

## Sustainability through our business

# Tagging for Sustainability

to contribute towards a sustainable world



### Basic concept

The SATO Group's Mission is to "contribute towards a better and more sustainable world," which is why sustainability is inseparable from our business. In line with SDGs (Sustainable Development Goals) and other global agendas of growing interest and through materiality assessment, we have set forth our basic policy for sustainability in 2018 and followed up with actions in 2019 to clarify sustainability principles that matter most to our business and stakeholders. We also set up the Sustainability Promotion Committee in the same year. This committee chaired by the CEO formulates policies and action plans while overseeing their execution from a business strategy standpoint. In 2020, we established the Sustainability Promotion Office to engage in efforts focused on our materiality. We will continue pursuing sustainability practices and work to achieve our corporate mission through our core business.

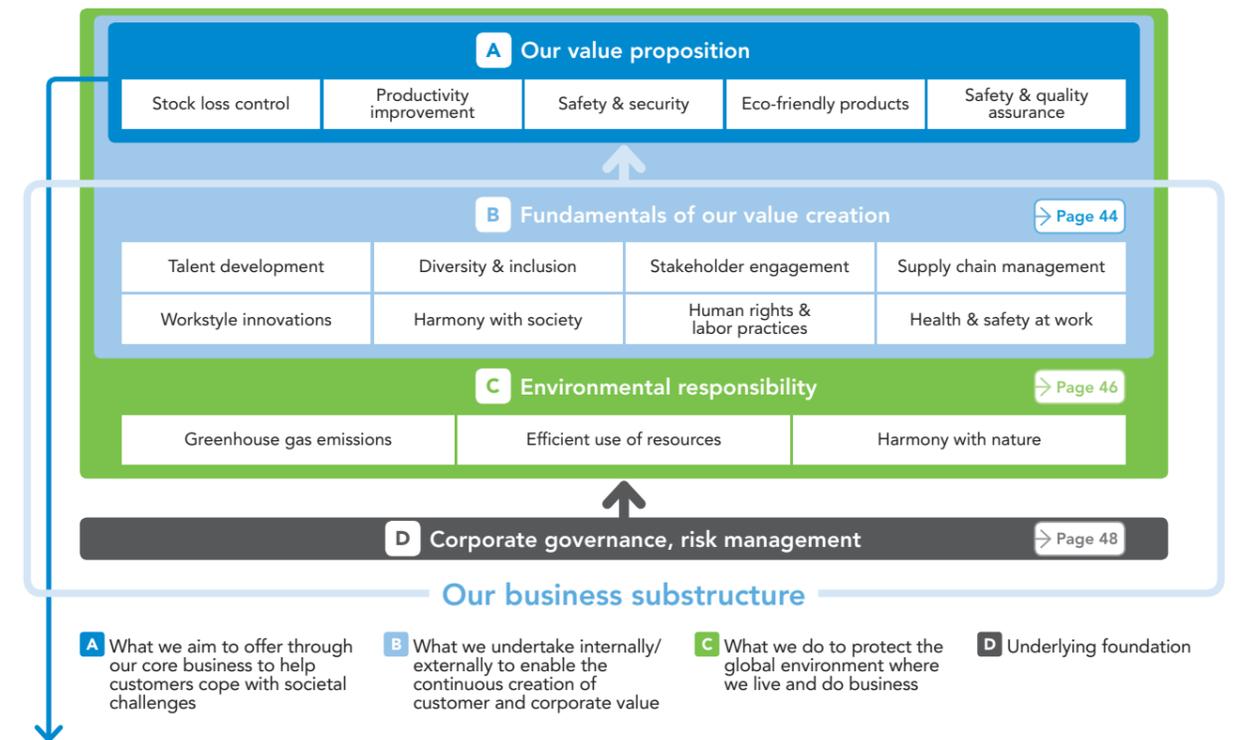
#### Basic policy for sustainability

1	<b>Create value</b>	Sustainability goes hand in hand with customer value creation and corporate value enhancement, which we consider the fundamentals of company management.
2	<b>Keep to our business</b>	We achieve sustainability through our business.
3	<b>Make it duplicable</b>	Our sustainability initiatives shall be duplicable over time or across the group.
4	<b>Align with the actual situation</b>	The actual situation of our business operations shall reflect our ideas for sustainability.
5	<b>Enhance disclosure</b>	We shall disclose sustainability-related information to fulfill our accountability to stakeholders.

