

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

1. What are the factors behind the shortfall in the operating profit target for 1H of the Japan Business?
What is the outlook for 2H?

- Although the demand environment was generally favorable, sales of mechatronics products were sluggish, mainly due to the following three reasons.
- First, we were not able to focus our sales resources on closing deals for mechatronics as they were caught up in consumable price negotiations more than anticipated.
- Second, companies which are taking time to recover their business performance tended to postpone their investment plan for SATO's mechatronics products and services. In particular, sales of expensive products with high margins were sluggish.
- Third, our customers' purchasing cycle of printers has prolonged due to anticipated recession. Some customers continue using their existing printers without replacing with new ones even after a warranty period by purchasing maintenance service contracts. Therefore, printer replacement deals were fewer than expected.
- In 1H, the effect of our price revision was not enough to offset the cost increase of materials.
- However, we were able to establish the system to revise consumable prices and optimize its organizational structure for sales promotion. Therefore, we expect to see greater effect of price revision especially for recurring label business in 2H.
- Along with increasing demand for automation and RFID technologies from businesses facing labor shortage and DX (digital transformation) needs, we have a stronger sales pipeline than ever before. Sales in automation and RFID businesses rose about 50 percent year on year in 1H.
- The sales pipeline for 2H is growing as planned by capturing such strong demand as well as working on projects carried forward from 1H. By closing the deals in the pipeline, we aim to achieve our sales target for mechatronics. We continue focusing on generating new businesses, while working hard to close as many deals as possible before the end of this fiscal year.
- As a conclusion, we expect to achieve our full-year OI target for the Japan Business.

2. What regions and industries performed well in the overseas market? What's the outlook for 2H?
What's the latest status of SATO's Russian business?

- We saw favorable results in our target industries in all regions. And the revision of our price list proceeded successfully. As a result, our 1H sales exceeded the targets in all regions, both in Japanese yen and local currencies.
- In particular, our retail business in the U.S. and Europe performed well. This is largely attributable to the following factors: 1) vertical-specific sales strategies; and 2) streamlined and strengthened

management structure of subsidiaries which enabled them to make decisions and implement business plans with speed. Our subsidiaries' presence is growing in their target markets/industries, which started improving their business performance.

- Despite the concerns of recession and inflation, there are strong demand for automation and labor-saving solutions as in Japan. In many regions, companies are also facing challenges such as labor shortage and rising labor cost, and in need of DX. Therefore, we believe our overseas earnings will remain robust in 2H.
- There is no change in our policy for the Russian business from what was released on Mar. 15, 2022. We continue to closely monitor the situation and consider all sorts of strategic options available.

Reference: <https://www.sato-global.com/news/2022/release/laobo400000000fe.html>

3. What are the challenges of printer sales in Japan and what's the outlook for the next fiscal year?

- In 1H, we couldn't focus our sales force on closing deals as we spent extensive time for price revision discussions with customers. But the situation will improve in 2H.
- We recognize the prolonged purchasing cycle of printers as a challenge for us and we are considering measures. At the same time, we will focus our resources on aforementioned automation and RFID businesses as they are growing rapidly. With our "All-in sales" mindset, we will optimize our efforts in the following key activities: development of new solutions (e.g. automation); printer replacement; and price revision activities.
- We expect sales of printers and other mechatronics products will improve.

4. How did customers respond to the price revision? When they don't accept the new prices, how do you convince them?

- Our overseas subsidiaries successfully revised our prices with almost no delay every time our costs increased.
- However, in Japan, it generally takes longer to reach an agreement with customers as they often ask for the detailed breakdown of price increase.
- Consumables have a vast number of products, so price revisions of consumables tend to take up much more time of sales people than that of printers. The cost structure of products, such as percentage of raw material cost, varies by item. Not only sales, but non-sales personnel from contact centers also negotiate with customers, which assists the progress of price revision activities.
- The expected effect of price revisions was estimated based on what have already been agreed by customers. Therefore, the estimation is appropriate and we should be able to have the benefit of the price revision in 2H.

- We do not simply negotiate price increase. Where appropriate, we suggest some changes, such as replacement of base material, to keep the current price. Our on-site knowledge and expertise make it possible for us to develop proposals that minimize price increases and impact on customer operations.

5. Are there any changes in the development schedule of the universal platform for SATO printers?

- It's in progress as planned.

6. What is the impact of cost increases and the progress of price revisions on a consolidated basis?

- Our price revision offsets about 90 percent of cost increase on a consolidated basis.
- Price revision activities have progressed overseas as mentioned earlier.
- In Japan, we forecast completion of price revision for about 60 percent of consumable products. Revising prices for consumables will bring us large cumulative benefits, so we will continue working on price negotiations for the remaining 40 percent of consumables using the system and organizational structure we optimized in 1H.