



Ceaseless Creativity for a Sustainable World

November 5, 2019

# **SATO HOLDINGS CORPORATION**

**FY2019 1H Financial Results**

(Six Months Ended September 30, 2019)

Securities Code: 6287

## Summary

- **Consolidated sales fell short of the forecast while OI achieved its target. Both sales and OI increased YoY.**
  - Overseas sales and OI fell short of the forecast. Sales remained flat while OI decreased YoY, but both increased excluding adverse FX impact.
  - In Japan, sales and OI achieved the forecast as well as increasing YoY.
- **Impact from overseas strategies in line with our Medium-term Management Plan is yet to be seen.**
- **Extraordinary income was recorded from gain on sale of fixed assets overseas.**

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- Business performance will be explained using the table on the next slide.

## Apr-Sep Consolidated Forecasts and Results

(Millions of JPY)

	Results	Forecast	VS Forecast
<b>Net Sales</b>	<b>57,875</b>	<b>58,700</b>	<b>98.6%</b>
<b>Operating Income</b>	<b>3,542</b>	<b>3,500</b>	<b>101.2%</b>
<b>Ordinary Income</b>	<b>3,237</b>	<b>3,400</b>	<b>95.2%</b>
<b>Profit attributable to owners of parent</b>	<b>2,880</b>	<b>2,000</b>	<b>144.0%</b>

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- Net sales and operating income were both record highs. However, net sales fell short of the performance forecast, while income achieved the forecast, and both net sales and income increased year-on-year (YoY).
- Ordinary income fell 160 million yen short of forecast due to increased non-operating expenses such as exchange rate loss and compensation.
- Net profit includes an extraordinary income of 800 million yen from the sale of fixed assets in Malaysia.

## Sales and OI by Business Segment

(Millions of JPY)

		FY2019	FY2018	YoY	excl. FX impact
Auto-ID Solutions business	Total Sales	57,680	56,259	102.5%	104.6%
	Operating Income	4,239	4,051	104.6%	106.4%
Overseas	Total Sales	21,607	21,597	100.0%	105.5%
	Operating Income	1,155	1,220	94.7%	103.3%
Japan	Total Sales	36,073	34,661	104.1%	104.1%
	Operating Income	3,083	2,831	108.9%	107.7%
IDP business	Total Sales	194	230	84.5%	90.3%
	Operating Income	-737	-676	-	-
Consolidated (incl. eliminations)	Total Sales	57,875	56,489	102.5%	104.6%
	Operating Income	3,542	3,343	105.9%	106.5%

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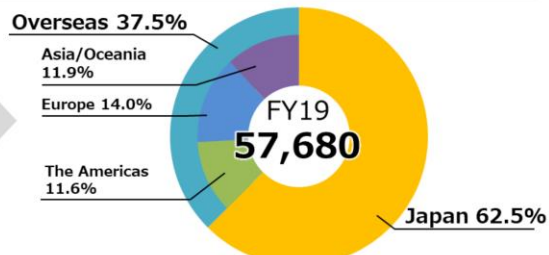
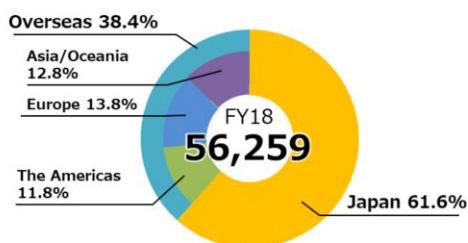
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- Overseas, total sales were mostly unchanged, while operating income decreased YoY.
- Japanese yen appreciation of approximately 3.0% against the US dollar and 6.0% against the euro had an overall negative YoY impact on sales of approximately 1.2 billion yen.
- Taking exchange rate impact out of consideration, sales and income both increased.
- In Japan, sales and operating income both exceeded forecast, while also increasing YoY.

## Sales and OI by Region

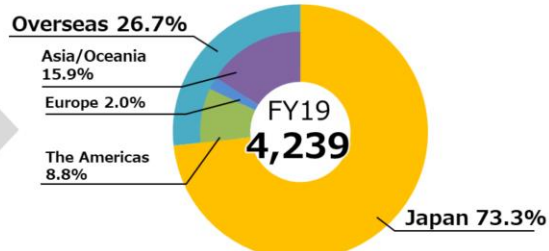
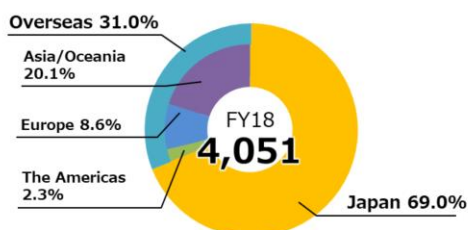
(Millions of JPY)

## Sales



## Operating Income

\*Ratio excludes eliminations.



4 OI Ratio : Japan : 8.2%, Overseas : 5.7%

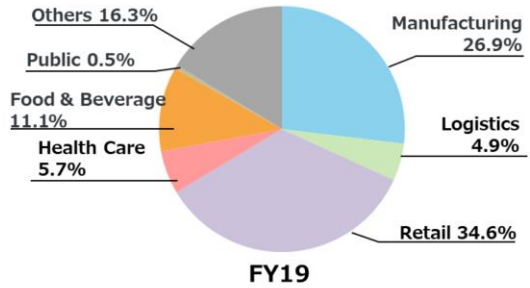
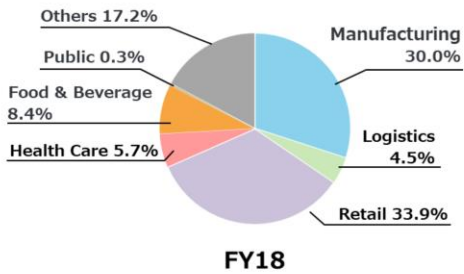
OI Ratio : Japan : 8.5%, Overseas : 5.3% SATO

- Here I will explain the proportions of operating income from each region.
- Asia and Oceania comprised 15.9% of total income in FY2019, a significant drop from 20.1% in FY2018. This was due to a sharp decrease in income at sales subsidiaries in China resulting from US-China trade conflict.
- In Europe, income decreased particularly due to the impact of higher raw materials costs at Okil in Russia.
- In the Americas, income improved significantly due to the liquidation of software development subsidiary SGS (SATO Global Solutions).

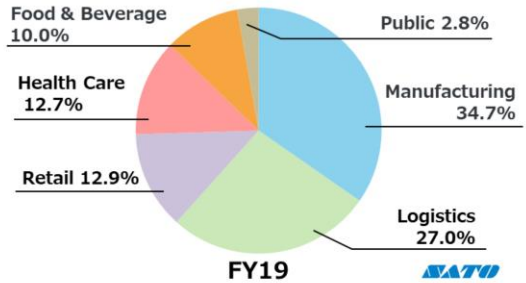
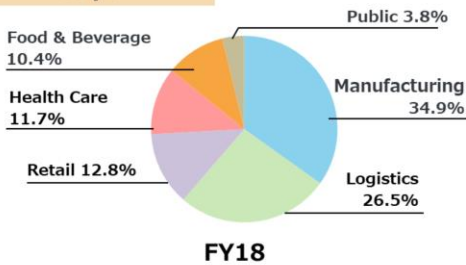
Sales by Vertical

**Overseas**

\* Main sales subsidiaries only. Factories & primary label companies not included.



**Japan**



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- Overseas, food & beverage comprised a larger proportion of sales in FY2019 as large orders were received, mainly in Europe.
- Manufacturing comprised a smaller proportion of overseas sales as a result of US-China trade conflict.
- Business in Japan is trending favorably overall with increases in business consultations and orders.

## Consolidated Results

(Millions of JPY)

	FY2019	FY2018	Change	YoY
	Net Sales	57,875	56,489	+1,385
Operating Income	3,542	3,343	+198	105.9%
Operating Income %	6.1%	5.9%	+0.2pt	-
Ordinary Income	3,237	3,190	+46	101.4%
Profit attributable to owners of parent *1	2,880	1,919	+960	150.0%
Effective Tax Rate*2	26.7%	39.3%	-12.7pt	
EBITDA*3	6,488	6,096	+391	106.4%

Average exchange rates for Apr-Sep FY19: JPY 108.60 /USD, JPY 121.40 /EUR, Apr-Sep FY18: JPY 110.26 /USD, JPY 129.78 /EUR  
FX sensitivity for FY19: JPY +423 million in sales and JPY +5 million in OI for +1 JPY against USD and assuming all others move by the same ratio

\*1 Profit attributable to owners of parent in Apr-Sep FY19 reflected extraordinary income from gain on sale of fixed assets overseas.

\*2 Effective Tax Rate of Apr-Sep FY18 was high due mainly to adjustments related to reorganization of Japanese subsidiaries.