### Materiality overview

We identify our materiality agendas by their relevance to three areas: A. Our value proposition, B. Fundamentals of our value creation, and C. Environmental responsibility. These areas stand on the basis of corporate governance and risk management.

### Addressing sustainability priorities (materiality) with focus on our value proposition



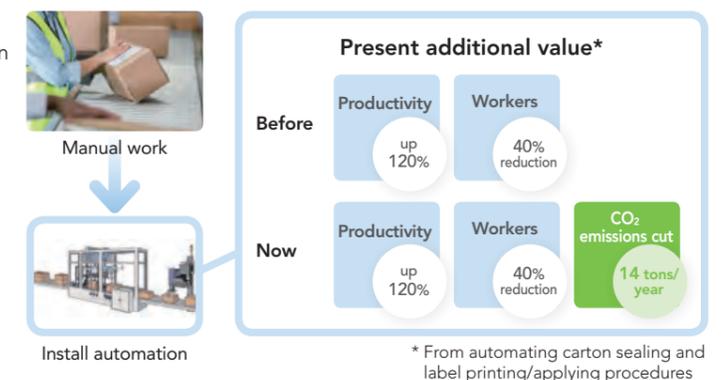
### Examples of value propositions we enable through our core business

Our sustainability priorities	What SATO solutions can do	How we contribute to SDGs
<b>Stock loss control</b>	<ul style="list-style-type: none"> <li>Provide supply chain visibility</li> <li>Minimize leftover inventory</li> </ul>	<ul style="list-style-type: none"> <li>Support sustainable consumption and production patterns (SDG 12)</li> </ul>
<b>Productivity improvement</b>	<ul style="list-style-type: none"> <li>Optimize operations</li> <li>Automate manual tasks</li> </ul>	<ul style="list-style-type: none"> <li>Promote productive employment (SDG 8)</li> </ul>
<b>Safety &amp; security</b>	<ul style="list-style-type: none"> <li>Enable social distancing and contact reduction</li> </ul>	<ul style="list-style-type: none"> <li>Ensure health &amp; safety at work (SDG 3)</li> </ul>
<b>Eco-friendly products</b>	<ul style="list-style-type: none"> <li>Reduce CO<sub>2</sub> emissions</li> <li>Use less plastics</li> </ul>	<ul style="list-style-type: none"> <li>Combat climate change (SDG 13)</li> </ul>

### TOPIC Showing carbon footprint reduction expected from installing SATO's solution

SATO provides the value of productivity improvement with its wide variety of automation solutions. Using information on total working hours that our solution can reduce, we now derive estimations on how much carbon footprint could be reduced from installing our solution, offering new value to our customers.

Notes 1. Estimations are derived by multiplying worker-hour savings by an emission factor associated with the customer's industry, and do not guarantee the amount of actual reduction.  
2. Calculation method was developed under supervision of relevant authorities and experts.



# A history of value creation

SATO has always changed with the times, transforming itself in the spirit of Ceaseless Creativity. Over our history, we have established ourselves as experts in tagging to create higher-level value of accuracy, labor- and resource-savings, safety and reassurance, sustainability and emotional connections and better serve the changing needs of customers and society.

## 1940s

### Founding

Labor-saving machines during Japan's postwar reconstruction

In this era, wood was typically used for packing of large loads. But wood resources were scarce due to the war. Our founder invented a number of bamboo processing machines to make woven bamboo shipping cases and mass produce bamboo boxes. At that time, all packaging for delivering newspapers was done by hand, which was very hard work. In order to make this work easier, Yo Sato developed a bundling machine which was used by major publishers, bento lunch providers, and even major national organizations. Our founder's driving force was his desire to make customers' difficult labor easier. This is still the DNA of the SATO Group today.



