

From the President and CEO

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



Ryutaro Kotaki
President and CEO

Four years at the helm

My first four years as CEO have been about constantly pressing forward despite difficulties. Since assuming my position in April 2018, I have concentrated our resources on our auto-ID solutions business, which is where we can maximize growth by tapping into our core strengths. Among the many companies that comprise our industry — automatic identification and data capture — we have a unique advantage with our customer-centric expertise in tagging (the process of giving things identifiers to make them trackable) and the way we deliver that expertise, through a sales approach we call koto-uri.

We don't simply sell our technology and printers and label products right out of the box. We first go to the customer's worksite to hear out their pain points, and then

seek solutions by considering which auto-ID technology would work best, which label or tag would match the material and shape it would be applied to, how to apply them and read the embedded data in a way that meets local operations, and at which point in an operation the collected data would be fed to the host system. Only after this process do we shape the solution in the best combination of printers, labels, technologies and services. This is koto-uri: selling the solution, not the product.

Tagging thus requires a broad and in-depth understanding of customers' worksites and supply chains, which accumulates into expertise spanning various markets, industries and applications. And our interactions with customers strengthen our relationship the more we solve their pain points and pursue koto-uri, which builds greater trust, which goes back to more interaction and a

positive cycle that continues. Over 90 percent of our customers in Japan come back for our products and services, which proves the effect of this cycle.

I believe we can carry over this advantage we built up in Japan to the global stage, which is why my first years as CEO had been focused on instilling the approach worldwide. Our business outside Japan had mostly been about selling the product, and annual performance relied on onetime, high-volume orders for printers, which posed concerns of business continuity and stability. So, we started making changes with each subsidiary narrowing down its business direction and strategies and changing employee mindsets, which was to focus on auto-ID solutions and practice koto-uri.

It was about setting focal markets and industries for each country and getting sales representatives to visit

strategic customers to learn their pain points and what they needed, ultimately making proposals to solve them with our tagging solutions. We initially had to provide support from Japan to cover for the inexperience, but after repeating this approach, local sales reps and offices got a better idea of what scope they should cover in their proposals, which products and services to combine, and which business partner would be the best to work with. This process builds knowledge and the confidence to do koto-uri sales for tagging-based solutions. Our human resources outside Japan are limited compared to the vast potential there is for business growth, so it's crucial that we find strategic partners and form alliances through our koto-uri approach.

To better provide support from Japan, we changed our organization and how we work. We adopted a matrix

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management structure in our HQ with reporting aligned by market sector and product/service, which allows us to support regional sales more closely. This change allowed us to assist each subsidiary effectively in its koto-uri approach to its focal markets and industries. When drafting strategies and tactics, it's critical for HQ to think together with the members of each local team and to develop their business hand in hand. Only by understanding local challenges can communication be two-way, and such two-way dialogue has finally become the norm between SATO HQ and our regional units.

We have also focused on instilling our corporate values in global employees, so they feel that they belong here in SATO and engage in their daily work with a sense of ownership. But since values rooted in Japanese business ethics do not translate directly to other cultures, we revised some that are uniquely Japanese, and have a dedicated team driving the promotion of the globalized values, working together with promotional leaders in each local office. These actions have served in building people that support our business model in key roles, ultimately building our business to greater heights.

With COVID-19, our operations changed drastically, but thanks to the actions mentioned above which we initiated pre-pandemic, we achieved record sales and profits overseas in FY 2021.

In Japan, our business is based on our long-held relationships with customers that we developed from solving pain points with our tagging expertise. I feel that customer pain points have changed significantly in these four years.

Labor shortages have been a constant issue at customer worksites from before the pandemic, and a comprehensive solution boils down to raising productivity, which is increasingly about optimizing the whole rather than the

parts. And solutions have turned more sophisticated and complex, largely owing to technological advancements. We have been successful at creating tagging-based solutions that incorporate the latest technologies to deliver value in labor and resource savings and raise productivity at customer worksites. Optimizing the worksite is a never-ending task for businesses constantly faced with change, and our customers' scope of work now encompasses entire supply chains. In logistics, for example, our optimization solutions may have streamlined processes at a distribution center, but now, we need to track a shipment in terms of how efficient a route it took to be delivered to its destination. We are optimizing not just one site but across a supply chain. I believe this trend will gain greater momentum in the longer run amid digital transformation trends, growing awareness around SDGs, and waves of industrial restructuring. We are entering an era where customers can no longer expand their business by simply optimizing their own operations.

