

Key Questions and Answers

- Q: I would like to confirm why you lowered your full-year forecasts, factoring in procurement risks. You could have reviewed your forex assumptions for the second half of the year and maintained your initial forecasts.
- A: The procurement risk that we incorporated is primarily that manufacturing issues at a particular supplier of specific parts could affect the production and supply of our offerings. While we have sought improvements from the supplier, we cannot control some aspects of that they do. We accordingly concluded that we should reflect such risks in our figures and share with the capital market what is happening to Ricoh. The yen's depreciation may not continue in the second half of this year. So, we decided to retain our forex assumptions, solely presenting changes relating to risks.
- Q: Your fiscal 2022 outlook for operating profit comparisons on page 19 of your briefing presentation now estimates that a 35.0 billion yen downside impact of external factors. Your initial estimate was 17.9 billion yen. What prompted this change? How are you accounting for procurement risk?
- A: We augmented our procurement risk outlook for some parts and materials by increasing the impact of external factors. That is because we expect energy and other costs to keep climbing. We have maintained our initial assumption for ocean freight costs. We will control pricing (included in sales and product mix for operating profit factors) to absorb the impacts of external factors and unexpected risks and push forward to reach our 85 billion yen operating profit target.
- Q: Your full year forecast for operating profit by factor shows other gross profit gains of 45.8 billion yen within the sales and product mix, from an initial projection of 22.0 billion yen. What prompted that increase. How likely is this to happen?
- A: Pricing controls were the prime factor in our upward revision. We will keep implementing flexible pricing controls in the second half in line with external factors, and are quite certain that the gains will happen. We will continue undertaking pricing control measures, such as by negotiating to secure compensation for previously gratis services. The pricing controls are mainly for Ricoh Digital Services (Office Printing) and Ricoh Industrial Solutions (Thermal and Industrial Products).
- Q: Your segment forecasts primarily lowered your outlook for Ricoh Digital Services. If you had factored in component procurement risks, wouldn't that affect the operating profit of manufacturing unit Ricoh Digital Products?
- A: Procurement risks for some components should materialize in the third quarter, with a recovery in the fourth quarter. Ricoh Digital Products accordingly looks to absorb these risks during this fiscal year, although supplies and sales of manufactured products in the market could still be affected in the fourth quarter. Also, we lowered our outlook for Ricoh Digital Services in case sales cannot recover from ICT product supply difficulties.
- The operating profit balance between Ricoh Digital Services and Ricoh Digital Products for our full-year forecast does not seem right. While slow hardware sales in the Office Printing business and a stagnating situation for the Office Services business, particularly in Japan, have shaped the outlook for Ricoh Digital Services, we believe that this unit can surpass our initial operating profit forecast.
- Q: Your segment outlook is for corporate and eliminations to add 4.6 billion yen to operating profit. This remains basically in line with your initial forecast, but the first-half result was a 3.7 billion yen downside. Do you expect to post asset sales gains in the second half?
- A: We incorporated two major changes in our corporate and eliminations forecasts. The first was the impact of consolidating PFU. We initially included it in the corporate and eliminations segment. It is now in the Other segment. Another point to note is that our current forecast has slightly increased the face value of asset sales gains, which from the outset we projected would be in the fourth quarter.

The red ink in the first half stemmed from Ricoh Digital Products posting an unrealized gain

deduction owing to inventory buildups. We will eliminate the deduction as inventories drop with progress in supplies and deliveries to market.

Q: To what extent are the production issues that you cited at the supplier affecting you this fiscal year?

A: The impact exceeds ten billion yen.

Q: Please explain quarterly changes in the Office Printing business order backlog, including your forecasts.

A: The backlog at the end of September was 20 to 25 billion yen. This was down around 1 billion yen from the end of June.

We will eliminate accumulated inventories and cut the order backlog. While the backlog could increase in the third quarter owing to production stoppages from difficulties in procuring some parts and materials, end-December inventories are unlikely to exceed end-September's, as some current inventories will decline as deliveries progress.

Q: Do you find that deteriorating business confidence is making customers decreasingly willing to invest and weakening demand, particularly in the American and European markets?

A: Although business confidence in Europe seems to be worsening, we are seeing some recoveries in hardware sales, such as from deliveries to customers to whom we have not made deliveries before. We thus expect a respite before feeling the impact. With non-hardware, we see signs of office attendance and print volume recoveries in all major countries except in the United Kingdom. There still seems upside scope.

In the Americas, inflation has made companies a little more cautious about capital investments. As we have explained today, however, existing customers seem to like our efforts to develop new solutions for them. Also, we are focusing on the healthcare, financial services, and retail sectors, endeavoring to expand our businesses where needs exist and we are attractive to customers.

While the operating climate is poor, we are tackling challenges as best we can.

