

## From the President and Group CEO



*Hiroyuki Konuma*

**Hiroyuki Konuma**  
President and Group CEO

### In assuming Group CEO

**Focus on key fields, strengthen our customer base, and deliver tagging solutions for sustainability as we think out of the box, together.**

I have set new aspirations upon taking on my new responsibility as Group CEO in April 2023.

Starting my SATO career in sales, I became president of our health care company, and later the president of our core sales company. My nine years of growing the health care business into one of the group's financial pillars

generating ¥10 billion in net sales shape the foundation of how I run business today.

Over that time, I concentrated resources on developing and delivering tagging solutions geared toward patients and hospitals, as they were the ones in the health care supply chain that most benefit from pharmaceuticals and medical equipment and supplies. By focusing our koto-uri<sup>1</sup> approach on these user groups, we gained deep insight into hospital operations and ultimately increased our share in the industry. As we became known for our expertise in hospital solutions, the trust we built

## Build energized teams and spur our business to new growth

among pharmaceutical and other industries helped drive our growth.

Our customer base is the most important aspect of our business. Our Vision only reinforces this notion as it tells us to “be the customer’s most trusted partner for mutual growth, and always essential in an ever-changing world.” The relationship with — or trust from — customers that we have developed over the years servicing health care and other markets is our asset. Customers share their pain points and needs with us, which helps us develop the right technologies and solutions, put them to work and provide consumables for recurring business and a stable revenue base.

We can expect changes in our customers and society to occur faster and pain points become more complex than ever, which means we must innovate our tagging technologies and solutions with speed. And that’s why I set my new leadership slogan as, “Think out of the box, together.” The SATO Group today has a unique business model, offering “powered on site” solutions to a wide range of markets and industries. But our decision-making and execution have slowed. As a former salesperson who long worked on the front lines, I remember us being far more energized than today. Everyone was passionate about work and fueled by inner drive. Under my new slogan, we will focus on eliminating formalities and

minimizing layers of authority and decision-making in all business fields and stages to empower our workforce in achieving commitments with agility. No matter how our business and organization grow, or how demanding our challenges become, I want the SATO Group to maintain the dynamic genbaryoku<sup>2</sup> we had when we were smaller. I want us to always uphold this spirit of agility.

So how can we solve the pain points of businesses and society that are becoming more complex? Considering our business model and strengths, technological trends and growth potential, I think the key here is offering solutions that span supply chains and enable the circular use of resources, i.e., Tagging for Sustainability. We have always been supporting customers in globalizing their business or visualizing and optimizing their supply chains, but the recent pandemic, geopolitical risks and environmental concerns triggered businesses in more markets and industries than ever to think about how they can track things to know what is where in what quantity and condition in real time. As a company that has delivered tagging solutions to numerous markets and industries, we believe there are certain answers only SATO can provide. And we can move faster and create even more added value by developing our own RFID or sensing devices and cloud services while partnering with other technology companies in the spirit of open innovation.

From the President and Group CEO



\* Those of/across production, distribution and sale

Because every customer in diverse industries, markets and countries/regions operates differently and faces different pain points, a single tagging solution for sustainability may not work for everyone. To provide optimal solutions, it's important that we continue to practice genbaryoku to gain a deep understanding of customer worksites and create value for customers and society with our corporate motto of Ceaseless Creativity. This is what we aspire to achieve with Tagging for Sustainability.

\*1 Sales approach of selling not just the product but combinations of products in the form of solutions that include hardware, consumables, maintenance services and software, demonstrating ROI and other value propositions for the customer.

\*2 Our core competency of going to customer sites in an array of markets/industries to understand the essence of their pain points and offer solutions that improve or innovate their operations. It consists of three elements: industry expertise (versed in many industries), technical expertise (offering the best mix of products) and servicing (constantly improving operations at customer sites).

## Where we stand in our FY 2021–2023 medium-term management plan

[Aiming to speed growth of our global business as it exceeds plans and make the Japan business profitable again.](#)

Our current medium-term management plan that sets FY 2023 as its final year assumes the economy would fully recover from the pandemic, but external headwinds have persisted. Yet our global business has been strong on demand for RFID and automation solutions such that our performance through FY 2022 was better than initially planned. We are expecting to outperform our initial FY 2023 sales target but we revised the operating income target downward from ¥11.8 billion to ¥8 billion, due to the long sales process

typically required for high-profit products in Japan, increase in material costs, and impacts from R&D investments. We hope to achieve this revised target so that we set ourselves up for the next medium-term management plan.

