15 November 2012 │ 24 pages

Electric Appliances (Topix) │ Precision Equipment (Citi)
Japan

Ricoh (7752)

Reiterating Buy: Market still underestimating restructuring scale

- Company Update
- Estimate Change

- **Fruits of restructuring already emerging** — As we argued in our March 14 upgrade report, Ricoh (7752) - Nonconsensus Buy: Market missing restructuring-driven rebound, we think the market is still overlooking the intensity of Ricoh's radical restructuring. Restructuring, focused on headcount cuts in Japan and overseas, has been progressing smoothly and the results of these efforts are materializing, with July–September SG&A down ¥19.1bn YoY. In this report, we revisit our Buy thesis and reiterate our Buy rating.
- **Side-effects smaller than envisioned** — In FY3/13, the biggest issue is headcount cuts in the US and the equity market has been worried about side-effects from this, namely declines in market share. However, in the more than six months since the number of marketing offices started to fall, market share in color copiers in the US has picked up, rising to 25% in July–September from the January–March bottom of 23%. We sense that business continuity while restructuring has been executed more adroitly than expected (Figure 12). While we cannot be sanguine on the business environment in copiers because of the faltering global economy, copier shipments have recently been holding up better than those of LBPs and IJPs, and consumables remain in positive YoY territory.
- **No overvaluation** — With a lack of encouraging news on the macro environment, we think visibility on the earnings outlook for Ricoh is relatively good, driven as earnings are not by top-line growth but by restructuring of fixed cost cuts that Ricoh is pushing itself. We think it is likely to slightly undershoot its H2 sales target but think OP will be in line with plan, as we regard restructuring benefits as a buffer and expect further restructuring steps in Japan and overseas. At the current share price, the shares are on an FY3/14E PER of c7x, a PBR of 0.5x (RoE of 8%), and a dividend yield of c5%, which looks appealing versus sector peers.

Buy	**1**
Price (14 Nov 12)	¥642
Target price	¥1,000
Expected share price return	55.8%
Expected dividend yield	4.5%
Expected total return	**60.3%**
Market Cap	¥465,493M
	US$5,801M

Price Performance
(RIC: 7752.T, BB: 7752 JP)

Consol.	Sales		OP			Pretax Profit		NP		EPS	PE
	¥M	YOY (%)	¥M	YOY (%)	OPM(%)	¥M	YOY (%)	¥M	YOY (%)	¥	x
3/11A	1,942,013	-3.7	60,196	-8.8	3.1	45,400	-21.1	19,650	-29.5	27	24.0
3/12A	1,903,477	-2.0	-18,068	nm	nm	-31,937	nm	-44,560	nm	-61	nm
3/13CE	1,920,000	0.9	70,000	nm	3.6	62,500	nm	33,000	nm	46	14.1
3/13CRE	1,900,000	-0.2	70,000	nm	3.7	62,500	nm	33,000	nm	46	14.1
3/13E	1,944,800	2.2	71,000	nm	3.7	63,500	nm	33,640	nm	46	13.8
3/13RE	1,888,200	-0.8	71,000	nm	3.8	63,500	nm	33,640	nm	46	13.8
3/14E	1,994,200	2.5	135,000	90.1	6.8	128,500	102.4	72,140	114.4	99	6.5
3/14RE	1,935,000	2.5	130,000	83.1	6.7	123,500	94.5	69,140	105.5	95	6.7
3/15E	2,060,600	3.3	144,000	6.7	7.0	138,000	7.4	77,840	7.9	107	6.0
3/15RE	1,990,600	2.9	140,500	8.1	7.1	134,500	8.9	75,740	9.5	104	6.1

A: Actuals, E: Citi Research Ests, CE: Co. Ests, RE: Citi Research Revised Ests, CRE: Co. Revised Ests, NA: Not Available, NM: Not Meaningful

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7752.T: Fiscal year end 31-Mar — **Price: ¥642; TP: ¥1,000; Market Cap: ¥465,493m; Recomm: Buy**

Profit & Loss (¥m)	2011	2012	2013E	2014E	2015E
Sales revenue	1,942,013	1,903,477	1,888,200	1,935,000	1,990,600
Cost of sales	-1,151,939	-1,150,855	-1,145,200	-1,165,000	-1,215,100
Gross profit	790,074	752,622	743,000	770,000	775,500
Gross Margin (%)	40.7	39.5	39.3	39.8	39.0
EBITDA (Adj)	**127,435**	**46,916**	**135,000**	**193,500**	**203,000**
EBITDA Margin (Adj) (%)	6.6	2.5	7.1	10.0	10.2
Depreciation	-67,239	-64,984	-64,000	-63,500	-62,500
Amortisation	0	0	0	0	0
EBIT (Adj)	**60,196**	**-18,068**	**71,000**	**130,000**	**140,500**
EBIT Margin (Adj) (%)	3.1	-0.9	3.8	6.7	7.1
Net interest	0	0	0	0	0
Non-op/Except	-14,796	-13,869	-7,500	-6,500	-6,000
PreTax Profit	**45,400**	**-31,937**	**63,500**	**123,500**	**134,500**
Tax	-22,621	-8,223	-25,400	-49,400	-53,800
Extraord./Min.Int./Pref.div.	-3,129	-4,400	-4,460	-4,960	-4,960
Reported net profit	**19,650**	**-44,560**	**33,640**	**69,140**	**75,740**
Net Margin (%)	1.0	-2.3	1.8	3.6	3.8
Core NPAT	19,650	-44,560	33,640	69,140	75,740
Per share data	**2011**	**2012**	**2013E**	**2014E**	**2015E**
Reported EPS (¥)	27	-61	46	95	104
Core EPS (¥)	27	-61	46	95	104
EPS* (¥)	27	-61	46	95	104
DPS (¥)	33	25	29	33	33
CFPS (¥)	177	15	203	215	219
FCFPS (¥)	88	-82	99	125	130
BVPS (¥)	1,281	1,134	1,114	1,176	1,248
Wtd avg ord shares (k)	725,643	725,571	725,500	725,500	725,500
Wtd avg diluted shares (k)	735,490	735,419	725,500	725,500	725,500
Growth rates	**2011**	**2012**	**2013E**	**2014E**	**2015E**
Sales revenue (%)	-3.7	-2.0	-0.8	2.5	2.9
EBIT (Adj) (%)	-8.8	nm	nm	83.1	8.1
Core NPAT (%)	-29.5	nm	nm	105.5	9.5
Core EPS (%)	-29.5	nm	nm	105.5	9.5
Balance Sheet (¥m)	**2011**	**2012**	**2013E**	**2014E**	**2015E**
Cash & cash equiv.	181,179	158,671	159,164	185,164	185,164
Accounts receivables	657,817	686,930	670,000	673,000	678,000
Inventory	171,033	195,009	190,000	195,000	201,000
Net fixed & other tangibles	264,740	268,527	280,000	282,000	285,000
Goodwill & intangibles	0	0	0	0	0
Financial & other assets	987,627	980,221	975,896	975,896	975,896
Total assets	**2,262,396**	**2,289,358**	**2,275,060**	**2,311,060**	**2,325,060**
Accounts payable	250,483	252,209	250,000	256,000	263,000
Short-term debt	151,023	216,432	220,000	210,000	320,000
Long-term debt	479,422	525,435	520,000	510,000	350,000
Provisions & other liab	398,704	416,264	416,000	416,000	416,000
Total liabilities	**1,279,632**	**1,410,340**	**1,406,000**	**1,392,000**	**1,349,000**
Shareholders' equity	929,877	822,704	808,260	853,260	905,260
Minority interests	52,887	56,314	60,800	65,800	70,800
Total equity	**982,764**	**879,018**	**869,060**	**919,060**	**976,060**
Net debt	**449,266**	**583,196**	**580,836**	**534,836**	**484,836**
Net debt to equity (%)	45.7	66.3	66.8	58.2	49.7

Valuation ratios	2011	2012	2013E	2014E	2015E
PE (x)	24.0	-10.6	13.8	6.7	6.1
PB (x)	0.5	0.6	0.6	0.5	0.5
EV/EBITDA (x)	0.1	2.5	1.4	0.9	0.7
FCF yield (%)	13.7	-12.8	15.5	19.5	20.2
Dividend yield (%)	5.1	3.9	4.5	5.1	5.1
Payout ratio (%)	124	-41	63	35	32
ROE (%)	2.1	-5.1	4.1	8.3	8.6
Cashflow (¥m)	**2011**	**2012**	**2013E**	**2014E**	**2015E**
EBITDA	127,435	46,916	135,000	193,500	203,000
Working capital	-23,420	-42,615	20,000	-2,000	-4,000
Other	26,035	6,905	-8,035	-35,860	-39,760
Operating cashflow	**130,050**	**11,206**	**146,965**	**155,640**	**159,240**
Capex	-65,589	-71,739	-75,000	-65,000	-65,000
Net acq/disposals	93,400	91,137	89,000	88,500	87,500
Other	-119,819	-131,841	-93,325	-88,500	-87,500
Investing cashflow	**-92,008**	**-112,443**	**-79,325**	**-65,000**	**-65,000**
Dividends paid	-23,943	-23,942	-15,200	-21,000	-23,900
Financing cashflow	**-92,108**	**87,823**	**-17,200**	**-41,000**	**-73,900**
Net change in cash	**-62,996**	**-16,011**	**50,440**	**49,640**	**20,340**
Free cashflow to s/holders	**64,461**	**-60,533**	**71,965**	**90,640**	**94,240**

Note: Consolidated data. * EPS: NP/Est Shares OS.

