SATO HOLDINGS CORPORATION

FY24–28 Medium-term management plan

Securities Code: 6287.T

This is Konuma.
Thank you for attending our briefing for FY24-28 medium-term management plan.
Now, let us begin.

Our 2030 vision

FY24–FY28 Medium-term management plan

I am going to explain two themes.
Today, I will mainly explain the outline.
We will touch on details at the earnings call in May.

Our 2030 vision

**FY24–FY28
Medium-term
management plan**

The first theme is our 2030 vision.

We live up to our Credo, as we aim to become an essential company for society.

Mission	Our mission is to create new value for our customers through products and services of superior quality, and to contribute towards a better and more sustainable world.

Vision	To be the customer's most trusted partner for mutual growth, and always essential in an ever-changing world.

Credo	• We inspire changes, new ideas, and the courage of promoting customer-centric innovation in the spirit of Ceaseless Creativity. • We seek to be true professionals by constantly striving to exceed the expectations of our customers. • We see things as they are, and do the right thing right away. • We show respect for all individuals, extend trust to each other, and work together as one cohesive team. • We enable a vibrant and open-minded workplace, eliminating the formalities that cause "Big Company Disease." • We share the returns from our business with our four stakeholders: shareholders, employees, society and the company.

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Here are our values.
Mission, vision and credo represent our Code of Conduct.
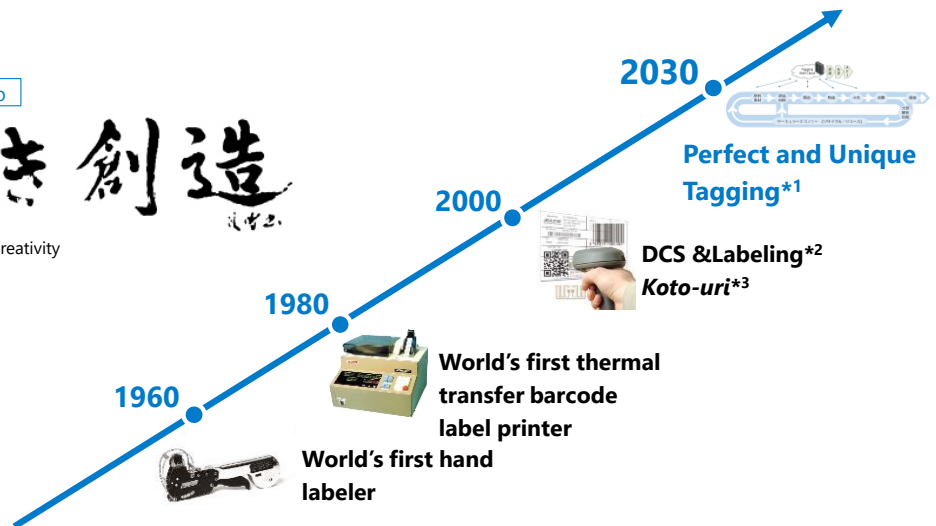The point is that we aim to be an essential company for the changing society.
The new medium-term management plan is based on this idea.

SATO has evolved with society, solving challenges of the times with auto-ID technology.

SATO's corporate motto

あくなき創造

Akunaki sozo — Ceaseless Creativity

2030

Perfect and Unique Tagging*¹

2000

DCS &Labeling*²
*Koto-uri**³*

1980

World's first thermal transfer barcode label printer

1960

World's first hand labeler

*1 The tagging approach for realizing our 2030 vision. Details to follow.
*2 DCS & Labeling: Data Collection Systems & Labeling. SATO's business model of using labels to associate ID and other forms of data to things and people at a worksite to digitize and optimize operations.
*3 Koto-uri: Selling the solution, not the product.

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Now I would like to explain our history.
In 1960s, we developed the world's first handheld labeler and in 1980 we created the world's first thermal transfer barcode based on our corporate motto "Akunaki sozo"– Ceaseless Creativity.
In the 2000s, we have evolved with the business model of DCS & Labeling and Koto-uri.
As I will explain in more detail later on, we will work on the subject of Perfect and Unique Tagging in the future.
We have been developing products and solutions that utilize automatic identification technology in response to the needs of society and the times. We have transformed our business model every 20 years or so, and in the future we will remain committed to solving customer issues in response to the demands of society and the times.

Societal challenges and values provided by SATO

SATO has evolved with society, solving customer challenges of the times with auto-ID technology.
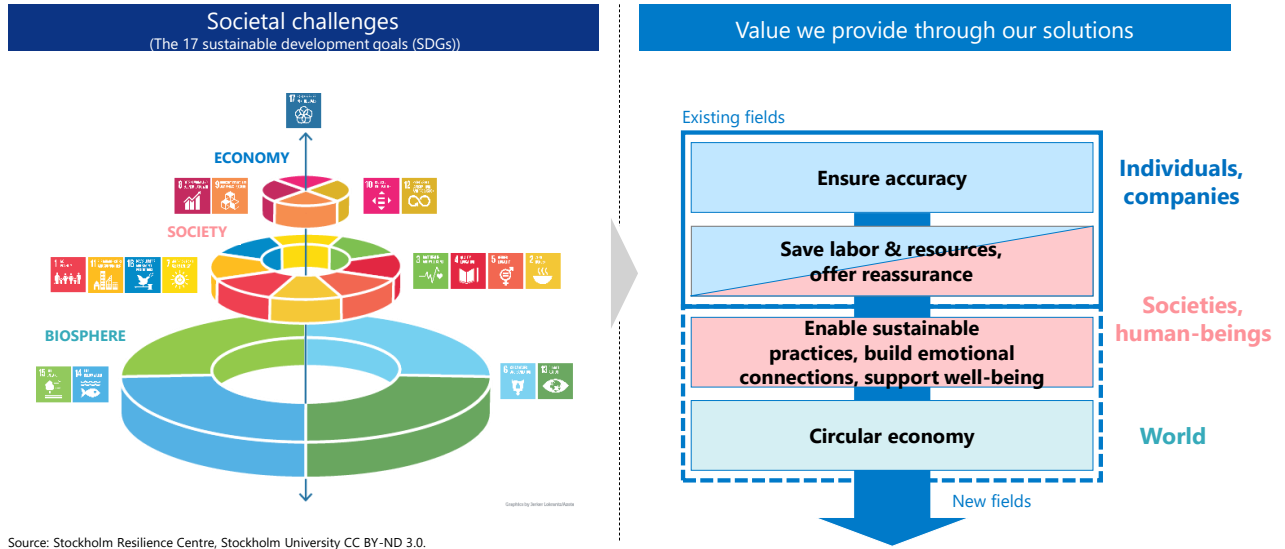
Source: Stockholm Resilience Centre, Stockholm University CC BY-ND 3.0.

I would like to explain about social issues and the value SATO provides.
I believe that the challenges customers face have spread from the level of individual companies and individuals to the social, human, and environmental domains.
We have solved the challenges of individual companies, individuals, society, and human beings through ensurancing accuracy and labor-saving measures, resource conservation, and safety and security in terms of value provided to date.
It is believed that challenges will spread to the global and human level in the future.
As shown in the diagram on the right, we will tackle new areas such as sustainable practices, well-being, and the circular economy to resolve various social issues.

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Customer pain points are now expanding beyond individual and corporate issues to encompass broader societal and industrial challenges.

Digitalization/Sustainability transformation

Geopolitical risks and pandemics => **Visualize supply chains**	Technological innovation=> **Solve new challenges**	Decline in working population; shortages in labor => **Save labor with automation**
Compliance with new regulations => **Electronically attach product lifecycle data**	Sustainable practices and resource conservation => **Consume less; reuse more**	Environmental consciousness and capital market requirements => **Visualize and reduce GHG emissions in supply chains**

Visualize data through tagging solutions to solve challenges
(Business opportunities)

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Now, I would like to explain changes in customer challenges.
As mentioned earlier, customer issues are expanding from the level of individual companies to industries and society as a whole.
This slide shows an example of a customer issue we are aware of.
Various challenges are spreading, such as supply chain visualization, resource use reduction, and visualization of greenhouse gas emissions.
We want to contribute to solving problems by visualizing them with our business of "tagging,"

Examples of business opportunities

Expansion of existing opportunities

Source tagging

Suppliers attach RFID labels that contain material information before delivering products to manufacturers and retailers to streamline the receiving process.

Blood and sample management

Demanding and error-intolerant management of blood bag inventory with short expiry dates can be made more efficient.

Full automation

Automated three-point verification (patient, medication, nurse) before administering medication would reduce burden on patients and health care professionals.

Emergence of new opportunities

Digital Product Passport

Ensure traceability throughout the product lifecycle by attaching data on the manufacturer, materials used, and how the product should be recycled and disposed of.

Reverse logistics

Visualizing processes from waste collection to treatment and production of recycled materials ensures a stable supply and quality of recycled materials.

GHG emission measurement

Standardizing the management of raw materials and work-in-progress at plants enables accurate measurement of GHG emissions and more effective emission control.

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Here are some examples of business opportunities.