In our overseas business,<sup>\*3</sup> consistent efforts to instill koto-uri since FY 2018 have transformed the base business to help it achieve sales and operating income figures that are already exceeding initial targets. We will speed this growth, delegating authority to each region and subsidiary to operate more independently with necessary governance. We plan to fortify our recurring revenue model through labels and servicing to sell more standardized solutions, while enhancing software development and collaborating with industry-specific partners. We are working to improve our planning to optimize production, sales and inventory levels for greater efficiencies and better cash flow group-wide.

Our primary labels companies face relatively stable demand as they mainly target food, daily commodities and pharmaceuticals. In FY 2022, our Russian subsidiaries took steps to counteract supply instability ahead of competitors, which greatly helped boost sales and operating income. But with competition catching up, we forecast their performance for FY 2023 to return to FY 2021 levels. With the Russian business adding significantly to our immediate revenue, we plan to continue our involvement as we control and manage risks for the time being.

In Japan, we stepped up our web marketing efforts to drive sales to a higher level even amid the pandemic, while completing development of a new printer platform that will be an unbeatable offering. Slated for use in SATO printers to be launched from FY 2024 and beyond, this platform will not only create greater value but also streamline our R&D process. The Japan business is progressing in line with our initial plan in terms of sales but



underperforming in terms of operating income due to sluggish printer sales reflecting pandemic-induced changes in customers' investment priorities, delays in managing the impact of rising material costs, and continued upfront investments in R&D. We will be focusing on rebuilding our revenue base while redirecting resources to high-profit, high-potential markets and industries, improving gross margins with price revisions and value chain innovations, and cutting development costs with the new printer platform. Pursuing greater profitability will be our immediate priority. And we have already begun developing new markets<sup>\*4</sup> as the first step in redirecting resources.

\*3 Made up of the base business (which involves tagging variable information such as barcodes, prices, manufacture dates and expiration dates in the form of labels and tags) and the primary labels business (which involves tagging fixed information via product labels and other media), with the latter comprising operations of SATO Group companies located in Argentina, Brazil and Russia.

\*4 Current focus is retail, manufacturing, food, logistics and health care.

## New management team, new growth strategy

[Assign clear roles and responsibilities and delegate decision-making to speed up and optimize business.](#)

I have set up a new management team and growth strategy to drive us forward. My role as Group CEO is to run our



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group businesses from a medium- to long-term perspective and to concentrate on allocating resources optimally and managing our business portfolio. I hope to speed up and optimize our business management and operations by assigning clear roles and responsibilities and increasingly delegating decision-making to our two vice presidents. Hayato Shindo, who has long been stationed abroad to spread the koto-uri approach to our global companies will oversee our global business, while Yoshinori Sasahara, with his proven record leading sales, production and RFID departments in Japan, will supervise business on our home soil. They know all the necessary context of both businesses and will run them dynamically with quick decision-making. (📧 [Pages 27–28](#))

The new growth strategy was drafted based on the current medium-term management plan, and sets **1** global business strategies, **2** innovation and R&D, and **3** sustainability management as priority agendas.

Global business strategies refer to actions for our overseas and Japan businesses that I have covered earlier.

Our innovation and R&D strategy pursues Tagging for Sustainability by working off of our genbaryoku to expand business in two areas: enhancing our lineup of functions (devices) that collect data, and developing systems that utilize the collected data. In the first area, our RFID



solutions are growing globally beyond expectations and the progress is extremely encouraging. We have also launched RFID labels equipped with temperature sensors, as well as other solutions capable of collecting the status data of things and not just their identifiers. And in the second area, we have started offering cloud solutions that control access to the collected data and predict status changes based on data patterns. One such example is our Taggin'Well Cloud solution. [WEB https://youtu.be/QFWrojK074A](https://youtu.be/QFWrojK074A)

