion yen in 2025, resulting in 13.5 billion yen over 2 years. As for sales companies, we expect restructuring to be completed this year and no restructuring costs to be incurred next year.

Q10. You are targeting an operating profit ratio of 12% in 2025. In addition to structural reforms, what else will you be doing to achieve this? Also, what is your outlook for 2026 and beyond?

A10. We plan to achieve an operating profit ratio of 10% this year and increase it by 2 points next year. One of the drivers of this is our expense ratio. We expect the restructuring of sales companies that we are undertaking to have a huge impact. Our expense ratio is 37.3% this year. We see this moving to 35% next year.

We will also work to increase sales. In addition to our Semiconductor Lithography Equipment business, which is performing well, we will increase sales of Printing where demand is stable, and within Imaging, camera sales, which are growing steadily.

Our plans for 2026 onward are beyond Phase VI, our current medium- and long-term management plan. At this time, various studies are still underway.