1943 Bamboo stripping machine



1958 Bundling machine

## 1960s

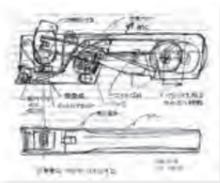
### High economic growth and the development of retail

Dawn of the tagging business: The hand labeler

In the 1960s when consumption grew explosively in Japan due to the advent of supermarkets, our hand labeler brought major labor savings for retailers by making the process of attaching price tags to individual products easier. Used also to affix variable information such as expiry dates, the hand labeler started our business in tagging — our strength of giving every 'thing' its own ID.



1962 The hand labeler



Manual drawing of the first hand labeler by founder Yo Sato

## 1980s

### The rise of barcodes with point of sale systems

Pioneering innovation to support the distribution of goods

In the 1980s, when POS systems became the standard, we developed the world's first thermal transfer barcode label printer, giving retailers, wholesalers and manufacturers the ability to print quality, durable barcode labels. These innovative new printers served as business-critical infrastructure to support the distribution of goods and provide value of improved operational accuracy and labor savings for users.

World's first



1981 M-2311, the world's first thermal transfer barcode label printer



Manufacture of barcode printer consumables

## 1990s

### The flourishing information age

Transforming into a solutions provider that collects and utilizes data on site through tagging

With the IT revolution in the 1990s and early 2000s, connectivity and integration became key requirements. Under our new DCS\* & Labeling business model, we began bundling hardware, consumables, readers and software to enable data collection while providing maintenance support to help improve the accuracy and efficiency of on-site operations.



\* Data Collection Systems

## 2010s

### The age of IoT

Integrating technologies and services with partners for more comprehensive solutions

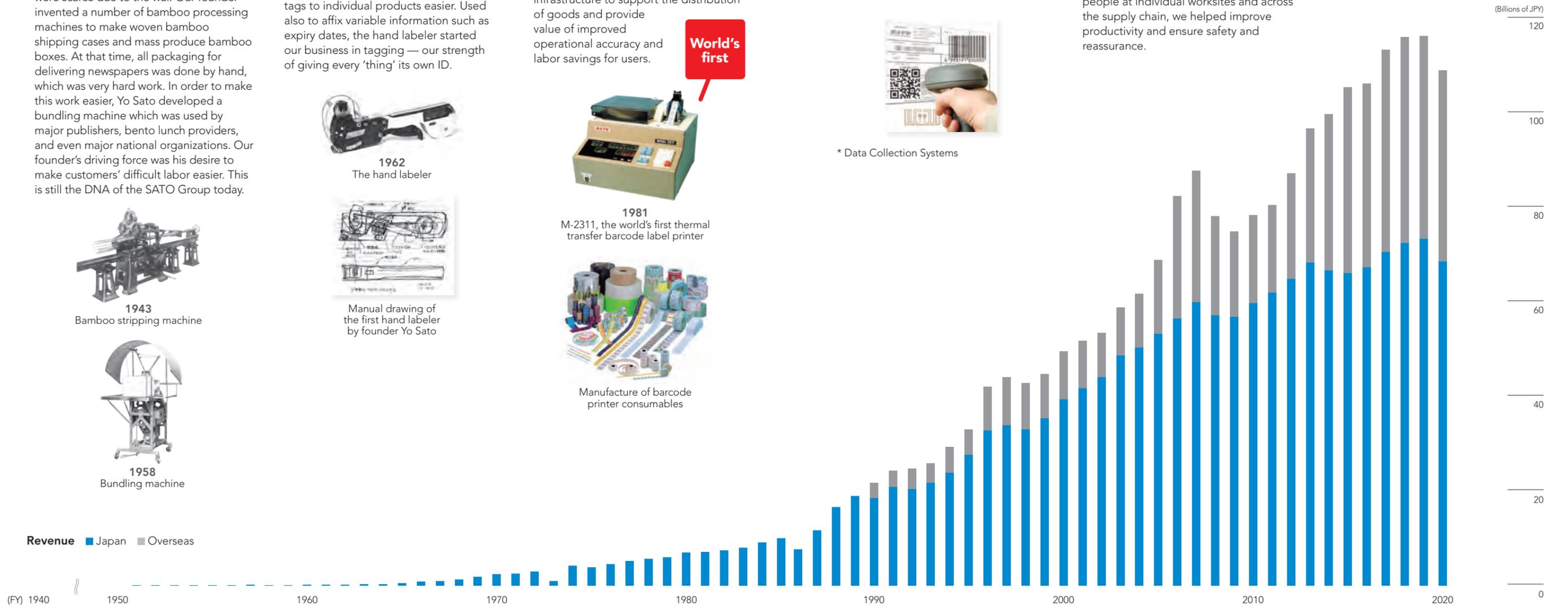
As the speed of innovations accelerated and supply chains became more complex and global, we kept pace with customer needs by integrating our offerings with third-party technologies like voice recognition and location tracking. With the development of IoT, we began to collect not only static data but also dynamic data (status and condition) using components such as RFID and sensors. By more efficiently visualizing the movement of goods and people at individual worksites and across the supply chain, we helped improve productivity and ensure safety and reassurance.

