

Key Questions and Answers

Q: It was mentioned that Ricoh will increase the ratio of digital service sales to 60% by 2025. Could you please let us know in which area or business domain you think there will be future business opportunities?

A: In Europe, we believe there will be growth opportunities in a variety of regions by business sector leading up to FY2025. There is both organic growth through our conventional capabilities as well as through acquisitions. We will continue to make growth investments and strengthen the scope of our geographic coverage.

In France, one of our key markets, we are in the process of exploring and considering acquisitions, and we anticipate further growth through this effort.

In IT services, Ricoh's coverage in each region, with the exception of France, is growing substantially.

Ricoh aims to become No. 1 in Europe for the provision of communication services and we will continue to make further acquisitions.

For applications services, we would like to look into investing in companies that can be deployed within the Ricoh Group.

Partner channels are also of great importance. Businesses have been commenced in Africa and the Middle East, but there is still room for growth.

Q: Could you please let us know specifically to what extent the acquisitions will contribute to the Company?

A: We have not set any contribution or sales targets for acquisitions. We are always searching for investment targets, and our list of candidate companies is growing, so we will continue to carefully consider and weigh future acquisitions.

Q: I would like to ask about the competitive environment. Until now, our understanding was that the office equipment manufacturers in the same industry were your main competitors, but has this changed with the expansion of your Office Services domain?

A: On several occasions, we were in competition with manufacturers of office equipment in the same industry, but this has changed. As was explained today, when it comes to global business negotiations in Europe that transcend national boundaries, currently we are in the situation in which we face almost no competition. Ricoh is expanding its business beyond conventional IT services for core systems to communication services and new digital workflow areas, and we have no competitors that offer similar services, especially when looking globally.

Also, each region has its own areas of expertise, and competitive environments differ. In Japan, our business is mainly for small and medium-sized enterprises, but the competition

and environment are changing as we have developed solutions and provided value based on an understanding of the challenges of business activities in each industry. However, there are still few competitors who are able to offer solutions at the same level by utilizing their sales and service network in every corner of the country.

In Europe, other potential competitors include office equipment manufacturers in the same industry, as well as primary IT system vendors. However, when it comes to Ricoh's extensive solution offerings, or when it comes to proposals that span all regions of Europe, the number of cases in which Ricoh faces competition is very limited. Our advantage is that we are able to offer our services on a pan-European basis.

Q: The progress of operating profit compared to FY2020 was presented, but I would like to know about profitability by region. Although sales in Japan are growing through the Scrum series and in Europe through acquisitions and other future efforts, are they also contributing to the improvement in profitability?

A: The Company does not disclose profitability by region. However, we are working on expanding our business on the assumption that, apart from acquisitions, we will not increase existing resources and sales growth is contributing to improved profitability. In particular, the expansion of profitable recurring revenue has contributed to the improvement in profitability.

Q: If profitability is improving, could you tell us the specific reason for this in Japan and Europe, respectively?

A: In Japan, it is important to identify the customers' industry and business issues, and how efficiently and without incurring business costs, the Scrum series can be deployed by combining products and services that meet the customer's needs. To this end, Ricoh Japan's Scrum series planning industry producers, who are producers (human resources familiar with the type of business activities for which they are responsible) of industry operations, make visit clients' sites to plan the Scrum series with the optimal combination of commercial materials, which are then deployed nationwide. We have been making efforts to focus on increasing the profit margin per project, and we believe this is the result of our efforts.

In Europe, the growth in recurring revenue, after all, contributes to profitability. Through the growth of the Office Services business over the past few years, Ricoh has learned the importance of how to sign contracts with customers and the importance of securing ongoing contracts rather than initial sales.

We do not acquire businesses that do not contribute to profitability and make decisions whether or not to suspend operations if it becomes no longer appropriate. The current portfolio of our businesses in Europe is strong and is contributing to our profitability.

Q: Could you tell us about the potential of RICOH kintone plus in the European market?

