Key Q&As

Q: I have heard that while other companies in your industry did not experience significant downturns in the first or second quarters of fiscal 2019 their outlooks from the third quarter are downbeat. Please provide supplementary explanations about your first-half results and projections for the Office Printing, Office Services, and Commercial Printing businesses, which are major operating profit generators.

A: In Office Printing, we have progressed with profit-oriented sales in Japan and overseas for around three and two years, respectively, intentionally reducing the number of unprofitable machines in field. Customer system verifications and evaluations for color MFPs launched this year are progressing, and deliveries are beginning. We believe that an increase in the highly profitable number of machines in field as a result of higher sales of these new offerings will translate into improved non-hardware profitability.

On the Office Services front, we expect demand related to Windows 10 migration to continue in Japan through the third quarter. We not only offer hardware but are also able to sell PC packs that generate ongoing support fees. We should be able to ameliorate the impact of a post-migration demand drop-off owing to these fees. We are generating ongoing growth in sales of business-specific solutions in Japan, particularly of Scrum packages. We will continue to bolster our lineup of these packages to expand revenues.

In Commercial Printing, new products are at last beginning to have an impact, which should drive non-hardware sales growth. In this area, deals tend to concentrate at the end of the fiscal year. The lead times average around six months, and with some deals in the pipeline to an extent we have no concerns.

Q: A3 MFP sales were up year on year in Q2. What’s the outlook for the second half and beyond? I realize there’s no need to emphasize unit sales growth, but I would like to know how you see things.

A: We expect MFP unit sales to increase this fiscal year. In the second half, they should be higher than a year earlier. That said, we think that the compound annual growth rate for A3 MFPs may drop one or two percentage points over the medium term.

Q: Your Office Printing operating margin seemed lower in the second quarter than in the first. What were the factors in this?

A: In the first quarter, our Office Printing operating income included a 3 billion yen asset divestment gain. In the second quarter, we incurred more structural reform charges than in the first, and there was also a negative forex impact. Also, although we secured large MFP deals while remaining focused on profitable sales, our second-quarter operating margin was down slightly because such deals were at lower prices than for those with small and medium-sized businesses. After stripping out such factors, our operating margin was basically the same in both quarters.

Q: Some other companies have characterized the European market climate as unfavorable. What is Ricoh’s take?

A: It has started to become favorable recently. In Office Printing, there has been progress in customer systems verifications for new products for package deals with large customers, which has started to translate into sales. Earnings have begun to rise on a reinforced structure in our Office Services business. We look forward to ongoing earnings contributions.

Q: Aren’t you concerned that an increasingly adverse market climate will rekindle price competition?

A: The situation on the sales frontlines is certainly challenging in view of extraordinarily intense competition, a focus that we have maintained on profitable sales, our avoidance of unprofitable deals, and higher prices stemming from value-added proposals, but there will be no return to price competition. We have established a policy overall of securing profitable deals, of which there were more in the second quarter. While the picture has been mixed in Europe, for example, Office Services account for an increasing proportion of sales in Italy, while MFPs are also selling well. Benchmarking success stories from each country will propel growth.

Q: For elimination and companywide expenses, you allocated intellectual property-related and other costs to business divisions. Tell us the expenses scale for the first half and the full year.

A: From a 4.2 billion yen reduction in elimination and companywide expenses, around two-thirds, or almost 3 billion yen, was allocated to intellectual property-related costs in the first half. You can assume the amount would be roughly double that for the full year.

Q: Why did Office Services sales grow in Europe, the Middle East, and Africa in the second quarter?

A: DocuWare, which we wholly acquired in August, 2019, generated 46 million euros in sales and 2.9 million euros in operating profit in fiscal 2018. That said, its contribution to our performance was only in September and was thus small. To date, in Spain, Italy, and the United Kingdom we have deployed information technology services based on the offerings of acquired companies, primarily to mid-sized and large corporations. Growth from this approach has contributed to results.

Q: Page 10 of your Towards 2020 presentation states that you are positioning the office domain as a growth business. Does that mean that you are redefining under your next mid-term management plan what has been a growth area to date?

A: We sense that the office paradigm has transformed in light of such developments as the diversification of workplaces. By linking the conventional offices and frontlines, we believe that there is a future for services focusing on workers.

In a policy switch in April 2018, we delegated authority in Office Services to each global unit. That is because while it was alright to supply these business units with Japanese-developed hardware, workflows developed in Japan were not well received in Europe. Our Office Services business has expanded since we changed our policy. We should continue to enjoy growth potential in each business unit developing solutions that link offices and frontlines. We will detail our growth field approach when announcing our next mid-term management plan.

Q: I would like to know about your stance on fixed and other costs under your next mid-term management plan. If you pursue sales growth, would that be premised on controlling expenses or would you conversely increase them?

A: We think our current cost levels are high, so we would not increase expenses commensurately with sales. We will invest as needed and strive to cut costs by trimming internal processes to improve our business structure.

Q: Towards 2020 presentation gave the impression that management would shift its focus to the balance sheets in view of having progressed with structural reforms and greatly enhancing profitability. Is that a correct understanding of the situation?

A: That is basically correct. On reflection, we could have focused a little more on our balance sheets. We want to enhance our equity market standing by deploying robust capital policies while carefully engaging with shareholders.

Q: Page 9 of your Towards 2020 presentation states that you look to generate previously unimagined shareholder returns. How exactly will you change things? In your explanation, you hinted that one consideration would be your total return ratio. What can you tell us at this stage?

A: We have prioritized our payout ratio and stable dividends, but we will become more conscious about capital returns. We will look into formulating a different shareholder returns policy, including to consider buybacks, total return ratios, and our responses to cash flow changes.

Q: I think that most Japanese companies make growth investments their top priority and balance that against shareholder returns. I guess companies could change their priorities according to their business climates. What is Ricoh's stance?

A: While we will make shareholder returns a greater priority, we cannot say whether they will be more or less important than growth investments, which are vital for sustainable corporate activities.