Companywide and management policies

Q: Internal and external views on Ricoh's situation seem to have aligned since you took the helm two years ago. How have things changed? The speed at which internal and external information fed back to management was previously an issue. What changed in that respect?

A: Yoshinori Yamashita, CEO:

I have encouraged communication with the equity market and reflecting external information with management and other members. Things did not go as well as hoped at the outset, but we adopted a new setup in which we gave employees as many opportunities as possible to work with external partners. It was in the course of all this that I sensed we changed as an organization. Employees listened to outsiders and became accustomed to working together, with information inputs from me getting through. I began to hear from customers, suppliers, and partners about the changes. I think that such factors aided efforts to eliminate internal and external awareness gaps and improve approaches.

Decision-making accelerates once you are on the same page with customers and partners. When you are blind to developments outside the company, among rivals, and in the world at large, you can't make the right decisions just by increasing the weight of internal information. That goes for me and for what happens in organizations, too. So, while I am not yet satisfied where we are, I can say that we've begun to get traction over the past two years.

Q: You've taken various steps, including to reduce the number of unprofitable machines in field in Office Printing and to build your positions in growth businesses. Do you now have good portfolios in other businesses? How are you doing, for example, in the camera business?

A: Yamashita:

For the camera business, we will speak during IR Day about how we will cultivate B2B data solutions with 360-degree models. We are endeavoring to work out the future of this business, including in terms of data solutions. We have slimmed down our consumer camera lineup and business.

We have generated high profit margins in the niche Industrial Products and Thermal businesses.

Q: You target 185 billion yen in operating profit in FY2022 under your next mid-term management plan. You said that the situation has become challenging and that you could revise your forecasts somewhat for each businesses. Does that mean that you will retain your overall operating profit target while modifying projections for specific businesses? Do you alternatively mean that your total number is under challenge and that you may revise it downward?

A: Yamashita:

We fundamentally retain our overall operating profit goal of 185 billion yen. That said, when I explained our growth strategies in February 2018 I stated that we would invest 100 billion yen each in growth strategies #1 and #2. Assumptions for the 185 billion yen target are that we would invest strategically under our current and upcoming mid-term management plans.

Apart from strategic investments that we have yet to make, during IR Day we are discussing how we seek to generate business growth under the current operating climate with existing assets and other resources.

Q: You will have to invest around 200 billion yen to reach your FY2022 operating profit target of 185 billion yen. Given that you aren't discussing that at this stage, can we conclude that your plans haven't changed?

A: Yamashita:

That's basically correct. We look to invest north of 200 billion yen, including under our mid-term management plan. That said, we maintain three mergers and acquisitions principles. The first is that we do not buy enterprises that are already up for sale. The second is that we should already be working with target enterprises, including to an extent through joint projects. In other words, each side should understand how the other ticks. Third, once we have decided on an acquisition, those overseeing a business or those implementing it must remain responsible for driving projects forward. We seek to pursue strategic mergers and acquisitions based on those principles. Our investment efforts may seem to be lagging, but we look to progress as planned.

Q: What will be changed from using return on invested capital (ROIC) as a management benchmark? To date, you ought to have been conscious of some form of key performance indicator (KPI) linked to ROIC. What should we conclude will be changed specifically?

A: Matsuishi:

We have to pursue various challenges in driving our growth strategies forward. We will assess different businesses equally, considering profitability and where we should allocate management resources. We have naturally sought to take this approach to date, although our judgment could have been better in terms of business characteristics and the timing of resource allocations. By using ROIC, we aim to allocate resources and manage operations more thoroughly.

Q: I assume business characteristics also encompass future competitiveness. In that sense, I think that your portfolio management will depend very much on how you set your KPIs. Are you planning to determine such benchmarks?

A: Matsuishi:

Exactly. We will monitor business characteristics while setting and pursuing business unit KPIs.

Q: I think that Ricoh's governance has become satisfactory. Nonetheless, only a few of your directors have experience in the office equipment business. So, when the Board of Directors determines operational policies how does it consider worthy opinions and make decisions?

