

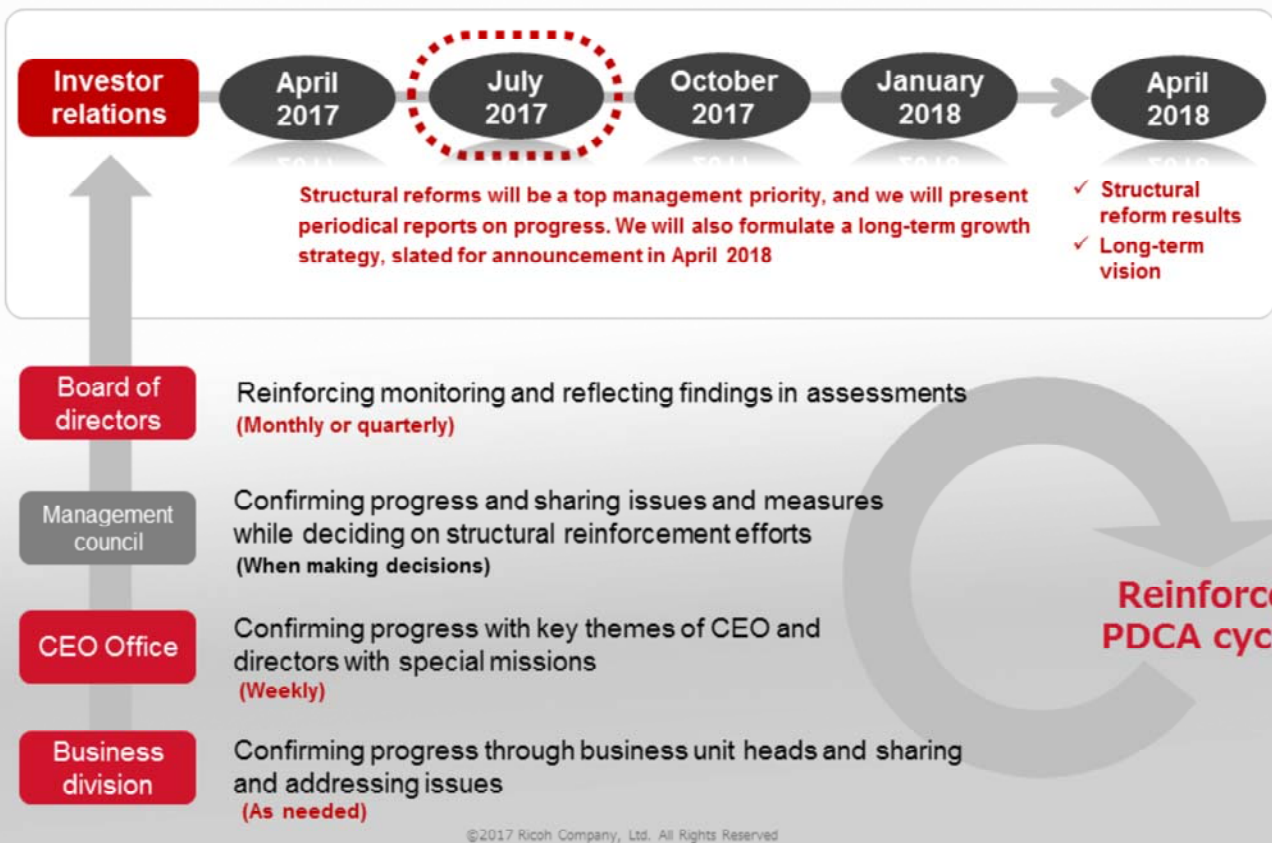
RICOH
Resurgent

**Structural Reform
Progress Report**

July 28, 2017

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President and CEO

Ricoh Company, Ltd.



