Ceaseless Creativity for a Sustainable World

November 5, 2018

SATO HOLDINGS CORPORATION

FY2018 1H Financial Results
(Six Months Ended September 30, 2018)

Securities Code: 6287

Summary of Apr-Sep FY2018

Consolidated sales increased while OI jumped YoY.

Auto-ID Solutions business ▶ **Performed satisfactorily.**

Overseas : Recovery momentum continued in real terms.

Japan : Continuous drive on internal measures bore fruit amid a favorable business environment.

IDP business ▶ R&D progressed largely as planned.

Sales and OI by Business Segment (Apr-Sep)

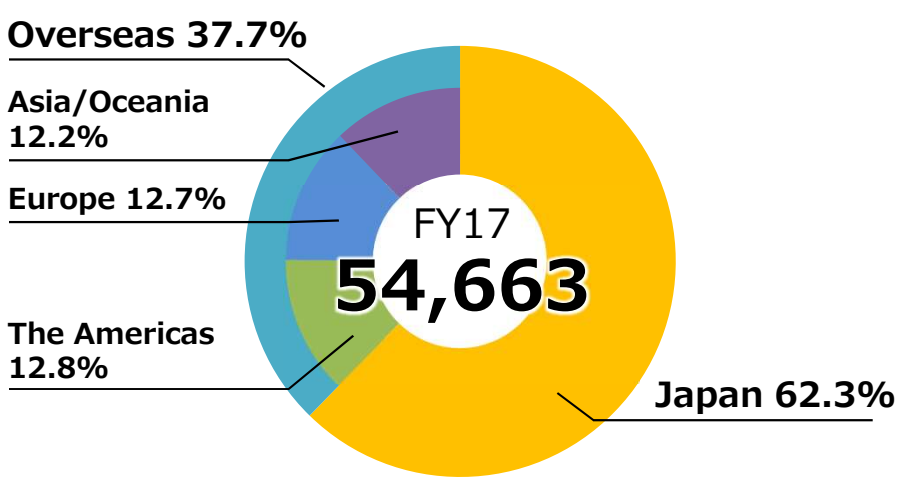
(Millions of JPY)

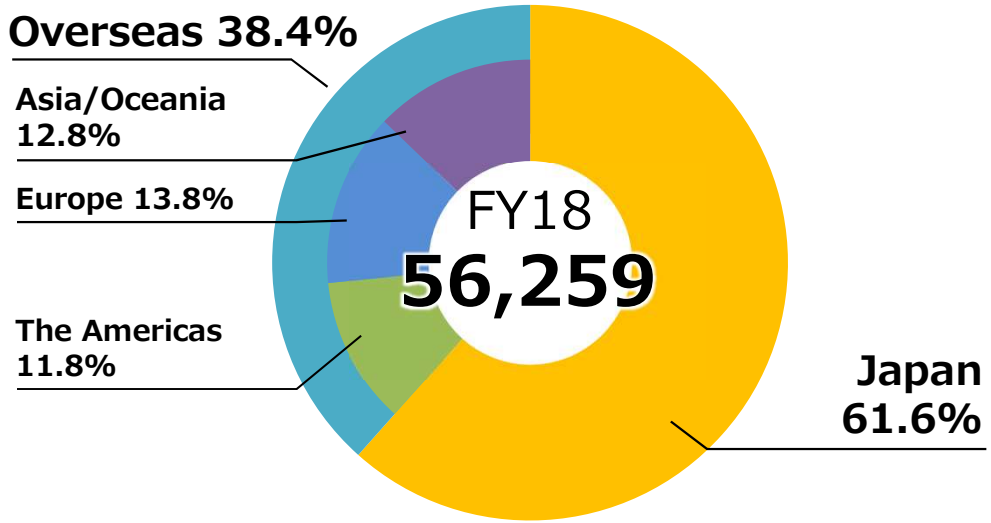
		FY2018	FY2017	YoY	excl. FX impact
Auto-ID Solutions business	**Total Sales**	**56,259**	**54,663**	**102.9%**	**104.3%**
	Operating Income	**4,051**	**3,307**	**122.5%**	**125.9%**
Overseas	Total Sales	21,597	20,604	104.8%	108.6%
	Operating Income	1,220	1,099	111.0%	112.9%
Japan	Total Sales	34,661	34,058	101.8%	101.8%
	Operating Income	2,831	2,208	128.2%	132.4%
IDP business	**Total Sales**	**230**	**160**	**143.8%**	**141.0%**
	Operating Income	**-676**	**-745**	**--**	**--**
Consolidated (incl. eliminations)	**Total Sales**	**56,489**	**54,823**	**103.0%**	**104.4%**
	Operating Income	**3,343**	**2,556**	**130.8%**	**135.8%**

