

Key questions and answers from Business briefing (Overseas) (September 30, 2022)

1. What are the initiatives and challenges to accelerating sustainable growth in earnings?
 - In the Overseas business, we have been strengthening sales at each subsidiary in full scale since FY2018. The company has shifted its sales approach from "*mono-uri*," in which it simply sells printers and consumables in response to customer inquiries, to "*koto-uri*," in which it creates and provides total solutions to customers' operational challenges. Aiming to provide in-depth solutions to evident and latent challenges, we have allocated market/industry experts at Headquarters who can provide support for each overseas subsidiary to enhance *koto-uri*. Our subsidiaries are also collaborating with one another to enhance *koto-uri* on a global level.
 - Going forward, the company plans to pursue *koto-uri* with business partners without solely insisting on direct sales, targeting its focal customers and further accelerating sales growth by duplicating the success globally.
 - Since FY2021, we have been working to enhance management in overseas subsidiaries, resulting in a better organization and greater visibility into their businesses. Specifically, we have assigned regional operations officers who oversee their regions to more detail. With speedy decision-making and initiatives, each subsidiary seeks to establish their reason-to-be.
 - With these actions, we aim to achieve OI margin of 8% in FY2023, the final year of the medium-term management plan.
 - Our challenge in the Overseas business is that our presence is still low, so we hope to strengthen alliances and M&A in addition to advancing our *koto-uri* sales approach.

2. What are your thoughts on securing and training human resources?
 - In sales activities, we aim to expand business by adopting a market/industry-specific approach, so the key initiative is to secure and retain the right people on right jobs.
 - In terms of employee retention, the situation varies from region to region. In Europe and the United States, employee retention rate is relatively high, while in Asia, it is low, particularly among the younger generation. Therefore, we are standardizing operations in these low retention areas to accommodate changes in personnel.
 - Efforts to increase retention rates are also being made on a global basis by having employees understand our competitive advantage through *koto-uri* sales activities and recognize how our solutions support the corporate activities of customers. In addition, we are actively working to have our corporate values take root, such as awarding employees who demonstrate the Credo (Code of Conduct).

3. Amid concerns about an economic recession, do you see any changes in customers' willingness to invest or in current sales activities?

- We expect a temporary decline in replacement demand for printers as customers become more cost-conscious due to the rising cost of raw materials and labor, which has become more pronounced as a result of greater inflation on a global scale. On the other hand, however, there is strong demand for labor saving and operational efficiency improvement to reduce labor costs.
- For example, sales leads are increasing for solutions that support significant improvements in work efficiency by replacing tasks previously performed with barcodes with RFID tags, which can be read by batch. Rather than simply selling printers and labels, customers expect us to provide total solutions based on an understanding of customers' true challenges. In order to capture such demand and lead to sales, we are working to train and secure sales representatives and system engineers.

4. What are the hurdles to RFID tags becoming more widely used in society? Is it because of the high price?

- Compared to barcode labels, RFID tags are expensive. Therefore, we are trying to gain the understanding of our customers by clearly showing not only the initial investment cost, but also the total cost-effectiveness, such as how much more efficient operations will become over the course of a year, which will lead to cost reductions.
- The following is an example of the food ingredients inventory work we mentioned in today's briefing. A customer's task was to take inventory in a -25°C freezer. With barcodes, each item must be read one by one and it takes more than 10 minutes. With RFID tags, however, the work can be completed in 30 seconds to a minute as they can be read by batch. The effect of using RFID is not only to improve work efficiency, but also to reduce the workload of workers by improving the working environment, and customers are satisfied with the outcomes.

5. Why do customers choose SATO's RFID?

- There are two strengths in our RFID products.
- The first is that we manufacture RFID printers and labels in-house. High data writing and reading accuracy is crucial to realizing the benefits of RFID. To ensure this high accuracy, we conduct thorough quality control to deliver products of highest quality. We also make sure that our printers and genuine labels match perfectly.
- Second is the knowledge we have accumulated concerning customer worksites. Read accuracy is greatly affected by the operating environment. We have the know-how to propose the best methods of attaching and reading RFIDs to suit the environment in which they are used, to offer

maximum read accuracy.

6. What do you mean when you say profitability would improve when *koto-uri* success cases are shared group-wide?

- In the process of consulting with customers and creating solutions for new applications, it takes time and effort to identify issues and verify the effectiveness of the solution. But if we could standardize what we created there and approach other customers around the world facing the same challenges, we could expand sales without taking the time and effort spent in the initial process. And by doing it through our business partners, we can offer the solution to more customers.
- That's why we tell our sales to create solutions for new projects with a mind on standardizing them.