(Q&A) FY2018 Financial Announcement

Key Questions and Answers

Q: I think the sales mix was a ¥1 billion downside factor for earnings in the fourth quarter of FY2018 (Fiscal year ended March 31, 2019), so what was the factor of an increase of ¥1 billion after excluding non-recurring costs and transient factors?

A: As you pointed out, there was a ¥1 billion downside factor in the fourth quarter. Still, this stemmed from removals from consolidation owing to business transfers, the impact of which was around ¥2 billion. After factoring this out, there would have effectively been an increase of ¥1 billion. That ¥1 billion increase was net of a ¥3 billion Office Printing decline and a ¥4 billion Office Services rise.

Q: There was a ¥1 billion effective earnings increase in the sales mix in the fourth quarter of FY2018. Can we expect the annual total for FY2019 to be four-fold that amount form quarterly rises?

A: There would not simply be a four-fold rise, as quarterly business conditions vary. We forecast zero change from a year earlier for the full term.

Q: You did well in Office Services in FY2018, and migrations to windows 10 probably contributed considerably to your performance. Do you anticipate similar gains in FY2019?

A: Windows 10 migrations certainly benefited sales in FY2018. We anticipate another positive performance in FY2019. There might be an impact on sales to a degree once Windows migration demand peaks from FY2020. That said, unit sales of PCs will not affect profits much, so we think the earnings impact will be limited.

Q: The United States has announced that it would lift tariffs from 10%, to 25%, on certain items amid trade friction with China. How might that affect Ricoh?

A: Products subject to tariffs at this moment account for a small percentage of Ricoh's sales. These include digital duplicators and accessories, printer options, and projector accessories. If the tariff rates rose from 10%, to 25%, we are unlikely to incur any major new losses.

Q: Your operating profit comparisons chart for FY2019 forecasts shows a ¥12 billion structural reform charge, which is higher than initial assumptions. I assume you will embark on new structural reform efforts. Will they finish in FY2019, or will you post additional charges from FY2020? Does the structural reform impact of ¥16.5 billion stem from reforms through FY2018? Or does this amount also encompass new attainments in FY2019? If so, what would be the FY2019 contribution?

A: The structural reform impact for FY2019 includes results from initiatives in FY2018. The structural reforms for which costs would increase in FY2019 are for addressing new issues after reviewing structural reform tasks to date. We believe that structural reforms will ease in FY2019.

Q: What scale of structure reforms do you envisage from next year?
A: They should not be very extensive, and should cost several billion yen.

Q: For FY2019, you look for your Office Services operating profit to rise around ¥7 billion on a sales increase of around ¥15 billion. That would be good growth in a very high-margin business. Does that mean you have amassed a backlog of industry- and business-specific solutions projects?
A: At this juncture, we are enjoying steady growth in Japan with Scrum Packages and other industry- and business-specific solutions, and they are contributing much to earnings. We have leveraged structures, expertise, and frameworks in Japan, Europe, and the United States to fuel earnings by proposing unique services solutions, and we anticipate such contributions.

Q: Of the businesses that you are positioning for Ricoh Lift Off from next fiscal year, notably automotive, healthcare, and additive manufacturing businesses you have presented, which do you expect to contribute particularly swiftly to performance?
A: We have already secured orders for such automotive products as stereo cameras and head-up displays, and they should contribute to results from FY2019. In the Healthcare business, DNA standard plates that we plan to launch in July this year have won accolades in academic and other circles. While their sales may not be massive, they nonetheless offer earnings potential.

Q: In FY2019, you are in reach of the operating profit target of ¥100 billion that you set under the 19th Mid-Term Management Plan. In which areas are you on target or lagging?
A: In Office Printing, we have progressed in price management for our MFPs, greatly increasing profitability per machine. At the same time, our market share on a unit shipment basis has dropped more than envisaged, so the net effect is that we are broadly on target. Office Services have contributed more to earnings than envisaged, so we are in positive territory for Office Printing and Office Services combined. So, we are basically on track overall.

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Q: In your 19th Mid-Term Management Plan, you expressed a keen awareness of the risk that your Office Printing business would shrink down the track. Have you retained that stance? In what respect might things get better or worse?

A: We acknowledge that Office Printing sales are gradually declining. That said, we believe that there is still scope for growth in Office Printing and Office Services combined in view of office or working customers who are our existing business targets. We kept Office Printing and Office Services as separate businesses under our 19th Mid-Term Management Plan because we had managed them separately. We had to clearly improve profit margins in the Office Services business. In Office printing, we had to clarify exactly why earnings were falling before deploying the right measures to address the situation. For our next mid-term management plan, we look to review our business units in light of progress to date.

Q: Your FY2019 sales and product mix forecast is zero, which is an improvement from before. But that is because of the new product impact and other special factors, so mightn't this be a factor in lower earnings next fiscal year? Alternatively, would it be correct to conclude that you are making steady improvements and that you are sure that things will be good next fiscal year and the year after that.

A: We believe that the minus ¥22.5 billion for the sales and product mix for FY2018 was extraordinary. That is because ¥10 billion of that amount was the impact of removals from consolidation. Another factor was that we experienced a sales rush in FY2017 in the United States ahead of selling reforms, so there was an earnings reduction of roughly ¥10 billion in FY2018 in reaction to that. These two factors accounted for ¥20 billion of the minus ¥22.5 billion. The remaining ¥2.5 billion was amply covered by new MFPs and Office Services and other businesses, so in FY2019 we look for the sales and product mix figure to be zero.

Q: Might you harness the cost-competitiveness you have now secured from new products to lower pricing and recapture market share?

A: Our new MFPs we have launched since January ,2019 have been very well received by customers. These products incorporate new value from various perspectives, and we have put in place a sufficient training and infrastructural platform to convey the advantages in proposals. We seek to boost unit sales while remaining profitable on the strength of the added value.

On top of that, we can now more accurately determine margins on deals and how to incorporate solutions and other value. Because we can better understand progress with business negotiations and projects, we can provide regions with instructions on situations in which they can or should not pursue market share with products.

Q: You initially earmarked a total of around ¥50 billion in structural reform spending goal for the period of the 19th Mid-Term Management Plan. You spent almost that amount during the first two years of that plan. You look to spend ¥12 billion in FY2019, yet you show that the accumulated savings from structural reforms over three years would rise just ¥5 billion yen from the initial target of ¥100 billion. I thought you would have saved more from these efforts. So, can we conclude that your forecasts are conservative?

A: Not all of the envisaged savings from initiatives in FY2019 will materialize this year, reflecting implementation timing and other factors. Some of the savings will slip into FY2020 instead. The relevant savings that will show up that year will be several billion yen.

Q: Your companywide expenses seem higher than at other companies. I think you ought to allocate companywide expenses that relate to businesses to the relevant operating units. Given President Yamashita's intent to create more focused business segments and assess operations more realistically, the prevailing situation does not seem good at all. Given all that, I would like you to explain whether or not you are concerned whether scale and nature of companywide expenses, particularly R&D expenditure, are appropriate.

A: Companywide expenses totaled ¥86 billion to ¥88 billion over the past two years, but they were effectively ¥66 billion to ¥68 billion because they included structural reform and other one-time charges. We aim to lower companywide expenses to ¥55 billion or so in FY2022. There are still plenty of issues in that regard. I think that we have to be a little more precise with expenses that ought to be allocated to businesses. R&D expenditure is around ¥110 billion, and we have adopted a mechanism to properly relate research these to operations and assess implementation. Accordingly, we have already begun to shift R&D expenditure to existing businesses to drive efficiency and growth. While total R&D spending is not changing, there are major changes in its composition