Key Questions and Answers

Q: You posted 16.1 billion yen in operating profit in the third quarter of fiscal 2022. How much lower was this from the forecast you announced in your second-quarter results briefing? What specific steps will you take to attain your full-year forecast?

A: Operating profit was around 5 billion yen less than we projected. This largely reflected delays in resolving hardware order backlogs and slow deliveries to customers in the Office Printing business. We are moving to recover from this situation. I will now overview several of these efforts.
We carefully balanced required quantities and adjusted inventories by transferring them across regions.
A4 MFPs supply delays hampered deliveries of A3 MFPs that we offer as parts of packages. We were able to secured sufficient A4 MFP production, however, in the latter half of December.
We normally transport products by sea from plants to sales locations, although air shipments are an option. As transportation costs rise, we will consider situations case by case in taking action after February this year.
As explained to date, we have tackled parts procurement difficulties by undertaking a range of measures. One is flexible production, which entails stockpiling inventories of semi-finished products at sales sites and retrofitting missing parts later. While progressing well with this process, we recognized that there is still room for improvement. So, we boosted production capacity by sending experts from headquarters to the United States to improve and accelerate retrofitting. In Europe, we are streamlining warehouse operations and prioritizing deliveries support from specialist transportation firms.
On top of that, the Office Services business can cover setbacks by delivering growth. In Japan, we will step up sales activities by taking advantage of better ICT equipment supplies and launching new MFPs. For our Scrum package lineup, efforts will include bolstering back-office packages and reinforcing our business-specific package range.
We aim to reach our full-year forecast by carefully controlling costs.

Q: Around how large were planned gains on divestments of assets in the fourth quarter?

A: The amount included in transient operating profit causes by factor in our forecast should exceed 10 billion yen.

Q: In Office Printing, do you expect a decline and recovery in hardware sales to affect sales of consumables and other non-hardware?
You apparently look for a non-hardware recovery to continue in the fourth quarter. Does your projection also factor in that a hardware sales recovery will contribute to a non-hardware turnaround?

A: In Office Printing, the number of machines in field and z print volumes are shaping our non-hardware performance. The impact of hardware sales on higher non-hardware revenues will be limited. That is because hardware sales come largely from replacing machines in field with non-hardware contracts. Non-hardware sales were weaker than expected in October and November, turning around in December. If this trend continues in the fourth quarter, sales could recover to anticipated levels. Our hopes are not high, however, as much depends on whether customer employees work from company sites or home. Please note that when comparing with fiscal 2019, fourth-quarter non-hardware sales have tended to be higher than in other quarters because that term is comparable to when the COVID-19 impact occurred.

Q: If you are projecting results for fiscal 2023, I'd like you to organize downside or upside factors with respect to fiscal 2022. I want to know, for example, whether downside factors this fiscal year will become upside ones in the next term.

A: Our 35 billion yen forecast for external factors includes the impacts of ocean freight charges, cost increases, and some parts shortages. We expect ocean freight charges to become a positive factor. That is because market prices have settled down and we are currently signing agreements for next fiscal year. Also, some material shortages and cost hikes this year are transitory. In terms of pricing controls, while we expect some prices to bounce back when costs decline, at this stage we do not envisage a fall year-on-year in fiscal 2023 because we will not discount unnecessarily and will price according to added value.
We will keep pursuing structural reforms. We particularly anticipate several billion yen in variable cost savings in Office Printing, as we look for figures to improve with higher production and sales volumes.
On the pandemic recovery front, forecasts are hard for non-hardware, while there is upside scope for hardware. We are endeavoring to eliminate order backlogs and trim inventories during this fiscal year, but some orders will slip to fiscal 2023. It is also worth noting that some machines in field have yet to be replaced owing to the pandemic and product supply shortages.

Q: While Scrum package sales reached a pleasing third-quarter sales record, I doubt that you will reach your full-year target of 100,000 units. I get the impression that things were challenging in the first half owing to shortages of ICT equipment. How do you assess your performance in the third quarter, and what approach will you take to expansion?

A: Scrum package sales were lower than anticipated in the first and second quarters but as expected in the third quarter. We also note that back-office packages that do not depend on ICT equipment have sold well. That said, shortages of ICT equipment still has a role, and we think that there is scope for more growth.
While dissatisfied with cumulative sales of 57,780 units through the third quarter in view of our full-year target of 100,000 units in the April-December period, we are not basing our performance assessment solely on these numbers. We will take steps that focus on generating revenues and earnings.

Q: What was the operating margin for Ricoh Digital Services? What is the reason why operating profit did not improve as much as sales increased from the second through third quarters? Also, what operating margin forecasts do you envisage for the fourth quarter and beyond?

A: We experienced a weak recovery in Office Printing non-hardware. In office services, our margin has suffered from surging labor costs in the United States. In Europe we are proceeding with the deliveries as improvements in the procurement situation for ICT products, however, the costs of purchased products have increased since the contracts were signed with customers, which affected the profit margin. We aim to enhance profitability by expanding Office Services revenues, particularly of subscriptions.

