

# **RICOH**

## **Resurgent**

### **19<sup>th</sup> Mid-Term Management Plan**

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April 12, 2017

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President and CEO

Ricoh Company, Ltd.



## Break from past management approaches

Reviews casting aside traditions and precedents that hamper growth

### 1. Reform cost structure

Drive structural reforms from top down

### 2. Prioritize growth businesses centered on our strengths

Focus on growth businesses that leverage strengths and thoroughly deploy winning strategies

### 3. Implementation that produces results and accountability

Present results and rebuild trust with all stakeholders



- ◆ **Structural reform savings:** More than **¥100 billion**
- ◆ **Fiscal 2019 operating profit:** More than **¥100 billion**
- ◆ **Total FCEF\* over three years:** More than **¥100 billion**  
\*Free cash flow excluding finance business



# The Ricoh Group's Trajectory

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~1990

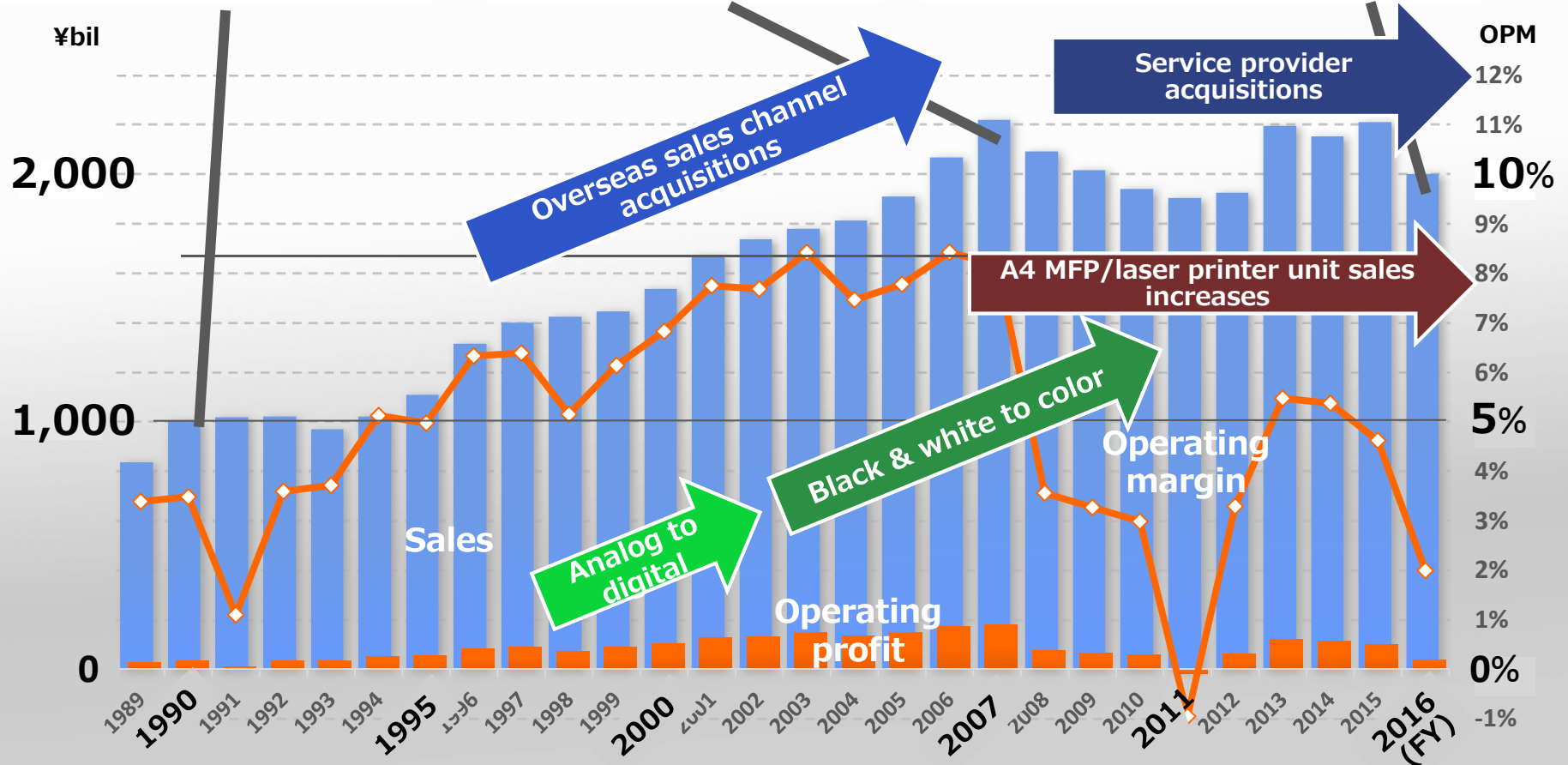
Amassed machines in field, centered on domestic market, establishing after service earnings model

~2007

Rolled out domestically successful models overseas by acquiring sales channels

~2016

Covered slowdown in A3 MFP market through sales and service for A4 MFPs and laser printers, but earnings and margins declined