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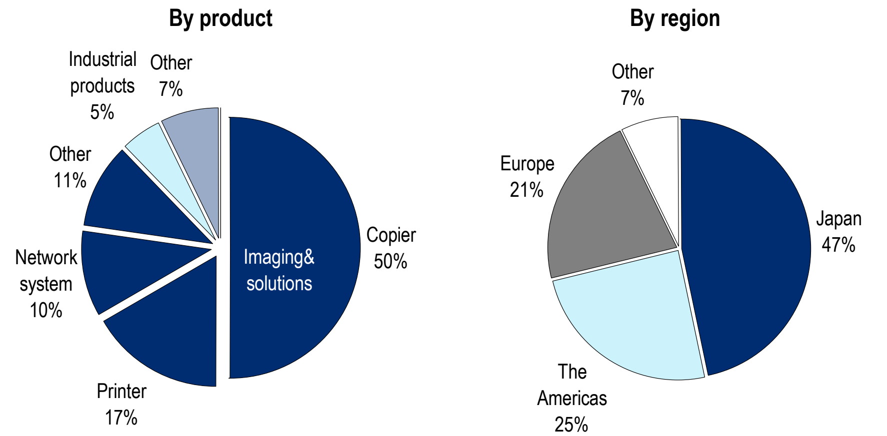
Ricoh (7752) Investment Dashboard

Reasons to Buy

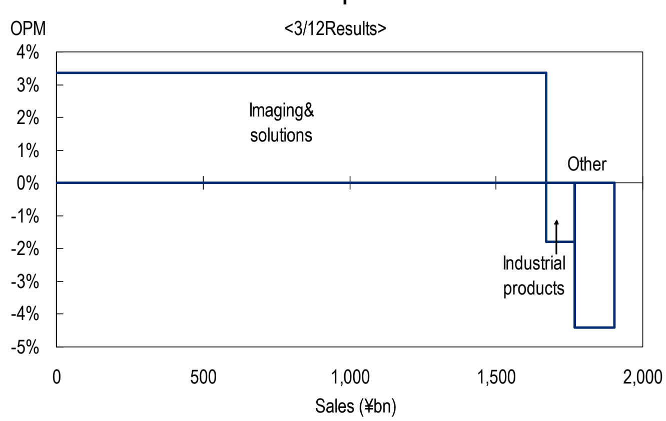
- On an FY3/14E basis, the shares are on a PER of 7x, a PBR of 0.5x, and a dividend yield of 5% (assuming an annual ¥33 dividend)
- Earnings momentum is clearly better than peers, as restructuring benefits are emerging
- With a lack of macro visibility, the key is not top-line growth but Ricoh's own restructuring and structural reforms
- We believe market expectations are low, so we think investment appeal is strong among low-valued names from a risk/return perspective

Sales breakdown (FY3/12)



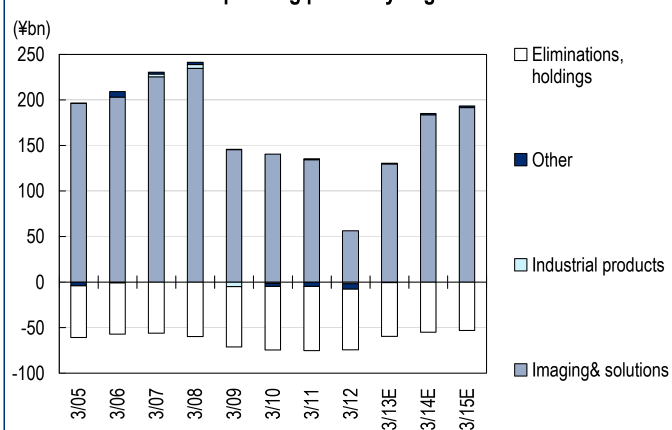
Source: Company data, Citi Research.

Business portfolio



Source: Company data, Citi Research.

Operating profits by segment

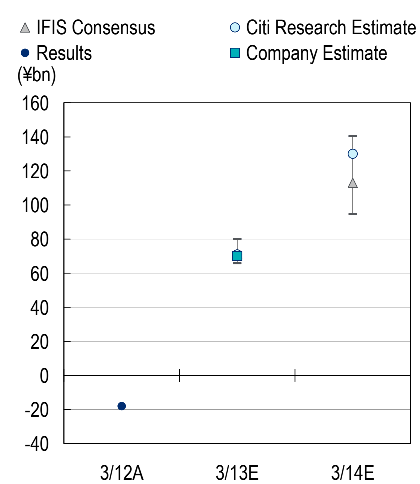


Source: Company data, Citi Research.

Alternate scenario: A more bearish case

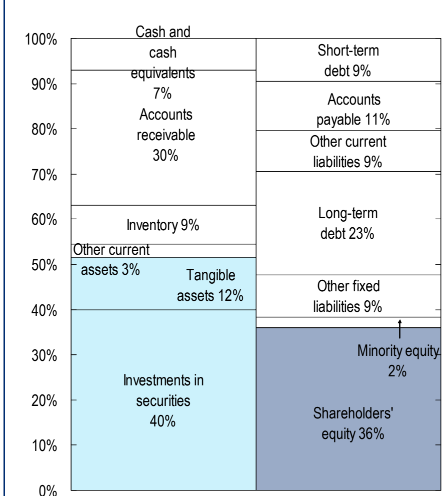
- 1) Rapid yen strengthening
- 2) Restructuring (headcount cuts) produce less of a fixed cost cut impact than expected
- 3) Costs coming first if Ricoh aims for rapid sales growth in digicams and new businesses
- 4) Greater-than-expected slowdown in office equipment market on macro environment and changes in customer attitudes
- 5) Emergence of a negative impact on marketing activity from restructuring, in contrast to recent experience

OP forecast comparison



Source: Company data, IFIS (November 12, 2012), Citi Research.

Balance sheet (end-FY3/12)



Source: Company data.

Share price drivers	Company description
■ Forex: ¥1/$ move shifts OP ¥1.3bn; ¥1/€ move ¥1.5bn (weak yen lifts profit) ■ Fundamentals: Changes in sentiment on the office equipment market (easing of paperless fears, etc.) ■ Restructuring: Fixed and SG&A cut benefits. Ricoh has little experience in restructuring but confirmation of progress would lift faith in profit creation	**Summary**: Ricoh is one of Japan's leading makers of office equipment, with this business accounting for the largest share of earnings. Ricoh sat atop the global copier market in 2011 with an overall share of 21% (25% in color copiers and 19% in B&W copiers). Its share is low in both IJPs and LBPs. **Shareholder returns**: Since the global financial crisis Ricoh has aimed for a stable ¥33 DPS, but in FY3/12 Ricoh posted its first-ever operating loss, so it cut its DPS to ¥25 (reducing its period-end dividend to ¥8.5 from ¥16.5). However, if visibility on earnings recovery from FY3/13 improves, we could see a return to ¥33 in FY3/14.

Valuations

		Rating		Price	Mkt	FY1E=	EPS		PER (x)		PBR (x)	OPM		EV/EBITDA (x)		RoE	
Code	Company				Cap		FY1E	FY2E	FY1E	FY2E	FY1E	FY1E	FY2E	FY1E	FY2E	FY1E	FY2E
Precision equipment					($ bn)												
4901.T	Fujifilm	2	JPY	1,277.00	7.7	3/13	132.9	176.0	9.6	7.3	0.3	5.5%	6.5%	nm	nm	3.6%	4.3%
4902.T	Konica Minolta	2	JPY	512.00	3.4	3/13	41.7	46.8	12.3	10.9	0.6	6.1%	6.4%	2.3	2.0	5.1%	5.6%
6724.T	Seiko Epson	2	JPY	434.00	1.0	3/13	26.5	69.6	16.4	6.2	0.4	2.2%	3.6%	2.5	2.1	2.2%	5.5%
7741.T	Hoya	2	JPY	1,528.00	8.2	3/13	137.2	142.4	11.1	10.7	1.6	19.5%	19.3%	4.7	4.1	14.8%	14.2%
7751.T	Canon	1	JPY	2,437.00	35.0	12/12	213.3	262.1	11.4	9.3	1.3	10.3%	12.0%	2.6	2.2	10.0%	11.8%
7752.T	Ricoh	1	JPY	642.00	5.8	3/13	46.4	95.3	13.8	6.7	0.6	3.8%	6.7%	1.4	0.9	4.1%	8.3%
HPQ.N	Hewlett-Packard	3	USD	13.14	25.8	10/12	4.1	3.4	3.2	3.9	0.8	9.2%	8.1%	2.6	2.7	-10.7%	14.8%
LXK.N	Lexmark Intl	3	USD	22.12	1.4	12/12	3.7	3.7	5.9	6.1	1.1	10.0%	10.2%	1.4	1.7	7.0%	14.3%
XRX.N	Xerox Corp	2	USD	6.29	8.0	12/12	1.0	1.1	6.2	5.8	0.6	9.2%	9.3%	3.2	3.1	9.4%	9.0%
BSX.N	Boston Scient	2	USD	5.12	7.0	12/12	0.4	0.4	12.4	12.7	0.6	21.1%	19.9%	5.0	4.8	-34.9%	4.6%
SYK.N	Stryker Corp	2	USD	52.32	19.9	12/12	4.1	4.2	12.9	12.3	2.3	25.5%	25.0%	6.6	6.0	19.3%	18.1%
LCD-related																	
034220.KS	LG Display	1	KRW	34,950.00	11.5	12/12	958.0	3,371.0	36.5	10.4	1.2	1.7%	5.0%	2.7	1.9	3.3%	10.9%
005930.KS	Samsung Elec	1	KRW	1,355,000.00	183.7	12/12	158,667.1	200,362.2	8.5	6.8	1.7	14.5%	16.5%	3.8	3.0	21.5%	22.1%
SPE																	
7731.T	Nikon	2	JPY	1,794.00	8.9	3/13	164.7	205.8	10.9	8.7	1.5	8.9%	10.4%	4.1	3.5	14.4%	16.2%
8035.T	Tokyo Electron	2	JPY	3,435.00	7.7	3/13	115.2	215.1	29.8	16.0	1.0	5.5%	9.9%	5.5	3.5	3.5%	6.3%
AMAT.O	Applied Material	2	USD	10.36	12.8	10/12	0.7	0.6	14.4	16.8	1.7	12.7%	12.4%	6.3	8.4	7.7%	8.3%
ASML.AS	ASML Hld	2	EUR	43.74	23.4	12/12	2.6	2.8	16.5	15.4	4.3	25.9%	24.9%	11.5	11.0	28.9%	25.7%
KLAC.O	KLA Tencor	1	USD	45.13	7.5	6/13	3.7	4.3	12.2	10.4	2.1	28.6%	31.4%	5.9	4.7	17.6%	18.7%
LRCX.O	Lam Research	2	USD	35.41	6.1	6/13	2.2	3.9	16.1	9.1	1.2	10.5%	18.3%	7.0	4.4	5.3%	11.9%

