

Key questions and answers from the financial results briefing for Q3 FY2024

1. How much will the downsizing of the headquarters office contribute to the Company's performance in FY25 and beyond?
  - We decided to downsize our headquarters office; the office was designed before COVID, but due to the diversification of work styles, office utilization was lower than originally anticipated.
  - Rent is expected to decrease by about 10% compared to FY24, and related expenses are expected to be reduced as well.
  
2. What is the reason for the lower profit margin of the overseas Base business in Q4 compared to Q3?
  - We expect lower profitability due to a deteriorating product mix at the U.S. sales subsidiary. The one-off special demand for consumables for a specific customer that existed in Q3 will continue in Q4. This business contributes to sales but lowers gross margins.
  
3. What is the background behind the downward revision of 500 million yen in operating income in the FY24 forecast for the Japan business?
  - The downward revision is mainly due to one-time expenses resulting from accelerated depreciation associated with the downsizing of the headquarters office.
  - We expect to reduce expenses from FY25 onward by reducing depreciation expenses and rent along with related expenses associated with the downsizing of the headquarters office. Due to the aforementioned cost reduction effects, one-time expenses from this accelerated depreciation are expected to be recovered during the period of the current medium-term management plan.
  
4. What is the background and sustainability of the improvement in the operating margin of the Japan business?
  - Effects of price revisions for consumables and mechatronics products have emerged. In Mechatronics, price revisions for hardware such as printers and automatic labelers, as well as software and maintenance services, are progressing as planned.
  - In addition, an improved product mix contributed to an approximate threefold increase in sales of packaged software such as asset management system (ASETRA) and receiving/shipping/inventory management system (IritoDe) compared to the same period last year.
  - Operating profit margins tend to be high in H2 due to the seasonality of the business. The macro environment is favorable due to labor shortages and the shift to DX (Digital Transformation), and we hope to continue to capture such demand and maintain high profit margins going forward.

5. What is the status of the healthcare market for the Japan business?
- In the same period of the previous year, there was special demand due to the mitigation of semiconductor shortages caused by COVID disrupting the supply chain and to a recovery in the number of hospital outpatients, which led to rapid capital investment by customers. In FY24, sales of mechatronics products are declining due to a fall in capital investment.
  - On the other hand, demand for more efficient operations is increasing against the backdrop of labor shortages, and business for RFID solutions are increasing for in-hospital solutions such as drug management and medical equipment inventory management.
6. What is the outlook for the large PJM RFID project in Australia? SATO sells PJM RFID-related equipment indirectly to amusement facilities. We expect this to continue for the next several years.
- It also contributes significantly to overall RFID sales. The Company intends to capture other RFID solutions demand to ensure that even if this project fades out, the negative impact will be covered.
7. What is the expected sales and profit contribution of the new WT4-AXB printer for the overseas business?
- This is an entry model industrial printer.
  - The Company expects cumulative sales of 7-8 billion yen for FY24-28. Since the product was released on February 11, 2025, full contribution to sales and profit is not expected until FY25.
  - Because these printers target markets where price competition is severe, their gross margins are relatively lower than those of high-end models. However, we aim to acquire customers that we have not been able to so far through price competition by selling through distributors.
  - Since the main sales channel is through distributors and sales can be made with lower SG&A expenses, the operating profit margin is expected to be the same as that of the overseas business as a whole.
  - Although SATO has been highly regarded by overseas customers for its high quality and high functionality, it was difficult to accommodate their needs when it came to price competition. We will first have these customers use entry model SATO printers, evaluate us, and gain their trust so that they will switch to high-end model printers in the future.
8. What is the status of sales of high value-added products in the European Primary Labels Business?
- High value-added products include two-dimensional codes using digital printing for traceability of daily necessities.
  - Sales of this digital printing and the utilization rate of digital printing facilities have been robust, and the sales composition ratio of high value-added products has been increasing.

9. What is the status of the "new fields" development?

- In logistics DX (Digital Transformation) , sales of packaged software such as asset management system (ASETRA) and receiving/shipping/inventory management system (IritoDe) are growing in manufacturing logistics.
- In addition, sales of printers for luggage delivery for tourists are increasing on the back of growing inbound tourism. We intend to scale these solutions globally as similar demand is expected in other countries.
- We are aiming for sales of 10 billion yen in logistics DX within the "new fields", by cultivating demand and steadfastly acquiring business opportunities.

10. What are the prospects for FY25?

- Although there will be differences in degree between the Japan and overseas businesses, demand for operational efficiency is expected to remain strong against the backdrop of labor shortages.
- In the overseas business, we look to develop the healthcare and manufacturing markets in U.S., which have relatively high profit margins. Europe is expected to be significantly affected by the economic slowdown, but we aim to improve profitability by increasing sales through the launch of the new WT4-AXB printer and by providing solutions through the use of no-code and low-code applications that we are developing in collaboration with Mobile Logic.
- The Japan business sees high demand for operational efficiency in each of its markets. We expect the manufacturing market to recover further and the logistics market to accelerate measures and initiatives with corporates' appointing Chief Logistics Officers (CLOs). As such, we aim to capture related demand and expand sales.

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