Auto-ID Solutions Business
Sales and OI by Region (Apr-Sep)

(Millions of JPY)

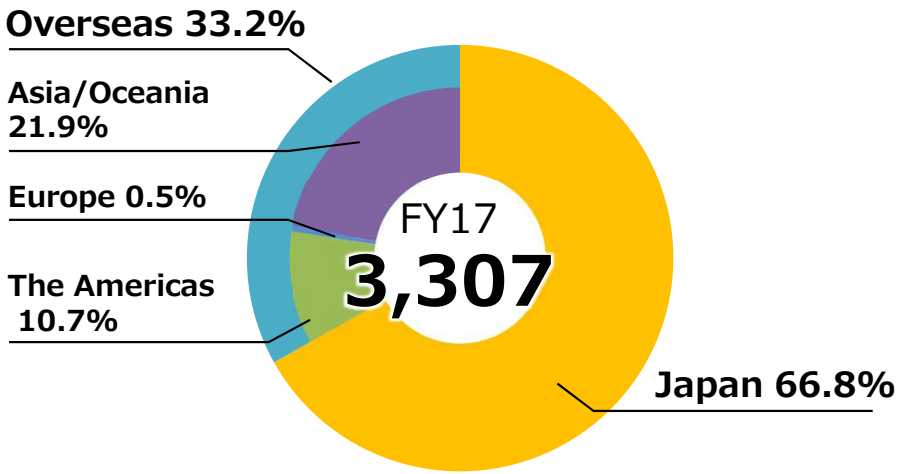
Sales

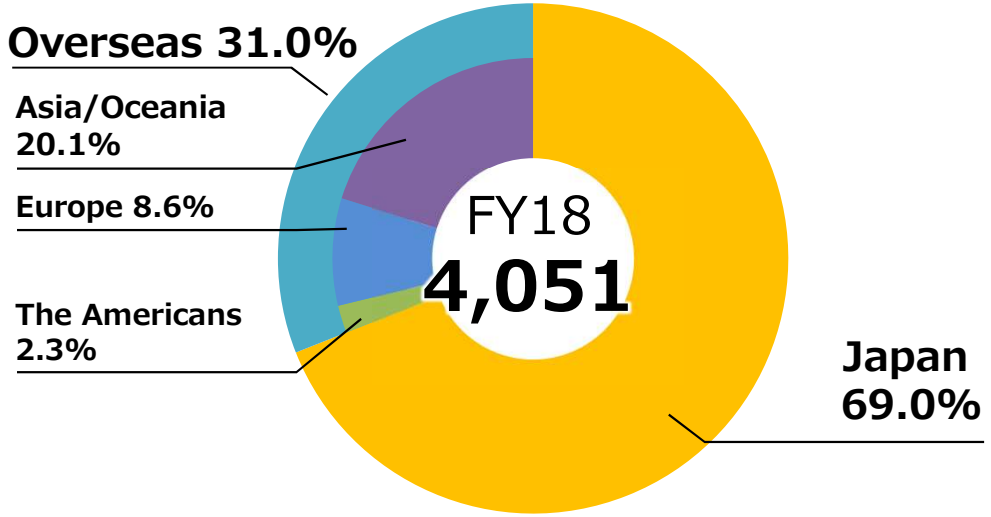




Operating Income

*Ratio excludes elimination.