A: Nobuo Inaba, Chairman of the Board:

I think it can be challenging to ensure that in-house directors with experience in this industry and outside directors without such backdrops are on the same page regarding the future and can engage in the right discussions. Still, the future poses numerous uncertainties, and even those well versed in our existing businesses may not necessarily make the right decisions.

While experience in the office equipment business is important, I also think it vital to incorporate external input in deliberations so we can determine how to embrace new developments. It is because we are entering a challenging new phase that I consider it essential to energetically exchange views with various people, not just insiders, centered on the Board of Directors.

I sense that board reforms to date have contributed to very lively decision-making deliberations and intelligent conclusions.

Q: Under organizational changes that went into effect on April 1, 2019, you seem to have repositioned European and American operations as part of overseas sales. What was the backdrop to this? Also, what role divisions do you envisage for the Office Printing Business and Office Services Business groups?

A: Akira Oyama, General Manager of Sales and Marketing Group:

The markets of regional sales companies vary. These companies therefore create business portfolio mixes and strategies that match local circumstances. The Sales and Marketing Group collaborates with these companies and helps them formulate strategies.

Q: I think that cost management is an issue with Ricoh's profitability reforms. I believe that in heading toward FY2022 you plan to slash headquarters expenses and eliminations. How will you proceed specifically?

A: Yamashita:

We will endeavor to lower Ricoh's overall costs. Naturally, reducing headquarters expenses would be part of that effort. We are doing our best to shift personnel to areas in which we engage directly with customers. At the same time, we are reforming a range of processes, notably by allocating people to core businesses where they are vital. On the other hand, we will do our best to bring in work that we ought to handle in-house instead of outsourcing it, and will start reviews in FY2019 to cut costs. I think that this approach should begin bearing fruit by FY2022.

Q: Are there any issues with current total cost levels? For example, do you have any targets for total costs as a proportion of sales in the lead-up to FY2022?

A: Yamashita:

We are aware of cost levels. While incurring expenses in growth businesses and fields, we will systematically constrain costs where we can in core businesses. We will push ahead with that dual approach and ensure that total costs do not rise.

Q: I understand the business advantages of your relationship with Ricoh Leasing, but does it absolutely have to remain a consolidated subsidiary? If it were simply a Group company, you'd surely have no problems maintaining your current relationship, right?

A: Matsuishi:

The Ricoh Group's overall governance is one factor in Ricoh Leasing being a consolidated subsidiary. In particular, we have strengthened governance so Ricoh Leasing manages credit and claims collections while Ricoh Japan oversees sales. A second consideration is that we can generate sales synergies with Ricoh Leasing when expanding growth and new businesses, as we can draw on that company's relationships with many industries. Third, Ricoh Leasing is part of our Office Printing supply chain, contributing to earnings. At this stage, we believe we are taking the best approach with Ricoh Leasing in terms of pushing ahead with business and expanding profits.

Office Printing

Q: While you can now apparently sell toner in China, I doubt that a consumables business model would take off in that market. What changed? Is this progress something specific to Ricoh?

A: Katsunori Nakata, General Manager of Office Printing Business Group:

Inside China, we are seeing more cases of dealers selling color MFPs directly to end users. Ricoh is broadening sales to large dealers, particularly those that can offer proposals directly to end users, and we think that is contributing to progress. Color MFP toner sales are almost entirely of genuine Ricoh merchandise.

Q: What is your competitive edge in service time reductions? How do you feel your progress to date has differed from that of rivals, and why?

A: Nakata:

It is hard to compare our service levels with those of other companies. Here is an example of an improvement at Ricoh. Once, we didn't know exactly where service personnel might be in the field. But by managing things with information and communication technology our people can now complete a service task in just one visit instead of two or three times previously. Improved product reliability has greatly shortened service times. Our results in that respect were measurably better in 2018 than in 2016. We have brought out new products that help shorten service, so we think that we can further cut those times.

