

Script on Revisions to Full-Year Forecast and Impairment Losses

1. Press conference overview

- I will explain today's announcement and how this situation arose.
- Ricoh expects to book an impairment loss of ¥180 billion in the fourth quarter of the fiscal year ending March 31, 2018.
- We have transformed our strategies and pursued structural reforms to drive new growth since I became President in April 2017. The recognition of impairment losses is one step in the process of structural reform.
- Earlier today, the Board of Directors resolved to revise downward our pre-tax profit forecast for fiscal 2018 by ¥180 billion.
- We will release our full-year results on April 27.

2. Impairment losses

- The projected losses resulting from recognition of impairment losses are ¥155 billion for the Office Printing segment and ¥25 billion for the Office Services segment.
- The impairment losses largely consist of write-downs of goodwill, property, plant and equipment, and intangible assets in North America. In the Office Printing segment, goodwill would be for IKON Office Solutions, Inc., which we acquired in 2008. In the Office Services segment, goodwill is partly for mindSHIFT Technologies, Inc., which we bought in 2014.
- I will first go through the goals and impact of our acquisition of IKON and why we will book impairment losses there.
- Buying IKON enabled us to expand our Office Printing, Office Services, and Production Printing operations in the United States. It also provided a customer base for future growth and management resources in the form of personnel and know-how. IKON has generated some synergies for us.
- That said, the Office Printing business has experienced particular difficulties in North America from intensifying competition and declining prices as cloud and mobile environments have developed and digitization has made offices increasingly paperless.
- Under our 19th Mid-Term Management Plan, we have strategically switched away from scale expansion to profitability for the Office Printing segment in developed nations. After accordingly revising cash flow projections, we decided to recognize impairment losses, mainly for goodwill, property, plant and equipment, and intangible assets from the acquisition of IKON.
- I will now explain the situation with mindSHIFT.
- In keeping with our initial goals, acquisition of mindSHIFT in 2014 enabled us to expand services in the United States, develop service offerings, and secure information technology expertise and know-how to build customer trust.
- At the same time, the market climate changed dramatically with the rapid penetration of cloud services and the entry of large information technology players into the small and medium-sized enterprise market. These factors made it increasingly unlikely that the company would generate the earnings we initially anticipated.
- In light of operating environment changes that in the Office Services segment we decided to focus on businesses offering solid earnings potential. Further, in February 2018 we introduced the RICOH Ignite growth strategy to pursue development initiatives to deliver unique added value to our customer base. In particular, we shifted resources to drive workflow reforms that bring frontlines and offices together through communications services.
- Having reviewed plans reflecting our strategic transformation, we have determined that now is the time to recognize impairment losses, primarily for goodwill from information technology service operations previously acquired to expand services under our previous strategy.

3. Full-year forecast revisions

- We have revised our forecast for the year ending March 31, 2018, to reflect the above impairment losses.

	Sales (billions of yen)	Operating profit (billions of yen)	Profit before income tax expenses (billions of yen)	Profit attributable to owners of the parent (billions of yen)	Earnings per share attributable to owners of the parent – basic (yen)
Previous forecast (A)	2,040	20	14	0	0.00
New forecast (B)	2,040	-160	-166	-170	—
Change (B-A)	—	-180	-180	-170	—
Change (%)	—	—	—	—	—
Results for year ended March 31, 2017	2,028.8	33.8	29.9	3.4	4.81

4. Backdrop

- I will now explain the backdrop to our impairment losses.
- The strategic objective of the 19th Mid-Term Management Plan that we launched in April 2017 is to pursue profitability over scale expansion in our core Office Printing and Office Services so we can intensively invest the resulting cash in growth areas and transform the Ricoh Group's business structure.
- RICOH Resurgent, which I announced upon becoming president and CEO, broke from past management practices based on the assessment that under its prevailing strategies Ricoh would be operating at a loss by fiscal year 2020. I declared internally and externally that we would cast aside conventional wisdom and precedents that hinder growth, undertaking structural reforms accordingly.
- Because we expect to attain our objectives for this fiscal year earlier than originally envisaged, from next term we will advance to the RICOH Ignite stage, through which we aim toward growth under a more robust organization.
- Until fiscal 2016, we managed our operations in keeping with reporting segments defined as Imaging & Solutions, Industrial Products, and Other.
- Imaging & Solutions in turn comprised 1) Office imaging centered on MFPs and printers, 2) Network System Solutions in which customers and sales synergies were identical, and 3) Production printing in which there was some customer overlap and there were technological synergies.
- Our strategy was to expand sales globally by leveraging these synergies in our core businesses and drive growth.
- Industrial Products was a non-core domain encompassing thermal media, optical equipment, inkjet heads, and other product offerings incorporating proprietary technologies. The "Other" businesses comprised such areas as digital cameras.
- Under RICOH Resurgent and RICOH Ignite, I redefined businesses under the current operating climate and sought to change strategies.
- (Note: See the February 6, 2018, presentation called: https://www.ricoh.com/IR/data/pre/pdf/ir_pre2018.pdf)
- Under RICOH Ignite, we are pursuing three growth strategies that harness our strengths.
- The first initiative is what we call Growth Strategy #0, which encompasses our existing office businesses. It is #0 because it is a starting point. The next is Growth Strategy #1, under which we will cultivate the potential

of printing technology accumulated under Growth Strategy #0 and expand a customer base extending from offices to frontlines. Under Growth Strategy #2, we will deliver unique value to our Growth Strategy #0 customer base, which is where our core strengths lie, to further connect offices and frontlines and create new markets.

