

Key questions and answers from Business briefing (Tagging technology innovation)

(December 22, 2023)

1. Can you provide more details about SATO's initiatives in the circular economy? SATO recently announced a partnership with Nakadai Holdings Co., Ltd. Could you provide more insights into the background of this collaboration and the growth potential in this field moving forward?

- In April 2023, we established a dedicated team focused on addressing challenges related to the circular economy that span across markets and industries.
- We engaged in discussions with Nakadai Holdings Co., Ltd., a leading player in the comprehensive recycling industry, to better understand the challenges they encounter. We identified opportunities for co-creating solutions by leveraging our tagging technologies and expertise.

* For further details, please refer to our [Integrated Report 2023 on pages 18-21](#) available on sato-global.com

- One specific challenge in Japan revolves around the recycling of solar panels. In order to recover and reuse rare metals from used panels, they must be carefully disassembled, refined, and returned to the component manufacturers. Tagging plays crucial role in visualizing the flow of materials throughout the entire supply chain, presenting a significant business opportunity in this domain.
- On an international scale, major global companies are setting quantitative targets to achieve circular economy goals, such as aiming for a 99% recycling rate of waste. We are actively developing solutions that leverage our tagging technologies and expertise to assist these companies in reaching their sustainability objectives.

2. How are you enhancing the profit margin of SATO's RFID business in the manufacturing market?

- In Japan, the manufacturing market is still in the early stages of RFID adoption, marked by the sale of low-margin sample RFID consumables (labels, tags) and readers. As these products transition to the full-scale implementation, we expect to boost the gross margin by increasing sales of higher-margin offerings, including printers, software, and maintenance services. In addition, RFID consumables are expected to evolve into a recurring business in the medium to long term, allowing us to enhance the operating profit margin by selling them without incurring additional selling and administrative expenses.
- Unlike two-dimensional (2D) code consumables (barcode and QR code labels and tags), where differentiation from our competitors is challenging, RFID consumables necessitate knowledge of RFID system operations in the field, adding complexity to the business. Leveraging our profound on-site knowledge, we aim to improve profitability by showcasing the value our customers recognize.

- Recognizing the significance of investing in human capital, we conduct regular online meetings to share RFID case studies and organize in-person RFID training sessions for managers. The knowledge gained from these sessions is shared among sales staff at each location.
- In the global RFID market, the apparel industry annually utilizes hundreds of millions of RFID tags. For this sector, we seek to reduce costs by expanding production facilities and manufacturing tags at low cost in large quantities. On the other hand, the manufacturing market exhibits high individuality in on-site operations. To increase profitability of high-mix low-volume RFID consumables, we emphasize their high value, including quality reading, in pricing strategies.
- Embracing the trend of source tagging* in the manufacturing market, SATO responds by developing and offering RFID solutions that address customer challenges. Despite initial development costs, the company anticipates improving profit margins through the efficient expansion of sales, given the prevalence of similar challenges among customers.

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

3. Are there any differences in the major trends of RFID in the manufacturing market between Japan and overseas?

- Yes, there are some key differences. In Japan, source tagging has emerged as a significant trend, exerting substantial impact on sales revenue.
- In addition, there is a high level of interest in process management in Japan. Manufacturers are required to collect data on who, what, how much, and quality, and they are working to digitize analog data as DX (digital transformation) is accelerating.
- Overseas, the trend involves utilizing RFID for supply chain management across companies. This allows efficiency gains not only at individual sites, but also throughout the entire process from raw materials to delivery of products to consumers.
- The penetration of RFID in overseas markets is also rapid. All items are tagged even in mid-sized supermarkets, and RFID is becoming familiar to consumers. This is one of the reasons for the high growth rate in the overseas RFID market.

4. What are the strategies and initiatives to increase your market share in the RFID market?

- In Japan, we have expanded our customer base by working collaboratively with industry associations to standardize two-dimensional (2D) codes like barcodes. This established customer foundation provides us with an advantage when transitioning from 2D codes to RFID. Additionally, we believe that addressing customer needs using our wealth of on-site knowledge in areas such as process management, which is of high interest, will help us capture more market share.
- In overseas markets, we consider it vital to collaborate with governments and external

organizations to develop new legal and regulatory frameworks that support the use of RFID. We also believe that it is essential to deeply understand the commercial practices of each industry.

5. What is the average sales cycle length of RFID?

- Both in Japan and overseas, the average sales cycle for conventional products, such as printers, is six months. For RFID, the sales cycle is typically longer, ranging from six to twelve months, primarily due to the necessity for proof-of concept phase. However, the average value of an RFID deal is generally higher than that of a printer deal, resulting in a relatively small impact on annual sales.

6. Is the evaluation system for sales representatives aligned with the company's growth-strategy, particularly regarding RFID?

- In Japan, we are addressing this matter. Currently, RFID sales revenue isn't directly tied to evaluations. The plan is to expedite the implementation of a quantitative evaluation system, such as assessing sales reps and engineers based on acquired RFID engineering qualifications and their ability to craft compelling proposals.
- Presently, approximately 20% of sales representatives in Japan are capable of proposing advanced solutions involving RFID or other technologies, and we aim to increase this percentage. Among sales representatives from the digital native generation, there is a positive trend where even those with limited experience can generate effective proposals.
- The evaluation systems abroad are not uniform as each overseas subsidiary has delegated authority. However, some subsidiaries have incentives for RFID. The headquarters consistently conducts training programs to nurture RFID specialists.

7. Overseas competitors are focusing on the sales of RFID readers in Japan. Do you think this will affect SATO's business in Japan?

- We don't anticipate substantial impact on our business. RFID operations require essential components like readers, including handheld terminals, and we've been procuring readers from external companies to incorporate into our solution offerings to meet our customer needs. In this regard, we perceive it more as an opportunity for a collaborative business relationship rather than a significant challenge.