\*3 EBITDA = Operating Income + Depreciation + Amortization

· Depreciation for Apr-Sep FY19: JPY 2,509 million

Apr-Sep FY18: JPY 2,186 million

· Amortization for Apr-Sep FY19: JPY 436 million (incl. 150 mil. for DataLase)

Apr-Sep FY18: JPY 566 million (incl. 312 mil. for DataLase)

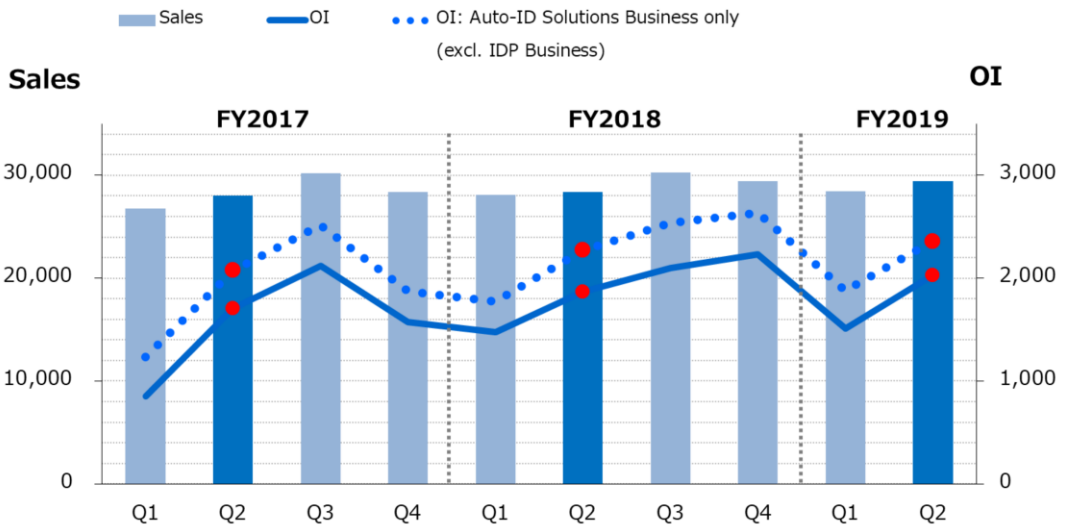
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- The 0.2 point increase in operating income margin was driven by business in Japan.
- Net profit was bolstered by extraordinary income in Malaysia and reduced tax rates compared to the previous year.

### Quarterly Consolidated Sales & OI

(Millions of JPY)



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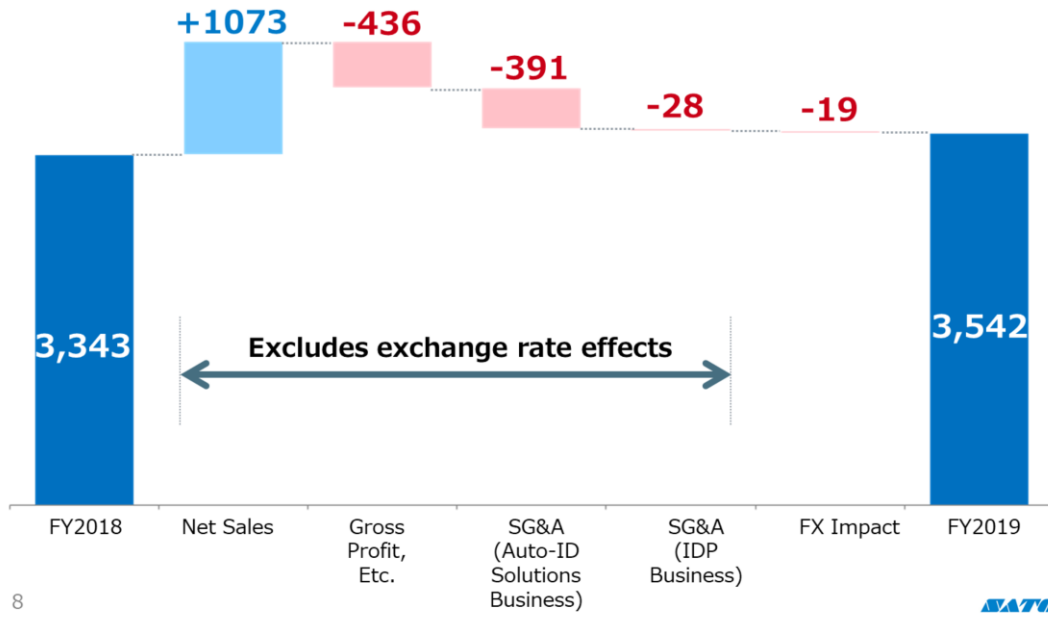


- On a quarterly basis, sales and operating income both increased YoY.



### Major Gains/Losses in OI

(Millions of JPY)



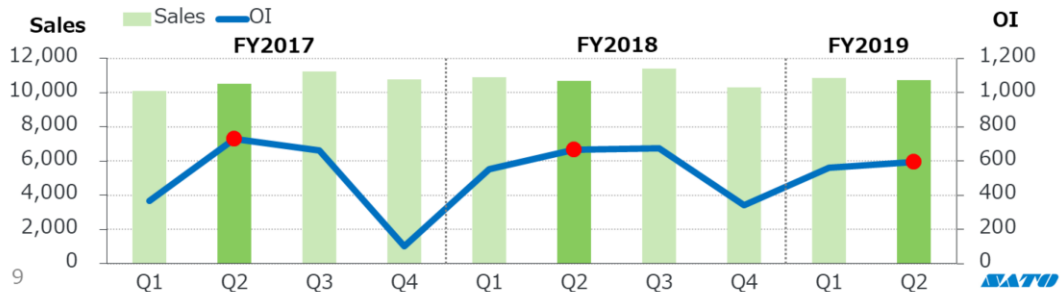
- I will explain the major gains and losses in operating income later for Japan and overseas respectively.

Overview

Sales remained flat while OI decreased YoY, but both increased, excluding adverse FX impact.

(Millions of JPY)

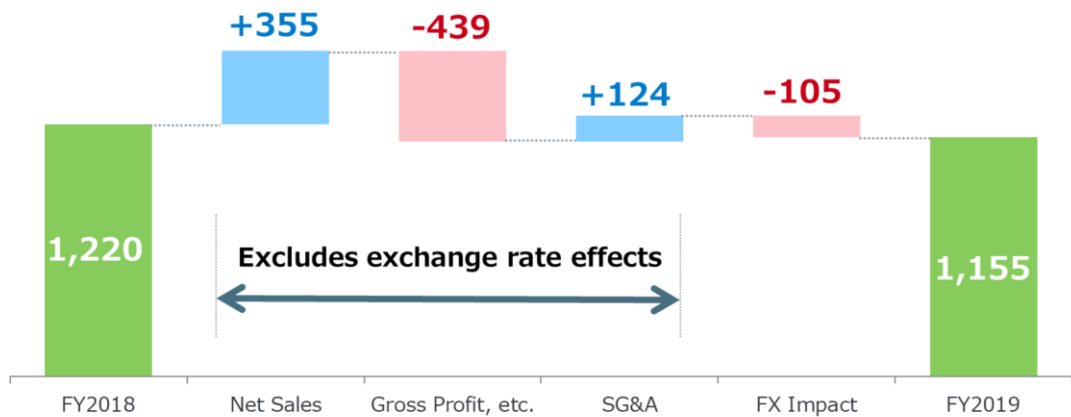
	FY2019	FY2018	Change	Change	
				YoY	excl. FX impact
<b>Total Sales</b>	<b>21,607</b>	<b>21,597</b>	<b>+9</b>	<b>100.0%</b>	<b>105.5%</b>
Gross Profit	7,506	8,057	-551	93.2%	-
Gross Profit %	34.7%	37.3%	-2.6pt	-	-
<b>Operating Income</b>	<b>1,155</b>	<b>1,220</b>	<b>-65</b>	<b>94.7%</b>	<b>103.3%</b>
Operating Income %	5.3%	5.7%	-0.3pt	-	-



- The 2.6 point decrease in gross profit margin was due to higher raw materials costs in Europe and the Americas.

## Major Gains/Losses in OI

(Millions of JPY)



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- Sales-driven increases were largely attributable to Okil (approx. 200 million yen) and the US sales subsidiary (approx. 100 million yen).
- Gross profit-driven decreases were mostly attributable to Okil and the US sales subsidiary, which suffered from the impact of higher raw materials prices.
- SG&A contributed a gain due to the liquidation of SGS.

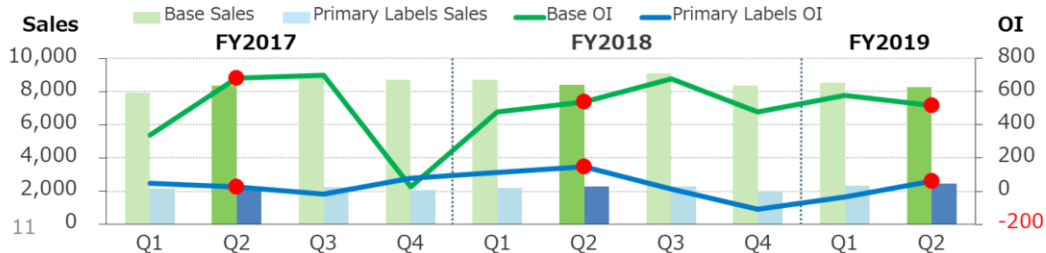
### Breakdown by Business Segment

Base business: Sales in China-related business decreased YoY due to trade conflict with US. OI increased as loss-making US software development subsidiary was liquidated and the UK sales subsidiary turned profitable.