Note: Share prices as of the November 14 close.

Source: Citi Research.

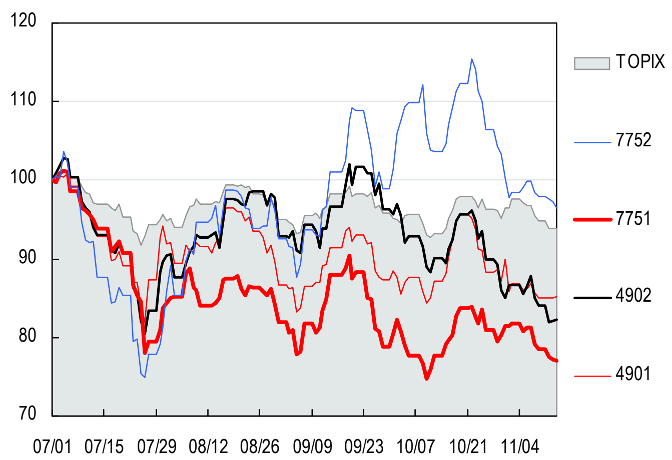
Ricoh restructuring: The debating points

Improved conviction on the progress of structural reforms led Ricoh shares to bottom at the end of July and gain some 50% through end-October. However, the shares are adjusting again, following the drying-up of drivers in the wake of July-September results. Having reconsidered Ricoh's restructuring progress and growing external environment uncertainty, we believe the shares continue to offer investment appeal. In this report, we run again through the key points of debate and again reiterate our Buy rating.

- *1 Restructuring progress — Sustained reduction in fixed costs*
- *2 Operations in the US — Earnings trends and structural reform progress*
- *3 Copier business — limited market share impact despite structural reforms*
- *4 Structural improvements other than headcount reductions — Review of operating processes*
- *5 Earnings estimates — at least ¥45.5bn YoY growth in FY3/14*
- *6 Shareholder returns — Roadmap to restoring ¥33/share dividend*

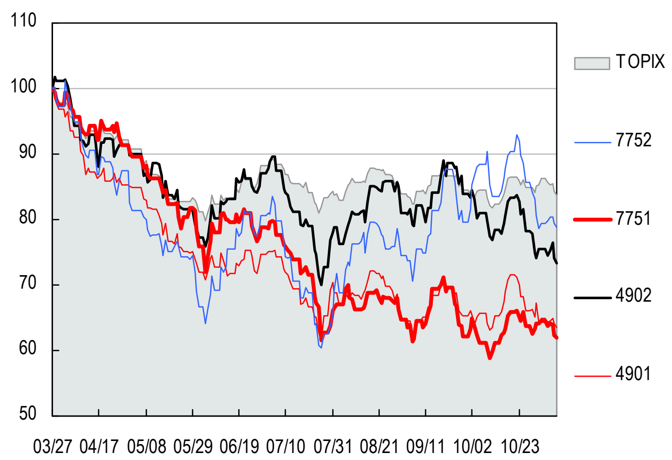
Ricoh has disappointed investors on numerous occasions since 2008 H2, when it acquired Ikon, and this has left many skeptical as to whether there has been any real change at the company. Indeed, the management team has not changed. However, as we explain below, we saw changes over and above simple job cuts when Ricoh began its restructuring drive, and we believe the benefits of reform will become clearer moving forward. We believe valuations still look very attractive both in absolute and peer-relative terms. Based on the November 14 closing price and our FY3/14 forecasts put Ricoh on a PBR of 0.5x, a PER of c7x, and a dividend yield of c5%.

Figure 1. Share price performance of office equipment makers under coverage since July 1, 2012



Source: Bloomberg, Citi Research.

Figure 2. Share price performance of office equipment makers under coverage since TOPIX YTD high



Source: Bloomberg, Citi Research.

1) Structural reform progress — Sustained reduction in fixed costs

Quantitative and qualitative benefits emerging in the year and a half since the restructuring announcement

Ricoh announced in May 2011 a structural reform plan that included its most extensive-ever headcount reductions. It followed this up by announcing a voluntary retirement program for domestic employees in June 2011. Just a year and a half on, we believe both quantitative and qualitative benefits are starting to emerge. The material decline in SG&A expenses (adjusted for restructuring and impairment costs) is a good example.

Figure 3. Ricoh: Key financial indicators (¥bn)
Profitability to continue to improve from FY3/13 through FY3/14

	09/3	10/3	11/3	12/3	13/3E	14/3E
Sales	**2,091.7**	**2,016.3**	**1,942.0**	**1,903.5**	**1,888.2**	**1,935.0**
SGA	**779.9**	**756.3**	**729.9**	**770.7**	672.0	640.0
Restructuring costs	12.4	0.0	0.0	34.1	20.0	0
Goodwill impairment	0.0	0.0	0.0	37.0	0	0
SG&A costs excluding one-offs	**767.5**	**756.3**	**729.9**	**699.6**	**652.0**	**640.0**
Operating profit	**74.5**	**66.0**	**60.2**	**-18.1**	**71.0**	**130.0**
（Operating margin）	3.6%	3.3%	3.1%	-0.9%	3.8%	6.7%
OP excluding one-off costs	**123.9**	**103.0**	**97.2**	**53.0**	**91.0**	**130.0**
（Operating margin excl. one-offs）	5.9%	5.1%	5.0%	2.8%	4.8%	6.7%

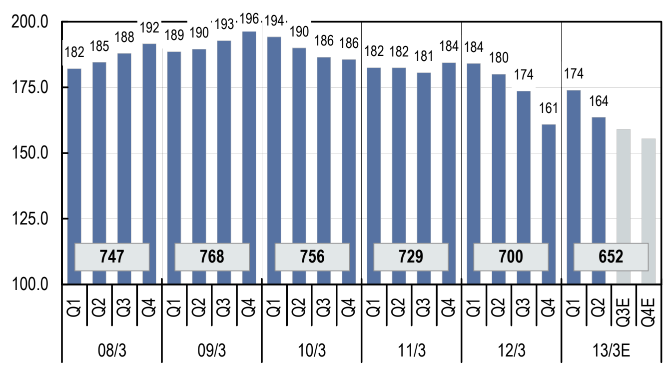
Source: Company data (SEC filings, Form 20-F, results reference materials), Citi Research.

Restructuring overview

Quarterly SG&A expenses show clear improvement

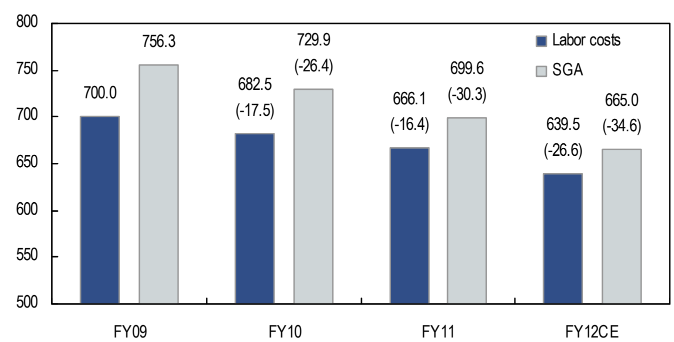
Ricoh uses US GAAP, so it includes restructuring and impairment costs in SG&A expenses. As such, we believe these one-off factors need to be excluded to determine if structural reforms are having an impact. Adjusted SG&A expenses fell ¥16.4bn YoY and fell ¥10.3bn QoQ to ¥163.6bn in July-September 2012. We see this as quantitative evidence of savings from headcount cuts.

