# Mid-Term Management Strategy

May 26, 2011

Shiro Kondo President and CEO Ricoh Company, Ltd.



#### Forward-looking statements

The plans, prospects, strategies and other statements, except for the historical events, mentioned in this material are forward-looking statements with respect to future events and business results. Those statements were made based on the judge of RICOH's Directors from the information that is now obtainable. Actual results may differ materially from those projected or implied in such forward-looking statements and from any historical trends. Please refrain from judging only from these forward-looking statements with respect to future events and business results. The following important factors, without limiting the generality of the foregoing, could affect future results and could cause those results to differ materially from those expressed in the forward-looking statements:

- a. General economic conditions and business trend
- b. Exchange rates and their fluctuations
- c. Rapid technological innovation
- d. Uncertainty as to RICOH's ability to continue to design, develop, produce and market products and services that achieve market acceptance in hot competitive market

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# Agenda

#### Review of the 16th MTP

# Summary of the 17th MTP

- Strategies
- Financial Targets



# Review of The 16th MTP



# Strategic Achievements during 16th MTP

# Strategies

- 1 Become the No.1 in our target business areas

  For our flagship MFP business, maintain the top MFP market share in Japan, US, and Europe.

  For the Production Printing business, acquire the top middle market share.
- Reinforce and accelerate environmental management

Selected for "Global 100 Most Sustainable Corporations in the World" for 7 years in a row

- 3 Promote Ricoh Quality
  Reinforce with customers our value creation based on The Ricoh Quality Statement
- 4 Create new business lines

  Expand MDS\*1 business, enter into PJS\*2 / UCS\*3 / ECS\*4 businesses
- Build a strong Ricoh brand

  Global Marketing Group was established, IKON acquired, InfoPrint became a Ricoh wholly owned subsidiary

\*1 Managed Document Services

\*2 Projection System

\*3 Unified Communication System

\*4 Eco Solution



#### Achievements for the 16th MTP

Assumed exchange rates in March 2008 \$=\\ \tau 105, euro=\\ \tau 155

Exchange rate revision in March 2009 \$=¥90, euro=¥120

Exchange rate at the end of March 2011 \$=\frac{\$5.77}{euro}=\frac{\$113.28}{}

[FY11/03 Targets after revision]

[FY11/03 Actual]

Net sales:

(Consolidated)

2,300.0 bn yen 1,942.0 bn yen

Operating income:

(Consolidated)

170.0 bn yen

60.1 bn yen

Operating margin:

(Consolidated)

7.4%

3.1%

ROE:

(Consolidated)

12.5%

2.1%

Payout ratio:

(Long-term target)

30.0%

121.9%



#### Business Environmental Changes During the 16th MTP

### High-yen trends

Major shifts in exchange rates to reflect high-yen trends

	FY09/03	FY11/03
US\$	100.55	85.77
EURO	143.74	113.28

Ref: Exchange rates impact (fluctuations per 1 Yen)

	`	/
Bn Yen	Sales	Operating income
Dollar	6.5	1.3
Euro	3.5	1.5

### Change in demand

- Total demand that significantly dropped immediately after the world financial crisis has been recovering slowly.
- Color output reduction and print output management are still prevailing.
- Demand is expanding in emerging countries

### Significant changes in business models

- Shifts in customer value from "product possession" to "product use"
- Accelerated mobile device usage and paper use trends, indications for change in working style
- Enhanced environmental consciousness, increased importance in environmental design and performance



### Implementations During the 16th MTP

#### IKON

- \*1 Projection System
- \*2 Unified Communication System
- \*3 Corporate Restructuring and Growth Project
- Switching: promoting switch to Ricoh products
- Synergy effects: sales expansion of PP products
  Globalized development of MDS know-how
- Integration status: integration complete in Europe SCM and data centers in Americas were integrated

# Promoting new businesses

- Accelerating global business expansion in PP, MDS, IT services
- Consistent development in PJS\*1, UCS\*2, or eco solutions

# Structural reform through CRGP\*3

- CRGP promotion activities initiated in October 2008
- Prioritized urgent cost reduction implemented in FY10/03
- Cost reduction continued in FY2011/03. Resource shift to new growth areas started.