Q: In terms of your operating profit scenario for the Office Printing business, with marginal profits declining for hardware and non-hardware, by around how much will earnings drop? Could you explain why the non-hardware earnings decline might be greater than that for hardware?

A: Nakata:

On the hardware front, through FY2018 we based results on narrowing down deals for profit-centric sales. Ricoh's CAGR declines should be roughly half that of the market forecast of a 3.6% drop. In non-hardware, we have been somewhat conservative, taking into account previous decline rates. We are unable to share specific estimates of numbers for assumed overall marginal profits in hardware and non-hardware

Q: Can we conclude that there will be marginal profit decreases of around one half or a third, with the sales forecast dropping from 1,094 billion yen, to 900 billion yen? In other words, can you tell us how tough things are getting?

A: Nakata:

It's hard to provide calculations because hardware and non-hardware marginal profit rates differ. Most of the marginal profit declines in the graph are in FY2017 through FY2019, and should stop thereafter. In view of these factors, we believe that we can generate 105 billion yen in operating profit if we attain our KPIs.

Q: In Office Printing, you have apparently become more able to respond flexibly because costs have declined. But in a competitive climate you have to keep managing prices. How are you balancing things?

A: Nakata:

First of all, there are hardware and service costs. We have steadily lowered expenses through cost-cutting, and our marginal profit has improved significantly. I think we compare favorably in that respect with other companies. Our price management approach has not been case by case for each deal. We will incorporate internally recommended selling price compliance rates in sales assessment systems. We have endeavored for the past year to embed this approach at each sales company. We look to keep lowering costs and managing prices so price management stays within our framework.

Office Services

Q: In explaining the streamlining of Office Services through B2B transactions, you spoke about making proposals that include everything up to finance. Are you considering a business model that encompasses Ricoh Leasing? Also, what ties will you maintain with Ricoh Leasing in new and existing businesses?

A: Yasuyuki Nomizu, General Manager of Platform Business Group:

We are considering support including for digital transactions, as part of finance support.

Matsuishi:

That said, the stance is that Ricoh Leasing oversees the bulk of our financial services. Ricoh Leasing determines vendors and services that would be effective. Ricoh would provide support if it can be helpful.

Ricoh Leasing is positioned to broadly play three roles. First, it manages credit and claims collections for domestic operations. Second, more than half of its sales are from outside Ricoh, so it has customers and partners in various industries and sectors. Ricoh draws on those connections in generating new sales channels and customers in developing new and growth businesses. Third, we are shifting from an era of ownership to one of usage, from tangibles to intangibles, so finance is an effective tool for developing services.

It is important to provide solutions by combining services, hardware, software, and other elements and package them with finance in line with customer business plans and payment capabilities. This has become a solid part of operations.

So, it is in these ways that we are closely connected to Ricoh Leasing and maintain good governance while generating synergies.

Q: I think you improved Office Services earnings by around 10 billion yen through third quarters of FY2018. If using the same chart approach as for your operating profit scenario for FY2022 on page 16 of your presentation, how would things look?

A: Nomizu:

Most of the FY2018 earnings improvements were from IT Services.

Q: Are there any differences for FY2017 and FY2018 in trends for the ratios of four areas of Office Services sales?

A: Nomizu:

There are no major changes. In FY2019, we look for Application Services sales to grow significantly, with the sales ratio expanding.

Q: Have you included the impact of Windows 10 migrations in IT Solutions? Also, what are the earnings contributions?

A: Nomizu:

PC-related sales from Windows 10 migrations are included in IT Solutions numbers. PCs are stocked and sold items, and in Japan IT subsidies for small and medium-sized enterprises are driving sales growth and earnings.

Q: Your FY2018 operating profit included such special factors as IT subsidies, so will you find it challenging to reach your FY2022 target?

A: Nomizu:

We are taking advantage of Windows 10 migration to sell our Scrum package as a solution for customer operations. If we were to simply sell PC units, revenues and earnings would drop after Windows 10 migration. But at Ricoh we are offering business solutions to our customers, and don't expect much of an earnings drop.