Figure 4. Ricoh: Quarterly consolidated SG&A (¥bn)
¥26bn YoY reduction in FY3/13 H1



Note: Consolidated SG&A expenses after the deduction of impairment and restructuring costs.
Source: Company data, Citi Research

Figure 5. Ricoh: Consolidated personnel and SG&A expenses (¥bn)
Working toward further cuts in FY3/14



Note: Consolidated personnel expenses are included in CoGS and SG&A expenses (some figures are our estimates). Consolidated SG&A expenses do not include impairment and restructuring costs.
Numbers in parenthesis represent YoY change.
Source: Company data, company presentation materials, Citi Research.

Restructuring framework unchanged

Plans call for total headcount to be reduced by 10,000 over the three years ending FY3/14, and as of FY3/12 Ricoh had reduced headcount by approximately 5,000.

This included 2,340 applicants to the domestic voluntary retirement program (which had originally targeted 1,600 applicants), with the remainder comprising employees who had reached retirement age or who left of their own accord and were not replaced. Ricoh plans to cut 4,000 employees in FY3/13, including 3,000 through rationalizations in the US. At the end of September, we believe the company as part of its structural reform strategies had already made a 2,500 reduction in headcount (we estimate that 1,500 of these cuts were overseas and 1,000 in Japan). According to Ricoh, most of the job cuts in the US business will be back office positions, with only a limited reduction in the number of salespeople.

The numbers in bold for each region in Figure 6 are subsidiary employees not included in the numbers in the top part of the table. As of end-September 2007 (before the acquisition), Ikon employed 25,000 people, and according to Ikon materials this included 9,000 salespeople and 6,000 service engineers

In Japan, 2,340 employees applied for the voluntary retirement program, but not all had left as of end-FY3/12. Sales headcount is also falling outside of the sales and services subsidiaries Ricoh Japan and Ricoh Technosystems (i.e., at the head office, in production, in development, etc.)

The number of overseas employees at end-FY3/12 was up 1,822 YoY, although we believe this included around 1,400 (estimated) at the production facilities of Pentax Ricoh Imaging (which was consolidated in June 2011) and a 803-person increase at Ricoh Asia Pacific to open up sales channels in Asia

Figure 6. Ricoh headcount

1,538 YoY drop in the number of sales office employees in Japan and 991 decline in the US at end-FY3/12

	3/06	3/07	3/08	3/09	3/10	3/11	3/12
Number of employees (FY-end)	**76,100**	**81,800**	**83,300**	**108,400**	**108,500**	**108,900**	**109,241**
Japan	39,900	40,300	40,300	40,800	41,100	40,000	38,519
Overseas	36,200	41,500	43,000	67,600	67,400	68,900	70,722
Sales and service personnel (20F)							
Japan	22,500	22,800	22,700	23,100	22,100	**21,200**	**19,800**
Overseas	20,700	22,900	23,700	46,500	45,900	**45,800**	**44,700**
FY-end employee numbers at sales subsidiaries							
Japan	**19,608**	**19,718**	**19,724**	**19,990**	**19,698**	**20,007**	**18,469**
Ricoh Japan Corporation	11,054	11,212	11,236	11,517	11,728	12,407	11,348
Ricoh Technosystems Co., Ltd	8,554	8,506	8,488	8,473	7,970	7,600	7,121
The Americas	**11,319**	**11,832**	**13,195**	**37,314**	**34,811**	**33,866**	**32,875**
Ricoh Americas Corporation	5,426	5,935	10,527	10,229	10,363	11,428	11,507
Lanier	4,751	4,758					
Infoprint Solutions			1,490	2,785	2,713	2,702	1,372
IKON Office Solutions				23,304	20,878	18,927	19,209
Europe	**13,439**	**16,652**	**15,738**	**15,493**	**17,194**	**17,308**	**17,483**
Ricoh Europe	4,481	7,382	13,993	13,726	15,526	15,647	15,847
NRG Group	7,325	7,481					
Asia-Pacific and others	**4,989**	**4,916**	**4,998**	**5,155**	**5,660**	**6,300**	**7,294**
Ricoh HK and others	4,989	4,916	4,998	5,155	5,232		
Ricoh Asia Pacific						5,692	6,495

Source: Company data (financial statements, Form 20F, results presentation materials), Citi Research.

Rationalization in Japan

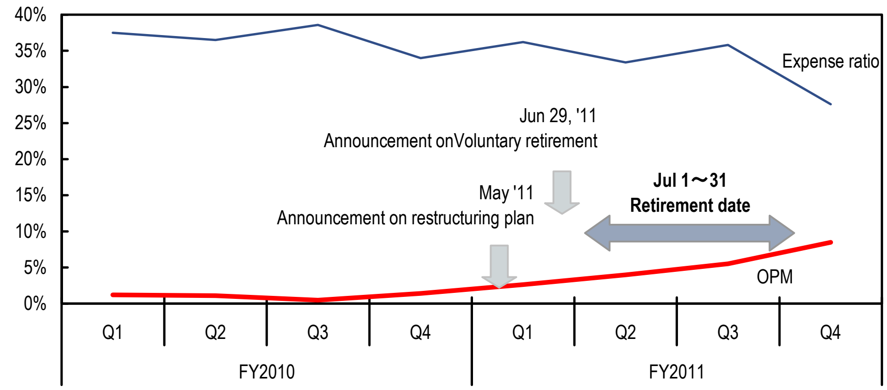
Voluntary retirement program has already led to a big improvement in profitability in Japan, where headcount cuts were first to come

In Japan, the Ricoh group workforce totaled 40,000 at end-FY3/11. This has been materially reduced through the voluntary retirement program (2,340 applicants) mentioned above and natural attrition. At the same time, Ricoh has made progress on business process reengineering, including a review of the role of direct salespeople (ancillary work not related to sales pitches has been cut). According to company materials, the SG&A-sales ratio declined to c29% in FY3/12 from c37% in FY3/11 and the OP margin improved from just under 2% to just over 8%.

We expect sustained reduction in costs in Japan, as the review of business processes throws up potential for further savings

We expect a similar improvement in overseas businesses. We understand Ricoh is continuing to recruit voluntary retirement applicants, although not in great numbers, in FY3/13. With efficiency improvements coming on the back of business process overviews, we think the scope for headcount cuts may be greater than reported.

Figure 7. Ricoh domestic sales/service business (office equipment) cost rate and OP margin —As voluntary retirements took effect, the expense (SG&A-sales) ratio began to drop and the operating margin began to rise from the January-March quarter



Source: Company data, Citi Research estimates.

Rationalization overseas

Latest Form 20-F indicates a 2,500 reduction in sales and service personnel in FY3/12

When we published our last report in July, Ricoh's FY3/12 latest SEC Form 20-F had not been filed. However, the latest 20-F filing indicates the number of sales and service employees fell 1,400 in Japan and 1,100 overseas in FY3/12. If we assume an increase in headcount in Asia to strengthen the marketing system, the implication is that Ricoh has already reduced the number of front staff in Europe, the US, and other developed markets by over 1,000. Although Ricoh is not very proactive about updating investors on headcount reductions, we think progress in this regard is also steady overseas.

We think additional restructuring is perfectly possible, and likely to be positive rather than negative

The market appears concerned that restructuring at Ricoh has not ended, and that there could be more in the future. We agree that such a possibility exists. Based on discussions with the company, we believe efficiency gains achieved through the aforementioned business process reviews are likely to be greater than anticipated when restructuring started in May 2011. We think personnel who become surplus to requirements as a result of the greater-than-expected efficiency improvements could be cut, but as part of an independent forward-looking plan as opposed to one made necessary because of inadequate restructuring previously.

2. US operations — Earnings and restructuring progress

Local management changes, Ikon integration, sales and service base consolidation

The acquisition and consolidation of the major US office equipment dealer Ikon in October 2008 increased the number of employees working at major Ricoh sales and services companies to 37,000 from 13,000 before the acquisition. Two years later there was still no improvement in the operating environment and sales had not increased in line with expectations, prompting Ricoh to stop waiting for sales to recover. Instead Ricoh turned to its own devices to revive profitability, replacing local senior management, fully integrating its US subsidiaries and Ikon, and consolidating sales/services offices while quietly reducing the number of employees in the process.

Change of senior management in the US

Vice President Zenji Miura became president of Ricoh Americas Holdings on April 1, 2012, and Martin Brodigan was named as chairman and CEO of Ricoh Americas Corporation (RAC) on May 1. Mr. Brodigan has worked at Ricoh for more than 20 years, most recently as COO of RAC, and has achieved notable results in the Canadian business. We expect the new management team of Mr. Miura and Mr. Brodigan to accelerate restructuring in the US. In May 2012, Ricoh unveiled plans to cut 3,000 employees in the US (about 10% of the total US workforce) in the course of FY3/13.

Integration of US head offices in name and reality in October 2012

The unification of RAC and Ikon operations had only advanced at a superficial level, but a series of developments took place to suggest integration and rationalization began to accelerate in spring 2012. For example, on the Ricoh USA home page, the former RAC head office (New Jersey) and the former Ikon head office (Pennsylvania) were both listed under “Headquarters” in spring. However, from this October, only the former Ikon head office address was listed. We regard this as proof that the company is simultaneously integrating head office functions in the US and merging sales and servicing sites.