- I presented this information at our company briefing on April 21.
- I noted that structural reforms would be the greatest management issue in fiscal 2018, the first year of our 19th Mid-Term Management Plan. I pledged present a quarterly progress report. Next year, I would also like to explain our growth strategy for the medium to long term.
- We are confirming progress with structural reforms on a weekly basis through our new CEO Office, pushing ahead with PDCA cycle improvements. On the governance front, we made structural reforms a regular agenda item for the Board of Directors, which is exhaustively monitoring progress.

Strategic switch

From
Business scale expansion
to
Focus on profitability

From
Expansionary strategy dabbling in everything
to
Prioritize businesses from profitability perspectives

Reform thrust

1. Cost structure reforms

- Review in-house manufacturing focus
- Revamp direct sales and service

2. Business process reforms that boost productivity

3. Extensive business selectivity

- Leave no stone unturned in screening businesses

- Our reform thrust has encompassed three efforts.
- The first is cost structure reforms. Here, we are reviewing the in-house manufacturing focus that has underpinned Ricoh's growth to date and direct sales and service to determine their suitability under the current and competitive environments. We will focus constantly on these areas in fiscal 2018.
- The second thrust is to review and reform business processes from the perspectives of productivity and efficiency improvements.
- The third thrust to pursue extensive business selectivity. While I have nothing to announce today in that regard, we are exploring measures that we will present as soon as we reach decisions.

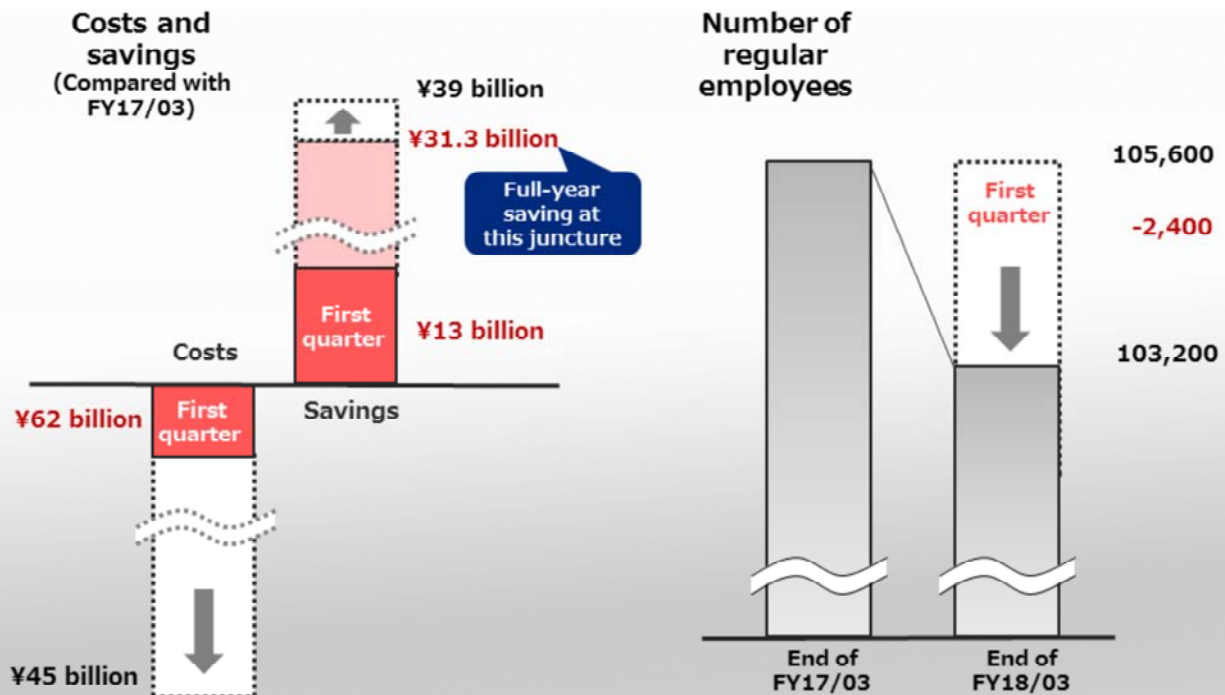
■ **Structural reforms**

	FY18/03 forecasts	FY19/03 forecasts	FY20/03 forecasts
Cost reductions from FY17/03	¥39 billion	¥76 billion	¥100 billion
Expenses	¥45 billion	()	()

