Results overview

Q: How did your second-quarter operating profit compare with the quarterly forecasts for that term and beyond that you presented during your first-quarter results briefing on May 8? I would also like to know why you think that you can lift earnings significantly from the first half.

A: Our second-quarter operating profit was just under 6 billion yen less than the 15~16 billion yen that we projected, for three main reasons. First, the performance of RICOH Digital Products was well below expectations. We resolved A4 MFP supply constraints. We progressed in eliminating sales inventories by selling and delivering packages of A4 and A3 MFPs. While unit sales were less than we forecasted, they were up year-on-year. At the same time, A4 MFP production recovered, with unit sales rising significantly from a year earlier. The gross margins of these models are lower than of A3 machines. So, the product mix deteriorated, lowering profitability.

Second, the Thermal business of RICOH Industrial Solutions performed below expectations. This was due largely to the impact of a deteriorating operating climate in Europe.

Third, we postponed some asset and business disposals to the second half of the year or beyond. We had originally expected those disposals to contribute several billions of yen to earnings in the first half. We plan some second-half asset disposals. We are not including a recently announced divestment of the optical business in our forecast. That is because while there would be a gain on divestment we might incur some environmental remediation and other additional costs whose timings are unclear at this juncture.

In the second half, we look for earnings to rise at RICOH Digital Services and RICOH Digital Products on a recovery in Office Printing hardware sales, including by capturing year-end demand. While we will incur some expenses to address competitive price offensives, they will solely be to safeguard positions with customers and maintain machine-in-field numbers. The Office Services business of RICOH Digital Services was robust in the first half. We look for momentum to continue in the second half. We expect the Thermal business to return to profitability in the fourth quarter. This is because sales should keep recovering after having dropped on customer inventory adjustments. This business should also benefit from cost-cutting measures and new customer development.

We are strengthening companywide cost controls and aim to reach our full-year operating profit target of 70 billion yen after factoring in the impacts of our measures.

Progress Report on Enterprise Value Improvement Project

Q: You announced several structural reform measures. What is your outlook for earnings contributions from optimizing back-office functions, undertaking structural reforms for the Office Printing business, and increasing Office Service earnings, which you will report on down the track? Which factors will contribute most toward lifting your forecasted 70 billion yen in operating profit for this year to 130 billion yen by fiscal 2025?

A: While scrutinizing all these areas, we aim to reach our Office Services earnings growth target and absorb market contraction impacts by optimizing back-office functions and undertaking structural reforms in the Office Printing business. We naturally intend to take steps beyond these.

We are reviewing all back-office functions, and aim to report on how we are doing during the mid-term management strategy briefing that we have scheduled for March next year.

We will structurally reform the Office Printing business by deploying a range of measures to ensure profitability in a shrinking market. We are finalizing details with Toshiba Tec to establish a joint venture. We will detail how we are doing as soon as possible.

We look to boost Office Services earnings from the fiscal 2023 target by a total of 28 billion yen in fiscal 2024 and 2025, as we have explained, and are maintaining that target. (See Paving the Path to success on page 26 in the presentation titled, Consolidated Results for the Year Ended March 31, 2023)

Q: Under your 21st Mid-Term Management Strategy, you stated that you would cultivate office digitalization services and frontlines digitalization. Is it correct to conclude that focusing on workplaces means you would deprioritize frontlines digitalization?

A: We chose workplaces as a field that is highly compatible with our transformation into a digital services company as we can leverage our strengths there. We will concentrate more investments there to enhance our profitability.

Businesses catering to the frontlines will uphold efforts to cultivate opportunities. A good example of that is RICOH Graphic Communications, which serves the printing field. At the same time, we invested in the Commercial Printing business in the previous and current fiscal years, and we seek to generate returns from those outlays.

Q: You have maintained your financial targets for fiscal 2025 and said that you do not consider a 9% ROE sufficient. Is your structural reform roadmap timeframe adequate?

A: We consider a 9% ROE necessary to attain a price-to-book ratio of 1x, but we do not consider it good to take two years to get there. We aim to accelerate efforts to reach that level ahead of schedule. We will invest as needed and roll out the structural reforms required for us to achieve this goal.

Q: One policy to accelerate Office Services earnings growth is to increase the ratio of recurring revenue offerings. Can we conclude that you will increase the number of products developed in-house? Do you need to consider additional strategic investment expenses, such as to secure development resources that you lack?