As customer pain points have changed, so have the technologies to solve them. Data we tag to everything is and has been primarily identifier information. But today, advancements in sensing and wireless communication technologies allow us to collect a variety of real-time information that were difficult to collect, such as location and temperature, which opens up an array of applications and needs. Many factories, for example, see their workers taking time to find parts in process or dollies to transport them, which sets back their production schedule. By tracking real-time location and managing whereabouts of these items, operators could gain greater productivity. There are growing needs for solutions and media that collect such real-time information.

These changes in customer needs have, however, made our discussions with customers more technically complex,

causing deals to take longer to close. It is now more difficult than ever for a sales representative to solve all the big and small pain points of a customer. The Japan business is currently taking actions to improve profitability, such as reframing our organization to take an "All-in sales" mindset^{*1} and improving our own productivity with IT overhauls.

^{*1} The idea of developing customer touch points not only through in-person sales but together with inside sales, marketing and servicing functions as well to produce high-quality leads for more efficient sales conversations. Also refers to the mindset for all of our non-sales functions in the value chain to take of pursuing customer-centricity.

What the medium-term management plan aims to achieve

We have completed the first year of our FY 2021–2023 medium-term management plan, which sets an underlying theme to "turn strategies into results" and "invest in long-term growth." While the business environment has largely changed, my essential idea has not, and that is to go back to basics. Our founder Yo Sato invented the hand labeler, which helped supermarkets and retailers print price labels and apply them to products, solving a nagging pain point. When point-of-sale systems became mainstream, barcodes were needed, to which SATO answered by inventing the thermal transfer barcode printer and supported the growth of retail. Be it tagging price as we did with the hand labeler or ID with barcode printers, our fundamental purpose is to solve customers' pain points with tagging and the spirit of Ceaseless Creativity. And with tagging as our core domain, we have grown to where we are today. Our essence remains unchanged no matter how our business model or the solutions we provide change.

Our second president Tokuo Fujita coined our business model "DCS^{*2} & Labeling." It's about tagging data to



things using printers and labels, reading it with scanners, and collecting the data to be fed to the customer's IT systems. This act of collecting real data at customer worksites and visualizing it remains the key concept of what we do today. Our koto-uri approach — of hearing out customer pain points to create the best solution with customers — and our market-based strategies also began at around the same time. Enhancing and innovating this time-proven, competitive business model to drive further growth is the underlying idea of this medium-term plan.

Behind this idea is robust, global demand. Concerns for labor shortages, rising labor costs and increasing shipping volume due to e-commerce growth existed prior to COVID-19 but have intensified with the pandemic. This trend has led to more opportunities for us to suggest broader possibilities of using printers and labels to manufacturing, logistics and various other worksites while providing productivity solutions that use new technologies such as RFID and automation. The current medium-term plan sets three growth strategies: "Enhance region/market strategies," "Drive technological innovation" and "Incorporate ESG into our corporate model." [\(Page 26\)](#)

How fast we change will be as important as ever. In order for us to keep up with the speed at which society

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and customers change, we need to uphold our koto-uri approach while constantly innovating the organization (i.e., employee mindsets and the way we sell), internal IT platforms and our unbeatable offerings.*³ I will keep reminding myself that we need speed to achieve sustainable growth.

*2 Data Collection Systems
*3 Highly competitive solutions, products, services or devices

SATO's strengths

What drive our growth strategies are our strengths.

Genbaryoku — our core competency of going to and understanding customer worksites — is the word that describes our strength and is inseparable from tagging and koto-uri. We develop a positive cycle of deep, long relationships with customers through tagging and koto-uri and hone our ability to deliver value on-site through this process.

Genbaryoku consists of three elements: **1** industry expertise, of being versed in many markets, industries and applications, **2** technical expertise, in offering the best mix of products and services of both our own and our business partners, and **3** servicing, to continuously improve customer operations and build long-term trust. (📄 Page 35)

To deliver tagging-based solutions, we draft strategies specific to each country or region as well as each market sector, industry and application. This approach is nothing new for us; for over 30 years, we have been building our knowledge base about what proposals worked in what type of application and industry, and for what kind of pain point. It is this accumulated know-how that hones our capability to suggest solutions to customers, which wins their trust to rely on us again with their next pain point.