Expanding existing opportunities are shown in the top part of the slide.
For example, there has been an increase in cases where manufacturers request suppliers to deliver products with information of raw materials. We provide RFID tagging solutions to meet such requests. We believe this demand will spread to customers in the manufacturing and retail markets.
Blood management is an area where mistakes are not allowed amid short expiration dates and heavy operational burden. Customer needs are also rising in these areas.
Next, I will explain full automation. The demand to manage automated items in labor saving is expanding, which is expected to further expand the scope of existing businesses.
I will explain the details of blood management and full automation later.
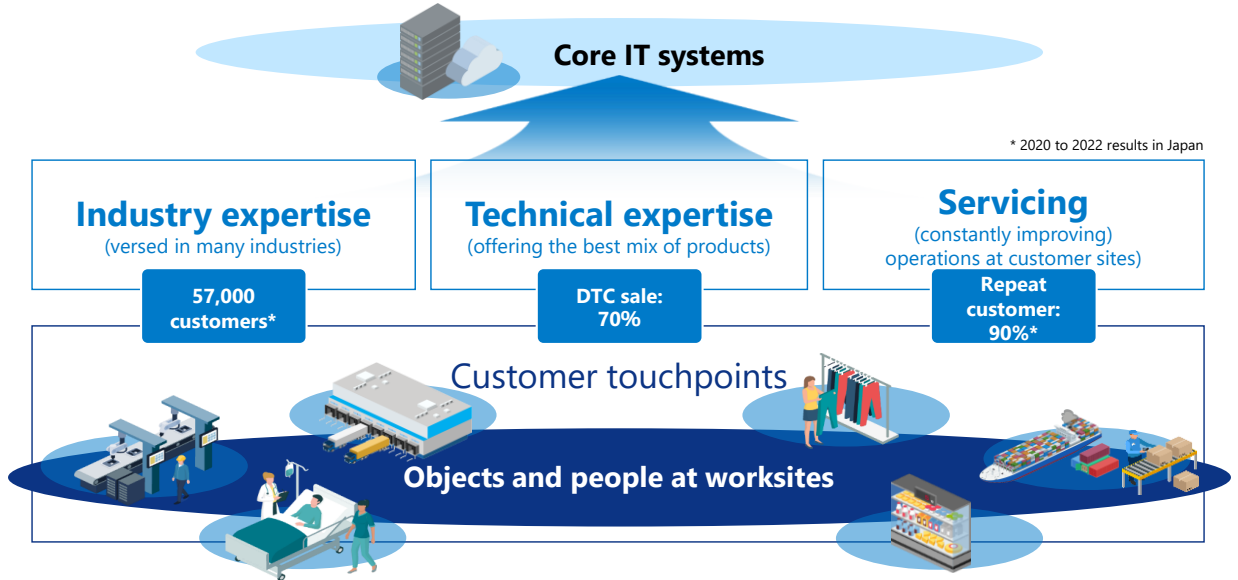
The bottom of the slide shows the emergence of new opportunities.
Digital product passports provide information on materials used and recycled to ensure traceability in line with their life cycles.
The demand for collection of waste and recycling is increasing globally in the area of reverse logistics.
Measuring GHG emissions has become an issue for large companies, and it has become an issue globally. We believe that we can assist our customers in measuring GHG emissions by providing our solutions that visualize manufacturing processes and inventory control of work in process.

SATO's strengths to capture opportunities

We leverage our customer touchpoints and *genbaryoku* to help customers solve their challenges with tagging solutions. We will continue capturing business opportunities.

Core IT systems

* 2020 to 2022 results in Japan

Industry expertise
(versed in many industries)

57,000 customers*

Technical expertise
(offering the best mix of products)

DTC sale: 70%

Servicing
(constantly improving)
operations at customer sites)

Repeat customer: 90%*

Customer touchpoints

Objects and people at worksites

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I would like to explain SATO's strengths in capturing opportunities.
To begin with, we have solved customer issues through on-site capabilities. There are three points in this on-site capability.
The first is industry expertise, and the number of customer accounts is extremely large.
The second point is the high percentage of direct business, which deeply supports our customers.
Finally, in servicing, we are continuously improving operations at customer sites with a high repeat rate.
We believe that the extremely strong customer touchpoints will support the demands that will expand further in the future.
We solve on-site issues by providing on-site information through tagging to enterprises that operate core IT systems.
Companies that operate core IT systems are not involved in such areas, and our strength is that we have been involved in this area for many years.
Even if customer issues change, we want to contribute to solving them, as SATO has the point of contact with customers at their operational sites.

Leveraging our customer touchpoints and *genbaryoku*, we continue to innovate our tagging technology to solve the challenges of diverse customers.
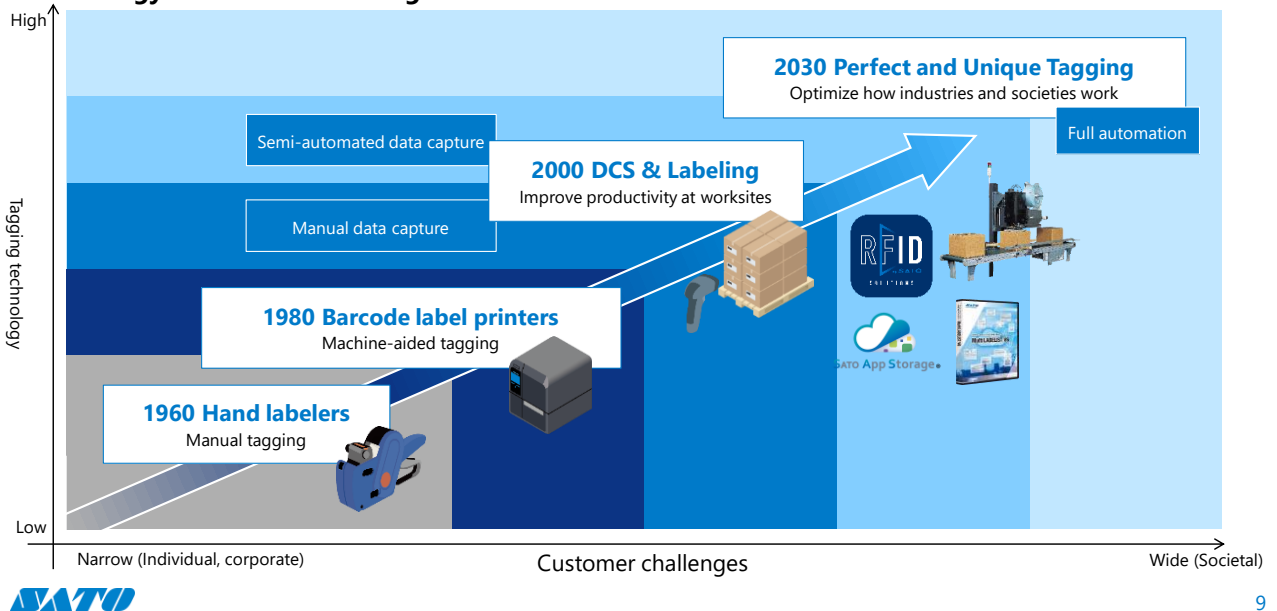
We will explain the solutions we provide.
In this diagram, the vertical axis indicates tagging technology, and the horizontal axis indicates the range of customer issues.
SATO began manufacturing hand labelers in the 1960s. We have developed them to attach price tags to merchandise, and achieved semi-automation.
In the 1980s, with the popularization of POS cash registers, bar codes were printed on labels by thermal transfer printers. We provided barcode printers for the first time in the world.
Since the 2000s, our business model has been DSC & Labeling, which ties labels to information systems.
We aim to expand "Perfect and Unique Tagging" by 2030. In the field of DCS&L at present, there are manual auto-identification and machinery-led auto-identification.
For example, at a supermarket register, a person reads a bar code using a bar code reader, so it operates semi-automatically, driven by the person, while using automatic identification technology.
On the other hand, in recent years, at some major apparel retail stores, you can bring an IC-tagged item to the cash register and the checkout is automatically completed.
(This is also machine-led and semi-automatic, as a person brings the item to read the IC tag.)
In the future, when shopping, if you walk out with your merchandise, the checkout will be completed automatically. This is full automation.
In order to achieve this, we believe that we need a perfect and unique tagging as shown in the upper right-hand side of the diagram.

This kind of demands will continue to expand, and we would like to make it a new business model while considering what kind of consumables and information are needed in order to acquire information of individual things.

Desired outcomes and business goals

We pursue to give every 'thing' its own ID so it connects with the world with "Perfect and Unique Tagging"

Business goals	Consol. sales: JPY **200B** Consol. OI: JPY **21B**, **10.5**% ROIC: Over **10.0**%

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I would like to explain our desired outcome and business goals.
Our desired outcome in 2030 is that we pursue to give every 'thing' its own ID so it connects with the world with "Perfect and Unique Tagging".
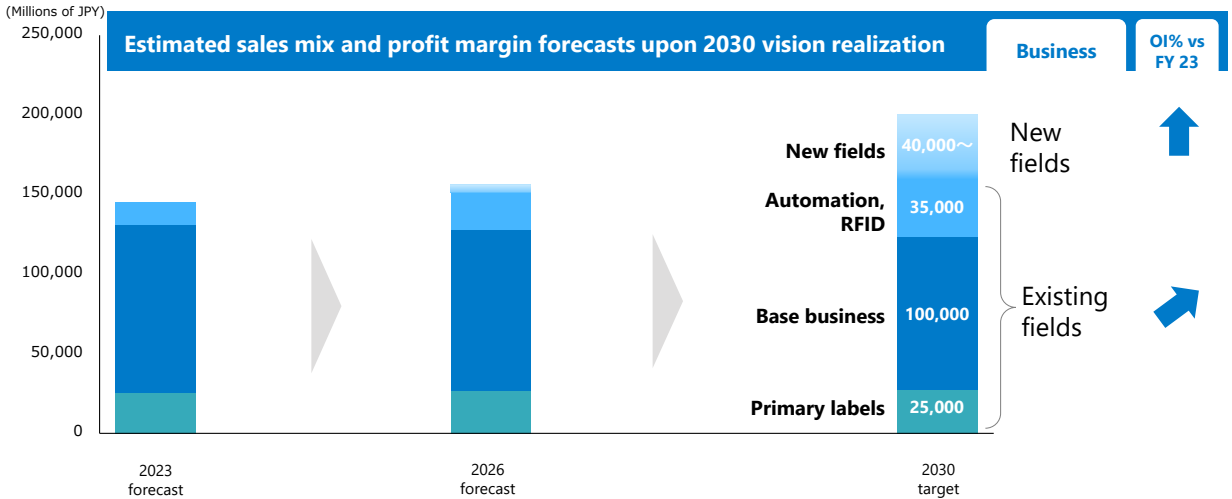FY2030's management goals are net sales of 200 billion yen, operating income of 21 billion yen, an operating income margin of 10.5% and ROIC of 10% or higher.

