

## **FAQs following the Announcement of Financial Results for Q3 FY2024**

### **FAQ Contents**

[Q3 \(Oct - Dec\) Results](#)

[FY24 Estimate](#)

[Overseas Base business](#)

[Overseas Primary Labels Business](#)

[Japan Business](#)

[FY25 Forecast](#)

[Medium-term Management Plan](#)

[Finance Strategy](#)

[Other Business-related Topics](#)

[Institutional investors' View on SATO](#)

### **Q3 (Oct-Dec) Results**

1. What is the breakdown of the difference between the plan and the actual results?
  - Net sales: Achieved the plan for both Japan and overseas businesses.
  - Operating income: Japan business was better than expected thanks to price revision and export gross profit.  
Overseas business also outperformed, driven by the Primary Labels Business and the Base business in Asia and Oceania.

### **FY24 Estimate**

2. What is the background behind the revision of the full-year operating profit plan by region from the previous plan?
  - Japan business: Downward revision. This is mainly due to one-time costs associated with the downsizing of the head office and the risk that the number of business negotiations in Q4 will be large and the settlement of business will be delayed until FY25.
  - Overseas business: Upward revision. We continue to expect strong performance in Primary Label and Base businesses (Asia and Oceania).

### **Overseas Base business**

3. Americas: How did the Q3 results compare to plan and how does the full year plan compare to your previous plan?
  - Q3 Results: Net sales were affected by inflation but achieved the plan thanks to large-scale projects such as print and apply labeling machines for the logistics market and special demand for consumables from specific customers in the retail market. Operating income also achieved thanks to increased sales.
  - Full-year forecast: Net sales are likely to increase thanks to the continuation of large-scale projects, but operating income is expected to decrease due to the deterioration in product mix.
4. Europe: How did the Q3 results compare to plan and how does the full year plan compare to your previous plan?
  - Q3 Results: Net sales fell short due to the impact of the economic downturn despite a large order in the German retail market. Operating income did not achieve the plan due to net sales decline and accounting adjustments (increase in expenses).
  - Full-year forecast: Net sales and operating income are expected to decrease due to the economic downturn.
5. Asia and Oceania: How did the Q3 results compare to plan and how does the full year plan compare to your previous plan?
  - Q3 Results: Net sales achieved the plan thanks to contribution from Australia, where large-lot RFID projects (readers for entertainment facilities) are continuing, and increased demand for semiconductor-related and electronic components due to the recovery of Japanese manufacturers in Thailand and Vietnam. Operating income achieved the plan thanks to increased net sales and higher operation in the factories.
  - Full-year forecast: Net sales are expected to decrease due to the economic downturn in China, and operating income is expected to increase due to higher factory utilization.
6. Will large-lot RFID deals in Australia continue going forward?
  - Based on customer demand, we estimate that current net sales will continue for at least the next three years.
  - Our customer in Australia sell to entertainment facilities in various countries.

### **Overseas Primary Labels Business**

7. How did the Q3 results compare to plan and how does the full year plan compare to your previous plan?
  - Q3 Results: Net sales achieved the plan. The competitive environment in Russia did not deteriorate as much as expected, and sales of high value-added products were strong. Operating income achieved the target thanks to increased sales.
  - Full-year plan: Both net sales and operating income are expected to increase for the full year due to strong Q3 results.
8. Do you intend to continue operating the Russian subsidiaries?
  - We are considering various options in close communication with the local colleagues and estimating the financial impact of each.
  - As a result of these considerations, we have come to the conclusion that we continue our business for now. We will review the decision as necessary in response to changes in circumstances.

9. What is the normalized operating margin of the Russian subsidiaries?

- The current profit margin is significantly above the standard range. Considering historical averages and the profit margins of major competitors, the mid teen range seems to be the normalized level in the medium term.

#### **Japan Business**

10. How did the Q3 results compare to plan and how does the full year plan compare to your previous plan?

- Q3 Results: The net sales achieved the plan thanks to steady sales in almost all markets including manufacturing and progress in price revision. Operating income also achieved the plan due to an increase in profits from exports of printers to overseas subsidiaries in addition to increased sales.
- Full-year forecast: Net sales are expected to remain flat. Operating income is expected to decrease. We revised down our operating profit forecast to reflect one-time costs associated with the downsizing of the head office and the risk that the number of business deals in Q4 could be delayed until FY25.