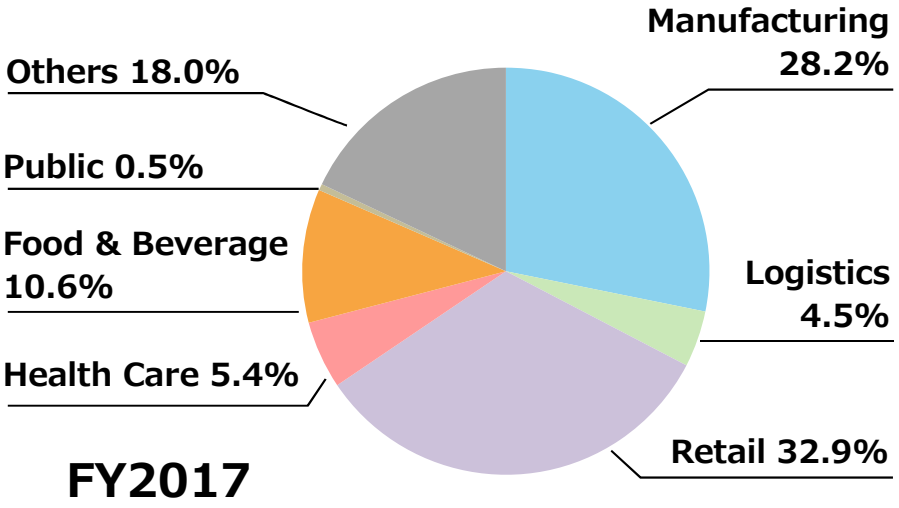
OI ratio: **Japan : 6.5%, Overseas: 5.3%**

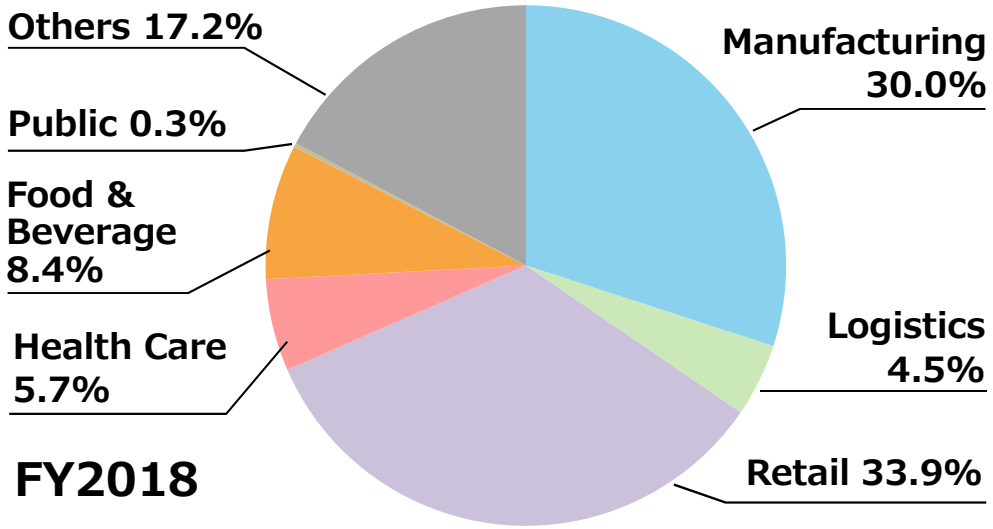
OI ratio: **Japan : 8.2%, Overseas: 5.7%**

Auto-ID Solutions Business
Sales by Vertical (Apr-Sep)

