

## From the President and Group CEO



## Pursuing Perfect and Unique Tagging to create value for the company and society

*Hiroyuki Konuma***Hiroyuki Konuma**

President and Group CEO

### A year into my tenure

#### Listening to subsidiaries in making executive decisions

Looking back at my first year as Group CEO, I had fruitful visits to our group companies to see local operations and market circumstances firsthand. My biggest learning was the market differences between Japan and other regions. By “seeing the site” for myself as we customarily do at SATO, I am now ready to start shaping the new, optimized organization that I envision.

By seeing various economies and cultures with my own eyes, I felt how each country’s momentum and demographics are different. Similarly, our subsidiaries’ resources vary greatly. It didn’t take long to reaffirm that what works in Japan won’t work elsewhere as is. Porting initiatives from Japan to subsidiaries would only widen the gap between us. During my

## From the President and Group CEO

visits, I have spoken with many local employees and learned about local market conditions. These experiences have come to fruition with our new FY 2024 to 2028 medium-term management plan (MTMP). We now delegate more responsibility to group companies to make decisions locally and port success cases from one region to another directly with no intervention from Japan headquarters.

Delegating more responsibility to subsidiaries means we need strong group governance, which is why I have appointed an executive officer specifically to oversee compliance and governance and welcomed Hiroshi Nagumo as our new external director to lend his expertise on governance and global business operations he accumulated at leading medical equipment maker Terumo. And even with strong management, we need to stick to our SATO Values, the core philosophy and code of conduct guiding our business. We appoint SATO Values Leaders at each subsidiary who promote our corporate values through activities. On my business trips, I made sure I talked with each one to express my gratitude for their daily efforts so our local management appreciates how important SATO Values are to us.

Currently, HQ supports global business development in various aspects. If our global companies can be more autonomous, it should alleviate some of the burden HQ bears in their growth.

## SATO's strengths

### Solving challenges for societies in different stages of development

Our strengths are in our customer base and know-how built up over 84 years with our unique business model. Despite our listing as a machinery manufacturer, we have customers worldwide in a wide range of industries including manufacturing, retail, health care and logistics, where we directly or indirectly contribute to making people's lives better. Our vision is "to be the customer's most trusted partner for mutual growth, and always essential in an ever-changing world." In this world of rapid change where AI technologies and sustainability needs bring new challenges for the planet and humankind, SATO can help by tapping its strengths in customer touch points and genbaryoku (see Page 10) to continuously innovate our tagging technology and provide diverse solutions. With our strengths and solutions, we can solve challenges that vary by country — differences, as I mentioned — such as how an emerging economy would expand essential medical care while a developed nation where medicine is already advanced would want to focus on preventing illness or improving well-being.

Our most valuable asset and strength is our talent. And our Teiho reporting system furthers this competitive advantage.

Employees write "reports on original ideas, innovations and proposals aimed to make the company better and on how to put them into action" within a set word count and submit them to top management. This system empowers employees to express their opinions to company management while allowing the management to take responsibility by answering them. Teiho shapes SATO's culture of integrating employee ideas into organizational decisions and is what I hope to make more use of. I also believe we should keep diversifying our human assets to make the company stronger.



## Toward our 2030 vision

### Charting our next growth phase with Perfect and Unique Tagging\*<sup>1</sup> (PUT)

I have set in our latest MTMP a vision for us to pursue Perfect and Unique Tagging to realize a future where everything has its own ID and connects with the world. It will take some time for our own people to internalize this, so I have defined the new MTMP to span the next five years.

While RFID technology is most known for its contactless, bulk reading capability, it also has a distinct feature whereby



each RFID tag carries its own, unique ID, which, when associated with data, unlocks another realm of possibilities. Linking identifiers with status information, such as temperature, humidity and location, for example, can bring about transformational benefits, and when the writing and reading of such data becomes fully automatic requiring no human intervention, it will enable a new level of convenience.