# The Ricoh Group's Trajectory

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~1990

Amassed  
centered  
establish  
earnings

~2007

~2016

Market

**Ricoh Five Major  
Principles  
Predicated on  
Market Expansion**

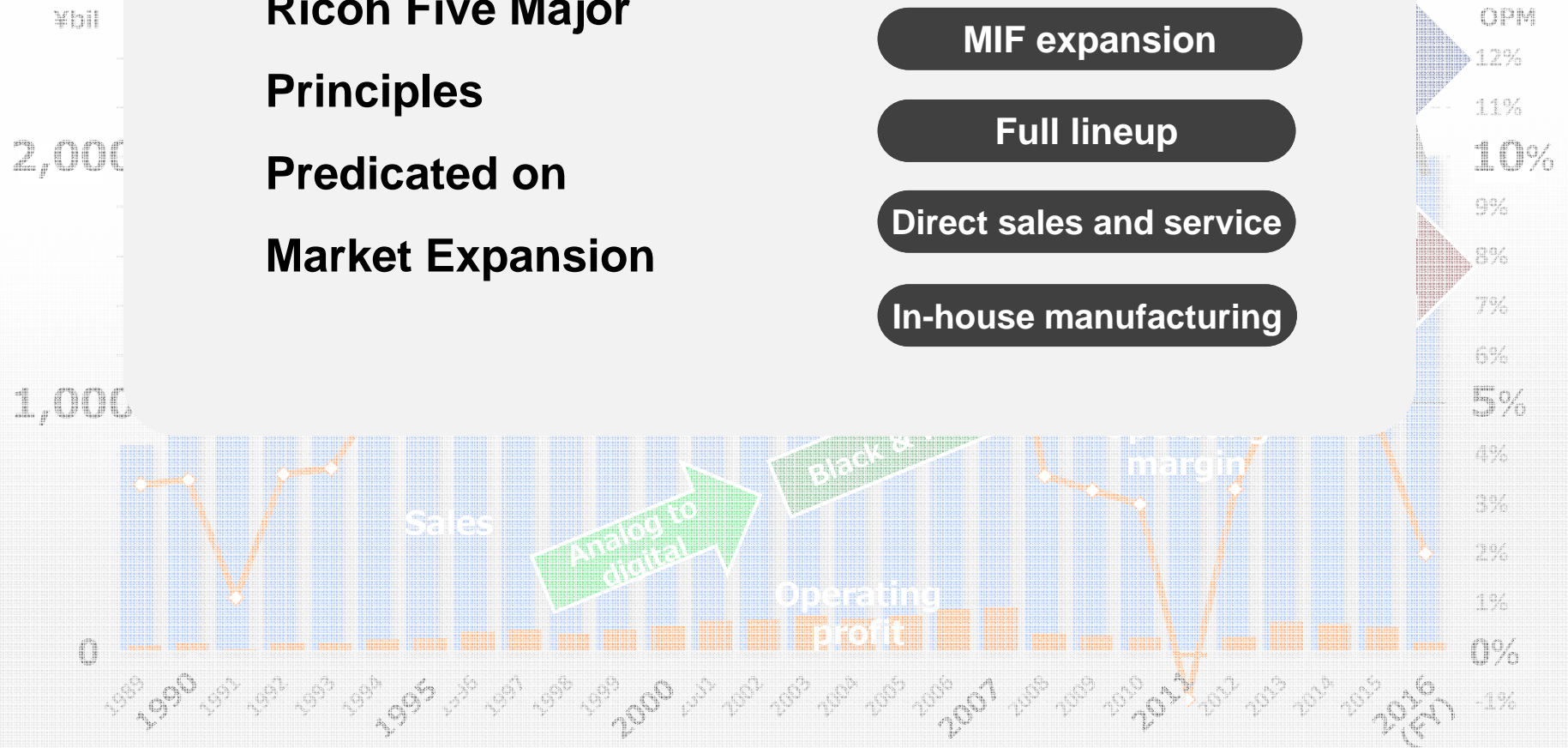
**Market share pursuit**

**MIF expansion**

**Full lineup**

**Direct sales and service**

**In-house manufacturing**





# Situation for Ricoh's Current Core Businesses

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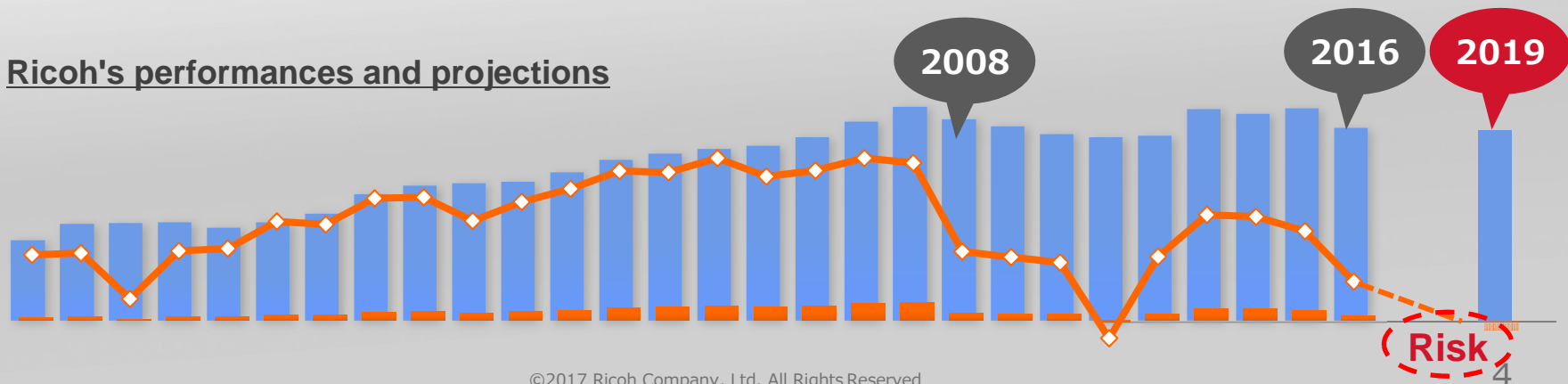
## 2008 to 2016

- A3 MFP market growth slowed, partly because of Global Financial Crisis
- A4 MFP and laser printer markets expanded
- From 2014, proportion of color models declined from peak, greatly affecting performances of all players

## Outlook for 2017 and beyond

- With overall unit demand flat, prices continuing to trend down for hardware and after service amid price competition to secure machine in field
- With color model penetration peaking, hard to expand scale through black-and-white to color shift
- Working patterns diversifying with spread of mobile devices and infrastructure. Plunging paper use hampering after service earnings

Ricoh's performances and projections





# Overhaul Five Major Principles Approach



## Ricoh's Five Major Principles

Market share pursuit

MIF expansion

Full lineup

Structural principles that have underpinned **scale expansion**

In-house manufacturing

Development and production

Direct sales and service

