

Strategies for the future

This section provides an overview and current status of our medium-term management plan ("MTMP") for fiscal years 2021 through 2023.

Overview

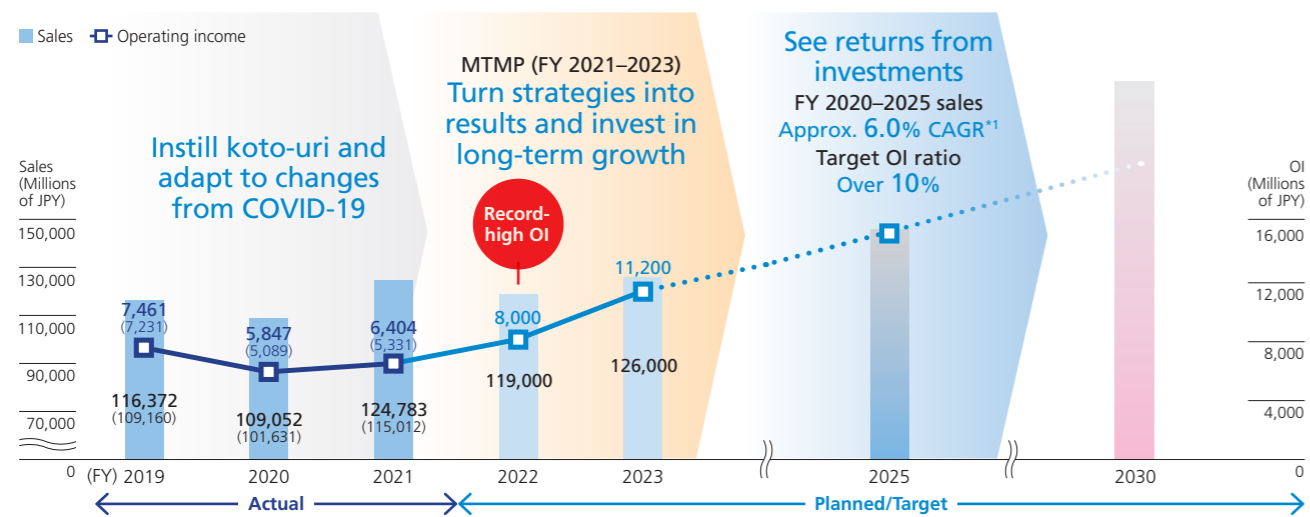
From now to FY 2023 and beyond

Our aim is to turn strategies into results and invest in long-term growth over the span of this three-year MTMP.

To realize our strategies, we will grow our DCS & Labeling business both in and outside Japan as changes in the global business environment drive strong demand for barcode, RFID and other identification solutions that help companies across many industries improve productivity in their manufacturing, distribution and sales operations.

In terms of investment for growth, we will simultaneously reinforce our existing DCS & Labeling business model and enhance our management groundwork to establish our next business model, "Tagging for Sustainability." We expect the effects of these investments to materialize after this MTMP, setting a milestone at FY 2025 when we would achieve a five-year CAGR (compound annual growth rate) of 6.0 percent for sales and operating income ratio of over 10 percent.

Where the MTMP stands



Note: Figures in parentheses for FY 2021 and earlier exclude our Russian business (before goodwill amortization). Figures from FY 2022 exclude our Russian business. *1 Excludes our Russian business.

Growth strategies and targets

The three main strategies in our MTMP are: **1** enhance region/market strategies, **2** drive technological innovation, and **3** integrate ESG into our corporate model. We will implement these strategies toward achieving our FY 2023 targets as follows.

Our targets (on a consolidated basis)

	FY 2020 (Actual)	FY 2023
Net sales	¥109,052 million	¥126,000 million +7.4% (CAGR)*1
Operating income	¥5,847 million	¥11,200 million +30.1% (CAGR)*1
Operating income %	5.4%	8.9% +3.5pt
ROIC	5.8%	9.4% +3.6pt

*1 Excludes our Russian business.

From the leaders

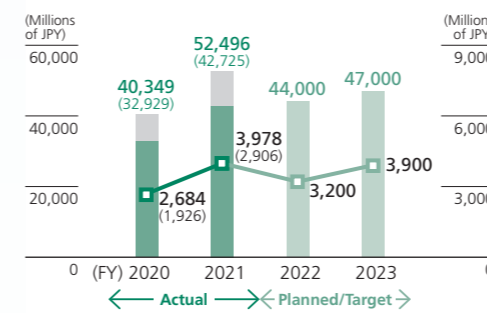
Global Establish the groundwork for sustainable profit growth

For FY 2021, overseas sales and operating income both exceeded targets we had set at the beginning of the year.

