Key questions and answers from the financial results briefing for the 2nd Quarter of FY2023

1. What caused the decline in export gross profit for the Japan business compared to the initial plan?

- This can be attributed to a reduction in printer exports to overseas subsidiaries as compared to the initial plan.
- The root of this lies in the printer supply challenge arising from supply chain disruptions in FY21, resulting in a global shortage of printers across the industry. As a result, distributors placed substantial orders for printers, creating a persistent backlog. While we addressed this through supply chain adjustments in Q2 to Q3 of FY22, the onset of an economic downturn, particularly in Europe and the U.S., during Q4, led to the retention of printer inventory at distributors. This situation persists to date.

2. What is the current status of the Russian subsidiaries, and what is the outlook for the full year?

- Initially, the company anticipated uncertainties in the future and expected an increase in supply from other companies in the same industry. However, the progress in supply from industry counterparts during the 1H was slower than expected, leading to outcomes that exceeded our initial plan. Although the 2H is unfolding at a slower pace than initially expected, we anticipate improvements among industry peers. The currency is expected to remain stable at the same level observed in the 1H.
- The executive officer in charge has been assigned to maintain close communication with the local subsidiaries and conduct business operations based on appropriate risk control. The plan will continue to be refined.

3. When do you expect the overseas economy to recover? What measures are you taking amid the economic downturn?

- Geopolitical risks are on rise, compounded by political uncertainties, such as upcoming presidential elections in various countries. Given these circumstances, we anticipate that it will take some time for the economy to rebound.
- The entire industry is affected by the economic recession, and companies in the same sector, mainly focused on product sales, are devising strategies to streamline their inventories and offer printers at reduced prices.
- However, we are successfully mitigating the effects of the economic downturn compared to our industry peers. This is achieved by expanding our sales through the provision of solutions by "*koto-uri*"* and the horizontal development of solutions in the "portable repeatable" business strategy.
- Furthermore, to stabilize revenue and profits, it is crucial to expand the sales of consumables products, constituting a recurring business. We plan to extend market share even amid the economic downturn through *koto-uri* sales and a stable consumables business.

- Additionally, to expand sales in the healthcare market, which is characterized by high profitability, swift decision-making, and a strong appetite for investment in equipment, we globally integrated our sales promotion system ahead of the plan. This initiative aims to leverage our deep relationships with customers in this market in Japan to strengthen proposals that support their global expansion.

  * Koto-uri: Sales approach of selling not just the product but combinations of products in the form of solutions that include hardware, consumables, maintenance services and software, demonstrating ROI and other value propositions for the customer

4. What led to the acceleration of price revisions in the Japan business, and how has this evolved over time?

- Price revisions initially took time due to the consideration of on-site decisions, taking into account the customer base and market share. However, as the increase in raw material costs reached a level that self-help efforts alone could not cover, in August, the management decided to embark on systematic price revision starting from October 1.
- Amid ongoing price revisions for various of products and materials worldwide, customers have also concluded price revision negotiations with end users. This has increased their tolerance for price revisions with us, and we have already completed negotiations with the majority of our customers. Additionally, both at the management and frontline levels, we closely analyze and monitor the status of negotiations for each customer.
- Based on the above, our goal is to cover approximately 90 percent of the increase in raw material costs for the entire FY23. At this stage, the full-year plan for FY23 does not incorporate the risk of a further rise in raw material costs.

5. What is the current status and future outlook for printer inventory at overseas distributors?

- The situation varies by model, but progress has been made in depleting printer inventory. In FY24, we expect somewhat slow demand from distributers due to the lingering effects of the economic downturn. However, our plan is to steadily implement solutions through direct sales and direct approaches to end users, continuously expanding those solutions, with the goal of recovering overall printer sales.

6. What is the foreign exchange sensitivity and its impact in the 2H?

- Our foreign exchange sensitivity remains consistent (FY23: JPY +504 million in sales and JPY +30 million in OI, assuming all currencies move in correlation with JPY/USD rate).
- The foreign exchange impact was approximately JPY -1.0 billion in the year-to-date period of the 1H compared to the same period in the previous year. Assuming that the sales composition by region

remains stable, we anticipate a more moderate impact of exchange rates in the 2H than in the 1H.

7. Please provide details on the allowance for doubtful accounts in the Americas.

- One of our customers in the U.S. has filed for Chapter 11. If the trustee deems SATO is essential for the customer's business, there is a possibility of full recovery. However, for accounting purposes, we have prudently set aside the entire amount for the account receivable (approximately USD 1.1 million) held by our U.S. subsidiary.

8. The operating income and ordinary income were revised upward in the full-year plan, but the net income attributable to owners of the parent company remained unchanged. What is the rationale behind this decision?

- This decision stems from the acknowledgement of a substantial extraordinary loss of approximately JPY 1 billion during the third quarter. This loss is tied to past investments in North American company in the RFID sector within the apparel market, representing the variance between the acquisition cost and the valuation.
- This adjustment is purely an accounting measure, and there is no change in the relationship with the invested entity. Our ongoing collaboration continues to focus on exploring RFID tagging needs in apparel sewing plants, remaining aligned with the initial objective.