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SATO HOLDINGS CORPORATION (6287.T) IR Department

FAQs following the Announcement of Financial Results for FY2023

FAQ contents

Q4 Results vs. Plan

1. What caused the difference between the actual results and the planned figures?

- Sales: Almost achieved the plan on a consolidated basis. Both overseas and Japan almost achieved respective plans, thus in line with plan overall.
- Operating income: Consolidated operating income exceeded the plan. Overseas exceeded the plan, driven by Europe's Primary Labels business and Asia's Base business. Japan was in line with plan.

2. Regarding the JPY 2.1 billion impairment loss of fixed assets related to the development of the new IT system, why did some of the planned functions become difficult to realize? What are the revised plans and preventative measures to ensure that such impairment does not occur again?

- Since FY2020, the company has been developing a new core IT system to improve business processes and renew some outdated systems.
- However, it was deemed difficult to achieve some of the functions originally planned due to rising development costs among other factors, and it was deemed necessary to change the original plan for some of the functions.
- The project objective was changed from system renewal to replacement. Replacement covers consumables production and maintenance.
- System is scheduled to go live in FY2025 as originally planned.
- As for preventative measures, the company will review the project structure to ensure feasible scope management and project operation, implement constant monitoring along with corresponding initiatives, and strengthen risk management.

FY2024 Forecast

3. What is the breakdown of changes in the operating income plan for the current fiscal year, which is on par with the previous year?

- Overseas business: JPY 1.4 billion decrease in Primary Labels business, and JPY 0.1 billion decrease in the Base business.

- Japan business: Increase of JPY 2.0 billion from the previous year.
- Eliminations: Decrease of JPY 0.5 billion. As inventory levels returned to normalized levels, FY23 profits increased due to the elimination of unrealized gains on inventories.

*For details of the Overseas and Japan businesses, please refer to the following.

Overseas Business (excl. Russia)

4. In the Americas, what were the differences between the Q4 results and the plan? What is the FY24 outlook?

- Sales: Fell short of plan due to slower-than-expected recovery in direct sales in the Base business. The Primary Labels business also failed to meet the plan due to super-inflationary accounting adjustments.
- Operating income: The Base business fell short of plan due to inventory write-downs and super-inflationary accounting adjustments, while the Primary Labels business also fell short of plan due to super-inflationary accounting adjustments.
- FY24 outlook: Sales in the Base business are expected to remain almost unchanged from the previous year due to weak investment appetite among retail customers in the wake of the economic downturn and the completion of inventory adjustments of printers at distributors. Sales in the Primary Labels business are also expected to be flat. Operating income is expected to decline in the Base business due to increased printer development costs, while operating income in the Primary Labels business is also expected to decline due to further deterioration in the uncertain macroeconomic environment.

5. In Europe (excluding Russia), what was the difference between the Q4 results and the plan, and what is the FY24 outlook?

- Sales: Fell short of plan due to weaker-than-expected printer sales caused by the economic slowdown.
- Operating income: Exceeded plan due to appropriate SG&A cost control.
- FY24 outlook: Sales are expected to increase due to the completion of inventory adjustment of printers at distributors and continued demand for RFID from medical device manufacturers, despite weak investment appetite among retail customers due to the economic slowdown. Operating income is also expected to increase due to higher sales.

6. In Asia/Oceania, what was the difference between the Q4 results and the plan, and what is the FY24 outlook?

- Sales: In line with expectations due to firm demand in Australia, China, and Taiwan (Argox) despite headwinds in Southeast Asia.
- Operating income: Exceeded plan due to improved factory profitability.
- FY24 outlook: Sales is expected to increase in Southeast Asia and Oceania, despite continued stagnation in China. Operating income is also expected to increase due to higher sales.

Overseas Business (Russia)

7. What was the difference between the Q4 results and the plan for Russia, and what is the FY24 outlook?

- Sales and Operating income: Exceeded plan due to increased sales of high value-added products offsetting decline caused by intensified competition.
- FY24 outlook: Decrease in both sales and operating income are expected due to further intensification of the

competitive environment caused by the recovery of supply chains of peers in the industry.

8. Will the Russian subsidiary continue to operate?

- As our major customers are companies that provide the F&B and daily necessities to local consumers, we intend to continue operations of the Russian subsidiaries for the time being.
- In light of protecting shareholder value, we are investing in such areas as printing facilities using the available funds of our Russian subsidiaries to maintain their competitiveness. At the same time, the company is reducing risk through debt repayment with Head Office guarantee.
- We are closely monitoring the geopolitical risks surrounding Russia. If our business operations in Russia cause any negative impact on operations elsewhere, we will consider other options.

