

Key Questions and Answers

Q: The sales and product mix was -¥9.8 billion in the third quarter. What factors were transitory and which ones will continue? Also, how certain are you that the sales and product mix will be positive in the fourth quarter? What fruits do you anticipate over the next quarter from your measures to expand sales? How certain are you of such an outcome?

A: First, the sales and product mix impact in Office Printing was around ¥4 billion in the third quarter out of a ¥7 billion earnings decrease after excluding the forex impact. In Commercial Printing, a large financial firm took over machines in field, while there were order delays, but we believe that around half of a ¥1.8 billion earnings decrease, after excluding the forex impact, is temporary. With regard to the certainty of fourth quarter figures, we initiated an effort in December to check measures and results, with all business units monitoring orders worldwide each week, so we believe that ¥5 billion or so is realistic. We are clear on the extent to which we will lower costs, and will manage the situation carefully. We forecast that an additional improvement of ¥10 billion from sales expansion measures and cost reductions is highly likely.

Q: While you look to cut costs in the fourth quarter, you say that you will spend significantly on new businesses. How likely is it that costs will rise toward next fiscal year?

A: We envisage additional expenses from performance-linked salary raises and bonuses for employees. Other than that, we are considering strategic investments. We plan to discuss the backdrop and goals in the briefing for our next mid-term management plan.

Q: Although you performed well through the second quarter, conditions seem to have changed. One competitor had product issues in second quarter and strove to recover in the third quarter. I think that while Ricoh benefited from this situation in the second quarter it stalled in the next quarter as the competitor regained lost ground. How did things seem to you?

A: We do not consider that competition intensified solely in the third quarter. There is nothing new in our sales frontline struggles. We do not believe that there has been a significant change in the situation.

Q: Sentiment in the business machines market seems to have deteriorated. Has the pipeline for prospective deals changed since three months ago?

A: We are not aware of any noteworthy deterioration in market sentiment. We are taking a planned approach, including in Office Printing, to determining targets, working out proposals to customers, and reaping returns.

Q: While your Office Service sales have risen significantly, your profitability did not seem to grow

much in the third quarter. I suspect profitability could improve if you expand more monthly charge-based models like those of Scrum Packages. What percentage of Office Services sales do Scrum Packages represent? On the other hand, what offerings other than Scrum Packages is declining profitability?

A: Scrum Packages still represent less than 10% for Ricoh Japan's Office Service sales. Profitability is dropping relatively on personal computers that we sell individually, so the greater the weight of those sales, the more profitability would fall. While profitability seems to have declined in the third quarter, the seasonal trend is that it is higher in the second quarter, dropping in the third. Highly profitable Scrum Packages accounted for a greater proportion of sales in the previous third quarter because Domestic IT subsidies contributed fully to performance. But that had already ended in the third quarter of this fiscal year and were no longer a performance factor.

Q: When Jake Yamashita became president, he talked about performance management to assess a little more swiftly. Are you now able to respond more quickly than before to changes in the operating climate?

A: We transformed our business management methods in August 2018. We can now obtain preliminary global sales data for a month on the first day of the following month. We used to have to wait until halfway during a month. So, that's one change. Once monthly accounts are closed, directors gather in results meetings to assess situations with businesses that have not reached targets and deploy countermeasures. During the third quarter, we noticed that things had changed in mid-November. We promptly rolled out global countermeasures, taking action in December. I think that our responsiveness has been faster than before.

Q: What is your stance on domestic hardware pricing in the Office Printing business? Prices through the third quarter were down cumulatively. Please confirm whether you will continue to pursue certain volumes on securing bulk deals in prioritizing profitability in Japan.

A: In Office Printing, domestic hardware prices depend on deal sizes. Average prices seem to have dropped as the weight of sales to large corporations increased. This result has reflected orders this fiscal year, too, from customers with certain volumes. In that respect, there could be some fluctuations in line with the number of deals and categories. While the number of deals for large corporations will increase through the end of this fiscal year, that does not mean that we are engaging in unprofitable deals as we did before. We are only undertaking profitable deals, so please understand that our stance has not changed and that the numbers are the result of combinations of deals.

Q: The profitability of your Thermal business has continued to increase as competition has

intensified. Your improvements have reflected cost-cutting efforts in the third quarter. To what extent will you continue such endeavors to reduce expenses and drive better profitability?

Alternatively, should we conclude that there are no prospects for enhanced profitability amid intensifying competition?

A: We are continuing to cut costs and can anticipate reductions to an extent. At the same time, we believe that we have to properly plan and develop high-value-added products. So, we are undertaking various challenges that providing eco products like our release paper-free label seals in keeping with customer needs. That will help us enhance profitability.

Q: Your third-quarter operating profit was about ¥3 billion lower than internally targeted. What were the approximate declines by business segment? I'd like you to present segment information, including for where there may have been gains. Also, is the Office Printing business performing generally as expected? Operating profit declined ¥9.4 billion from a year earlier. Did you internally envisage a major drop?

