Results Summary

Q: Regarding your outlook for RICOH Digital Services in fiscal 2024, what growth rates do you anticipate for Office Printing and Office Services?

A： We look for RICOH Digital Services sales to rise 5.3% year-on-year in fiscal 2024.
There should be no change in Office Printing hardware sales. Non-hardware sales should slip only around 1% despite printing volume declines, on the strength of pricing controls and value-added services.
We expect double-digit Office Services sales gains.

(We supplemented some of the answers for the release of the QA. All growth rates factor out foreign exchange rate impacts)

Q： In the fiscal 2024 outlook operating profit comparisons slide, the sales and product mix notes an additional 15.0 billion yen for RICOH Digital Services and 8.5 billion yen for RICOH Digital Products. Which contribution would be larger, that of the Office Services growth by supporting customers to improve their operational efficiency or an Office Printing recovery from production and inventory adjustments?

A： Office Services growth would be significant. The 15.0 billion yen for RICOH Digital Services would derive almost entirely from Offices Growth. We anticipate no Office Printing sales gains. About half of the 8.5 billion yen for RICOH Digital Products would owe to a production recovery and inventory adjustments. The balance would be from the creation of ETRIA and sales expansion in edge devices other than MFPs. We expect that non-hardware production earnings will decline.

(ETRIA will be a joint venture with Toshiba TEC that we plan to establish on July 1, 2024. It will be a consolidated subsidiary)

Q： Tell us about the sales and operating profit contributions from ETRIA you included in your fiscal 2024 forecast.

A： We cannot provide details because that company has yet to be established, but our forecast assumes sales of around 50 billion yen and an operating margin of about 5% in nine months from July this year.

Q： Your fiscal 2024 forecast factors in 10 billion yen in expenses for the Enterprise Value Improvement Project. Do you expect that initiative to bear fruit during this fiscal year?
Also, where have you incorporated that contribution in operating profit factors?

A： Of the 10 billion yen in expenses in the Enterprise Value Improvement Project, 80% relate to structural reinforcements overseas. The impact is included in operating profit expenses as an amount equivalent to the cost.
The remaining project costs are post-merger integration expenses for ETRIA. We have included the impact in the 8.5 billion yen for RICOH Digital Products of the sales and product mix.

Q： You mentioned that you have included the costs and benefits of structural reinforcements overseas, but might you include the same costs and impacts for Japan?

A： Since launching the Enterprise Value Improvement Project we undertook structural reforms from the perspective of shifting resources to Office Services. So we have incorporated structural reinforcements in some other countries into our forecasts. In countries and regions not part of our current forecasts, including Japan, we will keep looking into optimization for the Ricoh Group overall, while also strengthening capabilities through reskilling.

Q： You project R&D investments of 95 billion yen for fiscal 2024, down 14.8 billion yen year on year. How will that take place? Also, you mentioned that you will announce some measures after formally deciding on them. Will you include their impacts?

A： Please understand that we are reviewing projects that are not in keeping with our drive to strengthen Office Services to transition into a digital services company. The chief technology officer is spearheading decision making on postponing or suspending projects. We will thus be able to lower investments by 14.8 billion yen in fiscal 2024, resulting in an investment level of 95 billion yen.

We have partially included measures under consideration. Please note that R&D investment amounts are on a cash outflow basis, so they differ from income statement impacts of expenses.

Q： What R&D optimization impacts have you included in your operating profit forecast for fiscal 2024?

A： Our development investments include substantial amounts that we will recognize as development assets under International Financial Reporting Standards and then amortize as expenses. The amount for fiscal 2024 would be something like mid single-digit billion yen.

Q： Your optimal net assets after excluding foreign currency translation adjustments would be around 900 billion yen. Will the 116 billion yen in funding for cash flow allocations in fiscal 2024 be primarily from debt? Also, what is your stance on total equity as of the close of March this year, which exceeded 1 trillion yen?

A： Our policy is to fund growth investments in fiscal 2024 with debt. Depending on the fundraising and investment timing, we might temporarily provide funding in some case with equity, but we will retain the same basic policy.
The foreign currency translation adjustment was 245.9 billion yen at the end of March this year, so after factoring that out the total equity figure we are considering would be around 900 billion yen. We are exploring measures to also adjust for the foreign exchange impact.

Progress Report on Enterprise Value Improvement Project

Q: Please quantify the savings of structural reforms in fiscal 2023 through 2024 and fiscal 2024 through 2025. Since the cumulative impacts of each measure *(see page 8 of Progress Report on Enterprise Value Improvement Project)* would exceed 51 billion yen, which is less than your estimate of more than 60 billion yen *(on page 9 of the same document),* I wonder if there will be more additional impacts down the track? Which area or measure is more applicable?

A： The envisaged impact for fiscal 2024 is just over 10 billion yen. We look to materialize the balance of just under 50 billion yen in fiscal 2025. Also, note that further impacts could materialize as differences could emerge in various areas, excluding R&D optimization.

