

FAQs Received after the Announcement of Financial Results for the 1st Quarter of the FY2023**QA content**[Q1 Results vs. Plan](#)[Full-year forecast](#)[Management policy](#)[Japan business](#)[Overseas \(ex. Russia\)](#)[Overseas business \(Russia\)](#)[Others](#)**Q1 Results vs. Plan**

1. What are the reasons for the discrepancy between the projected operating income (OI) for Q1 performance and the planned figures?
 - Sales: Our consolidated results slightly exceeded our plan. The Japan business fell short of the plan due mainly to lower sales in printers caused by extended printer replacement cycle. Conversely, overseas outperformed as the competitive environment for our Russian subsidiaries was better than expected, and our primary label business in the Americas exceeded expectations thanks mainly to continuous price revisions.
 - Operating income: We significantly exceeded our plan on a consolidated basis. In Japan, printer sales* experienced sluggish demand, and a decline in printer exports to overseas subsidiaries leading to lower gross profit than planned. On the other hand, our overseas business greatly outperformed the plan, thanks largely to increased sales in Russia and one-time cost reductions resulting from accounting adjustments in Europe and the Americas, among other factors.

* Printers generally have higher gross profit margin compared to consumables.
2. Please tell us more about one-time cost reductions resulting from accounting adjustments.
 - There were pension buyout adjustments at our U.K. subsidiary (approx. JPY 300 million) and personnel-related reserve adjustments at our U.S. subsidiary (approx. JPY 100 million). Both of these adjustments were one-time positive factors.

Full-year forecasts

3. Q1's operating income performance was significantly higher than initial plan. Is there any intention to revise the full-year forecasts upward?
 - Currently, we don't intend to revise our full-year forecasts. We expect Q2 trend to be similar to Q1 in all regions. In the second half of the fiscal year, some uncertainties are expected, such as continuous slow economy in the base business overseas and harsher competitive environment in the Russian subsidiaries, and sluggish printer demand in Japan, even though we expect the effects of price revisions in Japan to surface in the second half. We will disclose in a timely manner if revision of the forecast is necessary.

Management Policy

4. Has there been any changes in management policy with the new CEO? What will continue, and what will change?
- Our management policy remains focused on addressing societal issues through "tagging" and "on-site expertise" by strengthening our core business.
 - What we will change under the new CEO is to speed up the execution. To achieve this, we will change our management and business structure and the way we work, and we will also delegate greater authority across the board.
 - Furthermore, we have seen more opportunities to address the increasingly complex issues in customers' supply chains and circular economy. Leveraging our expertise in offering tagging-based solutions in a variety of markets and industries for years, we will provide customers with solutions to collect real-time data on "what," "where," "how many," "how" things are, to identify and overcome supply chain bottlenecks. The pivotal technology in this endeavor is RFID, and we are already engaging in global-scale business negotiations.
5. PBR is around 1x. Is there any room for dividend increases and share buybacks to improve PBR?
- Increasing profitability is fundamental to improve PBR. Our basic policy is to pay stable dividends in line with earnings growth. We intend to repurchase our shares in a flexible manner, taking into account factors such as stock price, investments with expected ROICs, and market conditions.

Japan Business

6. Why did your Japan's Q1 operating income fall short of the plan? Do you think the full-year forecast remains achievable?
- Operating income fell short of the plan due to underperforming domestic printer sales and exports to overseas subsidiaries.
 - Printer sales in Japan: We attribute this to an extended replacement cycle, led by the increased durability of printers, and customers prioritizing investments in automation/RFID and other areas where the return on investments is clear.
 - Printer exports to overseas subsidiaries: Printer sales overseas were weaker-than-expected, and the planned profits related to this transaction were not achieved.
 - Achieving the initial plan is not a low-hanging fruit, but we aim to meet it through price revisions, SG&A expense control, and reallocating sales resources to more profitable and higher-growth areas.
7. Why was the profit margin in Japan lower than before?
- In addition to lower-than-planned printer sales of printers, with higher gross margins, the main reason was that higher raw material costs for printers and supplies were not fully reflected in selling prices.
8. Why is it taking time to revise the price to respond to rising raw material costs for consumables?
- Price revisions are taking time as we carefully communicate these changes, considering our trusted relationships with customers. This is also due to the large number of customers, SKUs, and competitors, and the fact that this is our first-ever price revision. Headquarters members with knowledge and know-how have supported sales representatives in negotiating with customers to speed up the process.
9. Are there additional cost increases that were not foreseen at the beginning of FY23?
- The cost of consumables is likely to increase. We are closely monitoring cost increases and the progress of price revisions and will take necessary actions.
 - As a countermeasure, we have announced to raise the selling price of consumables by 15% or more, starting from orders received on October 1st. The impact of this price revisions are not included in the initial plan.

10. How do you incentivize sales representatives to revise prices?

- Sales branch managers are incentivized to revise prices, as their performance is evaluated based on sales and gross profit.