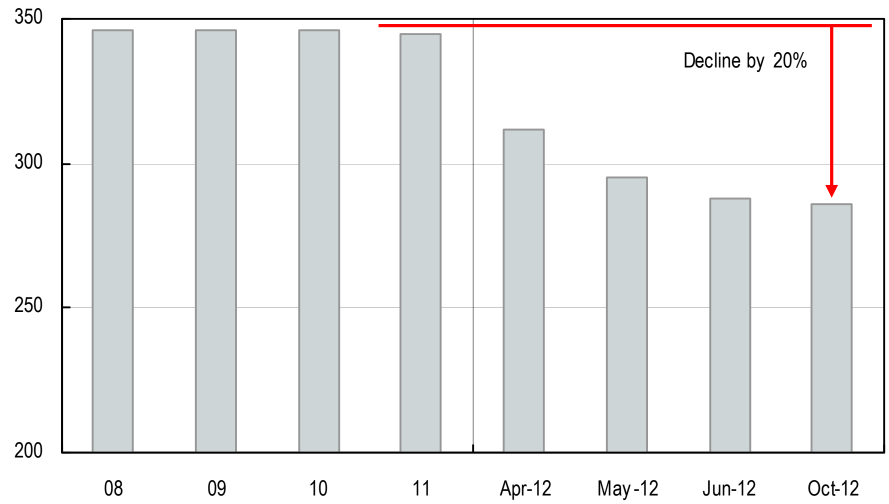
Immediately after the Ikon acquisition there were around 350 Ricoh direct sales offices and Ikon sales channels…

Our own research shows that the consolidation of sales/service bases in the US is gathering pace. In 2009, immediately after Ricoh made Ikon a consolidated subsidiary, there were around 350 offices in the US. We have argued that many RAC and Ikon sales offices overlapped and that there was little complementarity between the networks. However, we did not see anything to suggest progress in integration.

…but companywide execution on restructuring has reduced the number of US offices to fewer than 300

In 2011 H2, almost three years after the Ikon acquisition, the number of sales/service offices started to decline as rationalization measures finally made headway. The integration of neighboring offices and concentration of back-office functions is improving efficiency, and we estimate that the total number of sales/service offices had declined to less than 300 at the end of June. It is difficult to tell just how far the consolidation can go, but considering the preparations made between 2008 H2 and 2011 so that personnel cuts would not affect sales activities, we think the likelihood of a decline in sales/service office numbers leading to a sales decline is low.

Figure 8. Number of Ricoh sales/service offices in the US (Ricoh direct sales offices and Ikon branches): Dropped below 300 in the past year from 350 after Ikon acquisition



Source: Ricoh USA website, Citi Research.

3) Copier business — Limited market share impact

Market share trends in copiers (office MFPs)

We get the impression that Ricoh has been able to keep the impact of restructuring on marketing activities to a minimum

We believe the equity market has been concerned about the negative impact on Ricoh's core operations of its restructuring-driven headcount cuts. However, of the 3,000 people being cut in FY3/13, the bulk appear to be in back-office roles rather than front-line ones such as marketing, and it looks as if Ricoh has kept cuts in marketing personnel to a minimum.

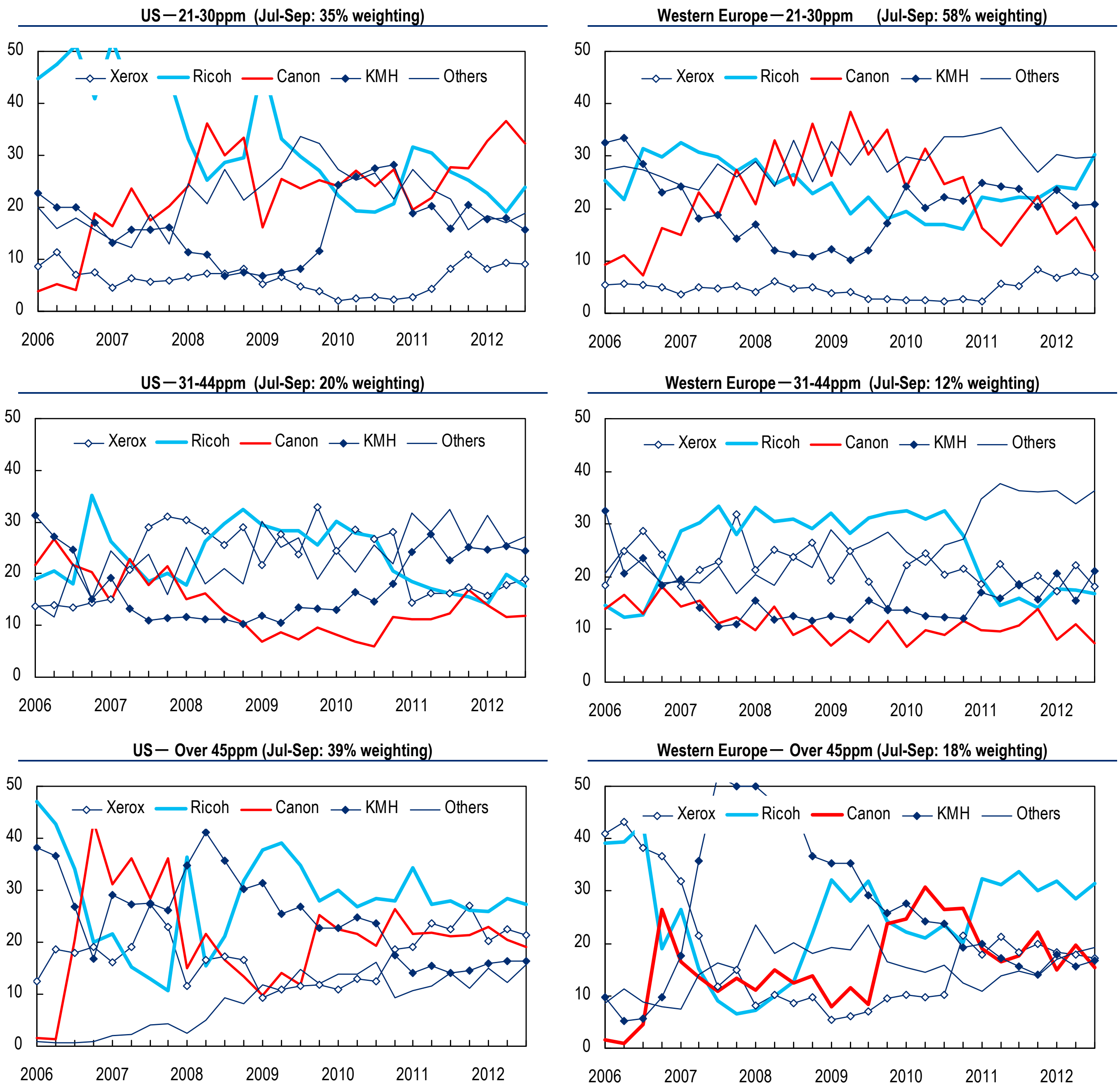
Market share in the US stable

According to the latest (July–September) IDC data, as shown in Figure 9, even in the US, the primary target of restructuring, market share has been flat or recovering since bottoming. Looking at changes in market share since around April–June 2012, when headcount actually turned lower, there is no evidence that this has caused additional market share losses.

Clearly benefiting from new models in Western Europe

We understand that in Western Europe, too, Ricoh has been taking a parallel and sustained look at fixed cost levels. In the primary battleground of 21-30ppm, whose weighting is high, we understand that the debut of new models is steadily leading to higher market share.

Figure 9. Color copier market share by speed in the US and Western Europe (%):
Ricoh grew market share in the 31ppm and faster segments of the market in Europe/US with fully remodelled printers in spring 2012



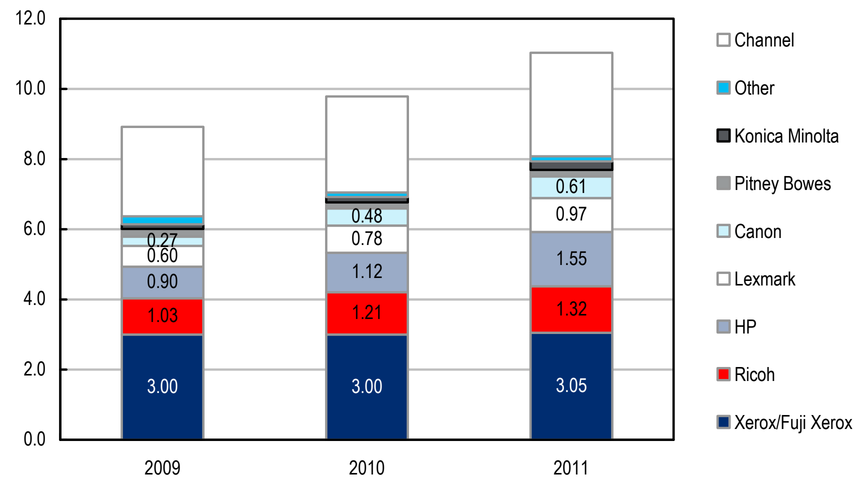
Source: IDC, Citi Research.

