

Strategies for the future

This section provides an overview and progress update of our medium-term management plan (“MTMP”) for fiscal years 2021 through 2023.

Overview

Our current MTMP and beyond

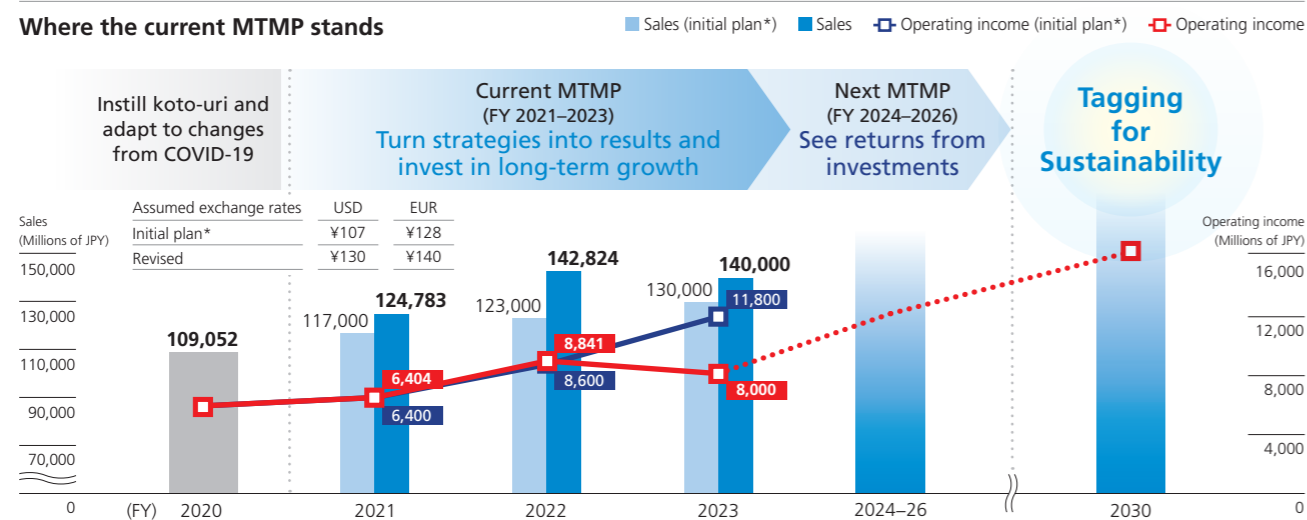
Our aim is to turn strategies into results and invest in long-term growth over the span of this three-year MTMP.

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.

Our investments for long-term growth will include those for reinforcing our DCS & Labeling business model, while expanding our business domains and enhancing necessary infrastructure. We expect the effects of these investments to materialize over the span of our next three-year MTMP and beyond.

Where the current MTMP stands



* As released in May 2021.

New growth strategy

Based on the current MTMP, we have drafted a new growth strategy with three priority agendas. They are:

- 1 global business strategies, 2 innovation and R&D, and
- 3 sustainability management.

Despite sales trending above budgeted plans, we revised our operating income target for FY 2023 from the initial ¥11.8 billion to ¥8 billion, given the long sales process typically required for high-profit products, an expected surge in material costs, and planned investments in R&D.

Priority agendas



Link the three agendas for sustainable business and revenue growth

Agenda	Overseas business	Japan business
1	Accelerate growth by repeating success in solution sales	Improve how we sell and make profits through value chain reform
2	Take tagging to the next level Advance tagging technologies (automation, RFID, sensors, software) Develop new labels/media and strengthen our offerings	Create new businesses for “Tagging for Sustainability” Enter new business fields and evolve business model (e.g., data business, value cocreation with ecosystem participants)
3	Create value for society Create value for customers Boost efforts to address climate change	Enhance corporate value Strengthen corporate governance Enhance human capital management

From the leaders **Global**

Accelerate growth deploying success cases globally while eyeing global alliances and M&A opportunities

Hayato Shindo

Vice President
Oversees global business
Regional Operations Officer for Europe and Oceania



I started out at SATO as a salesperson for the Japanese manufacturing market before relocating overseas where I gained experience in sales and management. After serving as the regional head of Asia from 2015 and Europe from 2021, I assumed my current role heading the overseas business. I have always focused on instilling koto-uri across our target markets and industries outside Japan.

