Key questions and answers from the financial results briefing for 1st Quarter of FY2023

1. What are the reasons for the discrepancy between the projected operating income (OI) for Q1 performance and the planned figures?

- In terms of operating income, overseas operations, excluding Russian subsidiaries, exceeded the plan by approximately JPY 600 million, and Russian subsidiaries also exceeded expectations by roughly JPY 600 million.
- In Europe and the Americas, there were a one-time declines in costs.
- Despite the impact of the economic downturn, primarily in the Americas and Europe, SATO has been able to maintain profits to a certain extent thorough our solution-based approach, which combines products and services encompassing hardware, consumables, maintenance services and software, demonstrating ROI and other value propositions for the customer. This approach has allowed us to outperform our competitors.
- On the other hand, our Japan business fell short of the target by approximately JPY 400 million. The sales of printers and export gross profit also fell short of their respective targets.

2. What are the business plans in Russia and its competitive environment?

- At the beginning of the fiscal year, we had set a target for an annual operating profit of approximately JPY 1 billion.
- This initial plan assumed a recovery in the supply situation of competitors and expected our sales and operating profits to be at the level of the fiscal year 2021. However, the current situation indicates that the improvement in the competitive landscape has been slower than anticipated, resulting in performance that has exceeded our initial projections. We will continue to closely monitor the business situation.

3. What is the background behind the strong operating profit in the Americas, and what is the outlook for continuity from Q2 onwards?

- Currently, recruitment has been challenging, which has restrained SG&A expenses compared to the plan. Additionally, there were some unforeseen adjustments (cost reductions) in SG&A expenses, many of which were one-off factors. We anticipate improvement in recruitment starting from Q2.
- It's worth noting that some customers are adopting a cautious approach to investments due to the impact of the economic downturn, making the market environment less favorable. In this context, our solution proposals through consultative selling have helped maintain reasonably secure pipelines, with a particular focus on Q2. We continue to concentrate on building and nurturing the pipelines for the second half of the year.

4. Was the European pension buyout adjustment factored into the initial plan, and will it occur from Q2 onwards?

- The adjustment (cost reduction) related to the pension buyout was not initially factored into the plan. It arose in connection with the completion of the pension buyout, and after discussions with the auditors, we recorded it in this quarter.
- This adjustment is specific to Q1 and will not recur.

5. What are the changes from the initial plan for rebuilding profits in the Japan business on slide #16?

- We have decided to implement a 15% price adjustment for consumable products, starting from orders received on 1 October 2023, and this decision was recently communicated externally as well.
- In the label industry, with 13,000 converters nationwide, the competition is fierce, and price adjustments in this sector have not been adequately addressed in the past.
- Additionally, we have received price increase request from our paper suppliers, which were not originally a part of our early plans. As it became increasingly challenging to absorb these price hikes solely through our cost reduction activities, we made the decision to implement the aforementioned price adjustment, even if it may not perfectly align with the strategies typically seen in the industry. While this may pose challenges, we are fully committed to executing this strategy for the overall benefit of the company's management.
- Furthermore, we have already established KPIs and are actively realigning our sales resources, reevaluating low-margin products, and intensifying our efforts in cost control.

6. Is the business of the Russian subsidiary continuing for the time being?

- Our customers are businesses that provides food and household goods to consumers. We will continue the business for the time being, ensuring we do not compromise shareholder value.
- Currently, the Russian operation contributes to our group's revenue. We are investing in equipment using the available funds of our Russian subsidiaries to maintain competitiveness. We will implement appropriate risk control measures and closely monitor changes in the international situation surrounding Russia.
- In cases where the continuation of our business in Russia may have negative implications for other regional operations, we will consider all options.

7. The operational strategy for Q2 and beyond emphasizes "focus on high-growth, high-profit fields." What specific measures are planned to achieve this goal?

- Under the policy of "thinking out of the box," we are challenging the current state of affairs and evaluating the suitability of our business models and resource allocation.
- Our portfolio includes both high-profit and lower-performing businesses. We have subdivided our existing five markets into industry-specific segments and are conducting analyses based on their growth potential, current profitability, and our market share.
- To tap into high-potential sectors, we have deployed sales representatives. Conversely, in less promising sectors, we are transitioning to making sales through business partners. This radical shift in resource allocation is already underway.
- We have also recognized demand in emerging markets that do not fit within our existing five market classifications. Consequently, we are allocating resources to these new markets as well. Furthermore, we are directing resources toward high-potential areas, such as the growing demand for digital supply chain transformation (visualizing the movement of goods across supply chains and industries).
- As these initiatives have implications for employee performance evaluation systems and work practices, the management team is actively engaged in providing comprehensive explanations to ensure that employees understand and embrace these changes.