

Key Questions and Answers

Q: What are the outlooks for segment sales and operating profit for fiscal 2022? Why did Digital Products earnings decrease despite sales rising? Also, why did Graphic Communications revenues and earnings surge?

A: The Digital Products earnings fall would be due largely to the inclusion of approximately 10 billion yen in gains on asset sales in our fiscal 2021 operating profit. While investing in new product development, expenses will not necessarily climb significantly.

In Graphic Communications, we will endeavor to expand sales and operating profit through non-hardware demand remaining robust and recovering and by boost sales of hardware, including new offerings.

Q: In terms of corporate and eliminations for operating profit, you posted a loss of 3.2 billion yen in fiscal 2021. You aim to be in the black at 4.4 billion yen, in fiscal 2022. Does your forecast include amortization for the intangible assets of PFU, which you plan to make a subsidiary, and gains on asset sales?

A: The forecast for fiscal 2022 includes a planned gain on asset sales. We have included earnings contributions from PFU becoming a subsidiary, the assumption being that it will generate earnings. In line with International Financial Reporting Standards, we have not included the amortization of goodwill in our Consolidated Statements of Profit or Loss. We will assess stock acquisition details ahead of July 2022, when the transaction is scheduled to occur, and assess the specific impact. Another factor is that we posted small unrealized gains from inventory buildups in fiscal 2021. Buildups should decrease in fiscal 2022, helping to improve earnings.

Q: To what extent would PFU contribute to fiscal 2022 revenues and earnings as a subsidiary? What synergies and profit growth do you anticipate?

A: We plan to acquire a majority stake in PFU in July 2022. We are still assessing details, so we cannot yet provide specific numbers. For reference, PFU posted fiscal 2020 revenue of 134.5 billion yen and operating profit of 4.5 billion yen. We are basing calculations on those figures.

We internally discussed the strategic significance and synergies of this transaction for becoming a digital services company. We concluded the share acquisition agreement after determining that it would produce a reasonable return. We will share details and our specific growth outlook at the appropriate time.

Q: What's the current production situation for MFPS? What's the forecast for the first quarter of fiscal 2022?

A: The production impact of parts shortages in fiscal 2021 was just 70% or so of that forecast for the third quarter. Fourth-quarter supply volumes were lower than in the previous quarter. The situation has improved, however, as we reached production increase targets in March for key products. In the near term, lockdowns to constrain the spread of COVID-19 infections have affected our operations in China, particularly those at a production site in Shanghai. Lockdowns have continued since late March. We are endeavoring to keep plants operating as much as possible.

The procurement situation for electronic components, plastics, and other supplies is improving, reflecting our measures in materials, development, and production. We think that the situation will settle down after summer. So, we think that supply volumes in the first quarter should be slightly better than in the fourth quarter of last year if the Shanghai lockdown ends and production can restart in mid-May, although the going may be tough

until output returns to normal.

Q: What are your quarterly and semiannual operating profit outlooks for fiscal 2022? Are earnings likely to be greater in the second half?

A: While we forecast 90 billion yen in operating profit for the full year, first-quarter operating profit will probably be on the low side in view of product supply shortages. We expect MFP production to turn around on better parts procurement conditions. The environment for procuring information and communications technology equipment should improve in around summer. So, operating profit should recover in second quarter, with full-fledged earnings growth starting in the third quarter.

We accumulated experience and improved production and sales operations over the past six months in light of swings in parts and equipment procurement. We will leverage that progress to respond flexibly to changing conditions, doing our best to generate earnings faster than planned. We particularly want to draw on digital transformation momentum from the pandemic to drive Office Services growth even when there are equipment shortages, just as we have done successfully in Japan with Scrum assets by reconfiguring and providing offerings.

Q: When in fiscal 2022 do you look to post asset sale gains?

A: We expect this to be in the second half.

Q: I would like to ask about your approach to price pass-throughs for MFPs. You are effectively constraining discounting, but do you have a policy in that respect?

A: We have explained to distributors and customers that these pass-throughs reflect hikes in parts and transportation costs, implementing them out gradually with their consent. We have secured customer understanding in the Americas and Europe, especially in light of surging transportation costs.

While one policy option in MFP markets could be to constrain discounting, we will push forward to generate revenues from combining services and support and delivering additional value that helps customers to resolve business challenges. We want to shift away from encouraging customers to buy MFPs at discounts. We want to build and deploy a strategy of setting prices that properly reflect the value we can offer customers through hardware and software combinations.

Q: I would like to ask about your fiscal 2022 forecast for Office Printing hardware. What were your order backlogs for fiscal 2021, and to what extent are you likely to resolve them in fiscal 2022?

A: The order backlogs at the end of fiscal 2021 were around 50 billion yen for Office Printing. After including Office Services, the total was 80 billion yen. We believe that underlying demand is considerably higher if factoring in opportunity losses. Examples include being unable to start business deal discussions owing to product shortages or being unable to push forward with deal talks.

Given conditions with customers and our supply structure, it will be hard to promptly eliminate the backlog. We think it will take around six months to complete.

Q: You project that fiscal 2022 Office Printing non-hardware sales will be 83% of the fiscal 2019 level. Are you assuming that there will be a recovery from the second half of this year?

A: We have formulated internal targets for timings of recoveries in specific countries and regions, including to reflect seasonal fluctuations. We do not have quarterly figures that we can share. That is why we are estimating 83% for our fiscal 2022 recovery.