# Challenges towards the 17th MTP

### Increase Ricoh group synergy

- Thorough utilization of IKON's proposal expertise and customers
- Further structural reinforcement to consolidate the PP business foundation

# Efficiency improvement in existing (core) businesses

- Reinforcement of core functions such as development, sales, and production
- Simplification of organizational functions, operation process innovation, and improvement of workforce efficiency

# Concentration on new growth areas

- Investments in new businesses (network appliances, new services)
- Business expansion in emerging markets (expanded product lineups, reinforced sales channel)

#### Commitment to innovation

- Promote a new business initiation process for continuous growth



#### Business Environment toward the 17th MTP

### Current & near-future trends Global economic landscape

- Developed countries: aging societies, sustained economic activities and financial reconstruction, inconsistent development by countries
- Emerging markets: capital inflows, urbanization, rise of asset prices, high growth
- All over the world: protectionism and FTAs

#### Information society, knowledge society, globalization

- Post PC: development of cloud computing and other new computing technologies
- Digitalization: digitalization of voice, visual, and also gene information
- Working style: Changes in working styles due to "Network Communication"
- Globalization: Consumers obtaining products and services around the world, division of labor or changes in working value, intensified competition for human resources and talents

# Various problems that threaten sustainability of human beings and the earth

- Poverty, population growth, water or food shortages, expanded demand for natural resources and energy, climate change, infectious diseases, regional disputes, etc.



# Summary of the 17th MTP



#### Simultaneous Achievement of "Growth" and "Restructuring"

[ CRGP development ]

CRGP: Corporate Restructuring and Growth Project

Solution/service

**Application** 

Middleware

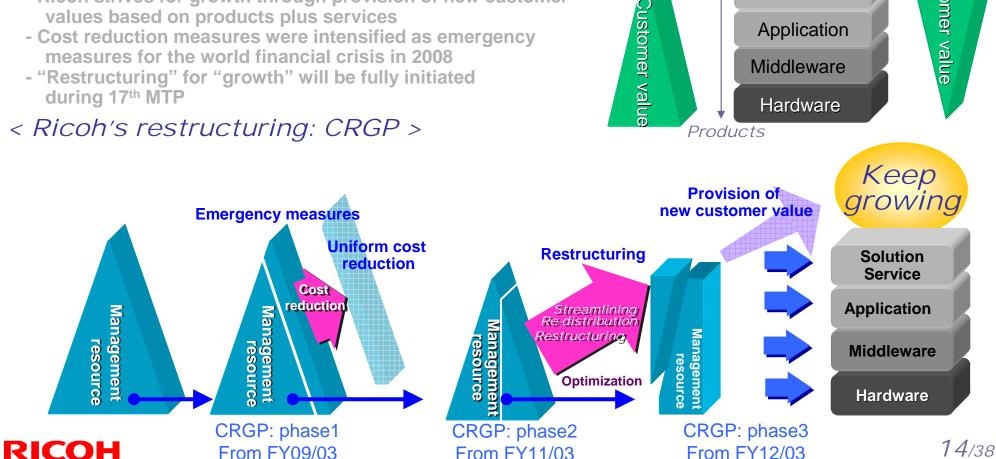
Hardware

Customer value

Services

#### The real CRGP objective is to achieve "growth" as a result of "restructuring" to provide new customer value

- < New trends in customer value standards >
  - Shifts in customer value standards from products to services
  - Ricoh strives for growth through provision of new customer values based on products plus services
  - Cost reduction measures were intensified as emergency measures for the world financial crisis in 2008
  - "Restructuring" for "growth" will be fully initiated during 17th MTP
- < Ricoh's restructuring: CRGP >



# 17th MTP

# Strategies

# Strategies

# Simultaneous achievement of "growth" and "restructuring"

# 1. Business Creation and integration



- In the core business, maintain the top market share while streamlining **operations**
- In developed countries, accelerate business structure transformation to service businesses
- In emerging markets, materialize business growth
   Achieve profit contribution of the PP business in early stages
- **Expand new businesses**