Demand for our DCS & Labeling solutions is growing globally, as e-commerce and the stay-at-home economy continue to thrive amid the pandemic and supply chain disruptions. Under these external conditions, our koto-uri approach has successfully helped us develop new business and expand business with existing customers, while sales through business partners increase steadily. We are strengthening our sales and distribution channels.

We hope to maintain this momentum as we develop a management groundwork geared toward stable and sustainable profit growth. It specifically means understanding the way each subsidiary operates from a portfolio perspective, assessing its status against how it should ideally be, and allocating business resources appropriately.

Sales & operating income



Note: Figures in parentheses for FY 2021 and earlier exclude our Russian business (before goodwill amortization). Figures from FY 2022 exclude our Russian business.



Yoichi Abe
Vice President
Oversees global business
Regional Operations Officer
for North and Central Americas

Each subsidiary has its own history, founding story and reasons for why it is where it is now, and no single approach will work for all. The DCS & Labeling business model has already proven its competitiveness outside Japan, so we should build on it by matching our investments to each country's needs — such as purchasing new equipment for one subsidiary to raise its sales ratio of consumables and stabilize profits while helping another promote our solution offerings from Japan to improve its gross profit margin.

With global recession concerns, geopolitical risks, supply chain complications and skyrocketing material costs, the business environment is unforeseeable and full of uncertainties. Yet we shall take the aforementioned actions in our drive toward achieving our MTMP objectives to generate stable, sustainable profit growth.

Japan Improve profitability with an "All-in sales" mindset

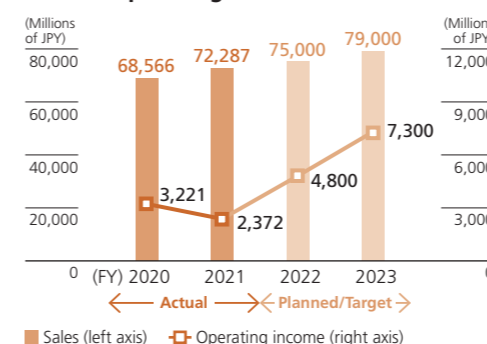
Demand for DCS & Labeling solutions is growing in Japan too, as our customers see labor shortages escalate and market expectations for digital transformation rise. Changes in customer and societal needs and advancements in technology mean that tagging solutions can no longer be about just barcodes. RFID and locating and sensing technologies are clearly gaining traction, illustrated by the fact our RFID sales grew about 25 percent year on year in FY 2021. The current business environment and trends are in our favor because we take the koto-uri sales approach based on our deep understanding of worksites, supply chains and tagging technologies.

But as we often need to go through details and tests before installing our solutions, our sales cycles can be complex and long, which, with the surge in material costs, have pushed down our profitability in Japan. For FY 2021, we fell short of our operating income target despite achieving that of sales. To improve profitability, we will **1 change the way we sell**, taking up the "All-in sales" mindset and strengthening our customer targeting to increase leads, conversion rates and



Hiroyuki Konuma
Vice President
Oversees Japan business
President, SATO Corporation

Sales & operating income



the efficiency of repeat sales processes. We will also **2 create truly unbeatable offerings**, particularly market/industry-specific solutions that we can sell as bundled packages to gain a powerful competitive advantage, **3 optimize our value chain**, for example, by investing in a new IT infrastructure to streamline our R&D, production and sales processes/systems, and **4 reduce costs**, which involves honing our quality, cost and delivery performance, thereby improving our manufacturing and sourcing capabilities.

To ensure we increase sales and profits in Japan toward achieving our MTMP targets, I will monitor the KPIs for our sales offices and departments more closely starting this year and work to achieve even stronger teamwork among our various units.

Progress of the three growth strategies

Enhance region/market strategies

Our business domain in tagging involves more than just providing the printers and labels to print barcodes with; we mix and match them with other products and technologies to offer the best solution to a customer's operational challenge.

In delivering the best solution, we need to look at so many different factors: what the challenge is and what societal changes come into play; what information from the customer's site is required; which auto-ID technology would best collect the information; how things are shaped, what material they are made of and which labels would work on them; and how data would be read. That's why we need to fine-tune ourselves to pick up on what each customer needs. And when social environments are unique within each country or region, the same industry would demand different levels of "best," which means we have to approach each country and region differently.