The more data and data types there are to be collected, the more value the data would possess. There are a number of companies out there that can integrate and analyze such collected data, but not many have the genbaryoku, tagging technologies and customer base that SATO has. We hope to leverage these advantages as we stay true to our core business of data collection (i.e., tagging data to things and people) and develop SATO-unique solutions that would grow into our next pillar of business. (📧 [Page 30](#))

As for sustainability management, we aim to create value for society while heightening our corporate value. We have identified 16 materiality agendas by their relevance to (A) our value proposition, (B) fundamentals of our value creation, and (C) environmental responsibility, and will address them with corporate governance and risk management serving as the underlying foundation. (📧 [Page 37](#))

Our current focus for corporate governance is on improving the effectiveness of the board of directors and speeding up decision-making. For the former, we have added a new question in our latest board effectiveness survey, asking external board members for their suggestions on enabling more in-depth discussions at board meetings. For the latter, changing decision-making authority and how we delegate it will be our key actions. Back when I was

president of our health care company, I was able to execute strategies dynamically and achieve success thanks to the autonomy I was given. I hope to nurture the same managerial autonomy across the entire SATO Group.

In strengthening the fundamentals of our value creation, we will continue enhancing human capital management. We established an HR Development Committee in FY 2022 tasked to define the desired traits of our core talent, systematically mine and train them, work on succession planning, and revamp HR policies. Through this committee, we have recently drafted HR management schemes covering various areas including core talent development. As a business that centers on solutions using everyday technologies such as barcodes and RFID, our competitive advantage lies in each and every employee who would understand customer worksites and what customers want to label or tag to conjure up the best combination of products, services and technologies in the spirit of Ceaseless Creativity. That's why human resources are our most important assets, and we have Teiho<sup>\*5</sup> and numerous award programs for building people, which in turn builds business. (📧 [Pages 39–40](#))

Because the value we deliver would come to benefit consumers as the scope of our business widens to realize Tagging for Sustainability, I always tell employees to use Teiho as one of the means to suggest how we can improve our offerings by thinking about what would enrich their own lives.

<sup>\*5</sup> Our unique insight sharing system with which employees regularly submit ideas and findings directly to the management. Started in Japan in 1976, the system initiates big and small changes for the company to meet the needs of the times and achieve sustainable growth, while serving to raise employee awareness on detecting issues and devising creative solutions.