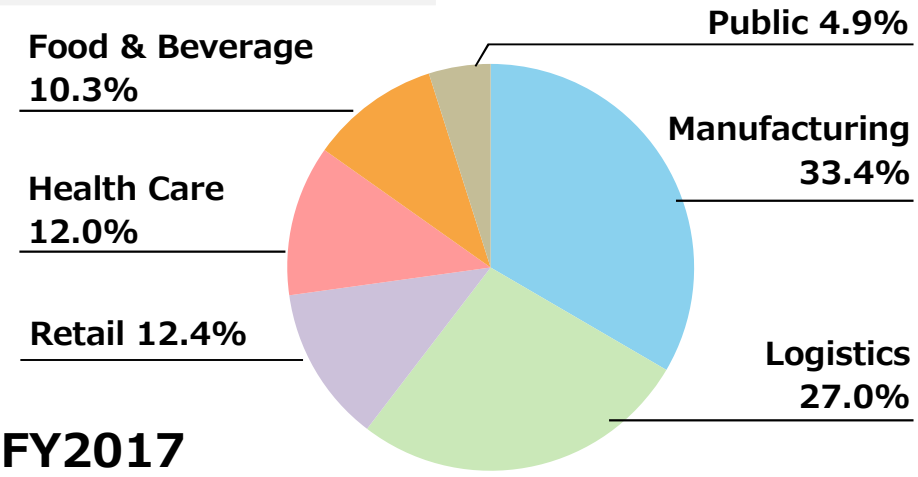
Overseas

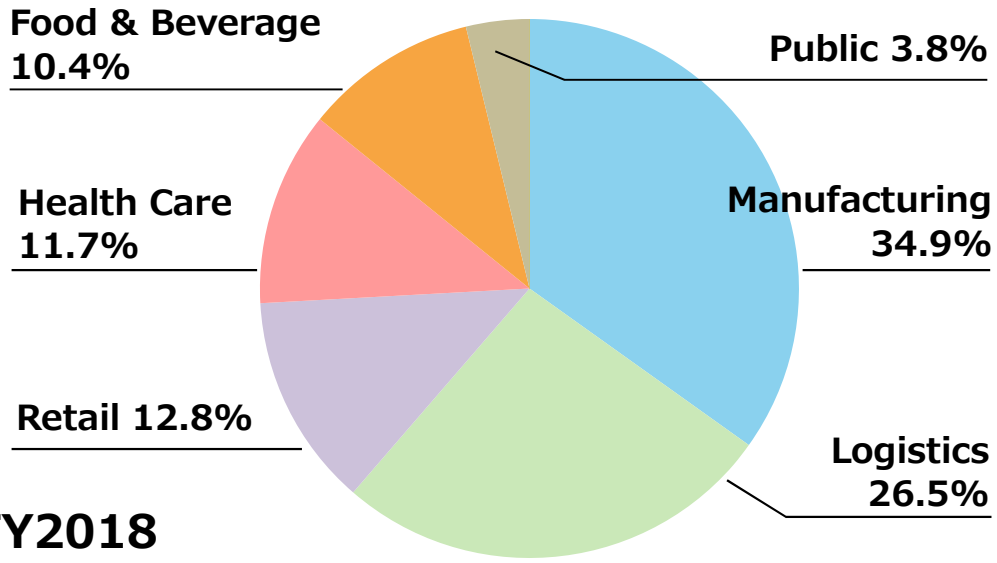
* Main sales subsidiaries. Factories & primary label companies are not included.





Japan





Consolidated Results (Apr-Sep)

(Millions of JPY)