In FY 2021, there was strong demand for our DCS & Labeling solutions across different regions, which we successfully converted into sales through our koto-uri approach.

In the Americas, our base business saw significant growth in both printer and consumables sales, primarily driven by demand for e-commerce and supply chain management solutions from the retail sector that we focus on. It also helped that we have been working our way deeper into the operations of our existing key customers through koto-uri to identify their latent needs. Our primary labels business also increased profits as we made sales efforts and some adjustments to product pricing with the kind understanding of our customers. As a result, the region achieved ¥16.0 billion in sales (up 29.2 percent year on year) and ¥1.0 billion in operating income (up 32.6 percent) in FY 2021.

The current momentum in demand may slow down but we expect market trends to continue in our favor in FY 2022. We will keep up our koto-uri sales approach with existing major

customers in retail while also developing new business partners (and the sales potential of existing partners) to expand selling channels and grow our business in the Americas.

In Europe, our base business experienced considerable sales growth not only in printer and consumables but also in RFID solutions. This was thanks to robust demand from our focal verticals — retail, food and health care — where businesses need help dealing with e-commerce, tracking supply chains, cutting food waste and ensuring food safety. Sales growth can also be attributed to the progress we have made in developing business partners based on koto-uri. Our primary labels business was also profitable as we furthered businesses with our existing food and beverage customers. With moves to revise product pricing (as was done in the Americas), the region achieved ¥20.4 billion in sales (up 36.7 percent year on year) and ¥1.3 billion in operating income (up 120 percent) in FY 2021.

In FY 2022, we will continue to develop and expand our customer base through koto-uri while also offering packaged solutions that are in high demand to new customers in and outside Europe, with the help of our business partners.

In Asia and Oceania, printer and consumables sales grew substantially like in other regions, thanks to demand for factory/supply chain management and productivity solutions from the manufacturing sector that we focus on.

We also benefited from the recovery of automotive production and from the soaring needs for operational visibility and automation put forward by electrical and electronics manufacturers who had suffered supply chain disruptions due to the pandemic. As a result, the region achieved ¥16.1 billion in sales (up 23.4 percent year on year) and ¥1.6 billion in operating income (up 30.1 percent) in FY 2021.

We offer very strong value propositions (via koto-uri) in Asia and Oceania, partly because we have developed a deep

understanding of the region's manufacturing sector over the years. We will further strengthen how we provide total solutions with our market/industry-specific expertise.

In Japan, our target markets include retail, manufacturing, food, logistics and health care. We achieved ¥72.3 billion in sales (up 5.4 percent year on year) in FY 2021, mainly driven by demand for productivity-improving solutions from manufacturing, health care and logistics customers. However, Japan's operating income declined to ¥2.4 billion (down 26.4 percent) amid cost increases caused by supply chain disruptions, changes in product mix, and ongoing R&D investments for our new standard printer platform (mentioned later).

In Japan, we focus on capturing demand for replacing aging printers, while also working to innovate our RFID and

other tagging solutions as customer pain points become more complex and require more advanced technologies. As such, we may take longer time to close deals or get overtaken by competitors. This is why we are changing the way we sell with an "All-in sales" mindset.

For FY 2022, we will continue successful initiatives from the previous year including lead generation via marketing activities, managing our new business pipeline using our customer relationship management (CRM) system, and involving market experts in supporting sales teams to close deals faster. We will also work on customer targeting to improve our sales conversion rates and enhance the activities of our recently established Demand Center.*²

*² A marketing function that generates and nurtures qualified leads for passing to sales.

From the front lines

The role and vision of our Demand Center

Under our "All-in sales" strategy, the Marketing Department established the Demand Center in FY 2022 to produce high-quality leads and develop new touch points with our key accounts.

For lead generation, we start by holding physical events such as exhibitions and complementing them with the use of digital channels such as content marketing, then follow up by nurturing and qualifying leads. For developing touch points, we use our CRM system for customer targeting and segmentation in order to select and contact the right customers, which our sales branches have found challenging to do on their own.

We aim to produce even higher quality leads by combining and analyzing data on both customer attributes (such as business type, contact person's department/designation) and customer behaviors (such as purchase and servicing history).



Chihiro Shimura
Senior Manager, Marketing
SATO Corporation

How the Demand Center works with other teams



*³ Region-based market experts who provide sales follow-up and training.
*⁴ Engineers responsible for solving customer issues on site.

