

Key questions and answers from the financial results briefing for FY2020

1. This is about the increase of approximately 2.5 billion yen in SG&A expenses in your breakdown of the operating income forecast for FY2021 compared to FY2020. Roughly how much of that is investment in strategic sales activities, and how much is a rebound of business expenses that had shrunk due to COVID-19? And what specifically are the investments in sales activities?

- We believe the ratio of investments for sales activities among others relative to rebound in expenses is roughly 6:4. Investments in sales activities will include development to make packages of solutions and expenses for building cloud services in addition to marketing activities. As for the rebound in expenses, the end of the pandemic is still nowhere in sight so circumstances are unclear, but we are calculating expenses under the assumption that activities will normalize.

2. Which markets will drive your business in Japan during FY2021? Do you think that automation needs will continue to remain strong going forward?

- Business is strong in the retail market. Some industries in the manufacturing market are slow to recover. Sales of consumables are trending toward recovery overall thanks to improved market conditions, but much more in some industries and markets than others. Sales of mechatronics lagged behind movements of the markets in the fourth quarter of FY2020 due to the time it took for customers to resume their capital expenditures, and we believe that trend will continue. For that reason, we are not forecasting sales in Japan to return to FY2019 levels during FY2021. We will bolster our approaches to customers in high-performing industries in each market, and work toward linking these efforts to full-scale recovery from FY2022 onward.

As for automation, business decreased year-on-year in FY2020, but judging from trends over the past few years and the number of business deals in the pipeline we currently have, needs in automation are likely to remain strong.

On the other hand, we believe that overseas sales will return to FY2019 levels during FY2021.

3. This is about “Tagging for Sustainability” on page 33 of your briefing materials. Could you explain in more detail what kind of new business opportunities will be created by offering information gained from source tagging and ‘things’ on a platform?

- Typical management of articles through technologies such as barcodes work on a per-item basis, breaking down the same type of product by attributes such as color, size, and shape. They give the same ID to products that have the same conditions and cannot identify them individually. Source tagging assigns IDs that identify individual items in the manufacturing phase. As we

showed in the example of tracking and tracing containers, source tagging is necessary to be able to gain information throughout the supply chain, from manufacturing to usage status by consumers and recycling collection status. Since we have long been focusing on the movements of things in a variety of industries and markets and offering solutions that digitize them, we can utilize the experience we have accumulated in other businesses through source tagging. Incidentally, image recognition technology is also considered to be useful for managing items, but it has the downside of being unable to individually distinguish items that have identically marked packages or are not seen by cameras when stacked.

When source tagging distinguishes individual items and visualizes information about their status, you can learn how those items are being used and turn that knowledge into business with solutions that generate benefits in product planning, quality control, waste loss reduction, and other processes.

Since sustainable economic systems need to be created in society today, we see new business opportunity in providing a wide range of digitized information through source tagging to a platform in the optimal format to be utilized for tracking and tracing.

4. Have you already implemented the changes in sales style described on page 39 of your briefing materials? Is there any difference between your initiatives in Japan, overseas, and the different markets your customers are in?

- We have already begun these initiatives in Japan. We are expanding our breadth of potential orders in all markets through digital marketing, utilizing call centers to narrow them down, and using CRM (customer relationship management) systems to manage information on customer interests that have turned into business negotiations. Detailed information about orders received is currently being logged in separate systems.

After our new IT infrastructure is built, we will link it to information that is currently moving through separate systems and utilize it all together. This will make our business negotiations more efficient and turn our expertise into explicit knowledge. We will also deploy this overseas wherever possible. Incidentally, our business deal management overseas is also currently shared with Japan on CRM.

5. What do you call *koto-uri* internally in English?

- As our shared global vocabulary, we use Japanese as-is for words that we consider particularly important to our business operations such as *koto-uri* and *gembaryoku*. However, we educate employees in each country in their local languages about the background behind these words including the meanings they entail.

6. I understand that you will be aggressively investing in your business in Japan during FY2021, but roughly how much will cost reduction effects factor into increased profit margin in FY2022 and beyond, and how much of that will be comprised by other components?

- We believe that cost reduction effects will account for around 10% of the rise in profit margin. Other than that, we are forecasting increased profitability from improved market and product mix, including the effects of market-specific initiatives, sales recovery in the manufacturing market where profit margin is high, and sales growth for high gross margin mechatronics due to customers in general regaining their appetite for investment.

7. How have the effects of “changing the way you sell” in Japan as described on page 39 of your briefing materials been factored into increases in profit margin?

- If we broadly reclassify the four initiatives (1) through (4) into (A), (B), and (C), they would each factor in about equally.
- (A) would be (1) enhance our unbeatable offerings, (B) would be (2) optimize the value chain and (3) change the way we sell, and (C) would be (4) reduce cost. The thinking is as follows.
(A) Improving gross profit margin through efforts such as shifting toward common solutions: making common solutions out of solutions that had previously been offered separately, and improving product mix by standardizing labels, etc.
(B) Lower SG&A expenses ratio: reducing returns and reworks by optimizing the value chain, and (related to (1)) reducing individual handling through common solutions and standardization. This frees up man hours that can be redirected to sales activities, allowing sales representatives to dedicate their time to higher added-value solutions. Added support from marketing, contact centers, and Head Office as described in the materials will boost sales per representative while lowering SG&A expenses ratio.
(C) Improve gross profit margin by reducing cost: make multifaceted improvements to gross profit margin through organization-wide efforts.