## To our stakeholders

### I hope more people will come to see SATO as an essential company for society.

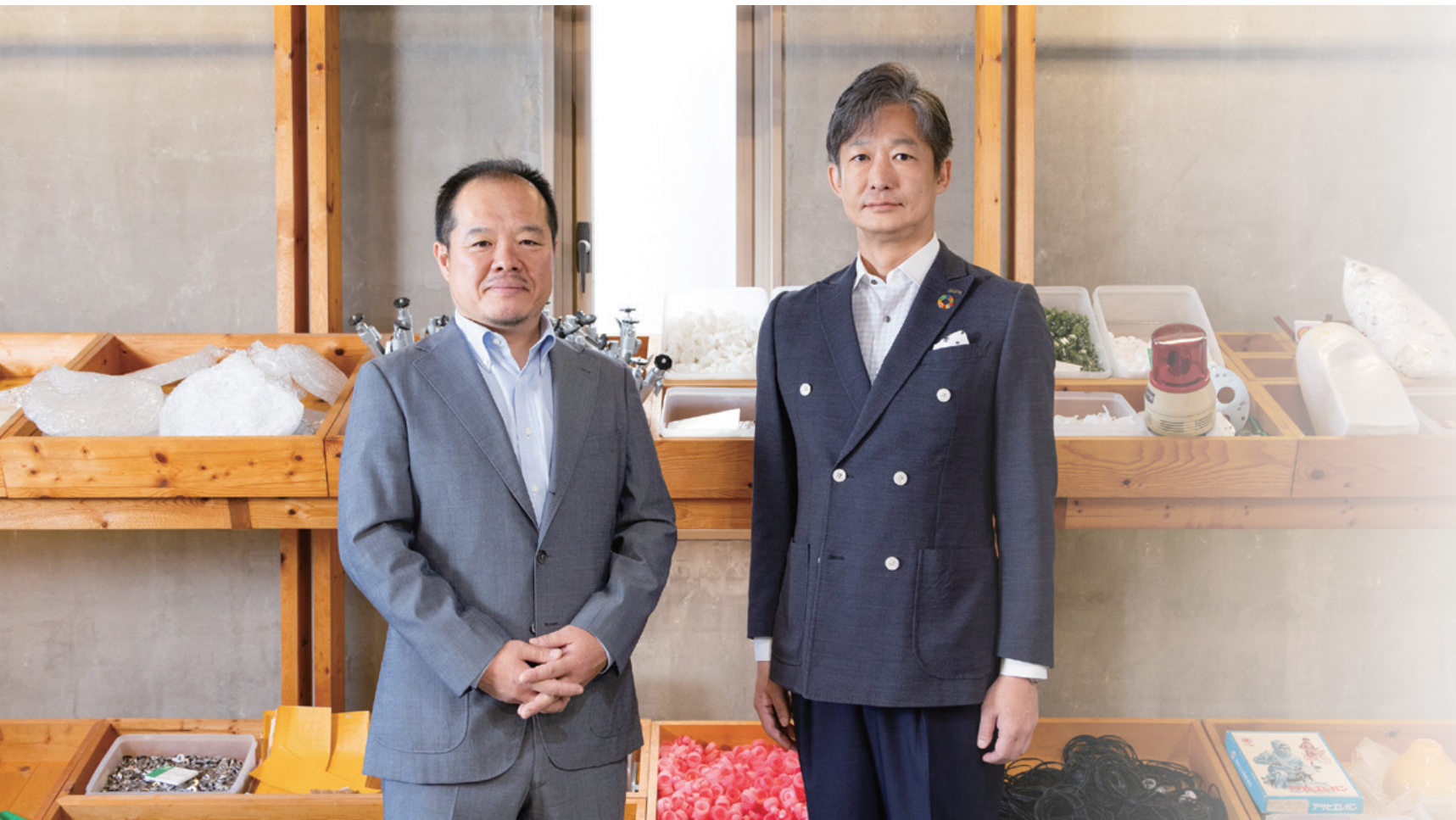
One of my resolutions is to enter new business fields, leveraging genbaryoku and our strengths and expertise in tagging to take on new challenges and maximize the value we provide. As the world and business needs change, we grow with tagging technologies that collect more diverse and sophisticated data of higher value. We have been offering such value to customers in five key markets, but I aim to service new needs in new fields, including sustainability-related opportunities. This strong intent to pave a new path is similar to what I had when I drove our health care business to growth and success. The knowledge and insights we gain from new opportunities can also be put to good use in our five focal markets, where we continue to leverage our capabilities.

SATO is an essential company for society, and I aim to help our stakeholders recognize this. I want us to stay essential, contributing to society through our business. That's why I have mapped a new growth path that we shall stride with decisive steps.

Our business changes people's lives for the better, and I want SATO Group employees to recognize that we all play a part. I hope each and every one of us finds joy and takes pride in what we do. As Group CEO, I will build energized teams who are passionate about work and the customers we meet to spur our business to new growth.

I hope you will join us on this new journey of ours.

## In conversation



**Sumiyuki Nakadai**  
President  
Nakadai Holdings Co., Ltd.



**Hiroyuki Konuma**  
President and Group CEO

# Creating value together to enable the circular use of resources

The circular economy is a system where industry and nature coexist through the recycling of used products as resources. SATO started working with industrial waste recycler Nakadai Holdings to utilize the industry–government–academia network in circulating resources under the concept of “Innovating use, designing disposal.” SATO Group CEO Hiroyuki Konuma and Nakadai Holdings’ President Sumiyuki Nakadai discussed the future of circular businesses.

## What brought SATO and Nakadai together?

**Konuma** We met Nakadai just as we were exploring new tagging-based businesses to contribute to the circular economy via an in-house project.

This project we call “Our Way to Our 100th Anniversary” was launched to keep SATO innovating even when we reach our 100th anniversary in 2040 by tapping the collective strengths of employees who are empowered to think and act autonomously to initiate changes on their own.

We needed to cultivate a company culture that encourages new challenges and embraces failure to innovate with speed, and started by using the said project to engage young employees, who will play key roles in SATO’s future, in leading various new business initiatives. The project team was exploring new solutions to keep pace with global trends, and it was then when our path crossed with Nakadai’s.

