Results overview

Q: You forecasted a second-quarter operating profit of around 14 billion yen after factoring in Corporate Value Improvement Project expenses. Earnings were actually 400 million yen. Did that variance stem solely from higher project costs, or did it also reflect such operational factors as weak Office Printing non-hardware sales?

A: The main reason for this difference from our forecast was that we incurred an additional 13.5 billion yen in Corporate Value Improvement Project expenses during the second quarter. We allocated around 10 billion yen of that amount to Second Career Support Program initiatives. Business conditions also played a role. Our Office Printing non-hardware sales were weak, although the yen's depreciation partially offset that impact. While the Office Services business generated solid growth, it performed slightly below expectations.

Q: Your Office Printing non-hardware results somewhat lagged those of peers in the first and second quarters. Why do you think this was, and what is your outlook?

A: Non-hardware sales were down 3% from a year earlier in the first half of fiscal 2024 after factoring out the forex impact. This decline reflected lower customer print volumes and machine-in-field reductions in some regions. Although we face competitive price pressures, particularly through dealer channels, and are taking countermeasures. It is important to note that our approach prioritizes profitability over just lowering prices. Our policy is to secure the dealers and machines in field that we need rather than regain all of our lost ground. This approach will not yield immediate results, so we expect second-half trends to align with those of the first half. We have thus lowered our full-year non-hardware sales outlook from an initial forecast of a 1% decline year-on-year, to a 3% decrease.

We forecast a decline of 4% to 5% over the medium through long terms. We will harness our Corporate Value Improvement Project to cut fixed costs and transform our earnings structure.

We have assessed trends in peers' non-hardware office printing results, but we prefer to avoid comparisons owing to differences in customer structures and agency and direct sales ratios.

Q: While Office Services sales have risen, earnings growth seems to have been weaker. Why do you think this is so?

A: Sales and earnings have expanded less than anticipated, and we aim to accelerate growth in the second half of the year. In Japan, PC replacement demand has shifted more than expected into the second half, and we plan to capitalize on that opportunity during this period.

The Workplace Experience area is underperforming in Europe, partly due to delays with several major deals. Many involve multi-site deployments, so we are recognizing sales progressively. These projects also include managed services that build recurring revenues, so each deal supports ongoing growth.

While we also need improvements in Workplace Experience in the Americas, we are steadily building a strong pipeline through sales proposals to existing Ricoh customers. We will work to capitalize on these opportunities in the second half of this fiscal year.

In all regions, we are focusing on building recurring revenues while keeping fixed costs constant. We seek to improve Office Services profit margins through recurring revenue growth. Additionally, Ricoh Digital Services is leveraging the Corporate Value Improvement Project to review its sales and service structure to enhance workforce mobility and is working to further reduce fixed costs across the segment.

Progress Report on Enterprise Value Improvement Project

Q: Please summarize the financial impacts of the Corporate Value Improvement Project for fiscal 2024 and 2025. You project gains exceeding 60 billion yen by fiscal 2025, including 19 billion yen by fiscal 2024. In other words, fiscal 2025 gains would be 41 billion yen, with one-time expenses of 33 billion yen in fiscal 2024 no longer applying. So, can we expect operating profit next fiscal year to be more than 74 billion yen higher than this year?

A： You are basically right. That said, the currently confirmed gain is 52 billion yen by fiscal 2025, with an expected one-time charge of 33 billion yen in fiscal 2024.

Q： If the Corporate Value Improvement Project can indeed generate more than 60 billion yen in savings by fiscal 2025, operating profit that year would bring you closer to your medium-term target of 130 billion yen. Are there any additional negative or positive factors, apart from those relating to the Corporate Value Improvement Project, that you can comment on?

A: We believe that expanding recurring revenue is the key to Office Services earnings growth. We will strive to amass recurring revenues while lowering fixed costs through the Corporate Value Improvement Project. At the same time, Office Printing non-hardware poses downside risks. As we mentioned during the results briefing, we are taking various steps to brake the earnings decline.

Q: Why did you lift projected savings from overhauling your sales and services structures from more than 10 billion yen initially to more than 23 billion yen? I thought that the initial forecast of more than 10 billion yen already factored in the impacts of your announcement on September 12 of the Second Career Support Program and structural reforms overseas that would lower headcount by around 1,000 people. Did I understand correctly?

A: Our initial projection did not fully factor in a headcount reduction of around 1,000 from structural reforms overseas. The prime driver for increased projected savings would be additional measures abroad and more detailed estimates of the impacts of measures in each country. Also, we are spreading savings from the Second Career Support Program in Japan across such areas as headquarters reforms, including efforts to optimize R&D and back-office functions, and accelerated strategic business selection and concentration initiatives in our business portfolio. We already included some savings in our initial projections.

Q: Do your efforts to accelerate business selection and concentration factor in any plans to exit operations beyond the PLAiR business?

A: We prefer not to name businesses beyond PLAiR at this juncture in view of the potential impacts on stakeholders in those areas.

Q: I recall earlier plans to streamline businesses with collective revenues of 180 billion yen under a selection and concentration strategy. Your latest update doesn't seem to encompass all planned actions. Since you do not project one-time charges for fiscal 2025, can I conclude that you aim to make further progress during this fiscal year in streamlining businesses?

A: As you assumed, we have not made final decisions for all targeted businesses. For a start, we will continue to push forward with selection and concentration. We will constantly assess business prospects, market scale, and alignment with our position as a digital services company.

When we say that we do not expect one-time charges at this juncture for fiscal 2025, we mean that in view of the latest estimated savings totaling 52 billion yen, we do not project any additional expenses for next fiscal year.