Expanding in MPS on the Ikon platform

In managed print services (MPS), Ricoh has been steadily and successfully building and expanding its business platform by deploying companywide the MPS experience of Ikon in North America. At Ricoh, more than 30,000 specialist staff are employed in the provision of MPS and management resources are being strategically allocated to the area. Ricoh's MPS are also winning plaudits second

only to Xerox from third-party survey organizations such as Gartner and IPC. The borders between the MPS business and established businesses are blurry and so it is hard to assess profitability. However, we expect customers to continue to seek integrated document solutions and we think that Ricoh's accumulation of experience in the field ahead of many peers is good news for the company.

Figure 10. Global MPS market, 2009-2011 ($bn)



Note: Channel stands for the sum total of distributors

Source: IDC (September 2012), Citi Research.

4. Restructuring beyond headcount cuts — rethinking the business processes

Restructuring not limited to job cuts but rather points to a real change in business

If Ricoh's structural reforms were purely job cuts it would probably be right to question their sustainability and feasibility. But we do not believe this to be the case. A detailed analysis of management decisions over the last year shows that business processes have been reviewed at the same time as Ricoh has reassessed its evaluation system. For example, there has been a change in the approach to planning and the way sales people are reviewed, and expense management has been tightened.

Change in the approach to guidance setting as sales supremacy doctrine abandoned

We would first like to remind investors of the big changes to the thought processes used in setting FY3/13 guidance (announced April 2012). As Figure 11 shows, Ricoh has set lofty sales targets many times in the past. Targets have been overly ambitious viewed against actual demand, so achievement has been wanting. Management has explained that it did so for psychological reasons; namely, that high targets boosted sales office morale. However, we believe a more rational approach was taken in formulating the initial FY3/13 plan, with consideration given to the demand environment and sales pipelines and an objective analysis of conditions at competitors.

Imaging & solutions is Ricoh's business equipment segment. It includes revenues from solutions businesses related to copiers (machines and supplies) as well as other office equipment such as LBPs and production printers

The shaded areas of Section A (vs. start-of-year plan) indicate where actual YoY sales growth for the designated period and region fell short of the company's targets at the start of the year (growth rates are forex-adjusted)

Growth diverged significantly from plan in the US in FY3/09, but this was due to the consolidation of Ikon from H2. We think the divergence in FY3/12 partly reflected the effects of floods in Thailand

Figure 11. Ricoh: YoY growth in imaging & solutions business sales
Through FY3/12, targets were excessive ambitious but are more realistic now

A YoY vs. beginning of FYCE (%)	3/08	3/09	3/10	3/11	3/12	3/13CE Initial	3/13CRE Latest
Worldwide	6.1%	6.1%	6.4%	1.8%	7.4%	2.4%	1.7%
Japan	3.2%	2.9%	2.1%	1.4%	4.2%	0.9%	-0.6%
Overseas	8.6%	7.7%	16.1%	6.7%	9.6%	3.5%	3.3%
The Americas	9.1%	8.6%	29.2%	4.9%	8.7%	2.9%	2.4%
Europe	8.5%	6.1%	8.5%	8.4%	8.0%	2.3%	2.9%
Others（Asia-Pacific, etc.）	6.8%	12.3%	-8.6%	9.0%	19.4%	9.4%	9.0%
B YoY（FY actual result, %）	**3/08**	**3/09**	**3/10**	**3/11**	**3/12**		
Worldwide	5.5%	3.7%	2.8%	1.8%	1.0%		
Japan	1.1%	-7.1%	-5.2%	-1.4%	2.7%		
Overseas	9.1%	11.5%	8.2%	3.9%	-0.2%		
The Americas	5.1%	33.2%	21.0%	1.6%	-3.0%		
Europe	10.9%	-1.2%	-3.7%	4.5%	1.2%		
Others（Asia-Pacific, etc.）	17.1%	-3.1%	5.8%	13.5%	7.5%		
Divergence from CE（%）	**3/08**	**3/09**	**3/10**	**3/11**	**3/12**		
Worldwide	-0.5%	-2.2%	-3.4%	0.0%	-6.0%		
Japan	-2.1%	-9.8%	-7.1%	-2.7%	-1.4%		
Overseas	0.5%	3.5%	-6.8%	-2.6%	-9.0%		
The Americas	-3.7%	22.7%	-6.4%	-3.1%	-10.8%		
Europe	2.2%	-6.8%	-11.2%	-3.6%	-6.3%		
Others（Asia-Pacific, etc.）	9.7%	-13.7%	15.7%	4.1%	-9.9%		

Source: Company data, Citi Research.

Evaluating sales force not on hardware sales alone, but on gross profit from hardware and after-sales support

One important point is that Ricoh's system for evaluating its sales force has shifted from an emphasis on equipment sales volume to an emphasis on profits generated by sales of both equipment and consumables. Specifically, the performance of a salesperson was previously based mainly on the number of copiers, etc., he or she sold, but now that salesperson is evaluated on the gross profits generated by the sale and installation of the copier (or other equipment) itself as well as the gross profits generated by MIF ("machines in field", i.e., the installed base). This means there is incentive for sales teams to reduce cases where resources have been wasted in order to boost sales of "low-quality MIF" (machines that contribute little to subsequent sales of consumables) just to boost sales numbers.

Stricter control of operating expenses, and regulated budgeting of regional sales operations

From the perspective of management control, we understand Ricoh is tightening its handing of income and expenditures for each regional sales operation. In the past, overseas sales companies might request support in the form of marketing expenses from Ricoh head office in order to meet ambitious sales targets, and we understand that in some cases the head office complied. The earnings accountability of regional sales offices was thus diminished, and unregulated growth in expenses resulted. However, we gather that from FY3/13 Ricoh has cut off additional head office financial support for marketing, aiming to keep spending within a reasonable budget established at the beginning of the year.

Reputation for "low-key" marketing is evidence of Ricoh's transformation

Looking back over the past three quarters or so, we have started to hear Ricoh's marketing activities described by peers as "low-key". Of course, the lack of visibility on production resulting from the floods in Thailand made aggressive spending on marketing very difficult, but we think there are also indications that the introduction of a more disciplined approach to marketing activities also played an important role. We understand that Ricoh often accepted orders at prices below going rates. However, based on the new structure described, even if such orders boosted sales figures in unit terms, it would not help the evaluation of the salesperson.

5) Our take on earnings — OP growth of at least ¥45.5bn in FY3/14

H1 OP of ¥27.4bn fell slightly short of the company plan of ¥30bn

H1 (April-September) sales came in at ¥917.5bn and OP at ¥27.4bn. The company plan was for sales of ¥940bn and OP of ¥30bn, so sales were 2.4% short and OP ¥2.6bn short of plan. The sales miss was mainly due to the slowdown in the copier business in the latter half of July–September. OP fell short because the sales miss drove gross profit lower and also, we understand, because about ¥1bn in restructuring expenses were brought forward versus the company's internal expectations (undisclosed).

Forecasting FY3/13 OP of ¥71bn

Our FY3/13 OP forecast of ¥71bn is unchanged (forex assumptions of ¥80/$ and ¥100/€), while the company plan is for ¥70bn (forex assumptions of ¥75/$ and ¥100/€). A ¥1 move versus the dollar causes OP to fluctuate ¥1.3bn and versus the euro ¥1.5bn, so on our assumptions in H2 there could be a profit boost of ¥3bn while on recent forex rates (¥80/$ and ¥103/€) there could be a boost of around ¥6bn.

Bulk of anticipated OP growth in FY3/13 reflects profit factors with good visibility

We forecast FY3/13 OP of ¥71bn, followed by OP of ¥130bn in FY3/14. We expect YoY growth of about ¥90bn in FY3/13, with factors with good visibility (see Figure 12) contributing ¥96bn. Specifically, we see positive contributions of ¥37bn due to impairment losses posted in FY3/12 dropping out, ¥36.4bn from expanded fixed-cost reductions, and ¥14.1bn from lower structural reform expenses (set to drop from ¥34.1bn in FY3/12 to ¥20bn in FY3/13).

Surge in FY3/14 profits as structural reforms ease off

We forecast FY3/14 OP growth of c¥60bn YoY. In our view, ¥45.5bn of this will come from factors with good visibility (Figure 12), including ¥20bn from structural reform costs dropping out and ¥25.5bn from greater fixed cost cut benefits. We also anticipate savings from non-headcount SG&A cutting to continue.

For more on office MFP market trends, see our November 15 memo, Office MFPs (copiers) - YoY momentum softened for a while but is relatively firm.