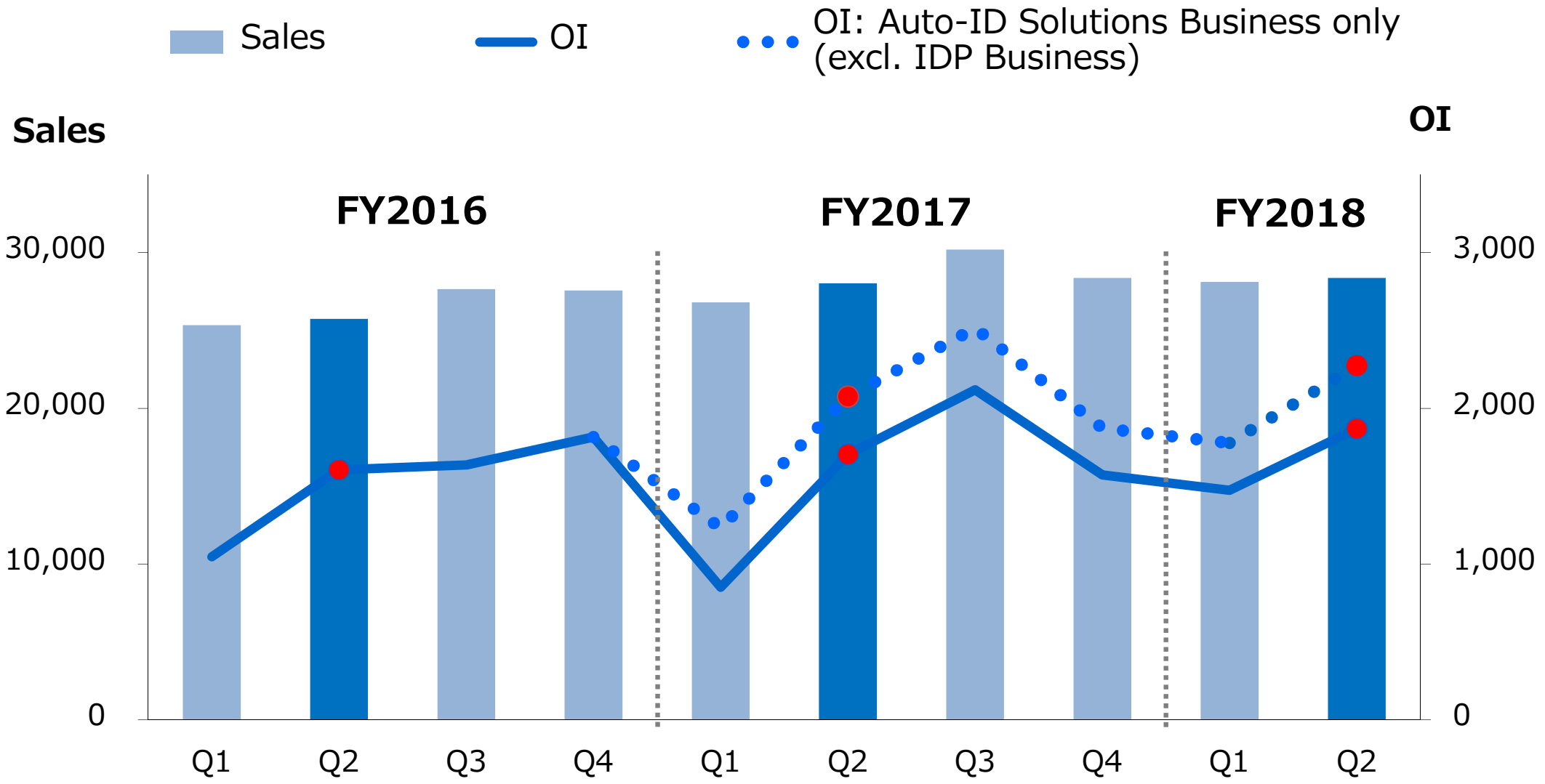
	FY2018	FY2017	Change	YoY
Net Sales	56,489	54,823	+1,665	103.0%
Operating Income	3,343	2,556	+787	130.8%
Operating Income %	5.9%	4.7%	+1.3pt	--
Ordinary Income	3,190	2,369	+821	134.7%
Profit attributable to owners of parent*1	1,919	2,413	-493	79.6%
Effective Tax Rate*2	39.3%	43.4%	-4.1pt	
EBITDA*3	6,096	5,318	+778	114.6%

Average exchange rates (Apr-Sep): FY18: JPY 110.26/USD, JPY 129.78/EUR, FY17: JPY 111.04/USD, JPY 126.31/EUR
FX sensitivity for FY18: JPY +435 million in sales and JPY -11 million in OI, for +1 JPY against USD and assuming all others move by the same ratio

*1 Profit attributable to owners of parent for Apr-Sep FY17 reflected extraordinary income from gain on sales of non-current assets.
*2 Effective Tax Rate for Apr-Sep FY17 was high due mainly to additional goodwill impairment at Argox.
*3 EBITDA = Operating Income + Depreciation + Amortization
・Depreciation for Apr-Sep FY18: JPY 2,186 million Apr-Sep FY17: JPY 2.097 million
・Amortization for Apr-Sep FY18: JPY 566 million (incl. 312 mil. for DataLase) Apr-Sep FY17: JPY 664 million (incl.305 mil. for DataLase)