Management targets that have **supported sales expansion** and product strategy principles

**Overhaul our approach,  
emphasizing profitability**



# Basic Ricoh Resurgent Plan

## Ricoh management to date

**We postponed a fundamental overhaul in the cost structure of our core business**

i

**Despite having not earned profits as originally planned, we did not make a decision to withdraw businesses.**

ii

**Even in such growth areas as services and production printing, we failed to think out customer needs, our strengths, and competitive strategies, and ended up merely dabbling a little in everything**

iii

**Ambiguous responsibility, role, and authority for some businesses & functions**

iv

Drive a resurgence by breaking from the past

## Basic Resurgent Plan

1

### Structural reforms

- Cost structural & process reforms
- Increase business selectivity

2

### Prioritize growth businesses

- Deploy strategies centered on our strengths

3

### Reinforce our management systems

- Execute structural reforms and deploy business strategies

### Our Value Proposition for the future

- An essential company for customers and society



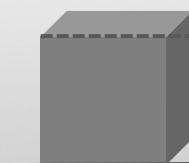


# Risk Scenarios for Resurgence

- Formulating plans that assume a possible operating loss in fiscal 2019 just by maintaining improvement efforts to date

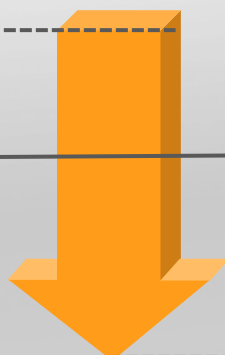
- Office machine and after service prices keep falling
- Decrease of in-house transaction printing