As these efforts paid off with our salespeople worldwide now embracing the koto-uri mindset, the development of new printers with new value (such as SATO AEP*1 and SATO App Storage*2) beyond the traditional expectations for print speed and precision has led to the creation and delivery of many enhanced solutions on a global level. As a result, we were able to post strong sales and operating income even during the pandemic, meeting our MTMP targets and putting us on a path to sustainable, profitable growth. Our next step is to take solutions built for single markets and industries and deploy them horizontally for growth while keeping an eye on alliances and merger-and-acquisition opportunities.

We need to delegate more authority to regional*3 heads so that the regions run on their own while we counterbalance their autonomy with proper group governance. Better communications between HQ and subsidiaries over the past

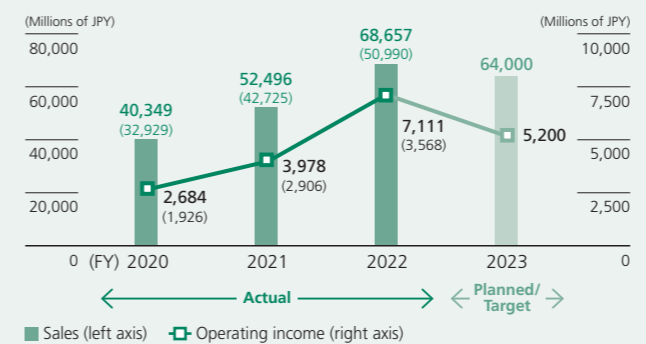
few years have strengthened mutual trust, and with regions now shifting to a koto-uri approach of value creation and embodying SATO Values, I believe it’s time for more autonomy in our regional businesses.

There are several ways to approach “global” solutions. One is to have a customer’s global headquarters use our solution across multiple offshore operations. Another way is to propose a solution developed in one country for a specific industry to customers in the same industry in other countries. Either way, the key is to help our customers overcome pain points in operations or global supply chains by working directly with them or through collaboration with partners, capitalizing on our partner networks and information we glean worldwide through koto-uri. (Page 31)

In our overseas business, printers represent a larger portion of total sales than in Japan. To sell solutions, many subsidiaries need to enhance their capabilities to supply labels, software and servicing. We will work on these enhancements while strengthening ties with partners and resorting to M&A as appropriate. We have already reinforced our capacity to develop and deploy software-based solutions. (Page 6) In the US, we acquired a label manufacturer to add to our label production capabilities. (Page 29)

Offshore markets are now growing faster than those in Japan and have greater potential for growth as long as we practice koto-uri and genbaryoku to deliver DCS & Labeling. We will execute the strategies described above to push for faster growth.

Sales & operating income



Note: Figures in parentheses exclude our Russian business (before goodwill amortization).

*1 Application Enabled Printing; an onboard intelligence that builds applications to customize printer operations so that the printer can be used as a stand-alone printing solution capable of interacting with other systems/databases without connecting to a PC.

*2 A cloud-based data management service.

*3 Americas, Europe and Asia-Pacific (including Oceania).

From the leaders **Japan**

Bettering how we sell and make profits to set up a revenue model that meets changes in the business environment

Yoshinori Sasahara

Vice President
Oversees Japan business and internal IT platforms
President, SATO Corporation



I assumed the role of vice president at SATO Corporation in 2016, after holding various executive positions in domestic sales. Appointment to the head of production in 2019 and the RFID business in 2022 gave me the opportunity to innovate our internal value chain.

In Japan, demand for our products and services is strong, driven primarily by needs for RFID and automation solutions. This brisk demand, and our successful strategy to capture it, have put us on track to achieve the MTMP sales targets. But we are underperforming in terms of operating income, as customers' investment priorities changed due to the pandemic and resulted in longer processes for closing printer sales deals, while we made late moves to tackle rising material prices. We now work on bettering how we sell (sales capabilities) and make profits (by streamlining workflow) to restore our profitability.

We will strengthen sales with strategies taking perspectives of area and supply chain. Our area strategy is to have our sales branches analyze their respective customer base in terms of profitability, potential for growth, and market share, and propose solution offerings based on customer needs and with optimal allocation of resources.