## 2020s

### Toward a sustainable society

Cocreating new value with stakeholders

Into the 2020s, we are evolving our business further under the banner of "Tagging for Sustainability" to not only collect and integrate data on the identity and status of things and people, but also analyze and utilize it to produce various insights throughout a product's lifetime. It is through this model that we aim to produce higher value that customers require in the coming circular economy. Through auto-ID solutions centered on tagging, SATO continues to adapt to serve our constantly changing world.

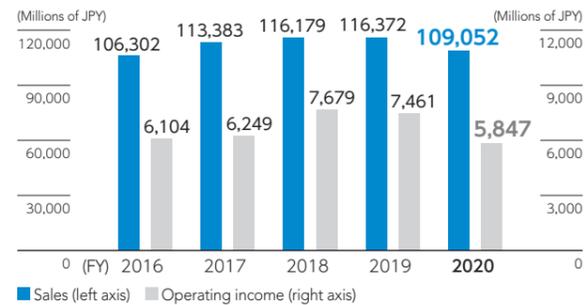


# Financial and non-financial highlights

The following shows SATO Group's performance on key financial and non-financial measures over the last five years.

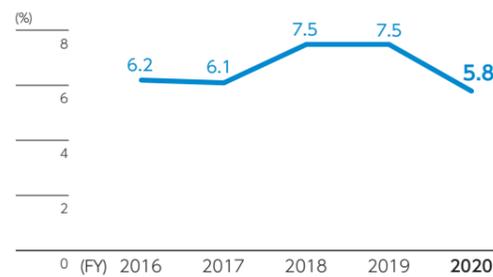
## Financial

### Sales & operating income



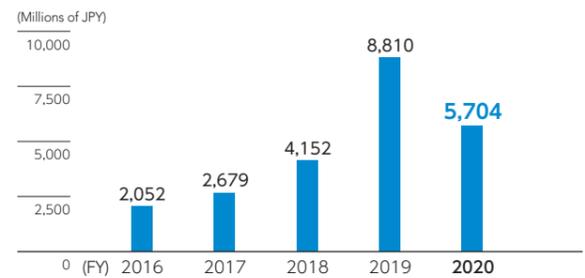
In FY 2020, both sales and operating income declined on a consolidated basis due to global economic slowdown caused by the COVID-19 pandemic.

### Return on invested capital



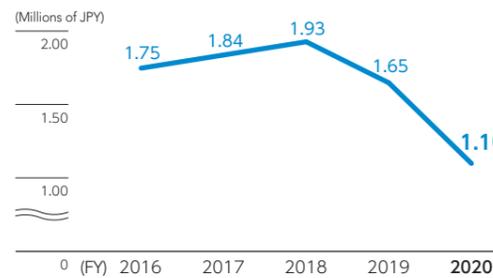
ROIC dropped as lower year-on-year sales and operating income led to lower invested capital turnover ratio and NOPAT (net operating profit after tax) margin.

