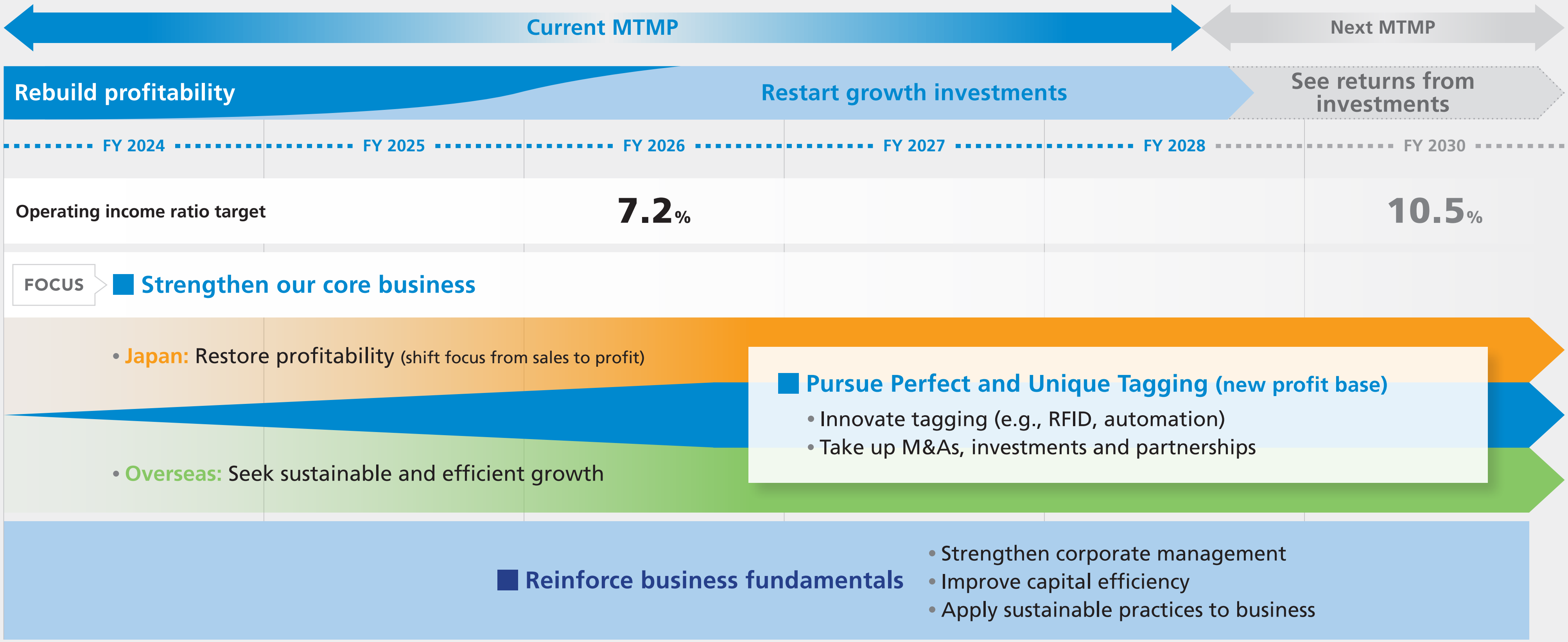
Medium-term management plan (FY 2024–2028)

Overview

Our medium-term management plan (MTMP), which looks toward FY 2030, is grounded in our vision of where we are headed and customer needs for advanced tagging solutions to solve the complex challenges they face. We have significantly expanded our overseas business and global market coverage by concentrating resources on core operations, an approach we've taken since FY 2018. We now see remarkable sales growth in RFID and automation solutions that help enhance efficiency and traceability at customer sites worldwide. Yet rising costs and changes in product mix have lowered profitability in Japan, underscoring the need to rebuild our domestic business.

