

Key questions and answers from the financial results briefing for 1st Quarter of FY2022

1. What is your evaluation of Q1 performance against the plan?

- On a consolidated basis, sales exceeded the target. On the other hand, OI fell below the target. This is because gross profits in Japan business did not improve as much as expected.
- In Japan, sales reached the target while OI didn't. This is mainly because printer sales did not extend as planned. It resulted in lower gross profit than expected. The factors affecting the printer sales include the followings. 1) Speed of market recovery was slower than assumed in automobiles and some other industries; and 2) We prioritized addressing pressing issues including price revision. We believe that our printer sales and OI will catch up on the planned figures as we have more sales leads than previous year.
- As to the Overseas business performance, both sales and OI exceeded the targets thanks to strong demand. We will remain vigilant to some concerning matters including unclear outlook for the economy, and the headquarters will continue to support global business to sustain strong performance. Currently, we have a large quantity of printer backorders in Americas and Europe. We are making every effort involving factories and logistics departments to deliver these printers as soon as possible. We assume these deliveries will contribute to sales and profits.

2. What are the reasons behind the increase in mechatronics orders in Japan?

- It is owing to our targeting strategy in two areas.
- First, we focus on booming industries. We have been targeting manufacturers of electronic components and medical devices, for example, from the second half of the previous fiscal year. We put robust sales activities into these verticals and seized business opportunities.
- We also narrowed down the promoting products. Responding to the social needs, such as automation, labor saving and contactless technologies, we proposed RFID systems and other products in high demand. As a result, number of business leads increased.

3. Which industries will Japan business focus on from Q2?

- We will not limit the industries we will work on. But sales representatives will focus on key areas, such as growth markets, large-scale customers and high potential leads. To verticals facing slow recovery from pandemic, staff from contact centers and servicing department will constantly approach potential leads to explore their demands and generate opportunities.

4. How significant is the impact of lockdowns in China on your business?

- Some of our sales companies in China and the Southeast Asia have been affected by the lockdowns. Our sales in China declined by more than 15% YoY in Q1. While taking various measures, we foresee that a full recovery would be difficult within this fiscal year. But our businesses in the Southeast Asia that were affected indirectly should be able to fully recover by the end of FY2022.
- As for the Overseas business as a whole, we expect to achieve the full-year sales and OI targets set at the beginning of the term, assuming that the negative impact due to lockdowns in China should be offset by good results in other regions.

5. In FY2021, SATO enjoyed special demand after the supply shortage of printers in the Americas. Will the region's business continue to be strong with no decline in demand?

- We experienced a slight decline in Q1, but it was small enough to be offset by capturing robust demand.
- We will keep this momentum up. Clearing the printer backlog mentioned earlier will help expand sales and OI.
- In addition, our sales pipeline has been growing including major projects.
- Therefore, our business will continue to be strong even though there is a concern about economic slowdown.

6. How confident are you about achieving your business targets for the first half of FY2022?

- There are some hurdles to overcome in order to achieve the targets for the Japan business.
- We will boost sales of mechatronics by responding to strong demand for automation and labor-saving solutions especially in the booming industries. We will also take proactive measures to stimulate demand for consumables business which is showing steady growth.
- The number of business opportunities are steadily increasing, so the key is to close them. We are closely monitoring the sales pipeline. It is important to improve the way we manage the probability of opportunities. Even non-sales departments will help follow-up leads with a spirit of "Everyone's a sales".

7. What are the factors for high performance in Overseas business? Are there any changes in competitive environment, including product supply chain? Do you see it is a continuous situation?

- As we own factories and sell directly to customers, we can flexibly make adjustments in the product supply processes. It helped us maintain our supply level. Some users of competitors' printers came to SATO while their products were not available. It helped us maintain our supply

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- We also have capability to sell our mechatronics products and consumables as packaged solutions to solve customers' problems, which is our strength in building long-term relationships with our customers. This is what we call "*koto-uri*" approach (selling the solution, not the product). This drives our sales to both existing and new customers.

8. What are the main factors that affected the increase of SG&A expenses in Overseas (slide #9) and Japan (slide #18) businesses?

- In Overseas business, personal expenses increased in primary label business, mainly in Russia.
- In Japan, increase of R&D cost was the main factor. Development cost of the universal platform for SATO printers is included in this cost. Cost increase in R&D and logistics was considered in budgeting and incurred as expected.