### Free cash flow



Our free cash flow fell compared with the previous fiscal year, amid proceeds from the sale of a real estate property that was formerly used as our headquarters building. This was primarily because we generated less net cash from operating activities and made payment into time deposits in FY 2020.

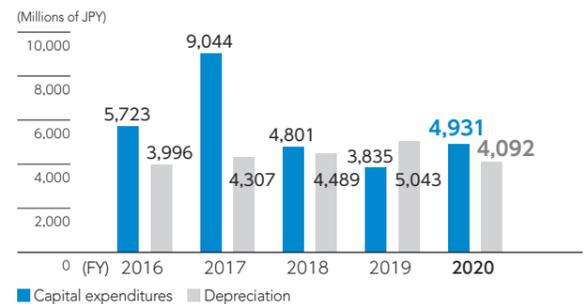
### Per capita productivity



Our per capita productivity decreased overall because the pandemic impacted our operating income, particularly in Japan where we were unable to make up for lower sales with efforts in cutting manufacturing costs and limiting operating expenses. Productivity outside Japan improved, however, thanks to the strong performance of our primary labels companies.

Note: Per capita productivity = Operating income (excluding goodwill amortization and ERP system depreciation) per active employee

### Capital expenditures & depreciation



In FY 2020, our capital expenditures increased owing to spendings on production enhancement and headquarters relocation. Depreciation went down as the cost to build our ERP system has been fully amortized.

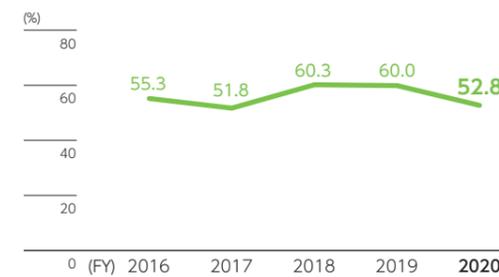
### Dividends per share & total shareholder return



We maintained the same dividend payout as last year, under our policy to deliver stable dividends by enhancing market value per share. To maximize total shareholder return, we will balance how we allocate our capital to make growth investments that generate high ROIC.

## Non-financial

### Annual leave utilization rate (Japan)



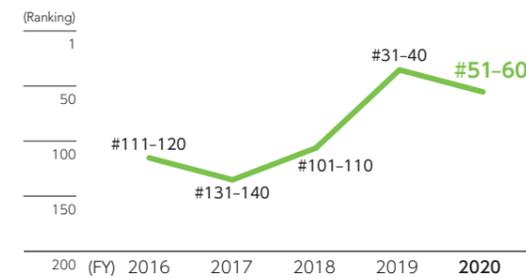
While company efforts encouraging employees to use their paid leave entitlement has put our annual leave utilization rate on an overall upward trend, we recorded a dip in FY 2020 as employees spent more hours working at home in adapting to the new normal.

### Turnover of new graduate hires within 3 years & average length of service (Japan)



With on-the-job mentorships, career development trainings (for third-year employees) and other HR support programs that we introduced, our new hire turnover rate has been declining since FY 2018. Employees are also staying longer with the company, helped by adjustments we made to enable more flexible work arrangements.

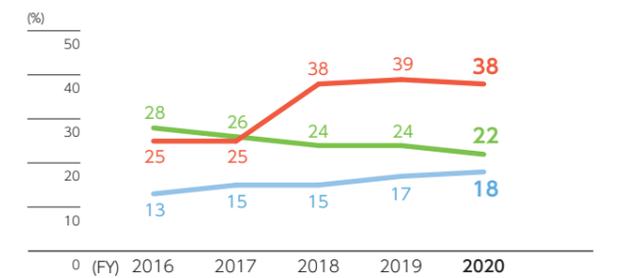
### Engagement with investors



We have a dedicated department reporting directly to the CEO that works to expand investor relations even during the pandemic. We are increasingly engaging investors and other players of the capital market in constructive dialogues that cover ESG themes.