Our business runs with these gears of tagging, koto-uri, genbaryoku and strategy working in sync, which sit on the groundwork of customer-centricity and our corporate motto of Ceaseless Creativity that drove founder Yo Sato to help customers with their problems. These mindsets are SATO's founding spirit. We work hand in hand with customers and through trial and error to offer a solution to a challenge that customers themselves may have given up on. That's the spirit that lives on in our corporate values, which we are instilling in members around the world.

Human resources and organizational strengths are vital for us to turn genbaryoku and customer-centricity into a powerful driving force. In terms of organization, we can serve customers only when SATO's value chain is functioning over every stage of design/R&D, production, distribution, sale and servicing. Each of these departments is constantly honing its abilities from the customer's perspective. Had it not been for their efforts, we would not have fulfilled our obligations to deliver printers nor met customer expectations during the supply chain disruptions of FY 2021.

Shaping ourselves toward Tagging for Sustainability

We will continue to innovate our DCS & Labeling business model.

Look into the future and we see a world seeking digital transformation and sustainability (SDGs) and facing societal challenges from graver labor shortages and industrial restructuring, which would require increasingly complex solutions amid technological advancements. As these societal challenges find their roots in the supply chain, it is natural that customer priorities are shifting from

optimizing individual worksites to optimizing the entire supply chain. This is where we come in with our tagging-based solutions.

One of our key focuses is traceability solutions. A provider of a product, for example, would want to know how its product is used, where it is now in what quantity, and whether it has been sold by a specific date or not — in other words, trace it to detail — which would allow the provider to optimize procurement and production to save resources and reduce waste, or design its products to be recyclable, to fulfill its social responsibility. The provider would benefit even more with insights from further down the supply chain, showing that its product was consumed by the end user and its container properly recycled.

If technological innovations could digitize all of these real supply chain details that were unobtainable in the past, it would mean a lot to manufacturers, logistics operators, retailers, consumers and recycling companies in terms of improving their business and meeting societal demands.

And if SATO could collect such real data with our tagging innovations to track what was not trackable, we would help optimize the world we live in and make ourselves an essential company in the business ecosystem. With this aspiration, we established the "Tagging for Sustainability" concept in 2021. This idea is aligned with our corporate values that define our purpose as contributing to society through our business. Tagging for Sustainability is what the SATO Group aims for as we innovate our existing DCS & Labeling model.

Long-term business vision



* Those of/across production, distribution and sale

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By taking this long-term perspective, we would get a clearer picture of what we need to do from now: use our extensive know-how and outstanding products/services to our advantage to develop solutions that stay ahead of the curve and market trends, strengthening and further honing our value propositions. We are currently working with customers and business partners to create tagging-based solutions that would collect useful data across a supply chain, develop media that could actually collect such data, and consider ways of storing and utilizing the collected data. (Page 33)

Choosing media made from latest technologies and enabling them to carry useful data and be circulated to provide visibility into the entire supply chain — that's when added value is generated, and ways of doing business change. This is the world we envision with Tagging for Sustainability.

Our commitment to sustainability

Our business of solving customer pain points with tagging-based solutions has always contributed toward a better and more sustainable world. Sustainability is inseparable



from our business and our quest to raise corporate value. We have identified our materiality agendas in terms of what we do as our core business and what we do voluntarily as a company. (Page 38) Regarding climate change, for example, we plan to (1) help customers improve productivity to reduce their carbon dioxide emissions with our solutions, and (2) make systematic efforts to reduce carbon dioxide emissions linked to our operations, enhance green procurement practices and expand recycling options, as part of our declaration of support for the TCFD (Task Force on Climate-related Financial Disclosures) recommendations. (Page 45)

Human resources are core to sustainability at SATO, because our people are central to our business. As we hone DCS & Labeling and aim to innovate it toward Tagging for Sustainability in a constantly changing world, we must continue to innovate our solution offerings and the products, services and technologies that comprise them. At the center of it all is people; fostering a corporate culture that empowers innovation is crucially important in company management. I will work to bring out the best in our diverse workforce, so we dare to take new challenges in the spirit of Ceaseless Creativity.

