Key Questions and Answers

Q: Please tell the background the business unit structure that you will launch in April, with Ricoh Digital Products solely producing and developing office equipment. That unit seems an outlier somewhat in your drive to become a digital services company.

A: Ricoh Digital Services will resolve the work challenges of customers as part of that transformation. In cultivating its business, Ricoh Digital Services will also use edge devices, primarily MFPs from Ricoh Digital Products.
We created the latter entity because we want to strengthen manufacturing and supplying other companies. We have traditionally made almost exclusively Ricoh-branded products. We want to make that operation a different business unit that can provide A3 MFPs and other edge devices to manufacturers, service providers, and other partners.

Q: You explained how you would generate earnings in the Office Printing and Office Services businesses as you head toward fiscal 2022. How will the Group headquarters oversee manage and coordinate these efforts?

A: We will delegate more authority regarding performance targets and measures to each business unit than under the current divisional structure. Group headquarters will monitor progress, including by holding monthly discussions. Instead of issuing instructions, we will track progress from capital cost perspectives and discuss that and any need to change measures.

Q: You explained that you will continue to reduce costs in the Office Printing business by streamlining headcount and consolidating production sites. To what extent have you factored those expenses into your earnings forecast?

A: We will reduce headcount by relocating people, so we basically do not expect to incur expenditure in that respect. For example, we project a one-time expense of around 2 billion yen over the next two years from consolidating production sites. In some instances, we will look to repurpose plants for other products rather than simply closing them.

Q: Does your business portfolio management (see page 9 of the presentation) encompass withdrawals or other structural reform options for operations with profitability issues? Might you incur losses in that case?

A: We will bolster business portfolio management in keeping with the sales growth rates and ROIC matrix that we showed in the presentation. Options could include business exits or sales, although such steps would apply to any of them at this juncture. Any decision to make such moves would be methodical, including on posting losses, and we would disclose that information appropriately.

Q: Some competitors are noticeably focusing on the medical and healthcare fields. What's Ricoh's stance in that regard?

A: Our Healthcare business centers on the bioprinting business, which uses inkjet printing technology, and the magnetoencephalograph and spinograph businesses, which focus on nervous system disease examinations. We will focus on areas in which we can fully leverage our strengths rather than pursuing scale for its own sake.

Q: With regard to the targets you announced for fiscal 2022 and fiscal 2025, to what extent do you expect office print volumes to shrink from the pre-pandemic level?

A: We expect volumes to be 80% of the pre-pandemic level in fiscal 2020, rising to 90% by the end of summer 2021. The level for fiscal 2021 should be 85%. Thereafter, we assume annual declines of about 4-5%. So, volumes would be about 80% of the pre-pandemic level in fiscal 2022 and around 70% in fiscal 2025. Even then, we should be able to maintain business viability by pursuing operational excellence and new growth. We will also buttress our business to be profitable even if volumes are less than 70% of levels before the pandemic.

Q: Your factors in earnings changes through fiscal 2022 include some non-hardware risks. Do you forecast price declines, product mix changes, and other hardware risks?

A: We assume the risk that hardware prices may decline. We will continue to add value to MFPs, but purchase prices will fall usage in offices changes. An envisaged shift from A3 to A4 MFPs would likely depress hardware profit margins, although the impact would be smaller than from non-hardware drops.

Q: Could concerns about new businesses cannibalizing existing ones hamper your transformation into a digital services company? If so, how would you tackle such challenges?

A: Our digital services are about providing effective digital workplaces to customers. We aim to help customers materialize new work practices through digital processes and support those practices. MFPs will be vital edge devices in that context. Devices that convert analog information that people readily recognize into digital data are necessary to build digital workflows. At the same time, customers need analog displays so they can again recognize information in digital workflows.
So, our Office Printing business offerings will be edge devices under our new digital services. We don't expect significant business cannibalization, as machines in field will deliver synergies as new edge devices.

Q: You explained that you would seek to retain the PENTAX, GR, and other camera businesses because of their future value. You added that you would consider collaborating with other companies. Could you detail whether this might include accepting investments or divesting.

A: It is true that GR and PENTAX users love those brands. Some are particularly passionate about them. We will find ways to preserve these brands for the future. If we get consent to our approach, collaborations and inbound investments could be part of a range of options. We will disclose appropriately when we have anything to announce in that regard.

Q: Tell us about your 200 billion yen investment in acquisitions for the Office Services business and your stance on the implementation hurdle rate.

A: We are mulling investments that would enhance regional IT services delivery and systems integration. We also look to invest in expanding our high-margin software offerings. We would additionally consider investing in software related to DocuWare.
We plan to set a hurdle rate based on the weighted average cost of capital so we can manage our business portfolio in line with returns on invested capital. Growth prospects will be the other factor in a selective investment approach.

Q: You announced a 100 billion yen share repurchase program today. Could you tell us more detail about background?

A: In March 2020, we announced that we would generate 100 billion yen in shareholder returns under the 19th Mid-Term Management Plan. Share repurchases were an option from the outset. Prevailing financial market and economic conditions and the ongoing pandemic prompted us to prioritize liquidity. So, we pledged to undertake buybacks as soon as possible under the 20th Mid-Term Management Plan.
We had held shares to help secure cash reserve liquidity in view secure of an uncertain outlook. We now anticipate being able to turn earnings around and generate operating cash flow in fiscal 2021 and 2022, so today's announcement reflects our commitment to executing the policy we outlined.