Note: As ranked in IR Award, organized by the Japan Investor Relations Association

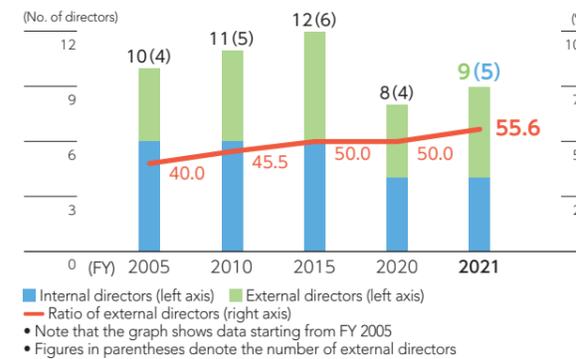
### Wellness management (Japan)



Following the appointment of a chief wellness officer in FY 2015, we started empowering wellness leaders whom we have assigned at different workplaces to plan and lead their own employee wellness activities. This effort has won us the Certified Health & Productivity Management Organization recognition from Japan's Ministry of Economy, Trade and Industry for five consecutive years since 2017.

<sup>1</sup> Based on corresponding health screening data of employees aged 40 or above  
<sup>2</sup> Minimum 30 minutes of exercise at least twice a week or walking an average 8,000 steps per day, over the span of at least one year

### Board size & ratio of external directors



We appointed our first external director in FY 1999 and our first female external director in FY 2004. External directors account for half of our board since FY 2015 and make up the majority in FY 2021.

### Patent utilization rate (Japan)



Through conscious efforts to obtain patents that create customer value, we have raised our patent utilization rate (from the mid-40 percentage range in FY 2016) to nearly 70 percent, staying above the industry's average since FY 2017.

<sup>1</sup> Based on date registered Source: In-house records  
<sup>2</sup> Utilization rate of patent rights owned Source: Japan Patent Office Annual Reports 2016-2021

## Business overview

# Matching products and services to on-site applications, industries and markets

We give ‘things’ used in various market sectors their own identity with our expertise in tagging to capture their movements and bring them to life. Our lineup forms the core of our solutions, to which we add third-party technologies, products and services to optimally meet the on-site needs of customers.

### Printers

With manufacturing technology accumulated over nearly four decades, SATO is committed to developing “Simple & Solid” printers. They are intuitive to operate, feature multilingual support, connect to various interfaces, and are flexible for cloud-connected and stand-alone printing applications.



### Service and support

We aim to take care of our customers for the long haul. With a global servicing network, we troubleshoot technical issues related to our printers to keep business-critical processes running and improve operations. Our SOS cloud-based preventative maintenance solution monitors printer operations remotely and around the clock (with the customer’s permission) so we can take proactive action to reduce downtime.



### Stickers and primary labels

Our sales specialists have the expertise and experience to ensure SATO stickers and primary labels are catered to customers’ specifications with the right balance of form and function. We satisfy customer needs via end-to-end services that include after-sales care.



### Consumables

Our tags and labels are made to ensure the best performance for each specific application in the field. Using know-how developed over the years, we custom-select the base materials, adhesives and finishing techniques to produce consumables catered for a wide range of market applications.



### Software

We develop software to address various label printing and management needs, from label design and data management to asset tracking and food traceability, warehousing and safety compliance. Intelligence within the printer is another feature we developed to make our printers programmable and simplify labeling processes for the operator, right on site.



### Primary package consulting

Our in-house design team analyzes consumer trends to provide a value-added ‘design promotion service,’ which covers planning, design, printing and sales promotion for consumer products. It makes winning packaging designs that incorporate solid marketing strategy to rediscover the value of existing products utilizing emotion and logic.



We currently service six key priority markets, each comprising multiple industries. In retail, for example, we provide solutions for e-commerce retailers, supermarkets, drugstores and hardware chain stores. In the case of logistics, which spans all markets, we service 3PLs, courier service providers and a variety of other industries.