Our supply chain strategy will connect the dots by expanding the customer touch points we developed through area strategy to their suppliers. With the printers, software and labels we

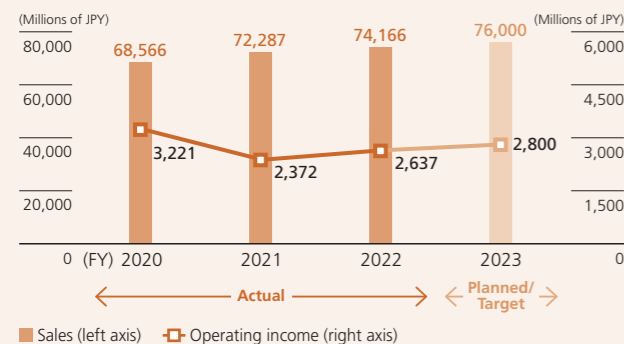
provide, we help suppliers print and apply shipping labels meeting requirements of the customer (receiver) on what information to print and where to apply on the shipping carton. This strategy is founded on our deep knowledge of customer operations, such as their flow and pain points, as well as what information needs to be associated with labels. The Japan business has a track record implementing this strategy in retail, manufacturing and food sectors. Today, we are seeing demand shift as the market environment changes with aggravating supply chain challenges and growing adoption of RFID. We hope to tap into our accumulated knowledge and drive the supply chain strategy in Japan and beyond where we are already seeing positive results. [\(Page 31\)](#)

As for securing profits, we will innovate the value chain of our core printer and label/tag products to enhance operational efficiency. We will also develop and execute a more refined printer product roadmap that factors in changes in the global market environment and demands, and our sales and production capabilities. Revising prices of our labels and tags, as well as considering standardizations and what to do with low-margin products, will similarly streamline our consumables product portfolio. By optimizing the number of main products we carry, we will boost our purchasing power and production efficiency while reducing worker-hours spent on managing products.

We started working on this value chain reform in FY 2020, during the pandemic. But efforts were not well coordinated among business functions, with each prioritizing its own immediate challenges of the time. Now that the situation has normalized and I, who was at the center of it all, head the Japan business, I will step up the effort. We have already set KPIs and started monitoring them. We also count on new printers equipping our new, standard platform that are due out from FY 2024 to help drive sales strategies and value chain reform.

There are numerous societal challenges in Japan that our solutions can help address, such as those related to labor shortages, lack of visibility in supply chains and the environment. We will capture this demand by executing the strategies above while pushing for greater efficiency in-house and product repricing to strengthen our earning power.

Sales & operating income



Progress made in FY 2022 and current forecasts

Global business strategies

SATO's business domain is tagging, which is offering not just the printers and labels for printing barcodes but also the best solution to a customer need delivered in combination with products and technologies of partners.

In FY 2022, we saw robust demand in every country and region for our DCS & Labeling solutions captured via koto-uri. Our base business in the Americas grew significantly both in terms of sales and profits, as we capitalized on demands in retail and other focal markets while clearing the backlog of printer orders. Price revisions in our primary labels business also led to steady rise in profits. Total sales in the Americas for FY 2022 increased 27.4 percent from the prior year to ¥20,415 million while operating income also rose 27.4 percent to ¥1,306 million.

In Europe, we enjoyed brisk base business in food and other focal markets while reducing unfulfilled printer orders like we did for our business in the Americas. Our primary labels companies in Russia took earlier action than their competitors to ensure stable sourcing of raw materials and achieve positive results. Total sales and operating income in Europe for FY 2022 were ¥30,068 million and ¥4,040 million, respectively, up 47.6 percent and 210 percent.

In Asia and Oceania, we saw slowdown in China that was offset by brisk business elsewhere, bringing total sales for FY 2022 up 12.9 percent to ¥18,172 million. Operating income for the region rose 20.8 percent over the year to ¥1,977 million owing to increased sales and the rise in printer production cost topping out.

In Japan, sales of RFID and automation solutions expanded, driven by growing needs to address labor shortages and achieve digital transformation. Consumables sales rose as well, thanks to strong demand and price revision initiatives, but printer sales struggled. Total sales in Japan for FY 2022 were ¥74,166 million, up 2.6 percent year on year, and operating income was ¥2,637 million, up 11.2 percent.

For FY 2023, general economic slowdown and slow-moving printer inventory at our resellers are likely to affect our first-half business offshore, but we expect it to pick up from the second half as the slowdown bottoms out and initiatives we implemented start bearing fruit. We anticipate similar returns on actions taken in Japan, such as resource reallocation and price revisions, to start showing primarily from the second half.