The MTMP spans five years, with the first two designated to rebuild profitability and the following years set to restart growth investments. During the initial phase, we will strengthen our core business. In Japan, we will get the business profiting at a higher level, whereas overseas we will seek sustainable and efficient growth. In the subsequent phase, we will allocate profits generated from the recovered profit base to advance solutions for Perfect and Unique Tagging, with the aims of accelerating growth and establishing a new profit base. Throughout the MTMP period, we will also focus on strengthening corporate management, improving capital efficiency and applying sustainable business practices, to reinforce our fundamentals.



Strengthen our core business

In Japan, we aim to improve operating income ratio by approximately 3 percentage points from FY 2023 to FY 2026. We place priority on improving gross profit by channeling some of our business resources to high-profit and key markets. And to streamline our internal value chain, we have restructured our organization effective April 2024 for overall optimization and efficiency. Also starting FY 2024, we have introduced a new evaluation scheme for sales departments with a focus on profitability.

For our overseas business, we are seeking sustainable and efficient growth, to achieve a compound annual growth rate of about 6 percent by FY 2026. Building on the success of our previous medium-term plan, which established a strong solution-based sales approach across regions, our latest MTMP expects our subsidiaries outside Japan to lead the way in not just creating but also sharing solutions they created for rollout to other customers with similar needs. This will help our base business to grow while maintaining profitability.

See Page 21 for messages from our Japan and global business leaders.

Japan business
Restore profitability
(FY23–26 operating income ratio: +3pt)

Improve gross margins while keeping SG&A expenses at FY23 levels

1 Focus on key markets
- Health care: Gross profits up 40% by FY26
- Manufacturing

2 Adjust prices with agility
- Manage the impact of rising material costs
- Optimize service fees

3 Streamline value chain
- Optimize product lineup to improve productivity and cut costs

4 Launch new printers
- Capture customer demands for hardware renewal

5 Have sales focus more on profit
- Review low-margin deals
- Sell more high-margin solutions

Overseas business
Seek sustainable and efficient growth
(FY23–26 net sales CAGR: +6%)

Base business
Sales: JPY 48.3 billion (FY23) ➡ 57 billion (FY26)

Americas	JPY 17.3 billion → 21 billion
Europe	JPY 11.7 billion → 14 billion
Asia & Oceania	JPY 19.3 billion → 22 billion

Develop and deploy solutions efficiently
- Boost consumables revenue
- Expand global sharing of solutions
- Review roles and functions of HQ and group companies
- Create locally optimized solutions

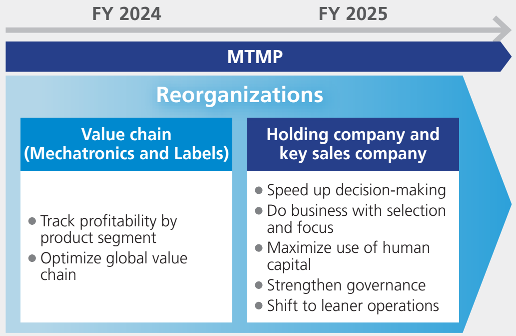
Primary labels business
Sales: JPY 19.6 billion (FY23) ➡ 23 billion (FY26)

Stabilize sales and profits
- Increase production capacity for high value-added products; broaden value propositions for customers

New organizational structure

Effective FY 2024, we reorganized our internal value chain to have our Mechatronics and Labels businesses each manage their own product planning, R&D, production and sales functions for overall optimization in generating profits. This will also allow us to streamline accountability and set KPIs to track profitability better.