Primary Labels business: Sales increased thanks to contributions from Okil in Russia, while OI decreased due to higher raw materials costs at Okil as well as adverse FX impact. The business turned profitable in Q2.

(Millions of JPY)

		FY2019	FY2018	Change		
					YoY	excl. FX impact
Base	Total Sales	16,825	17,152	-327	98.1%	102.6%
	Operating Income	1,095	1,015	+79	107.9%	112.2%
Primary Labels	Total Sales	4,782	4,444	+337	107.6%	116.8%
	Operating Income	27	259	-231	10.5%	34.2%
Eliminations	Operating Income	32	-54	+86	-	-

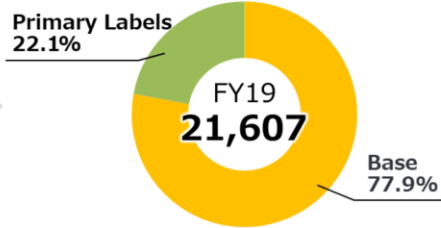
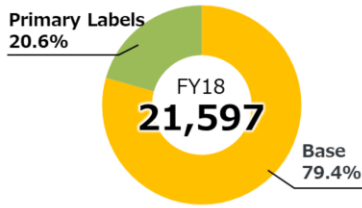


- Okil had record high sales, but lower operating income YoY due to the effect of higher raw materials prices.

Breakdown of Sales and OI by Business Segment

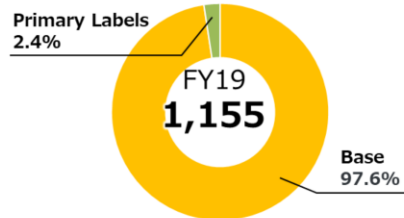
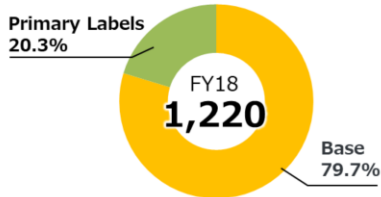
(Millions of JPY)

Sales



Operating Income

\*Ratio excludes eliminations.



OI ratio: **Base : 5.9%, Primary Labels : 5.8%**

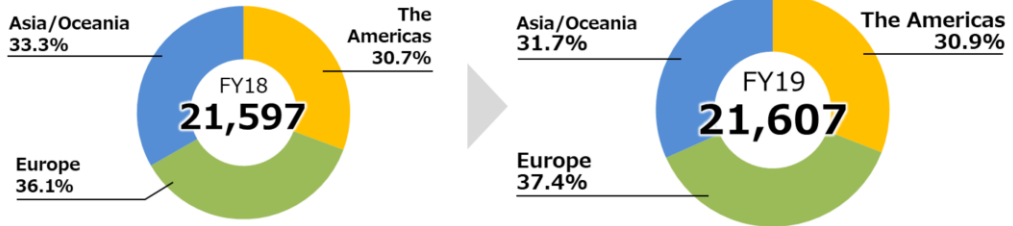
OI ratio: **Base : 6.5%, Primary Labels : 0.6%**

- The increased sales and decreased operating income at Okil is evident in the YoY changes in Primary Labels.

Breakdown of Sales and OI by Region

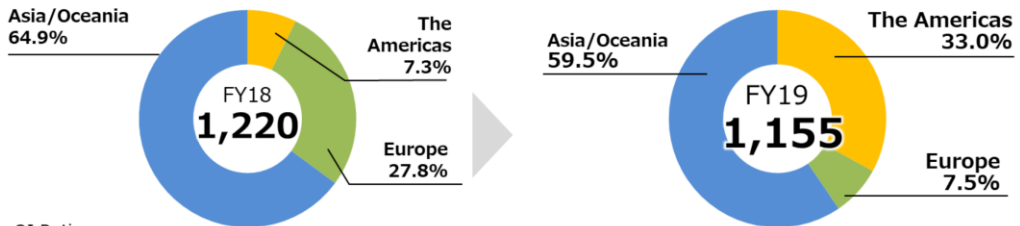
(Millions of JPY)

Sales



Operating Income

\*Ratio excludes eliminations.



OI Ratio :  
 The Americas : 1.4%, Europe : 4.6%,  
 Asia/Oceania : 11.5%

OI Ratio :  
 The Americas : 5.5%, Europe : 1.0%,  
 Asia/Oceania : 9.7%

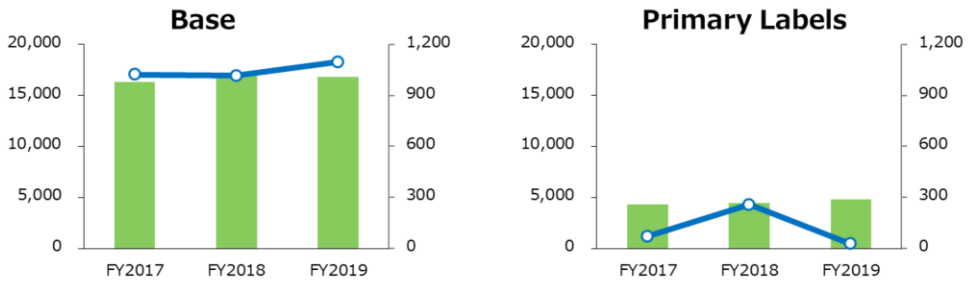
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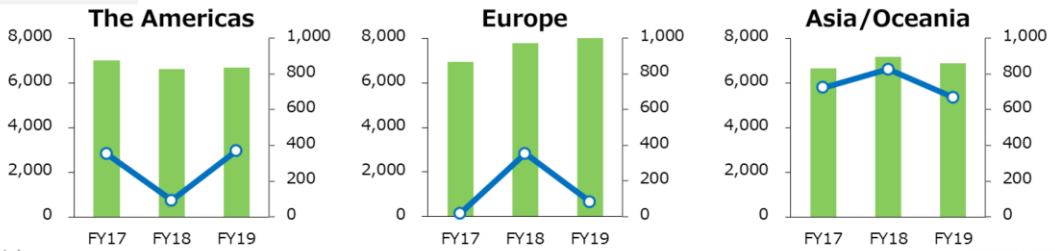
- Composition of operating income in FY2019 was significantly impacted by the liquidation of SGS in the Americas, lower income at Okil in Europe, and lower income at the China sales subsidiary in Asia and Oceania due to US-China trade conflict.

Sales and OI Trends by Business Segment and Region

By Business Segment Sales OI (Millions of JPY; Sales (left axis), OI (right axis))



By Region



- This slide breaks down the numbers explained in previous slides by business segment and region on the same scale as a reference to compare their sizes.

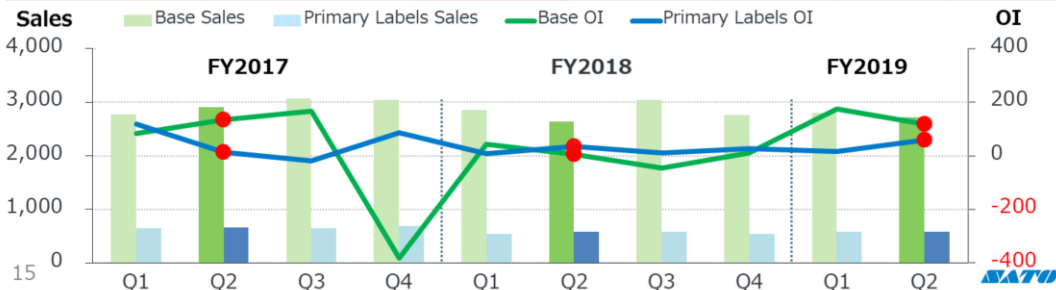
### Breakdown by Region: The Americas

Base business: Direct sales business grew at the US subsidiary, but sales remained flat YoY due to factors including adverse FX impact. OI increased significantly due to the elimination of R&D cost from the liquidated US software development subsidiary.

Primary Labels business: Sales and OI both increased, with OI jumping significantly. The latter was particularly driven by Achernar in Argentina, which managed to pass cost increases on to customers.

(Millions of JPY)

		FY2019	FY2018	Change	Change	
					YoY	excl. FX impact
Base	Total Sales	5,512	5,495	+16	100.3%	103.7%
	Operating Income	291	49	+242	591.4%	619.2%
Primary Labels • Achernar • Prakolar	Total Sales	1,163	1,130	+33	102.9%	129.7%
	Operating Income	78	43	+34	178.8%	322.9%



- Operating income improved in our Base business due to business restructuring in the US (the liquidation of SGS).
- In Primary Labels, Achernar contributed to increased operating income by sufficiently passing on the effects of inflation and higher raw materials costs to its customers.