- We will use the cash we generate from Growth Strategy #0 to invest in growth strategies #1 and #2 and transform our business structure.
- For the foreseeable future, Growth Strategy #0 businesses will remain pivotal to generating funds for investments. That said, the operating climate has changed dramatically, particularly in the Office Printing business. So, we concluded that we need to fundamentally review Growth Strategy #0 resource allocations and operations from the profit maximization perspective and fine-tune management and decision making, including for growth strategies #1 and #2.
- We introduced new segments from April 2017 to better manage our business strategies. These segments are Office Printing, Office Services, Commercial Printing, Industrial Printing, Thermal, and Other.
- In the core Office Printing and Office Services businesses of Growth Strategy #0, we are undertaking reforms in low profitability fields and regions while deploying market-specific measures in developed and emerging nations. The goal here is to expand profitability by undertaking structural reforms and enhancing added value.
- In the Commercial Printing, Industrial Printing, and Thermal areas of the printing field of Growth Strategy #1, we are clarifying growth domains and concentrating our resources and investments to build a second key generator of earnings growth.
- Under Growth Strategy #2, we are drawing on technological and human resources from traditional Office Services in combining embedded devices and applications to create open platforms so we can progress and expand through next-generation Office Services that deliver new added value.
- The Other category encompasses Industrial Products, Smart Vision, and Other. We will allocate resources to these areas according to their market potential and business competitiveness.
- From April 2017, we leveraged a framework of six principal businesses to build a mechanism that empowers us to more attentively monitor management-level decision making and business administration.
- In keeping with administrative units, we explored cash generating units and cash generating unit groups that the Board of Directors determined in February 2018.
- At new cash generating units, we revised future cash flows based on our strategic transformation and assessed asset values, based on which we project impairment losses in the fourth quarter of this fiscal year under Growth Strategy #0.

5. Conclusion

- Booking impairment losses will cause earnings significantly to decline in the near term. We take the resulting stakeholder concerns very seriously, and will do our utmost to address those concerns by turning our performance around from next fiscal year.
- Posting these charges means that the depreciation of property, plant and equipment and amortization of intangible assets will decline from next fiscal year. There will be no impact on cash flows. So, at this juncture we have no plans to change year-end cash dividends.
- It is important to reiterate that the upcoming impairment losses will stem from a strategic shift to pursue new growth under RICOH Resurgent and RICOH Ignite stages that we announced in April 2017 and February 2018, respectively. So, we regard these losses as an outcome of business structure changes.
- In view of these changes, we will set about optimizing our earnings structure and assets in keeping with our strategic transformation in the Resurgent stage, generating cash under Ignite and improving asset efficiency, notably in terms of returns on assets and equity.
- From next fiscal year, we will continue endeavoring to keep you informed of progress at future investor meetings.
- Thank you for your time.

Q&A Session

Q: What sorts of goodwill and intangible assets will you have after posting impairment losses? Please explain your approach to estimating future cash flows that will result in impairment losses this fiscal year. Also, do you think further impairment losses on the remaining goodwill or intangible assets are likely?

A: The goodwill affected would be largely for the Office Printing and Office Services businesses. In keeping with the strategic shift under our current mid-term management plan, we decided to better fine-tune business decision-making and oversight. We have factored more detailed impairment tests into regional growth projections. At this stage, we believe that we have reflected all impairment losses needing recognition in our performance forecasts.

Q: To what extent do you think that your projected impairment losses will cause property, plant and equipment depreciation and intangible asset amortization to decline?

A: While we expect depreciation and amortization costs to drop next fiscal year, we are still calculating the numbers, and will report on them in our upcoming full-term results briefing.

Q: Given that you seek to expand services businesses, why would you book impairment losses on an information technology services firm like mindSHIFT?

A: To date, mindSHIFT has installed and maintained on-premises servers, largely for small and medium-sized enterprises. But profitability has deteriorated amid a shift to cloud computing and other changes in the operating climate. We thus concluded that it would become necessary to book impairment charges on the acquisition valuations of goodwill and other assets. That said, we look to divide Office Services between those that mindSHIFT has offered to date and those in which we will pursue growth. To help drive those growth services, we believe that we can amply leverage the software engineers and support we secured by acquiring mindSHIFT.

Q: May we conclude that you will not post a gain on the divestment of shares in Coca-Cola Bottlers Japan Holdings to earnings next fiscal year and that you will reflect the sale in your cash flows?

A: A tender offer is planned for after April 13. In keeping with International Financial Reporting Standards, the transaction will be reflected in cash flows for next fiscal year but not in the statements of income.