

FAQs Received after the Announcement of Financial Results for the 2nd Quarter of the FY2023**QA content**[Q2 Results vs. Plan](#)[Full-year forecast](#)[Management policy](#)[Japan business](#)[Overseas \(ex. Russia\)](#)[Overseas business \(Russia\)](#)[Others](#)**Q2 Results vs. Plan**

1. What caused the difference between the results of Q2 operating income and the planned figures?
 - Sales: In line with the plan on a consolidated basis. The Japan business fell short of the plan primarily because of an extended printer replacement cycle. However, the overseas business performed well as the competitive environment for our Russian subsidiaries was better than expected.
 - Operating income: Surpassed the plan on a consolidated basis. The Japan business failed to achieve the plan due to lower gross profit from stagnant printer sales in Japan and lower exports of printers to overseas subsidiaries. The overseas business exceeded the plan. This was due to increased sales and an improved gross profit margin in Russia.
2. Were there any one-time expenses?
 - The U.S. subsidiary recorded an allowance for doubtful accounts of approximately JPY 150 million for a specific customer. Please refer to section [11](#), for more details.

Full-year forecasts

3. You revised the full-year forecasts upward. Are there any risks that actual results will differ from the forecasts?
 - We don't expect large gap between the forecasts and the results to happen. Japan is improving due mainly to price revision and a recovery in the manufacturing market. Although we expect a market share decline in Russia in the 2H, its competitive environment so far remains unchanged. In Europe and the US, the impact of economic slowdown would possibly become larger than expected despite our effort to increase sales of consumables to absorb the impact.

Management Policy

4. Any changes in management policy with the new CEO?
 - Our management policy to focus on addressing social issues through our core business, "tagging" and "on-site expertise" remains the same.
 - Under the new CEO, we will accelerate the execution speed through changing business structure and the way we work, such as delegating greater authority across the group.
 - We will also shift resources to high-margin, high-growth area, including healthcare.
 - We have identified more opportunities to address the increasingly complex issues happening in our customers' supply chains and circular

economy. Leveraging our expertise in offering tagging-based solutions in various markets and industries for years, we will provide customers with solutions to know what is where in what quantity and condition in real time within their supply chains, leading to overcoming bottlenecks.

5. Regarding the delay in price revision, I want the management team to make drastic changes with a sense of crisis in order to increase profits, and to set initiatives and KPIs to monitor through a back-casting method in order to respond to anticipated changes in the external environment.
 - We take your comments seriously. The initiative is progressing in line with the plan thanks to the management decision to thoroughly implement price revisions from Oct. We are also considering changing the performance evaluation of sales personnel to promote price revision, as well as disclosure of related KPI.
6. The P/B ratio is below 1x. Do you think there is room of an increase in dividend per share and of share buyback? What do you think about the underperforming stock price?
 - We believe that improving profits is one that we should pursue to improve the P/B ratio. Our basic policy is to pay stable dividends in line with earnings growth. The company intends to buy back its own shares flexibly, taking into account factors such as stock price, capital needs, and market conditions. The company's target equity ratio is 50%.
 - We will gain market credibility by carefully explaining profit growth scenarios and growth opportunities in Sato's core business of tagging and automatic identification.

Japan Business

7. Why did Japan's Q2 operating income fall short of the plan? Can the Company achieve the 2H plan through price revisions?
 - Printer sales in Japan and printer exports to overseas subsidiaries fell short of the plan.
 - Printer sales in Japan were lower than expected due to an extended replacement cycle as a result of improved printer durability and other factors, and to customers' prioritizing investments in automation/RFID with clearer ROIs rather than printers.
 - The export of printers to overseas subsidiaries was lower than expected due to weaker overseas printer sales caused by the economic slowdown, resulting in lower profits related to this transaction.
 - We will accelerate price revisions to achieve the 2H plan. Price revisions have been generally accepted by customers. Positive signs are seen even though price revisions of labels were slower than ones among other industries, and customers have made progress in negotiating price revisions with their customers.
8. Why did Japan's Q2 operating income decline YoY?
 - Sales of printers, which carry higher gross margins, were below plan, and selling prices did not reflect the increased cost of raw materials for printers and consumables.
9. Why is it taking time to revise the price to respond to rising raw material costs for consumables?
 - Taking into account the trust relationships we have established with our customers, we explained the consumables price revision to them carefully. In addition, it takes time due to the large number of customers, product SKUs, and competitors, as well as the fact that this was our first price revision activity.
 - We made a management decision in August to systematically implement the price revision from October 1. Our headquarters members are supporting sales reps on the explanation and negotiation process with customers. These initiatives are driving price revisions.
10. Will there be any other increases in costs that were not anticipated at the beginning of FY23?

- We do not anticipate any cost increases for consumables in the current fiscal year. However, there is a possibility of cost increases in the next fiscal year. Even if there is an additional cost increase, we do not expect it to have a significantly negative impact on profits as we are already proceeding with price revisions.