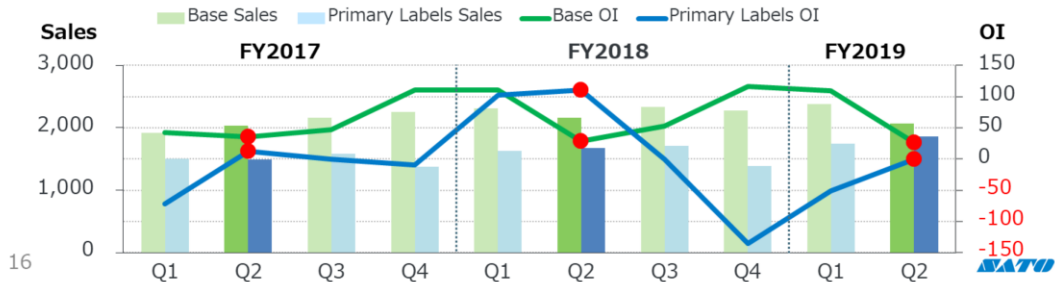
### Breakdown by Region: Europe

**Base business:** Sales remained flat and OI dropped slightly YoY, mostly due to adverse FX impact. The UK sales subsidiary increased sales and turned profitable after securing a large order to address food safety needs.

**Primary Labels business:** Sales increased thanks to new business engineered by Okil in Russia. However, OI decreased due to higher raw materials cost and adverse FX impact.

(Millions of JPY)

		FY2019	FY2018	Change	YoY	
						excl. FX impact
Base	Total Sales	4,453	4,475	-22	99.5%	106.5%
	Operating Income	135	139	-4	97.1%	106.3%
Primary Labels • Okil • X-Pack	Total Sales	3,618	3,314	+303	109.2%	112.4%
	Operating Income	-51	215	-266	-	-



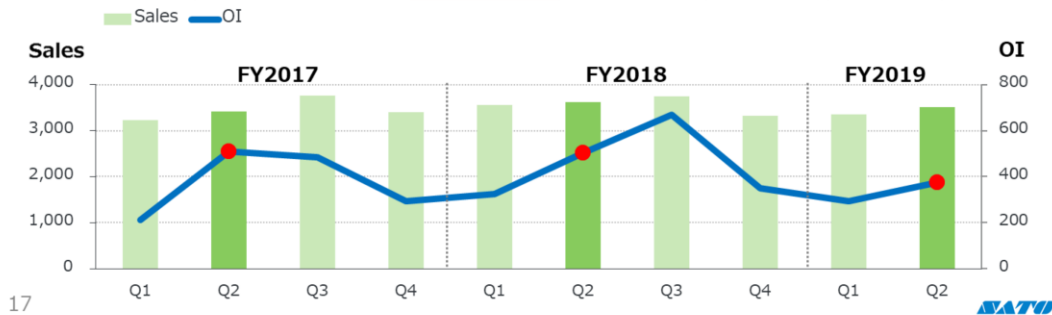
- In Europe, we are currently engaged in focused sales activities in the food & beverage market, and business talks are trending upward.

### Breakdown by Region: Asia/Oceania

Base business: Sales and OI decreased YoY due to trade conflict resulting in slower business at Chinese sales subsidiaries and the printer subsidiary in Taiwan for which China is the main market. Despite the harsh external business climate, OI posted a quarterly increase in Q2.

(Millions of JPY)

Base		FY2019	FY2018	Change	YoY	
						excl. FX impact
Base	Total Sales	6,860	7,181	-321	95.5%	99.3%
	Operating Income	668	827	-158	80.8%	82.9%



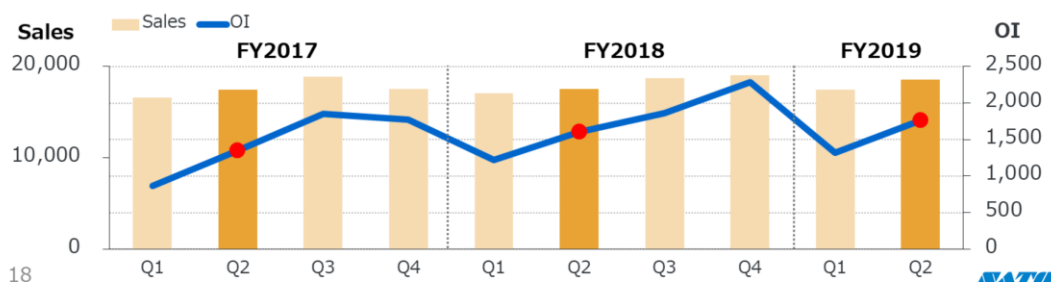
- While business has slowed down due to US-China trade conflict, new opportunities are arising due to demand in efficiency improvements in the manufacturing sector within China.

### Overview

Sales and OI increased YoY thanks mainly to growth in mechatronics. Profit margins continued to improve due to mix factors.

(Millions of JPY)

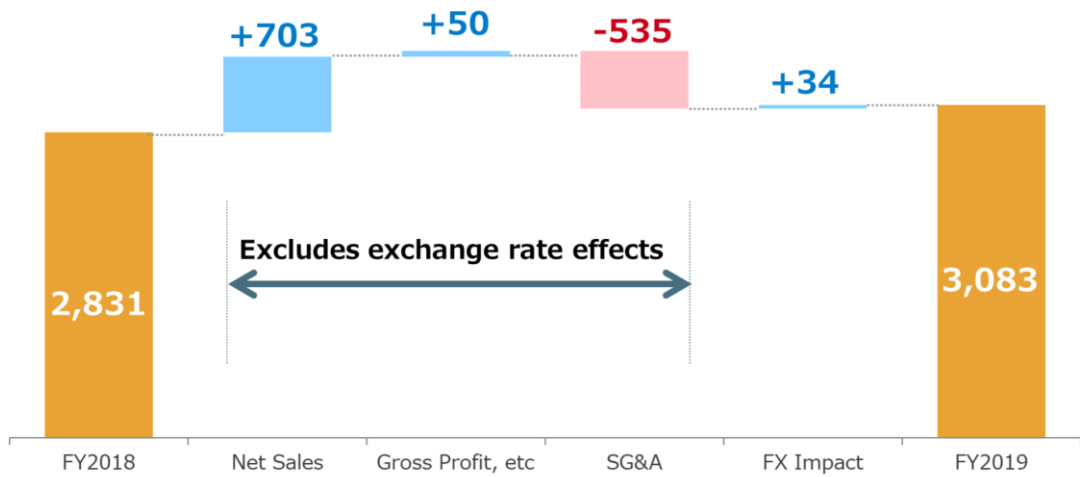
	FY2019	FY2018	Change	YoY
Mechatronics Sales	14,630	13,217	+1,412	110.7%
Consumables Sales	21,443	21,443	+0	100.0%
<b>Total Sales</b>	<b>36,073</b>	<b>34,661</b>	<b>+1,411</b>	<b>104.1%</b>
Gross Profit	18,058	17,269	+788	104.6%
Gross Profit %	50.1%	49.8%	+0.2pt	-
<b>Operating Income</b>	<b>3,083</b>	<b>2,831</b>	<b>+252</b>	<b>108.9%</b>
Operating Income %	8.5%	8.2%	+0.4pt	-



- Industry growth for electronic components has slumped due to the impact of US-China trade conflict, which is why sales of consumables did not increase.
- Securing opportunities in other industries made it possible to absorb the negative impact of declining overall transaction volume.

Major Gains/Losses in OI

(Millions of JPY)

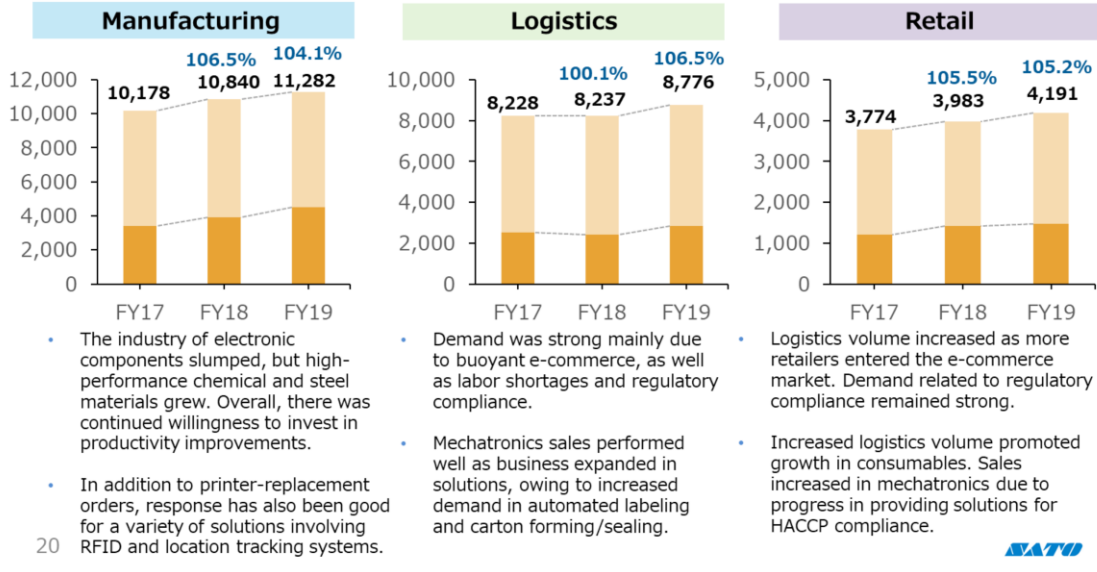


- Negative impact on operating income from SG&A includes higher HR expenses, higher expenses accompanying sales growth, and depreciation and amortization from development of new products and solutions.