■ **New business structure disclosure from first quarter of FY18/03**

- I , again show you the material of financial results briefing on April 28.
- For this fiscal year, we project ¥45 billion in structural reform expenses and ¥39 billion in cost reductions.
- I will now explain first-quarter progress with costs and savings.

Cost, Savings, and Personnel Reductions in First Quarter of FY18/03



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- The graph on the left shows the cost and savings of structural reform measures that we implemented in the first quarter of this fiscal year.
- We forecast structural reform expenses of ¥45 billion for the full year, spending ¥6.2 billion in the first quarter. First-quarter savings were ¥13 billion. Measures through the first quarter have produced savings for the full year of ¥31.3 billion. So, we are progressing well in cutting costs by ¥39 billion.
- The graph on the right shows personnel number changes. We lowered the Group headcount from 105,600 at the end of March, to 103,200 by the close of June. This was a reduction of 2,400 people. We aim to achieve a personnel balance in terms of performance, skills and other factors, not just through job cuts.

Strategic switch

From
**Business scale
expansion**
to
**Focus on
profitability**

From
**Expansionary strategy
dabbling in everything**
to
**Prioritize businesses
from profitability
perspectives**

Reform thrust

1. Cost structure reforms

Review in-house manufacturing focus

- ❑ Consolidate production network and redefine site roles (see slide 13)
- ❑ Cut development costs by paring down models created in-house

Revamp direct sales and service

- ❑ Optimize dealer and direct sales structure for small and medium-sized businesses in North America (see slide 14)
- ❑ Trim headquarters and back office operations

2. Business process reforms that boost productivity

- ❑ Enhance productivity by expanding global shared services
- ❑ Improve maintenance processes through more models employing new capabilities (see slide 15)
- ❑ Broaden cost reductions through more automated manufacturing

3. Extensive business selectivity

Leave no stones unturned in screening businesses

- ❑ Improve profitability by overhauling office services
- ❑ Post impairment losses in traditional camera business
- ❑ Clarify criteria for shutting down, maintaining, and investing in businesses and services

- I also presented these explanatory materials in our April 12 briefing.
- These are our prime measures for driving structural reforms.

	1Q	2Q	3Q	4Q	
Cost structure reforms					
Consolidate production network and redefine site roles	●	●		●	
Cut development costs by paring down models created in-house	→ Ongoing				
Optimize dealer and direct sales structure for small and medium-sized businesses in North America	●	●			
Trim headquarters and back office operations (site reorganizations)			●	●	
Business process reforms that boost productivity					
Enhance productivity by expanding global shared services				●	→ Ongoing
Improve maintenance processes through more models employing new capabilities					
Broaden cost reductions through more automated manufacturing					●
Extensive business selectivity					
Leave no stones unturned in screening businesses	We plan to disclose this information at the right time				

