

Key Questions and Answers

Q: Why have you projected higher Ricoh Graphic Communications revenues and lower earnings for fiscal 2023? Even after factoring in structural reforms, I get the feeling that the income drop will be large if you launch new products.

A: Three main factors are at play.

The first is that we will probably book 5 billion yen in structural reform charges.

Second, we expect development asset amortization to rise to 7 or 8 billion yen. This fiscal year, we look to launch new products that we have been developing since booking an impairment loss in the Commercial Printing business in fiscal 2020. Amortization of development assets for these offerings should accordingly begin, causing a major rise.

The third factor would be the forex impact. Ricoh Graphic Communications manufactures most of its products in Japan. Its main markets are North America and Europe, so forex fluctuations significantly affect its business.

On top of that, Ricoh Graphic Communications plans to increase sales promotion expenses for new products and other spending.

Q: Deviations from your operating profit forecast for fiscal 2022 exceeded 10 billion yen for the pandemic recovery and sales and product mix. What external environment, demand, and other factors would explain that? Also, tell us how things will change for your fiscal 2023 forecast.

A: For a start, while the sales and product mix deviated significantly, this was partly because a decline in earnings owing to external factors was 8 billion yen or so less than our forecast. That is because we were able to keep ocean freight charges and other costs low, owing partly to internal efforts. We reduced the amount compensated for by pricing controls, which are part of the sales and product mix. This resulted in results being lower than anticipated for the impact of external factors and the sales and product mix.

With respect to the pandemic recovery, Office Printing non-hardware sales were at the 82% of the pre-pandemic level, a percentage point less than the full-year projection of 83%, cutting annual earnings by 4 to 5 billion yen.

In Office Printing hardware, unit sales for the year were below expectations despite efforts to eliminate an order backlog in the fourth quarter, detracting from earnings on the production side. On top of that, A4 MFP production and sales rose in the second half, cutting product mix margins, so the total downside impact was about 9 billion yen. Our fiscal 2023 forecast assumes that non-hardware demand will start declining, with no hopes of a recovery. For hardware, we will endeavor to eliminate the order backlog carried over from the previous term. While we assume that parts and materials costs will remain high, we should control hikes through market procurement.

We also assume that fuel costs will keep climbing. At the same time, we will continue executing structural reinforcement measures to absorb higher costs.

We do not expect supply constraints from shortages of ICT equipment or challenges in securing parts and materials. Sales activities should progress as normal.

Q: Have you factored asset sales gains into your projections for fiscal 2023?

A: No. We will not hold policy stock or other assets unnecessarily. We will constantly reassess our stance on how effectively we employ assets and act accordingly. Where divesting assets, we will carefully consider the timing and counterparties.

Q: When will your order backlog return to normal?

A: We look for that to happen in the first half of fiscal 2023.

Q: Might the sales and operating profit downturn at Ricoh Digital Products in fiscal 2022 have stemmed from demand and supply factors? Also, your fiscal 2023 forecasts mention a hardware inventory adjustment. What does that mean?

A: The reason why we didn't achieve our fiscal 2022 forecasts basically reflected supply constraints. In China, the Shanghai lockdown in early spring and higher infected patients at the end of the year hampered plant operations. Certain parts and materials shortages in the third quarter also affected production. Destabilizing MFP production caused delaying Ricoh Digital Services sales activities and dealings with and deliveries to customers. A4 MFP shortages particularly prevented us from negotiating bulk deals for A3 MFPs. While we progressed further in Q4 toward eliminating order backlogs, we could not boost unit sales. We were thus unable to attain our production volume projections for the full year.

Since Ricoh Digital Services still has some sales inventories, Ricoh Digital Products is adjusting production for fiscal 2023. We are terming that move a hardware inventory adjustment, which is to optimize our production structure and inventories.

Q: What's the thinking behind your fiscal 2023 forecasts? I get the impression that you previously tended to set stretch targets. Do you now envisage lower earnings because you have changed your approach to formulating goals?

A: We base annual plans on totals for business units and estimates from headquarters. Headquarters used to put out figures that included corporate expectations of achievable levels. And then there were differences in the estimates for non-hardware in the Office Printing business. So, results fell short of objectives.

Although our targets for fiscal 2023 did not change the process all that much, we solidly included Office Printing non-hardware and other business environment risks. Our targets focus on how we can overcome negatives and amass positives. A similar approach applies to the 21st Mid-term Management Strategy.

While we project lower earnings, our figures are not unreasonably high in view of such negative factors as structural reforms, development asset amortization, and yen appreciation assumptions.

Q: What segment covers PFU?

