Financial and Capital Strategy

Increase corporate value sustainably by deploying capital policies that help attain performance targets and growth

Message from the Chief Financial Officer

The two years of the 20th MTP saw us overcome a range of challenges and strengthen our management underpinnings as a digital services company by enhancing our processes, structure, and our products and services from medium- and long-term perspectives. We further embedded ROIC management in our organization and improved earnings efficiency through a range of efforts. They included employing a Ricoh-style ROIC tree in managing business units, enhancing our cash conversion cycles, optimally allocating cash, and managing our financial framework effectively. We also deployed plan-do-check-act cycles for various initiatives to drive results. We strengthened our management structure by improving our accounting processes and updating the accounting component of our enterprise resource planning platform. We invested in growth by purchasing numerous companies and closely monitoring post-acquisition integration processes. It was through such endeavors that we steadily executed capital policies to stably manage cash flows and build corporate value. Under the 21st Mid-Term Management Strategy, we seek to reach performance targets in each fiscal year while sustainably enhancing corporate value by deploying capital policies that support our growth.

Takashi Kawaguchi CFO

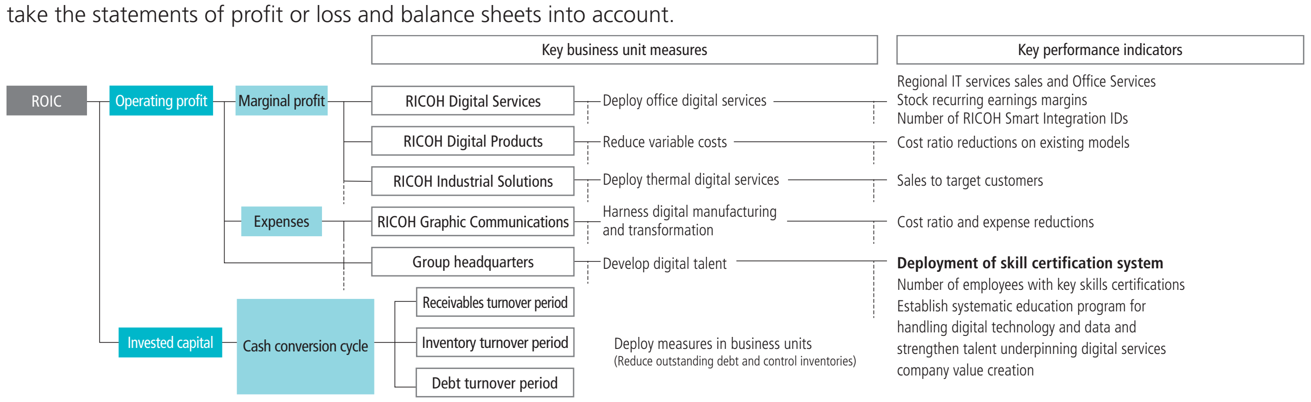
Overseeing businesses through ROIC management

By fiscal 2025, the final year of the 21st MTS, we target a return on equity of more than 9%. We are accordingly undertaking management reforms to enhance capital efficiency. We aim to boost ROIC to above capital costs by deploying measures using ROIC trees for each business unit and department.

We incorporate these key measures in a companywide tree. For Group headquarters measures that are hard to quantify financially, we prepare and regularly monitor a narrative as a Ricoh-style ROIC tree to manage key performance indicators.

Overview of Ricoh-style ROIC tree

We manage key performance indicators from individual organizational and companywide perspectives by setting benchmarks that take the statements of profit or loss and balance sheets into account.

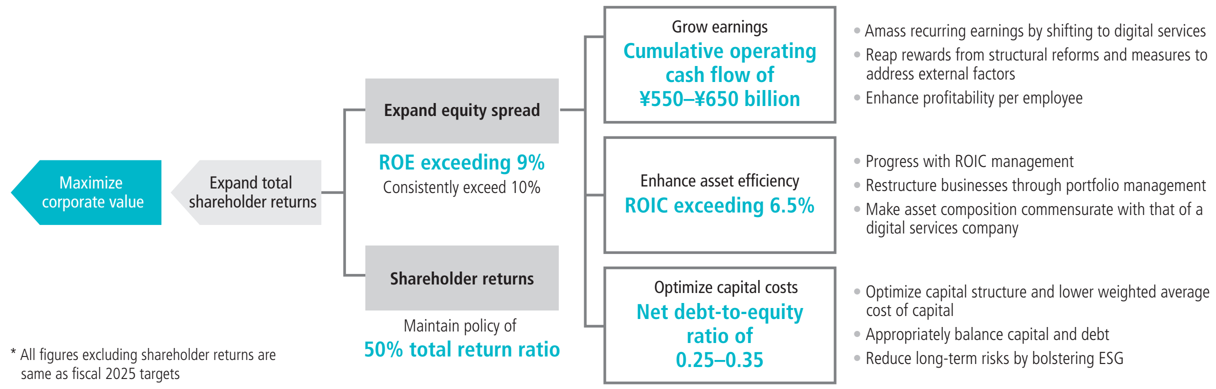


Capital policies supporting growth

We aim to maximize shareholder and corporate value while satisfying all stakeholders. We seek to generate returns on capital that exceed capital costs.