Figure 12. Ricoh: Summary of one-off factors (OP basis)
Earnings positives of ¥96bn in FY3/13 and ¥45.5bn in FY3/14 to appear automatically, lifting profit levels

	FY3/12	**▲ ¥75.5 bn**	
A	Goodwill impairment	-¥37.0 bn	Goodwill and long-term asset impairment in the production printing business in October–December. Fine-tuning in January–March (¥0.1bn)
B	Restructuring costs	-¥34.1 bn	¥31bn in FY3/12, ¥29bn planned in FY3/13
C	Fixed cost cuts	＋¥13.1 bn	Impact of ¥11bn in initial year YoY
D	Japan earthquake impact	-¥12.0bn	Estimated ¥5bn in higher transport costs, material costs
E	Thai flood impact	-¥5.5bn	Estimated ¥3bn in higher transport costs, material costs
	FY3/13	**＋¥96.0 bn**	Additional ¥6.4bn versus previous expectations on lower restructuring charges and greater fixed cost cut benefits
A	Impairment loss dropout	＋¥37.0bn	Rise in reaction to FY3/12 implementation
A'	Lower amortization costs due to impairment	+¥2.5bn	Depreciation of intangible fixed assets falls to ¥2.5bn from ¥5bn on FY3/12 write-downs
B	Lower restructuring expenses	＋¥14.1 bn	Initially ¥25bn in restructuring expenses budgeted versus ¥34.1bn in FY3/12 (¥29bn as of May 2011) but these were cut as of end-October to ¥20bn (expense budget cut, equates to ¥14.1bn reduction in restructuring expenses YoY
C	Fixed cost cuts	＋¥36.4 bn	Cumulative ¥13.1bn in FY3/12, further ¥36.4bn in FY3/13 (¥35bn at period-start) in profit boost from fixed cost reductions, assumes Ricoh. Two-year cumulative impact of ¥49.1bn, up from ¥48.1bn envisaged previously, with emergence of impact being brought forward
D	Dropout of Japan earthquake impact	+¥3.0bn (Citi E)	Elimination of SG&A increase, additional materials burden, etc.
E	Dropout of Thai flood impact	+¥3.0bn (Citi E)	Elimination of SG&A increase, additional materials burden, etc.
	FY3/14	**＋¥45.5 bn**	YoY improvement cut ¥17.1bn versus previous expectations on brought forward benefits
B	Decline in structural reform costs	＋¥20.0bn	YoY cut of ¥20bn in costs leads to profit growth
C	Fixed cost cuts	＋¥25.5bn	Three-year cumulative impact estimate raised to ¥75bn from ¥70bn previously

Note: Items A, B, and C are based on company announced actuals and plans.
Source: Company data, Citi Research (including estimates).

6) Our take on shareholder returns — Roadmap back to DPS of ¥33

With Ricoh falling into the red at the bottom line in FY3/12, it lowered its "stable dividend"

Ricoh has long cited a stable dividend as one of its core policies and stressed until the middle of FY3/12 that it would maintain its DPS of ¥33. However, at the Q3 results announcement in January 2012, certain that it was going to fall into the red, it cut the end-FY3/12 dividend to ¥8.5 from ¥16.5 for a full-year dividend of ¥25.

Ricoh announced that FY3/13 period-end dividend will return to ¥16.5

In response to the dividend cut in FY3/12, the initial FY3/13 company dividend forecast was for ¥25 (¥12.5 in H1). However, as Ricoh made clear at the general meeting of shareholders (where Deputy President Zenji Miura stated that the company wanted to deliver an earnings recovery and restore the dividend to where it was before the cut), at the July–September results announcement at end-October 2012, Ricoh announced that the FY3/13 period-end dividend would be raised to ¥16.5 from ¥12.5, or back to the previous level. We think this makes the route to restoring a ¥33 dividend in FY3/14 that much clearer.

Regardless of whether it happens, the management team appears eager to buy back shares

At the July–September results briefing, Mr. Miura indicated that the company was eager to buy back stock. It seems that profit generation on progress with restructuring and higher cash and deposit levels are preconditions but it looks to us as if the management team will restore a ¥33 annual dividend in FY3/14 and is also considering share buybacks as a way to bolster shareholder returns.

Getting more proactive on IR activities

We feel that Ricoh is more clearly committed to keeping the interests of shareholders in mind than before, with this change also apparent in IR activities. In the past, it was exceptionally rare for senior management to participate in IR interviews but recently we understand that they plan to attend if their schedules permit. We also understand that in 2012, as in 2011, Ricoh has undertaken overseas IR activities. With restructuring steadily progressing, we think the company wants to get the news out about these changes to the investment community.

Related reports

For more comprehensive overviews of the company, please see the following reports:

March 14: Ricoh (7752) - Nonconsensus Buy: Market missing restructuring-driven rebound

July 17: Ricoh (7752) - Buy: Progress in structural and operational reforms

Earnings forecasts

Figure 13. Ricoh: Earnings model

(¥mn)	3/08	3/09	3/10	3/11	3/12	3/13CE	3/13E	3/14E	3/15E
Sales	**2,219,989**	**2,091,696**	**2,016,337**	**1,942,013**	**1,903,477**	**1,900,000**	**1,888,200**	**1,935,000**	**1,990,600**
Office Solutions	1,909,573	1,833,098	1,790,243	1,713,307	1,670,772	1,651,900	1,639,200	1,691,000	1,741,600
Industrial Products	144,340	115,550	101,692	106,830	96,584	96,500	99,000	92,000	92,000
Other	166,076	143,048	124,402	121,876	136,121	153,200	150,000	152,000	157,000
CoGS	1,292,262	1,237,310	1,193,994	1,151,939	1,150,855	1,145,000	1,145,200	1,165,000	1,215,100
Gross profit	927,727	854,386	822,343	790,074	752,622	755,000	743,000	770,000	775,500
SG&A (excl. impairment, restructuring costs)	746,221	779,850	756,346	729,878	770,690	685,000	672,000	640,000	635,000
Operating profit	**181,506**	**74,536**	**65,997**	**60,196**	**-18,068**	**70,000**	**71,000**	**130,000**	**140,500**
Office Solutions	234,633	145,366	140,423	134,411	56,297	NA	129,600	183,500	191,500
Industrial Products	4,175	-4,926	-1,355	1,006	-1,742	NA	-500	0	0
Other	2,547	358	-3,447	-4,911	-6,010	NA	900	1,500	2,000
Eliminations	-59,849	-66,262	-69,624	-70,310	-66,613	NA	-59,000	-55,000	-53,000
Net non-operating income	-6,837	-43,597	-8,473	-14,796	-13,869	-7,500	-7,500	-6,500	-6,000
Earnings before tax	**174,669**	**30,939**	**57,524**	**45,400**	**-31,937**	**62,500**	**63,500**	**123,500**	**134,500**
Tax	63,396	22,158	27,678	22,621	8,223	29,500	25,400	49,400	53,800
Net profit	**106,463**	**6,530**	**27,873**	**19,650**	**-44,560**	**33,000**	**33,640**	**69,140**	**75,740**
Capex	85,215	96,958	66,979	66,976	73,100	79,000	75,000	65,000	65,000
Depreciation	72,762	74,886	70,329	67,239	64,984	64,000	64,000	63,500	62,500
R&D	126,033	124,406	109,826	110,822	119,027	117,000	117,000	114,000	113,000
EBITDA	254,268	149,422	136,326	127,435	46,916	134,000	135,000	193,500	203,000

CE: Company estimate, E: Citi Research estimate, NA: Not available.
Source: Company data, Citi Research.

Figure 14. Ricoh: Balance sheet

(¥mn)	3/08	3/09	3/10	3/11	3/12	3/13E	3/14E	3/15E
Current assets	**1,124,140**	**1,211,866**	**1,144,612**	**1,074,019**	**1,106,506**	**1,085,060**	**1,119,060**	**1,130,060**
Cash and cash equivalents	172,138	260,527	243,888	181,179	158,671	146,164	158,164	143,164
Trade notes & accounts receivable	699,043	680,384	667,614	657,817	686,930	680,000	697,000	717,000
Inventories	192,023	191,570	169,251	171,033	195,009	193,000	198,000	204,000
Others	60,936	79,385	63,859	63,990	65,896	65,896	65,896	65,896
Fixed assets	**1,090,228**	**1,301,629**	**1,239,331**	**1,188,377**	**1,182,852**	**1,190,000**	**1,192,000**	**1,195,000**
Tangible fixed assets	254,633	269,336	263,021	264,740	268,527	280,000	282,000	285,000
Investments and others	835,595	1,032,293	976,310	923,637	914,325	910,000	910,000	910,000
Total assets	**2,214,368**	**2,513,495**	**2,383,943**	**2,262,396**	**2,289,358**	**2,275,060**	**2,311,060**	**2,325,060**
Current liabilities	**713,756**	**773,491**	**660,404**	**614,700**	**673,024**	**674,000**	**670,000**	**787,000**
Trade notes and accounts payable	360,569	285,413	273,397	250,483	252,209	250,000	256,000	263,000
Short-term loans and bonds	158,442	269,792	169,727	151,023	216,432	220,000	210,000	320,000
Others	194,745	218,286	217,280	213,194	204,383	204,000	204,000	204,000
Fixed liabilities	**362,133**	**715,654**	**699,665**	**664,932**	**737,316**	**732,000**	**722,000**	**562,000**
Long term loans and bonds	225,930	509,403	514,718	479,422	525,435	520,000	510,000	350,000
Others	136,203	206,251	184,947	185,510	211,881	212,000	212,000	212,000
Minority Interest	58,283	48,977	50,533	52,887	56,314	60,800	65,800	70,800
Shareholders' equity	**1,080,196**	**975,373**	**973,341**	**929,877**	**822,704**	**808,260**	**853,260**	**905,260**
Total liabilities and shareholders' equity	**2,214,368**	**2,513,495**	**2,383,943**	**2,262,396**	**2,289,358**	**2,275,060**	**2,311,060**	**2,325,060**
Interest-bearing liabilities (total)	384,372	779,195	684,445	630,445	741,867	740,000	720,000	670,000
Interest-bearing liabilities (less cash)	212,234	518,668	440,557	449,266	583,196	593,836	561,836	526,836

Source: Company data, Citi Research.