A: Commercial Printing operating profit was down around ¥2 billion in the first third quarter. In the Industrial Products business, projection modules-related earnings were off about ¥1 billion. The combined drops were around ¥3 billion. Also, there were downturns in Office Printing, offset partly by gains in Office Services, for a net drop of about ¥3 billion. While we supposed a decline in Office Printing, we experienced a reaction after a sales rush ahead of a consumption tax hike, and printer consumables sales were lower than we expected.

Q: Which businesses will recover profit positions on sales expansion of around ¥5 billion in the fourth quarter?

A: That will be done mainly in Office Printing. We aim to increase sales there by around ¥3 billion. As stated earlier, we can do that because we are thoroughly managing our pipeline worldwide.

Q: I assume that American tariff rates on Chinese goods will change during the fourth quarter. What was the tariff impact in the third quarter and what is the projected impact for the fourth quarter?

A: The third-quarter impact was around ¥1.5 billion. In view of our assumption that tariff rates will change in February, the projected impact for the fourth quarter is around ¥1 billion.

Q: I'd like to ask about the impact of the coronavirus outbreak in China. I think that your supply chain depends heavily on Southern China. Please overview your thoughts on when you will restart plant operations, when production will be available to you, and the impact on your sales to China.

A: We operate 17 subsidiaries employing 11,000 people in China. We are assisting these people by

providing them with masks, alcohol-based disinfectants, and other daily necessities. We have repatriated Japanese employees and their families, and have prohibited employees from travelling from Japan to China.

Product supplies and the resumption of manufacturing are subject to Chinese government approval. Still, we have more than a month of inventories for key products, as we plan to relocate them to a new plant. Once logistics are under way, we will move inventory to sales sites.

We can manage the operating situation in China through systems in Japan that oversee which people are on lines, to what extent, and how they are working. As a contingency, we can connect with plant heads through Skype as part of a setup in which communication is always possible, and we are ready to respond if something happens.

Q: Is it correct to assume that your forecasts for the fourth quarter have yet to factor in the prospective impact of the coronavirus outbreak?

A: That is correct. We believe that the impact on sales in China will be around ¥60 billion, or only around 3% of worldwide revenues. China accounts for a relatively higher proportion of Industrial Printing and Thermal business sales, so the extent of the impact may vary among these businesses.

Q: Your operating profit forecast for fiscal 2019 states that Other expenses should decline from the ¥6 billion previously projected for the year, to ¥2.3 billion, representing savings of ¥3.7 billion. Is it correct to assume that there will be additional cost reductions in the fourth quarter?

A: We will undertake cost cuts of around ¥5 billion in the fourth quarter.

Q: Is it right to assume that you will reduce R&D expenditures by around ¥7 billion in the fourth quarter?

A: There will be a ¥7 billion reduction from the previous forecast for fiscal 2019 overall. The reduction for the fourth quarter will be ¥1 billion year on year. None of that decrease would be from halting or postponing development projects. The first of the two factors in the spending decline is that we are pushing ahead with using common unit and parts platforms in Office Printing in a drive to lower costs. The second factor is that we are making significant reductions in Commercial Printing. We launched many new models last year, so development expenditure was heavy. The spending has peaked, so while it looks like we are instituting cuts, these are not problematic levels in reality.

Q: Your structural reform charge for the fourth quarter will be large owing to a plant relocation in China. Is this something you planned from the start of the year or when you formulated your mid-

term management plan? Given closures of two plants in Shenzhen and a shift to Dongguan, I thought there would be no additional compensatory payments, and I would like you to confirm whether they will actually happen.

A: At the start of this fiscal year, we planned to incur restructuring costs from a plant relocation but did not announce this publicly, as we had yet to fix details. Shutting down one current company would mean having to retrench employees and pay compensation even if simply moving those same people to another company.

Q: Your Shenzhen plant is in the center of the city. Is it correct to believe that you transfer that subsidiary?

A: We will close that subsidiary down once production ends and we finish the remaining work there.

Q: You plan to start operations at an Office Printing plant in Dongguan in April this year. Can you tell us whether there will be any delays owing to coronavirus? And will inventory relocations go ahead as planned?

A: We had intended to start production in April as planned. But we are halting construction for around a month as the Dongguan authorities requested, so the startup would be delayed a month. In that case, we will cover the situation with operations at the Shenzhen plant.

Q: Does that mean that there will be no performance impact due to production delay?

A: We have more than a month of inventory for key products, so in that respect there should be no major impact.

Q: Regarding the Office Service business, I think that the scope of the Work System Reform bill will broaden when it becomes law in April, encompassing small and medium-sized enterprises. Have you formulated sales policies for such enterprises? To what extent might these enterprises contribute to earnings?

A: One best-selling Scrum Package is for work practice reforms. With the number of personal computers increasing, there are many packages not just to cover Windows migration but also to address the need for people to work outside company premises owing to work practice reforms. Such reforms have thus contributed already to our earnings. We envisage that expect that the law will generate more opportunities when it goes into effect in April.