From the front lines

Collaborating with business partners in Europe

In Europe, working with partners such as independent software vendors or system integrators to provide our packaged solutions to their customers is progressing well. To develop new partners, it is important to first understand the end user's pain points at worksites taking our koto-uri approach. Such direct communication with end customers allows us to learn what kind of ecosystem they operate in, which vendors are chosen and why.

Let's take a food customer for example. Thanks to our solution offering and partnership with software vendors, we can offer a variety of applications including HACCP^{*1} compliance, ingredient control, allergen labeling, delivery labeling, and many more. We can tailor our solution to their specific needs because we understand them and speak the same business language. This approach has led to expanding our customer reach and strongly growing our market share in that segment, since we could duplicate similar solutions together with our partners' community.

*¹ Hazard Analysis Critical Control Point, a food safety management system recognized internationally.



Laurent Lassus
Head of Europe
Managing Director,
SATO Europe GmbH Benelux

Drive technological innovation

To evolve our current DCS & Labeling business model further into "Tagging for Sustainability," we need innovations, particularly in new tagging technologies.

We will start with (a) **Boost DCS & Labeling capabilities**, then branch out in two directions. One is to raise the level of our tagging technologies and develop new data platforms. And two is to widen our media lineup beyond labels/tags by inventing new media for data tagging,

logging and sensing. These approaches will allow us to better digitize, collect, track and utilize data to deliver SaaS (software as a service) solutions for supply chain optimization. (📄 Page 28)

In FY 2021, our activities for (a) were focused on the development of a new standard printer platform, which will continue into FY 2022. (📄 Page 29)

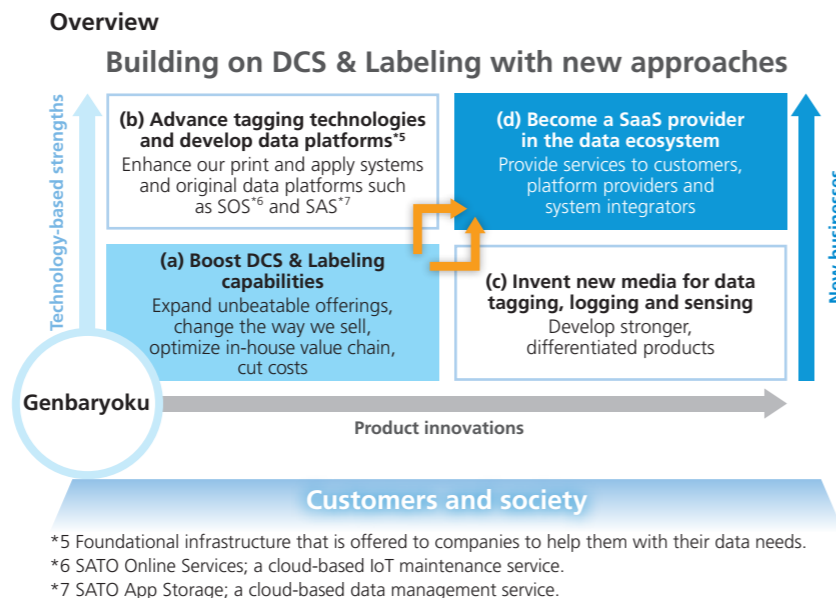
We also made efforts to expand our RFID business globally

Strategies for the future

through the RFID Business Headquarters we had established in FY 2021. While RFID tags generally do not produce 100 percent read reliability as they depend on radio waves for data transmission, SATO has years of expertise on designing RFID antennas and selecting the right readers for the best read rates based on the customer's operating requirements, which we see as our competitive advantage. Given that our global RFID sales in FY 2021 increased by more than 30 percent year on year, we plan to grow profits further by enhancing our RFID production capacities and capabilities.

Under **(b) Advance tagging technologies and develop data platforms**, we have released a new print and apply system that realizes accurate automated labeling using a sophisticated image recognition technology. This system is selling steadily around the world, backed by widespread demand for high-mix, low-volume manufacturing and automation

owing to labor shortages. As for **(c) Invent new media for data tagging, logging and sensing**, we are working to add locating and sensing technologies to labels and beacons. (Page 33)



From the customer

SATO provides RFID solution for asset tracking

PT. Sigma Cipta Utama (SCU) is an Indonesian company specializing in a wide range of data management services and safekeeping of their customers' key assets, which includes storage and supervision of physical assets and their data such as hard copy documents. SCU had been using barcode scanning to track and locate their clients' assets. They faced issues including the lack of accuracy in asset control due to barcode readability problems, which led to an increase in staff in their daily operations as well as extra hours in stocktaking.

