

Key Questions and Answers

Q: Other companies announced in their results briefings that their performances would recover in the second half of this fiscal year. Aren't the full-term forecasts that you announced too conservative?

A: When we announced our previous forecasts in August we anticipated a recovery in the second half of this year. From mid-September, however, the number of COVID-19 cases rose in Europe, with lockdowns and other movement restrictions starting from the end of October. This situation made an ongoing recovery unlikely, and we concluded that the second-quarter impact of the pandemic would continue through the second half. While conditions may vary from month among countries and regions, we expect them to be within our envisaged scope, so we do not consider our projections excessively conservative. We believe that it is important to respond swiftly to national and regional developments as they happen.

Q: You now forecast an operating loss of 49 billion yen for fiscal 2020. Your earlier projection was for 10 billion yen in operating income. What are the earnings or loss breakdowns by business?

A: We are not disclosing details for each business. Still, about 70% of the downward revision was for the Office Printing business.

Q: Your transient expenses forecast for the full year is 20.8 billion yen. What is the breakdown for that number? Might these expenses rise?

A: The expenses are largely for two components. One is about 4.4 billion yen for expenses costs associated with relocating to a new plant in China. The other is for optimizing personnel in the United States, encompassing spending to optimize staffing levels in preparation for becoming a digital services company. We are mindful of the need to act now to ensure a performance recovery from next fiscal year while pushing ahead with reforms that drive growth over the medium and long terms.

We are conducting a detailed assessment of how to optimize personnel for our transformation into a digital services company, and accordingly added spending this fiscal year to accelerate action in response to changes in the business climate. We could bring forward measures planned for next fiscal year if conditions look like deteriorating further.

Q: When you announced your first-quarter results, you assumed that Office Printing non-hardware sales for the year would return to 90% of the levels for the previous term. What is your stance now? I would like to know your outlook on developments next fiscal year in view of the expected impacts of greater teleworking and other factors.

A: We previously assumed that non-hardware sales would recover by the end of this fiscal year to 90% of the pre-COVID-19 level. Our projection is now for fourth-quarter sales to reach 80% of the pre-COVID-19 level and 85% of levels for the previous corresponding periods. Recoveries could be to 90% of prior sales levels in countries in which COVID-19 infection situations have improved, so at this stage we consider the

90% sales level to be a new norm.

Q: I would like details of transient expenses for the second quarter. You explained that you are reorganizing your production structure and optimizing human resources. Tell us, for example, how you are progressing with headcount cuts by region.

A: Our production structure reorganization relates to a new plant in China. Operations began in July, as the pandemic caused construction delays. We thus incurred expenses in the second quarter as well. The new plant consolidates the operations of two others, and we look to lift productivity by adopting digital manufacturing and other advances. Personnel optimizations are in the United States and are about switching to the people we need to transition into a digital services company. We are not disclosing the specific numbers of people involved for the plants and optimizations.

Q: Why was sales growth slower in the second quarter than in the first for IT Services and Applications in your Office Services business?

A: We believe that this is because in the second quarter of the previous fiscal year we experienced a demand uptick for IT Services and Applications in keeping with Windows upgrade demand.

Q: You say that your Office Services business is expanding steadily. Can that expansion compensate for an accelerated drop in Office Printing revenues? For example, around when do you expect operating profit from Office Services to exceed that from Office Printing?

A: We believe that Office Services results could offset those in Office Printing. In Japan, Office Services sales last fiscal year outstripped those from Office Printing. The performance gap is closing in Europe. We hope to give you a sense of where we're heading when we announce our next mid-term management plan in February or March 2021.

Q: What operating margin are you targeting in the Office Services business?

A: The margin rose from 3.7% in the first quarter this fiscal year to 6.2% in the second quarter, so we were again able to exceed 6%. We aim to keep enhancing profitability, toward 10% operating margin.

Q: Is it correct to conclude that existing Ricoh customers are the prime buyers of your Scrum packages in Japan? You indicated your 700,000 customers as a prospective customer base for these offerings. To what extent do you think that you can expand?

A: Scrum package penetration of our existing 700,000 customers or so has been about 10% to date. We hope to lift that number to 70% or 80%. We also look to tap prospective customers. On top of that, we will endeavor to lift purchases per customer. Purchases currently average 1.8 units per customer. Some customers have bought five units.