### Sales by Vertical (Apr-Sep) [1]

(Millions of JPY)

■ : Mechatronics   ■ : Consumables   \*Figures are total sales; % indicates YoY change

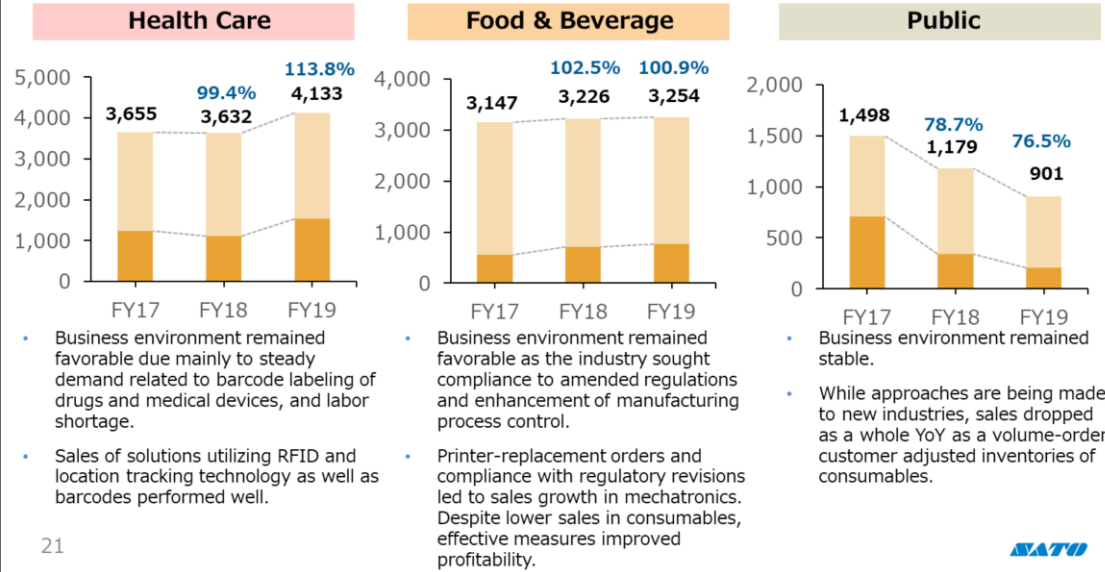


- Manufacturing: Adoption of RFID is progressing. Solution proposals for safety measures at manufacturing sites are also increasing. Prospects are promising for mechatronics overall and for consumables in industries other than electronic components.
- Logistics: The e-commerce market is buoyant, and further growth is expected due to robust business in distribution center enhancements and maintenance.
- Retail: Vigorous investment in the e-commerce market by retailers is expected to result in continued growth.

### Sales by Vertical (Apr-Sep) [2]

(Millions of JPY)

■ : Mechatronics   ■ : Consumables   \*Figures are total sales; % indicates YoY change



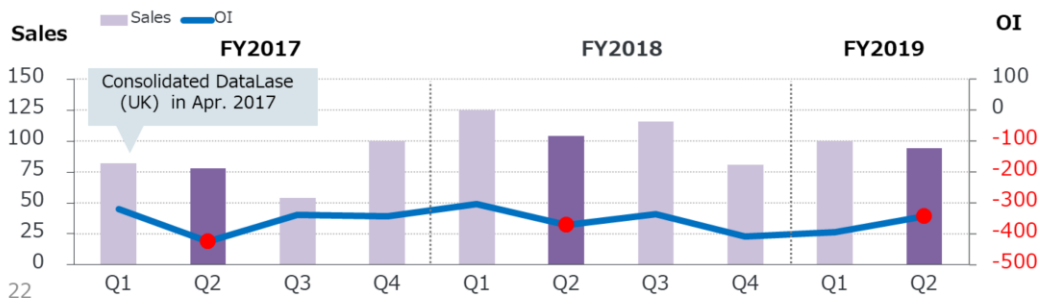
- Health Care: Sales activities up to now are bearing fruit, and solutions for hospitals and implants are performing well.
- Food & Beverage: Performance was good in the first half, as external factors such as the revised Food Labeling Act and HACCP certification led to increased solutions providing automation and improved hygiene management.
- Public: The business sees large YoY fluctuations due to ad hoc orders, but sales activities are conducted to secure orders over the long term.

### Overview

R&D progressed largely as planned and entered the assessment phase.

(Millions of JPY)

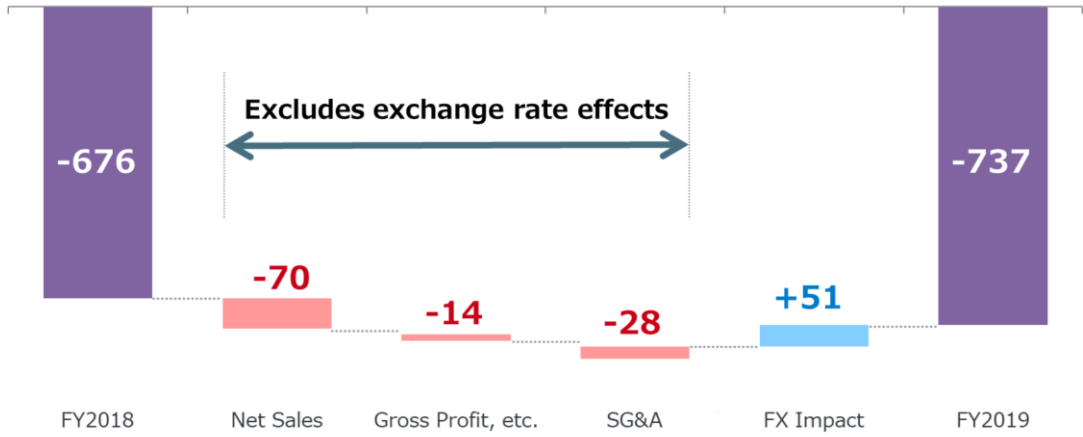
	FY2019	FY2018	Change	YoY	
				YoY	excl. FX impact
<b>Total Sales</b>	<b>194</b>	<b>230</b>	<b>-35</b>	<b>84.5%</b>	<b>90.3%</b>
Gross Profit	137	231	-93	59.6%	-
Gross Profit %	70.9%	100.4%	-29.6pt	-	-
<b>Operating Income</b>	<b>-737</b>	<b>-676</b>	<b>-61</b>	-	-
Operating Income %	-	-	-	-	-



- Operating losses in IDP business have been curbed through initiatives to keep costs down.

### Major Gains/Losses in OI

(Millions of JPY)



- (Skipped)



- IDP Business Progress in R&D

We have entered the assessment phase for technologies under development. We expect to make a decision on commercialization before the end of FY2019.

#### Bottles

- Development on lasers is roughly 3 months behind schedule due to spec changes requested by customers.
- Installation to customer's equipment completed in September 2019.
- Currently under assessment with the goal of commercialization.



#### Cups

- Conducting small-scale, in-store tests overseas from June 2019.
- Currently in talks of running tests with a customer operating a medium-size chain.



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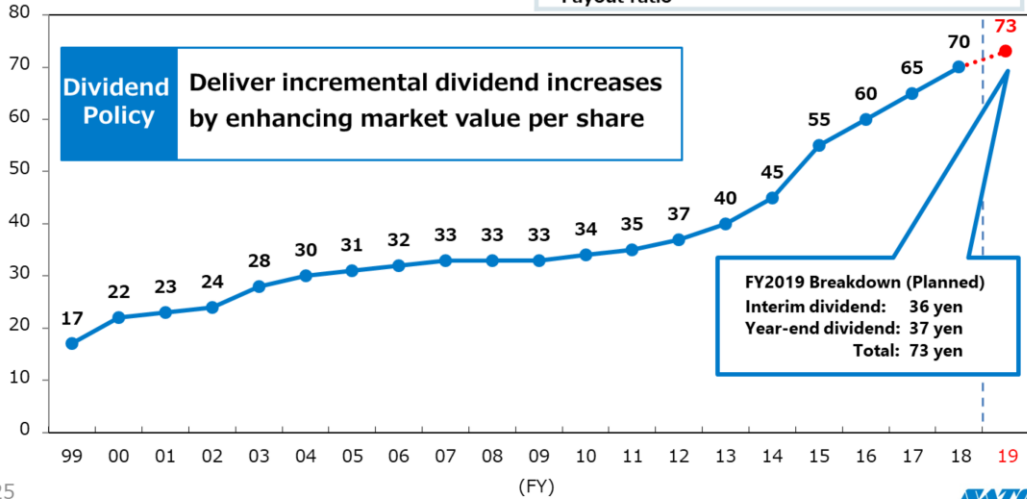
- This slide explains the commercialization progress and plans for bottles and cups in our IDP business (as written in the slide).

## Dividends

Interim dividend payment of 36 yen is scheduled as planned.

	FY2017	FY2018	FY2019 (Forecast)
EPS	¥121.5	¥112.5	¥175.8
ROE	7.6%	6.9%	10.5%
(Ref.) Payout ratio	53%	62%	42%

(JPY per share)



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- Total annual dividend is planned to be 73 yen, and interim dividend would be 36 yen.