Q: Page 26 of your results briefing presents the direction for your next mid-term management plan. Headquarters oversees global collaboration and platform building. How are you progressing in those respects?

A: I'll start with global collaboration.

October 21 saw the launch of RICOH kintone plus, which we commercialized in collaboration with Cybozu. This offering comes standard with a link to the RICOH Smart Integration platform. It also includes proprietary application templates and unique additions to the regular kintone setup.

Before the launch, we prepared a program for acquiring certifications, including from Cybozu and within Ricoh, and got salespeople up to speed. The setup incorporates the Scrum series. We anticipate a smooth launch and sales expansion.

On the global deployment front, we first plan a launch in January next year in the United States. As you know, Cybozu has maintained a branch office in the United States for some time but has been unable to reach its sales expansion targets. We are working closely with our American operations to explore market approaches.

Cybozu has no offices in Europe, so we are starting to raise awareness of kintone through people from our Office Services business. We are planning to start test marketing kintone in the United Kingdom next year, so I think we are progressing well.

Regarding DocuWare, which we acquired in 2019, while people know it offers good products, deployment progress has been patchy because of gaps in sales organization and salespeople knowledge. DocuWare already offers its products in 40 countries, but sales vary regionally. In

Japan, for example, they have not been as strong as anticipated.

In Japan, we will incorporate DocuWare and RICOH kintone plus in the Scrum series. In Europe, we will cultivate sales through companies we have acquired there that are driving our Office Services business growth.

Each region will leverage its own approaches, with deployments likely varying accordingly. We are starting to see that progress with global collaboration is less about dealing with instructions from headquarters and more about those familiar with local needs teaming together, and this approach seems to be working.

I will now turn to the construction of our RICOH Smart Integration platform. We are developing it to materialize value co-creation with workers by tapping our digital technology and data. MFPs and more other edge devices from Ricoh Digital Products can connect to this platform, making it possible to propose software as a service model businesses. We will increase the number of products that can link to the RICOH Smart Integration platform.

We think that it will take a little more time to get this platform's value-added offerings to customers on track. We will begin by better identifying what the platform can achieve and what regions are working on, as there is less understanding about it in Europe and the United States than in Japan.

Q: How did your second-quarter operating profit stack up against your internal expectations?

A: We were around 3 billion yen short of our target. After factoring in account the impact of a weaker-than-expected yen and unplanned transient gains, earnings were actually 6 billion yen lower than expected.

One key factor in the shortfall was insufficient growth in the Office Services business, owing largely to a shortage of ICT equipment. Another factor was non-hardware weaknesses in the Office Printing business.

Q: You project 61.6 billion yen in operating profit forecast for the second half of this year. What is your target for the third quarter?

A: We look for third-quarter earnings to be similar to those in the first half.

Q: What is the Office Printing business demand outlook for MFPs? Is there anything to suggest that the number of MFPs in market that are due for replacement toward fiscal 2023 will decrease at renewal time?

A: While we have seen nothing concrete, we assume that the market is shrinking. It is thus important to be able to offer value-added proposals instead of just hardware. We are making preparations to that effect in the Office Services business.

Q: Do you envisage any cost structure issues under your next mid-term management plan?

A: Today, we explained progress with structural reforms under our 20th Mid-Term Management Plan. When we announce its successor we will present structural reforms we will tackle under it.

I think that we need to undertake more measures to downsize assets.

To become a digital services company, we must trim more processes from headquarters through regional sites. We are overhauling our IT infrastructure. Several major projects are underway. One is to replace our production management setup with a standard, nonproprietary one. Another is to shift to cloud computing. While that is not the same as downsizing assets, such as by consolidating production sites, our efforts should trim our business foundations and streamline operations, cutting expenses and otherwise reforming our structure.

Q: Why did you maintain your non-hardware projection for the Office Printing business? You explained that you experienced weaker conditions in the second quarter. Did you conclude that there were no earnings issues?

- A: While our non-hardware results for the second quarter were slightly lower than projected, the shortfall was not enough for us to alter our outlook. When we announced our forecasts for this fiscal year in May, we reduced the non-hardware demand recovery assumption under our mid-term management plan from 86% of the fiscal 2019 level, to 83%.
- Q: Is it correct to conclude that a sales slowdown in the domestic Office Services business has stemmed not from declining business confidence but from your inability to stimulate customer demand and make proposals owing to an equipment shortage?
- A: As you observed, ICT equipment shortages have prevented us from meeting customer demand especially from small and medium-sized enterprises in Japan. For mid-sized companies, Scrum assets sales are expanding steadily, as we can make adjustments to procure products even amid ICT equipment shortages. Also, the revision of the Electric Ledger Law, government subsidies, and other factors are driving demand to adopt digital processes. Process digitization is not progressing among mid-sized companies or small and medium-sized enterprises in Japan. We think government actions will underpin a willingness to invest in digitization, driving orders from Ricoh.