

Key questions and answers from the financial results briefing for the 3rd Quarter of FY2023

1. What is the reason for the increase in the consolidated earnings plan?
 - The full-year plan for Americas has been raised by JPY 500 million compared to the revised plan on November 9, 2023, due to the upward revision of Q3 results.
 - The factors that contributed to the positive Q3 results include improved manufacturing productivity at US label factories, better controlled SA&G expenses at the sales office in US, and ongoing price adjustments in the primary label business amidst hyper inflation in South America.

2. What is the scale of the AI markdown solution sales and what is the future outlook?
 - Its printer sales for Q4 of FY22 have already been recorded. From FY23 onwards, monthly system usage fees is recorded, contributing to the annual sales scale in tens of millions Japanese yen.
 - The increasing demand for store operation efficiency and labor reduction has led to a growing trend in solution sales opportunities including AI markdown. Capturing this trend through *koto-uri** approach, we aim to increase sales of high-margin software sales and system usage fees, ensuring sustainable profit growth.

*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.

3. What is the Q4 and FY24 outlook for subsidiaries in Russia?
 - The market landscape was favorable for us in competition due to the impact of the Ukrainian situation. It is gradually normalizing since Q3, which has led a slowdown in profits, as anticipated.
 - With the ongoing normalization of the competitive environment beyond Q4, we anticipate a decline in both revenue and profit compared to the previous year.
 - However, we expect to achieve higher sales and profits in FY24 compared to FY21, as our capacity to offer more valuable products has been improved. We believe these high-value-added products will contribute to maintaining a certain level of market share even in a fully normalized competitive environment.
 - In terms of business continuity, we will continue to closely monitor the situation without excusing any options. We will operate business based on appropriate risk-control measures.

4. What are the current situation and future outlook for the demand trends of mechatronics products?
 - In our Japanese operations, despite lingering uncertainties in the future, there is a solid demand for our tagging solutions driven by labor shortages and efficiency needs. We anticipate a recovery in the sales of mechatronics products from Q4 onwards, supported by increased opportunities in the recovering manufacturing industry, and the logistics industry which is facing series of operational difficulties due to the overtime cap for truck drivers to be regulated in April 2024.

- In our overseas operations, printer sales revenue have plateaued due to various factors, including accumulated inventories at distributors, economic downturns and political risks. Competitors are facing similar challenges, resulting in price wars where products are sold at significantly reduced prices. Despite these circumstances, we are differentiating ourselves by delivering solutions through the *koto-uri* approach and creating more opportunities with a focus on "portable, repeatable" solutions. We aim to achieve steady revenue growth without getting caught up in the price war.
5. Will the profitability of the Japan business return to its pre-COVID level?
- Improving the profitability of our Japan business is one of our management challenges. We plan to explain measures at the briefing session in March 2024.
6. It has been mentioned that the performance appraisal in the sales departments in Japan will shift from sales-based to profit-based. How will this be implemented, and what changes are expected?
- For instance, regarding the evaluation criteria, we are considering a year-on-year comparison would be more appropriate, as profit margins vary from market to market. As the evaluation focus moves from sales to profits, the sales departments are expected to adopt to a higher value-added approach, proposing solutions through the *koto-uri* method.
7. How is the development of the new printers progressing, and when will they be launched?
- Development is on track.
 - We are currently assessing when to launch the products, taking into account various factors such as the stock of current models and spare and service parts. This assessment is being conducted separately for the Japanese and overseas markets. We're taking a cautious approach for overseas markets, given the accumulation of current model inventories at distributors.
 - Specific details about the market launch timing will be provided in the upcoming announcement of the medium-term management plan.
8. In the Q2 financial briefing, it was mentioned that the price adjustment activities were being transformed into an organizational "systematic approach." What specific changes have resulted from this shift?
- Recognizing the rise in raw material costs as a critical management issue, we moved from a decentralized, site-led approach to a management-led strategy from August 2023. This shift transformed our approach from "inquiry" to more assertive "request." A key part of the transformation was the increased involvement and prioritization of price adjustments by sales managers and representatives.
 - As a result, Q3 saw substantial progress in our price adjustment efforts. While the actual amounts achieved were delayed compared to the plan, negotiations have been progressing along the planned trajectory. Assuming constant costs, we expect price adjustments to catch up with the rise in raw material prices in FY24.