

Key Questions and Answers

Q: How has the COVID-19 pandemic affected your supply chain? Please summarize developments to date, including with regard to plant operation shutdowns in the United Kingdom and France and delays in procuring parts from China and Southeast Asia.

A: In China, production was impossible from the end of January through February this year. While we had no manufacturing sites in Hubei Province, employees living in that province were unable to go to work owing to restrictions on their movements, and that affected us. Also, suppliers for some parts were not operating, and that hampered production. We had fortunately amassed inventories for mainline MFPs to prepare to shift manufacturing from Shenzhen to Dongguan, so the impact was small.

Although production restarted in March, we encountered logistics delays for exports from China, and it took some time to sort this out. Not only shipments of completed offerings in China but also parts supplies to Japan were affected, and that somewhat affected finished product manufacturing in Japan.

Our production sites in the United Kingdom and France are mainly for consumables. Although we halted operations there for two or three weeks, demand was sluggish, so the impact on these sites was small.

The pandemic is not affecting any of our production sites at this stage.

That said, we run a toner filling plant in the United States that supplies the Americas. Since the number of COVID-19-infected people is still increasing in the United States, the plant has amassed around two weeks of inventories in case there is a shutdown.

Q: How do you expect to progress each quarter to reach your full-year operating profit forecast of 10 billion yen?

A: We seek to break even in the second quarter, be slightly in the black in the third quarter, and return to normal earnings levels in the fourth quarter.

Q: What are your full-year sales assumptions for MFPs? What was the situation in July?

A: We are still finalizing numbers for July, but we can say that the trend continues to be one of improvement.

We based our full-year forecast on differences in progress in imposing and lifting lockdowns and other restrictions and recovery situations in each region, producing full-year forecasts for each country and region and formulating plans.

Q: What will be your structural reform expenses and applications for the second quarter and beyond?

A: We posted 1.9 billion yen in one-time expenses in the first quarter in line with the optimization of personnel in the United States. We plan a similar amount and purpose for the second quarter. We should reap the rewards from the third quarter.

Q: Your emergency measures would add 70 billion yen to earnings. What investments are associated with these measures? Your one-time expenses would be 8.5 billion yen. What other spending might we expect?

A: We project 9 billion yen in spending this fiscal year to drive our digital transformation in-house. As well as a one-time cost of 8.5 billion yen, there would also be some smaller spending, netting 70 billion yen in earnings. (We aim to boost earnings by 70 billion yen through 55 billion yen in cost reductions and 15 billion yen in sales improvement measures.)

Q: As part of the one-time and permanent actions that you showed, you mentioned business selection and concentration (on page 24 of the presentation). I would like to know if you have specific ideas in that respect, such as projects that you are already looking to scale down.

A: We pursued business selection and concentration under the 19th Mid-Term Management Plan. From a capital efficiency perspective, some of our businesses are still not profitable. We will

scrutinize our situation. I do not have anything specific to offer you at this stage.

Q: Please detail your emergency and permanent measures to optimize production sites.

A: To date, our strategy has been intensive production and local production for local consumption, all this being for MFPs for the Office Printing business. Existing MFP sites have manufactured offerings for our Commercial Printing and Industrial Printing businesses. We look switch to plants that specialize in product lines as appropriate sites for each business. That would mean, for example, that we would have commercial printing plants handling small-lot production, and would need to optimize MFP production through modularization and automation in line with lower production volumes.

Q: The trial calculation of fiscal 2020 cash allocation, on page 31 of your presentation, states that your end-2020 cash would be around 280 billion yen, including an additional 100 billion yen in shareholder returns. Ricoh projects 10 billion yen in operating profit for the whole of fiscal 2020. Do you seek implement these 100 billion yen in additional shareholder returns during this fiscal year? Please update us on your additional shareholder returns stance.

A: Regarding the additional shareholder returns summarized in the 19th Mid-Term Management, as we explained today we will continue to assess the scale of investments we need for future business changes and growth while scrutinizing our free cash flow outlook. The diagram on page 31 simply shows that end-fiscal 2020 cash would include an amount for additional shareholder returns.

Q: Please update us on the timing of the announcement of your new mid-term management plan and its approach.

A: This fiscal year is about accelerating change and tackling an emergency. Our new mid-term management plan will cover fiscal 2021 and 2022. We aim to announce that initiative between January and March next year before launching it in April.

I sense that during the next mid-term management plan we will need to bring forward the measures we had planned to undertake in the three years subsequent to it. We look to explain how we are steering toward becoming a digital services company, covering not only the businesses we engage in but also our organizational and human resources strategy.

Q: You assume that MFP print volume may recover to 90% of previous levels. What about fiscal 2021 and beyond?

A: Even after fiscal 2021, we do not think that it will return to pre-pandemic print volume levels. This year has seen volumes drop to an extent that we had envisaged would be over the next two or three years. We have to assume that volumes could drop even further in view of numbers of people telecommuting and offices becoming smaller.

We have now learned that the extent of digitization has varied greatly among countries and regions.

We will need to monitor the degree of digitization in each region. We will endeavor to respond swiftly to change by creating smaller managerial units.

Q: What is the growth and profitability outlook for the Office Services business? When do you envisage operating profit from that business exceeding that from Office Printing?

A: We target a growth rate from next fiscal year and beyond that exceeds last year's. Monthly revenues should climb as sales in IT services, applications and subscriptions rise. In June, for example, we secured subscription agreements in Japan that were worth an annualized 5 billion yen. So, by amassing such a track record we hope to offset a drop in non-hardware revenues in Office Printing in the years ahead.

We plan to explain the relationships between specific growth rates, profitability, and operating profit in the Office Printing when we announce our new mid-term management plan.