

Impairment Losses

Summary of impairment losses

During the fourth quarter of the fiscal year ended March 31, 2018, the Company posted ¥175.9 billion in asset impairment losses. Broken down by business segment, this consisted mainly of ¥148.7 billion for the Office Printing segment and ¥26.9 billion for the Office Service segment.

The assets that suffered impairment losses were goodwill, tangible fixed assets, and intangible assets primarily located in the United States. In the Office Printing segment, this included goodwill for IKON Office Solutions, Inc (“IKON”), acquired in 2008. In the Office Service segment, this included goodwill for mindSHIFT Technologies, Inc (“mindSHIFT”), acquired in 2014.

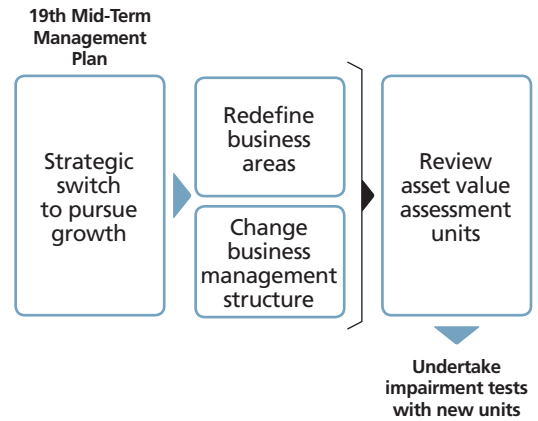
Background of the impairment losses

In the past, the Ricoh Group has managed business based on three disclosed segments: Imaging & Solutions, Industrial, and Other. Of these, Imaging & Solutions was composed of the three categories of Office Imaging, focusing on printers, multifunctional printers and Network System Solutions, which has the same customers and produces sales synergy, and Production Printing, which has some customer overlap and produces technical synergy. Our strategy had been to leverage the synergies of these segments in our core business to expand global sales and achieve growth. Asset evaluation such as goodwill was performed along with these business segment categories.

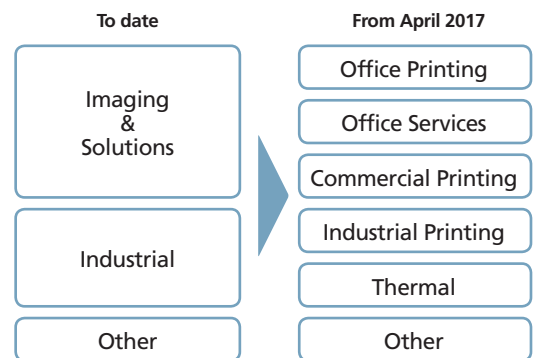
Under the 19th Mid-Term Management Plan, launched in April 2017, our strategy shifted from expanding scale to focusing on profit for the core business segments of Office Printing and Office Service, and we defined a strategic goal of using the cash they created to concentrate investment in growth businesses to change the business structure of the Ricoh Group. In order to carry out business management aligned with this strategy, from the fiscal year ended March 31, 2018, the Company further divided its disclosure segments into Office Printing, Office Service, Commercial Printing, Industrial Printing, Thermal Media, and Other.

At the same time, for each of these six business domains, a system was created that enabled actual management decision-making and business management monitoring using smaller management units. Furthermore, future cash flow was reviewed and asset value was evaluated based on this strategy shift, in the cash generating units newly defined based on management units. As a result, impairment losses were posted.

Impairment tests for new units in line with strategic switch



Redefine business areas



Main companies with impairment losses

Below is a supplementary explanation of the background behind IKON and mindSHIFT, the main companies for which the impairment losses were posted.

[IKON]

IKON, which accounted for a significant portion of the impairment losses, was acquired in 2008. The acquisition of IKON made it possible for the Company to expand Office Printing, Office Service, and Commercial Printing businesses in the U.S. and secure management resources such as a customer base, personnel, and know-how that could be leveraged for future growth. As a result, the acquisition of IKON is recognized as having achieved positive results to a certain extent.

On the other hand, paperless work environments have increased, primarily due to the increase in the use of cloud and mobile technologies and digitization progressing even faster than expected. In North America, competition intensified for Office Printing business, and unit prices continued to decline, with fundamental issues in the revenue structure.

From the 19th Mid-Term Management Plan, Office Printing business in developed countries has switched from a strategy of scale expansion to one comprehensively focused on profit. After reviewing future cash flows, which were based on the assumption of ongoing investment, it became apparent that we needed to recognize impairment losses for goodwill, tangible fixed assets, and intangible assets, primarily related to the acquisition of IKON.

[mindSHIFT]

mindSHIFT was acquired in 2014. The acquisition of mindSHIFT made it possible for the Company to expand Service business in the U.S., develop service offerings (service menu for resolving customers' challenges), resolve customers' issues and secure the personnel and know-how needed to earn customer trust.

However, the rapid growth of cloud services and market environment changes such as the intensified competition increased the likelihood that it would not be possible to achieve the profitability initially forecast.

"RICOH Resurgent" responds to these environment changes by concentrating the existing Office Service segment in businesses with profit contribution potential. In addition, the growth strategy announced in February 2018 (RICOH Ignite) shifts resources to development capable of adding Ricoh-oriented value to the customer base, which is one of the strengths of the Ricoh Group.

After review of future plans that reflect this change in strategy, impairment losses were recognized primarily for goodwill in conventional IT service business acquired under the previous strategy with the purpose of Service business expansion.

Future measures

The Ricoh Group will consider acquisitions as means to acquire management resources for business growth as necessary. However, in response to the posting of impairment losses, we will improve the acquisition process, namely, acquisition targets will be selected more in line with the growth strategy, and acquisition costs will be more rigorously assessed at the time of acquisition. We will also improve headquarters functions for their implementation. In addition, thorough monitoring will be conducted during the integration process after the acquisition as well, with the adequate involvement of the headquarters upon setting KPIs appropriate for each project, instead of leaving it to the discretion of the local offices.