## FY2019 Consolidated Forecasts

(Millions of JPY)

	1H		2H		Full Year	
	Results	YoY	Forecast	YoY	Forecast	YoY
Net Sales	57,875	102.5%	62,124	104.1%	120,000 (120,000)	103.3%
Operating Income	3,542	105.9%	4,957	114.3%	8,500 (8,500)	110.7%
Ordinary Income	3,237	101.4%	4,862	109.8%	8,100 (8,300)	106.3%
Profit attributable to owners of parent	2,880	150.0%	3,019	162.9%	5,900 (5,000)	156.3%
<Reference>		* Figures in parentheses are forecasts announced as of May 13, 2019				
EBITDA*	13,250	←FY2018 full year			14,100 (14,100)	106.4%

\* EBITDA=Operating Income + Depreciation + Amortization

Exchange rates assumed in FY19 forecast: JPY 108/USD, JPY 120/EUR  
Average exchange rates for Apr-Sep FY19: JPY 108.60/USD, JPY 121.40/EUR  
Average exchange rates for FY18 : JPY 110.92/USD, JPY 128.44/EUR

- The initial consolidated forecast for ordinary income in FY2019 was revised downward by 200 million yen due to increased non-operating costs.
- Taking extraordinary income occurring in the first half into consideration, net profit was revised upward by 900 million yen.

# Our overseas business's progress in its medium-term objectives and strategies

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- Next I will explain the progress in overseas business in our Medium-Term Management Plan.

## Main strategies

Narrow down focal area/industry for each overseas sales company, set strategies, action plans and investment plans to detail and execute with speed.

1. **Optimize resources based on focal area & industry**
2. **Create/enhance products, services and solutions for each industry**
3. **Enhance sales collaterals/system to support koto-uri (Selling the solution, not the product)**
4. **Strengthen global alliances**
5. **Establish CRM (customer relationship management) system and other sales infrastructure**

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- The five main strategies are as shown in this slide.

## 1. Optimize resources based on focal area & industry

Top priority and focal countries:

**Top priorities**

India



Vietnam



USA



**Focal**

Thailand

China

Indonesia

Philippines

Russia

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- The eight focal areas are comprised of top priority countries and focal countries.

## 1. Optimize resources based on focal area & industry

To offer optimal solutions that draw on our strength, we need to take industry-specific strategies.



Verticals	Manufacturing	Logistics	Retail	Health care	Food & beverage
Industries	Automotive	Transportation	Supermarkets	Hospitals	QSR
	Robotics/ Machinery	B2B logistics	Specialty stores	Pharmaceuticals	Restaurants
	Electronic components	B2C logistics	Drug stores	Medical equipment	Food manufacturing
	Steel/Metal	Manufacturer logistics	Convenience stores	Medical supplies	Food processing
	Chemicals	3PL	Mass-retailers	Blood testing	Beverage

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- Target markets and industries were narrowed down according to their potential in each country and area, and by matching these up with our strengths.

## 1. Optimize resources based on focal area & industry

-  Progress in India (Top priority):
-  Setting target industries

Verticals	Manufacturing	Logistics	Retail	Health care	Food & beverage
Industries	Automotive	Transportation	Supermarkets	Hospitals	QSR
	Robotics/ Machinery	B2B logistics	Specialty stores	Pharmaceuticals	Restaurants
	Electronic components	B2C logistics	Drug stores	Medical equipment	Food manufacturing
	Steel/Metal	Manufacturer logistics	Convenience stores	Medical supplies	Food processing
	Chemicals	3PL	Mass-retailers	Blood testing	Beverage

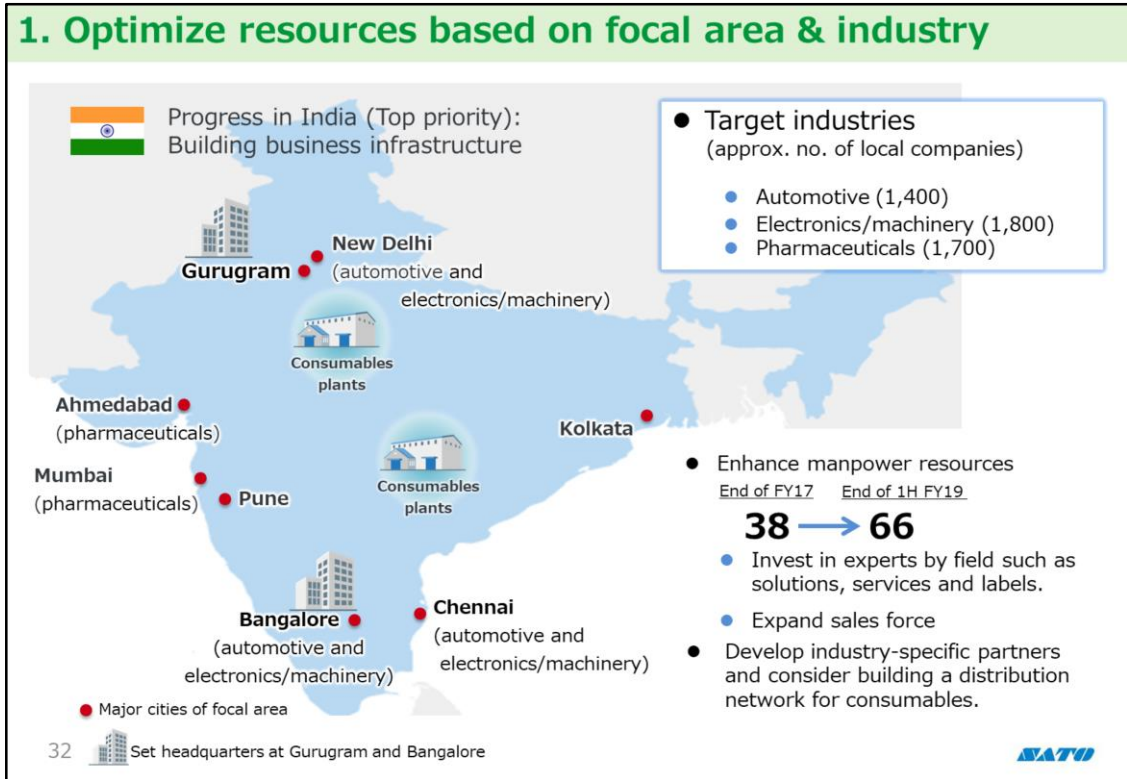
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- Here I will explain initiatives in India as an example.
- We have narrowed our scope to three target industries: automotive and robotics/machinery in manufacturing, and pharmaceuticals in health care.



# 1. Optimize resources based on focal area & industry



● Our four points to note in India are as follows.

- (1) We now have head office functions in both the north and south of the country after establishing a head office function in Bangalore in addition to Gurugram.
- (2) We are putting a consumables supply system in place that runs north to south, to encompass target industries and regions.
- (3) We are bolstering our personnel with the hiring of sales people and engineers who have knowledge of our target industries or are capable of *koto-uri* (selling the solution, not the product) sales.
- (4) We are exploring partners in New Delhi, Mumbai, Bangalore, and Chennai who have strength in our target industries.

## 2. Create/enhance products, solutions and services for each industry

We will further enhance our product portfolio of global strategic printers, which will expand our market/industry coverage and enable us to further promote our koto-uri sales approach.

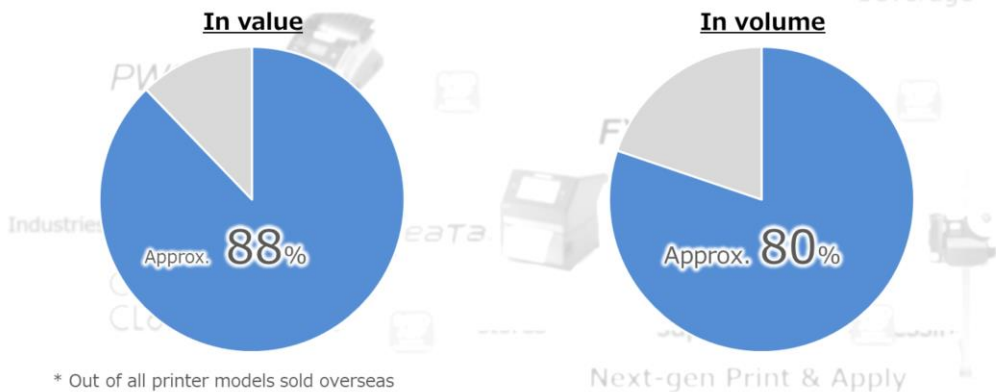


- As pictured in the slide, our new models in each lineup are a mobile model (PW208NX), medium-size industrial use models (CL4NX, CL6NX), a new concept model equipped with Android which is widely being used in the food & beverage market (FX3-LX), and a next-gen print & apply machine.
- SCEaTa was added to the lineup of our highest-selling compact model printers overseas. (Announced on September 11, released for sale on October 1)
- The white model is released for the health care market, while the black one is released for the others as the global strategic model.
- We are also planning to release a subsequent printer model with minor changes from the current CL4NX and CL6NX.

## 2. Create/enhance products, solutions and services for each industry

We will further enhance our product portfolio of global strategic printers, which will expand our market and industry coverage and enable us to further promote our total sales approach.

