Message from the CFO

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Senior Executive Vice President and Executive Officer

Amid our grim business environment, we will thoroughly engage in the recovery of our performance and the reinforcement of our ability to generate cash.

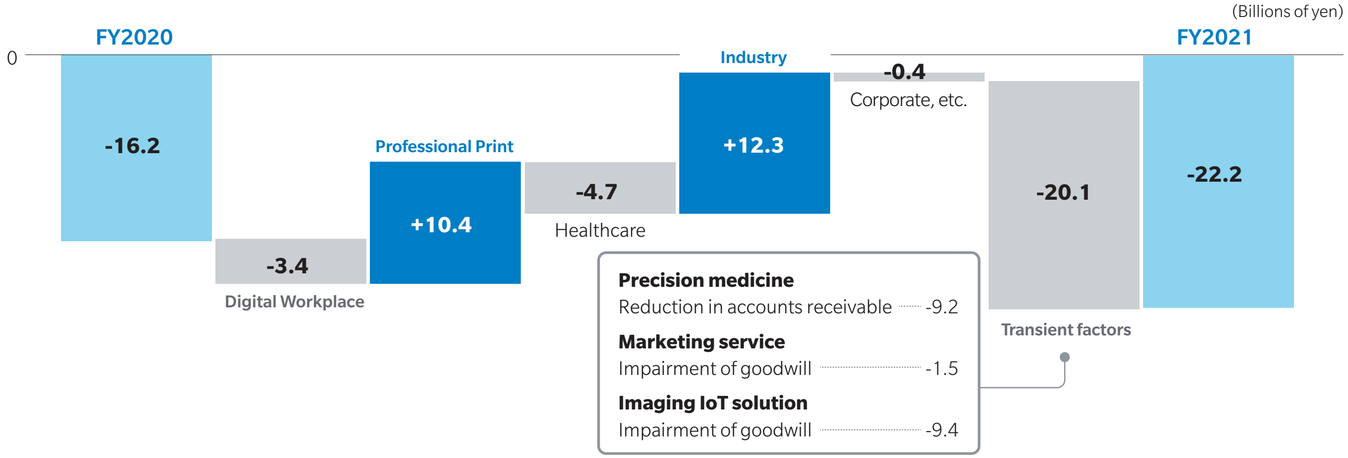
FY2021 in Review

While the effects of transient factors caused us to become unprofitable, our Professional Print and Industry Businesses performed strongly.

In our financial results for fiscal 2021, consolidated revenue came to ¥911.4 billion, operating losses to ¥22.2 billion and net losses to ¥26.1 billion. Relative to fiscal 2020, revenue was an increase of ¥48.0 billion (+6%), but profit declined with decreases in operating profit and profit of ¥6.0 billion and ¥10.9 billion, respectively. Presented in the below graph are the causes of the variance in operating profit compared to fiscal 2020 on a per-business basis.

The Industry Business experienced a significant increase in profit, driving forward our businesses as a whole. Simultaneously, the Professional Print Business recovered its profit in fiscal 2021 despite being impacted by the spread of COVID-19 in fiscal 2020.

FY2021 Performance: Causes of Variance in Operating Profit Compared to Previous Year



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Conversely, profit under our Digital Workplace Business declined due to the impact of soaring logistics, parts and materials costs and the prolonging of transport periods. In our Healthcare Business, while the healthcare field related to digital X-ray imaging systems and diagnostic ultrasound systems performed favorably, we posted ¥2.5 billion in preparation expenses for the U.S. listing of REALM, a subsidiary in the precision medicine field. Due to this and other factors, profit under that business declined.

Additionally, due to Ambry, a subsidiary of REALM, performing a careful revision of accounts receivable estimated for recovery in the process of preparing for its listing in the U.S. based on its latest actual recovery rate, accounts receivable and net revenues decreased by ¥9.2 billion as of the end of fiscal 2021. In addition, due to the Company's policy of not postponing latent risk until the future, we posted "impairment of goodwill" related to past acquisitions in the amount of approx. ¥1.5 billion for the marketing service Unit under our Professional Print Business and approx. ¥9.4 billion for the imaging IoT solutions unit under our Industry Business.

Note that as a result of posting operating losses for two straight fiscal years in our financial results for fiscal 2021, the Group infringed on financial covenants included in certain syndicate loan agreements, etc. that it entered with multiple financial institutions. However, the Group has received acknowledgement from all of the relevant institutions that they will not request the acceleration of payment due to that infringement.

Promoting companywide initiatives with the aim of generating cash flow

The state of consolidated cash flow in fiscal 2021 was ¥37.4 billion of revenue from cash flow provided by operating activities and ¥50.9 billion of expenditure from cash flow provided by investing activities, with free cash flow of negative ¥13.5 billion. The ¥37.4 billion of revenue from cash flow provided by operating activities was attributable to losses before taxes of ¥23.6 billion and an increase of ¥17.3 billion in inventory assets due to an increase of shipboard and other inventory resulting from prolonged transport periods and strategic purchase buildups of parts and materials, which partially offset an increase in cash flow largely resulting from ¥10.9 billion in impairment losses and gains on the reversal of those losses and ¥75.7 billion in depreciation. While we found ourselves in a grim operating environment, we continued to monitor our cash conversion cycles through narrowing down sales receivables and focused on the generation of cash while keeping a close eye on inventory trends.

Going forward, we will continue to tackle the below measures while simultaneously carving out non-core businesses and assets and taking advantage of capital tie-ups and other means aimed at accelerating upscaling as we endeavor to maximize cash inflows.