# 2. Establish highly efficient management



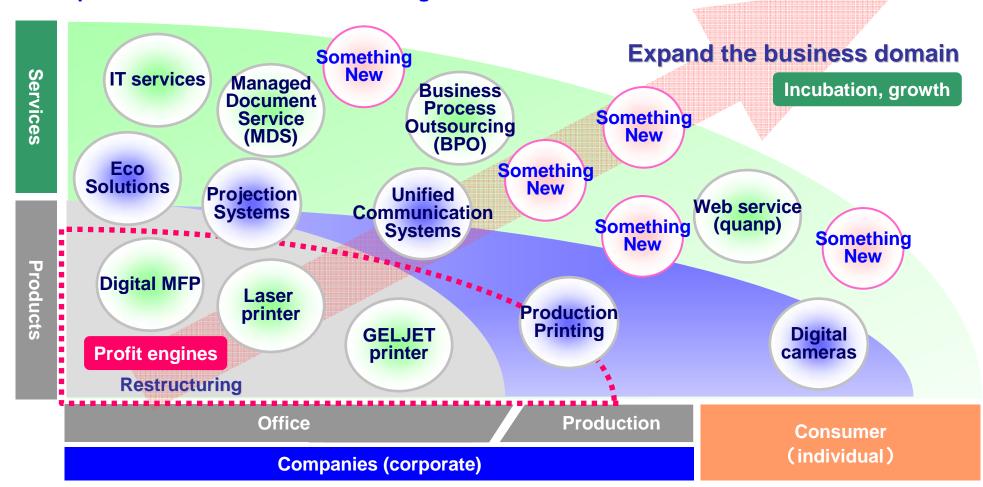
Realize a robust corporate culture to accelerate growth strategies



[ Business domain expansion and restructuring ]

#### Create new innovations

In addition to products, use services to reinforce our service businesses, and enhance Ricoh product and service shares among customers





[ Growth in core businesses ]

#### Growth in printing business

- In developed countries, expand "service" businesses while increasing loyal Ricoh "product" customers

- In emerging markets, reinforce product lineups and sales channels, and expanding businesses





[ Provide value through services and products in developed countries ]

#### Further expansion of new service businesses

Further reinforce Global MDS business, and achieve the top status in provision of customer value

- In the MDS business, acquire the top status in the global market during FY14/03 (Sales targets: 300 bn yen in FY14/03)
- Reinforcement and expansion of sale structures (including personnel relocation, acquiring external resources, etc)
- Formulation of IT infrastructure, development and provision of solution tools

Further reinforce and expand IT service businesses globally

- Japan: approximately 38,000 IT service package sold in FY11/03
- Overseas: reinforcing IT service sales force

May, 2009 Acquiring Carl Lamm in Europe

Apr, 2011 Acquiring Print Solutions Group in Australia

May, 2011 Acquiring Momentum Infocare in India



[ Growth in emerging markets and reinforcement of production ]

#### Reinforcement of product lineup for emerging markets

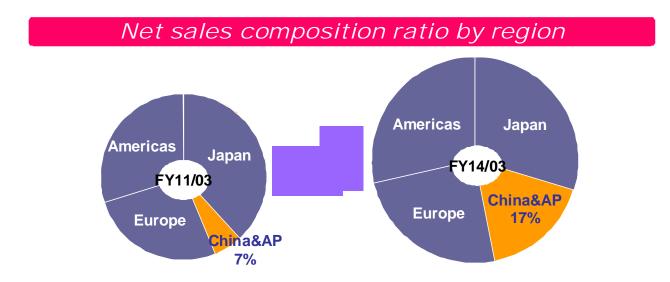
- Expand the product lineups with a priority for A4 MFP (10 models or more /3 years)
- Accelerate streamlining for development and production for low-cost product provision appropriate for emerging markets

#### Active development in emerging markets

- Market share expansion (China 15%, AP 20%<#1> for CY2010)

  Also reinforce sales structures in India and other area

  \*BOP: Base of the Pyramid
- Development of BOP \*-business identification in core and new businesses
- Strengthen manufacturing capability suited for market characteristics



