

Key questions and answers from the financial results briefing for Q2 FY2024

1. Why did you revise the forecast upward for Japan and downward for the overseas business for H2 FY24?
  - In the Japan business, both sales and operating income were planned to be weighted toward the H2 of the fiscal year when the plan was formulated at the beginning of the fiscal year. However, the effects of initiatives in each market took more time to materialize than expected, and in effect, the initial H1 plan was too optimistic.
  - The demand in H2 is expected to be strong against the backdrop of serious labor shortages and efforts to improve efficiency. There are large-scale ongoing projects in the following applications by market and industry.
  - Retail market: AI generated discount in food labeling (expiration date, allergen labelling, etc.) and against food loss due to the increase in stores handling prepared foods in the drugstore industry.
  - Logistics market: Increase in demand due to swelling EC logistics and printers for printing inspection slips in the international freight industry.
  - Food & beverage market: RFID Solutions for managing factory assets in the beverage industry.
  - Healthcare market: Automated labeling machines and RFID solutions for the medical device industry.
  - In addition to the above-mentioned solid demand, the Company raised its H2 earnings plan behind intentions to curb SG & A expenses.
  - In the overseas business, the Primary Labels business is expected to be in line with the initial plan. For the Base business, the Company factored in a greater-than-expected economic downturn in the U.S. and Europe. Many of our customers from Southeast Asia and China export to the U.S. It also takes into account negative effects such as a decline in demand for consumables and a delay in the replacement of printers due to a decline in exports following the increase in tariffs pledged by President elect Trump.
  
2. What is the status of capturing RFID source tagging\* demand overseas?
  - Due to changes in customer challenges, there is a growing demand for data collection for the entire supply chain from just site improvement of individual companies. It has already been adopted by several customers such as semiconductor manufacturers and major retail companies.
  - For example, SATO's sales subsidiaries in Europe and the U.S. would propose and develop software for manufacturers in respective regions, and those in Southeast Asia would deliver the software, including RFID labels and printers, to the suppliers of the manufacturers. We believe that it is important for our overseas subsidiaries to cooperate horizontally. In addition, the head office would liaise across them for coordination.
  - In April 2024, SATO launched dedicated organizations to target major overseas and Japanese companies operating globally. The overseas subsidiaries will cooperate horizontally to capture such demand. We expect increasing demand in a variety of markets and industries.

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

3. What is the situation in Q2 regarding price revisions in the Japan business?

- In the Consumables business, the initiatives implemented from FY23 have been effective, and in Mechatronics, the price revisions have been in line with the plan as they have been provided as parts of solutions.

4. What were the Q2 results and what is the outlook for the Primary Labels business in Europe?

- Q2 results reflected competitors beginning to participate in bidding as they recovered from supply chain disruptions, such as the procurement of raw paper. OI decreased as selling traditional primary labels has become more challenging due to an increasingly competitive environment, resulting in a lower gross margin YoY.
- The intensification of the competitive environment for traditional primary labels was as expected at the beginning of the fiscal year, and the negative impact was offset by high-value-added products for traceability of daily necessities utilizing two dimensional codes.

5. What was behind the strong performance in Australia and what is the outlook?

- Strong demand for PJM (Phase Jitter Module) RFID equipment for amusement facilities has been driving sales and OI. The PJM business, which was acquired in 2013, has finally led to results through investment and technological upgrading. We expect demand to continue over the next several years.
- In addition, existing retail and logistics market businesses there have also performed strongly.
- There is further demand for PJM RFID in other markets, particularly in the control of blood products in the healthcare market. SATO intends to invest resources here to expand global sales.

6. As in the development of a new IT system, the launch of a new printer has been delayed. Aren't there any structural problems with project management by the Company?

- We apologize for the delay in launching the new printer.
- For both of the two projects, the top management at the time had too strong a desire for the project team to realize the concept with the ground crew. As the current management had also been involved, we need to deeply reflect on the gap between ourselves and the team.
- In the new medium term management plan, we are promoting projects in areas to build a new profit base under the direct control of the CEO, and working to strengthen governance as we proceed. For example, an external director with overseas expertise accumulated at a healthcare company has been appointed.
- We will continue to strengthen our governance by effectively utilizing not only internal sources but also external expertise.
- The internal organization has been reorganized based on products of Mechatronics and Consumables, and the decision-makers are clearly designated from the viewpoint of total optimization. At the same time, the Executive Officers Meeting and the Business Review Committee have been strengthened to make sophisticated and timely decisions.



- We aim to create a corporate culture and atmosphere in which employees can express their opinions not only in decision-making meetings but also in every aspect throughout the company.
- In April 2025, the holding company and core operating company will be integrated to reduce the hierarchy of the organization and accelerate management and organizational reform by bringing the distance between top management and the front-line closer.