COLUMN

SATO acquires Stafford Press, the US leader in horticulture tags (April 2023)

Stafford Press manufactures and sells horticulture tags and labels, and the color inkjet printers to print them on demand. Established in 1992, the company is a pioneer in this field, boasting the highest market share and a strong customer base in the US. SATO America sees the retail market — which includes horticulture — as one of its focal markets, and has provided core products such as barcode labels and printers to this segment, where it maintains leading share. With this acquisition, SATO seeks to (1) further expand its horticulture labels business, (2) add inkjet printing as a new option to its existing range of solutions, and (3) boost its capacity to supply labels to the west coast by utilizing the company's production plant.

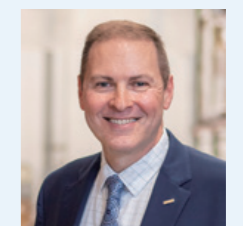


Voice

Stafford Press is an excellent addition to the SATO family. They complement SATO America's business, provide new avenues and markets for growth, and provide us coverage on the west coast.

Stephen Sundstrom

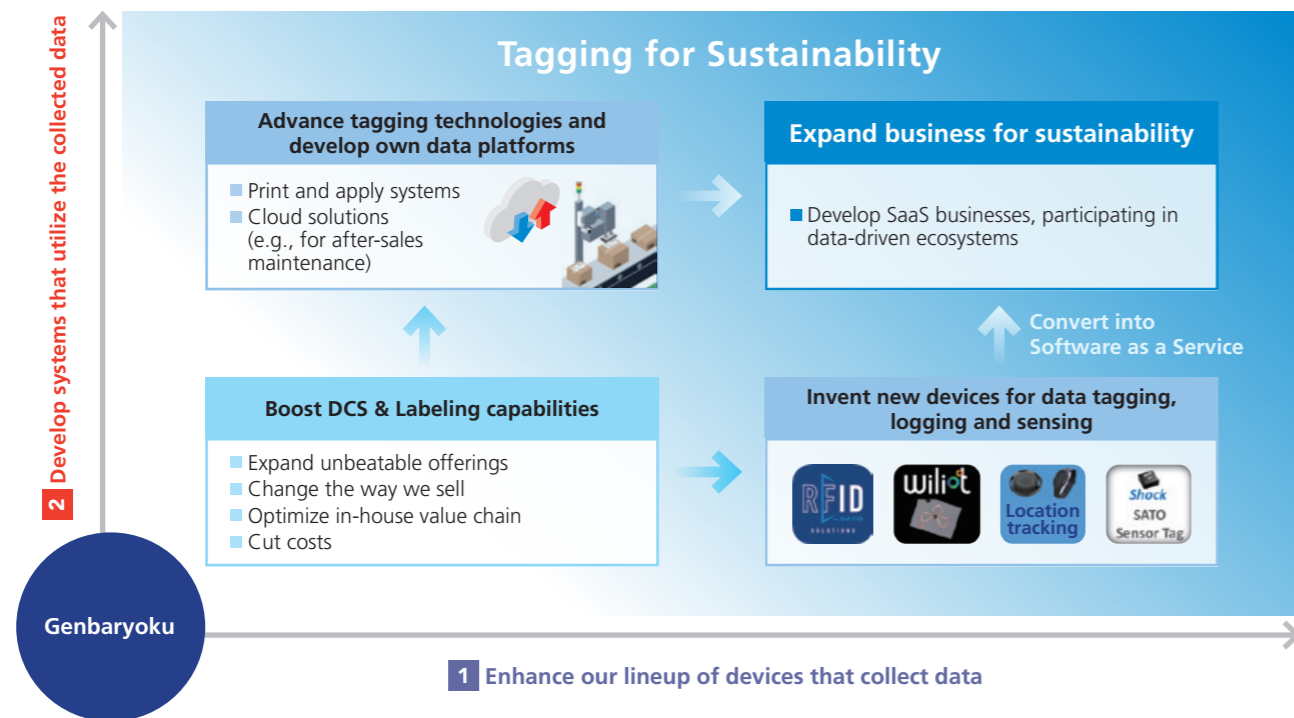
President and CEO
SATO America, LLC



Innovation and R&D

To elevate DCS & Labeling and expand our business, we must develop new devices — we need innovation. The chart below shows the steps we must take. Building on our genbaryoku, we will **1** enhance our lineup of devices

that collect data (horizontal axis), and **2** develop systems that utilize the collected data (vertical axis). By furthering our pursuit of both axes, we work our way toward developing businesses that realize Tagging for Sustainability.



In boosting DCS & Labeling capabilities, we completed development of a new, standard printer platform in FY 2022. It will give our printers flexibility in installing applications and enable use of sensors to provide innovative customer value for IoT and digital transformation. The ease of installing applications will help lessen customization required to support customer needs, allowing effective use of internal engineering resources.