Overseas business (excluding Russia)

11. In the Americas, what were the differences between the Q1 results and the plan? And please share your outlook in the area.

- Sales in the base business were in line with the plan on a local currency basis and exceeded them on a reported basis thanks to weaker yen. Primary label business in South America exceeded the plan resulting from strong demand and the price revision effect, leading to an excess in the overall plan in the Americas.
- Operating income significantly exceeded the plan, thanks to the effects of increased sales and a one-time decrease in expenses (adjustments to reserves for personnel expenses).
- As for the outlook, we have seen solid pipeline until Q2, and we do not anticipate a significant difference from the initial forecast for the first half. The second half is more uncertain, as customers are cautious about investing, and do not place long-term orders. Distributor inventories are expected to normalize by the end of the first half.

12. In Europe (excluding Russia), what were the differences between the Q1 results and the plan? And please share your outlook in the area.

- Sales fell short of the forecast due to weaker-than-expected printer sales, mainly resulting from the economic downturn.
- Operating income significantly exceeded the plan due to a one-time decrease in expenses related to the adjustment of pension buyouts.
- As for the outlook, Q2 aligns with the initial plan, but the second half is expected to be weaker due to the prolonged economic downturn and the inventory piling up at distributors. The normalization of the inventory levels at distributors is expected take time, possibly until the end of this fiscal year.

13. In Asia/Oceania, what were the differences between the Q1 results and the plan? And please share your outlook in the area.

- Sales fell short of target, mainly due to inventory piling up at distributors for Argox, a subsidiary that manufactures and sells entry-level model printers.
- Operating income above the plan thanks mainly to higher-than-forecast plant operating rates.
- Regarding the outlook, the company is closely monitoring trends in the Chinese economy, which has a great impact on the area.

Overseas Business (Russia)

14. Why were the Q1 results in Russia better than planned? Is it fair to forecast the full year figures based on Q1 results?

- In the initial plan, we expected that the supply situation for competitors would recover, and our market share would decline. Therefore, we had assumed that results would be the same level as fiscal 2021. However, the situation for competitors remained unchanged and we have maintained our market share level. In addition, as around the half of the sales of the Russian subsidiaries are denominated in euros and the cost currency is mainly ruble, the impact of the appreciation of the euro against the ruble also contributed to an excess of incomes. We estimate that about half of the year-on-year profit growth was attributable to forex.
- We expect the similar situation to continue in Q2, excluding the impact of exchange rates, but would gradually settle down to the initial forecast from the H2 of the fiscal year.

15. Will the Russian subsidiaries continue operations in the future?

- Our customers are businesses that provide the F&B and daily necessities to consumers. We assume continuation for the time being.
- Currently, the Russian operations contribute to our group's revenue. We are investing in equipment using the available funds of our Russian subsidiaries to maintain competitiveness.

- We have closely monitored changes in the international situation surrounding Russia. In cases where the continuation of our business in Russia could have negative impacts for other regional operations, we will consider all options.

Others

16. What is the current RFID sales composition? When will customer's full-fledged implementation start, and how much is the impact on profit margins at that time?
- Sales related to RFID for the FY22 represented approximately 4% of consolidated sales and about 5% in FY23 Q1.
 - In Japan, full-scale implementation has mainly been seen in the apparel industry. Test introductions have begun in the manufacturing and the healthcare markets, and we expect a gradual transition to full-scale implementation. The precise timing for full-fledged implementation in each market cannot be determined.
 - Overseas, RFID adoption has been faster than in Japan. In addition to apparel companies, RFID has been fully introduced in several projects, including a major US logistics company, a major US PC manufacturer, a major US healthcare company, and a major semiconductor manufacturer. Since most of these companies are using RFID on a global scale, the deals tend to be large.
 - The gross profit margin for RFID-related solutions is currently about the same level as the consolidated gross profit margin. RFID in Japan tends to have relatively lower margins than overseas, but we expect the margins to improve as customers make progress in implementing tags at full scale leading to cost deduction with an increase in tag production volume and to sales increase of products carrying higher margin such as printers, software, and services.
17. What are SATO's strengths in RFID?
- SATO's strengths lie in its ability to make proposals that leverage its global direct sales/servicing network regardless of country or market. We can provide best-fit hardware, software, RFID supplies, maintenance support, and more for each customer/site.
 - Since RFID uses radio waves for communication, achieving a 100% reading rate is often challenging. Therefore, on-site tuning is crucial to improve readability rate, including selecting the optimal tag for the object, the attachment position/angle, and the reader's output. We provide support in these areas by leveraging our on-site expertise. Another strength is our ability to flexibly/quickly propose tags and software that reflect customer needs, as we manufacture and develop tags and software internally.
18. When is the release of the new model printer?
- We are planning to start selling the product in 2024.
19. When would the new Medium-Term Management Plan (FY24-26) be announced?
- We intend to announce the plan in March 2024.

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[Notes on using this material]

This document is prepared based on information as of September 2023.

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