This is the value of PUT that no market or customer has noticed yet but would radically change our lives. If we could deliver this new means of tagging to our current customer base, we could innovate the market. The challenge would be in generating profits. While PUT can technically be applied to track low-price retail products, we are working to first realize it with higher value items like blood bags and in managing their supply chain. This involves using our very own PJM\*<sup>2</sup> technology, and we are the world's first to have successfully deployed a large-scale PJM solution to a national authority in an Asian country. As PJM is an international standard, we can easily port the solution to other countries to establish a stable profit base with speed. And by honing this technology while making it more affordable for more users, we take a greater step toward the future we envision.

Realizing a circular economy is an immediate concern for societies and presents an enormous business opportunity for us. I believe the strength we fostered in tagging and digitizing

everything in forward logistics will be equally effective in reverse logistics. We will need to start in Europe where high environmental awareness is leading to green legislation, while we lobby for policy or certification changes for creating a circular economy in Japan. If anyone can do it, it's SATO. I'm seeing this field as our next growth area where we can replicate the growth we've had over the years in forward logistics. In 2022, the EU began rolling out the Digital Product Passport, mandating businesses to provide digital information over the entire life cycle of products and their components. I see huge business potential for us in the fields of disposal, material recovery, reuse and recycling, where the tagging expertise we have accumulated from the raw material and production stages can be put to use. And that's what I hope to commercialize as our new business.

Source tagging (i.e., tagging products at the point of manufacture) is also a business opportunity for us in our existing field. With a US retail giant now expanding its RFID mandate for suppliers to more product categories, we can expect more retailers to follow suit. And given how wide the retail network is, we have reason to believe that the market for RFID tagging would rapidly grow.

In this day and age of rapid and drastic changes, the management team needs to be firm in deciding where — which country and which field — we invest business

## From the President and Group CEO

resources in, planning for the coming years and beyond.

I believe we must allocate resources eyeing growth potential and profitability, which would make all the difference in how much SATO would grow.

\*1 See Pages 14–15 for more on Perfect and Unique Tagging.

\*2 ISO 18000-3 Mode 2 Phase Jitter Modulation (PJM) is an open, air interface standard for RFID that can quickly and accurately identify large volumes of tagged items stacked or stored in any physical orientation. As it is less affected by liquids and low temperatures or by radiation used for sterilization compared with other types of RFID, PJM works well in managing blood products.

## Driving the MTMP (FY 2024–2028)

### Restore profitability; invest in innovative tagging

In our MTMP, we have positioned FY 2024–2025 as a period to rebuild profitability and FY 2026–2028 to restart growth investments. The Japan business will aim to improve gross margins while keeping selling, general and administrative expenses at FY 2023 levels to make itself profitable at a higher level. It will specifically (1) focus on the health care and manufacturing markets which generate high margins, (2) adjust product prices and service fees to manage the impact of rising raw material costs, (3) optimize product lineup and internal value chain to improve productivity and cut costs, and (4) launch new printers and capture customer demand for hardware renewal. And sales teams will receive

incentives for higher profits generated, shifting their focus to sell higher-margin solutions.

Our businesses outside Japan will seek sustainable and efficient growth. They will create and share solutions efficiently and boost revenue from consumables, while HQ and each group company will redefine their roles and functions to create localized solutions together.

And we hope to support this drive toward our medium-term goals and sustainable growth with organizational integration and optimization, as we execute business strategies on the foundations of stronger corporate management, higher capital efficiency and sustainability development.

## Our promise to stakeholders

### Communicate our story and growth potential better

I believe we still have so much more to tell you about what the SATO Group does in making people's lives better. We operate globally and are listed on the Prime market segment of the Tokyo Stock Exchange, but that's only a small part of us. We have more of our value-creation story, more on our essential role in society to tell markets, the world and you. That is one of my responsibilities, not to mention managing

the group business with my eyes on improving capital efficiency and delivering stable, progressive dividends to shareholders. I shall also provide you with easily digestible information to keep you acquainted with our current progress and future plans.

I will strive to pursue more of what makes SATO unique and competitive and improve our corporate value as we continue solving challenges for society. Count on us to capitalize on the vast expanse of opportunities that lie ahead.

