

Key questions and answers from overseas business briefing - Europe –

(held on September 27, 2024)

1. Why are operating profit margins higher overseas than in Japan (Overseas: 12.1%, Japan: 2.3% as of FY23)?

- The profit margin overseas is higher than that of the Japan business due to the positive impact of the yen's depreciation and the higher sales ratio of high-margin mechatronics products and primary labels.
- On the other hand, the profit margin in Japan has declined since COVID-19 mainly due to the following three factors.
- The first is that we were not able to promptly reflect increases in raw material and other costs in sales prices.
- The second point is that we couldn't bill services (installation costs, shipping, etc.) appropriately.
- Finally, the delay in the development of next-gen printers has made it difficult to capture replacement demand.
- Management is well aware of these issues and will work to improve profit margins through such measures as described in the Medium-Term Management Plan, which include capturing demand in key markets, revising selling prices in timely fashion, comprehensively overhauling the internal value chain, launching new printers, and shifting to profit-based evaluation for sales.

2. In which products and markets are European inventory adjustments occurring? When will the adjustment be completed?

- During COVID-19, the demand of printers and consumables in the logistics, retail and food markets was high but they could not be delivered due to shut downs and the disruption in the global supply chain. Customers had no inventory and this created a change of mind.
- After COVID, customers had to catch up with the gap they faced and they decided to overstock to avoid going through the same problem. The economy was accelerating and they had no idea where it will be. Therefore, they piled up inventory in hardware and consumables. Being the same for our partner and distribution network, they overstock to avoid the past situation to ensure they will not be impacted by another supply chain disruption. However, the economy went from boom to bust. Inventories increased again due to the deterioration in market conditions behind the subsequent economic downturn.
- Printer inventory is already at a reasonable level. It will take another six months or so for the consumables to become fully adequate.

3. Please tell us how you will cultivate and capture demand in various markets with the introduction of legal regulations for Digital Product Passport in Europe.

- Laws and regulations on Digital Product Passport have already gone into effect in various countries. Examples include the French AGEC law \* and the Swedish EPR system \*.
- Against this background, in the textile industry, whose production countries are scattered around the world, such as Asia, Africa, and the Middle East, the introduction of unique IDs using two dimensional codes is progressing, and source tagging has already begun.
- As a result, demand for products of automatic identification technology such as printers and consumables is expanding, and business opportunities are increasing in producing countries.
- In addition, the need to reduce CO2 emissions is increasing as the amount of CO2 emitted by a product before it reaches the consumer has been made visible by the Act and other regulations. Due to the large amount of CO2 emissions from shipping, there is a movement to shift some of the production to Europe, such as France, in order to reduce it.
- Taking advantage of SATO's global sales network, we have been able to capture demand not only in producing countries but also in Europe.
- In the manufacturing market, where our market share is relatively low, we aim to increase our share by providing a data platform that contributes to Digital Product Passports.

\* AGEC Law (La loi Anti-Gaspillage pour une Économie Circulaire), came into forece in 2020 and aims to build a circular economy by reducing waste and recycling resources.

\* EPR (Extended Producer Responsibility): A system proposed in Sweden that puts the responsibility for disposal and recycling of products on manufacturers. In Europe, the scope of application of EPR is expanding, and the separate collection of clothes is mandatory by 2025.

4. Who are your competitors in Digital Product Passport-related solutions? When will the market take off?

- We may compete in some applications with companies that offer automatic identification and data capture technology.
- Demand for Digital Product Passport, which are planned to be phased in from 2026 to 2030, is growing as they are already being implemented, especially by large companies.

5. What are the hurdles for SATO customers to adopt Digital Product Passport?

- There are two points.
- The first is the need to register various environmental information to comply with the Digital Product Passport requirements, which leads to additional costs. However, the potential cost of

penalties for not complying would be greater.

- Second, how do we ensure the delivery and accuracy of data throughout the product supply chain?
- SATO believes that it can provide customers with the value of accuracy and labor saving by providing unique IDs to products at each operational site.

6. Is there any change in the policy of continuing business in Russia?

- In close communication with our colleagues in Russia, we are considering various options and estimating the financial impact of each.
- As a result of such considerations, we have reached the conclusion that we will continue the business at this point, but we will review it as appropriate according to changes in the situation.

7. What is more advanced in Europe than in other regions in the solution deployment and what should be learned from other regions?

- Cloud-based solutions, such as next-generation cloud platforms in Europe, are ahead of other regions.
- Working with MobileLogic over the last few years has shown the potential of this solution.
- The solution is a game changer. Digital Product Passport is only one example of the application for the cloud-based solution, which can be applied to businesses in a variety of markets and applications.
- The United States has a proven approach to global key accounts, and there are business opportunities untapped in Europe. We want to bring this know-how to Europe.

8. Why are Kumbayashi san and Laurent attending this briefing from Vietnam?

- Because the strategy meeting of PSI (Production, Sales and Inventory) management has been held in Vietnam where one of our factories is located. Senior members from each region gathered and discussed with the aim of strengthening the management foundation.
- We shared production issues and sales needs, and gained a deep and mutual understanding of the internal value chain on both sides.
- Specifically, the company is expected to realize efficient production following the factory tours and supplier visits.
- The attendees will share the take-aways with members of respective bases, and the management will make improvements by addressing issues raised at the meeting.