

Key questions and answers from the Medium-term Management Plan Briefing

1. How is the progress on workforce optimization and changes to the performance appraisal system in the sales departments in Japan?
 - Since FY23, we have been strategically shifting human resources toward high-profit, high-growth areas like healthcare and manufacturing markets to drive profit growth.
 - To reflect varying profit margins by market, we are formulating an appraisal system based on the change in gross profit compared to the previous year. Ensuring employees' understanding of the system is crucial, and we are committed to providing thorough explanations to maintain motivation.

2. Is it possible to improve the operating margin of the primary business? Can the high-profit margin of the Russian subsidiaries be extended to other regions?
 - The significant sales and profit growth in FY22-23 was partly due to temporary competitors' supply constraints. To maintain a competitive edge, we are investing in facilities for high value-added products while actively managing risks.
 - Previously, we focused on volume through low-profit margin products. Now our priority shifted toward high value-added products with robust production systems.
 - The new medium-term management plan prioritizes profitability while respecting the autonomy of overseas subsidiaries. We will implement appropriate risk control measures from the headquarters.
 - Since FY22, we have dedicated an executive to oversee the primary label business. This focus continues from FY24 onward, with a goal of steady improvement in operating income margins.
 - The primary label business spans beyond Russia to South America and Japan. In South America, we cater to major customers in high-value-added sectors such as OTC medicines and cosmetics. By sharing knowledge gained from each subsidiary and promoting cross-selling with our base business products, we aim to achieve further growth across all regions.

3. What is the company's policy on shareholder returns and its strategy for increasing P/B ratio?
 - We maintain our policy of stable dividends, emphasizing capital efficiency in our management approach.
 - By directing resources toward high-profit, high-growth areas and enhancing profit margins through Perfect and Unique Tagging* by FY30, we aim to meet the expectations of the capital market.
 - The new medium-term management plan targets profit recovery between FY24 and FY25. Subsequently, we plan to instill expectations for growth by outlining specific investments and profit

gains through Perfect and Unique Tagging toward FY30.

- Setting a minimum P/B ratio of 1.5 in the new medium-term management plan reflects our commitment to share-price conscious management.

* Perfect and Unique Tagging: The method of tagging that support the realization of the FY30 vision, involving the physical linking of unique information such as ID and location to individual item or person.

4. What are the targets and policies regarding M&A activities?

- We target areas directly contributing to profit improvement.
- Reflecting on the past medium-term management plans where M&A aimed at acquiring new technologies did not translate into profit performance due to broad targeting, we now focus on selecting technologies that can increase profits by narrowing down markets, customers and fields.
- We recognize that SATO's auto-ID technologies and solutions are contributing to labor saving and efficiency, particularly in semi-automatic areas where human intervention is still required, such as RFID. Before transitioning to Perfect and Unique Tagging, which advocates full automation, we are considering M&A to enhance production and supply capabilities in this semi-automatic domain.

5. What progress has been made in thorough value chain management within Japanese operations, and how will it evolve in the new medium-term management plan (FY24-28)?

- The transition to product-focused organization with clearly defined profit responsibility marks a notable change from past approach.
- Under the previous system, value chain functions were decentralized, and profit responsibilities were ambiguous.
- Recognizing the need for profit recovery in Japanese operations as a management challenge, we have restructured organizational framework. Management is committed to driving thorough value chain management with accountability.
- Collection and visualization of the impact on profit through value chain optimization have been completed. Implementation will commence at the beginning of the new medium-term business plan.

6. What were the internal factors contributing to the decline in earnings during the previous medium-term management plan (FY21-23)?

- There are three main factors.
- First, there was an accumulation of investments, including growth investments such as building new

IT systems and developing a common printer platform.

- Second, there was a less favorable product mix.
- Third, the progress in price revisions was slow due to careful explanations provided to customers. Price revisions have now been mostly completed.
- These factors led to a deterioration in the profit structure. Apart from the first point of growth investments, we also reflect on increased SG&A expenses and areas where efficiency was lacking.
- In the new medium-term management plan, we aim to improve profits by launching models equipped with the common printer platform and increasing sales volume.
- With over a decade of market-specific strategies and experiences, we have gained good understanding of the profitability and growth potential of each market and industry. Going forward, management will strategically concentrate resources on high-profit, high-growth markets.
- In the new medium-term management plan, we will focus on these initiatives to rebuild our income structure.

7. In pursuing profit improvements, which will be prioritized: volume effects or price effects?

- We prioritize price effects.
- Initiatives such as standardizing label products previously offered as custom products and proposing changes in base materials (paper, adhesive, etc.) are expected to yield price effects by optimizing raw material costs.
- In addition, we will adjust pricing appropriately by transitioning our approach from product selling to *koto-uri*.*

* Koto-uri: Sales approach of selling not just the product but combinations of products in the form of solutions that include hardware, consumables, maintenance services and software, demonstrating ROI and other value propositions for the customer.

8. How will you efficiently deploy solutions horizontally in overseas business?

- By offering solutions in areas and applications unnoticed by competitors, facilitated by *koto-uri* and market-specific initiatives, we aim to horizontally expand our business across both developed and emerging countries. With operations spanning 25 countries and regions worldwide, we globally coordinate sales, service and production to achieve efficient horizontal expansion, which also differentiate us from competitors.
- In addition, by demonstrating ROI through *koto-uri*, we can also collaborate with business partners specialized in specific markets and industries. Such collaborations have been established in various countries and regions. Recognizing the importance of collaboration with business partners in

countries with limited resources, we invest in initiatives including IT systems to share insights with business partners and implement training programs.