After meeting Nakadai and learning about the complexities of processing and recycling waste, I thought our tagging technology and solutions honed over the years could be of help. I was also profoundly attuned to his passion for realizing the circular economy.

## What are the challenges facing waste treatment companies like Nakadai?

**Nakadai** Our business started with iron scrapping services and has expanded with the growth of the automotive industry over our 86 years of history. Global awareness of environmental issues such as climate change surged in the late 1990s following the release of ISO 14001 (an international standard for environmental management) and the United Nations’ endorsement of

the Kyoto Protocol. In response, we shifted to provide comprehensive recycling services in 2000 and are now in the remarketing business of selling reprocessed products or materials to markets that need them to bridge the use and disposal stages. At our main intermediate waste treatment plant in Maebashi, we not only sort and process ferrous and nonferrous metals but also handle the city’s bulky household waste and over 1,500 tons of industrial waste monthly from across Japan, boasting a recycling rate that exceeds 99 percent.

While we cannot predict when we receive what type of waste and in what quantity, we need to supply a stable and consistent amount of recycled materials to customers. This has been our biggest challenge for over two decades, and because most recycling companies are in a similar position, recycling can only progress slowly in our society.

## How can SATO’s tagging technology help waste recycling and reuse?

**Nakadai** We sought advice from many companies but didn’t find a convincing solution to our challenge.

This changed when we had the chance to hear about SATO’s tagging solutions and how they could connect waste collection and sales data. With an extensive knowledge of attaching data to things and collecting data across companies, SATO offers various ideas and tangible solutions, which can address challenges hindering circular transition and facilitate the tracking of waste-related carbon dioxide emissions to contribute greatly to society.

**Konuma** Thank you for your faith in us. Having tackled customer challenges across many sectors, we are confident that our experience and expertise can be



## In conversation

effectively applied to recycling. For example, we can help tag and track waste generated by companies to increase the efficiency of waste collection and processing, providing traceability data to ensure a stable supply of recycled materials at consistent quality. And by managing data at each stage, we can produce accurate analyses on recycling rates and greenhouse gas emissions that would benefit manufacturers upstream. With our specialization in tagging to capture and use data about things, we have been dealing mainly with forward logistics issues in the supply chain and are now taking our first step to cover reverse logistics. This new terrain may be challenging, but we are excited about it.

### What are your future aspirations and plans?

**Nakadai** I think recycling has been a passive process for many of us. We assume that waste is inevitable and react by finding acceptable ways to treat waste. But more and more countries today are beginning to see waste as homegrown resources that can be reused. To enable such circular use of resources, we need a new framework. For a start, it's important that we become more proactive in our thinking and action. We must

manage all products that would one day end up as waste and build systems to transform them back into useful resources.

Imagine a system to collect and recycle solar panels that are proliferating rapidly, or a systematic flow to recover specific rare-earth metals from ubiquitous smartphones in quantities that make reuse possible. Stories about newly invented easy-to-recycle materials often make the news, but these materials cannot be identified at the point of disposal if data identifiers are not first attached to them. To treat everything we consume as potential resources in a resource-limited country like Japan, we need to figure out how to attach data to everything and manage the collected data. I believe that SATO's tagging solutions hold the answer.

**Konuma** After speaking with you, I've come to feel that we need to rethink our tagging approach, particularly for businesses in reverse logistics. Consider motor vehicles, for instance. Each automotive part carries data about its origin and production date. We used to think this data was needed only during the vehicle's life cycle but a system that stores data after vehicles are scrapped would open up a new world of possibilities. It means we can widen the scope of the solutions we offer automakers and parts suppliers to include recycling or even tracking of carbon emissions at higher accuracy.



This concept isn't just for the automotive industry. Solutions for reusing waste can play a role in all industries and even in the development of social infrastructures in other countries. Reverse logistics have great business potential.

**Nakadai** It may sound like grand talk but we're backing it up with action. In July 2023, Nakadai entered into a joint venture with Kyushu Electric Power Co., Inc. to establish Circular Park Kyushu Co., Ltd. (CPQ), using an old power plant site in Satsumasendai as our recycling hub. Besides running the recycling business, we will also conduct proof-of-concept trials for enabling the circular use of resources with Kyushu Electric Power group companies, Kagoshima University and leading manufacturers and with the city's support. By collaborating with these partners, we aim to produce more precise outcomes to take those ideas we pursue with SATO to real-world success. This is a substantial step toward realizing the circular economy that Nakadai envisions, and we will develop a concrete road map to guide us ahead.