With the RFID solution offered by PT. SATO Label Solutions (SATO subsidiary in Indonesia), SCU can now track each asset more speedily and accurately, and save up to 50 percent time during stocktaking.

From PT. Sigma Cipta Utama

I appreciate the attention to detail that SATO provided to streamline our traceability system. Now our staff can track and locate each asset in our warehouse faster with accuracy and ease.

Integrate ESG into our corporate model

This third strategy supports the first two strategies, and a particularly important element here is to build on human resources. As tagging requires us to collaborate with customers in solving their pain points, people serve as the very source of this value creation. Providing a place for employees to nurture and bring out their best and to raise their motivation is absolutely necessary for us to proceed with "Tagging for Sustainability."

In FY 2021, we enriched the training programs in SATO Campus, which we had established in the previous fiscal as a means to spur talent growth and entrench corporate culture. We also continued evolving our almost 50-year-old

tradition of Teiho with employee motivation in mind, adding a new function to the system in FY 2022. (Pages 40-41)

In addition, we are preparing a new IT infrastructure to launch after our current medium-term management plan. This will not only seamlessly integrate all the information across customer touch points in our value chain to improve in-house communication but also reduce overlapping work to enable our reallocating of human resources to value-added work, which would lead to higher customer satisfaction, increased employee motivation and a positive cycle of value creation.

COLUMN

Introducing our new standard printer platform, a global game changer for creating customer value in the era of IoT and digital transformation

We are developing a new common platform for SATO printers, aiming to complete it within the span of our current medium-term plan.

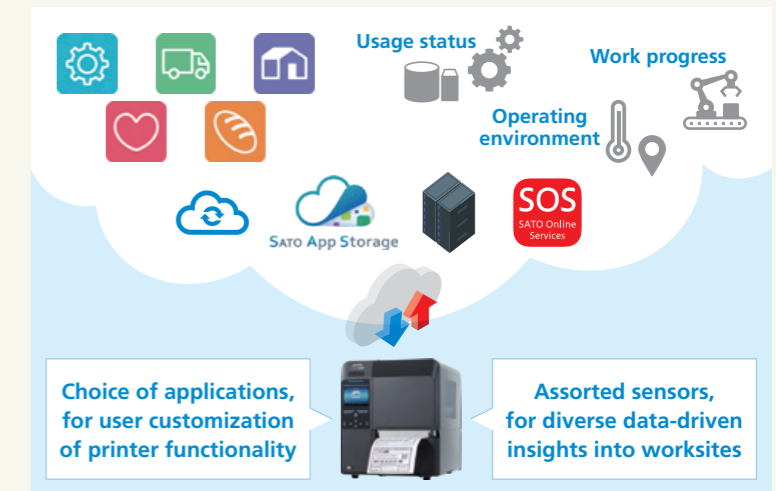
We hope to create greater customer value through this new platform that supports a wide variety of applications and sensors. Users will be able to select and download different applications to their printers depending on what data they want to collect or which systems they are connecting to. This is just like how we add or remove apps as we need on our smartphones every day.

With SOS (SATO Online Services) already helping customers monitor their printers remotely and perform preventative maintenance, the new platform and its sensors to detect temperature, location and printed mileage allow us to gain new insights into customers' printer environment, frequency of use, and data printed to automate label ordering, send notifications for parts replacements and deliver more maintenance services online.

It would also optimize our value chain. Since customers will be able to download and run multiple applications simultaneously on their printers, they no longer need to have software specially developed for their needs. This would reduce the burden on our R&D and production functions, and increase our sales efficiency. And with the diverse data collected automatically

from sensors, we can develop a good understanding of individual worksites without relying on our front-line sales and servicing teams to discover pain points for our customers and propose the best solutions.

Slated for use in SATO printers launched after 2023, this standard platform will provide strong support for our customers' on-site operations and a powerful driving force for our business activities globally.



From the front lines

A means to provide sustainable value

Our customers have diverse challenges and needs that vary depending on the region, market or industry they are in. To deliver the best solutions to them with speed, we wanted our printers to go beyond just printing labels to facilitate the flexible integration of different hardware and software. That's why we started this project. Throughout R&D, we constantly ask ourselves: How would the customer want this? What value can we bring?

We are confident that the new platform will help us create value for our customers and society into the future.



(Left) **Mitsuru Nonaka**
Senior Manager,
Integrated Platform Development Dept.
SATO Corporation

(Right) **Yoshiaki Uno**
General Manager
SATO Global Business Services Pte. Ltd.