

FAQs following the Announcement of Financial Results for Q3 FY2023**FAQ contents**[Q3 Results vs. Plan](#)[Full-year forecast](#)[Overseas \(ex. Russia\)](#)[Overseas business \(Russia\)](#)[Japan business](#)[Medium-term management plan](#)[Others](#)**Q3 Results vs. Plan**

1. What caused the difference between the results and the planned figures?
 - Sales: In line with the plan on a consolidated basis. The overseas and the Japan businesses were also on par with respective plans.
 - Operating income: Significantly exceeded the plan. By region, Japan exceeded the plan thanks to increased exports of printers to overseas subsidiaries and curbs on SG&A expenses, despite delays in price revisions in response to rising costs. Overseas also exceeded the plan, mainly due to lower-than-planned SG&A expenses and progress in price revisions amid high inflation in the Americas.

Full-year forecasts

2. The full-year operating income forecasts were revised upward. What was the background and how did the Q4 plan change compared to the previous plan?
 - Full year: the higher than expected Q3 results were reflected in the full year plan.
 - Q4: The consolidated OI was reduced compared to the previous plan. By region, both overseas and Japan have reduced their forecasts. We are aiming for steady achievement of what are regarded as minimum targets.

Overseas business (excluding Russia)

3. In the Americas, what were the differences between the Q3 results and the plan? And please share your outlook.
 - In the base business, sales fell short of the plan in local currencies, but were almost in line with the plan thanks to the positive impact of foreign exchange rates. Sales in the primary label business exceeded the plan with firm demand and the effect of price revisions. The Americas overall was in line with the plan.
 - Operating income in the base business significantly exceeded the plan, due to the absence of expenses that had been conservatively factored in. Primary business also significantly exceeded the plan due to the success of price revisions under high inflation.
 - Q4 is expected to be weak due to distributors' inventory adjustments. Inventory levels are expected to normalize in FY24.
4. In Europe (excluding Russia), what was the difference between the Q3 results and the plan, and what is the outlook?
 - Sales missed the plan due to weaker than expected printer sales caused by the economic slowdown.
 - Profit exceeded the plan thanks to an improved product mix.

- As for Q4, sales are expected to increase year-on-year and quarter-on-quarter following the inventory adjustment and recovery in sales to distributors.
5. In Asia/Oceania, what was the difference between the Q3 results and the plan? Please share your outlook.
- Sales were almost in line with the plan thanks to positive foreign exchange fluctuations, although overall sales fell short of the plan in local currencies due to lower sales at Southeast Asian subsidiaries.
 - Profit exceeded the plan due to an improved product mix.
 - Sales in Q4 are expected to fall QoQ due to seasonal factors.

Overseas Business (Russia)

6. What was the difference between the Q3 results and the plan for Russia, and what is the outlook?
- Both sales and profits exceeded the plan.
 - The Q4 plan has been revised downwards in terms of both sales and profits compared to the previous plan, as the competitive environment is expected to normalize due to the recovery of supply networks at other companies in the industry.
7. Will the Russian subsidiaries continue operations in the future?
- As our major customers are companies that provide the F&B and daily necessities to local consumers, we intend to continue operations of the Russian subsidiaries for the time being.
 - Currently, the Russian operations contribute to our group's revenue. We are investing in such areas as printing facilities using the available funds of our Russian subsidiaries to maintain their competitiveness.
 - We are closely monitoring changes in the international situation surrounding Russia. If our business operations in Russia cause any negative impact on operations in other regions/countries, we will consider other options.

Japan Business

8. What was the difference between the Q3 results and the plan, and what is the outlook?
- Sales were in line with the plan.
 - Profit exceeded the plan due to profit from export of printers to overseas subsidiaries (export gross profit) and lower SG&A expenses than planned, despite a delay in price revisions.
 - The Q4 profit plan was lowered from the previous plan due to the expected delay in price revisions. We intend to mitigate the negative impact by curbing the increase in parts and materials costs, etc.
9. Why did Japan's Q3 operating income margin 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.
10. Why is it taking time to revise the price in response to rising raw material costs for consumables?
- Valuing relationships we have established with our customers, we took extra steps to explain the price revision. 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 in Japan. We are speeding up the process by having Head Quarters assisting sales in the negotiations with customers.

11. 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 FY23. However, there is a possibility of cost increases in FY24. 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.

Medium-term management plan

12. What are the key points of this medium-term plan?
- To contribute solving more complex and wider-ranging customer issues through “advanced tagging technology”, or “unique, fully-automated, and across supply chain/customer journey tagging”, or “Perfect and Unique Tagging (PUT)”.
 - To invest in PUT by restoring profitability.
 - To intensively restore profitability in Japan during the first two years. To achieve this, reform the internal value chain, shift sales personnel to higher profit and growth fields, change the evaluation system for sales personnel from a focus on sales to profit, and launch new printer models.
13. Is the growth rate of sales and profit plan conservative?
- Some may think that the growth rate is conservative, given the overseas business seeing a decline in sales and profits of the Russian subsidiaries due to the normalization of the competitive environment, and the Japan business focusing on profit growth rather than sales.
 - We intend to steadfastly achieve the plan and gain confidence of the capital market.

Others

14. How much of sales is from RFID? When will the business take off, and what will be the impact on profit margins then?
- Sales related to RFID in FY22 represented approximately 4% of consolidated sales and about 5% in Q3 FY23.
 - In Japan, the penetration ratio in the apparel industry is high, whereas trials have begun in the manufacturing and healthcare markets, and we expect a gradual transition to full-scale implementation. The exact timing of full implementation in each market depends on various factors.
 - RFID adoption overseas has been faster than in Japan. Our RFID solutions have been fully implemented in several projects, including major US companies in logistics, PC manufacturing and healthcare, and Asian semiconductor manufacturing in addition to apparel customers. 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 going forward.
15. 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.
16. When will the new model printer be released?
- We are planning to start selling the product in the second half of FY2024, and its contribution to sales and profit would be felt in FY2025.

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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.