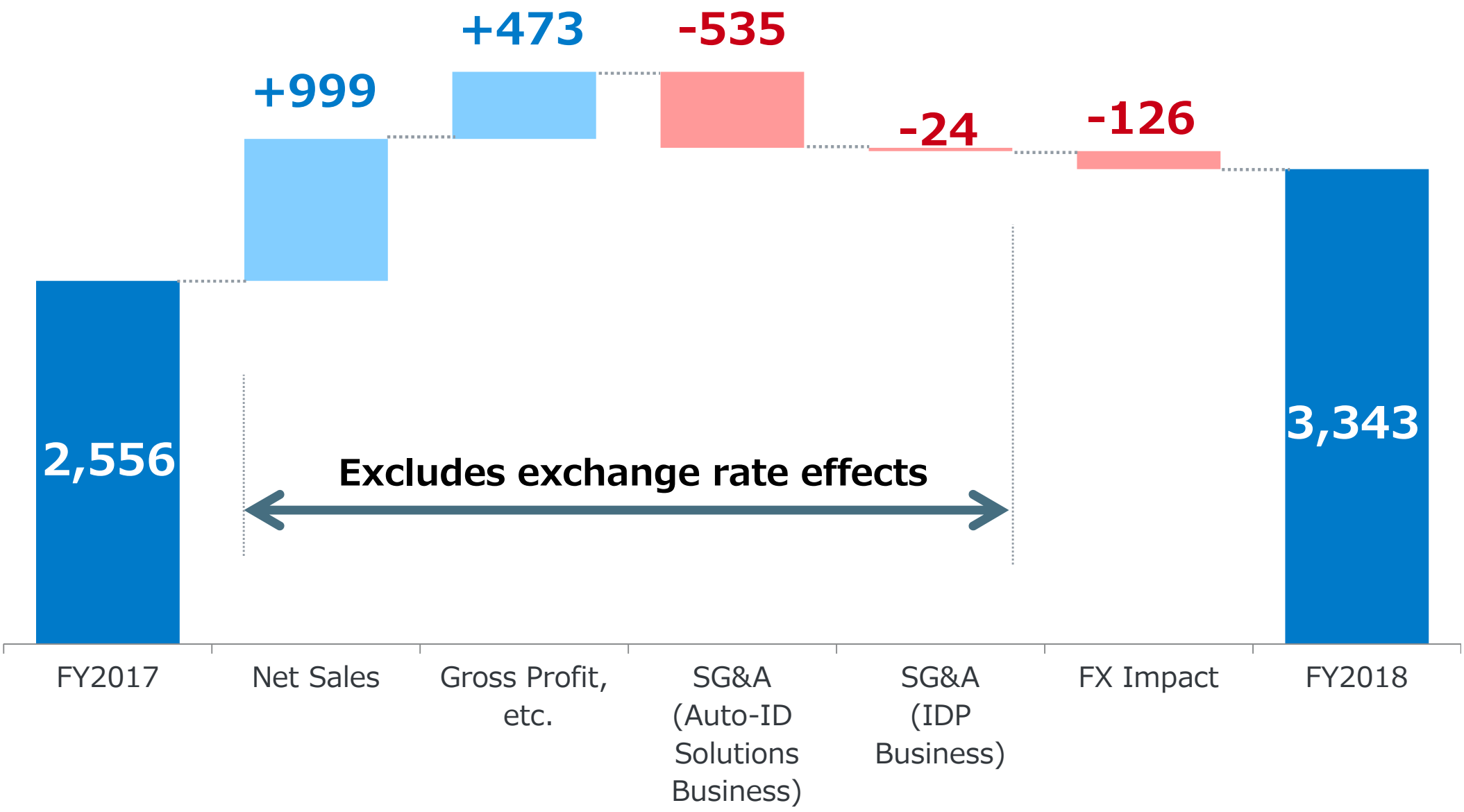
Quarterly Consolidated Sales & OI

(Millions of JPY)



Major Gains/Losses in Consolidated OI （Apr-Sep）

(Millions of JPY)