Q: You target 100 billion in operating profit for fiscal 2022. That seems somewhat conservative given that you generated 86.8 billion yen in operating profit in fiscal 2018. What's the backdrop to this new target? Also, what growth do you envision for fiscal 2023 and beyond? For example, would progress be generally steady, or would it be greater in the second half of the year?

A: We no longer anticipate steady progress because of the pandemic's impact and ongoing changes in the business climate. We set our fiscal 2022 targets after discussing on business growth trajectory and prospective risks. We didn't base the targets on previous results, so we have no view on whether they are conservative or not.
We look to boost operating profit steadily from fiscal 2023, reaching 150 billion yen in fiscal 2025. That is a firm target that does not factor in the impact of acquisitions. We will monitor market environment changes in the course of business over the next one or two years and invest 300 billion yen in timely acquisitions, so we can expect to raise our targets.

Q: Page 9 of your presentation included a sales growth and return on invested capital matrix chart in which you indicated that this return from the Office Printing business would be lower in fiscal 2025 than in fiscal 2019. Why? Aren't you including the impact of reducing the cost of capital through the use of debt or the contributions of operational excellence?

A: We do not expect significant invested capital changes, as we assume that we will use existing facilities. That said, the impact of downside non-hardware returns would still be great.

Q: Eliminations and corporate are around 60 billion yen. What level should they reach as you shift to a business unit structure?
A: We will endeavor to reduce head office expenses and allocate them appropriately in line with the new structure. At the same time, we plan to invest extensively in groupwide digital transformation initiatives. So, there should not be major changes under the 20th Mid-Term Plan.

Q: Ricoh Futures apparently identifies forward investments. Tell us a little more about what it does.
A: Ricoh Futures does what you just mentioned. That entity plays two key roles. The first is to cultivate ideas from the Advanced Technology Research Laboratories until other business units can take over. The second is to decide whether it should itself create business units when offerings emerge in completely new fields. A good example is PLAiR, which we outlined today.
Ricoh Futures will decide whether or not to make independent business units of PLAiR, our lithium-ion secondary cells manufacturing solution, and social infrastructure inspection services independent over the next two years after assessing their prospects and Ricoh's strengths. Eight themes and business seeds will be in place as of April 1. I look forward to providing details at another time.

Q: What risks might impede the feasibility of Office Printing business cost reductions?
A: We've amply assessed our targets and believe they are achievable. We have made plans that fully reflect adverse market conditions and the risk, for example, of electronic component price hikes. In-house, we are discussing the possibility of a downside impact of 1.5 billion yen if current trends continue. Risks also include higher logistics costs. Declining office print volumes are also a major risk. We were an early teleworking adopter. We are endeavoring to streamline business processes so people don't have to come to the office. Print volumes could drop further as more companies use telework. For safety, our risk scenarios assume that volumes might be 2% or 3% lower than what research firms forecast. So, at this stage, we believe that we can cut costs by 54 billion yen, which is a significant figure.

Q: The shareholder returns policy you outlined on page 31 of the presentation states that you look to stabilize and continuously increase dividends. Does that mean that you intend to incrementally lift them every year? Do you aim to deliver a total return ratio of 50% basically through dividends or through share repurchases that would cover any shortfall in dividend increases?
A: We have stated that we seek to maintain the stability of dividends and keep boosting them annually if we can. We aim to deliver a total return ratio of 50% as soon as

possible. Share repurchases combined with dividends would be a means to that end.

Q: You explained that you will introduce a job-based personnel system. When exactly will that be?

A: We’re still looking into this, and began preparations last year with a view to a rollout from April 2022.
The Ricoh Group has just under 90,000 employees, of whom 30,000 are in Japan. The parent company in Japan has around 9,000 people. We will prepare appropriately and endeavor to gain understanding from employees, as the new system will affect their salaries. We aim to develop and deploy a Ricoh-style job-based personnel system.

Q: What companies would you envision becoming OEM customers for your MFPs? Rivals like Fuji Xerox are also talking about OEM. What’s your competitive advantage? Tell us as much as you can about any orders you may have received.

A: Having a technological edge is vital to developing an OEM business, so Ricoh needs that to outshine the competition. For example, the paper exit area directions of MFPs differ among manufacturers. Ricoh’s exit is to the left, and some might find that better. It is also worth noting that Ricoh has developed and patented various peripheral devices, and we mentioned examples on page 24 of the presentation. We are developing peripheral devices with brand new features that will also be major advantages for us. We cannot discuss details of orders we have received but would like to do understand that they are positives.

Q: Is the 50% total return ratio target for fiscal 2025 or an estimate for fiscal 2021 through fiscal 2025? How much cash do you expect to return to shareholders by fiscal 2025?

A: At this stage, we target a total return ratio of 50% by fiscal 2025. We could reach that target ahead of time if investments through then and funding flows work out well. If we maintain a total return ratio of 50% through fiscal 2025, we would allocate more than 150 billion yen to shareholder returns.

Q: Ricoh acquired MakeLeaps some years ago. How is that business performing? Has it delivered any synergies?

A: Its business is growing steadily every year. The MakeLeaps cloud service streamlines invoicing for business-to-business transactions. It targets small- and medium-sized enterprises. Inquiries have risen owing to the pandemic. It will endeavor under the Ricoh Japan umbrella to generate more synergies to digitize business-to-business transactions.