#### Sumiyuki Nakadai

**President  
Nakadai Holdings Co., Ltd.**

Also president of Monofactory Co., Ltd. (which provides waste recycling and carbon reduction consulting services for businesses and municipalities) and co-president of Circular Park Kyushu Co., Ltd. (which was established under the concept of achieving good business and a better future.) Winner of the "Design for the future" special prize in Japan's Good Design Award 2013 and author of the Japanese book "Circular business: Designing disposal."



**Konuma** There aren't many opportunities for us to engage in diverse circularity trials with like-minded corporations and partners so we are looking forward to the activities that we carry out with your company and CPQ. We will focus on developing solutions that connect data and things in reverse logistics, incorporating AI and other advanced technologies. With an eye on the future, we hope to also implement source tagging for the systematic recycling of product materials and parts, and support the adoption of digital product passports.\*

In partnering with Nakadai, we can potentially solve societal issues and create new businesses. This is also a valuable opportunity to gain experience and know-how so we will work together to pursue new endeavors in the spirit of Ceaseless Creativity.

As Group CEO, I will stay forward-looking and allocate our business resources in ways that help create value for society and further increase our corporate value.

\* Electronic records with comprehensive data about a product, including its manufacturer, raw materials and recyclability, to facilitate information sharing throughout its life cycle.

From the CFO

# Stay agile to maximize corporate value

**Fusaaki Matsumoto**  
CFO and Chief Compliance Officer



## Our financial performance and policy

FY 2022 was another challenging year for our finance activities in the face of supply chain disruptions and growing geopolitical risks.

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 2022, working capital temporarily spiked as supply chain disruptions forced us to stock up on inventory to meet robust market demand, but operating cash flow increased year on year as profits improved primarily in our overseas business. In using this operating cash flow and proceeds from withdrawal of time deposits to invest in our growing overseas business and other growth areas such as

RFID (expanding production), we managed to achieve positive 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 2023, but also hope to maintain free cash flow at healthy levels through actions to optimize working capital with better production, sales and inventory (PSI) planning. We have a global PSI planning improvement project underway, and I am part of the project team.

Our equity ratio in FY 2022 was 53.3 percent. While we aim to control this ratio at around 50 percent for financial stability, we may choose to lower it if necessary to capitalize on opportunities promising high returns on investment. In view of escalating 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 ¥72 per share for FY 2022

under our policy of enhancing company value and delivering stable dividends. To boost shareholder returns and enhance the company's capital allocation in keeping with changes in the business environment, we completed a share repurchase program using about ¥2.5 billion in FY 2022. We will continue to include stock buyback as one of our options to return capital to shareholders.

To ensure business sustainability, we must maximize corporate value at the group level, which involves taking certain risks to pursue the greatest possible returns from a medium- to long-term perspective. I chair the Business Review Committee, which was established in FY 2021 and employs a rational and timely approach to assess and analyze risks that the SATO Group takes in conducting business, for example, when making investments, taking out loans or acquiring and disposing of assets. In FY 2022, it reviewed and passed proposals for investing in RFID-related assets and in acquiring a tag/label producer in the US. (Page 29)

Through 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 and sustainable growth

The FY 2023 targets in our current medium-term management plan are ¥140 billion in sales, ¥8 billion in operating income and 6.7 percent ROIC (return on invested capital). My responsibilities are to implement financial strategies that aid this plan and pave the way for our FY 2024–2026 plan.

In terms of capital allocation, we plan to use cash flows, cash reserves and borrowings for growth investments while maintaining balance with shareholder returns and retained earnings. (See chart below.)

ROIC is key here, and we must drive awareness across our business front lines, communicating to all employees the importance of raising ROIC. I aim to encourage active dialogue with employees to explain how the metric is linked to their daily work and customer value creation.

We need to develop a corporate management model that is capable, through persistent effort, of growing business in line with our strengths to deliver results over time even amid changes in our external environment. We will continue working to be indispensable to society, contributing through our business to sustainably increase our corporate value. I ask for your continued support in our journey ahead.

### Our capital allocation plan