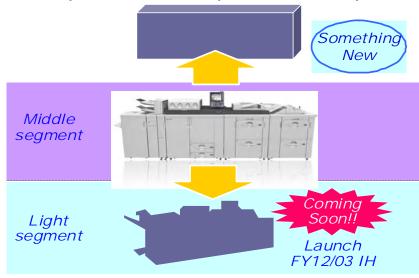


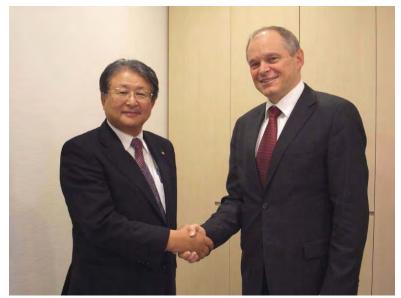
[ Expansion of PP business domain ]

# Reinforcing PP business structure, and achieve profit contribution in early stages

- Pro C900/C901 achieved 49% share in mid-segment in 2010 (Japan, U.S. and Europe total)
- Reorganization, reinforcement, and expansion of sales and service structures
- Continuous expansion of PP product lineups
- Pro C901 acceptance in commercial print market
- Expansion in the commercial print market through alliance with Heidelberg

#### Expansion of PP product lineups





Ricoh President Kondo (left) and Bernhard Schreier, CEO and Chairman of Heidelberg Druckmaschinen AG



[ Expansion of new businesses ]

Commitment to innovation

Incubating new businesses for new growth

- Network appliances (PJS, UCS, etc.)

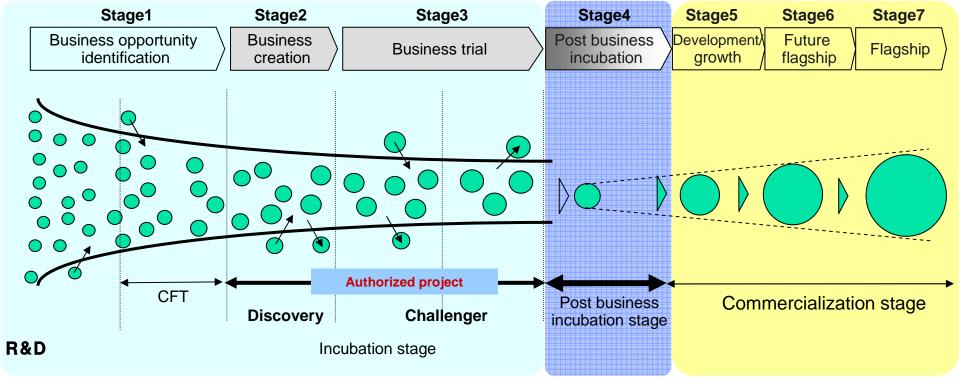
- Eco solutions

- Reinforcement of incubation processes

PJS : Projection System

UCS: Unified Communication System

< Business incubation and post-incubation >

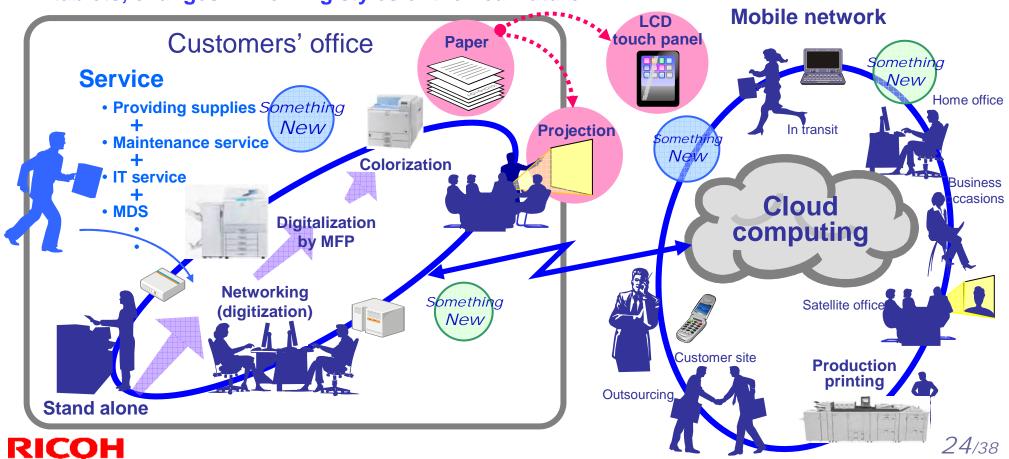




[ Changes in customer value ]

