Key Questions and Answers

Q: How did you compare your first-quarter operating profit of fiscal 2023 with your internal target? What do your projections look like for the second quarter and beyond?

A: Given that the internal target under the assumed foreign exchange rate was around 7 billion yen, we performed in line with our internal target even after factoring out exchange rates. We aim to achieve 15 billion yen to 16 billion yen in operating profit in the second quarter, posting 20 billion yen in the third quarter. With further gains in the fourth quarter, operating profit for the full year should reach 70 billion yen. We have based all these projections on our assumed exchange rate.

Q: Competitors have started highlighting that they are focusing on cultivating office services, which has driven MIF (machine in field) purchases. Is Ricoh also experiencing a similar situation?

A: We are also finding office services deployments leading to replacements of MFPs from other companies and the MIF acquisitions. Instead of just proposing MFPs, we are incorporating a deployment policy combining hardware with office services. In Japan, for example, small and medium-sized enterprise customers find Scrum packages very interesting because they need a range of industry and business solutions, including to comply with legislative revisions. These include updates to the electronic bookkeeping law and the introduction of an invoicing system. We first propose Scrum packages and encourage installations of our MFPs in line with package deployments.

Q: How are your Scrum package sales progressing? I think your approach is to first propose task packages like security and back-office packages regardless of industry type. You then offer sector packages that are more workflow focused and deliver higher profit margins. You have talked about demand for security-related products remaining robust, but other companies say that deployments of those products have progressed, with demand levels easing. Since customers deploy an average 2.6 packages, doesn't gross profit growth come from higher sales of sector packages?

A: In many cases, we see customers start with task packages and then adopt sector ones. Task package deployment growth has contributed significantly to current rises in unit number deployments per customer. We are seeing no signs of demand for task packages running its course. Small and medium-sized enterprise customers particularly face a range of issues with office digital transformation. The need for general-purpose packages for security and back-office tasks remains solid.

For Scrum packages, we are focusing on securing revenues and gross profit. We will endeavor to expand sales of packages matching what interests customers and secure high profit margins regardless of industry and business category.

Q: Office Printing non-hardware sales slipped 1% from a year earlier in the first quarter. What were the print volume and price trends? Given that declines were even greater for global office automation paper shipment volume data, I want to know if higher prices have compensated for output drops or if the correlation with the paper shipment volume data is low. Also, have you made any changes to your outlook?

A: The extent to which office automation paper shipment volume data and non-hardware sales are correlated is unclear. We can say that pricing controls led to a 1% fall in non-hardware sales with respect to a decrease in print volume. We are retaining our full-term forecast of a 1% decrease year-on-year. We are upholding our assumption that print volume will go down over the medium through long terms. We will offset that fall through pricing efforts, including with value-added proposals.

Q: You have projected 30.9 billion yen in full-year operating profit for Ricoh Digital Products. Its earnings were just 900 million yen in the first quarter. What do the trends and probability of reaching your target look like? Could you also tell us if you expect to book any charges relating to your preparations to form a joint venture with Toshiba TEC?

A: For the first quarter, we originally envisaged impacts from cutbacks in A3 MFP production and from non-hardware sales declines. The cutback impact on our results was greater than we expected. We look for this trend to continue to an extent in the second quarter. We are nonetheless retaining our full-year MFP sales volume and production plans, so our outlook is unchanged. We are exploring measures to achieve the forecast, including to recover unit sales and production levels and review necessary expenditure.

With respect to preparations to form a joint venture with Toshiba Tec, the expenses we expect to incur in fiscal 2023 would largely be consultant fees that we do not think will be significant.

Q: What is your take on Ricoh Graphic Communications posting 2.7 billion yen in operating profit in the first quarter against a full-year forecast of 1.5 billion yen? For the fiscal year, I think you projected structural reform costs of 5 billion yen and development asset amortization charges associated with new product launches. Will you book these charges in the second quarter?

A: First-quarter results exceeded expectations owing partly to the impact of foreign exchange rates. We do not expect this trend to continue in or beyond the second quarter. We look to spend 5 billion yen annually on structural reforms. While there could be a reduction, we envisage an accrual to an extent on a pro-rata basis of the balance of 4.5 billion yen from the second quarter and beyond.

Although we plan to launch new products in the second quarter, there will be lead time from concluding deal negotiations and generating sales in this segment. So, we think it would be hard for the new products to contribute immediately to earnings. At the same time, we will incur sales promotion and other expenses in line with launches. We will probably keep booking amortization costs for development assets and other expenses associated with launches. We will naturally endeavor to control expenses.

Q: First-quarter sales rose 75.2 billion yen from a year earlier. I think the gain after stripping out the forex impact was 55 billion yen. Did your growth remain firm after excluding contributions from the newly consolidated PFU? Also, what was the operating profit impact?

A: PFU contributed around 20 billion yen in sales in the first quarter and lowered operating profit from an amortization of intangible assets. Even after excluding the numbers for PFU, sales and operating profit effectively rose. We look for PFU's sales and operating profit to be around the same as in fiscal 2022 even after factoring in intangible asset amortization. PFU's quarterly trends show seasonal earnings growth through the fourth quarter.

Q: Were first-quarter inventory levels as you expected? I want to know if you encountered any differences from your projections and if you found any aspects hard to control. Could you also share the levels you have in mind toward the end of this fiscal year?

A: While we were able to trim sales inventories by upper double-digit billion-yen range, the whole inventories were higher than we expected at the start of the term. This reflected such factors as amassing plant inventories for business continuity plans. In view of last year's parts and materials shortages, we concluded that we needed to purchase some more parts to avoid a repetition of shortages hampering sales. We will endeavor to restore suitable inventory levels by the end of this fiscal year or even a little earlier than that, such as in December.

Q: Please tell us a little more about your Office Services growth, notably in terms of overall trends and newly disclosed recurring revenue trends.

A: While Office Services sales rose 40.3 billion yen, contributions by sub-segment were larger from IT infrastructure and IT services. On the growth rate front, we posted significant communications services growth, owing partly to the impact of acquisitions. Recurring revenues rose 14.8 billion yen. Trends by sub-segment were the same as for Office Services overall, with IT services contributing more. Gains outside recurring revenues should come from PC and software sales and one-time factors. Under the 21st Mid-Term Management Strategy, we are focusing on securing stable revenue sources by amassing earnings from recurring revenues in Office Services. We believe that we made a good start in that respect in the first quarter.