A: We will increase the number of profitable recurring revenue products not just through in-house development but also by providing offerings from partners or which we develop with other companies. One example is RICOH kintone plus, which we developed with Cybozu.

Even in undertaking in-house development, we have a range of strategies. Through the RICOH Smart Integration service delivery platform, we are endeavoring to create an ecosystem in which services we develop in one region can be deployed in other regions. Such development includes not just in-house software but also combinations with partner software.

As to whether our development resources suffice, we are shifting some internally and acquiring others to strengthen our capabilities. We acquired DocuWare, for example, which is doing very well and delivering results.

Q: Will the 1.5 billion yen earnings impact from fiscal 2022, as you presented with your acceleration of business selection and concentration of businesses, prove effective through fiscal 2025?

A: While we cannot specify timing, we do expect a 1.5 billion yen improvement from fiscal 2022 if exit processes in three cases under consideration proceed as hoped. Exit processes are rarely identical and are subject to negotiations with other parties, so we will seek more optimal exits.

Q: You say that you will decide to withdraw from or divest low-profit non-core businesses. Mightn’t withdrawing from profitable businesses help enhance profitability?

A: Some low-profit non-core businesses are nonetheless profitable. Our withdrawal approach should determine contributions to earnings. We are assessing this matter and will report on progress and outcomes as soon as we can.

Q: You indicated that the optimal net assets after excluding foreign currency translation adjustments would be around 900 billion yen. What was the figure at around the end of September this year?

A: Net assets after excluding foreign currency translation adjustments were around 775 billion yen at the end of September, and should rise to around 900 billion yen. As we build earnings toward our fiscal 2025 operating profit target of 130 billion yen, we expect net assets to climb to about 900 billion yen after factoring in investment plans and expenses.

(Note: Ricoh previously stated that optimal net assets would be 1 trillion yen. It has redefined them to exclude foreign exchange adjustment account, which is beyond management's control.)

Q: Is it correct to conclude that the optimal net asset scale would decline if Office Services recurring revenues grow, improving profitability and stabilizing your underpinnings?

A: That is correct.

Q: You said that companywide R&D expenses would be around 80 billion yen by fiscal 2025, representing a roughly 30 billion yen decease. Would you maintain the total amount in view of higher development costs associated with establishing your joint venture with Toshiba Tec?

A: Today's presentation does not include changes in development expenses relating to setting up the joint venture. We will evaluate this based on the same stances, and cannot respond at this point.

The joint venture with Toshiba TEC should be profitable. We will strive to further to enhance earnings by generating synergies after we set it up. Be assured that adding this joint venture will not erode our profitability.

Q: I think that the R&D expense scale for RICOH Graphic Communications was a certain amount, but isn't it entering an investment recovery stage now?

A: The Commercial Printing business has invested as necessary to develop strategic products for an expanding digital printing market. It has already launched two products this fiscal year. As you observed, it is entering an investment recovery phase.

Q: Might you incur one-time expenses for structural reforms in improving R&D expenditures?

A: Without ruling anything out, we could incur such costs in optimizing R&D. This fiscal year, we have booked structural reform expenses in consolidating production facilities for the Commercial Printing business. Such things can happen in these cases. Other possibilities include reskilling people and shifting them to develop digital services or simply cutting R&D expenses and outsourcing costs.

Q: How did Board of Directors deliberations proceed in exploring measures for the Enterprise Value Improvement Project? Might you link compensation to demonstrate management's commitment to the changes you will undertake?

A: We provided direct feedback from investors, analysts, and outside experts collaborating with this project to the Board of Directors, which has engaged in earnest discussions. We have acknowledged external criticism, and have fully involved the Board in exploring measures to enhance enterprise value. The Board is finalizing its confirmation of today's report.

In terms of aligning compensation, we have linked the performance-based stock compensation plan for internal directors to growth in total shareholder returns. Since we tie enterprise value growth to increases in such returns, we are incentivizing directors to make changes that enhance enterprise value.

Q: We use the office equipment sector as our benchmark in analyzing factors contributing to your weak ROE. Benchmark targets would change once you are a digital services company. We would like Ricoh to consider reflecting that perspective at some point. Asset efficiency and capital structures for the two business model differ quite a lot.

A: I understand your point. We recognize working capital and asset efficiency stances would change once we are a digital services company.