Figure 15. Ricoh: Cash flow statement

(¥mn)	3/08	3/09	3/10	3/11	3/12	3/13E	3/14E	3/15E
Cash flow from operating activities	**194,363**	**87,488**	**190,703**	**130,050**	**11,206**	**133,965**	**141,640**	**144,240**
Net profit	106,463	6,530	27,873	19,650	-44,560	33,640	69,140	75,740
Depreciation	95,788	101,817	98,941	93,400	91,137	89,000	88,500	87,500
Change in working capital	-23,929	-56,623	14,950	-23,420	-42,615	7,000	-16,000	-19,000
Others	16,041	35,764	48,939	40,420	7,244	4,325	0	0
Cash flow from investing activities	**-198,350**	**-283,172**	**-89,570**	**-92,008**	**-112,443**	**-79,325**	**-65,000**	**-65,000**
Capex	-84,011	-96,491	-65,388	-65,589	-71,739	-75,000	-65,000	-65,000
Others	-114,339	-186,681	-24,182	-26,419	-40,704	-4,325	0	0
Cash flow from financing activities	**-72,185**	**295,914**	**-113,378**	**-92,108**	**87,823**	-17,200	-41,000	-73,900
Change in interest-bearing liabilities	-55,776	211,968	-167,707	-171,172	88,432	-2,000	-20,000	-50,000
Dividends	-22,628	-25,320	-22,858	-23,943	-23,942	-15,200	-21,000	-23,900
Others	6,219	109,266	77,187	103,007	23,333	0	0	0
Effect of exchange rate changes on cash	-8,958	-12,353	-4,074	-8,930	-2,597	0	0	0
Change in cash	**-85,130**	**87,877**	**-16,319**	**-62,996**	**-16,011**	**37,440**	**35,640**	**5,340**
Free cash flow	**-3,987**	**-195,684**	**101,133**	**38,042**	**-101,237**	**54,640**	**76,640**	**79,240**

Source: Company data, Citi Research.

Figure 16. Ricoh: Key consolidated metrics

	3/08	3/09	3/10	3/11	3/12	3/13E	3/14E	3/15E
Operating margin (%)	8.2%	3.6%	3.3%	3.1%	-0.9%	3.8%	6.7%	7.1%
Pre-tax profit margin (%)	7.9%	1.5%	2.9%	2.3%	-1.7%	3.4%	6.4%	6.8%
Net margin (%)	4.8%	0.3%	1.4%	1.0%	-2.3%	1.8%	3.6%	3.8%
RoE (%)	9.9%	0.6%	2.9%	2.1%	-5.1%	4.1%	8.3%	8.6%
RoA (%)	8.1%	1.5%	2.8%	2.4%	-1.1%	3.2%	5.7%	6.1%
RoIC (%)	12.9%	2.2%	3.7%	3.2%	-2.3%	4.3%	7.7%	8.1%
Asset turnover (x)	1.00	0.83	0.85	0.86	0.83	0.83	0.84	0.86
Shareholders equity ratio (%)	48.6%	40.9%	40.9%	42.1%	38.3%	35.8%	35.9%	37.8%
Interest coverage ratio (x)	38.9	13.6	8.5	7.4	-2.1	8.7	17.7	20.5
Current ratio (days)	28.3	45.5	44.1	34.1	30.4	28.3	29.8	26.3
Shares outstanding (excl treasury stock, mn)	740,666	745,375	725,643	745,338	725,500	725,500	725,500	725,500
EPS (¥)	147.7	9.0	38.4	27.1	-61.4	46.4	95.3	104.4
BPS (¥)	1,498.3	1,344.1	1,341.4	1,281.5	1,134.0	1,114.1	1,176.1	1,247.8
DPS (¥)	33	33	33	33	25	29	33	33

Source: Company data, Citi Research.

Ricoh

Investment strategy

We rate the shares of Ricoh Buy (1), with a ¥1,000 target price (FY3/13E PBR of 0.9x). Ricoh is a specialist office equipment maker which makes the bulk of its earnings from the copier business. It is the global number one in copier shipment volume, with a 21% market share in 2011. Earnings have been weak since it acquired major US office equipment dealer Ikon in October 2008.

Ricoh fell into the red at the consolidated operating level in FY3/12 for the first time since listing, due to the eastern Japan earthquake, the Thai floods, and the start of restructuring. However, we see the stock being favored by investors anticipating the drop-out of one-time negatives and the emergence of restructuring benefits in FY3/13 and out. The shares look very undervalued if we look out to the earnings improvement in FY3/14, on which visibility has been rising.

Valuation

We set our Ricoh target price at ¥1,000 (FY3/14E PBR of 0.9x). The shares have been assigned a discount of 10%-50% versus the market average since the global financial crisis, as they have been trading in a PBR range of 0.5x-1.3x. Our target price assigns a discount of around 15%, close to the level of spring 2010, when hopes of post-global financial crisis earnings momentum improvement were high. Our target price equates to an FY3/14E PER of 11x and dividend yield of 3.3%.

Risks

We see potential downside risks as 1) rapid yen strengthening, 2) shrinking expectations for fixed cost cuts via structural reform (i.e., job cuts), 3) a clear rise in costs should the company aim for rapid sales expansion in its digital camera business or other new businesses, and 4) changes in the macroeconomic environment or customer attitudes, resulting in a larger-than-expected decline for office equipment. As for upside risks, we would envision 1) yen weakening; 2) proof of cost cutting benefits, an area where we think the company will fall short of its plans; 3) changes in the macroeconomic environment or customer attitudes, resulting in faster-than-expected growth for office equipment; and 4) should Ricoh earnings look more reassuring relative to peers as concerns about slower demand mount.

Appendix A-1

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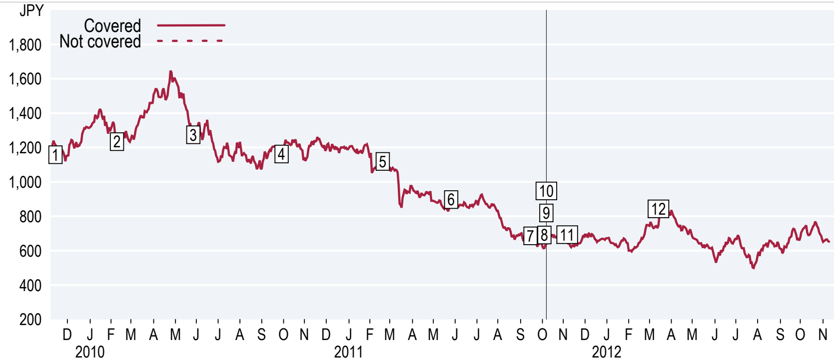
IMPORTANT DISCLOSURES

Ricoh (7752)

Ratings and Target Price History
Fundamental Research

Analyst: Masahiro Shibano



	Date	Rating	Target Price	Closing Price
1	13-Nov-09	2M	*1,250	1,215
2	9-Feb-10	2M	*1,300	1,266
3	27-May-10	2M	*1,400	1,306
4	29-Sep-10	2M	*1,300	1,200
5	18-Feb-11	2M	*1,250	1,113
6	26-May-11	2M	*980	885
7	15-Sep-11	2M	*700	662
8	5-Oct-11	2M	*670	615
9	7-Oct-11	Stock rating system changed		
10	7-Oct-11	*2	670	638
11	7-Nov-11	2	*700	660
12	14-Mar-12	*1	*1,000	746

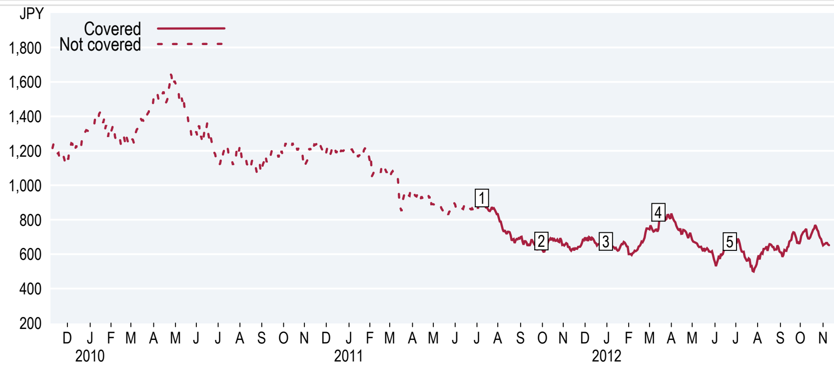
* Indicates change

Rating/target price changes above reflect Eastern Standard Time

Ricoh (7752)

Ratings and Target Price History
Best Ideas Research
Relative Call (3 Month)

Analyst: Masahiro Shibano



	Date	Rating	Target Price	Closing Price
1	8-Jul-11	*ADD LP	-	926
2	30-Sep-11	*REM LP	-	654
3	30-Dec-11	*ADD LP	-	671
4	14-Mar-12	*REM LP	-	746
5	22-Jun-12	*ADD MP	-	670

* Indicates change

Rating/target price changes above reflect Eastern Standard Time

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