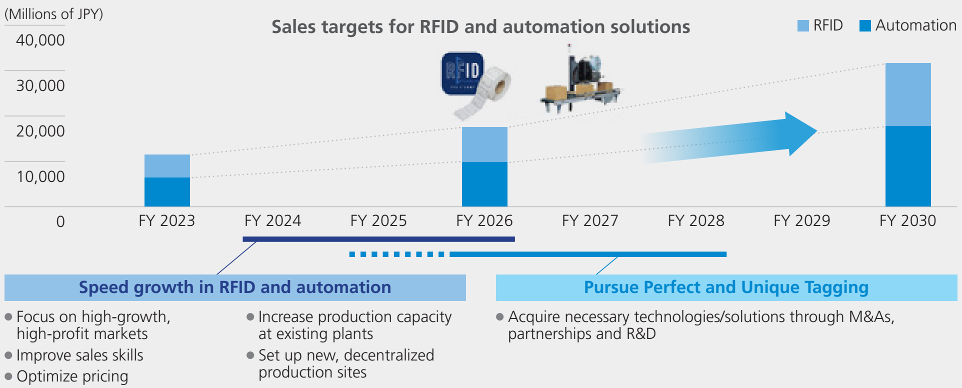
In FY 2025, we plan to merge the holding company and our key sales company in Japan into one, further simplifying our corporate structure to clearly define responsibilities and authority, speed up decision-making, and operate with selection and focus, while also maximizing use of human capital and strengthening governance.



Advanced tagging to address new societal challenges

We will innovate tagging in existing fields that include RFID and automation solutions. It means investing more resources into high-growth, high-profit markets to build a solid business base, while improving our sales expertise, optimizing pricing and boosting production capacity. In pursuing Perfect and Unique Tagging, we will look to acquire or partner with companies that can complement our auto-ID technologies to fulfill customer needs.

Speed growth in RFID and automation, and pursue Perfect and Unique Tagging



From the CFO

Osamu Masuko
CFO

Staying agile and adaptable to maximize corporate value

Taking up the role of CFO

As the new CFO effective April 2024, I hope to leverage my banking background and experience in finance and operations at various global companies to help grow our business around the world.

Understanding our business situation

Growth is gradual across the global economy but solid particularly in the US. Multinationals like SATO continue to face uncertainties due to escalating geopolitical tensions and other risks. We must prepare for a range of future possibilities.

For Japan, our current emphasis is on restoring profitability and we have implemented action plans that are proving to be effective. Outside Japan, we see a steady showing in our primary labels business as the base business keeps up growth. We will drive both through strategic prioritization.

SATO's capital and financial strategies

We must improve capital efficiency and continuously generate cash flow with financial discipline. We will focus on KPIs such as ROIC and EBITDA, under our basic policy to:

1. Pursue an optimal capital structure;
2. Deliver stable and progressive dividend payouts by increasing corporate value on a medium- to long-term basis;
3. Conduct flexible share repurchases using surplus cash, while considering overall capital allocation.

In terms of improving capital efficiency, we will work to strengthen cash and credit management and make use of group financing. We will seek diverse financing sources, considering selling bonds on the capital market or other direct financing options without relying solely on bank loans or indirect financing. Although we will increase leverage with debt financing, our real aim is to use the increased leverage to make effective growth investments and reduce our cost of capital.

As for dividends, we will decide our dividend rate based on medium- to long-term earnings and cash flows. Our policy to maintain or increase dividends per share is a strong statement but nothing new, since we have always been providing shareholders with steady and higher dividends each year since our listing as a public company.

Lastly, share repurchase is one of our options to return capital to shareholders. When buying back our own shares, we will make it a point to amortize or eliminate them promptly. We expect our capital and financial strategies to remain largely the same but may change our debt portfolio and composition if necessary to meet future investment needs and match financial market conditions.

We estimate our current WACC (weighted average cost of capital) value to be 7 percent and will use this benchmark in yen terms (or such equivalent in other currency) as a hurdle rate for future investments.

Financial targets from our medium-term plan

We announced a new five-year medium-term management plan that started in FY 2024. This plan includes key milestones we plan to hit at the three-year mark in FY 2026 to put us on track to where we want to be in FY 2030. Our ROIC target for FY 2030 is 10 percent, and we aim to achieve it through M&As and other investments that are needed for us to pursue Perfect and Unique Tagging.