A: We believe its potential is great. In Europe, as well, customers want to automate their business processes, and DocuWare and Axon Ivy have actually been greatly successful. Since RICOH kintone plus has a different target and is complementary to both of them, the market we can serve will expand. We anticipate that RICOH kintone plus will be a driver to grow our business. We are working together in Japan and Europe to prepare for the launch.

Q: Could you tell us the composition ratio and growth rate of each customer category in Japan and Europe, respectively?

A: Even though we are targeting small and midsize companies similarly, there is a difference in the composition between Japan and Europe.

In Japan, about 15% are major companies, 10% are medium-sized companies, and 65% are small and medium-sized companies. The remaining approximately 10% are public offices and local governments. In Europe, the ratio of large and medium-sized customers tends to be higher than that of Japan.

Although we do not have any growth rates for each customer category that we can disclose, we believe that in both regions, the segment of small and mid-sized companies is a customer segment with growth potential through Digital Transformation.

Q: I understand the advantages of cross-border business in Europe, but could you tell us about your strengths toward local companies and small and medium-sized enterprises in each country?

A: Smaller scale enterprises are also deployed through partners to a certain extent. In such cases, there are aspects that vary depending on the abilities and structure of the partner. However, since the content and areas in which IT services can be provided together with our acquired companies are broad, it would not be possible for a printing competitor to propose the same services. Also, in the areas of communication services and applications services, this has led to the expansion of business.

It is important we acquire local customers and be recognized by them in each country. In Europe, languages, cultures, and working styles vary from region to region. In order to respond to such demands, acquisitions are underway with an emphasis on being able to cover the whole of Europe.

Q: Could you tell us the sales and operating profit of the Office Services business per employee in Japan and Europe, respectively?

A: We do not disclose per-person figures. However, this is an important indicator and is managed internally.

In particular, the total number of employees in Europe has been on the decline as a result

of optimization of the workforce. In this context, the Company has achieved sales and profit growth in the Office Services business, so I believe that you can understand the increase in the per-person indicator.

Q: Could you tell us your future plans for improving Office Services profitability in Europe?

A: Profitability of the Office Services businesses is also highly evaluated as being at a very healthy value at the current time. As for the future, we believe there is no point in expanding sales without profit growth and it is important to receive appropriate compensation for added value and to secure earnings.

In this context, the key to the future will be the annuity business. Amid declining hardware sales, it is important we expand and build up the recurring business, and we would like to move forward with the right balance and sense of speed.

Q: Amid a situation of soaring prices and continuing inflation, each company is under pressure to pass on costs. How is Ricoh engaging in communication with its customers? What is the reaction of customers?

A: In Europe, we raised prices in the Office Printing business. At those times, we have been honest in our explanations of the reasons for these price increases. For example, explaining that shipping container prices have risen or that manufacturing costs have risen due to a shortage of parts. The customers, of course, do not welcome the price increases, but they understand the situation the Company is in.

As for partner channels, it is difficult for Ricoh and its partners to pass on prices at the same time, and this has been a challenge. For example, some contracts with major companies allow for price negotiations just once a year. However, this is an issue that we must address to ensure returns.

We believe that pricing controls will continue to be necessary in Europe. Inflation is progressing and payroll levels are rising faster than ever before. However, if, for example, costs of shipping containers drop to normal prices, we would like to consider lowering our prices. This sends the message that we are not looking to profit unfairly. At the moment, our ocean freight contracts are long-term, so we are in a situation where prices have hardly dropped at all.

Q: Is it correct to forecast that even if the Office Printing business contracts, by shifting human resources to the expanding Office Services business, there will be no deterioration in returns?

A: We are not in a situation where the Office Printing business could rapidly contract, or where print output could suddenly disappear, so we are gradually and at an appropriate speed transforming our resources. Ricoh is proceeding forward with appropriate human resource

strategies, whether it be the conversion of existing human resources or acquiring new resources, while taking into consideration the differences in market conditions and labor practices in different regions. We are not proceeding in such a way that profitability will deteriorate as a result of significant one-time expenses.