### Retail

**Industry categories:**

General retail, supermarkets, convenience stores, drugstores, apparel stores and e-commerce



### Manufacturing

**Industry categories:**

Automotive, chemical, iron/steel, machinery/electrical equipment and electronic parts manufacturers



### Food

**Industry categories:**

Food & beverage manufacturers, food service operators, farms and fisheries



### Logistics

**Industry categories:**

Warehousing, transportation and food wholesale distribution



### Health care

**Industry categories:**

Hospitals/clinics, pharmaceutical, medical devices/supplies, clinical laboratories, pharmacies and blood banks



### Public

**Industry categories:**

Postal, government/municipal offices, utilities, education and public transit



→ For details on our market-specific strategies, please see Pages 28 to 43.

# Our value-creation process

SATO provides auto-ID solutions that “tag” IDs to anything and everything to “feed” and “make use” of valuable information. We help the world run smoothly and achieve circularity and sustainability.



## Strengths behind our value creation

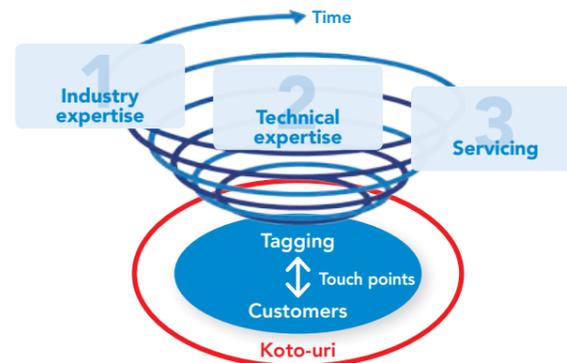
### Tagging is our domain and strength

The very essence of our auto-ID solutions lies in tagging: the act of attaching information to things and people. For us to tag something and collect data that a customer most needs, we need to look at how things are shaped, what material they are made of, which auto-ID technology to use with which labels or tags, and how to associate the collected data with what kind of other data. It's not something that can be learned overnight; it's expertise that SATO has accumulated since its founding through countless trial and error and practice, and is our exclusive strength that competitors cannot — or would hardly attempt to — imitate.



### Our relationships with customers boost our ability to propose on-site solutions, further strengthening relationships

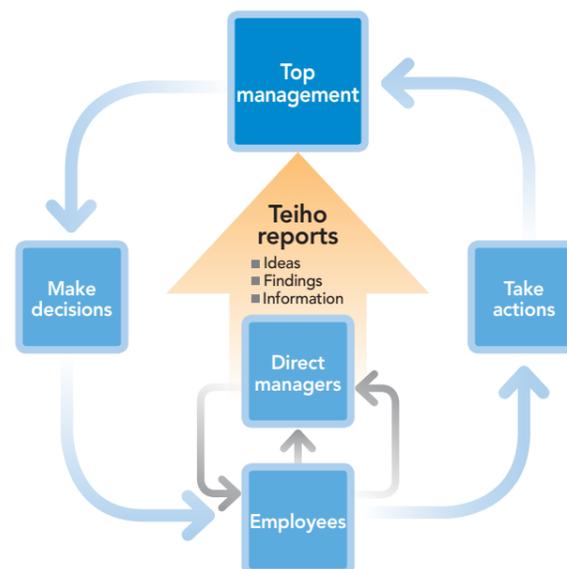
Tagging cannot be done without seeing the customer's worksite and understanding their actual operations. This nature of our business develops customer touch points serving as the entry for our koto-uri approach of "selling the solution, not the product," which establishes a relationship with the customer that becomes stronger with every pain point we help solve on site. It's a positive cycle, which continues to hone our genbaryoku in its three capabilities of (1) industry expertise, (2) technical expertise and (3) servicing. (See Page 27)