We will push forward with ROIC and business portfolio management and other endeavors to enhance asset efficiency and return on equity.

Optimizing corporate value



Growth investment approach

We are retaining the policy we adopted when announcing the 20th MTP of making ¥500 billion in growth investments over five years through fiscal 2025. This spending was steady during fiscal 2022, and included support for customer document workflow reforms, the acquisition of PFU to bolster our IT management services, and acquisitions across Europe and the United States to expand our Office Services business. In fiscal 2023, we will keep investing in application software, information and communication technology, and other growth areas. We will balance investments strategically by mainly tapping operating cash flows while also using interest-bearing debt. At the same time, we will monitor foreign exchange impacts on net assets and consider flexibly repurchasing shares.

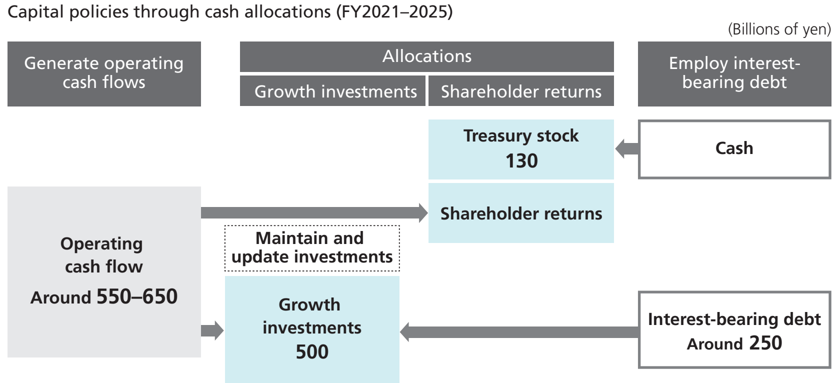
We are leveraging debt extensively for investments as we transition into a digital services company. We target an appropriate, risk assessment-based capital structure. We will balance debt and equity capital in investing in businesses. We will extensively allocate debt to the Office Printing and other stable businesses. We will mainly allocate equity capital to relatively high-risk growth businesses.

For fiscal 2025, the last year of the 21st MTS, we will secure capital for growth with a capital structure that takes into account credit ratings and capital financing risk. This is because we assume ongoing uncertainties in the business environment.

We intend to flexibly adjust the optimal capital structure in light of business structure changes associated with new growth strategies and also reflect stabilized growth investment areas.

Cash allocations

Capital policies through cash allocations (FY2021–2025)



Growth investment framework and progress

(Billions of yen)

	20th MTP FY2021–FY2022	Growth investment framework plan FY2021–FY2025
Business growth acquisitions	125	**325**
Robust management infrastructure	40	**90**
Investments to create new business domains	25	**85**
Total	190	**500**

Financial and Capital Strategy

Human capital investment approach

Our human capital investments include developing digital professionals. As a digital services company, we do not view investing in talent a mere expense. It is much more a vital commitment to growth that will strengthen our management underpinnings and help generate future finances. We are, for example, having maintenance service and sales personnel work in the field near customers to acquire multiple skills and are deploying digital manufacturing at plants. Our human capital investments are vital for acquisitions and efforts to create new business domains to succeed. We will endeavor to enhance corporate value by developing talent that can generate high added value at customer touchpoints.