Develop a revenue base to achieve consistent profit growth. Invest in new fields, Perfect and Unique Tagging, with high-growth and high-profit potential to improve our profit mix.

(Millions of JPY)

Estimated sales mix and profit margin forecasts upon 2030 vision realization

	Business	OI% vs FY 23

New fields 40,000~ — New fields

Automation, RFID 35,000

Base business 100,000 — Existing fields

Primary labels 25,000

250,000
200,000
150,000
100,000
50,000
0

2023 forecast   2026 forecast   2030 target

* Focal areas may partially overlap

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I will explain our sales mix and OI margin targets.

First, we aim to establish an earnings base that realizes stable profit growth.

We will invest a certain amount of management resources in "Perfect and Unique Tagging," a new area with high growth potential and profitability, to improve our earnings mix.

We consider this "Perfect and Unique Tagging" to be a higher-margin area than in our existing business domains, so we will gradually increase its composition ratio.

We believe that there is room to grow in RFID and automation which are utilized in semi-automation. We will strengthen our efforts in this area, which is an extension of existing business, as high-value-added solutions.

Our 2030 vision

FY24–FY28 Medium-term management plan

Contents
- **A look back on our performance**
- **FY24–FY28 new MTMP key strategy**
- **Initiative**
- **Financial plan**

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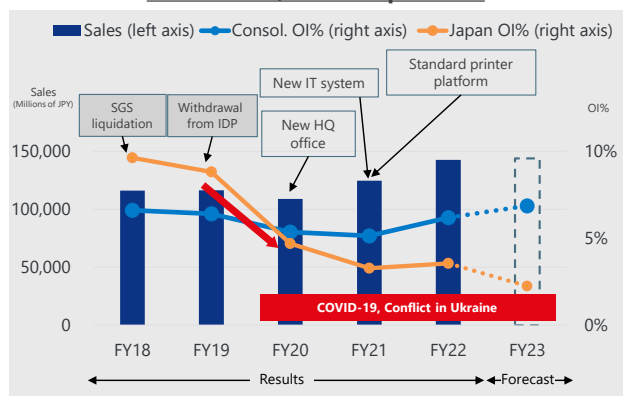From here, I would like to explain our medium-term management plan from FY24 to FY28.
 We have set the period for this plan as 5 years. However, our financial target is set for FY26.

A look back on our performance

Our focus on core businesses since FY18 grew the overseas business, expanded market coverage/expertise, and price revision efforts have come to fruition. OI in Japan has plummeted due to budget overruns in strategic investments and product mix issues; we need to get us back profiting with this MTMP.

Concentrate resources on core business
Review portfolio; innovate tagging technology

Sales & OI%, business portfolio

Legend: Sales (left axis) — Consol. OI% (right axis) — Japan OI% (right axis)

Annotations: SGS liquidation, Withdrawal from IDP, New IT system, New HQ office, Standard printer platform, COVID-19, Conflict in Ukraine

Sales (Millions of JPY) axis: 150,000 / 100,000 / 50,000 / 0
OI% axis: 10% / 5% / 0%
X-axis: FY18 FY19 FY20 FY21 FY22 FY23
Results ← → Forecast

Achievements from FY18

- Focused on core businesses, which:
  - ✓ Grew overseas base business.
  - ✓ Expanded market coverage/expertise globally.
  - ✓ Grew RFID and automation sales.
  - ✓ Led to completion of new cost-effective printer platform to be equipped on new models.
- Price revision efforts coming to fruition.

Issues that surfaced

- Budget overruns in strategic investments and product mix issues causing Japan business OI% to decline.
- Printers commoditizing. (Revision of revenue model)
- Geopolitical risks heightening.
- Customer pain points are expanding beyond individual and corporate issues to encompass broader societal and industrial challenges.

*1 Software development subsidiary in U.S.
*2 Inline Digital Printing: IDP is a direct marking technology comprised of a special heat-sensitive pigment that can be applied as a coating to virtually any substrate and exposed to a laser beam to create a color change.

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I would like to review of the previous medium-term management plan.

By focusing on our core businesses since FY18, we have grown our overseas-based businesses, expanded our market coverage globally, acquired expertise, and grew significantly in RFID and automation. We have completed the development of a common printer platform.

Price revisions to reflect raw material cost increases have seen certain progress.

On the contrary, there was a problem that emerged. Strategic investment costs increased compared to plan. Profit margins in the Japan business declined due to a worsening product mix caused by a decline in printer sales and other factors.

As shown in the left-hand chart on the slide, consolidated results are shown in blue bars and line charts. The orange line shows the profit margin in Japan. As shown in the graph, the operating margin in Japan has declined.

In terms of operating income, we recognize that one of the challenges is that overseas, which has been growing, supplements Japan.

With the commoditization of printers, it is becoming increasingly difficult to differentiate the performance from others. With the growing demand for tagging, various manufacturers have developed, manufactured, and sold printers, resulting in a shift to commoditization. Since it has become difficult to add value only with products, I think it is necessary to review the business model for earning incomes with printers.
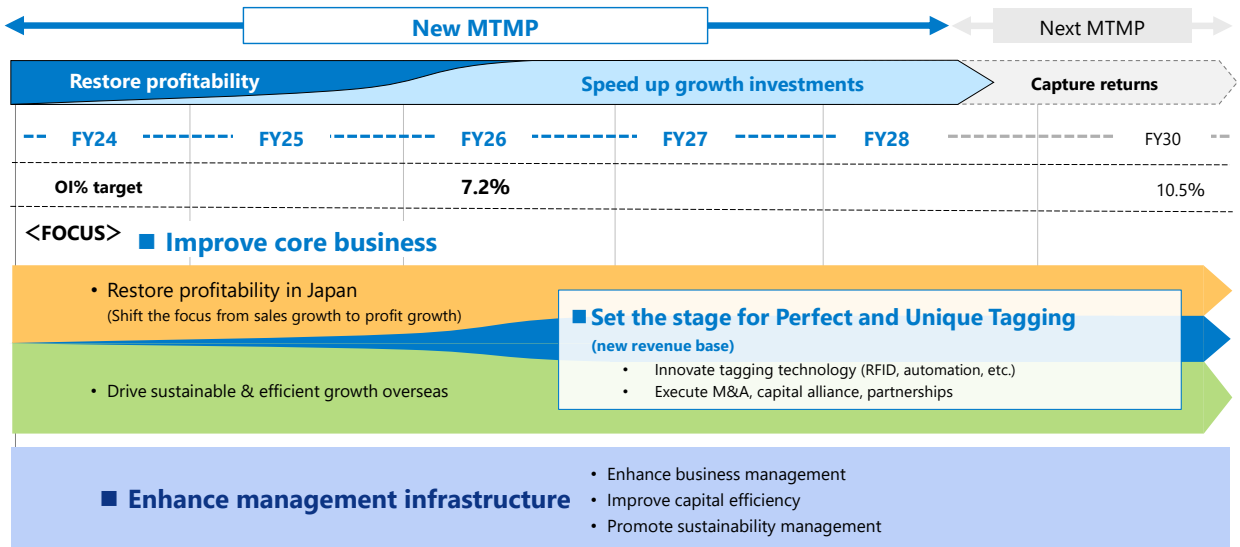
As geopolitical risks are rising globally, our primary label businesses located in emerging countries in particular are relatively risky. It is important to grow the income of the Japanese business and the overseas base business.

The challenges that our customers face have become widespread. They have been expanding from individual company-level issues to issues across society and industries.

We feel that it is necessary for us to enhance our solutions and respond to societal and cross-industry issues.

We will address these issues in the new medium term management plan.

The five-year plan sets FY24–25 for recovery and reform, and FY26–28 for restarting growth investments.