We will build a platform for sales growth by increasing the subscriptions base for software offerings through efforts at European units DocuWare and Axon Ivy and by cultivating RICOH kintone plus, which we launched with Cybozu. Also, we will have our RICOH Smart Integration platform for edge devices incorporate functions and services that link to such software offerings, further expanding earnings.

We will prioritize enhancing the software of our products under our next mid-term management strategy. We will detail our efforts when announcing that initiative on March 7.

Q: The operating profit of Ricoh Digital Products seemed slightly low in the third quarter. Was that because of an increase in inventory? Will inventories increase as eliminations progress?

A: Growth was slow in the third quarter owing to issues in procuring specific parts, which cut earnings by several billion yen. This was as expected. We anticipate a recovery in the fourth quarter.

Q: It looks like you began to see progress in procuring ICT equipment for Office Services. Might this contribute to your sales pipeline for the fourth quarter?

A: ICT equipment supply shortages started to ease off in the third quarter, so we’re making headway in cutting order backlogs. Still, a backlog remains that we seek to eliminate during the fourth quarter and the first half of next fiscal year. Demand has not slowed down. Of course, we can proceed with deals now that we can procure equipment and have a good handle on our pipeline.

Q: Tell us specifics about the Office Services regional strategy that is pivotal to reaching your forecasts.

A: We have rolled out strategies that match local situations in Japan, Europe, and the United States. We have deployed the Scrum series in Japan. From September, we have seen the effects of the deployment of Scrum packages for back-office usage that does not depend on ICT equipment. This has proven fruitful. We anticipate further growth as ICT equipment procurement improves. Sales of Scrum assets through the third quarter were up 69% year on year, and should keep growing.

In Europe, we will keep generating synergies from acquisitions. In January, we acquired a new IT services company in France. Acquired companies are producing growth exceeding 20%. They should expand at a similar rate in the fourth quarter. It is worth noting that we purchased a French IT services firm in January this year.

In the United States, where we cultivate Business Process Services, we are not only offering regular output services outsourcing but also new solutions that are starting to generate growth. These include a service that electronically delivers postal items. That's great for the increasing number of companies adopting hybrid work models. Also, we are focusing on healthcare, finance, retailing, and other industries in which we are a strong player for large corporations, and are rolling out solutions in these fields. These efforts are starting to lead to contracts.

Q: Rivals have boosted A3 MFP sales since the second quarter period. Unlike Ricoh, none of them said that A4 MFP delays affected A3 MFP sales. Why has Ricoh's experience differed?

A: We make most of our A4 MFPs in China. We produce key units at Shanghai Ricoh Digital Equipment and complete offerings at Ricoh Manufacturing (China) in Dongguan. Just as production was beginning to recover from the spring lockdown in Shanghai, a new wave of COVID-19 infections spread across China in December. This lowered plant operating rates. So, the supply situation has been unstable. We manufacture mainstay A3 MFPs in China and Thailand, but a similar situation continues with those offerings as it is hard to change production sites. Supplying dealers generates sales for us. Where selling directly, our lead times through deliveries to customers are longer. We think that our high direct sales weighting has also factored into our recovery being slower than that of rivals.

Q: Is demand shifting from A3 MFPs toward A4 models?

A: There is no such trend.

Q: In Japan, other companies seem to be taking a similar approach to that of Ricoh Office Services. Has that changed the competitive climate?

A: Experts in particular industry operations plan our Scrum packages. We put together optimal combinations of products without customizing anything. We have our industry's biggest sales force, offering these packages directly to customers, so I believe we have a distinct competitive edge. Because we primarily use direct sales routes, we train our sales and customer engineers extensively so we can deliver proposals and support that satisfy customers. They purchase an average 2.5 packages each, which is more than a year ago. We are pushing ahead with efforts to solicit customer feedback and deploy new Scrum packages.

Q: Regarding Scrum packages, have the sales composition ratio of industry packages and business packages changed? Have weightings for industry sectors increased?

A: We are focusing on back-office offerings that do not rely on ICT equipment, as well as business-oriented packages that are compatible with invoice systems and comply with the revised electronic bookkeeping law. Industry packages are another focus. The compositions have not changed much.
That said, we assume that many small and medium-sized enterprises will start adopting digital processes with their business packages, so this area will probably be a focus for the next year or so. As for industry packages we aim to concentrate on the construction and welfare sectors in the fourth quarter.

Q: Your inventories rose 96.2 billion yen from the end of March 2022. What was the increase after stripping out the PFU consolidation and foreign exchange impact? What is the projected decline through the end of this fiscal year?

A: After excluding the PFU consolidation and forex impact, inventories were up more than 60 billion yen from the end of March last year. We would like to basically halve inventories. I don’t think we can completely eliminate them, as some increases are necessary, advance purchases of parts being one requirement.

Q: What was PFU’s contribution to earnings in the Other segment? What is the likely contribution in fiscal 2023?

A: The operating profit contribution was several tens of billions of yen. PFU has performed solidly. It is making concrete efforts to generate synergies with Ricoh to ensure mutual earnings growth. We look forward to more profit contributions next fiscal year.