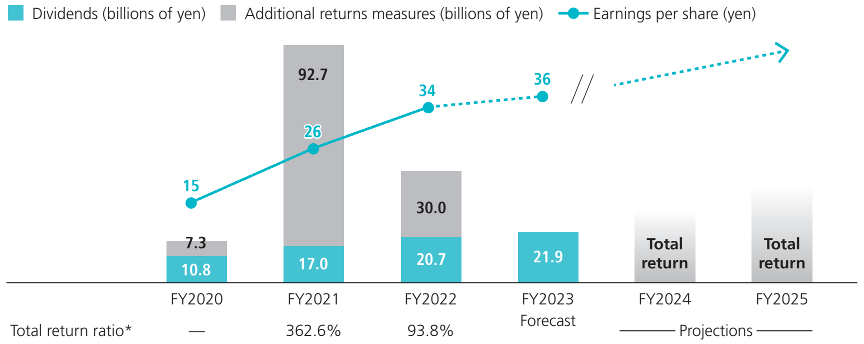
For more details, see:
Human Capital Strategy on page 23 and Digital Strategy on page 27

Shareholder returns policy

We continue to target a 50% total return ratio. To that end, we aim to increase the dividend each year in line with earnings growth, while keeping the dividend yield in mind. We will undertake share repurchases and other additional return measures in flexible and timely manners to boost total shareholder returns. Such actions will consider the operating climate and progress with growth investments and our commitment to an optimal capital structure.

We accordingly plan to increase dividends per share by ¥2, to ¥36, in fiscal 2023.

Maintain 50% total return ratio policy and improve total shareholder returns by continuing to increase dividends while undertaking additional returns measures



Returns policy
Target 50% total return ratio

Dividends
Factor in dividend yield in seeking to continuously increase dividends

Additional returns measures
Flexibly and appropriately time measures based on optimal capital structure while taking the business climate and growth investment situation into account

* Ricoh acquired ¥100 billion in treasury stock from March 4, 2021, through December 8, 2021. The purchases comprised ¥7.3 billion in fiscal 2020 and ¥92.7 billion in fiscal 2021. On February 28, 2022, the Company retired this and other treasury stock acquired before March 2021. It bought ¥30 billion in treasury stock from May 11, 2022 to September 22, 2022, retiring it on October 31, 2022.

Project to boost price-to-book ratio to above 1x

Early in fiscal 2023, we launched and initiated activities for a project to raise our price-to-book ratio to above 1x. We will analyze the gap between the theoretical and market valuations of our stock and identify the factors that have caused the price-to-book ratio to fall below 1x. We will then formulate and execute an action plan to enhance our corporate value. That initiative could entail reviewing and accelerating 21st MTS deployments. We are comprehensively reviewing our business portfolio and capital policy in light of market feedback, and will communicate our progress through financial results briefings and other means.

Fiscal 2023 outlook

For fiscal 2023, we forecast ¥2,250 billion in sales. We also project ¥50 billion in profit attributable to owners of the parent, representing a decline from fiscal 2022. This would stem largely from the absence of that year's one-time gains from asset sales and government subsidies and the impact of one-time structural reform expenses in fiscal 2023 to propel future growth. After excluding those factors, underlying earnings should rise. We will keep pursuing business growth centered on digital services while driving structural and earnings structure reforms to reach our projection.

Forecast for fiscal 2025, the final year of the 21st MTS

Under the 21st MTS, we aim to grow as a digital services company by pursuing customer-centric innovation and enhance our corporate value. For fiscal 2025, the final year of the 21st MTS, we target sales of ¥2,350 billion, operating profit of ¥130 billion, and a return on equity exceeding 9%.

These numbers represent revisions from when we announced the 20th MTP in March 2021. At the time, we targeted a fiscal 2025 operating profit of ¥150 billion, with the return on equity exceeding 10%. Having considered unforeseen changes in the business climate while realizing that a non-hardware sales recovery in the Office Printing business may be less robust than we originally envisaged, we concluded that it would take more time to reach our initial targets. We will nonetheless keep striving to generate a return on equity of at least 10%.

At the same time, we have revised some sales and operating profit targets for business units. RICOH Digital Services, which oversees office digital services, will be the prime driver of our overall growth. We aim to widen our growth trajectory to encompass digitalizing manufacturing, distribution, and other frontlines, as well as society at large to generate new revenue sources from providing services that help customers to enhance their work processes.

Financial Targets for FY2025 by Business Unit

Net Sales and Operating Income by Business Unit

Business Units	FY2025 targets		
	Sales (compound annual growth rates)	Operating profit	Operating profit changes from FY2022
RICOH Digital Services	¥1,750 billion (2.0%)	¥60 billion	+¥31.7 billion
RICOH Digital Products	¥420 billion (–1.6%)	¥34 billion	+¥2.4 billion
RICOH Graphic Communications	¥280 billion (6.0%)	¥18 billion	+¥3.4 billion
RICOH Industrial Solutions	¥160 billion (11.2%)	¥12 billion	+¥8.8 billion
Others (including companywide and eliminations)	–¥260 billion	¥6 billion	+¥4.8 billion
Total	¥2,350 billion (3.3%)	¥130 billion	+¥51.2 billion