

Key questions and answers from the financial results briefing for Q1 FY2024

1. What were the Q1 results and what is the outlook for the Primary Labels business?

- In Europe, sales of high-value-added products for traceability of daily necessities using two-dimensional codes were strong, and this compensated for the negative impact from the intensified competitive environment, which had been favorable for the Company due to supply chain disruptions at our competitors. We expect uncertainty to continue as political instability lingers and the competitive environment intensifies.
- In the Americas, the business exceeded the plan. This is because the macro environment did not deteriorate as much as expected and demand was solid. Outlook for the macro environment remains uncertain.

2. What were the Q1 results and what is the outlook for Asia/Oceania?

- In Australia, large-scale PJM RFID projects for an amusement enterprise were robust. They are expected to continue going forward.
- Although sales at the Chinese subsidiary increased YoY due to improved direct sales and reduced distributor inventory, the outlook for the Chinese economy is bleak. Because competition is intensifying in the printer market, we are promoting business negotiations with a focus on solar panels and EC-related products.

3. What were the Q1 results regarding the increase in raw material costs and price revisions, and export gross profit in the Japan business?

- The rise in raw material costs for consumables was in line with expectations. Although the printer imports have been adversely affected by the depreciation of the yen, they are expected to improve from the second half due to the revision of purchasing prices in Japan from factories in Vietnam and Malaysia.
- In Q1, approximately 50% of customers agreed to the revision of prices for intangible services such as shipping of mechatronics. The effect is expected to be seen from the second half.
- Export gross margin improved due to strong sales of printers overseas.

4. What were Q1 results and what is the outlook for mechatronics sales in Japan?

- In Q1, printer sales declined due to slower-than-expected recovery in the manufacturing market, and the pause in capital investment in the healthcare market, which had increased in FY23 following the COVID-19 pandemic. In addition, due to the absence of large-scale projects in the same period of the previous year, sales of automation solutions decreased by about 10% to 20% YoY.
- In response to the 2024 logistics crisis, sales of warehouse management (IritoDe), which is a package software, have increased more significantly than initially expected compared to the same period of the previous year. And RFID Asset Management (ASETRA) deals are growing as well.

- Q1 results in the healthcare market was affected by a pause in capital investment, but we expect sales to be in line with the full year plan due to an anticipated recovery from Q2.
- Sales related to automation solutions tend to increase in Q2 and Q4 due to execution of our customers' budgets. Projects in the pipeline currently exceed the FY24 target by about 10%.

5. What were the Q1 results and what is the outlook for RFID and automation solutions?

- Both solutions performed steadily in Japan and overseas.
- In the Japan business, the growth rate of RFID has slowed down compared to the double-digit growth until FY23. As a result of analyzing the internal process, we identified the focal points. We are shifting resources to win business deals. The above-mentioned package software has been registered as a subject of the government IT subsidy, and introduction is being promoted.
- In addition, with the spread of source tagging*, it is expected that a combination of RFID and automation will contribute to the sales of mechatronics.
- In the Overseas business, there are several large-scale projects for both RFID and automation solutions. The Company expects to receive orders from the second half. RFID training for sales is also progressing, and the ability to generate business opportunities is increasing.
- In Asia, Proof of Concept is steadily increasing mainly for Japanese manufacturers. In Europe and the Americas, installation of both solutions led by our customers' head offices is accelerating mainly for major retail and logistics customers.
- The RFID business is not limited to selling printers, but also contributes to continued business by combining them with software, maintenance and tags.

* Source tagging: A supply chain management practice of instructing vendors or suppliers to affix labels containing specified information of products upon delivery.

6. What are the policies of the new CFO and what do you want to improve on the financials?

- The policy is to promote ROIC management and set KPIs for each component in the relevant departments with the aim of assuring improvements. In particular, I would like to improve profit margins and the capital efficiency by focusing on cash flow.
- We would like to accelerate growth with M&A in mind.

7. How do you evaluate Q1 results against internal plans?

- On a consolidated basis, sales and profits were better than expected.
- Both the Base business and the Primary Labels business overseas exceeded the plan lead by sales.
- In the Japan business, sales of mechatronics products in the manufacturing and healthcare markets, and automation solutions were slow, and both sales and gross profit fell short of the plan. From Q2 onward, we intend to execute the

above initiatives to increase sales of mechatronics products. Another round of timely price revisions is being considered. In addition, we will appropriately control SG&A expenses according to sales and gross profit. Through these measures, we aim to achieve the operating income target of 3.7 billion yen in FY24.