FY 2016  
operating profit  
forecast



USD ¥106  
EURO ¥117

**Risk scenario**



FY 2019  
operating loss

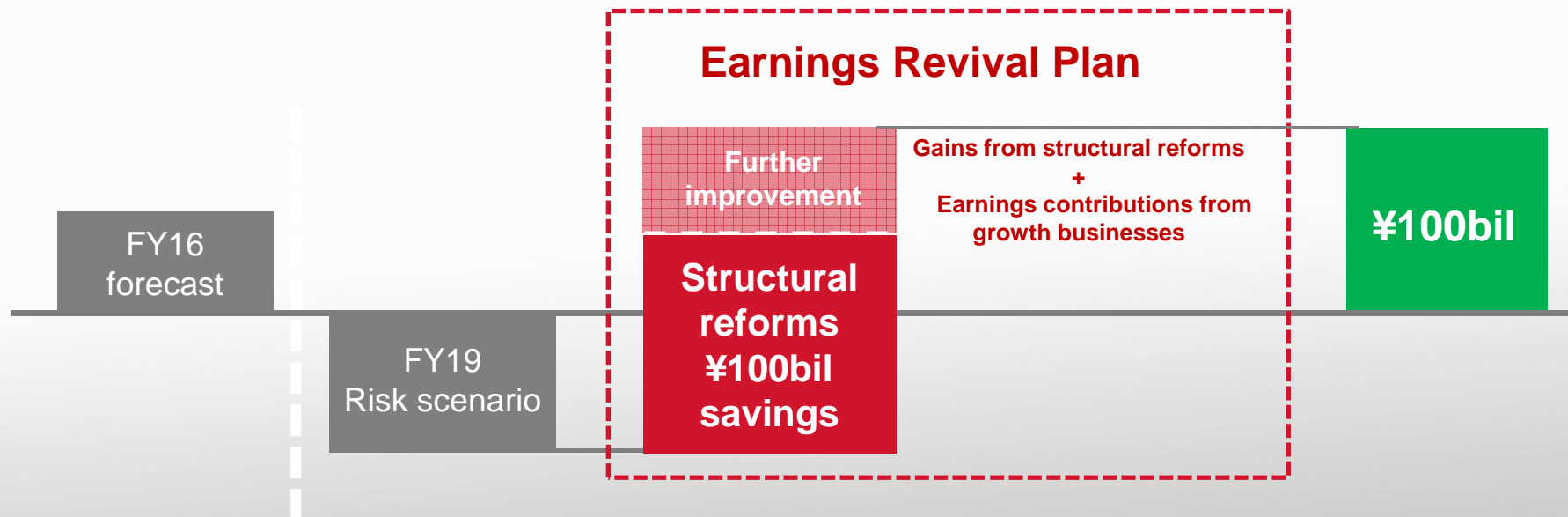




# Resurgence: Earnings Revival Plan

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## Fiscal 2019 Operating profit (change)



# 1. Structural Reforms

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# Structural Reforms in line with Strategic Shift

- Move away from thinking of structural reforms in cost-cutting terms and look to change corporate earnings structure in keeping with strategic shift

Through 18th MTP

From 19th MTP

## Deployments based on leadership strategies

- Omnidirectional strategy
- Scale (volume) emphasis
- Vertical integration

Market share pursuit

MIF expansion

Full lineup

Direct sales and service

In-house manufacturing

## Transform core business strategies

- Growth domain shifts
- Emphasis on profitability
- Flexible operations

## Transform earnings and business structures

- Improve breakeven points
- Boost free cash flow
- Reinvest in growth businesses

## Prioritize profits over scale expansion

- Price control
- Reduce unprofitable deals & MIF

## Optimize structure in line with strategic shift

- Reduce fixed costs and make them more variable
- Cut development, production, and sales costs
- Enhance asset efficiency

Improve margins and **transform profit structure** of core businesses

Allocate funds to growth areas and **change business structure**



# Projected cost reductions of structural reforms under 19th MTP

	2017 Plan	2018 Plan	2019 Plan
1. Cost structure reforms	<b>28</b> Billion¥	<b>37</b> Billion¥	<b>45</b> Billion¥
2. Business process reforms	<b>11</b> Billion¥	<b>39</b> Billion¥	<b>55</b> Billion¥
<b>Total reductions from fiscal 2016</b>	<b>39</b> Billion¥	<b>76</b> Billion¥	<b>100</b> Billion¥

Considering moving forward of measures to get the effect earlier

## 1. Transform and trim cost structure

Transform structure and reform fixed cost structure to tackle changes in the market climate

## 2. Reform business processes

While reforming the cost structure, review processes from scratch and seek to constrain costs while maintaining sales and enhancing productivity



## Strategic switch

from  
**Business scale  
expansion**  
to  
**Emphasize  
profitability**

from  
**Expansionary strategy  
dabbling in everything**  
to  
**Prioritize businesses  
from profitability  
perspectives**

## Reform thrust

### 1. Cost structure reforms

#### ● **Review in-house manufacturing focus**

- ❑ Consolidate production network and redefine roles of sites in consumption areas --> (a)
- ❑ Cut development costs by paring down models to be created in-house

#### ● **Revamp direct sales and service**

- ❑ Optimize dealer and direct sales structure for SMB in North America --> (b)
- ❑ Trim headquarters and backyard operations

### 2. Business process reforms that boost productivity

- ❑ Enhance productivity by expanding global shared services
- ❑ Improve maintenance processes through more models employing new capabilities --> (c)
- ❑ Broaden cost reductions through more automated manufacturing, etc.

### 3. Extensive business selectivity

#### ● **Leave no stones unturned in screening businesses**

- ❑ Improve profitability by overhauling office services
- ❑ Impairment losses in traditional camera business
- ❑ Clarify criteria for shutting down, maintaining, and investing in businesses and services



## (a) Consolidate production network and redefine roles of sites in consumption areas

### Review production site strategy

#### Review in-house manufacturing focus

- Build production system leveraging external partners
- Consolidate production sites by change MIF expansion strategy and paring down models developed in-house
- Redefine roles of sites
  - Shift away from production site to sales and business development base with customers (Customer Experience Center)
  - Concentrate domestic recycling center operations at Ricoh Eco Business Development Center

#### Boost productivity through business process reforms

- Broaden cost reductions through more automation
  - Cut labor costs through optimizing and streamline indirect expenses
  - Improve quality and lower failure costs by eliminating reliance on skills of individuals
- Streamline backyard operations and boost productivity by consolidating operations globally

Sites slated for consolidation under  
19<sup>th</sup> Mid-Term Management Plan  
(as of April 2017)