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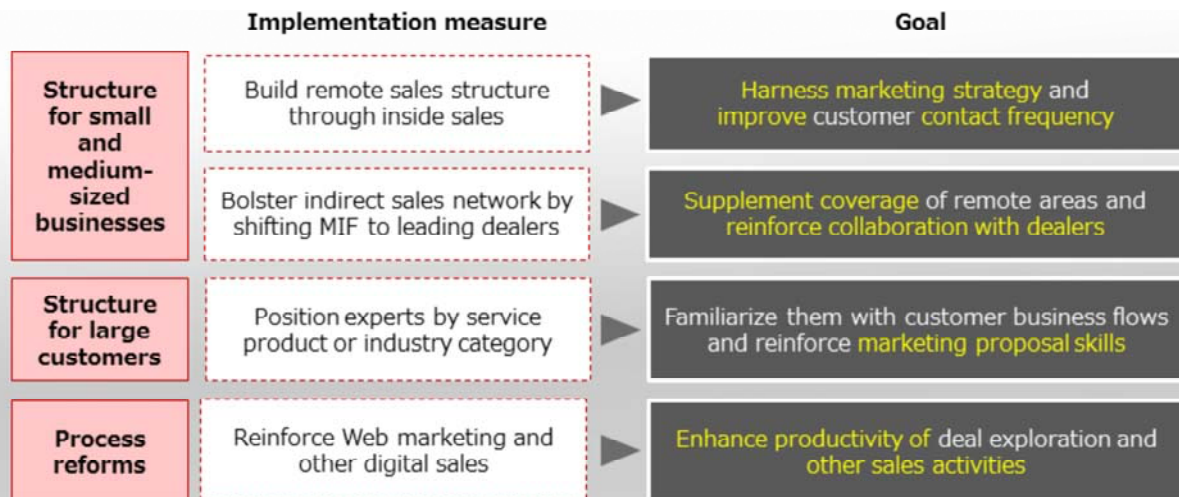
- We formulated a quarterly expense timing plan for the structural reform presented on the previous page.
- One example is implementations in the first, second, and fourth quarters of efforts to consolidate our production network and redefine site roles.
- We cannot present all of our measures on the one page. For today's presentation, I will go through sales and service structure reforms in North America and our production site reorganizations, which were focuses in the first quarter.

Business climate change and issues assessment

Customers' proactive purchasing practices (including through the Web) and difficulty of differentiating hardware, and sophistication of proposal contents



Optimize sales and service structure and reform processes



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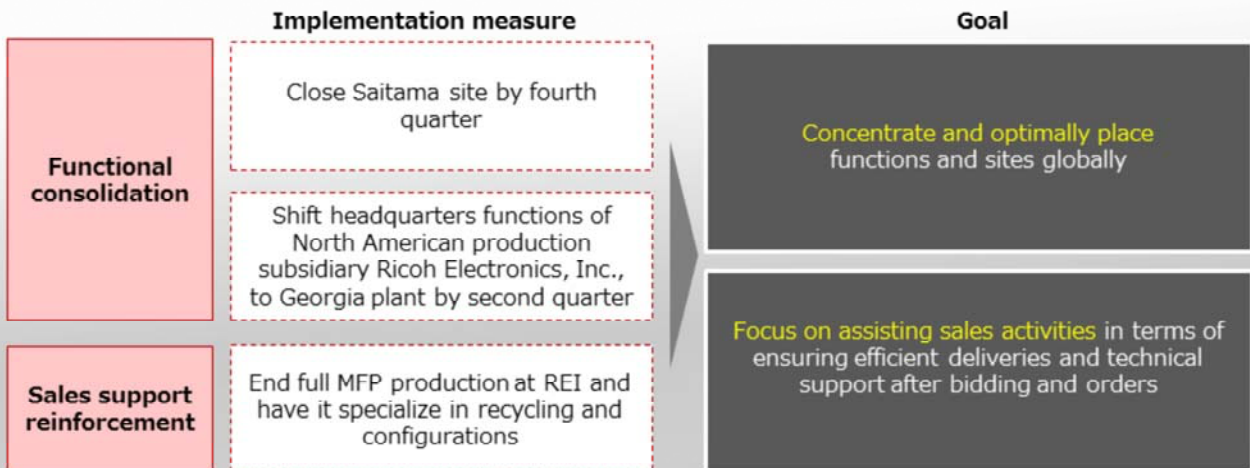
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- I will explain our North American sales and service structure reforms.
- Our North American customer base is broadly small and medium-sized businesses and large corporations customers.
- For small and medium-sized businesses, we are strengthening inside sales through telephone marketing rather than through on-site sales. We have shifted around 60% of MIF to inside sales. Actually, our contacts with customers have become much larger than through visiting sites for sales, and productivity is 20% to 30% (personnel costs to sales) than through the sales visit approach.
- In keeping with regional characteristics, we shifted the remaining 40% of MIF to Ricoh dealers with the right locally-based sales and service activity capabilities. We are continuing to provide customers with high standards of maintenance support.
- For large customers, we are strengthening our approaches on industry bases. We have allocated experts for each service and industry to reinforce our structure so we can match what customers want.
- We are supporting sales activities through online marketing and other vehicles that increase productivity.