### FY18 Overseas business Sales contribution ratio of global strategic printer models\*



\* Out of all printer models sold overseas  
(Excludes Argox-brand printers)

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**SATO**

- Sales of our five series of global strategic printer models account for approximately 90% of our total sales in printers.
- We are increasing the ratio that global strategic models comprise of total printer sales by actively selling each new model printer after its release.
- We are making ongoing investments in R&D to facilitate the release of new printer models.

## 2. Create/enhance products, solutions and services for each industry

Unique features installed in printers offer incomparable value and boost sales



Remote monitoring service for printers, connecting them to the internet



Intelligence inside the printer to optimize label printing

[Value for customers]

- Minimize downtime (stable operation)
- Improve efficiency in asset management



[Value for customers]

- Increase productivity
- Save space and cost



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SATO

- These global strategic models help improve profitability because we differentiate them with unique functionality.
- Examples of this are the SOS and AEP functions.
- SOS is a printer monitoring function. It ascertains the operational status of the printer via Internet to preemptively replace consumable parts, preventing the printer from becoming a bottleneck in the workplace. Even if a failure should occur, this function can minimize the downtime.
- Utilizing the benefits of Internet connectivity, it can ascertain the operational status of customer printers located throughout the world, and also be applied as an asset management tool.
- AEP is intelligence that is embedded in the printer, which allows it to complete various operations such as printing labels without needing a computer.
- It allows the printer to act on its own to communicate data with upstream systems and to process the data it captures. Since it requires no computer, it also frees users from cumbersome operations such as OS version updates.
- It can also connect to control devices.
- Since it allows work to be done without the use of a computer, it saves space in customers' workplaces, cuts computer-related costs, and helps improve productivity, among other benefits.

## 2. Create/enhance products, solutions and services for each industry



Progress in the United States (Top priority)

Success in approaching end users directly through the koto-uri approach has led to a number of ongoing deals with major global companies.

E.g., a case with a major supermarket chain



[Customer's pain point]

- "When printers at our distribution center break down, we cannot ship products to stores until they recover. Any downtime is a cost, especially during peak seasons such as Christmas."



A deal for several thousands of printers is ongoing



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- Here we share an example of a *koto-uri* potential for a major supermarket chain in the US.
- With a massive number of store locations, the customer needs to make their distribution center operations more efficient. This requirement matches up perfectly with the characteristics of our products.
- The current printers from our competitors that are in use for several years suffer a higher breakdown occurrence rate.
- Utilizing SATO's printers plus the SOS function would allow them to mitigate the risk of operational downtime they had been facing, and make the asset management of their numerous printers more efficient.
- Since we offer an extensive lineup with compact models for printing small quantities of labels and industrial models for high-volume printing, in addition to compatibility with RFID, the customer is now studying potential implementation of our products.



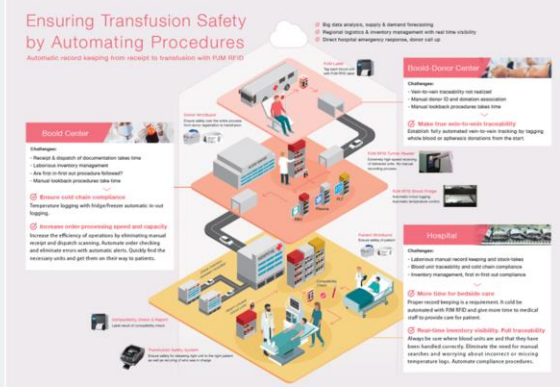
### 3. Enhance sales collateral/system to support koto-uri

Make marketing tools available globally and create an information sharing platform



Global Sales Portal (Stock collateral)

#### Industry Map



#### Solution leaflet



#### Video



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- We have created and updated industry maps, which are essential marketing collateral for proposing solutions and conducting *koto-uri* sales.
- We have also created separate leaflets for each different application, in each industry, which describe in detail the specific effects of implementation and ROI.
- We are also producing videos which show actual operations taking place.
- An internal infrastructure has been put in place to share these tools globally.

### 3. Enhance sales collateral/system to support koto-uri

Industry Maps for 14 industries are now available.



Verticals	Manufacturing	Logistics	Retail	Health care	Food & beverage
Industries	Automotive	Transportation	Supermarkets	Hospitals	QSR
	Robotics/Machinery	B2B logistics	Specialty stores	Pharmaceuticals	Restaurants
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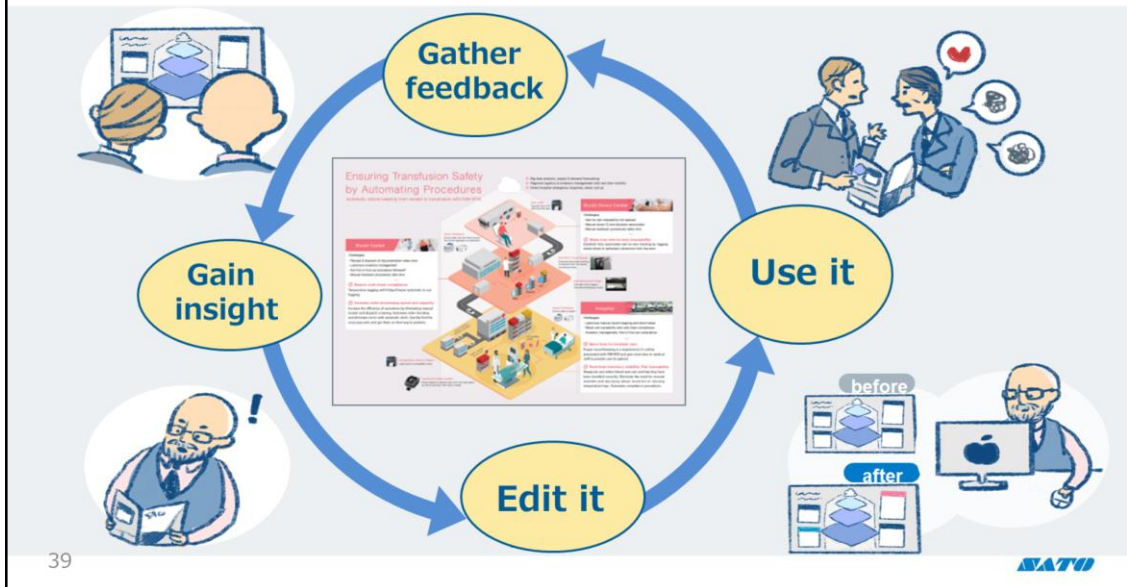
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- Leaflets as described on the previous slide have already been created for 14 different industries. These have been shared, and are in use for sales activities.

### 3. Enhance sales collateral/system to support koto-uri

The Global Marketing Headquarters are working closely with our overseas sales companies to ensure the effective use of marketing collateral and cyclically improve the content.

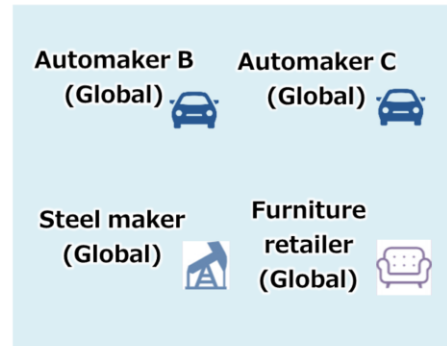
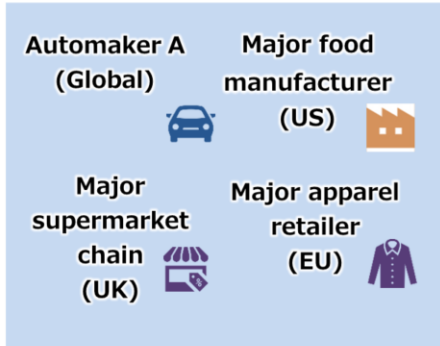


- We have begun engineering positive cycles for the effective use of the collateral created.
- Gathering customer opinions and feedback from overseas marketing and sales staff about our industry maps and application maps, we are using their input to make improvements.
- We are cyclically improving the content by establishing a structure to manage the content and repeating the series of processes.



## 4. Strengthen global alliances

Alliances help generate new businesses globally.



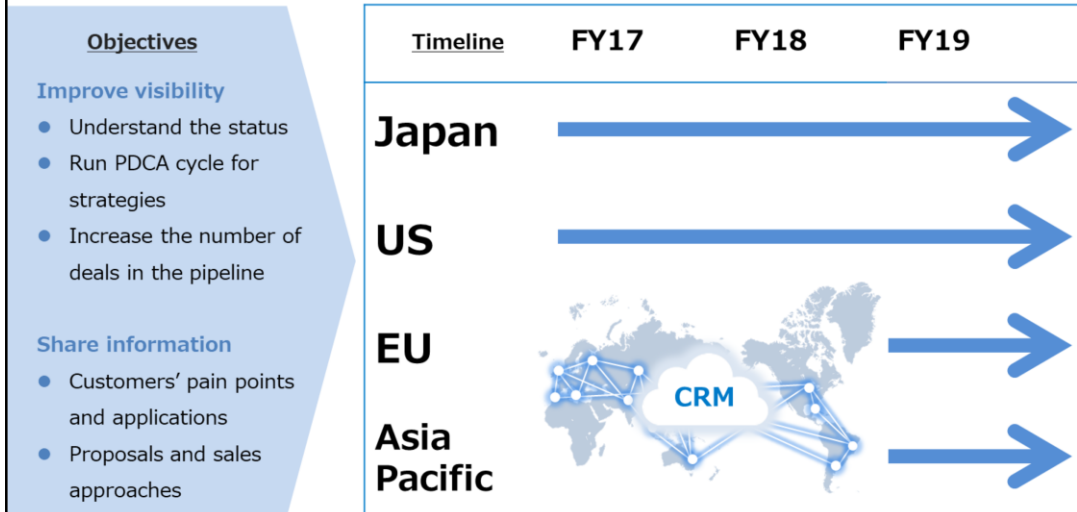
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- Manhattan Associates and JDA are two of the world's largest warehouse management systems companies. JDA's main business is to provide supply chain integration software.
- We are working to build interpersonal relationships with both companies at their US headquarters and at locations throughout the world.
- Based on the results of sorting and matching solutions that SATO and these companies own in each specific region, we are zeroing in on target customers.