A: The Others segment covers fiscal 2022 results and fiscal 2023 forecasts. From the first quarter of fiscal 2023, we aim to allocate PFU's operations between Ricoh Digital Products and Ricoh Digital Services.

Q: What inventory levels do you consider appropriate?

A: Inventories have ballooned, owing partly to the impact of foreign exchange rates. We will begin by restoring them to the fiscal 2022 year-end amount. While we do not consider that level a minimum in sales inventory terms, our experience in dealing with parts and materials supply issues suggests that we should maintain certain production inventories.

Q: What is your fiscal 2023 cash flow?

A: We expect operating cash flows to rise on higher earnings and inventory eliminations. Still, as we explained in the 21st Mid-Term Management Strategy we project free cash outflows because growth investments will continue.

Q: The external factor impact in your operating profit forecast by factor for fiscal 2023 is plus 2.1 billion yen. Why is that? Even after reflecting normalization of the fiscal 2022 production impact, will higher costs be a negative factor compared with a year earlier?

A: Ocean freight costs were 8.0 billion yen in fiscal 2021 and 3.5 billion yen in fiscal 2022, totaling a negative 11.5 billion yen over the two years. Based on fiscal 2023 contract unit prices, however, we anticipate a positive 6.8 billion yen.

Regarding higher costs, parts purchase prices are still high and are unlikely to decline. We assume a negative 4.7 billion yen because an increase in the second half of fiscal 2022 should also affect this fiscal year. While we do not assume spot basis market procurements and other parts shortage impacts for fiscal 2023, we are not showing them as returns against the previous year. You should deem them included in the increase in the sales and product. We will continue to control pricing in view of cost increases, which should be 3 to 4 billion yen and part of the sales and product mix.

Q: Tell us about your project to enhance corporate value. Is there any particular reason that you unveiled it when announcing your results for the year rather than when you presented your 21st Mid-Term Management Strategy in March? Also, what action plan do you envisage?

A: We launched the project in April our new president and CEO took the helm. We would like to engage more with shareholders and we announced today. We will undertake regular management activities, such as business growth, portfolio management, and capital policies. We will also unsparingly explore a range of perspectives. They include ways in which we communicate with capital markets in becoming a digital services company and build a reputation for profitability over the medium to long terms. We will disclose specific action plans when ready to discuss them. We will look into actions from the medium through long terms and eschew short-termism.

Q: Why were your full-year numbers lower than your forecasts when you announced your results for the third quarter of fiscal 2022? Also, did you factor the situation in fiscal 2023 and other annual targets when formulating your new mid-term management strategy?

A: After factoring in the positive impact of foreign exchange rates and transient earnings gains, our earnings were around 13.3 billion yen lower than projected.

A prime reason was a shortfall of around 17 billion yen, comprising around 13 billion yen in hardware and non-hardware of Office Printing and 4 billion yen or so in thermal products. In Office Printing hardware, we could not fully eliminate order backlogs and were unable on the production side to generate sufficient earnings amid an inability to boost unit sales. On top of that, non-hardware sales were about 1% lower than we projected, for a negative earnings impact of just over 1 billion yen. We looked for sales of thermal products to increase in the fourth quarter. Prolonged market inventory adjustments among customers prevented that from happening.

When we announced the 21st Mid-Term Management Strategy, we assumed some uncertainty about reaching our 85 billion yen operating profit target, and projected 130 billion yen in operating profit for fiscal 2025. For fiscal 2023, we should be able to turn things around with the hardware and thermal products factors in the Office Printing business that detracted from earnings in fiscal 2022. We expect a non-hardware downturn, however, and will take steps to counteract it.

- Q: Japan downgraded COVID-19 to the Class 5 category under its Infectious Disease Control Law. Companies responded to that move in differing ways. Some upheld teleworking setups, while others basically required employees return to offices. Please remind us of the business opportunities you see and your future strategies.
- A: While the shift to Class 5 will probably lead to returns to offices to an extent, we assume that new hybrid work practices will continue. During the pandemic, we worked with customers to develop and deploy solutions for working more creatively in hybrid office and teleworking environments. We will continue to see such setups as opportunities, and will keep evolving such businesses.
- Q: For fiscal 2023, you look for pre-tax earnings to rise more from operating profit than in fiscal 2022. Do you assume higher financial and other income for the year?
- A: We expect no major earnings changes below the operating profit level. Funding costs from slightly higher interest rates could affect financial income, although not significantly. We do not expect a downturn in equity in earnings of affiliates, as Ricoh Leasing and other equity method affiliates should perform solidly.