New MTMP | Next MTMP

Restore profitability | Speed up growth investments | Capture returns

FY24	FY25	FY26	FY27	FY28	FY30
OI% target		7.2%			10.5%

<FOCUS> ■ **Improve core business**

• Restore profitability in Japan
(Shift the focus from sales growth to profit growth)

■ **Set the stage for Perfect and Unique Tagging**
(new revenue base)
• Innovate tagging technology (RFID, automation, etc.)
• Execute M&A, capital alliance, partnerships

• Drive sustainable & efficient growth overseas

■ **Enhance management infrastructure**
• Enhance business management
• Improve capital efficiency
• Promote sustainability management

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I would like to explain the basic policies of the medium-term management plan.
The period of the new medium-term management plan is five years. Of these, FY24-25, the first two years, are positioned as the incomes recovery period and FY26-28 as the period for speeding up growth investments. The financial target is for FY26.
Our focus during the period of profitability restoration is to reinforce our core business. The Japanese business would recover profitability and the overseas business would pursue sustainable and efficient growth.
We will shift our emphasis from sales to income in the Japan business. The evaluation criteria for the sales division will also change. Management will focus on how much profit can be generated by specializing in highly profitable markets and applications.
Overseas, we are now able to do Koro-uri, providing solutions. We aim to increase profits stably and efficiently by scaling out solutions. We believe it is also important to collaborate with business partners in each country and region.
The resumption of growth investments will increase higher-margin solutions by allocating cash, generated from the recovered profit base, to "Perfect and Unique Tagging".
In response to the commoditization of printers, the current profit model needs to be reformed. We plan to create a new earnings base with "Perfect and Unique Tagging".
We will continue to strengthen our management infrastructure by branding, improving capital efficiency, and promoting sustainability management.

Restore profitability in Japan
(FY23–26: +3% pt operating margin)

Increase gross margins while keeping SG&A expenses at FY23 levels

- **Manage value chains to generate profits**
  - Improve gross margins
    - ➢ Optimize the product portfolio to enhance productivity and reduce production costs.
    - ➢ Proper pricing for servicing
  - Optimize SG&A expenses
    - ➢ Set SG&A expense quotas and specific targets.
    - ➢ Optimize the product portfolio to reduce R&D and overhead expenses.
- **Recruit and develop talent to capture key markets:**
  - Increase gross profits in health care by 40% between FY23 to FY26
  - Focus on manufacturing market

- **Implement profit-based incentives to reward sales performance**
  - Optimize transactions with low gross margins
  - Increase businesses with high gross margins (e.g. sales of solutions)

- **Launch new printers to incorporate them into replacement cycles**

Drive sustainable & efficient growth overseas (base, primary labels)
(FY23–26: +6% Sales CAGR)

Base business sales: JPY 49B (FY23)→JPY57B (FY26)

Americas:	JPY 18B → JPY 21B
Europe:	JPY 12B → JPY 14B
Asia/Oceania:	JPY 19B → JPY 22B

- **Efficient creation and horizontal deployment of solutions**
  - Restructure sales organizations
  - Develop innovative solutions
  - Increase consumable sales and profits
  - Enhance tools for broader applications with more sophisticated approaches

Primary labels business sales:
JPY 19B (FY23)→ JPY 23 (FY26)

- **Stabilize sales and profits**

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* FY23 figures are forecasts (as of 9 February 2024).   15

Next, I would like to explain the enhancement of the core business .
I plan to provide more details at the FY23-Q4 financial results briefing in May.
The key points of the Japan business are to focus on improving profits rather than growing sales, and to improve to a profitable structure.
We will also implement organizational reforms to achieve this. We are changing the performance evaluation of the sales division to a profit-oriented scheme.
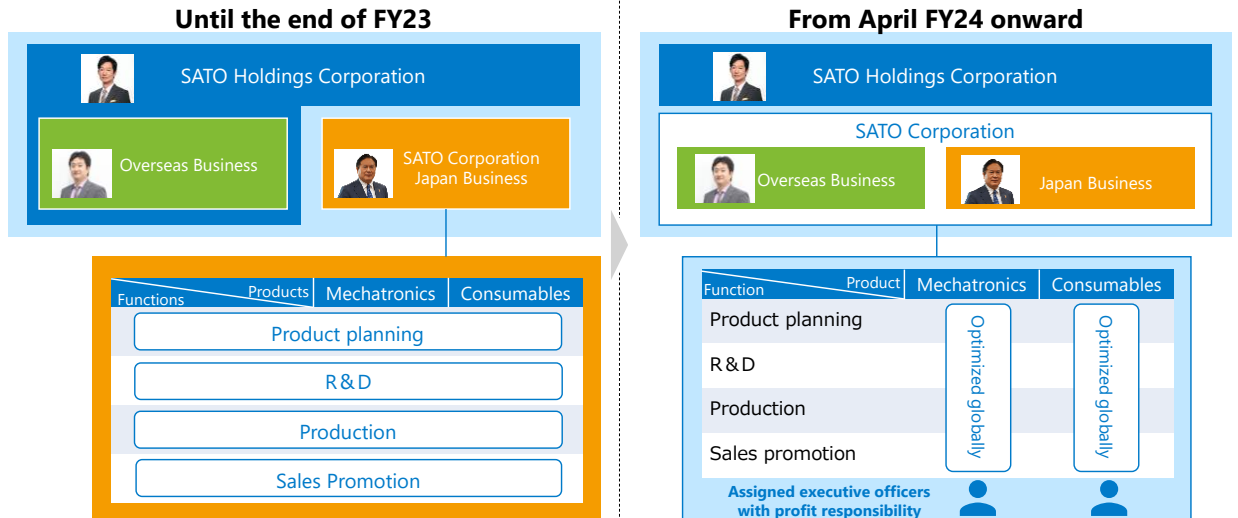Thorough value chain management for profit generation is a measure continued from the previous medium-term management plan. Bottlenecks were identified and countermeasures were discussed. In the next fiscal year, we will reorganize our structure and assign a person in charge to achieve results.
In the overseas business, we plan to maintain a sales CAGR of 6% by pursuing sustainable and efficient growth, aiming to increase sales by 8 billion yen in the base business and 4 billion yen in the primary label business from FY23 to FY26.In the base business, we will grow both sales and profits through efficient creation of solutions and by scaling them out.

Restructuring organizations leads to profits improvement.
Sales: Efficiently expand sales for global key accounts.
Value chains: Visualize and optimize product-based chains, and enhance KPI management.

Until the end of FY23	From April FY24 onward
SATO Holdings Corporation	SATO Holdings Corporation
Overseas Business / SATO Corporation Japan Business	SATO Corporation — Overseas Business / Japan Business

Until the end of FY23

SATO Holdings Corporation

Overseas Business

SATO Corporation Japan Business

Functions \ Products	Mechatronics	Consumables
Product planning		
R & D		
Production		
Sales Promotion		

From April FY24 onward

SATO Holdings Corporation

SATO Corporation

Overseas Business   Japan Business

Function \ Product	Mechatronics	Consumables
Product planning	Optimized globally	Optimized globally
R & D		
Production		
Sales promotion		
Assigned executive officers with profit responsibility	●	●

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I would like to explain the changes to the organizational structure to reinforce core businesses.

Until FY23 of the previous medium-term management plan, as shown on the left side of the chart, SATO Corporation was in charge of the Japanese business and SATO Holdings the overseas business.

In addition, in the Japanese business, divisions and directors in charge were assigned to product planning, R&D, production, and sales promotion in Mechatronics and Consumables. In other words, directors in charge were assigned by function.

Under the new structure from FY24 onward, we have assigned directors in charge of optimizing globally on the product axis of mechatronics and consumables. The executives in charge of product planning, R&D, manufacturing, and sales promotion are responsible for setting KPIs for how profitable they can be.

We have changed from a system that was previously managed by product planning, R&D, production, and sales promotion to a system that focuses on income for each product. We have also changed KPIs for the directors in charge, and intend to continue to streamline the organization to increase and improve profit in the future.

Initiatives: Set the stage for Perfect and Unique Tagging and innovate tagging technology

Accelerate growth in existing RFID/Automation fields and lay the groundwork for Perfect and Unique Tagging.

RFID/automation solution sales targets

(Millions of JPY)
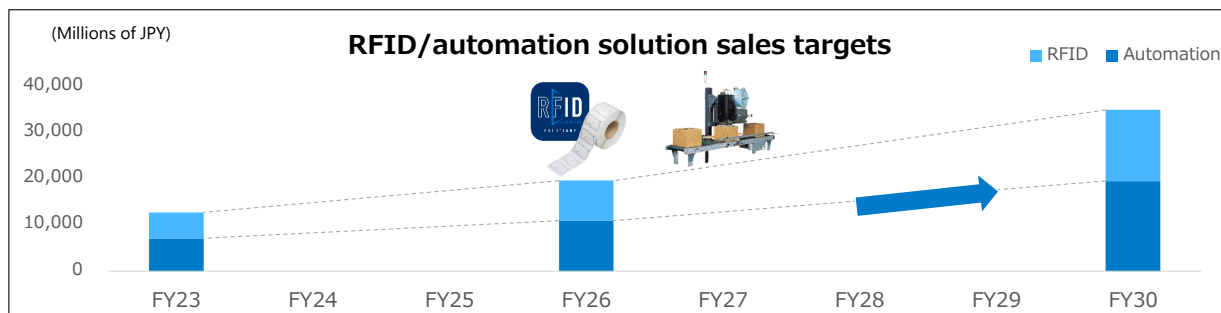
Existing RFID/Automation fields
- Shift focus to high growth, high profit markets
- Enhance sales reps' proposal-making skills
- Properly pricing
- Increase our current production capacity
- Launch new production sites (for decentralization)

Set the stage for Perfect and Unique Tagging
- Acquire necessary technologies and solutions through M&A, partnerships and internal development