### Key production units in core businesses

	2016	2017	2019
Japan	6	5	Redefine Roles of Sites  • Production • Business development • R&D
Overseas	8	7	
Total	14	12	



## (b) Structural reform in North America

### Structural reform initiatives

#### Review direct sales and service

- Optimize dealer and direct sales structure for SMB
  - ▣ Reinforce collaboration with dealers
  - ▣ Leverage inside sales to boost operational productivity

#### Boost productivity through business process reforms

- Trim back office headcount
  - ▣ Reduce headquarters and backyard personnel numbers that grew by expanding businesses
- Liquidate unprofitable service sites
  - ▣ Review service businesses in line with strategic switch to focus on profitability

### Projected impacts

	FY17 plan	FY19 plan
Savings	¥20bil	¥35bil







## (c) Improve maintenance processes through more models employing new capabilities

- Enhance customer service levels and service productivity through more models employing new capabilities

### Process reform initiatives

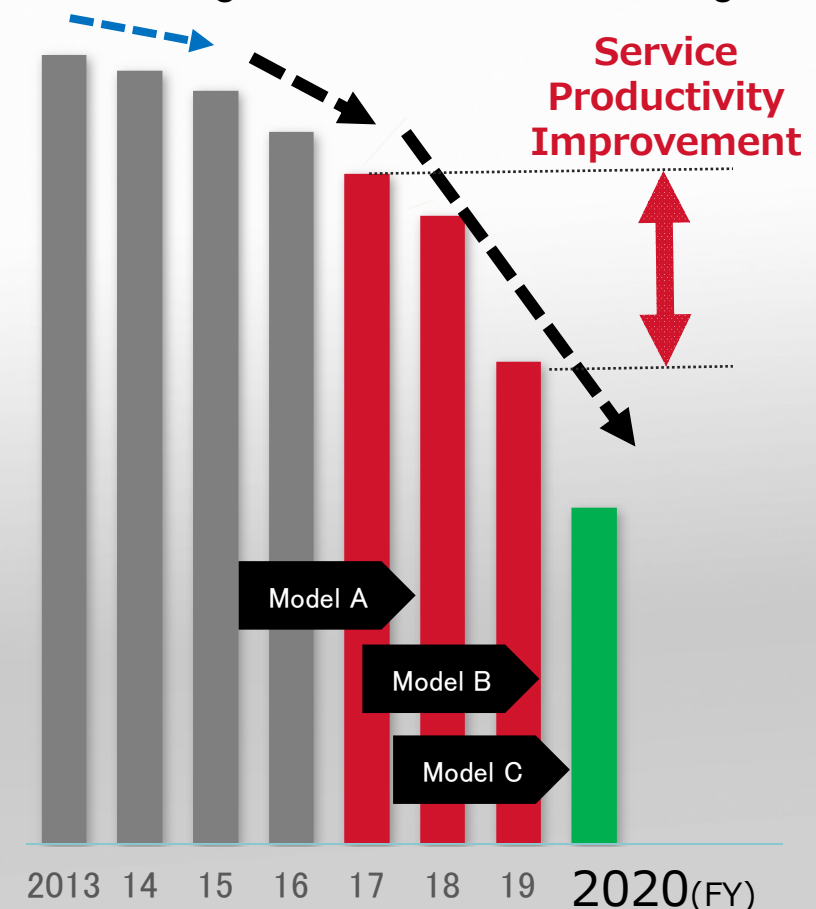
#### Service engineer productivity improvement

- Automatic remote system software update by MFP
- Cloud-based easy profile transition from old machine to new machine

#### Call center productivity improvement

- Customers can solve problems themselves by displaying troubleshooting guidance on the operation panel.
- Support customer's operation remotely from call center

