

Key Questions and Answers

- Q: You said that your first-half operating profit was in line with your forecast. How were you able to overcome external factors to reach your target?
- A: This was primarily for two reasons. First, the 12.2 billion yen impact of a delayed non-hardware recovery was within the 24.7 billion yen in annual risks that we factored into our forecast. Second, we were able to offset the 17.4 billion yen impact of product shortages, higher ocean freight charges, and other external factors by constraining expenses, selling assets, and increases in earnings from a weaker yen.
- Q: How did you view first- and second-half allocations of 24.7 billion yen risks you are posting for the full year? You explained that the situation would improve in the second half. Will you be able to avoid using the balance of your risk allocation?
- A: We had envisioned equal risk allocations for the first and second halves. We planned for a heavier performance recovery weighting in the second half. At some point during that period, we expect Office Printing non-hardware sales to recover to above 90% of the fiscal 2019 level. We believe that we can constrain deviations from assumptions by taking the risk buffer balance into account.
- Q: Tell us about the specifics of 13.2 billion yen in emergency cost reductions you implemented in the first half and your projection for the full term.
- A: Emergency cost reductions typically entail cuts in hiring, salary rises, performance-linked bonuses, and marketing expenditure. Decreases in hiring and salary rises will continue in the second half. Bonuses track performances, so they should recover slightly from last fiscal year. We link marketing expenditure to sales activities, so cuts in that regard should be less than in the first half if face-to-face sales are possible.
- Q: Were your first-half sales in line with your forecast? If not, how do you plan to recover in the second half? You mentioned you would employ a flexible pricing structure. But are you in a position to do that?
- A: First-half sales were slightly lower than we projected. We look to manage prices, principally for customers in Europe and the United States, as they are well aware of the impact of rising ocean freight charges. We would accordingly seek acceptance from customers so we do not hamper distributor profitability.
- Q: What are your operating profit targets for the third and fourth quarters? Rivals have lowered their second-half projections. Are you maintaining your forecasts because you perhaps expect to supply sufficient products to reach your sales plan?
- A: We projected a higher operating profit in the fourth quarter than in the third because we assumed that the Office Printing non-hardware business would gradually recover from the impact of the pandemic from September toward the end of the fiscal year. Another factor is that Office Services tends to contribute more to results in the fourth quarter.
- Tackling shortages is one challenge to improving operating profit in the second half. We expect shortages of semiconductors and other components to ease, although resolving that situation will be challenging. At this juncture, we believe that our product supplies can match sales plans, although weekly changes in parts procurement pose uncertainties. So, for example, to increase the number of prospective parts we can employ in products, our design and development units are modifying designs and assessing quality to broaden the pool of parts and suppliers. It is through such efforts that we will strive to ensure stable product supplies, including through purchasing, production, and development.
- Q: How do you see external factors improving in terms of procurement during the third quarter? I would like to confirm whether you consider the situation bottomed out in the second quarter.
- A: We believe there are significant procurement risks for parts and materials. We explained today that we assume that the current situation will continue in the third quarter and improve somewhat in the fourth quarter. Still, conditions can change for better or worse from week to week. It is hard to predict what will happen in one or two months, so we will employ various means to supply products.
- Q: Are additional cost reduction or other contingency plans in place in case anticipated improvements in the fourth quarter fail to materialize?
- A: Each business is continuing to cut costs. We are also striving to lower expenses by implementing detailed PDCA cycles. Through these activities, we will explore additional possible measures that we undertake as needed.

Q: Given changes in the business climate, how do you view your operating profit target of 100 billion yen for fiscal 2022?

A: If we can fulfill second-half targets to reach our operating profit forecast of 50 billion yen this fiscal year, our fiscal 2022 target is also achievable. As well as recovering from the pandemic's impact on the Office Printing non-hardware business over the next fiscal year, we will endeavor to exceed this target by generating steady growth in the Office Services and Commercial Printing businesses.

Q: You reached some full-year goals ahead of schedule for strengthening operating profit by factor. Might operating profit in fiscal 2022 exceed 100 billion yen?

A: We performed better than projected in the first half. We believe this supports our fiscal 2022 goal.

Q: You posted a robust operating margin in your Office Services (Digital Services segment) business in the second quarter. Were any transient factors in play, such as lower sales of PCs and other low-profitability hardware? Can we look forward to further gains in the second half as you head toward the fourth quarter?

A: Sales of PCs and other hardware declined amid goods shortages, which boosted the overall operating margin to an extent. Still, we are developing the Office Service business by bolstering existing resources without increasing fixed costs. We have structured the business to improve profit margins as sales grow. The lifting of the state of emergency in Japan should drive progress there in negotiating business deals face-to-face. This should help sales recover and increase profit margins.

Q: MFP and PC shortages affected Scrum series sales in the domestic Office Services business. Do you expect to recover in the second half and attain a high growth rate?

A: Compounding shortages of MFPs and PCs, sales activities were constrained during the state of emergency period, hampering business negotiation progress in some respects. We now expect progress through face-to-face negotiations. Supplies should improve for MFPs. We expect a resolution of PC shortages toward early next year. We accordingly believe that growth will continue through the end of this fiscal year.

Q: Unit sales of Scrum packages seem to have been sluggish in the second quarter. Has anything changed? For example, are there new hot-selling products, or have profit margins improved?

A: Scrum packages broadly encompass products for specific industries or for general operations common to all industries. We combine many general products with MFPs, PCs, and other hardware. Sales of those packages have declined owing to hardware shortages. Sales of packages for specific industries are increasing, particularly for welfare, construction, and manufacturing sectors. The unit prices and profit margins of industry-specific packages tend to be higher. These offerings thus contribute more to business performance and through sales activities, sales and support staff can enhance customer service and better resolve problems. In Japan, we are focusing much more on developing industry-specific packages, and look for growth in the years ahead.

Q: You explained that the Office Printing business (Digital Services segment) situation was particularly adverse in Japan in the second quarter. A year-on-year comparison of regional sales shows that revenues were down in Japan and positive in Europe and the United States. Does that mean you lost market share in Japan but gained in Europe and the United States? Tell us something about your competitive position.

A: In the absence of research data for the second quarter, we do not have a precise market share picture. We believe that things will depend on product supply situations for each company.

Q: What's your outlook for the competitive climate in Office Printing? All companies seem to be struggling to stabilize product supplies and allocate offerings to distributor channels. Do you expect the competitive environment to intensify to the extent that companies with better production situations can capture market share? Also, are there any regional differences in these regards?

A: Distributors and dealers are customers. We prioritize them in supplying products. We know that none of these companies can supply enough products to meet demand. When sufficient inventory becomes available, there may be competition for customers and differences among regions and customer segments. Still, we do not think that the environment will become excessively competitive because of overall product shortages.

Q: Might output volume for non-hardware in the Office Printing business (Digital Services segment) fail to

recover even if people return to offices?

- A: The rates of return to offices and rates of recovery in output volume are very closely linked. Still, we do not expect output volume to return to previous levels even after returns to offices. People will tend to print less as they become more used to telecommuting and work practices change.