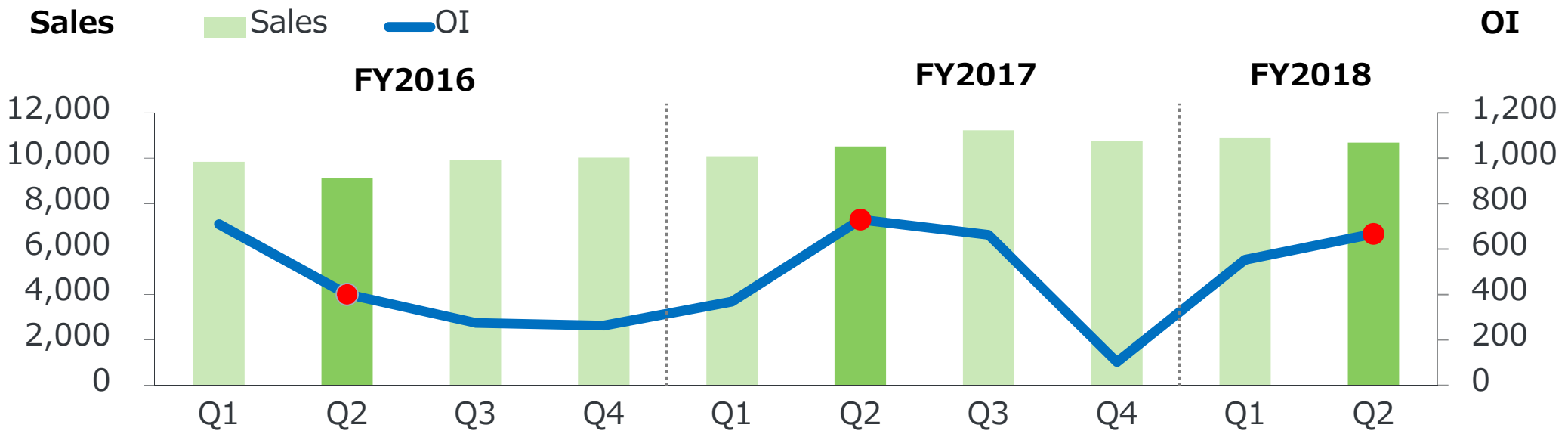


Auto-ID Solutions Business (Overseas) (Apr-Sep)

Recovery momentum continued in real terms.

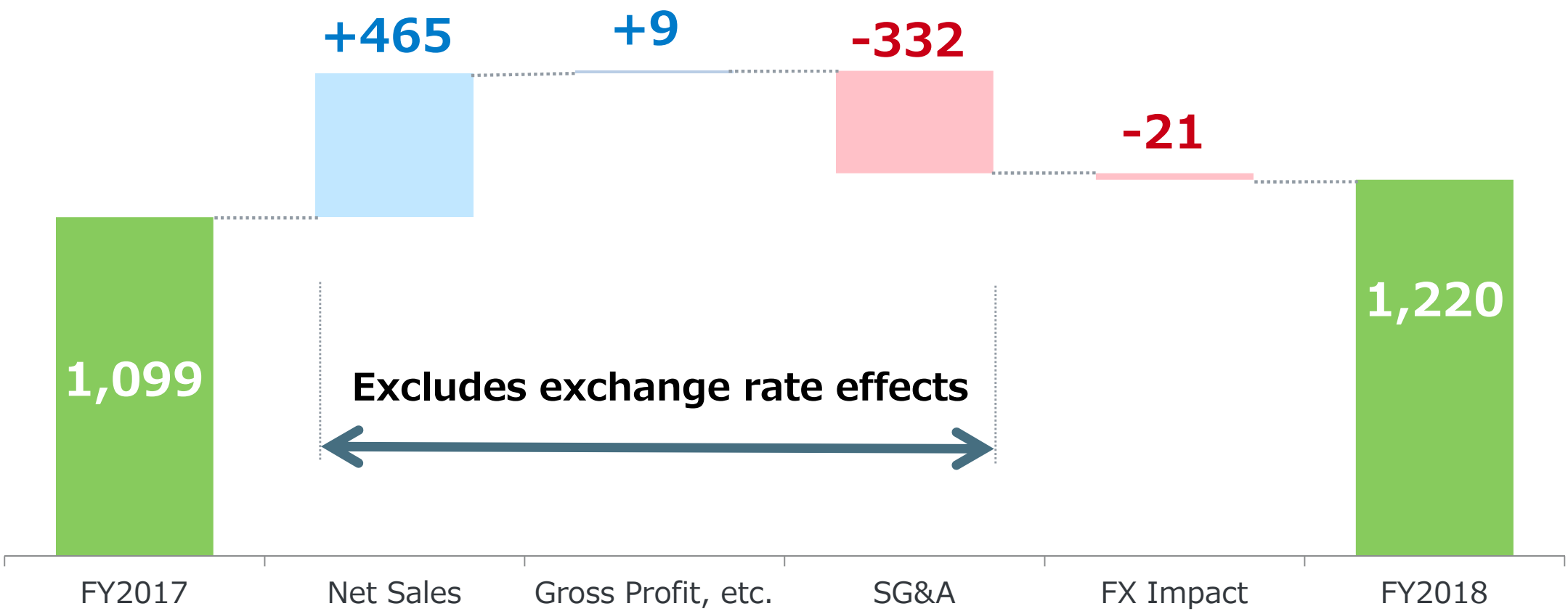
(Millions of JPY)