Service engineer on-site numbers target

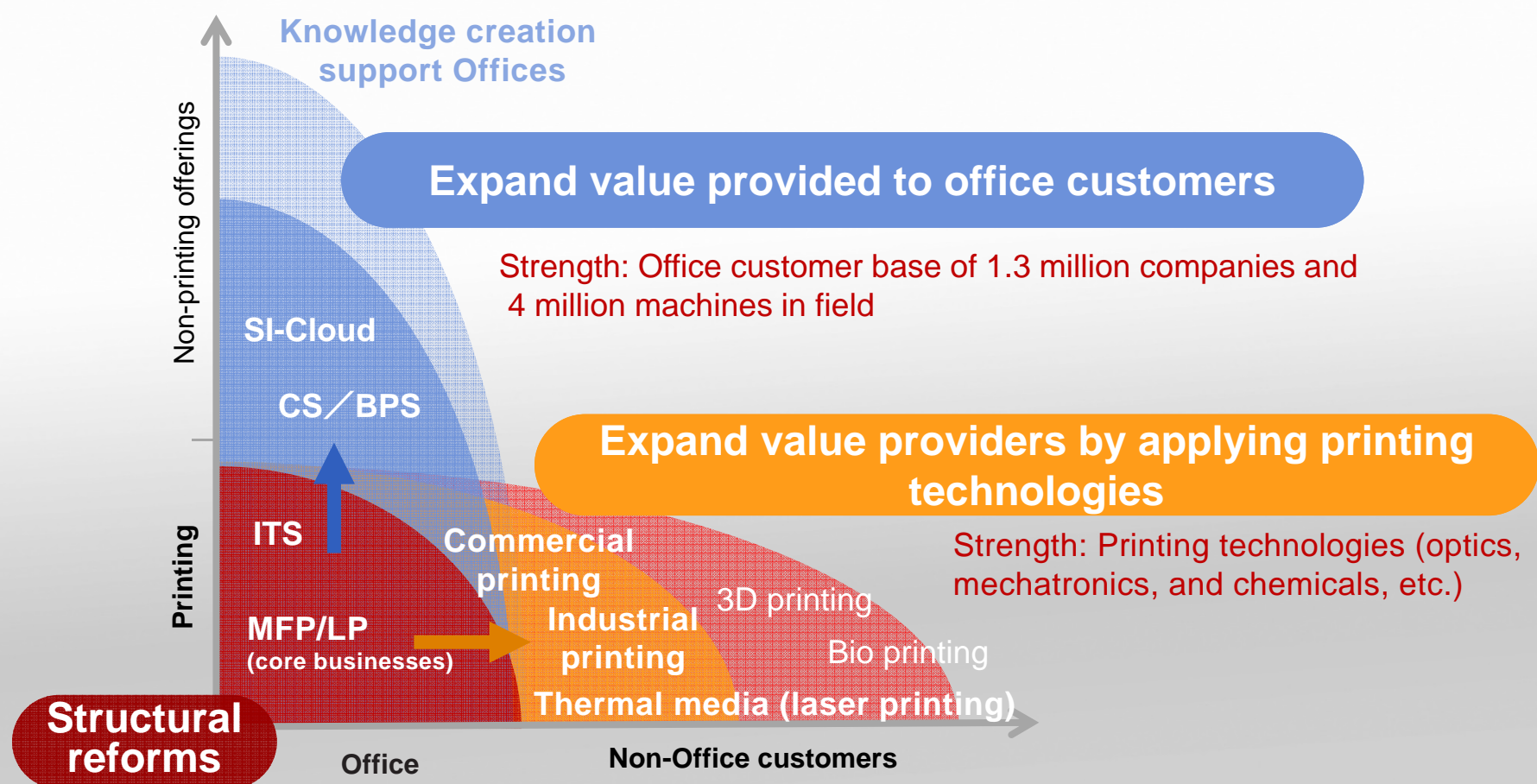


## 2. Prioritize Growth Businesses

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# Prioritizing Growth Businesses

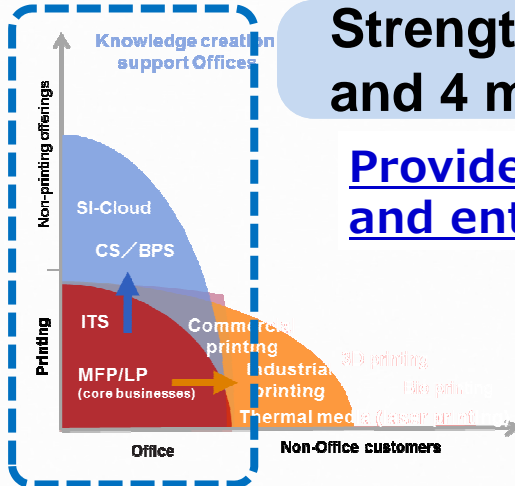
- Grow by redefining and prioritizing our strengths
- Leverage open innovation and concentrated investments to reinforce growth capabilities





# Expand value provided to office customers

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**Strength: Office customer base of 1.3 million companies and 4 million machines in field**

**Provide solutions that help enhance customer productivity and enterprise value**



**SI-Cloud**

**Provide workflow solutions platform leveraging customer base and MIF, then providing solutions to customers with partners**

**BPS**

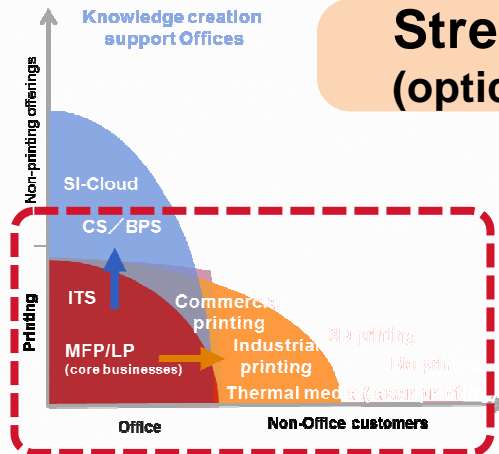
**CS**

**Combine our edge devices and A.I. to provide communication support for customers and enhance their productivity**



# Expand value providers by applying printing technologies

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**Strength: Printing technologies**  
(optics, mechatronics, and chemicals, etc.)