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I will explain the enhancement of tagging technologies for "Perfect and Unique Tagging".
We will upgrade our tagging technologies, including our existing RFID and automation solutions.
These domains have long been important, and we will invest resources in high-growth, high-profit markets to accelerate growth. We will strengthen the proposal capabilities of our sales representatives, optimize pricing, increase existing production capacity, and launch new production bases.
We will also focus on M&A and partnerships, as we cannot realize all of the "Perfect and Unique Tagging" in the new field solely from our own technologies.
We believe that "Perfect and Unique Tagging" requires not only the auto-identification technology that we have been engaged in for some time, but also technologies in a variety of fields, such as image recognition. M&A is also in sight in these areas.
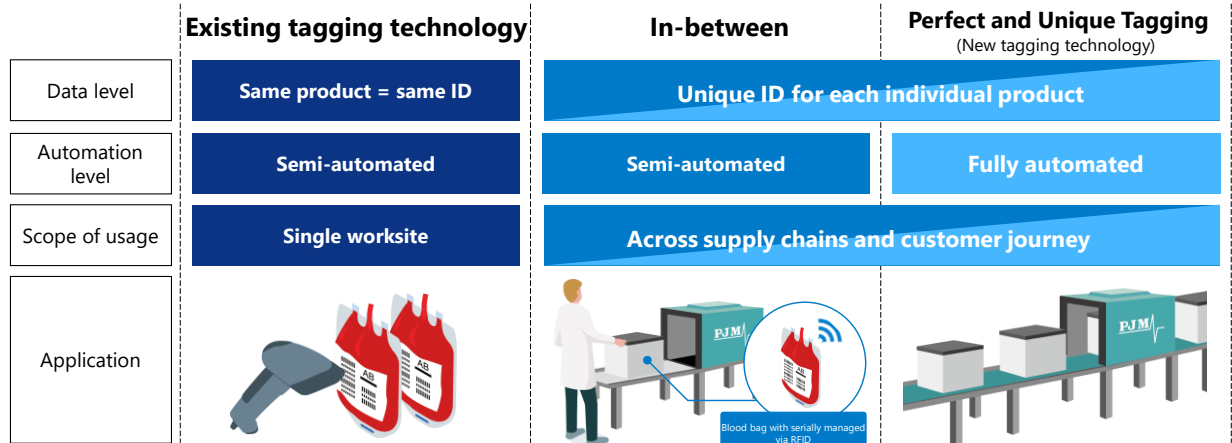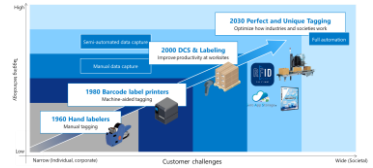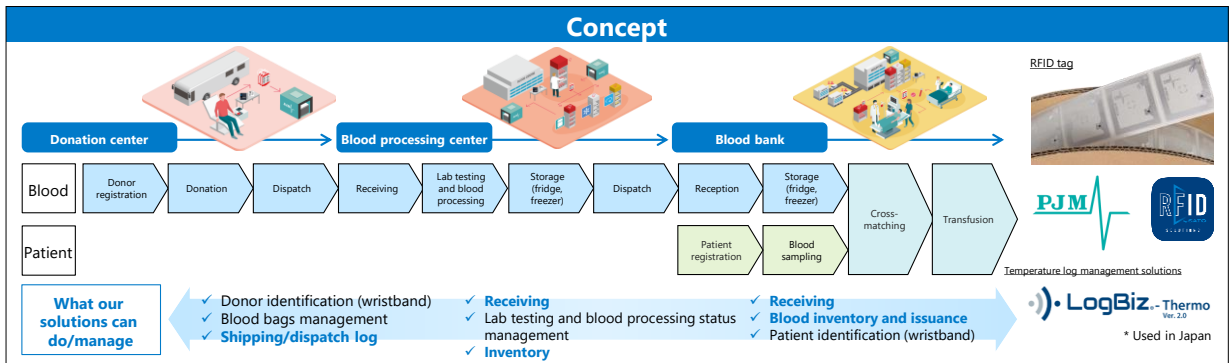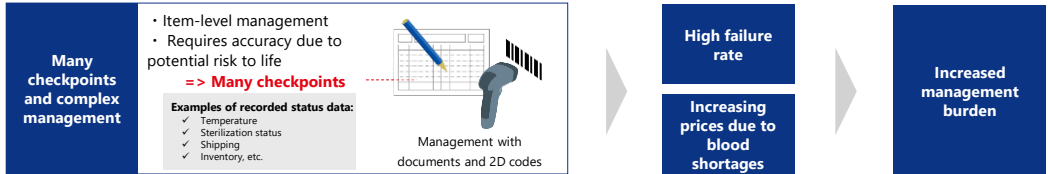
The following is a detailed explanation of "Perfect and Unique Tagging".
"Perfect and Unique Tagging" flawless and one-and-only tagging.
Existing tagging technologies are shown on the left side of the diagram. In existing tagging, IDs assigned to products were the same for those in the same lot. In these areas, the level of automation was primarily semi-automatic.
When status information (e.g., temperature, humidity, location, supply chain history, etc.) is tied to a product ID, there is a complete and unique information link.
When this information is linked, you will be able to do semi-automation and full automation. As a result, the management of individual products enables the trace of goods not only in-house production and shipment, but also in the supply chain across industries and countries.
We believe that "Perfect and Unique Tagging" is needed to achieve this, and we would like to focus on areas that assign status information as well as product information.
The bottom of this slide shows examples of blood product management. Each one is unique because it comes from individuals. The people who donate are all unique, and the traceability of not only the donated blood type, but also the situation and the person who donated is complete and unique.
We have already been working on this area, and we would like to further cultivate this area and enhance the knowledge we have gained regarding markets/industries to expand the area of "Perfect and Unique Tagging".

Provide Perfect and Unique Tagging solutions for blood product supply chain management. Expand them also to adjacent markets.

Customer challenges

Many checkpoints and complex management
- Item-level management
- Requires accuracy due to potential risk to life
  => Many checkpoints

Examples of recorded status data:
- ✓ Temperature
- ✓ Sterilization status
- ✓ Shipping
- ✓ Inventory, etc.

Management with documents and 2D codes

High failure rate

Increasing prices due to blood shortages

Increased management burden

Concept

RFID tag

Donation center			Blood processing center					Blood bank				

Blood: Donor registration → Donation → Dispatch → Receiving → Lab testing and blood processing → Storage (fridge, freezer) → Dispatch → Reception → Storage (fridge, freezer) → Cross-matching → Transfusion

Patient: Patient registration → Blood sampling

PJM / RFID

Temperature log management solutions

•))) LogBiz. - Thermo Ver. 2.0

* Used in Japan

What our solutions can do/manage
- ✓ Donor identification (wristband)
- ✓ Blood bags management
- ✓ **Shipping/dispatch log**

- ✓ **Receiving**
- ✓ Lab testing and blood processing status management
- ✓ **Inventory**

- ✓ **Receiving**
- ✓ **Blood inventory and issuance**
- ✓ Patient identification (wristband)

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I would like to explain the blood supply chain management solution.
In the diagram at the bottom of this slide, donors are registered and donate blood, and it is formulated at the blood center. At medical institutions, the blood is transfused to those in need.
Various checks are required to ensure temperature and freshness management.
We have already worked on "Perfect and Unique Tagging" in this area and have been providing a variety of solutions in addition to bar codes. As a result, we have found that there are so many items to be managed that customers can appreciate added value.
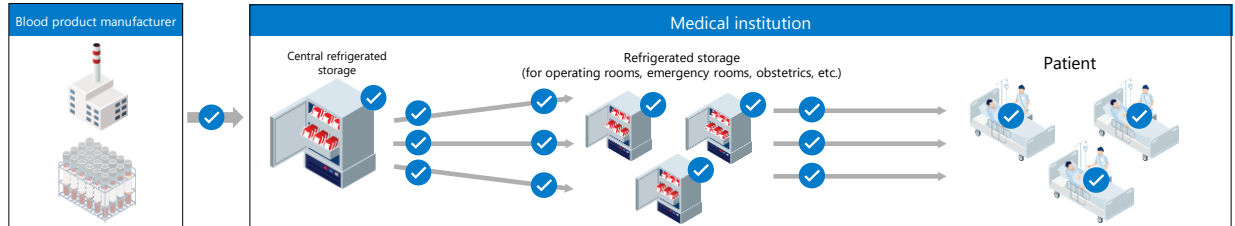In the future, we believe that this will spread to a variety of products in addition to blood, and some products will require reuse and recycling. In such areas, "Perfect and Unique Tagging" is needed, and we watch out for such business opportunities.

Perfect and Unique Tagging: Blood product management (medical institutions in Asia)

Address complex blood product management challenges with our unique technology and solutions.

Management of blood products
(red blood cells)

✓ Checkpoint:
(Temperature, sterilization status, shipping, inventory, etc.)

Blood product manufacturer

Medical institution

Central refrigerated storage

Refrigerated storage
(for operating rooms, emergency rooms, obstetrics, etc.)

Patient

PJM

Uniqueness of our PJM RFID technology (vs. UHF RFID)

• High read accuracy (approx. 100%)
• Works with liquids, layers and low temperatures (-80°C)
• Compatible with wide rage of refrigeration equipment at medical institutions

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Here are some examples of blood product management utilizing Perfect and Unique Tagging.
Introduction of the solutions has begun to blood institutions in a country in Asia.
Here, our proprietary PJM RFID technology is adopted.
PJM RFID has been adopted because of its high reading accuracy and its ability to read despite nearby liquids, tags in layers, and even at low temperatures.
PJM RFID can also be used in existing cold storage facilities at medical institutions.
This technology has been adopted based on these evaluations.
We can expect to spread the best practices in this country horizontally, and will efficiently deploy the knowledge gained here to various markets and industries.