We have a culture of rejoicing in small changes that occur in the workplace every day. Underpinning this culture for nearly half a century is Teiho,*4 reports on ideas to better the company that employees submit to top management. In FY 2021, we took this system further and started the "Make My Team Better" Teiho to encourage employee-led improvements, which proved to be successful in several test cases and led us to roll it out (in Japan only) in FY 2022 under a new name, "Make-a-Ripple" Teiho,*5 as a culture-building initiative. The report goes straight to the submitter's direct manager, allowing actionable ideas to be acted upon faster and letting submitters know through

highly relatable experience that they too can make a difference. It heightens employees' motivation and their sense of belonging to the company, while the company can change for the better, with speed. With this and other initiatives, we hope to build talent who can take ownership in their work and foster an innovation-friendly organization where small changes occur naturally. These initiatives come under the "Our Way to Our 100th Anniversary" project, which we have started for building corporate culture ahead of our 100th anniversary in 2040, and is led by a dedicated team to drive things with speed. (Page 41) To engage employees in innovation and more value-added work, we will also focus on improving productivity by continuing to revamp our in-house IT infrastructure and changing the way we work. Maintaining diversity in our key personnel is another topic we are keenly discussing for good corporate management. (Page 47)

We have also worked on strengthening governance as the basis of materiality decisions. External directors comprise the majority on our board today, while chairing the board and its nomination/remuneration advisory committees as well. Our next step is to strengthen groupwide governance over our subsidiaries outside Japan, which we have started by setting our managerial departments around the world up for collaboration.

SATO Group participates in the Japan chapter of the United Nations Global Compact (UNGC), a worldwide framework for companies that are committed to sustainability. We prioritize responsible business practices that comply with universal principles on human rights, labor, environment and anti-corruption.

*4 "Reports on original ideas, innovations and proposals aimed to make the company better and on how to put them into action" that employees write within a set word count and submit to top management. (Page 41)

*5 Comes from the symbolism that, just as a small pebble thrown in water would make a ripple that spreads throughout the pond, small change would eventually turn into big change. Started only in Japan for FY 2022. (Page 41)

To our stakeholders

We will allocate returns from our business placing priority on growth investments, while sharing them with our shareholders in the form of stable, sustainable dividends and stock buyback. Our total dividend per share for FY 2021 was ¥70, same as the previous fiscal year, after considering uncertainties in the business environment caused by supply chain disruptions and geopolitical risks, and keeping with our four-way returns to stakeholders policy as mentioned in our Credo. Expecting to achieve highest-ever operating income for this fiscal year, we plan our FY 2022 total dividend per share to be ¥2 higher, at ¥72.

As supply chain issues intensify and become more complex with increased awareness of SDGs and greater momentum toward industrial restructuring, the demand for tagging and supply chain visibility solutions will continue to rise. By keeping to our medium-term management plan, we will capture these needs and grow our business while contributing toward a sustainable world. This is not an easy goal to achieve in a still uncertain economic environment that is exposed to heightened geopolitical risks, inflation shocks and supply chain disruptions, but we will boldly take on new challenges, staying true to our heritage and values and our motto of Ceaseless Creativity to continuously raise our corporate value.

Do count on SATO to keep bringing innovation to society with the power of tagging.

From the CFO

Keep staging changes to maximize our corporate value



Fusaaki Matsumoto
CFO and CCO

My responsibilities as CFO and CCO

A full fiscal term has passed since I became Chief Financial Officer and Chief Compliance Officer in April 2021. With supply chain disruptions and growing geopolitical risks, FY 2021 did not quite go as we expected, and steering us through it financially was no easy task.

At SATO, we manage cash flows to create a sound financial base, in line with our management policy of concentrating resources on our auto-ID solutions business to establish sustainable growth and stable profits. Our basic stance on cash flow control is to make investments within the limits of our cash flow from operating activities and maximize returns.

In FY 2021, supply chain disruptions and rising material/component costs weighed on our business. And as we accumulated more inventory to avoid possible stock-outs amid robust market demand, our working capital spiked briefly, leading to a dip in operating cash flow. These circumstances, along with increased investment on production equipment for our growth areas such as RFID, resulted in negative free cash flow at the end of the fiscal

year. To turn strategies into results and invest in long-term growth within our current medium-term management plan (FY 2021–2023), we expect to make costly capital investments in FY 2022, but also anticipate highest-ever profits for the year, which should turn free cash flow positive.

Our financial leverage ratio in FY 2021 was 1.9, meeting our financial risk target of no more than 2.0. Our debt-to-equity ratio and current ratio were 25.1 percent and 195 percent respectively, with the latter reflecting our liquidity and ability to realize stable business activities and sustainable growth. Amid supply chain disruptions and growing geopolitical risks, we have also continued overdraft and commitment line agreements to secure financing in the case of unforeseen situations.