Support customer value creation with  
Print to Everything printing technology



Commercial printing  
**O to D**

Contributing to improve productivity of printing firm customer value chains by providing hardware and workflow solutions

Industrial printing  
**Imaging systems**  
**industrial printers**

Provide IJ-based imaging systems and printers enabling digital on-demand printing for various media at production sites

Thermal media  
**Laser printing**

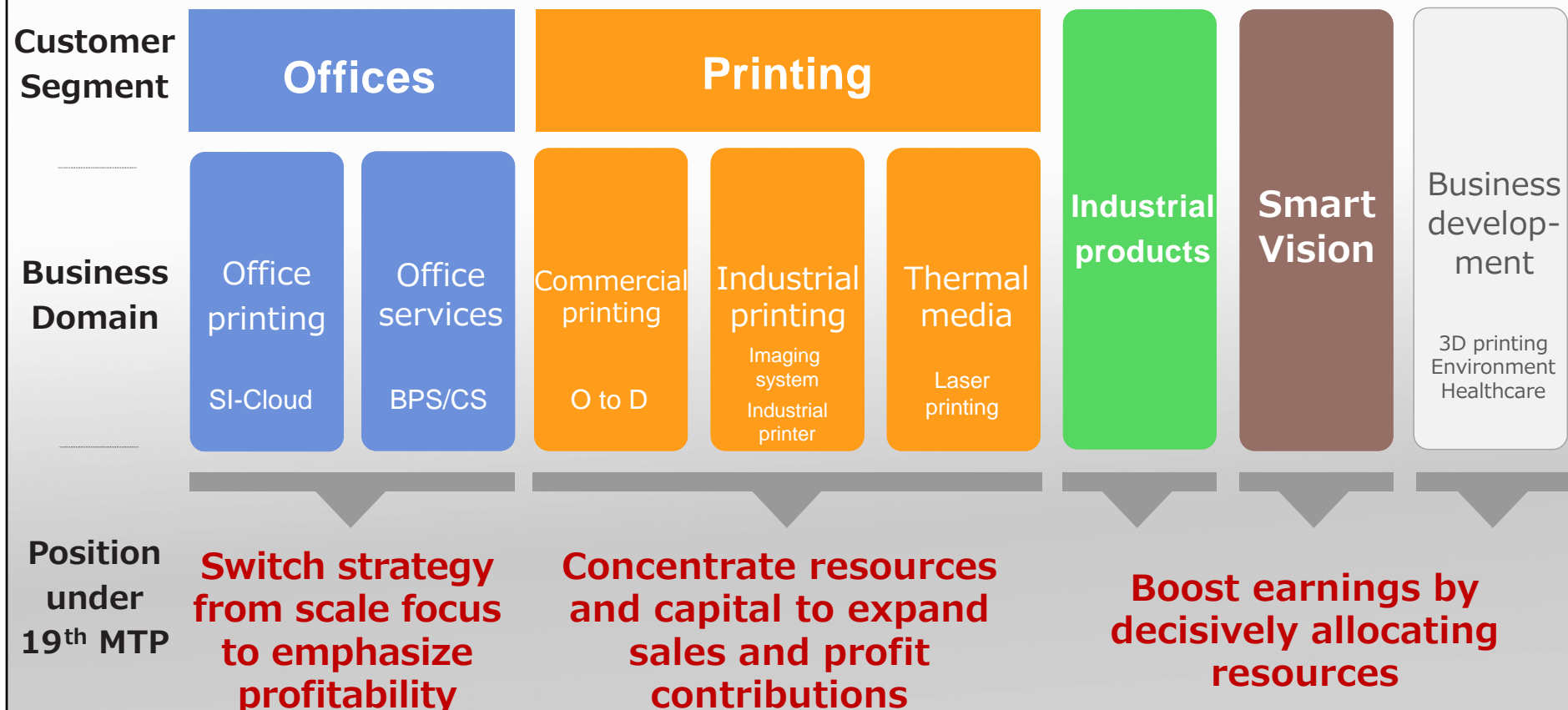
Provide high-speed laser printing that enable custom printing within production lines



# New business structure

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- Redefine our business domains based on customer attributes and our strengths
- Improve cash flow and concentrate investments in growth fields



### **3. Reinforce Management Systems**

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# Approach to Reinforcing Management Systems

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## Looking back

**Ambiguous  
responsibility, role,  
and authority**  
for some businesses  
& functions



## Approach

### Organization to implement structural reforms

#### ● Drive reforms from the top down

- ❑ The chief executive office will directly oversee the organization through the activities of the new CEO Office
- ❑ We will reinforce endeavors through directors to whom we delegate authority to carry out special missions
- ❑ In the United States, where we must urgently rebuild, we will transform the structure and have headquarters accelerate reforms

### Organization to deploy business strategies

- ❑ Ensure thorough business PDCA management and accountability for results through structural reforms
- ❑ Improve strategic quality and speed by shifting business oversight to the best regions
- ❑ Visualize management information to swiftly identify and address issues





# Reinforcing PDCA Cycles in Pushing Ahead with Structural Reforms

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# Our Value Proposition

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- Put customers first in keeping with our corporate philosophy and make Ricoh essential for customers and society

**Value  
proposition**

## Value Proposition message

Under the 19<sup>th</sup> Mid-Term Management Plan, all Ricoh employees will strive to materialize our direction by generating value for customers.