Milestones for FY 2030

(Millions of JPY)

Consolidated	FY23 actual	FY26 planned	FY30 target
Net sales	143,446	160,000	200,000
Operating income	10,383	11,500	21,000
Operating income %	7.2%	7.2%	10.5%
EBITDA	15,456	19,100	29,500
ROIC	8.5%	7.9%	10.0%

To our stakeholders

With aging and shrinking populations, society will increasingly depend on our auto-ID technologies. We have an important role to play, and by means of Perfect and Unique Tagging, we believe we can contribute to a better and more sustainable world in far more ways than ever before. Through our offerings and in combination with those of our business partners, we will strive to scale greater heights. Thank you for your continued support.

From business leaders

Japan

Improving revenue generation while solving societal challenges

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

Prior to taking charge of the Japan business in FY 2023, I was involved in strengthening our internal value chain, heading domestic sales, hardware production and the RFID business.

In Japan, we see solid demand for digital transformation as labor shortages intensify. Making processes digital means turning movements of things and people into data. That's what SATO does to unlock new value. Because we give every 'thing' its own ID to connect it with the world, we increase productivity, cut costs and innovate workstyles to help businesses cope with labor shortages.

Our medium-term plan for Japan is to improve revenue generation through sales and profits from existing and high-growth businesses. With new caps on the hours truckers can work, all industries using transport and logistics must streamline their processes around the movement of things and people. One example is to shorten the waiting time for loading and unloading cargo. We will meet these needs with our RFID and automation solutions. We will also raise in-house productivity through reasonable, lean and consistent supply chain and engineering chain management. From FY 2024, we have reorganized SATO Corporation to include a Global Business HQ, while also setting up the Mechatronics HQ and Labels HQ to manage their respective value chains. By clearly defining authority and accountability for profit and loss, we will speed action and create synergies.

Since last fiscal year, we've been revising prices of our consumables. We thank customers for their understanding and will make further price adjustments in line with material cost increases.

We understand that our stakeholders value environmental responsibility, sustainable business practices and corporate transparency. We will engage all our employees in working on these areas, bringing us closer to our vision of being "the customer's most trusted partner for mutual growth, and always essential in an ever-changing world."

Overseas

Have subsidiaries lead the way in seeking sustainable and efficient growth

Hayato Shindo
Vice President
Oversees global business

I started out at SATO doing sales for Japan's manufacturing sector before relocating overseas to take up positions in sales and management. After serving as the regional head of Asia and then of Europe, I assumed my current role overseeing the global business.

While global sales grew in FY 2022 fulfilling orders amid supply chain challenges, FY 2023 did not fare as well as we hoped even taking into account the market headwinds we had to face. Operating income increased though, driven by strong sales of RFID solutions and primary labels used on consumer goods. Our primary labels business is also making progress with repricing and selling more high value-added products.

Under our new medium-term plan, we seek more sustainable and efficient growth starting FY 2024. For the primary labels business, we will expand high value-added offerings to ensure stable performance. For the base business, we will give subsidiaries more autonomy in mining new DCS & Labeling projects and sharing the solutions they create with one another to roll out to other customers with similar needs.

Furthermore, we will boost revenue from consumables through systems to standardize production processes and add value, and through expanding production capabilities. We will also make good use of customer relationship management (CRM) data and train sales teams to become even stronger in sharing solutions and duplicating success globally.

Roles and functions for our overseas business will also be redefined. Subsidiaries can choose to set up regional solutions expert teams and work with business partners to create locally optimized solutions and share them efficiently, while the Global Business HQ in Japan focuses on approaching strategic accounts and watching over subsidiaries for sustainable growth. We will create value with our worldwide coverage and network to support customers who increasingly require dedicated one-stop services across their global operations.

Expectations around corporate social responsibility are growing globally, especially in mature economies. We will make groupwide efforts to comply with environmental regulations, human rights standards and other social obligations as we expand our customer base and increase our corporate value.