I will explain the summary of "Perfect and Unique Tagging".
As the society change, we identify challenges across countries, markets and industries of the times, and offer solutions using auto-ID technology in uniquely SATO ways. As a manufacturer, we will take on the challenge of creating unique products based on our corporate motto "Ceaseless Creativity".
 "Perfect and Unique Tagging" is one of these, and I believe it is an example of our uniqueness.
In the current society, where the supply chain is expanding and mandatory labeling of raw materials is required, the quantity of relevant products shown on the horizontal axis of the figure will increase. In addition, the added value of the products shown on the vertical axis will increase, and new areas ("Perfect and Unique Tagging") and established areas will both expand. The thin blue triangular area is the current SATO's business opportunity. We will increase this in Perfect and Unique Tagging. In the area with high added value, there is the blood management needs I mentioned earlier.
For example, in areas with large quantities, we envisage simple needs, such as printing and attaching bar code labels to waste. In this case, it is highly likely that many small and inexpensive printers will be required, and we would like to increase the supply of such printers.

Enhance our management infrastructure to remain essential to society.

Strategies　　　　　　　　　　　　　　　　　　　————————　**Initiatives**　————————

Improve business management

- Enhance and refine profit management strategies
- Enhance governance for more autonomous operation of overseas subsidiaries

- Improve performance management methods and ensure KPI-based management.
- Implement profit-based performance evaluation (Sales and product divisions).
- Delegate authority to overseas subsidiaries and station business management personnel.

Enhance capital efficiency

- Practice cash flow-based management
- Make strategic investments considering capital costs

- Implement a capital management strategy that balances cash inflows and outflows.
- Improve headquarters' supervision of capital management.
- Regularly assess capital costs, make investment decisions accordingly and monitor outcomes.

Promote sustainability

- Reduce GHG emissions to meet long-term targets
- Promote CSR procurement
- Enhance human capital
- Strengthen corporate governance

- Reduce GHG emissions.
- Enhance the CSR procurement framework and collaborate with suppliers for its promotion.
- Discuss changes to HR systems to align them with the overall strategy. Develop HR management strategy and set/track KPIs.
- Enhance corporate governance practices.

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I would like to explain the strengthening of our management infrastructure.
There are three policies.
To strengthen business management, we will improve and strengthen profit management methods in the Japanese business.
In overseas business, we will work to strengthen governance for autonomous operation.
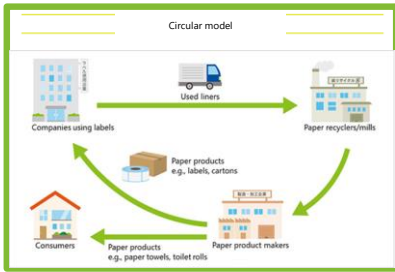Measures for this are described on the right side of the slide.
To improve capital efficiency, we will implement cash flow management and make thorough investment decisions that take capital costs into account.
The first of these measures is the implementation of a capital policy that takes into account the balance between inflows and outflows. This will be touched on in the financial planning section later on.
In addition, we will strengthen cash management led by the head office to make efficient use of cash, regularly review capital costs, make investment decisions accordingly, and thoroughly measure the effects after implementation.
In promoting sustainability management, we will reduce GHG emissions and strengthen human-capital management.

Increase our social and corporate value through unique ESG initiatives.

Circular model

- Used liners
- Companies using labels
- Paper recyclers/mills
- Paper products e.g., labels, cartons
- Consumers
- Paper products e.g., paper towels, toilet rolls
- Paper product makers

# of directors, % of external directors

(people) — 10(4) FY05 40.0%, 11(5) FY10 45.5%, 12(6) FY15 50.0%, 8(4) FY20 50.0%, 8(5) FY24 (plan) 62.5%

- External director (left axis)
- Internal director (left axis)
- External director % (right axis)
- Figures in parentheses indicate # of external directors.

- ● Reduce liner waste
- ● Reduce the time required to make environmental contributions

Linerless labels

Location tracking systems for monitoring waiting trucks

- ● Perfect and Unique Tagging: Expand our business scope
- ● Frameworks and systems:
  Teiho, Make-a-Ripple Teiho*1
  Our Way to Our 100th Anniversary*2 (launch of new businesses)
- ● Improve HR systems and management

Creating businesses with people with disabilities

- ● Gain new expertise appointing a new external director.

Hiroshi Nagumo
candidate for external director
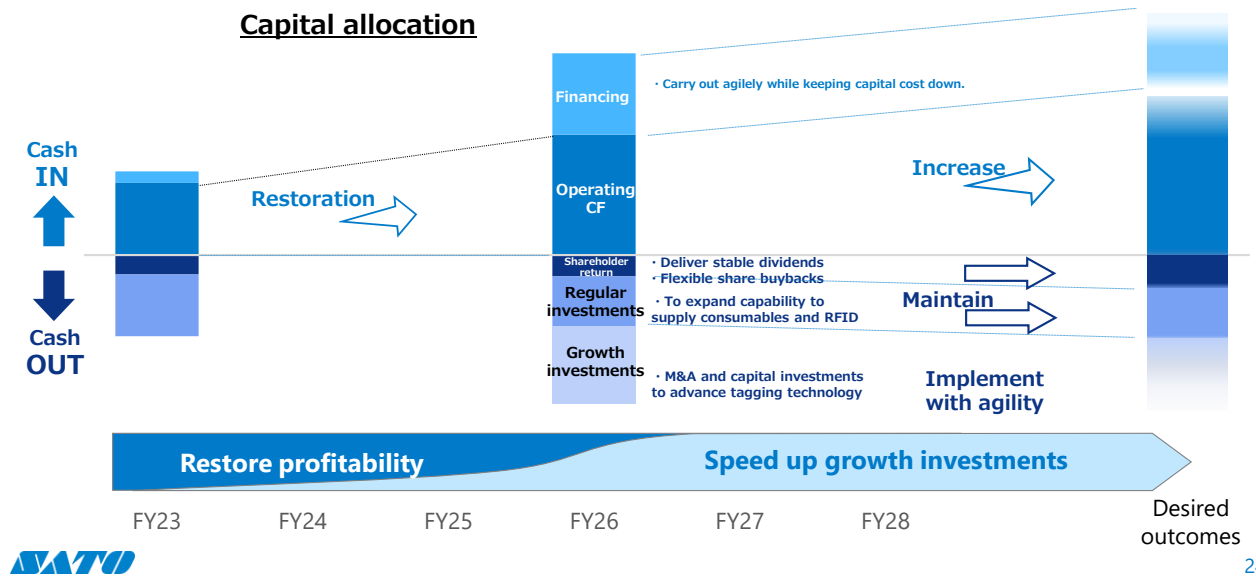**Advisor, Terumo Corporation**

Areas of expertise:
- ● International business
- ● Health care business
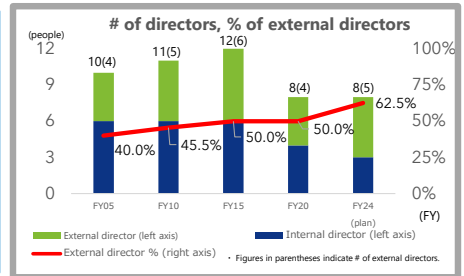
*1 The name of the tool that has been added to Sato's existing "Teiho" to support the fast and reliable review and implementation of individual ideas for change and improvement in each department.
*2 Shorthand for "Our Way to Our 100th," a slogan in our culture-building action that eyes SATO's 100th anniversary in 2040.

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Here is an explanation of the promotion of sustainability management.
We will enhance social and corporate value through unique ESG initiatives.
On the environmental front, we are working with our competitors to recycle used backing paper for adhesives and labels, and we will strengthen these efforts in the future.
Social issues, closer to consumers, that were not resolved until now, could be resolved through "Perfect and Unique Tagging". Our solutions could enrich the lives of our employees by our own services. We have a unique approach in which employees share new information and ideas they come across on-site every day with the top management via the Teiho system. The Teiho system makes employees able to propose ideas which solve the inconvenience of own and family life by the auto-ID technology. Employees could feel motivated.
In governance, we have appointed external directors since the 1990s. We appointed a new outside director candidate with the expertise necessary for SATO's future growth. Mr. Nagumo is familiar with the international business and healthcare industry through his career at Terumo, and we intend to strengthen our blood and healthcare business with his help.

Financial plan: Capital allocation

Restore profitability by implementing initiatives outlined in this MTMP and making strategic investments to advance tagging technology. Provide consistent dividends by increasing profit per share.

Capital allocation

Financing · Carry out agilely while keeping capital cost down.

