

FAQs following the Announcement of Financial Results for Q1 FY2024

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Q1 Results

1. What is the breakdown of the difference between planned and actual results?
 - Sales: Achieved the plan on a consolidated basis. Overseas (Base business and Primary Labels business) achieved the plan, Japan slightly under plan.
 - Operating income: Achieved the plan on a consolidated basis. Overseas achieved the plan led by the base business (Asia, Oceania, and the Americas) and the Primary Labels business. Japan did not achieve the plan.

FY2024 Estimate

2. Why did you maintain the full-year forecast, while Q1 consolidated results were up thanks to contributions from overseas businesses?
 - For the full year, we maintained our initial forecast, taking into account the expected continuing economic slowdown in Europe and the U.S. in our overseas Base business, delayed economic recovery in China, and intensifying competitive environment in Russia in the Primary Labels business.

Overseas Base Business

3. In the Americas, what was the difference between the Q1 results and the plan, and what is the FY24 outlook?
 - Sales: Achieved the plan thanks to a large-sized project for the retail market and the positive impact of foreign exchange rates, despite the impact of the economic slowdown.
 - Operating income: Achieved the plan thanks to above-mentioned sales factors as well as partial reversal of allowance for doubtful accounts recorded in Q2 FY23.
 - FY24 outlook: Although customers' investment appetites are weak due to falling consumption caused by inflation, we maintained the sales plan due to the prospect of large-sized project wins. Operating income outlook will remain unchanged from the plan because the profit margins of large-sized projects are relatively low at the start of the transaction, and the better-than-expected Q1 results will likely be offset

by a worsening product mix.

4. In Europe, what was the difference between the Q1 results and the plan, and what is the FY24 outlook?
 - Sales: Missed the plan due to weak printer sales caused by economic slowdown.
 - Operating income: Missed the plan due to lower sales despite SG&A cost containment.
 - FY24 outlook: Despite the economic slowdown and customers' low appetite for investment, the sales plan will be maintained due to the prospect of large-lot project wins. Operating income outlook will be maintained as planned by controlling SG&A expenses.
5. In Asia/Oceania, what was the difference between the Q1 results and the plan, and what is the FY24 outlook?
 - Sales: Achieved the plan due to strong sales to the amusement industry in Australia and inventory adjustments at the Chinese sales subsidiary and Argox in Taiwan.
 - Operating income: Achieved the plan due to the above-mentioned sales factors as well as improved profitability of factories.
 - FY24 outlook: Sales and profit outlook will remain unchanged due to uncertain outlook in China, despite continued strong sales in Australia and Argox Taiwan.

Overseas Primary Labels Business

6. What was the difference between the Q1 results and the plan, and what is the FY24 outlook?
 - Sales: Achieved the plan due to less-than-expected deterioration of competitive environment and strong sales of high-value-added products in Russia.
 - Operating income: Achieved the plan due to the above-mentioned sales factor in Russia and the contribution of continuous price revision in Argentina.
 - FY24 outlook: Despite strong results, both sales and profits are expected to remain unchanged with the plan due to continued uncertainty in the outlook for both Russia and Argentina.
7. Will the Russian subsidiary continue to operate?
 - We are considering various options in close communication with local colleagues and are estimating the financial impact of each.
 - As a result of these considerations, we have come to the conclusion that we continue our business for now. We will review the decision as necessary in response to changes in circumstances.

Japan Business

8. What was the difference between the Q1 results and the plan, and what is the FY24 outlook?
 - Sales: Slightly below plan due to weaker than expected growth in mechatronics sales of printers and automation solutions in the manufacturing and healthcare markets.
 - Operating income: Not achieved due to the above-mentioned mechatronics sales factors.
 - FY24 outlook: Sales and operating income will be maintained as planned despite Q1 results, driven by software for warehousing & dispatching solutions and RFID asset management, and automation, in response to the 2024 logistics crises.

9. Why are profit margins in the Japan business lower than before?
- In addition to the decline in printer sales, which have high gross margins, compared to the peak, the cost increase in raw material has not been fully reflected in selling prices.
10. How is the situation of rising raw material costs and price revisions?
- Rising raw material costs for consumables remained in line with expectations, and price revisions progressed in line with plans as well. While mechatronics is adversely affected by the weak yen, the situation is expected to improve from the second half of the fiscal year, as we plan to revise the procurement prices from our factories in Vietnam and Malaysia to Japan.
 - About 50% of customers agreed to the price revision of intangible services such as mechatronics freight in Q1. Effects are expected to emerge in 2H.

Medium-term Management Plan

11. What are the key points of this medium-term management plan?
- To contribute solving more complex and wider-ranging customer issues through “advanced tagging technology”, or “fully automated, and across supply chain/customer journey tagging of unique IDs”, 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, we will strive to 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.
12. Isn't the growth rate of operating profit plan conservative?
- FY2024: 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.
 - FY2025 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. Profit growth is expected from FY2027 onward due to the effects of growth investments. Overseas, we aim for sales growth while maintaining profit margins by efficiently creating and scaling solutions.
 - We endeavor to steadily achieve the plan and gain the confidence of the capital market.

Finance Strategy

13. What are the new CFO's policies and the financial improvements he would like to make?

- To promote ROIC management and set KPIs for each component to related divisions, aiming for improvement. In particular, we would like to promote improvement in profit margins, emphasize cash flow generation, and improve capital efficiency. This is also in line with TSE requests.

14. What is your capital allocation policy?

- The capital allocation policy is to first restore operating cash flow through the medium-term management plan, and then invest in advanced tagging technology. We plan to acquire technologies through internal R&D, M&A, and alliances.
- In addition to cash on hand and, funding will come from direct and indirect borrowings if necessary. SATO assumes a scenario in which WACC falls as a result of borrowing. As for shareholder returns, the company will endeavor to maintain stable and progressive dividend payouts.
- Share buybacks will be implemented flexibly depending on the availability of cash reserves.

Others

15. What is the composition 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 Q1 FY24 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.

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Explanation about the appropriate use of consolidated forecasts and other notes

Forward-looking statements, including the consolidated forecasts stated in this material, are based on information currently available to the Company and certain assumptions deemed reasonable. Any statements herein do not assure particular results by the Company. Results may differ from the consolidated forecasts due to various factors. Please refer to Financial Result (Kessan Report) for assumptions behind the consolidated forecasts and other information. The above is not a guarantee of future performance. Actual results may vary significantly due to a variety of factors. The following is a list of possible reasons for this.