Shareholder returns are as important as financial stability. We issued dividends at ¥70 per share for FY 2021 in line with our dividend policy. In May 2022, we announced a share repurchase program valid through March 31, 2023, for up to ¥2.5 billion to boost shareholder returns and enhance the company's capital allocation plan in keeping with changes in the business environment.

To ensure business sustainability, we must strive to maximize corporate value at the group level, which requires us to take certain risks to pursue the greatest possible returns from a medium- to long-term perspective. We established a Business Review Committee in April 2021 to help manage risks in a valid and prompt manner. This committee that I chair assesses and analyzes risks that the SATO Group takes in conducting business, for example, when making investments, taking out loans or acquiring and disposing of assets. The committee reviewed and passed proposals for investing in RFID-related assets and in R&D to develop a new standard printer platform. With the help of this committee, we will continue to advance investment strategies and optimize our business portfolio over the medium to long term, making investment decisions based on the WACC (weighted average cost of capital) benchmark of 8 percent and the situation of each country/region and project.

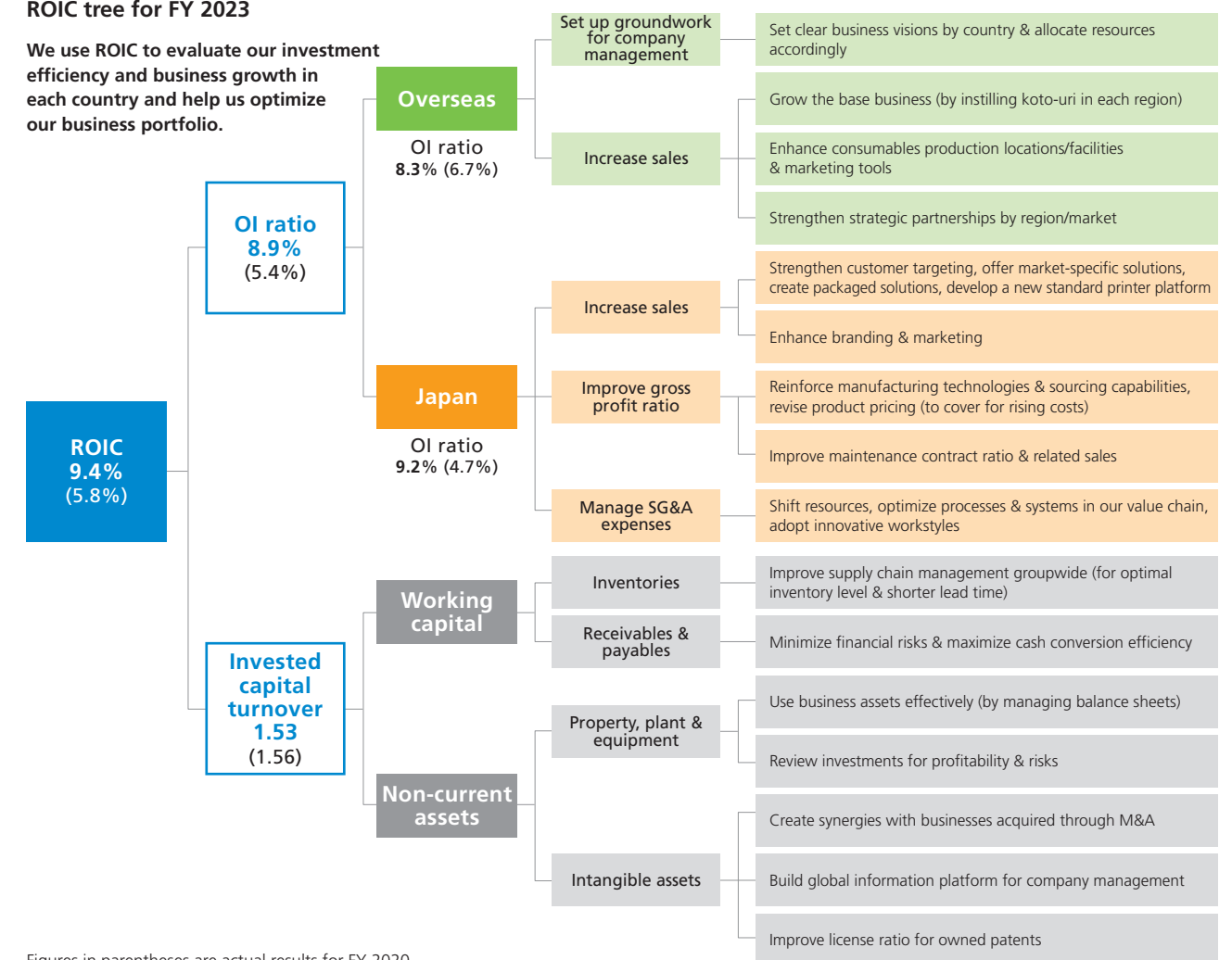
Toward achieving our medium-term plan

Our most important commitment to stakeholders today is to achieve our medium-term management plan.

By the end of the plan in FY 2023, we target sales of ¥126 billion, operating income ratio of 8.9 percent and ROIC (return on invested capital) of 9.4 percent. Underpinning this plan are three main growth strategies: (1) enhance region/market strategies, (2) drive technological innovation, and (3) integrate ESG into our corporate model. While I am responsible for implementing financial/capital strategies that aid the medium-term plan, I place particular emphasis on (3), given its importance in supporting the first two strategies. I hope to help strengthen governance (for risk management and thorough internal controls) and build a new in-house IT

ROIC tree for FY 2023

We use ROIC to evaluate our investment efficiency and business growth in each country and help us optimize our business portfolio.



Figures in parentheses are actual results for FY 2020.

Our capital allocation plan How we allocate cash reserves and cash generated over FY 2021–2023

Approx. ¥50 billion

Shareholder returns	Strategic investments for growth	Retained earnings
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Strategic investments Policy: 1) Invest in strengthening DCS & Labeling (approx. 60%)
2) Invest up-front in long-term growth toward Tagging for Sustainability (approx. 40%)

Strategies	Weight	Main actions	Target effects		
			Sales growth	Productivity gain	Cost savings
1 Enhance region/ market strategies	Approx. 20%	Develop unbeatable offerings in our core business for each key market	✓		