Cash IN

Restoration

Increase

Operating CF

Shareholder return · Deliver stable dividends · Flexible share buybacks

Regular investments · To expand capability to supply consumables and RFID

Maintain

Cash OUT

Growth investments · M&A and capital investments to advance tagging technology

Implement with agility

Restore profitability | Speed up growth investments

FY23   FY24   FY25   FY26   FY27   FY28   Desired outcomes

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This section explains our financial plan.
Here is the capital allocation.
We expect approximately 10 billion yen each for cash in and out for FY23. As explained in the Key strategy section, FY24-25 will be defined as the "profitability restoration" period, and we will concentrate efforts in the Japanese business to recover operating cash flow.
At the same time, in the ordinary course of investment, we will invest in base businesses, for example in maintaining our production capacity. In addition, we will improve supply capabilities of RFID and consumables, after assessing investment benefits, in order to maximize free cash flow.
We will resume growth investment in full force after the recovery of income. We intend to pursue M&As and investments in business partners to upgrade tagging technologies for Perfect and Unique Tagging.
We will finance as necessary while keeping in mind the need to reduce capital costs.
Regarding shareholder returns, we aim to raise profit per share and pay stable dividends. We have never reduced dividends in the past, and we intend to continue to increase profits and provide stable returns to our shareholders.
We are aiming for a virtuous cycle by increasing operating cash flow as we realize our vision and using the generated cash for investments and shareholder returns.
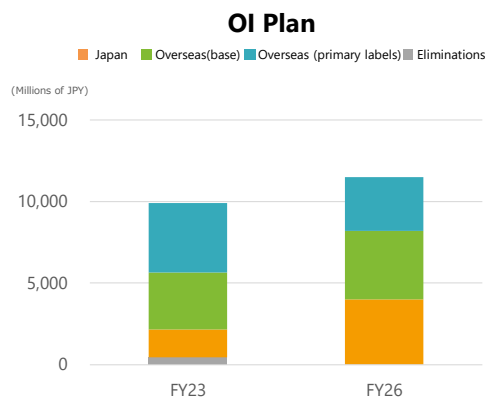
FY 2026 Financial plan

Consol. sales：JPY **160B** Consol. OI：JPY **11.5B** / **7.2**%
ROIC ： **7**% P/B ratio ： **1.5**x

(Millions of JPY)

		FY23*	FY26	CAGR
Overseas	Net Sales	68,000	80,000	+5.6%
	OI	8,000	7,500	-2.1%
	%	11.8%	9.4%	-2.4pt
Japan	Net Sales	76,000	80,000	+1.7%
	OI	1,700	4,000	+33.0%
	%	2.2%	5.0%	+2.8pt
Eliminations	OI	200	-	-
Consolidated	Net Sales	144,000	160,000	+3.6%
	OI	9,900	11,500	+5.1%
	%	6.9%	7.2%	+0.3pt
Reference Primary labels	Net Sales	19,000	23,000	+6.6%
	OI	4,300	3,300	-8.4%
	%	22.6%	14.3%	-8.3pt

OI Plan

■ Japan ■ Overseas(base) ■ Overseas (primary labels) ■ Eliminations

(Millions of JPY)

15,000 / 10,000 / 5,000 / 0

FY23 FY26

* FY23 figures are forecasts (as of 9 February 2024).

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We would like to explain the profit and loss plan.
The financial plan for FY26 is at the top of the slide. ROIC and PBR will be described in the following slide.
We are not optimistic about operating income for FY24 due to the normalization of the business climate in Russia, which has been a tailwind, despite the growth in Japan and the overseas base businesses.
As shown in the graph in the operating income plan on the right, we aim to achieve a well-balanced profit structure through the recovery of Japan and growth in overseas base businesses.
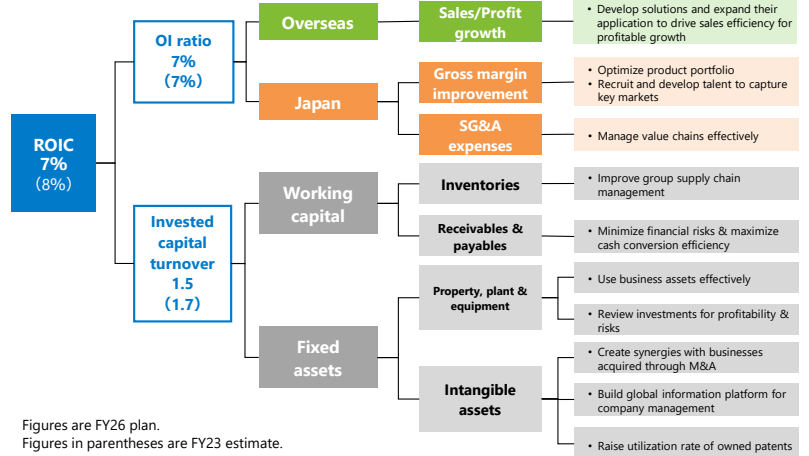
i) Improve capital efficiency and ii) reduce cost of capital and optimize growth expectations to improve the current P/B ratio of 1.0.

Changes/Forecasts in P/B ratio

P/B ratio

2.0

1.5

1.0

1.0

0.0

FY23   FY26   Desired outcomes

FY23 figures as of December 2023
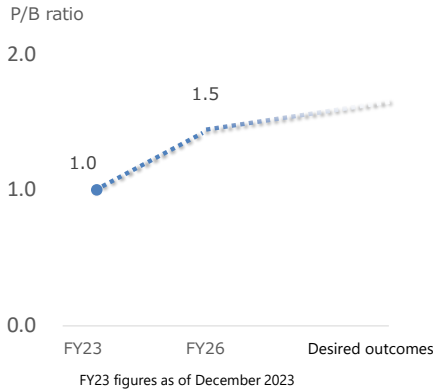
i) Improve Capital efficiency: ROIC improvement

- **Aim for ROIC above the cost of capital (WACC 8%)**
- **ROIC is expected to briefly fall below the cost of capital in FY26 due to investments. Reap the benefits of investments as early as possible.**

ROIC 7% (8%)

OI ratio 7% (7%)
- Overseas → Sales/Profit growth → • Develop solutions and expand their application to drive sales efficiency for profitable growth
- Japan → Gross margin improvement → • Optimize product portfolio • Recruit and develop talent to capture key markets
- → SG&A expenses → • Manage value chains effectively

Invested capital turnover 1.5 (1.7)
- Working capital → Inventories → • Improve group supply chain management
- → Receivables & payables → • Minimize financial risks & maximize cash conversion efficiency
- Fixed assets → Property, plant & equipment → • Use business assets effectively / • Review investments for profitability & risks
- → Intangible assets → • Create synergies with businesses acquired through M&A / • Build global information platform for company management / • Raise utilization rate of owned patents

Figures are FY26 plan.
Figures in parentheses are FY23 estimate.

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I would like to explain our measures to improve PBR.
As shown in the graph, our current PBR is around 1.0x, but we will work on two measures to improve it.
The first is improving capital efficiency.
We recognize that our capital-cost is 8%, and we are aiming for a higher ROIC.
We break down ROIC into operating income ratio and invested capital turnover ratio.
With regard to operating income ratio, we will absorb the negative impact of the Russian subsidiary and maintain the ratio through steady implementation of the medium-term management plan measures in both Japan and overseas.
The invested capital turnover ratio is expected to decline as we plan to invest in growth. As a result, ROIC of FY26 is expected to be lower than the cost-of-capital.
We will strive to realize ROIC exceeding the of the cost of capital as early as possible by reaping the benefits of investment and reducing the cost of capital.

ii) Reduce cost of capital and optimize growth expectations: PER improvement

1. Reduce cost of capital (WACC)

- Reduce our OI dependence on our Russian subsidiaries prone to high volatility.

- Increase the ratio of recurring businesses (incl. consumables) in the overseas business.

- Optimize funding with a focus on reducing cost of capital.

- Minimize unexpected financial performance outcomes.

2. Optimize growth expectations

- Execute and achieve initiatives in the MTMP and deliver results.

- Reduce information inconsistency through consistent investor relations activities.