**Our value  
for society**

## Sustainability message

We will broadly address social issues, create new markets, and generate value to simultaneously drive social progress and Ricoh's growth.

**Corporate brand**

## Brand message: imagine. change.

These two words central to the Ricoh brand describe the way we work with each other, bring value to our customers' businesses, and interact with the market.

**Corporate  
philosophy**

## The RICOH Way

**Founding Principles: The Spirit of Three Loves**

(Love your neighbor, Love your country, Love your work)

**Mission, Vision, and Values statements**



## EMPOWERING DIGITAL WORKPLACES

*RICOH IMPROVES WORKPLACES USING INNOVATIVE TECHNOLOGIES & SERVICES  
ENABLING INDIVIDUALS TO WORK SMARTER*

WHO IT HELPS

INDIVIDUALS

WHAT IS IT

RICOH IMPROVES WORKPLACES

HOW IT HELPS

USING INNOVATIVE TECHNOLOGIES & SERVICES

WHAT ARE  
THE BENEFIT

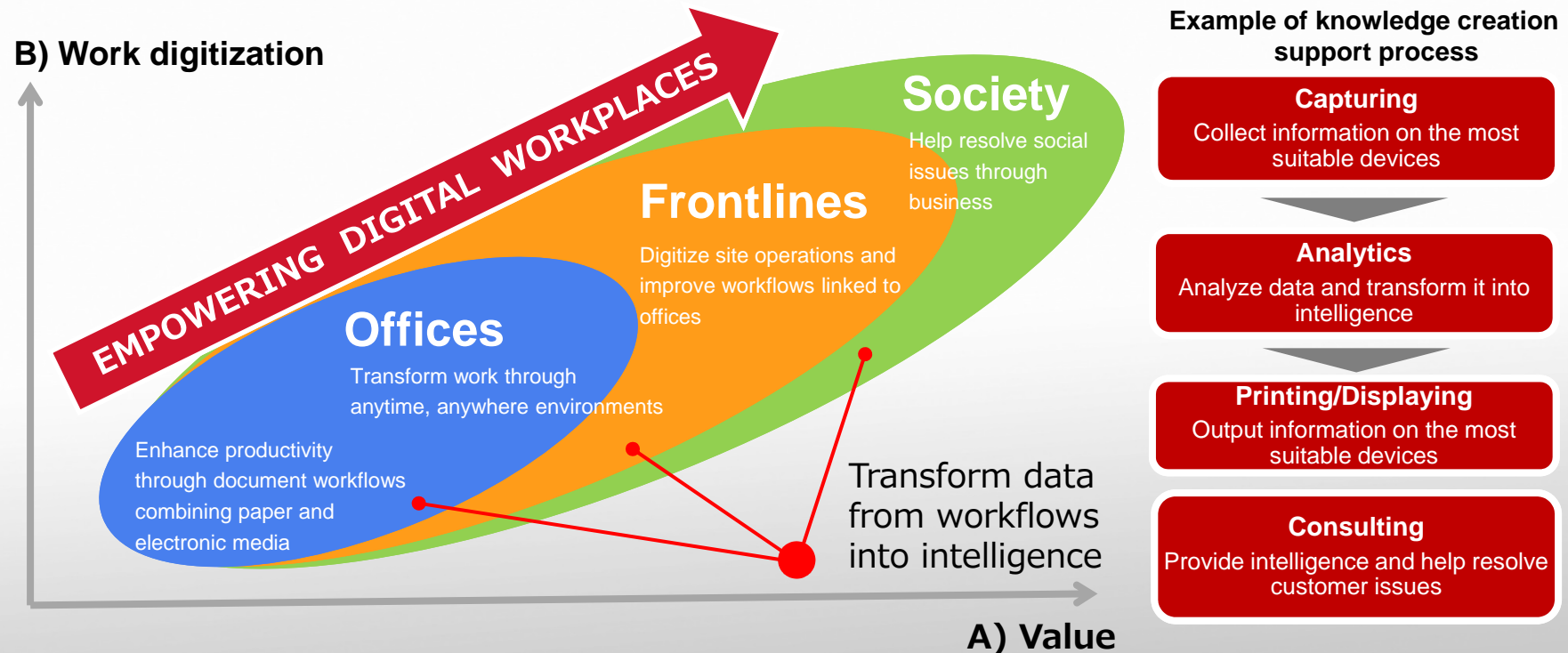
ENABLING ... TO WORK SMARTER



# Workplace Expansion and Our Value Proposition

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- We look to set structural reform goals during fiscal 2017 and formulate our vision for the future in April 2018



## A) Value

Value focus to shift away from traditional offices toward workplaces and expand to encompass society.

## B) Work digitization

Digitizing work wherever people are in action, linking digitized work and analyzing the data to support customer knowledge creation



# RICOH Resurgent Financial Targets

(aforementioned)

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# 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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