### Teiho: Where innovation wells



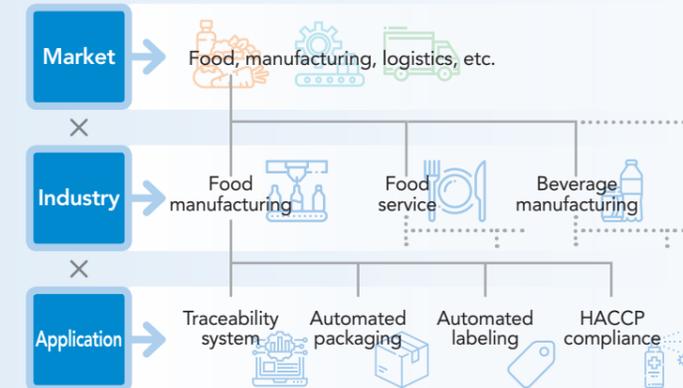
Teiho is an in-house system with which SATO employees regularly submit ideas and suggestions directly to the management in the form of short reports written within a set word count. Started in Japan over 40 years ago and now used in key group companies around the world, the system serves to raise employee awareness on detecting areas of improvement and devising creative solutions to initiate changes both big and small, helping our business meet the needs of the times and achieve sustainable growth. In FY 2021, we introduced "Make My Team Better" Teiho, encouraging employees to put forward suggestions for improving their own departments and branches directly to their immediate superiors as a daily routine. It's a way of prompting teamwork among employees to stage small changes frequently, continuously and voluntarily, through which we hope to ultimately develop a strong corporate culture for innovation.



### Three elements of genbaryoku

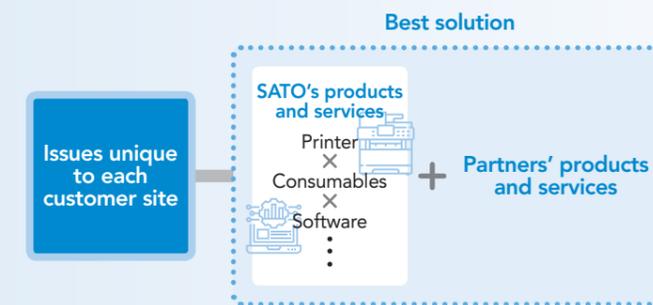
Leading companies choose SATO because we can provide optimal solutions from our core competency we call genbaryoku, which we built up over time through our business model of collecting on-site data. We define genbaryoku to comprise three strengths that we continue to hone in delivering auto-ID solutions that are powered on site.

#### 1 Industry expertise — We are versed in an array of worksites



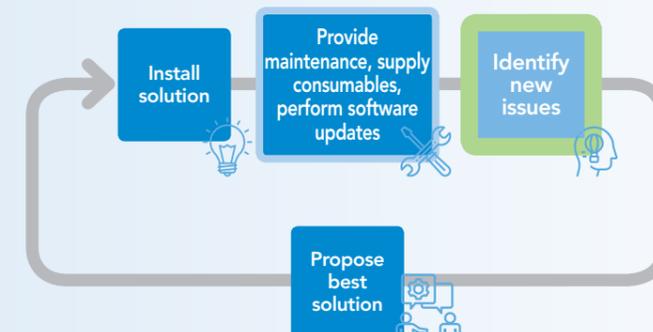
**Know-how on diverse customer markets, industries and applications**  
Operational procedures and objects to be tagged vary depending on the customer. We have seen and versed ourselves in so many on-site processes and issues across a wide variety of markets and industries that the accumulated expertise helps us provide the best tagging solutions for each unique usage.

#### 2 Technical expertise — We match products best for each customer



**New solutions from mixing and matching the right technologies**  
Our products are thoroughly customer-centric, yet the best solution for a customer does not always consist solely of our own products. We collaborate with business partners who have different strengths from us to create the ideal combination of products, services and technologies.

#### 3 Servicing — We keep bettering our customers' operations



**Continuous connection and long-term relationship with customers**  
We continue to provide products and services to customers even after installation to help their operations run stably and with ease. The long-term relationship we maintain with customers through after-sales support allows us to spot new issues and improve their business sites on an ongoing basis.