

Key questions and answers from the financial results briefing for FY2022

1. What are the reasons for the discrepancy between the projected OI for FY22 that was announced on February 10 and the actual OI? What is the degree of certainty regarding the projected OI for Japan business in FY23?

- The failure to meet the target for the group's OI in FY22 can be attributed primarily to the underperformance of Japan business and the elimination of profits resulting from intragroup transactions. The underperformance of Japan business was due to a delay in sales caused by the uneven distribution of printer demand, resulting in a decrease in gross profit. In addition, increased SG&A expenses incurred in addressing specific printer issues also had an impact on the financial performance.
- In the Japanese market, we anticipate a strong and consistent demand for RFID and automation due to prevailing social issues such as labor shortage and the necessity to streamline business operations. We expect to make significant advancements in various areas, including the realization of the effects of price revisions, refining customer targeting and optimizing touch points, thereby enhancing our sales activities. We are also intensifying the reform of the value chain and improve profitability.
- In FY23, we are striving to achieve our plan taking into account the following key factors.

2. What percentage of sales representatives are capable of proposing advanced solutions?

- Currently, approximately 20% of our sales force is able to offer RFID and other advanced solutions.
- However, recognizing the growing demand for such solutions, we are actively allocating resources to increase the percentage of sales representatives who possess this capability. To achieve this, we have established teams composed of members with valuable insights and experiences in addressing customer challenges and proposing solutions. These teams are segmented by market and serve as the core resource for sharing knowledge and insights with sales representatives in each office. In addition, we have specialized teams dedicated to specific products and technologies such as RFID and automation. These teams collaborate closely with the market-specific teams mentioned above to provide support to sales representatives.
- To adapt to the changing work environment brought about by the COVID-19 pandemic, we have emphasized delivering solid work results in remote environments. This includes initiatives such as web-based training and expansion of promotional materials including videos. These efforts have yielded positive outcomes.

- Looking ahead to FY25, our target is to achieve 15% of consolidated sales in RFID, automation and software.

3. What are the potential factors that could contribute to an increase or decrease in OI for FY23?

- The Japan business aims to increase profits through several factors. These include the expected impact of sales growth, price revisions and improved gross profit resulting from a better product mix.
- On the other hand, the overseas business is projecting a decrease in profit compared to the previous year, due to the impact on the Russian operations. Excluding the Russian operations, the base business is expected to achieve increased profits in FY23.
- The decline in profit within the Russian operations for FY23 can be attributed to the temporary surge in sales in FY22. During that period, there were supply constraints among competitors in the industry, while we adopted innovative supply strategies and extended market share, resulting in strong sales and profits. Looking ahead, we anticipate that the market situation will stabilize in FY23 and that our sales will return to normal levels.

4. What are the reasons behind the weak performance of the base business in the Americas in Q4?

- The retail market experienced a decline in sales compared to the plan due to the impact of an economic downturn. Sales were slow not only in direct sales, but also through distributors, who had to adjust their sales strategies in response to increased printer inventories. However, we expect the impact of the economic downturn to be temporary.
- Another factor was an increase in SG&A expenses during this period. It was primarily driven by investments made in human resources to enhance our organizational capabilities. These investments are targeted at strengthening our solution business, and we expect that the effects of these investments will become more evident in the future.

5. What is the future direction for your operations in Russia?

- We will continue to explore all possible options with the objective of preserving shareholder value. We remain open to considering any potential avenues.
- Considering the present circumstances, we are operating under the assumption that our operations in Russia will continue, albeit with certain restrictions, such as the suspension of exports and imports with Russian subsidiary and a halt on new investments.
- Furthermore, starting from FY23, we have appointed a new executive officer to provide more

effective oversight of our Russian operations from our headquarters, ensuring stronger management and strategic direction.

6. Value chain reform has been an ongoing initiative for several years. What are the changes in the current effort? What are the goals and progress?

- The progress made in value chain reform has been influenced by various external factors, such as COVID-19 pandemic, disruption in supply chain, and significant increases in material prices. These challenges overlapped and presented difficulties in addressing the reform objectives promptly. However, as the situation has started to stabilize, we have taken proactive measures. Multiple reform project teams have been established under the direct supervision of the Japan business division, and their activities have commenced in the current fiscal year.
- Presently, we are conducting thorough assessments of the actual situation in approximately eight projects. Key Performance Indicators (KPIs) and Key Goal Indicators (KGIs) are being established to monitor progress effectively. One notable strength of SATO lies in our ability to provide individualized solutions tailored to each customer needs. This has resulted in wider range of consumable materials compare to our competitors, offering us opportunities for streamlining and efficiency improvements. We will achieve tangible results by specifically optimizing these areas.

7. Please provide details regarding the changes related to expedited decision-making outlined on page 38 of the presentation material.

- In April, we introduced a new organizational structure that delegates authority to the executive board and raised the approval amount limit.
- To ensure effective decision-making and strategic direction, we have established a new management strategy meeting that includes non-executive directors as members. This meeting provides guidance for our medium- to long-term growth strategies and ensures the appropriateness of decision-making of the executive team.
- We aim to enhance the accountability of executives and accelerate the delivery of results in line with the medium- and long-term plans. We are also committed to promptly addressing opportunities in new market segments.
- To maintain proper governance while considering investing projects, we establish an "investment review committee" under the executive board. This committee ensures that decision-making regarding investments maintains a high level of governance.