11. What is the status of rising raw material costs and price revisions?

- In both mechatronics and consumables, the net effect of raw material cost increase and price revision has exceeded the plan.
- Consumables: Achieved the plan, due to higher raw material costs and price revisions.
- Mechatronics: Achieved the plan as a result of the negative impact of higher raw material costs and the positive impact of price revisions. Raw material costs increased more than planned due to the weak yen. Price revisions progressed according to plan.

#### **FY25 Forecast**

12. How do you expect FY25?

- Although there are differences between Japanese and overseas businesses, we expect solid demand for operational efficiency improvement against the backdrop of labor shortages.
- In the overseas business, we will develop the healthcare and manufacturing markets, which have relatively high profit margins in the United States. Although the impact of the economic downturn in Europe is severe, we aim to improve profitability by increasing sales through the launch of the new WT4-AXB printer and by creating solutions using no-code and low-code applications being developed in collaboration with MobileLogic. In Asia and Oceania, Australian RFID business is expected to continue growing.
- In the Japanese business, demand for business efficiency improvement in each market is high. The manufacturing market is expected to recover further, and in the logistics market, CLO (Chief Logistics Officer) will be appointed at each company to accelerate measures and initiatives, with the aim of capturing related demand.

### **Medium-term Management Plan**

13. How is the progress?

- The medium-term plan is largely on track, and we were able to visualize the profitability of the Mechatronics and consumables divisions. The transition to the new personnel system has been limited compared to the plan.

14. What are the key points of this MTMP?

- To contribute to solving more complex and wide-ranging customer pain points through advanced tagging = unique ID assignment, full process automation, and tagging across the supply chain = Perfect and Unique Tagging (PUT).
- To invest in PUT by restoring profitability.
- It will focus on restoring Japanese margins in the first two years. We will intensively work on profitability restoration in Japan during the first two years of MTMP. To achieve this, we will strive to 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.

15. When will the new printer be launched?

- It is expected to be launched in Q4 FY24.

### **Finance strategy**

16. What are your financial strategies and areas for improvement?

- To promote ROIC management and set KPIs for each component within related divisions, aiming for improvement. In particular, we would like to promote improvement in profit margins, emphasize cash flow, and improve capital efficiency. These efforts are also aligned with TSE (Tokyo Stock Exchange) requests.

17. What is your capital allocation policy?

- The capital allocation policy is to first restore operating cash flow through the medium-term management plan, and then invest in advanced tagging technology. We plan to acquire technologies through internal R&D, M&A, and alliances.
- In addition to cash on hand, we will use both direct and indirect financing if necessary. SATO assumes a scenario in which WACC falls as a result of increased debt.
- As for shareholder returns, the company will strive to maintain stable and progressive dividend payouts, and will implement share buybacks flexibly depending on cash availability.

### **Other Businesses-related Topics**

18. What is the composition of RFID sales? What are the differences in the degree of adoption by market? What will be the impact on profit margins when adoption increases in the future?

- Global RFID-related sales in Q3 FY24 accounted for approximately 6% of consolidated sales.
- In Japan, the penetration rate in the apparel industry is high. It is also being introduced in the manufacturing and healthcare markets.
- In addition to apparel companies, SATO's customers include major U.S. logistics companies, major European and U.S. healthcare companies, and major Asian semiconductor manufacturers. These companies use RFID on a global scale, resulting in large deals. Sales of readers using SATO proprietary RFID technology (PJM\*) for entertainment facilities have also increased.
- Current gross margins for RFID-related solutions are generally in line with the consolidated average. Although the profit margin in Japan tends to be lower than overseas countries, they are expected to improve going forward as the full-scale introduction by customers progresses, and as the cost decreases due to an increase in the production volume of tags and sales of printers, software and services increase.

\*Phase Jitter Modulation

### **Institutional investors' View on SATO**

(Long-only investors in Japan)

- SATO's stock price has already adjusted and is not considered expensive, even excluding Russia. The price will rise in line with earnings growth.
- The value of the company should be assessed by excluding performance in Russia, but it is not clear what will grow without Russia.

\*This section describes institutional investors' evaluation of SATO and why they requested a meeting. These do not reflect all investor comments.

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### **Explanation of Appropriate Use of Performance Forecasts**

The earnings forecasts and other forward-looking statements contained in this document are based on information currently available to the Company and on certain assumptions deemed to be reasonable by the Company. They do not constitute guarantees of future performance by the Company. Actual results may differ significantly from these forecasts due to various factors. Please refer to the Summary of Financial Results for the assumptions that form the basis of the earnings forecasts.