

Interview with the CFO

Fostering Stakeholder Trust and Showing Progress of the Corporate Value Improvement Project

Takashi Kawaguchi

Executive Corporate Officer
Chief Financial Officer

— Please summarize Ricoh's financial performance in fiscal 2023.

With the global economy gradually recovering after the pandemic, the Office Services business continued to drive growth. Sales rose 10.1% to ¥2,348.9 billion. Operating profit fell 21.2%, however, to ¥62.0 billion. This drop was despite expansion in that business and gains from structural reforms, reflecting production adjustments in the Office Printing business and the MFP sales mix and higher expenses associated with business growth and inflation. Notably, earnings would have risen after stripping out one-time factors from the previous fiscal year, such as gains from asset sales. ❶

— How are you tackling the challenge of increasing corporate value?

In pursuing growth as a digital services company, we target an ROE of more than 9% by fiscal 2025, the final year of our 21st Mid-Term Management Strategy. Increasing profitability remains our greatest challenge. To transform our profit structure and build a business management structure befitting a digital services company, we launched the Corporate Value Improvement Project in April 2023. We have presented quarterly progress since November last year.

We have augmented ongoing deliberations on the

project in Board of Directors and management meetings by constantly sharing current challenges and a sense of urgency with employees to help them understand the need for reforms. As a result, I sense that companywide awareness and momentum for reform are steadily increasing. ❷

— How are you controlling assets and capital?

We manage our balance sheet by carefully considering financial discipline regarding our liquidity and optimal capital structure. We ensure cash flow management stability and a suitable cash conversion cycle by targeting ¥180 billion in cash and cash equivalents. After scrutinizing such factors as credit ratings, we set a medium-term net assets goal of around ¥1 trillion (¥900 billion excluding the cumulative foreign exchange translation adjustment account). We employ lower-cost borrowings instead of capital for Office Printing and other businesses that generate stable earnings while allocating capital to businesses with relatively higher risks. We have budgeted ¥500 billion over five years for growth investments, starting in fiscal 2021, and project a net debt-to-equity ratio of 0.25 to 0.35 times by the end of fiscal 2025.

By managing operations based on ROIC, we set target hurdle rates for each business unit and its operations,



Seated at the center of a roundtable meeting with Ricoh del Perú S.A.C. employees.

monitor them quarterly, and continuously update key performance indicators and measures to drive further improvements.

— What sets the Group's financial management apart?

Our in-house bank framework encompasses Global Cash Management and Global Netting, and is the cornerstone of our financial strategy.

We boost capital efficiency by monitoring the cash balances of Group companies daily, centralizing surplus funds at headquarters, and providing timely funding to cover shortfalls. We use IT to maintain a system that allows each Group company to manage the funds it needs in its own currency by netting receivables and payables arising daily within the Group. This approach optimizes human resources, lowers bank charges and foreign exchange expenses, and minimizes financial risks. In establishing our global netting system, we standardized payment terms worldwide for intergroup transactions and ensured compliance with local regulations. Centralizing treasury management at headquarters eliminated the need for Group companies to conduct their own foreign exchange transactions. We can, therefore, manage currency exchange operations more cost-effectively, resulting in an extremely efficient Group cash management system. ❸

— How are you investing in growth to become a digital services company?

Ricoh aims to generate more than 60% of sales from digital services by fiscal 2025. As I mentioned earlier, we plan to invest ¥500 billion by fiscal 2025 to achieve this goal.

Our Investment Committee carefully deliberates from the preliminary review stage before due diligence begins for strategic growth investments, such as mergers and acquisitions. As the Committee Chair, I lead discussions with members with expertise in accounting, finance, taxation, corporate planning, IT, legal affairs, and R&D. In the first meeting, we review necessary information and processes from multiple perspectives to support investment decision-making before starting research and analysis



Panel discussion with employees at Ricoh Australia Pty, Ltd. (second from left)

processes. In the second meeting, the committee compiles and presents objective and expert evaluations of investment proposals along with suggestions and opinions on negotiations and post-merger integration. The committee then consults with the Group Management Committee, which makes the final investment decision based on our decision authority framework. The Investment Committee evaluates investment criteria from various angles, such as targeting an ROE above 8% and achieving a positive return on investment (ROI) within ten years. We naturally need broader perspectives for final investment decisions on start-ups, AI-related technology, and other projects we cannot assess with conventional evaluation processes.

— How do you see your role and mission as CFO?

In fiscal 2024, Ricoh will focus on executing initiatives to transform the profit structure and strengthen its business management foundation as a digital services company. As CFO, I must oversee financial measures and IT, ESG, security, internal controls, public relations, and human capital investments. I consider it important to strengthen employee engagement. Accordingly, I have increased opportunities for dialogue with employees in Japan and internationally through town hall meetings and panel discussions. It is crucial for the management team to ensure that employees understand the Group's situation and challenges, share our vision for the future, and build confidence in our strategic direction.

— Finally, what is your message to shareholders and other investors?

I aim to communicate openly with shareholders and other investors about our current status, strategies, and progress with our initiatives. While we face challenges in our current performance and future outlook, it is vital to demonstrate our commitment and progress in completing the Corporate Value Improvement Project to build confidence in our medium- to long-term growth prospects. Mr. Oyama, myself, and all executives and employees will concertedly drive our reforms and enhance corporate value.



For more details see

❶ 21st Mid-Term Management Strategy Overview and Progress ▶ P. 28
❷ Corporate Value Improvement Project ▶ PP. 29-30
❸ Financial and Capital Strategy ▶ PP. 43-44