**Business climate
change and
issues
assessment**

Demand has increased in consumption areas for a very flexible supply structure and for technical support for sales sites

Optimize production capabilities



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- We are reviewing our production sites worldwide.
- As we announced previously, we will transfer operations from our Saitama site, as planned, to other domestic production locations in the fourth quarter of this fiscal year, integrated our functions.
- North American production subsidiary Ricoh Electronics, Inc., operated in California and Georgia. We transferred full production of MFPs from California to Japan and shifted head office functions to the Georgia plant.
- The California site is very well located, so we will explore consider new ways to exploit it. For example, we may use it as a sales support or business development site that customers can visit.

Currently undertaking the following initiatives that should begin bearing fruit from the second quarter



- Opening shared service center in Poland
- Improving operations of sales companies whose profitability is poor

- Downsizing headquarters organization
- Reorganizing and integrating business sites, including by relocating headquarters during the third quarter
- Reviewing intellectual property portfolio in line with business strategies

- We have rolled out initiatives for other areas and functions.
- In Europe, we opened a shared service center in Poland to improve the quality and efficiency of our back office operations.
- We are also boosting profitability while overhauling management structures at some European sales companies.
- We are downsizing our headquarters organization through natural reductions and through transfers to direct departments. In Japan, we will continue to shift personnel skills while investing in education.
- We plan to relocate our headquarters from Ginza to Omori office, our registered head office. This move will be at the end of December this year, as planned.
- We are reviewing our intellectual property portfolio in line with our business strategies. Although the number of patents is increasing, we are endeavoring to streamline intellectual property spending by reviewing our patents by business portfolio, determining whether patents are useful for future businesses and trimming patent applications.



Create an even more robust earnings structure by undertaking the measures below that we did not initially plan

1. Optimize roles and tasks of Ricoh headquarters and regional sales headquarters
2. Reinforce global supply chain management
3. Leverage robotic process automation, artificial intelligence, and other tools to reform headquarters and back-office business processes
4. Optimize site setups to handle downsized operations

We will announce measures we are exploring at the appropriate time

- When I explained my commitment to structural reforms on April 12, I mentioned that one objective would be to transform our profit structure.
- I want to enable Ricoh to generate solid profits permanently instead of incrementally improving earnings.
- We are therefore considering additional measures from the four perspectives presented here.
- These measures are still under consideration. I will share details at the appropriate time.



	FY18/03	FY19/03	FY20/03
1. Cost structure reforms	¥28 billion	¥37 billion	¥45 billion
2. Business process reforms	¥11 billion	¥39 billion	¥55 billion
Total reductions from FY17/03	¥39 billion	¥76 billion	¥100 billion

Deploy reforms earlier forward to enhance impact

1. Transform and trim cost structure

Transform structure and reform fixed cost structure to tackle market changes

2. Reform business processes

While reforming the cost structure, review processes from scratch and seek to constrain costs while maintaining sales and enhancing productivity

- I would like to close by again reviewing our structural reform savings.
- This fiscal year, we will prioritize cost structure reforms that should generate ¥39 billion in savings.
- Our focus will shift gradually to business process reforms from next fiscal year, and we look to save a total of ¥100 billion over three years through fiscal 2020.
- We will continue pushing ahead to ensure that we can again report solid progress three months from now.

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