

Key Questions and Answers

- Q: In view of your first-quarter results, I would like to know about the operating profit balance for the first and second halves of the year. Is it correct to assume that the transient gains you mentioned for your full-term forecast are for the second half of the year?
- A: We project 90 billion yen in operating profit for the full year. Around 30% of that would come from the first half, with the other 70% being from the second half. We basically expect transient gains in the fourth quarter. In light of our first-quarter results, we have retained our outlook for the full term.
- Q: Tell us about your progress with plans for Office Printing non-hardware and your projection.
- A: Although we indicated that non-hardware sales for the full year should be 83% of the fiscal 2019 level, we believe that the first-quarter result was 80%, which is in line with our estimates. We anticipate upticks in the second and third quarters.
- We internally discussed adopting a more bullish stance on a non-hardware recovery. But we settled on our current stance in light of our performances in fiscal 2021. We believe that our results for that quarter were in keeping with our assumptions.
- Q: With non-hardware sales for Office Printing, MFP print volumes and office attendance rate data suggest that volumes dropped slightly in the United States and Europe. What are your takes on this? Office attendance rates have been particularly slow returning to normal in the United States. Is this perhaps a deviation from your assumptions?
- A: While neither office attendance rates nor print volumes have recovered sufficiently in the United States and United Kingdom, they are within the ranges that we estimated at the start of the year.
- We are talking internally about the extent of recoveries to the levels of fiscal 2019, before the pandemic. After also considering downward output trends from work practice changes, which we originally assumed, I think we should look toward a non-hardware recovery down the track.
- Also, returns to offices vary among countries, and the correlation between Google's data on office attendance rates and Ricoh's MFP print volume has also changed. We are accordingly discussing office print output and non-hardware trends over the medium and long terms for our next mid-term management plan.
- Q: Do you still project Office Printing hardware sales at 83% of fiscal 2019 levels? Do you anticipate a second-half recovery?
- A: We have retained our outlook. Sales in the first quarter were 82% of the fiscal 2019 level, owing partly to the Shanghai lockdown. But we expect a turnaround in the second half.
- Q: What was the financial impact of the Shanghai lockdown?
- A: After factoring in the Shanghai lockdown, the impact of external factors on production in the first quarter was about 4 billion yen. The lockdown accounted for the bulk of that amount.

That said, we have acted to minimize the impact. For example, we are procuring alternatives for parts and materials that are in short supply. We boosted production after the authorities lifted the lockdown. We aim to overcome any lingering effects.

Q: You said that IT equipment shortages continue to affect the Office Services business. I heard, however, that PCs surpluses are emerging and that some Scrum packages, especially software, are profitable. Tell us more about your business model and the situation with domestic IT equipment shortages.

A: IT equipment shortages encompass PCs, servers, routers, and other network equipment. Procurement situations vary by manufacturer and product. The server shortage is most acute.

Scrum packages comprise fixed combinations of hardware and software because of the need to make it easy to attract demand and validate those combinations. So, shortages of hardware in these sets are continuing to hamper Scrum package sales.

At the same time, sales and demand are robust for Scrum packages that do not depend on IT equipment. Sales of Scrum assets have been strong because they are customizable, have certain lead times through delivery, and can work with IT equipment that is readily available.

We look to resolve IT equipment shortages in the second half. The Scrum series focuses on cloud computing and software and does not depend on hardware. As explained today, we will deploy it where customer demand is high, such as in security and back office operations.

Q: I would like to confirm where Office Services demand stands. Has an uncertain business outlook fueled some reluctance to invest in IT in Japan, particularly among mid-sized companies and small and medium-sized enterprises? Has sentiment changed over the past three months?

A: The investment appetites of customers don't seem to be waning. They remain willing to invest in security, compatibility with systems updates, and other necessary areas. And for some customers we have yet to propose replacements after lease contracts expire, so we also look for demand there.

We actually have a large backlog of orders that we cannot clear owing to equipment shortages. Office Services account for one-third of the global order backlog total of 40 to 50 billion yen.

Q: Ricoh has strong direct sales channels. So, I thought that it would be able to act more flexibly by switching to sales of alternatives even if there are constraints with certain IT equipment. The company doesn't seem to be focusing on doing that. Why is it so?

A: We have endeavored to minimize the impacts on normal operations of IT equipment supply constraints since they began, collaborating with our distributors to secure inventory for us and undertaking other efforts to obtain products.

We base Scrum packages on customer needs and solutions scenarios, so we need some time to put them together and commercialize them. It has taken time to improve supplies of IT equipment. We responded to the gravity of that situation by releasing Scrum packages in the first quarter that do not depend on IT equipment for which availability is scarce. Still, we think we were a little slow

off the mark.

Q: Would it be correct to conclude that a year-on-year decline in Japan's office services business stemmed not from weaker investment demand among your core clientele of mid-sized and small and medium-sized enterprises but fundamentally from a shortage of IT equipment and a delayed response to that situation?

A: The prime reasons were the absence of more than 4 billion yen in sales in the first quarter of last year from a GIGA School demand spike and the ongoing impact of IT equipment shortages. Customer investment appetites remain solid. We will pursue a turnaround by marketing the Scrum series, which does not depend on scarce IT equipment, as we explained earlier.

Q: To what extent should invoice system deployments and the revision of Japan's electronic bookkeeping law contribute to your business?

A: The invoice system deployment mandates including business registration numbers and other invoicing format information. This necessitates updating business solutions for issuing invoices to comply with that system. We offer these solutions to around 7,000 existing customers. We will propose updating business solutions that have already been deployed and offer MakeLeaps, our software as a service application, for issuing invoices compliant with the invoice system. We anticipate initial sales of 500,000 yen to 1,000,000 yen per company.

Q: You explained that your underlying performance is progressing as expected after excluding foreign exchange and other transient factors. What exactly were those transient factors?

A: We presented operating profit factors. The main one was 1.4 billion yen in government subsidies.

Q: Can you update us with progress on the PFU acquisition?

A: The Japan Fair Trade Commission's business combination assessment is a prerequisite for acquiring the stock. That process is taking time, so we postponed the purchase date beyond the originally scheduled July 1. The transaction faces no particular competition law issues. We do not think that there are any risks of the authorities questioning the suitability of responses or disclosure. In the meantime, we are moving ahead with discussions on the assumption that nothing should prevent swift action and efforts to generate synergies after the merger. We will let you know once the share acquisition schedule becomes clear.

Q: News reports in China have suggested that the authorities will impose rules to block foreign-made office equipment. In that light, what do you think will happen as you expand your business in China?

A: We understand that none of this constitutes an official Chinese government announcement. As we gather facts, we are collaborating with government and trade bodies in exploring a necessary industry response.

We are currently using distributors as part of our business in China, which accounts for a small proportion of our overall sales. Even if the authorities impose regulations there the immediate impact on our performance would not

be significant.

There is more to the Office Printing business than just hardware sales. Maintenance is also necessary, so it is not very easy to enter that market. We will closely monitor the situation and act as needed.