In **1** enhancing our lineup of devices that collect data, RFID will be the key. Under leadership of the RFID Business Headquarters launched in FY 2021, global sales of RFID solutions grew 30 percent over the year in FY 2022, pushing gross profit margins up and growing the RFID business into one of the company's primary profit drivers. The global RFID market is currently valued at over ¥1 trillion and on track for steady growth, propelled by surging needs for productivity enhancement, supply chain digitalization and ESG compliance. The use of RFID has mostly been

limited to the apparel market, but is expected to expand into manufacturing, health care and other markets as well. While many of our current customers are still in the proof-of-concept phase, testing read performance with RFID labels and readers, it is when they shift to full installation that sales of printers, software and maintenance services would grow and contribute to our revenue. We are expanding our production capacity as well, in a planned manner.



Our production facility under expansion (Kitakami, Japan)

And we must **2** develop systems that utilize the data collected through RFID tags and other devices. In FY 2022, global sales of our automation solutions jumped 35 percent year on year, driven primarily by the brisk sales of print and apply systems and print engines, and also helped by integration of carton formers and sealers. The same

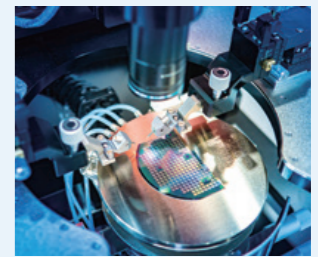
factors fueling the need for RFID are expected to push up demands for automation, and we plan to capture them with our dedicated department at HQ sharing its expertise across the SATO Group. We will also work on developing platforms that harness collected data.

COLUMN

SATO's RFID solution supporting digitalization of a global supply chain

Case example: A major semiconductor company

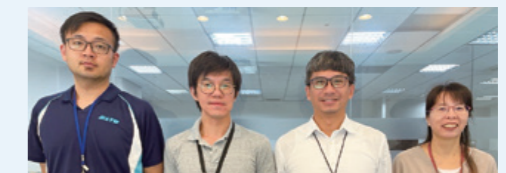
Surges in semiconductor demand and disruptions to raw materials supply caused by the pandemic have put supply chain improvements at the top of semiconductor companies' priority list. More companies now look to RFID tags for enhancing their supply chain visibility and efficiency. As a single manufacturer would have several hundreds of suppliers across multiple countries/regions and have widely disparate materials to tag to, SATO's global direct sales network, label and software offerings and deep knowledge of tagging at business sites become decisive factors for customers choosing an RFID solution provider.



Voice

Taiwan

We communicated closely with our semiconductor company customer to identify its pain points and needs to develop an RFID solution for its suppliers, offering a one-stop package of printers, labels, software and scanners. As this was the customer's first attempt to build such a system, it took elaborate efforts to pinpoint the needs, but with the meticulous support of the direct sales and software development teams, we successfully delivered the highly value-added solution.



(Second from left) **Fabian Hung**, President
(Others from left) **Billy Hsu** and **Edison Yang**, Sales Group
Livia Lu, Software Development Group
SATO Taiwan Co., Ltd.

Japan

I support the semiconductor company's suppliers with their RFID installation. Many use RFID for the first time, and some are anxious about the new operation. My job is to ensure a smooth introduction, leveraging SATO's expertise in RFID. Bringing RFID read rates up to 100 percent is tricky, so I also offer the suppliers suggestions on how best to apply labels on the different products they make and supply. This support provides reassurance, which I feel is what wins us recognition as the customer's partner and not a mere product provider.



Yuki Toyama
Sales II-1,
Kyushu Metropolitan Branch
SATO Corporation

Worldwide

Amid heightened geopolitical risks, manufacturers face the major challenge of improving and bringing visibility to their global supply chains. That's why we expect one-stop RFID solutions like this one that connects manufacturers with their suppliers to find greater use across industries.

The manufacturing industry worldwide consists of many segments where Japanese companies have a strong presence, making collaboration among SATO's Japan and global teams crucial. Working in the market strategy divisions, we help collect background information on projects, support the development of solutions based on customer requirements, and give guidance to salespeople in charge on how to prepare for customer meetings, all to deliver quality solutions with speed, as we did in this particular case.



(From left)
Yugo Kitazawa
Senior Manager,
Global Manufacturing Market Strategy
Hisashi Kakuno
Senior Manager,
Manufacturing Market Strategy
SATO Corporation