#### Office and paper in the future

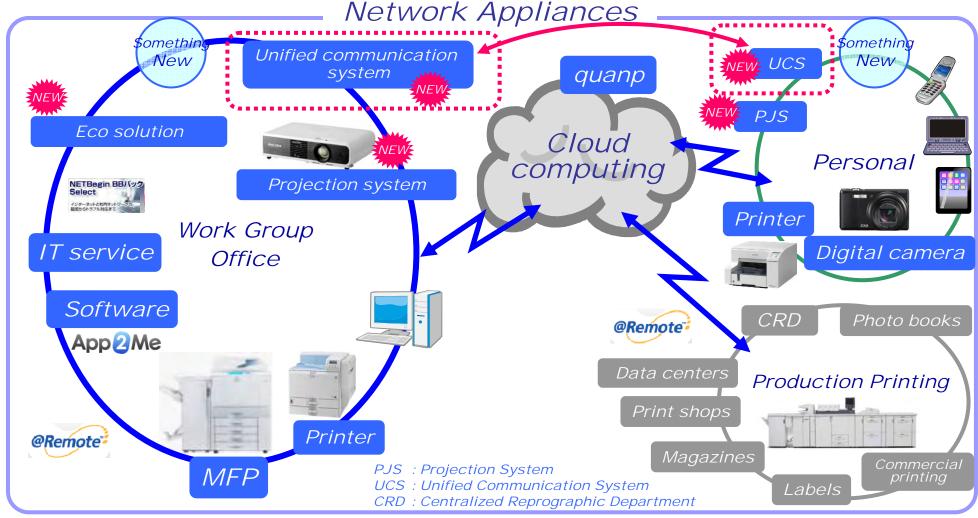
- After the world financial crisis in 2008, customer value has been drastically shifting from "possession" to "utilization". Purchase of printing devices and print output volume remain low growth in developed countries.
- Paperless and mobile communication through mobile devices, such as smartphones and tablets, changes in working styles of the near future.



[ Commitment to new businesses ]

Provision of new products that realize the network appliances

Generate new customer value through network utilization





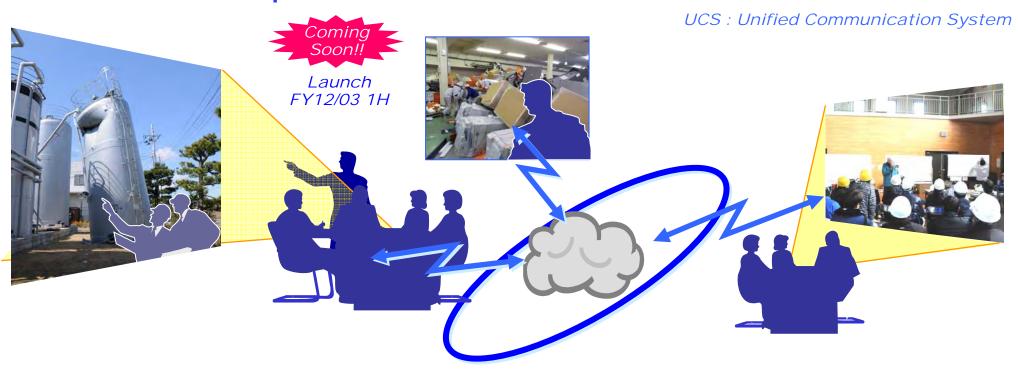
[ Commitment to new businesses ]

#### Customer demand and Ricoh's network appliances

- To communicate smoothly with remote company sites
- Not to "possess" expensive and complicated systems but to "use" reasonably priced and simple systems



- Ricoh will provide a cloud-based communication system that does not require dedicated lines or special rooms.





[ Value provision through services and products in developed countries ]

Cloud and realities that Ricoh provides

Cloud computing (cloud: virtual world)

- Connected with various services and functions .

