Results overview

Q: At your first-half results briefing on November 8 last year, you expected to post just under 20 billion yen in operating profit in the third quarter. How do you assess your performance with respect to that number? What factors differed from your assumptions, including the foreign exchange impact?

A: We looked for a third-quarter operating profit of 18 to 19 billion yen. As the impact of the yen's depreciation against our assumed exchange rate was less than 1 billion yen, operating profit for the quarter was just over one billion yen lower than we projected.

RICOH Industrial Solutions fell short of expectations. The Thermal business continued to struggle, with operating profit decreasing around 1 billion yen. The Office Printing business posted favorable hardware revenues and increased unit sales. Production volume was lower than expected, however, so Ricoh Digital Products operating profit dropped around 2 billion yen.

On the upside, operating profit at RICOH Digital Services was about 500 million yen higher than we projected. This reflected a robust Office Services business performance and strong Office Printing sales, which offset slightly weaker ICT equipment sales, particularly in Europe, resulting in a slight shortfall against a high target. RICOH Graphic Communications also posted higher profits, including after factoring in the foreign exchange impact. Our third-quarter companywide operating profit was accordingly just over 1 billion yen lower than our forecast.

Q: Why did you establish a 30 billion yen share repurchase? And what is your policy on shareholder returns?

A: We calculated that repurchases of 20 to 30 billion yen would be most effective in view of the impact on our share price.

We will take a flexible approach to repurchases, constantly considering the timing and whether the conditions are right, such as when we should act and prevent insider trading. Repurchase timing will be limited in view of when Enterprise Value Improvement Project-associated measures deliver results, when we plan mergers and acquisitions or asset or business sales, or when there is insider information.

Q: Why did you lower your Other segment revision?

A: One factor is that revenues from new businesses in which we have made forward investments have been below expectations. We are accordingly engaging in business selection and concentration. Another factor is that headquarters expenses have slightly exceeded projections, including because of inflation and investments in systems needed for structural reforms.

Q: You indicated that you look to trim inventories to around 300 billion yen toward the end of this fiscal year. Were your reductions on track as of the end of December last year? What do you consider an appropriate level?

A: We were able to reduce inventories by 14 billion yen from end-September through end-December. We look to lower inventories by around 20 billion yen toward the close of March this year, for total cuts of around 300 billion yen.

Inventories were up 12.1 billion yen from end-March 2023, although the effective increase in real terms after excluding the foreign exchange impact was 2.1 billion yen. While sales inventories declined by 36 to 37 billion yen, PCs, servers, and other ICT products requiring kitting before delivery were still in inventory, primarily in Japan. Still, we expect reductions through deliveries to specific customers for these offerings.

A concern could be slight increases from adjusting plans for next fiscal year for inventories for parts and materials and work-in-progress that we need to some extent for production plans.

Q: You explained that insider information would not inform your share repurchases for the time being. Is it correct to conclude that you will not conduct the mid-term strategy progress briefing that you usually hold in March?

A: We had stated that we would conduct a mid-term strategy progress briefing in March as a milestone for highlighting progress with the Enterprise Value Improvement Project. We decided not to hold the briefing during that month in view of market feedback and other circumstances. We apologize for changing the timing we announced when presenting our second-quarter results.

We consider it important to convey project progress promptly and as often as possible even when we have no significant progress to present. Also, we aim to hold our next progress presentation in May, when we can share more specific achievements for this fiscal year when announcing our full-term results.

Progress report on Enterprise Value Improvement Project

Q: With respect to selection and concentration, you seem to have determined your direction for 10 targeted businesses. Might you decide to withdraw from or carve out any businesses over the next one or two years?

A: We have reviewed the relevant businesses, and I have formed have some ideas as CEO. Nonetheless, we aim to disclose our decisions externally only after finalizing them internally so we can avoid insider information and other issues. We are exploring all options, including business withdrawals, carve-outs, divestments, and strategic changes.

Q: You lowered your fiscal 2023 operating profit forecast by 10 billion yen, to 60 billion yen. When and what steps will you take to make up for that 10 billion yen shortfall to reach your fiscal 2025 operating profit target?

A: We are considering a range of measures to reach our goals. We will further refine our medium- to long-term outlook in view of conditions in the fourth quarter, and aim to report on our approach in May.

Q: I believe that you decided to set up ETRIA (a joint venture with Toshiba Tec) to recover fixed costs and stabilize earnings by boosting production volume. But since profits have declined this fiscal year owing to a production volume downturn, isn’t there a risk that lifting production volumes by creating that entity would make earnings more volume-sensitive?

A: Sharing engines across the Toshiba Tec and Ricoh brands would increase production and sales volumes per engine model and deliver economies of scale. Using common engines would deliver efficiency gains from higher volumes and enable us to absorb risks associated with changes from operating separately. So, we do not think that creating ETRIA will pose more risks.

Q: Is it correct to understand that the ETRIA consolidation will start on July 1 this year?

A: We will establish ETRIA on that date, making it a consolidated subsidiary.

Q: I’d like to confirm how this will affect your business performance. Is it correct to assume that consolidated revenues and earnings will increase through OEM supplies to Toshiba Tec? Can we also assume that you will generate further synergies from common engines down the track?

A: We will establish ETRIA as a joint venture with Toshiba Tec. At that point, both companies will consolidate their production bases and operations in profitable circumstances, boosting both revenues and earnings. After setting that joint venture up, we anticipate profits rising through synergies from streamlining operations and achieving economies of scale through common engine development. Note, however, that these synergies will not yield results from day one.

Q: Is it correct to understand that your forecasts for fiscal 2024 incorporate Ricoh's revenues and earnings from consolidating ETRIA and that Toshiba Tec will account for profits from that entity on an equity method basis? If so, can you offer any comments on sales scale?

A: The structure is as you describe it. We do not have sales scale figures that we can share.

Q: In generating synergies through ETRIA, I think it's important to review functional overlaps between the two companies and undertake structural reforms. What insights can you offer about the plans for and the scale of such efforts?

A: We are assessing a range of possible measures to generate synergies, but we cannot provide specifics at this pre-establishment stage.

Q: Your execution of growth investments seem to be behind schedule. If that's the case, what's causing the bottlenecks?

A: While carefully scrutinizing growth investments secure returns on capital, there have been some delays in the review process. We're maintaining our growth investment policy, and will keep pursuing it.

Q: Around how many employees will you transfer to ETRIA. What decisions, if any, have you made regarding their compensation, benefits, and working conditions?

A: While we can't yet provide specifics on workforce numbers, transferees from Ricoh and Toshiba Tec to the new entity will be mainly from MFP development and production.

Q: I'd like to ask about your human capital investments. What are Ricoh's thoughts on social pressure to lift wages amid inflation?

A: We consider it important to invest in human capital. Our desired approach would increase employee engagement and productivity and create new value. That's one virtuous cycle. Another is raising wages and thereby contributing to Japan's economic progress in keeping with our corporate commitment to address social demands. That said, we can't discuss specifics at this juncture about how we're dealing with wage increases.