		Engage in business alliances (M&As, funding, joint ventures, etc.)	✓	✓	
2 Drive technological innovation	Approx. 60%	Enhance manufacturing capabilities for printers, consumables & RFID; upgrade equipment and facilities	✓	✓	✓
		Develop advanced tagging technologies & solutions	✓		
3 Integrate ESG into our corporate model	Approx. 20%	Build a talent development framework	✓	✓	✓
		Develop eco-friendly products	✓	✓	
		Build new IT infrastructure	✓	✓	✓

Shareholder returns Policy: Deliver stable dividends by enhancing market value; conduct flexible share repurchases when necessary

	FY 2021 (actual)	FY 2022 (target)
Dividend per share	¥70	¥72

infrastructure (for visualizing our company management and business information). In FY 2021, I focused primarily on the former, reinforcing our governance over global subsidiaries through collaboration with relevant managerial departments.

In terms of capital allocation, we plan to strategically invest approximately ¥50 billion from cash reserves and cash generated over these three years in the aforementioned growth strategies, maintaining balance with shareholder returns and retained earnings. (See chart above.)

The efficiency of our invested capital will be measured against ROIC, which depends largely on operating income ratio. In Japan, we will take actions such as shifting to an “All-in sales” mindset to increase sales, and offering RFID-based solutions to differentiate us from our competitors and improve gross profitability. For our business outside Japan, we will work to establish the groundwork for company management and further instill the koto-uri sales approach in each region. To ensure we see our growth strategies materialize into results in subsequent years, we will also be investing in R&D for a standard printer platform and in an internal IT system. As

more investments become necessary for our business expansion plans, the Business Review Committee will review existing businesses and new investments duly considering their risk–return profiles. We will also use business assets effectively by carefully managing our balance sheets to improve our total asset turnover toward achieving optimal business and asset portfolios.

To raise ROIC to our target 9.4 percent, we must drive awareness across our business front lines, communicating to all employees the importance of the metric. This will be another responsibility of mine, holding active dialogues with employees to explain how ROIC is linked to their daily work and customer value creation.

At where we stand now, we want to shape a corporate management model that is capable of growing business in line with our strengths to deliver results over time even amid changes in our external environment as long as we work on it diligently. We will continue contributing to society through our business to become an indispensable part of society and sustainably increase our corporate value. I ask for your continued support in our journey ahead.