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Overseas business (excluding Russia)

11. In the Americas, what were the differences between the Q2 results and the plan? And please share your outlook in the region.
 - In the Base business, sales slightly fell short of the plan on a local currency basis, but exceeded the plan due to the impact of foreign exchange rates. Sales in the South American Primary Labels business exceeded the plan due to strong demand and the effect of price revisions, and the Americas as a whole also exceeded the plan.
 - Operating income fell short of the plan due mainly to a one-time expense in the Base business. This expense was the provision for doubtful accounts, following the fact that one customer in the US filed a Chapter 11 petition. For accounting purposes, a conservative allowance was made for all accounts receivable from the company, despite the possibility of future collection. This resulted in a profit impact of JPY 150 million in Q2 and JPY 50 million in Q3.
 - The forecast is still weak due to ongoing inventory adjustments in the 2H. However, we anticipate that it will normalize by the end of the fiscal year.
12. In Europe (excluding Russia), what were the differences between the Q2 results and the plan? Please share your outlook in the region.
 - Sales fell short of the plan due to weaker-than-expected printer sales caused by the economic slowdown.
 - Profit also fell short of the plan due mainly to lower sales.
 - The weak forecast for the 2H of the fiscal year is due to the ongoing economic slowdown and inventory adjustments by distributors. Inventories will be optimized either at the end of this financial year or early next year.
13. In Asia/Oceania, what were the differences between the Q2 results and the plan? Please share your outlook in the region.
 - Sales fell short of the plan mainly because of lower sales at Argox, which is an entry-level printer manufacturing and sales subsidiary. This was due to distributors' inventory adjustments.
 - Profit also fell short of plan due to lower sales.
 - The company is closely monitoring economic trends in China, which will be particularly affected.

Overseas Business (Russia)

14. Why did Russia's Q2 results exceed plan? Will the strong 1H performance continue in the 2H?
- At the beginning of this FY, we anticipated that our performance would be similar to FY21 due to the recovery of supply of competitors, causing a decrease in our market share. However, the competitive situation has remained unchanged, and our market share remains high. The Russian subsidiaries' excess profits were also influenced by foreign exchange effects resulting from the majority of its sales being denominated in Euros and most of its costs being denominated in Rubles. The YoY increase in profit was largely the result of foreign exchange.
 - We anticipate that the competitive environment will worsen to some extent in the 2H of the FY on a currency-neutral basis.
15. Will the Russian subsidiaries continue operations in the future?
- As our major customers are companies that provide the F&B and daily necessities to consumers, we assume that the Russian subsidiaries will continue operations for the time being.
 - Currently, the Russian operations contribute to our group's revenue. We are investing in such things as printing facilities using the available funds of our Russian subsidiaries to maintain competitiveness.
 - We have closely monitored changes in the international situation surrounding Russia. If our business operations in Russia could give any negative impact on operations in other regions/countries, we will consider all options.

Others

16. What is the current split of RFID revenue? When will customers begin full implementation, and what will be the impact on profit margins?
- Sales related to RFID for the FY22 represented approximately 4% of consolidated sales and about 5% in FY23 Q2.
 - In Japan, the penetration ratio in the apparel industry is high, whereas test introductions have begun in the manufacturing and healthcare markets, and we expect a gradual transition to full-scale implementation. The exact timing of when RFID will become fully implemented in each market cannot be predicted.
 - Overseas, RFID adoption has been faster than in Japan. RFID technology has been fully introduced in several projects, including major companies in logistics, PC manufacturing, healthcare, and semiconductor manufacturing. These companies use RFID on a global scale, resulting in large deals.
 - Currently, the gross profit margin for RFID solutions is about the same as the consolidated gross profit margin. In Japan, RFID margins are typically lower than those overseas. We anticipate that margins will improve as customers implement tags at full scale. Increasing tag production volume and sales of high-margin products, such as printers, software, and services, will improve margins.
17. What are SATO's RFID strengths?
- SATO excels at proposing solutions that utilize its global direct sales/service network, regardless of country or market. We can provide best-fit hardware, software, RFID consumables, maintenance support, and more for each customer/site.
 - Achieving 100% read rates with RFID can be challenging since RFID uses radio waves to communicate. Therefore, it is crucial to perform on-site tuning to improve the readability rate. This includes selecting the optimal tag for the object and determining the attachment position and angle for the reader's output. We provide support in these areas by leveraging our on-site expertise. Another strength is our ability to quickly propose tags and software that reflect customer needs, as we manufacture and develop them internally.

We had many questions about RFID at our December 2023 briefing on tagging technology in the manufacturing market, click [here](#) for more information.

18. When will the new model printer be released?
- We are planning to start selling the product in 2024.
19. When would the new Medium-Term Management Plan (FY24-26) be announced?
- We plan to announce the plan in March 2024.

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Explanation about the proper use of consolidated forecasts and other notes

Forward-looking statements, including the consolidated forecasts stated in this material, are based on information currently available to the Company and certain assumptions deemed reasonable. Any statements herein do not assure particular results by the Company. Results may differ from the consolidated forecasts due to various factors. Please refer to Financial Result (Kessan Report) for assumptions behind the consolidated forecasts and other information.