Q: Can you provide some specific numbers on RICOH Smart Integration, such as the number of users and profit contributions?

A: Nomizu:

For RICOH Smart Integration, we are presenting user numbers and other targets, as we will disclose our partner program down the track.

Q: In the operating profit scenario explanation on page 16 of your Office Services presentation, roughly what proportion of earnings would come from RICOH Smart Integration?

A: Nomizu:

This would be part of Application Services, but we cannot comment on scale at this point.

Q: You are increasing development personnel in Office Services. What's your stance on sales resources? Do you plan to beef up the skills of in-house people?

A: Nomizu:

While we aim to transition to a subscription business model, there will be no radical changes from our currently MFP-centric services and solutions. We plan to bolster our subscription business bit by bit. So, we will strengthen personnel over several years. We will shift engineers from MFPs and other products and software to Office Services developers. We are open to hiring people from outside for IT Services.

Q: To what extent do you think you will deliver synergies to expand Office Services sales by combining them with sales of new MFP?

A: Nomizu:

Our new products are compatible with subscription business. We have basically decided to have regional sales companies develop final subscription businesses in line with local needs. We will generate synergies with our new MFPs, including through support for launching services with developers posted at regional sales companies.

Q: You explained that you are expanding Scrum packages to small and medium-sized enterprises through large corporations. Is the reason for the expansion to big companies that you are encountering limitations in cultivating small and medium-sized enterprises you are currently serving? If you were able to sell to large corporations, could you maintain your current profit margins?

A: Nomizu:

There is still room for cultivating small and medium-sized enterprises. In FY2018, for example, we sold more Scrum packages than a year earlier. We anticipate further growth in FY2019. We offer Scrum package solutions for seven sectors and three tasks. We look to increase the number of sectors served.

Matsuishi:

Ricoh Japan sales teams serving mid-sized companies and large corporations have started looking to increase the scopes and value that they can deliver through sector and business solutions proposals like those in Scrum packages. Still, proposals for mid-sized companies and large corporations are not exactly the same as for Scrum packages. Rather than provide complete packages, basic modules and assets are prepared and combined to meet customer needs. We look at these as Scrum assets. In terms of profit margin in selling to mid-sized companies and large corporations, we do not think that the added value linked to solutions for customer's business tasks will cause profit margins for small and medium-sized enterprises to decline.

Q: I assume that Windows 10 migration is underpinning PC sales. Once that shift runs its course, what will happen to Office Services operating profit when PC sales become sluggish or decline and you lift sales of package solutions?

A: Nomizu:

PC sales associated with Windows 10 migration have been primarily for large corporations to date. For FY2019, we are focusing on small and medium-sized enterprises, an area of strength for Ricoh, so there is room for PC sales to keep increasing. We will augment this with more sales of package solutions by adding more sectors to our Scrum package lineup. While PC revenues and earnings will drop following Windows 10 migration, we believe that expanded solutions sales with Scrum packages should enable us to boost earnings.

Q: You have targeted an Office Services operating margin of 6% for FY2022. I think it was already 3% or so in FY2018. Why were you able to make an improvement in FY2018 from near the breakeven point in the previous year? What were the factors in higher sales and allocations for cost controls? Also, if you are to lift the operating margin to 6% do you have to increase sales? Alternatively, can you improve profit margins without sales rising by engaging in high-grade deals? Will you incur forward costs to boost sales from 500 billion yen, to 600 billion yen?

A: Nomizu:

While higher margins from a focus on profitability in Business Process Services contributed to an improved operating margin in FY2018, the main contribution overall was from greater IT Services sales. While we will push forward with Scrum and other package solutions and Software as a Service, we will not incur new costs from rolling out basically the same things. We will incur sales personnel and other costs in supplying new services to new customer segments, but we will control these expenses, including by absorbing them in other areas.