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The second point is the reduction in the cost of capital and the improvement in the growth expectation by the capital market.
In terms of reducing capital costs,
By expanding the Japan Business and the Overseas Base Business, we will reduce the composition of operating income of highly volatile Russian subsidiaries and stabilize overall business performance.
We will further stabilize our business performance by increasing the ratio of recurring business, including consumables, in our overseas business.
We plan to raise funds with the intent to reduce capital costs, for example by utilizing debt.
We aim to reduce earnings surprises by strengthening business forecast and reducing the proportion of highly volatile businesses.
Finally, with regard to improving growth expectations,
We will improve them by steadily implementing and achieving the goals of the new medium-term management plan and by reducing information-asymmetry by enhancing IR activities.
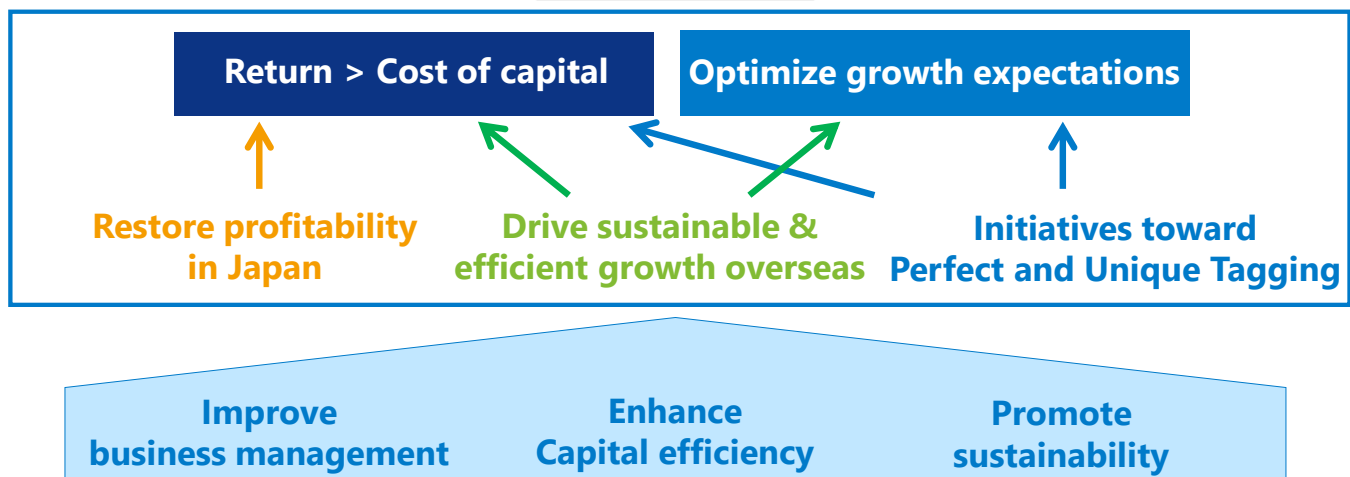
Let me summarize what I wanted to tell you today.
We recognize that many stakeholders do not expect us to grow as our PBR is around 1x.
This is primarily attributable to the fact that we are not stably generating returns in excess of the cost of capital.
To rectify the situation, we will first and foremost improve our income structure, particularly in the Japanese business. There are plenty of opportunities, but rather than going after all of them, we will focus on areas after examining them from the perspective of profitability. We will thoroughly implement such management and control.
In the overseas business, where Koto-uri has taken root, we intend to realize sustainable and efficient growth through scaling. This also contributes to improved returns.
In addition, we aim to further improve returns by launching highly profitable Perfect and Unique Tagging.
We will endeavor to regain the confidence of our stakeholders by consistently generating returns above our cost-of-capital, and foster expectations for growth in our overseas businesses and Perfect and Unique Tagging.
In order to proceed appropriately, we will also strengthen business management, improve capital efficiency, and promote sustainability management to increase corporate value.
I would like to conclude my presentation here.
Thank you for your attention.

Appendix

FY22 Consolidated net sales: 142,824M JPY, 100%

85% of consolidated net sales (Breakdown by region: Japan 61%, The Americas 14%, Europe 10%, APAC 15%)

Auto-ID solutions (Japan/Overseas)

Base

Mechatronics

38%

Printers	Other Hardware	Software	Services

Consumables

47%

Labels & Tags

RFID

15% of consolidated net sales (Breakdown by region: The Americas 15%, Europe 85%)

Primary

Stickers & primary labels

	SATO-unique business concepts/initiatives	Description*
1	**Auto-ID Solutions business**	Our business that carries out DCS & Labeling. It is specifically about integrating barcode printers/labels, software and services designed in-house with products and technologies from partners to resolve customers' worksite issues. This business is separated into Overseas and Japan segments, with the former comprised of the Base and the Primary Labels businesses.
2	**Base business**	Business of tagging variable information, such as prices, manufactured dates and expiration dates in the form of barcodes and more.
3	**Primary Labels business**	Overseas business of tagging fixed information via product labels and other media. This business operates from SATO Group companies; Achernar (Argentina), Prakolar (Brazil), Okil (Russia) and X-Pack (Russia).
4	**IDP business**	Develops, manufactures and sells materials used mainly in Inline Digital Printing (IDP). SATO Holdings transferred all shares of SATO consolidated subsidiary DataLase Ltd. that conducted the business to DataLase Holdings Limited in September 2020. IDP is a direct marking technology comprised of a special heat-sensitive pigment that can be applied as a coating to virtually any substrate and exposed to a laser beam to create a color change.
5	**Koto-uri** (Selling the solution, not the product)	Sales approach of selling not the product but combinations of products in the form of solutions that include hardware, consumables, maintenance services and software, together with ROI and other value propositions for the customer. The opposite concept of "Mono-uri", or selling single products.
6	**Tagging**	The process of physically attaching to something data that identifies and/or locates it. This involves digitizing information of the things it is tagged to so that the tagged data can be fed to and processed by core IT systems. This concept, connecting people and things with information, has remained central to SATO's business, ever since our days of pioneering in hand labelers that attached price and other information to products.
7	**DCS & Labeling** (DCS: Data Collection Systems)	SATO's business model that incorporates auto-ID technology (such as barcodes and RFID) with barcode printers and labels/labeling services to (a) systematically collect data on people and things at business sites and (b) offer tagging/labeling of information, using accurate, efficient and optimized solutions. In line with increasingly sophisticated user needs, SATO also pursues a policy of open innovation and partnerships to provide value-added technologies such as image/voice recognition, location tracking and sensors to its legacy business model to better solve customer challenges.

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(*) Underlined terms are described under its own heading 31

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	SATO-unique business concepts/initiatives	Description
8	**Genbaryoku**	Our core competency of going to customer sites to understand their operations and identify the essence of issues to offer optimized solutions. It is our ability to (1) address a wide range of market, industry and application needs with our expertise in sites of operations, (2) integrate products, services and technologies into solutions, working together with strategic partners, and (3) offer maintenance services and solutions continuously to build trust and establish lasting relationships with customers.
9	**Teiho**	SATO's unique system of reports and proposals in effect since 1976. Employees share new information and ideas they come across on-site every day with top management via the Teiho system. Teiho helps top management gain immediate insight into the internal/external business situation to facilitate quick decision-making and execution of initiatives, while allowing "participation by all" in the management of the company. As Teiho reports are directly addressed to top management, it is also an effective means of compliance monitoring to prevent malpractice and other inappropriate behavior and assist in corporate governance. Some of our global offices have also started Teiho, with more to follow.

	Products, services, technologies	Description
1	**Mechatronics**	All products that are not <u>consumables</u>, including hardware (e.g., printers, automatic labelers, scanners, hand labelers), software and maintenance services. They generate higher gross profit margin than <u>consumables</u>. Printers are manufactured in Malaysia, Vietnam and Taiwan.
2	**Consumables**	"Consumable" products such as <u>variable information labels</u>, <u>RFID</u> tags, primary labels (product labels) and ribbons. They generate lower gross profit margin than <u>mechatronics</u> but incur low SG&A expenses ratio as they are typically sold through recurring business.
3	**Auto-ID Solutions**	Combination of products such as printers, labels, software and maintenance services using auto-ID technologies to carry out <u>DCS & Labeling</u>. To meet ever complex and diverse customer challenges, SATO also looks beyond its own resources and interests by pursuing partnerships, for example, to enable location technologies to track items by tags and inventory/worker movements in real time for managing manufacturing processes and visualizing productivity on-site.
4	**SOS** (SATO Online Services)	A cloud-based monitoring service for printers that enables preventative maintenance and on-the-spot troubleshooting. With SOS, users can view the status of their cloud-connected printers at a glance and manage them centrally with ease, while SATO can increase productivity of its service personnel, allowing for even small service teams (as is often the case overseas) to provide improved support.

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	Products, services, technologies	Description
5	**AEP** (Application Enabled Printing)	A powerful on-board intelligence which enables customization of printer operation. Printers can link to other systems on a stand-alone basis, without going through any computers.
6	**Variable information labels**	Blank or pre-printed labels used to print information elements such as barcode, product price and manufactured or expiry date that vary with every customer's site of operation. Unlike fixed information labels that are identical and printed at large quantities in a single run, variable information labels can be printed on-demand as and when needed.
7	**RFID** (Radio Frequency Identification)	A type of auto-ID technology that uses radio waves to read/write data from/to an RFID tag without making contact. RFID offers faster read rates (from reading multiple tags at the same time) and greater read range than traditional barcode technology. Also, unlike barcodes, RFID tags can be read when covered by another object or stained, and are read/write-capable to enable updates to the encoded data. Because of these key benefits, RFID can significantly improve operational efficiency.
8	**Source tagging**	A supply chain management practice of instructing vendors or suppliers to affix labels containing specified information of products upon delivery.

	Key acquisitions since 2012	Description
1	**Argox Information Co., Ltd.** (Taiwan)	[2012] Company engaging in the development, production and sales of entry level printers.
2	**Achernar S.A.** (Argentina)	[2012] Company specializing in primary labels.
3	**Magellan Technology Pty Ltd.** (Australia)	[2013] Company from which SATO acquired its business including PJM (Phase Jitter Modulation), a highly superior RFID technology that can quickly and accurately identify large volumes of tagged items stacked or stored in any physical orientation even in the presence of metals and liquids. Now SATO Vicinity Pty Ltd.
4	**Okil-Holding, JSC** (Russia)	[2014] Primary labels company in which SATO acquired 75% ownership stake. X-Pack is affiliated with Okil.
5	**Prakolar Rótulos Autoadesivos LTDA.** (Brazil)	[2015] Company specializing in primary labels.
6	**Stafford Press, Inc.** (U.S)	[2023] Company engaging in production and sales of horticulture tags and labels, and inkjet printers for on-demand color printing of such tags and labels.
	Overseas subsidiaries founded after 2017	Description
1	**X-Pack** (Russia)	[2017] A subsidiary producing and selling shrink sleeves, in-mould labels and soft packages in Primary Labels business, owned 60% by SATO Holdings.
2	**SATO Productivity Solutions Mexico S.A. de C.V.**	[2019] A sales subsidiary, mainly focusing on automobile industry, owned nearly 100% by SATO Holdings.

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