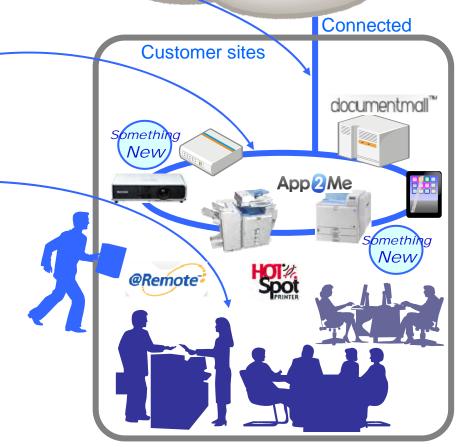
Cloud computing (virtual)

#### Real 1: Network Appliances

- Simple function hardware
- Network appliances for Ricoh and non-Ricoh products

#### Real 2: On-site services

- Introduction, installation, education, support, and maintenance
- New services: MDS, IT services, BPO, etc.





[ Market entry into environmental business ]

#### Eco Solution business

- < Customer demand >
  - Energy-saving demand in the office industry has expanded
  - Demand for LED illuminations in offices is rapidly growing (Installation of LED illuminations requires facility replacement and construction work so that it can be costly and time-consuming.)
- < Ricoh's strengths and value provision >
  - Ricoh can provide comprehensive eco solutions whose expertise was developed through environmental management.

Launch

FY12/03 1H

- Ricoh developed straight tube LED lamps that can be used without replacing appliances
- Difficulties in LED installation were significantly reduced through packaged installation and maintenance

\* ESCO business: provides comprehensive services required to achieve energy saving in buildings and factories so that this business contributes to customer benefits and preservation of the global environment. The participants ensure energy saving effects and receive compensations that match the effects.

Something New

Recycling business

ESCO business

LED illumination business



[ Promotion of core / new growth businesses ]

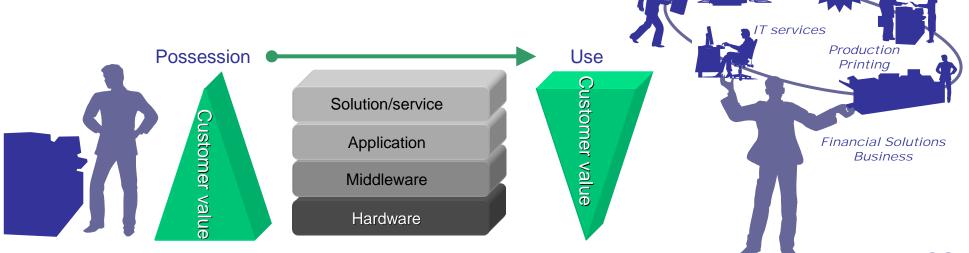
#### Utilization of financial resources

- < Customer demand >
  - Clear recognition of costs and benefits not as a result of machine "possession" but as compensation for machine "use"



- < Ricoh's strengths and customer value provision >
  - Ricoh can provide comprehensive MDS or eco solutions using combinations of the existing systems and expertise of Ricoh Group

- Applying financial solutions can reduce difficulties for installation (packaged installation of LED illuminations, installation of PP products, etc.)





Eco solution

[ For recovery of the Tohoku area ]

Relevant measures to support recovery of the devastated regions from the Great Tohoku Earthquake

Strengthening production sites in the Tohoku

- Toner production capacity expansion in the Tohoku area

#### A new recycling center

- As part of the recovery assistance activities, a new recycling center will be established in the Tohoku area

#### Contribution of 300 million yen

- To support the recovery activities in the devastated area, Ricoh Group provided relief supplies and products, and organized assistance activities just after the disaster.
- Also offered donations.

#### Establishing Recovery Support dept.

- To reinforce support activities more and support the mid to long-term recovery.



"Never give up, Japan" appears in the eco advertisement installed in Times Square in New York.