(1) Generate cash flow provided by operating activities centered on the reduction of working capital. Realize a transformation of our business portfolio through hurdle rates for each business. Improve the content of investment and business assessments and the quality of management processes.
(2) Design target values for business-specific cash conversion cycles that target the enhanced efficiency of working capital and maximize cash flow provided by operating activities across the entire company.
(3) Address cash flow provided by investing activities by conducting operation that links to the careful selection of investments and the maximization of returns through newly introducing KM-ROIC hurdle rates upon performing investment assessments and adopting judgment criteria for investment feasibility.
(4) Set new cash flow provided by operating activities as performance evaluation indicators for employees in management positions and revise evaluation systems into those that can be tied into the entrenchment and acceleration of business operation that takes into consideration the ability to generate cash as well as earnings.
(5) Conduct training and enlightenment activities aimed at employees, including those at domestic sales companies, and focus on the dissemination of an approach that emphasizes cash flow on the frontlines with a view to enhancing "earning ability" through implanting awareness that emphasizes cash flow.

Management Policies for FY2022

Aiming to transition to profitability by recovering our performance and shedding transient factors

In fiscal 2022, while a grim operating environment consisting of the ongoing impact of the semiconductor shortage and prolonging of transport periods couple with rising energy prices stemming from the Ukraine situation, high inflationary pressure in the West, zero-COVID-19 policies in China and other factors is foreseen, we will push forward with actions such as those below as we aim to recover our business performance.

Firstly, in our Digital Workplace Business, in addition to solid orders for MFP hardware, a recovery in non-hardware demand due to the progressive return of people to offices is also anticipated. Given this, we will pursue the enhanced efficiency of this business while also factoring in structural reforms centered on the West.

Meanwhile, we will lower the degree of our dependence on the Digital Workplace Business and proceed to carry out a portfolio transformation that accelerates the reinforcement of our business development in growth domains. For the sensing field under the Industry Business, we will pursue M&As for expanding measurement targets. For the imaging IoT platform solutions field, we will pursue the improvement of earnings. For the materials and components field we will push forward with capital expenditure for expanding sales in large display and mobile display domains. In our Healthcare Business, we will move forward with the expansion of imaging products and services with high added value and the expansion of positive outcomes yielded by strategic collaborations in the healthcare field, and will continue to push forward with capital policies for the purpose of personally outfitting ourselves with the ability to procure investment funds aimed at future growth in the precision medicine field. In our Professional Printing Business, alongside continuing to grow our industry print unit, we will expand the provision of customer value through new, highly competitive product lines under our production print unit.

Based on these measures and the shedding of transitional factors in fiscal 2021 (that caused losses of ¥20.1 billion), for our earnings forecast for fiscal 2022, we anticipate consolidated revenues of ¥1,020.0 billion, operating profit of ¥15.0 billion, and profit of ¥5.5 billion.

Additionally, we project ¥20.0 billion in positive free cash flow due to improved profit in value and the normalization of inventory through the resolution of our balance of orders received. Regarding ROIC, which had worsened due to widening operating losses after taxes and an increase in interest-bearing debt, we will transition into positive territory and focus on improving capital efficiency in fiscal 2022.

Portfolio transformation with a target date of FY2025

Keeping up our carefully-selected investments in growth domains while considering balance with financial soundness

There has been no change in our basic goal of completing the transformation of our business portfolio by fiscal 2025. By applying "business-unit specific KM-ROIC" and "companywide capital costs," which serve as key judgment criteria upon examining acquisition investments and strategic capital expenditures aimed at the future acceleration of our growth, we will aim to enhance our capital efficiency and maximize our corporate value.

We will also proceed to conduct acquisition investments and strategic capital expenditures as necessary with the aim of furthering our growth in our Sensing, Material and Component, Healthcare and Industrial Print Businesses. Meanwhile, we will pursue the enhancement of efficiency and prop up companywide growth through the generation of cash for our Office Print Business and continue to promote measures with the utilization of external capital also in mind for certain strategic new businesses and low-earnings businesses.

Additionally, we will also work towards curtailing liabilities after taking the balance between growth investment and financial soundness into consideration. Note that there is also no change in our approach of, further solidifying our financial foundation by reinforcing fiscal governance, minimizing financial risk, boosting capital efficiency and enhancing shareholders' equity and supporting aggressive growth investment from behind within the timeframe leading to fiscal 2025.

Returns of profits to shareholders

Revising our dividend policy into one that emphasizes cash more

In fiscal 2021, we distributed dividends of ¥30 per share (consisting of an interim dividend of ¥15 and a year-end dividend of ¥15) in line with our original forecast. As for returns of profits to our shareholders in fiscal 2022, we recently conducted a partial revision of our dividend policy and clarified a stance that emphasizes cash more. Based on this policy, we have set forth an annual dividend forecast of ¥20 per share (consisting of an interim dividend of ¥10 and a year-end dividend of ¥10) after also factoring in projected free cash flow of ¥20.0 billion.

Under our new management framework, in addition to thoroughly addressing a recovery in our business performance as a top-priority issue, we will transform our business portfolio by our target date of fiscal 2025. In doing so, we will push vigorously forward in our aim to further enhance our corporate value and return profits to our shareholders.

Dividend Policy of the Company

Our basic policy on determining distributions of surplus, etc. is to endeavor towards enhancing dividend-based shareholder returns after comprehensively considering factors that include consolidated business performance, investment in growth areas and cash flow.

We will continue to make appropriate judgments on the acquisition of treasury shares as a shareholder returns policy while taking elements such as the financial status of the Company and movements in its share price into consideration as well.