Japan Business

9. What was the difference between the Q4 results and the plan, and what is the FY24 outlook?

- Sales: Almost achieved the plan.
- Operating income: Achieved the plan by absorbing the increase in human capital investment spending through profit related to export of printers to overseas subsidiaries (gross profit on exports) and containing SG&A expenses compared to the plan.
- FY24 outlook: Sales is expected to increase due to recovery in the manufacturing market, increased RFID demand against the backdrop of labor shortages, and timely price revisions. Operating income is expected to increase significantly due to price revisions and improved mix resulting from increased mechatronics sales in the manufacturing market.

10. Why are profit margins in the Japanese business lower than before?

- In addition to sales of printers, which have a high gross margin, falling short of the plan, the increase in raw material and parts costs was not reflected in the sales price in a timely manner.

11. Are there additional cost increases expected in FY24?

- Raw material costs may increase in consumables. Even with such additional cost increases, we expect little negative impact on profits by promptly proceeding with price revisions.

Medium-term management plan

12. What are the key points of the new medium-term management plan?

- To contribute to solving more complex and wide-ranging customer issues through advanced tagging that is unique, fully automated, and supply-chain wide, or Perfect and Unique Tagging (PUT).
- To invest in PUT by restoring profitability.
- To intensively restore profitability in Japan during the first two years. To achieve this, reform the internal value chain, shift sales personnel to higher profit and growth fields, change the evaluation system for sales personnel from a focus on sales to profit, and launch new printer models.

13. Isn't the planned growth rate of operating income conservative?

- FY24: Operating income in the Japan business is planned to increase with intensive profit recovery measures. On the other hand, the Overseas business is planned to see lower operating income overall due to a drop in profits at the Russian subsidiaries due to the normalization of the competitive environment in the Primary Labels business and a drop in profits in the Base business due to one-off factors from the previous year in Europe, and an increase in development costs for new printers in the Americas. It is understandable to regard the overall plan to be conservative, but we see it as realistic.
- FY25 and beyond: Japan business is expected to remain flat as the increase thanks to MTMP initiatives would be offset by an increase in expenses related to growth investments and upfront costs for large orders. Growth is expected from FY27 onward due to growth investment effects. Overseas, we aim to maintain profit margins while growing sales by efficiently creating and scaling solutions.
- We endeavor to steadily achieve the plan and gain the confidence of the capital market.

Others

14. What is the weight of RFID sales? What are the differences in the degree of adoption by market? What will be the impact on profit margins when adoption increases in the future?

- Global RFID-related sales in FY23 were about 5% of consolidated sales.
- In Japan, the penetration ratio in the apparel industry is high. It is also being introduced in the manufacturing and healthcare markets.
- RFID adoption overseas has been faster than in Japan. Our RFID solutions have been fully implemented for various customers, including major US/European companies in logistics, PC manufacturing and healthcare, and Asian semiconductor manufacturing in addition to apparel customers. These companies use RFID on a global scale, resulting in large deals.
- Currently, the gross profit margin for RFID solutions is about the same as the consolidated gross profit margin. In Japan, RFID margins are typically lower than those overseas. We anticipate that margins will improve as customers implement tags at full scale. Increasing tag production volume and sales of high-margin products, such as printers, software, and services, will improve margins going forward.

15. What are SATO's RFID strengths?

- SATO excels at proposing solutions that utilize its global direct sales/service network, regardless of country or market. We can provide the best hardware, software, RFID supplies, maintenance support for each customer and site.
- Because RFID uses radio waves for communication, it is often difficult to achieve a 100% read rate. Therefore, it is crucial to perform on site tuning to improve the readability rate. This includes selecting the optimal tag for the object and determining the attachment position and angle for the reader's output. We provide support in these areas by leveraging our on-site expertise. Another strength is our ability to quickly propose tags and software that reflect customer needs, as we manufacture and develop them internally.

16. When will the new printer model be released?

- We are planning to start selling the product in the second half of FY2024, and its contribution to sales and profit would be felt in FY2025.

17. How will AI affect SATO?

- Currently, we offer AI-based solutions for determining discount rates and image scan pricing in the retail market.
- As PUT expands in the future, a huge amount of on-site data on temperature, location, and other status information will be obtained from a single product, and the data will need to be cleansed before it is passed on to higher-level systems, and this is where AI would be leveraged.

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For inquiries: SATO HOLDINGS CORPORATION (6287.T) IR Department,
mailto:grp-ir-information@sato-global.com