Commercial Printing

Q: On page 4 of your Commercial Printing presentation, you showed graphs in three domains with hardware and non-hardware compositions. In Domain C (offset to digital), where you seek expansion, hardware represents for a greater proportion than the other domains. If that because hardware prices are high and correspondingly account for more of the pie? Alternatively, is the non-hardware proportion smaller because you still cannot secure sufficient machines in field?

A: Sergio Kato, General Manager of Commercial Printing Business Group:

The situation reflects those two factors. In the initial stage, the hardware sales will be proportionally high because continuous feed inkjet printers in Domain C (offset to digital) are upmarket models costing almost 200 million yen per system. As we gradually expand the number of machines in field, we anticipate large non-hardware sales per system, with consumables sales being particularly large, with non-hardware sales rising as a proportion of revenues.

Q: I assume that the transition from offset to digital printing in Domain C (offset to digital) will be somewhat slower than what you envisioned two or three years ago. Might there be an acceleration down the track?

A: Kato:

Quality, cost, and productivity requirements from the offset printing industry are high. Ricoh and other players have found it challenging to match required standards with digital solutions. That said, ongoing hopes for digital solutions and technological advances have brought us very close to satisfying industry demands. Even among customer printing firms, we should be able to secure numerous customers once they conclude that they can benefit from new value by using digital solutions. Digital penetration is still only around 5% and should accelerate.

Q: I think you formed a partnership with Heidelberg (Heidelberger Druckmaschinen AG). Where do things stand now?

A: Kato:

Heidelberg is a major player in offset printing. It has a massive global commercial printing customer base and is an important partner for us. We are combining Heidelberg's strengths with Ricoh's robust position in new digital printing technologies to reinforce our alliance, so we can deliver even more value to customers.

Yamashita:

Also, Heidelberg is providing us with expertise, so we can propose ways in which customer printing firms can transition from offset to digital printing or combine the two. We are also conducting joint research with Heidelberg.

Q: I think there has been co-selling of some Ricoh-developed models. Roughly what sales has Heidelberg generated for those models?

A: Kato:

I cannot disclose detailed numbers, but I can say that the revenues have contributed significantly to Ricoh's overall sales. Sales by Heidelberg have been primarily in Europe to date, but we look for collaboration to fully start in the United States and other areas.

Q: Your dealer sales ratio in Commercial Printing is low, but might you reinforce sales through Heidelberg to lift that ratio, particularly overseas?

A: Kato:

Our direct sales ratio in the massive American market is around 90%, so the dealer sales ratio is particularly low there. We finally have in place a product line-up and packages for commercial printing customers that dealers can sell for us. We will bolster our alliance with Heidelberg, particularly in the U.S. market. At the same time, we will endeavor to secure new dealers.

Industrial Printing

Q: For Industrial Printing, you said that Ricoh has undertaken forward spending to bolster its sales structure and product lineup. You explained that you should enter a recovery period from FY2019. Exactly where should costs peak for your sales structure and product lineup, with profitability improving?

A: Tetsuya Morita, General Manager of Industrial Printing Business Group:

On the sales structure front, members selling commercial printers can now offer industrial models. Also, we aim to augment direct sales under our specialized structure with stronger indirect sales. We do not need to invest extensively to greatly expand our direct sales structure to shift resources and build indirect sales. We have endeavored to boost our lineup in the direct to garment space, such as with T-shirt printers. We seek to expand in the textiles domain, where there is a lot of apparel production, but we still need to enhance our lineup.

Q: Your mid-term management plan mentioned eliminating self-sufficiency. But the impression in Industrial Printing is that you are developing hardware basically with in-house resources. Forward spending would likely be very heavy. Aren’t you thinking much about product development that could include working with other companies or making acquisitions?

A: Morita:

We have stepped up efforts in deploying our digital micro factory concept, including by acquiring ColorGATE. In the textiles arena, we cannot develop everything alone, so we are pushing ahead with printer development, including by collaborating with other companies. For example, we collaborate on original design manufacturer basis with a production engineering company. We are also working extensively with other companies as part of efforts to eliminate self-efficiency. In one case, another manufacturer is incorporating a Ricoh-developed imaging system in its system.