Q： Can we assume that in fiscal 2025 you will eliminate costs associated with the Enterprise Value Improvement Project and that only its benefits will remain?

A： We will work toward such an outcome. We are considering Enterprise Value Improvement Project measures on the assumption that we will implement them and incur expenses under them during fiscal 2024. While some measures may be ongoing, we may face some residual costs in fiscal 2025, but we will post key expenses in the current fiscal year.

Q： I would like to confirm how you are positioning your 130 billion yen operating profit target for fiscal 2025 as outlined in the 21st Mid-Term Management Strategy.

A： While we have explained the overall impacts of the Enterprise Value Improvement Project, we are pursuing a range of initiatives, including structural reforms and optimization. We intend to provide a detailed outlook for fiscal 2025 after assessing impacts and costs of our measures, at or before the fiscal 2024 year-end results briefing.

Q： Your fiscal 2024 forecasts seem to include some impacts of measures that you have yet to formally determine, while some costs are not included. So, is it correct to understand that following formal decisions on additional structural reforms you would incur costs that might lead to a downward revision? In that case, would you add the impacts to offset these costs?

A： As you observed, we may revise our fiscal 2024 forecasts in light of additional costs. Structural reforms that we are considering involve up-front expenses, and even if their impacts become partially apparent during this fiscal year, they would not completely offset the costs.

Q： You mentioned that you expect the upside impact of structural reforms in fiscal 2025 to be just under 50 billion yen. Might additional structural reforms that you are planning increase that amount? Alternatively, are the impacts largely what you expect, with related costs subject to variation?

A： While we anticipate certain impacts, it is important to note that some costs are variable.
To achieve an impact of just under 50 billion yen, we will determine costs after rigorously assessing structural reforms, based on which other additional benefits could materialize.

Q： You have shown anticipated benefits for each item (see page 8 of Progress Report on Enterprise Value Improvement Project). Which impacts have you added from previous progress reports *(presented in November 2023 and February 2024)*?

A： We have already announced our R&D optimization impact and have lifted the impact of accelerating business selection and concentration from 1.5 billion yen, to 2 billion yen. All other explanations are new as of today *(we supplemented some of the answers for the Q&A release)*.

Q： I would like to ask about progress with your business selection and concentration efforts. Your previous progress report gave the impression that you had almost finalized exits. Today, you explained that six of ten business targeted for exit have entered the final phase of that process and that you have already announced two exits. This sounds like things have regressed, and why might that be the case?

A： In our report in February this year, I indicated as president that my policy was almost finalized. Since then, I have explained that while we are making strides toward executing exits we have coordinated with various stakeholders, including negotiations with other parties. As a result, six business have reached the final phase of the exit process, and we have already announced two exits. While progress may seem to be slow, we are endeavoring to expedite exits.

Q： I understand that even profitable businesses are subject to selection and concentration if they do not align with your focus as a workplace services provider. Divesting such businesses could indeed contribute to profits. Could you explain why there are still factors leading to downward revisions in your forecasts. Are your projections excluding profitable businesses?

A： Profitability, market potential, and compatibility with the workplace services domain guide our business selection and concentration decisions. Selling to an optimal owner remains an option even for profitable businesses. In such cases, we would recognize one-time profits from sales, with operating profit from those businesses ceasing from the following year.

Q： You explained that carefully considering measures internally led to a projected fixed cost reduction impact of more than 60 billion yen. In what aspects did you exercise caution?

A： It was evident in several respects. For example, even if allocating resources strategically to focus on the workplace domain, we recognize that customer touchpoints and back-end systems share a significant amount of infrastructure. We carefully assessed whether optimizing these areas would hamper Office Services business growth. In optimizing R&D investments, we also meticulously evaluated which areas to retain for growth and which areas offer high or low prospects for success.

Q： You mentioned that your cost reductions efforts do not hinder future growth. How does management view the impact of the over 60 billion yen in cost savings?

A： Although there are upfront costs associated with saving more than 60 billion yen, we consider expenses essential to transition to a cost structure that ultimately benefits Ricoh and supports a new revenue foundation. Management has prioritized this as a critical issue.

Q： Does optimizing indirect functions and human capital involve lowering headcount? If so, what are your thoughts regarding the scale and timing of such reductions?

A： Our optimization approach entails various efforts, not just reducing headcount, and we are reskilling employees as part of this process. We remain committed to advancing measures that strengthen our operations. Should we develop any new measures, we will disclose details at the appropriate time.

Q： While ETRIA plans to develop a common engine, will Ricoh and Toshiba Tec sell MFPs delivering exactly products with the same performance under their respective brands?

A： The common elements of the engine will primarily involve mechanical functions, such as image output. But the software controlling the engine, the operational interfaces for MFPs, and the software for additional functionalities would be tailored specifically for Ricoh and Toshiba Tec and marketed under each company’s brand. By standardizing certain engine components, we aim to enhance efficiency and cut costs while using the software to distinguish the two brands. The key benefit of this partnership is an ability to differentiate each company’s products in the market while leveraging economies of scale.