# 2. Establish Highly Efficient Management

[ Simultaneously grow and restructure ]

Realize a robust corporate culture to accelerate growth strategies As part of CRGP, in-depth "restructuring" will be achieved

CRGP: Corporate Restructuring and Growth Project

	Streamlining of sales systems	- Review sales system and sites - Accelerate acquisitions synergy results
Major implementations for "reconstructing"	Review of non-profitable businesses	- Review non-profitable business positioning - Leverage or withdrawal
	Integration of production sites	- Integrate production sites - Transfer to growth areas
	Operational reengineering	- Business process reengineering - Streamline redundant operations - Reorganize HQ functions
	HR resource innovation	- HR system innovation - Personnel relocation to new/growth areas, etc. (approximately 15,000 persons) - Personnel reduction in Ricoh Group approximately 10,000 persons
	Integrated purchasing in global markets	- Purchasing cost reductions through integration of purchase functions and integrated purchase
	Review of development processes	- "Create Without Making" process Strengthen support for low cost development

[ Results ]
OP impact
approx.
140 billion yen
(FY14/03)

[ Costs ] approx. 60 billion yen (FY12/03-FY13/03)

# 2. Establish Highly Efficient Management

[ Investment for growth ]

### Investment for future growth

Capital investment: approx. 200.0 bn yen / 3 years

Current investment levels will be maintained (equivalent to depreciation)

#### R&D expenses: maintain 5-6% of net sales

Expand new businesses and product development for emerging markets while engaged in business streamlining

#### Structural expansion in new & growth business areas

Through streamlining of the existing businesses and resource relocation, implement strategic investment in new business areas

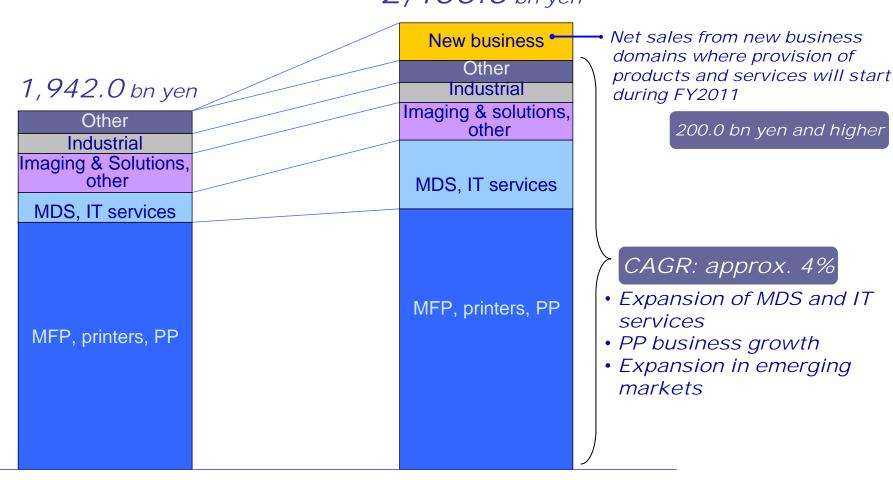


# 17th MTP

# Targets

# 17th MTP Financial Targets

FY14/03 net sales to be achieved through business area expansion 2,400.0 bn yen



Exchange rates: \$=\\ 485.77, euro=\\ \ 113.28

FY11/03

FY14/03

Assumed exchange rates for this target: \$=\xx\$85, euro=\xx\$120

# 17th MTP Financial Targets

FY14/03 operating income targets based on growth and restructuring

FY11/03 operating income:

60.1 bn yen

Exchange rates: \$=\frac{485.77}{28}, euro=\frac{4113.28}{113.28}

CRGP: Corporate Restructuring and Growth Project

17th MTP period

Profit generation from CRGP: approx. +140.0 bn yen

Profit recovered from the Great

Earthquake aftermath: approx. + 10.0 bn yen

FY14/03 operating income:

210.0 bn yen

Assumed exchange rates for these targets: \$=\frac{485}{600}, euro=\frac{4120}{600}



# 17th MTP Financial Targets

[ To enhance shareholder value ]

**\***Consolidated figures

16th MTP (FY11/03)

Net sales

1,942.0 bn yen

Operating income

60.1 bn yen

Operating margin

3.1%

2.1%

ROE

-56.5 bn yen (Total from FY09/03 to FY11/03)

*FCF* 

Shareholder return ratio (dividends and share buyback)

\$=\\\

\$=\\ 485.77\, euro=\\ 4113.28

Exchange rate

17th MTP (FY14/03)

2,400.0 bn yen and higher

210.0 bn yen and higher

8.8% and higher

10.0% and higher

approx. +200.0 bn yen (Total from FY12/03 to FY14/03)

approx. 30%

\$=\\ 485.00, euro=\\ 4120.00

