

Key Questions and Answers

Q: Why were you unable to reach your 100 billion yen operating profit target?

A: There were three main reasons. The first was that cost reductions were 1.6 billion yen lower than we expected. Sales of products on which we reduced costs stagnated owing to the COVID-19 pandemic. We also incurred higher spending from arranging air shipments of products and parts. The second reason was that unplanned expenditure rose to bolster communication lines for teleworking environments. Third, our Thermal and Industrial Printing businesses did not reach their performance targets.

During our third-quarter results briefing we explained that we would implement measures to cut expenses and expand sales in the fourth quarter. While we indeed cut costs, our sales expansion initiatives were not sufficiently effective, reflecting the impact of COVID-19.

Q: You explained that the COVID-19 pandemic cut 15.6 billion yen from operating profit and 1.28 billion yen from sales. What was the extent of the impact on revenues?

A: The impact was around 23 billion yen, including more than around 10 billion yen for hardware and around 12 billion for non-hardware.

Q: What was the impact of COVID-19 on print volume, and what is your print volume projection?

A: Print volume dropped more than 20% worldwide year on year in March this year. There was significant variance in declines. The decrease in Japan, for example, was about 10%. Falls in Europe and the United States were 20% to 30%. In places where lockdowns have been lifted recently, Denmark being an example, print volumes jumped 30% or 40% year on year thereafter, so it is hard to predict where print volumes will head.

Q: If the impact of COVID-19 were to drag out, would the Office Printing demand drop be more or less than a teleworking-related service demand rise? What sort of business strategies will you deploy to turn challenges into opportunities?

A: As teleworking evolves, we will steadily capture business opportunities in both Office Printing and Office Services. We have learned that there is a lot of output demand not only in offices but also in homes alike for Office Printing. We look to provide secure output environments and obtain solid output volumes among users at home. For the services business, we look to offer solutions for a range of issues in transforming from being an office automation equipment manufacturer into a digital services company. We will shift resources as we accelerate that change.

It is worth noting that two years ago we began dispatching Commercial Printing business engineers to frontline sites in Japan and abroad to provide technical support. Sales of cutsheet models soared around 50% as a result. This example shows that sending manufacturing

personnel to frontlines can be beneficial by contributing to service businesses.

Having focused on offering the world's best devices as a manufacturer of office automation equipment, we can benefit customers by offering our technologies and features. I think that such a capability is a crucial solution from a digital service company.

So, our ability to turn challenges into opportunities will depend on our ability to swiftly deploy and manage strategies.

Q: Mightn't your office equipment rivals also concentrate operating resources on their services businesses? Aren't you risking a deterioration in your domestic competitiveness or the competitive climate?

A: In Japan, we believe we have a competitive edge with the Scrum packages that we began rolling out in 2017. We have a robust customer base, sales and service structure, and collaborative ties with vendors, and a resulting track record, including in terms of revenues, earnings, unit sales, and the number of solutions offered. So, we don't see any major risks in that respect.

Q: You said that you would be able to generate 25 billion yen or more in operating profit through emergency responses and measures to accelerate reforms, but wouldn't such efforts incur costs?

A: We have presented only part of our outlook for fiscal 2020, so we have shown the number net of expenses.

Q: You presented two operating assumptions for fiscal 2020 on page 5 of the presentation titled, Positioning FY2020 & Accelerating Transformation. Assumption A is for a 30 billion yen to 40 billion yen year on year downside operating profit impact. Assumption B is for a downside impact of 60 billion yen to 70 billion yen. What about the downside revenue impact?

A: The negative sales impacts for the first quarter would be 15% under Assumption A and 20% under Assumption B. The only reference results data was for January through March 2020 in China and for March worldwide. We assume that the greatest impact would be on our performance in April, with sales dropping 30% year on year under Assumption A and 40% under Assumption B. Trends in China indicate that the downside impact thereafter would be 10%. While our performance in April was better than we expected, we can't say for certain how things will pan out, one factor being concerns that a second wave of COVID-19 infections could occur.

Q: You said that you are endeavoring to ensure liquidity on the assumption that a sales decline as a result of the COVID-19 pandemic could be triple that experienced after the global financial crisis. What is the basis for such a large sales drop? In what respects does this situation differ from the global financial crisis?

A: After the global financial crisis, our hardware sales fell 10% from a year earlier, while non-

hardware revenues were off slightly. The economy at the time had deteriorated amid financial instability, and customer cost-cutting efforts were the main factor on our performance. We are now dealing with an infectious disease, and in the absence of a vaccine or treatment for it basically the only policies options are a lockdown of economic activity and social distancing. It is accordingly very difficult to predict the performance impact or how long this situation may last. Some say the situation is like that after the global financial crisis or might develop into an even worse recession. For prudence, we decided to estimate the downside sales impact of the COVID-19 pandemic at triple the level after the global financial crisis.

Q: Mightn't you scale back the 100 billion yen in additional shareholder returns that you stated in your March 27 briefing that you would pursue? Also, on what basis would you deliver such returns? Once the right conditions are in place, might you make these additional returns during fiscal 2020?

A: The additional shareholder returns presented on March 27 are a summary for the whole of the 19th Mid-Term Management Plan, and there is no change in that direction. That said, our top priority at this juncture is our business continuity. We will deliver additional shareholder returns as soon as possible after we work out when we can generate cash stably in view of the near-term financial market climate, the economic situation, the extent to which the pandemic abates, and progress in transitioning into digital services entity, as we discussed today. We cannot present a specific timing at this stage.

Q: Your balance sheets at the end of March 2020 show 231.8 billion yen in goodwill. What impairment risks are there?

A: For goodwill, we are constantly checking on impairment charges from future cash flows. We set forth basic, optimistic, and pessimistic cases for the possible impact of COVID-19 on future cash flows. As a result of an audit, we concluded that we would be able to generate cash flows commensurate with our goodwill value. While we cannot say that there will be absolutely no risks, we don't think there are any issues at this juncture.