## 5. Establish CRM system and other sales infrastructure

Installed CRM systems in almost all of our subsidiaries, both in Japan and abroad, for efficient and sustainable business practices.



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**SATO**

- We are implementing CRM systems to visualize sales activities happening in each region, and using them to uncover and expand on business opportunities worldwide.
- Sharing information about sales activities and the details of business talks through CRM is enabling us to create subsequent opportunities, such as utilizing the info for similar cases and offering new suggestions.
- Overseas, we have enacted the aforementioned strategies and put in place the systems, tools, and infrastructure to accompany them. Now we are embarking on the execution phase.
- We believe the strategies we are implementing overseas will bear fruit going forward.

# Appendix

SATO Terminologies Page 43–46

## SATO Terminologies (1/4)

SATO-unique business concepts/initiatives	Description*
1 Auto-ID Solutions business	Our business that carries out <u>DCS &amp; Labeling +One</u> . It is specifically about integrating barcode printers/labels, software and services designed in-house with products and technologies from partners to resolve customers' worksite issues. This business is separated into Overseas and Japan segments, with the former comprised of the <u>Base</u> and the <u>Primary Labels businesses</u> .
2 Base business	Business of <u>tagging</u> variable information at customer's site of operations.
3 Primary Labels business	Overseas business of <u>tagging</u> fixed information via product labels and other media. This business operates from SATO Group companies; <u>Achernar</u> (Argentina), <u>Prakolar</u> (Brazil), <u>Okil</u> (Russia) and <u>X-Pack</u> (Russia).
4 IDP business	Develops, manufactures and sells materials used mainly in Inline Digital Printing (IDP). A reporting segment formerly named "Materials business."
5 Koto-uri (Selling the solution, not the product)	Sales approach of selling not the product but combinations of products in the form of solutions that include hardware, <u>consumables</u> , maintenance services and software, together with ROI and other value propositions for the customer.
6 Tagging	The process of physically attaching to something data that identifies and/or locates it. This involves digitizing information of the things it is tagged to so that the tagged data can be fed to and processed by core IT systems.
7 DCS & Labeling +One (DCS: Data Collection Systems)	SATO's business model that incorporates auto-ID technology (such as barcodes and RFID) with barcode printers and labels/labeling services to (a) systematically collect data on people and things at business sites and (b) offer <u>tagging/labeling</u> of information, using accurate, efficient and optimized solutions. In line with increasingly sophisticated user needs, SATO also pursues a policy of open innovation and partnerships to provide value-added "+One" technologies such as image/voice recognition, location tracking and sensors to its legacy business model to better solve customer challenges.
8 Matching data with people and things	Connecting people and things at customer sites with information. Ever since our days of pioneering in hand labelers that attached price and other information to products, this concept has remained central to SATO's business.

(\* Underlined terms are described under its own heading

## SATO Terminologies (2/4)

SATO-unique business concepts/initiatives		Description
9	Genbaryoku	Our core competency of going to customer sites to understand their operations and identify the essence of issues to offer optimized solutions. It is our ability to (1) integrate products, services and technologies into solutions, working together with strategic partners, (2) address a wide range of market, industry and application needs with our expertise in sites of operations, and (3) offer maintenance services and solutions continuously to build trust and establish lasting relationships with customers.
10	Teiho	Teiho is SATO's unique system of reports and proposals in effect since 1976. Employees share new information and ideas they come across on-site every day to top management via the Teiho system. Teiho helps top management gain immediate insight into the internal/external business situation to facilitate quick decision-making and execution of initiatives, while allowing "participation by all" in the management of the company. As Teiho reports are directly addressed to top management, it is also an effective means of compliance monitoring to prevent malpractice and other inappropriate behavior and assist in corporate governance. Some of our global offices have also started Teiho, with more to follow.
11	AAP (Area Alliance Partner)	Our initiative in Japan to segment regions into smaller divisions and form alliances with partners having strong presence in areas/industries that we have yet to cover.
Products, services, technologies		Description
1	Mechatronics	All products not <u>consumables</u> , including hardware (e.g., printers, automatic labelers, scanners, hand labelers), software and maintenance services. They generate higher gross profit margin than <u>consumables</u> . Printers are manufactured in Malaysia, Vietnam and Taiwan.
2	Consumables	"Consumable" products such as <u>variable information labels</u> , <u>RFID tags</u> , <u>primary labels</u> (product labels) and <u>ribbons</u> . They generate lower gross profit margin than <u>mechatronics</u> , but incur low SG&A expenses as they are typically sold through repeat business.
3	Auto-ID Solutions	Combination of products such as printers, labels, software and maintenance services using auto-ID technologies to carry out <u>DCS &amp; Labeling +One</u> . To meet ever complex and diverse customer challenges, SATO also looks beyond its own resources and interests by pursuing partnerships, for example, to enable location technologies to track items by tags and inventory/worker movements in real time for managing manufacturing processes and visualizing productivity on-site.

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## SATO Terminologies (3/4)

Products, services, technologies	Description
4 SOS (SATO Online Services)	<p>A cloud-based monitoring service for printers that enables preventative maintenance and on-the-spot troubleshooting.</p> <p>With SOS, users can view the status of their cloud-connected printers at a glance and manage them centrally with ease, while SATO can increase productivity of its service personnel, allowing for even small service teams (as is often the case overseas) to provide improved support.</p>
5 AEP (Application Enabled Printing)	<p>A powerful on-board intelligence which enables customization of printer operation. Printers can link to other systems on a stand-alone basis, without going through any computers.</p>
6 Variable information labels	<p>Blank or pre-printed labels used to print information elements such as barcode, product price and manufactured or expiry date that vary with every customer's site of operation. Unlike fixed information labels that are identical and printed at large quantities in a single run, variable information labels can be printed on-demand as and when needed.</p>
7 RFID (Radio Frequency Identification)	<p>A type of auto-ID technology that uses radio waves to read/write data from/to an RFID tag without making contact. RFID offers faster read rates (from reading multiple tags at the same time) and greater read range than traditional barcode technology. Also, unlike barcodes, RFID tags can be read when covered by another object or stained, and are read/write-capable to enable updates to the encoded data. Because of these key benefits, RFID can significantly improve operational efficiency.</p>
8 IDP (Inline Digital Printing)	<p>A revolutionary, direct marking technology comprised of a special heat-sensitive pigment that can be applied as a coating to virtually any substrate and exposed to a laser beam to create a color change.</p> <p>As IDP uses no ink or labels at the point of printing, it eliminates the need for labeling, minimizes stock keeping units (SKUs) and reduces waste, while shortening time spent on hardware maintenance. Besides delivering cost savings, productivity improvements and environmental benefits, IDP allows the printing of variable data for late stage customization/personalization of products and packaging, making it ideal for real-time, consumer-directed marketing. Development for multicolor capability — crucial for enhancing marketing effectiveness — is currently underway with commercialization targeted for FY 2021.</p>

## SATO Terminologies (4/4)

Key acquisitions since 2012		Description
1	Argox Information Co., Ltd. (Taiwan)	[2012] Company engaging in the development, production and sales of entry level printers.
2	Achernar S.A. (Argentina)	[2012] Company specializing in primary labels.
3	Magellan Technology Pty Ltd. (Australia)	[2013] Company from which SATO acquired its healthcare business for PJM (Phase Jitter Modulation), a highly superior RFID technology that can quickly and accurately identify large volumes of tagged items stacked or stored in any physical orientation even in the presence of metals and liquids. Now SATO Vicinity Pty Ltd.
4	Okil-Holding, JSC (Russia)	[2014] Primary labels company in which SATO acquired 75% ownership stake. X-Pack is affiliated with Okil.
5	Prakolar Rótulos Autoadesivos LTDA. (Brazil)	[2015] Company specializing in primary labels.
6	DataLase Ltd. (UK)	[2017] Company engaging in the development, production and sales of the IDP color-change pigment and related products. Now a SATO consolidated subsidiary.
Overseas subsidiary founded after 2017		Description
1	X-Pack (Russia)	[2017] A subsidiary owned 60% by SATO Holdings in Primary Labels business producing and selling shrink sleeves, in-mould labels and soft packages.
2	SATO Healthcare Switzerland AG	[2018] A subsidiary owned 100% by SATO Holdings specializing in health care.



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