

FAQs following the Announcement of Financial Results for FY2024

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Q4 (Jan-Mar) Results

1. What is the breakdown of the difference between the planned and the actual operating income?
 - Japan: Achieved the plan, due to reclassifying the costs related to office downsizing from operating expenses to extraordinary losses (an increase of just under 400 million yen), an increase in gross profit accompanying a rise in Net sales (an increase of 400 million yen), and others (a decrease of 100 million yen).
 - Overseas Base business: Achieved the plan, driven by large PJM RFID projects, results in Asia and Oceania exceeded expectations.
 - Overseas primary: The plan was not achieved due to a reactive decline caused by changes in Russian excise tax rates.

Overseas Base business

2. Americas: How did the Q4 results compare to plan?
 - Net sales: Despite being affected by inflation, the plan was achieved through large orders such as print and apply systems for the logistics market and special demand for consumables from specific customers in the retail market.
 - Operating income: Achieved through increased revenue and controlled selling, general and administrative expenses.

3. Europe: Actual How did the Q4 results compare to plan? as follows.
 - Net sales: Although consumables demand in Germany remained strong, sales did not meet targets due to the impact of the economic downturn.
 - Operating income: Not achieved due to a decrease in net sales.
4. Asia/Oceania: How did the Q4 results compare to plan?
 - Net sales: While the RFID project in Australia (readers for entertainment facilities) performed well, Southeast Asia fell short of the plan, resulting in the overall region missing its targets.
 - Operating income: Achieved through improved product mix and increased factory operation.
5. Will large-scale RFID projects in Australia continue in the future?
 - Based on customer demand, we estimate that current net sales will continue for at least the next three years.
 - Our customer in Australia sells to entertainment facilities in various countries.

Overseas Primary Labels Business

6. How did the Q4 results compare to plan?
 - Net sales: The decline in alcoholic beverage demand due to changes in Russia's tax system has been offset by increased demand in other applications, remaining in line with the plan.
 - Operating income: Not achieved due to the deterioration of the product mix in Russia.
7. Do you intend to continue operating the Russian subsidiaries?
 - We are considering various options in close communication with the local colleagues and estimating the financial impact of each.
 - At this point, the policy is to continue the business, but it will be reviewed in response to changes in the situation.
8. What is the normalized operating margin of the Russian subsidiaries?
 - The current profit margin is temporarily at a high level. Considering historical averages and the profit margins of major competitors, the mid teen range seems to be the normalized level in the medium term.

Japanese business

9. How did the Q4 results compare to plan?
 - Net sales: Overall, the plan was achieved. Mechatronics performed well in the manufacturing and healthcare markets, and consumables also performed well due to price revisions.
 - Operating income: Achieved the plan due to increased net sales and higher exports of printers to overseas subsidiaries.

10. What is the status of rising raw material costs and price revisions?

- The total for mechatronics and consumables was slightly below the target.
- Consumables: The result was below target due to the difference between the increase in raw material costs and the price revisions.
- Mechatronics: Achieved plan targets by offsetting raw material cost increases with price revisions.

FY25 Forecast

11. What is the breakdown by region?

- The impact of U.S. tariff policies has not been included, as a reasonable estimate was not feasible as of May 15.
- Steady demand for operational efficiency improvements is expected in both Japan and overseas businesses, due to labor shortages.
- In the overseas business, we will develop the healthcare and manufacturing markets, which have relatively high profit margins in the United States. Although the impact of the economic downturn in Europe is severe, we aim to improve profitability by increasing sales through the launch of the new WT4-AXB printer and by creating solutions using no-code and low-code applications being developed in collaboration with MobileLogic. In Asia and Oceania, Australian RFID business is expected to continue growing.
- In the Japanese business, demand for business efficiency improvement in each market is high. The manufacturing market is expected to recover further, and in the logistics market, CLO (Chief Logistics Officer) will be appointed at each company to accelerate measures and initiatives, with the aim of capturing related demand.

Medium-term Management Plan

12. What is the net sales outlook related to the circular economy?

- FY25: Expected to be in the range of several hundred million yen.
- From FY26 onwards: As these are newly launched initiatives, it will take time before they begin contributing significantly to net sales. However, given the large scale of each project, once operations commence, we anticipate a rapid acceleration in growth.

13. What are the key points of this MTMP?

- To contribute to solving more complex and wide-ranging customer pain points through advanced tagging = unique ID assignment, full process automation, and tagging across the supply chain = Perfect and Unique Tagging (PUT).
- To invest in PUT by restoring profitability.
- We will focus on restoring profit margins in Japan within the first two years. It will focus on restoring Japanese margins in the first two years. We will intensively work on profitability restoration in Japan during the first two years of MTMP. 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.
- As profit recovery progressed faster than expected, we carried out growth investments earlier than planned.

14. When will the new printer be launched?

- It is expected to be launched in Q4 FY24.

Finance Strategy

15. What are your financial strategies and areas for improvement?

- To promote ROIC management and set KPIs for each component within related divisions, aiming for improvement. In particular, we would like to promote improvement in profit margins, emphasize cash flow, and improve capital efficiency. These efforts are also aligned with TSE (Tokyo Stock Exchange) requests.

16. What is your capital allocation policy?

- After recovering operating cash flow through Medium-term Management Plan initiatives, investments will be made in PUT. Funding for technology acquisition—whether through in-house development, M&A, or partnerships—will be sourced from on-hand capital, with direct or indirect borrowing used as needed.
- SATO assumes a scenario in which WACC falls as a result of increased debt.
- As for shareholder returns, the company will strive to maintain stable and progressive dividend payouts, and will implement share buybacks flexibly depending on cash availability.

Other Businesses-related Topics

17. What is the net sales composition ratio of RFID, its adoption by market segment, and its impact on profit margins?

- Global RFID-related sales in Q4 FY24 accounted for approximately 7% of consolidated sales.
- In Japan, the penetration rate in the apparel industry is high. It is also being introduced in the manufacturing and healthcare markets.
- Oversea, SATO's customers include major U.S. logistics companies, major European and U.S. healthcare companies, and major Asian semiconductor manufacturers. In many cases, operations are carried out on a global scale, tending to be quite large in scope. Sales of readers using SATO proprietary RFID technology (PJM*) for entertainment facilities have also increased.
- Current gross margins for RFID-related solutions are generally in line with the consolidated average. Although the profit margin in Japan tends to be lower than overseas countries, they are expected to improve going forward as the full-scale introduction by customers progresses, and as the cost decreases due to an increase in the production volume of tags and sales of printers, software and services increase.

※ Phase Jitter Modulation

Institutional investors' View on SATO

Long-only investors in Japan

- It's puzzling that the stock price doesn't rise despite good business performance.

Overseas Long-Only

- Investors are not confident about the outlook for Russia (primary labels business, Europe).
- The working capital turnover days have remained extended since the COVID-19. There is room for improving ROIC.

*This section describes institutional investors' evaluation of SATO and why they requested a meeting. These do not reflect all investor comments.

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Explanation of Appropriate Use of Performance Forecasts

The earnings forecasts and other forward-looking statements contained in this document are based on information currently available to the Company and on certain assumptions deemed to be reasonable by the Company. They do not constitute guarantees of future performance by the Company. Actual results may differ significantly from these forecasts due to various factors. Please refer to the Summary of Financial Results for the assumptions that form the basis of the earnings forecasts.