Q: Are office services proposals mainly made to existing customers of office printing? Could you tell us about the relationship between the Office Printing and the Office Services, such as whether customers who have implemented office services tend to also install office printing without discounts?

A: Ricoh is moving forward based on two major approaches. The first is to propose a variety of services and added value to existing customers with MFPs installed. While maintaining existing office printing contracts, the Company will increase revenue per customer by introducing a variety of additional services.

The other is when a proposal for office services is an entry point, which also leads to the installation of MFPs. In this case, the customer pays for the overall added value provided, including services and solutions, while also taking into account the customer's trust in Ricoh, and because of the value added they receive, the price range is often relatively healthy.

The Company's central policy in Japan is to develop and deepen our customer base. Currently, there is no doubt that there are many existing customers using Ricoh's office printing products. The Company is developing new customers for office services by proposing solutions that meet customer requirements, using Ricoh's Scrum series of products as an entry point.

Ricoh is promoting customer proposals under the banner of "Ricoh First" in Europe. As long as Ricoh's lineup of products meets the customer's requirements, we sell Ricoh products, whose profit margins are high. This was normal practice for office printing hardware products, but we are currently recommending a lineup of software products by strengthening its software portfolio. There are times when other companies' products or sourced products are required, but we are controlling product prices so that they are appropriate.

Q: What is the scale of the cloud business as a percentage of recurring revenue?

A: I cannot disclose the ratio, but the composition ratio is growing. Also, the returns for the cloud business for in-house software, such as DocuWare, is very high, so we would like to focus on this business.

Q: How are acquisitions approved at Ricoh's headquarters?

A: Before actually proceeding with the acquisition process, the Investment Committee deliberates and decides whether to allocate resources to consider acquisitions, and

proceeds with due diligence on those projects that we have decided to devote resources to an acquisition review. At the point where the results of the due diligence are released, the acquisition is again deliberated by the Investment Committee, which summarizes its views and passes them on to the decision-making body. The final decision may be made by the Board of Directors or by the Group Management Committee (Executive Officer decision-making body), depending on the size of the acquisition.

Q: Are there any issues you are facing as you move forward with your human resource strategy for Office Services growth in Europe?

A: We believe it is important to maintain an environment where new skills can be learned for all of our employees. We offer three major reskill programs: two for service engineers and one for salespeople.

When obtaining internal qualifications, it is important to have the appropriate human resources take the exam, and if the exam is of a high level, it is necessary to identify them prior to the qualification exam. It is also vital to ensure that trainees and those who have acquired internal qualifications are able to work in the areas that correspond to the content of the training. For example, if a person receives sales training for DocuWare but is not provided with the opportunity to apply it to their work, this will lead to a decrease in motivation.

In sales, it is important to have a solid understanding of the Company's portfolio and products, and to feel confident when knocking on customers' doors. When it comes to new products such as DocuWare and communication services, many salespeople are still a bit apprehensive. To counter this, we have deployed experts in each country to support sales. When entering a new domain on their own, there is a tendency for people to be too frightened to do anything. Therefore, in the beginning, an expert accompanies the salesperson.

We believe that training and practice are critical, as both service engineers and salespeople do not want to disappoint their customers, particularly those with whom they have a long relationship, and do not want to propose something that they do not feel confident about. Additionally, the back office is another area that we intend to focus on going forward. We are already working on implementing new contract forms into the system, running processes promptly, and issuing invoices, but there is still room for improvement. It is necessary for the entire Company to improve its skills.

There were many negatives caused by the COVID-19 pandemic. However, the sudden decrease in sales activity related to MFPs freed up time that allowed salespeople and service engineers to receive the training and polish their skills necessary to learn and practice the new portfolio, which has had a positive effect.