	FY2018	FY2017	Change	YoY	excl. FX impact
Total Sales	**21,597**	**20,604**	**+992**	**104.8%**	**108.6%**
Gross Profit	8,057	7,797	+260	103.3%	--
Gross Profit %	37.3%	37.8%	-0.5pt	--	--
Operating Income	**1,220**	**1,099**	**+120**	**111.0%**	**112.9%**
Operating Income %	5.7%	5.3%	+0.3pt	--	--



Auto-ID Solutions Business (Overseas)
Major Gains/Losses in OI (Apr-Sep)

(Millions of JPY)



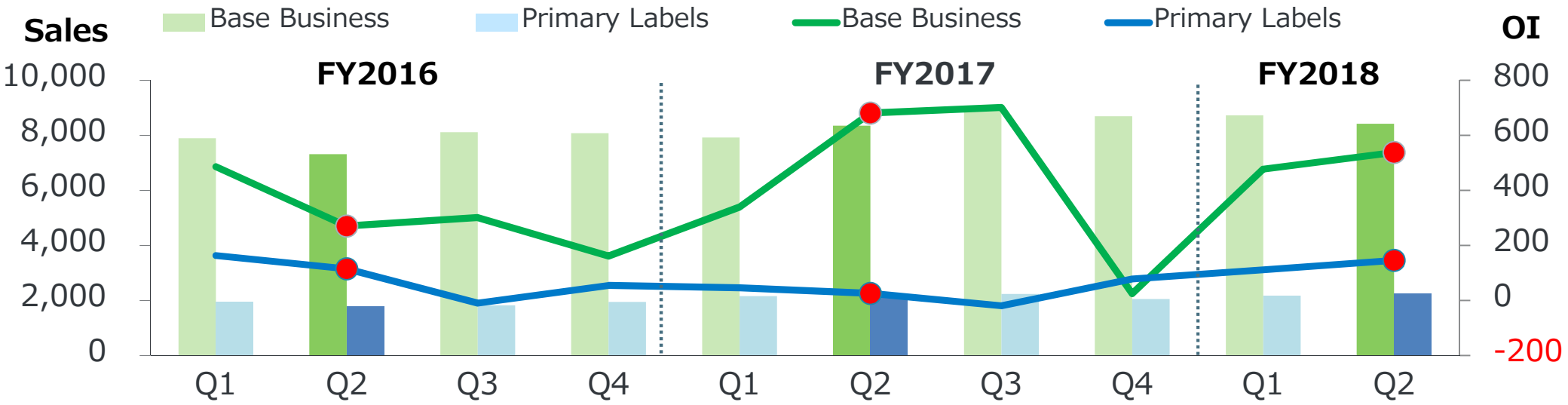
Auto-ID Solutions Business

(Overseas Breakdown by Business Segment) (Apr-Sep)

Base business: Europe and APAC saw sales and OI increase YoY. Sales and OI fell in the Americas but OI grew in real terms, disregarding the one-off accounting at SGS in FY17.
Primary Labels business: Sales and OI increased YoY largely due to positive FX impact at Okil.

(Millions of JPY)

		FY2018	FY2017	Change	YoY	excl. FX impact
Base Business	Total Sales	17,152	16,281	+871	105.4%	105.9%
	Operating Income	1,015	1,022	-7	99.3%	98.3%
Primary Labels	Total Sales	4,444	4,323	+121	102.8%	118.9%
	Operating Income	259	72	+186	355.5%	398.5%
Eliminations	Operating Income	-54	4	-58	--	--

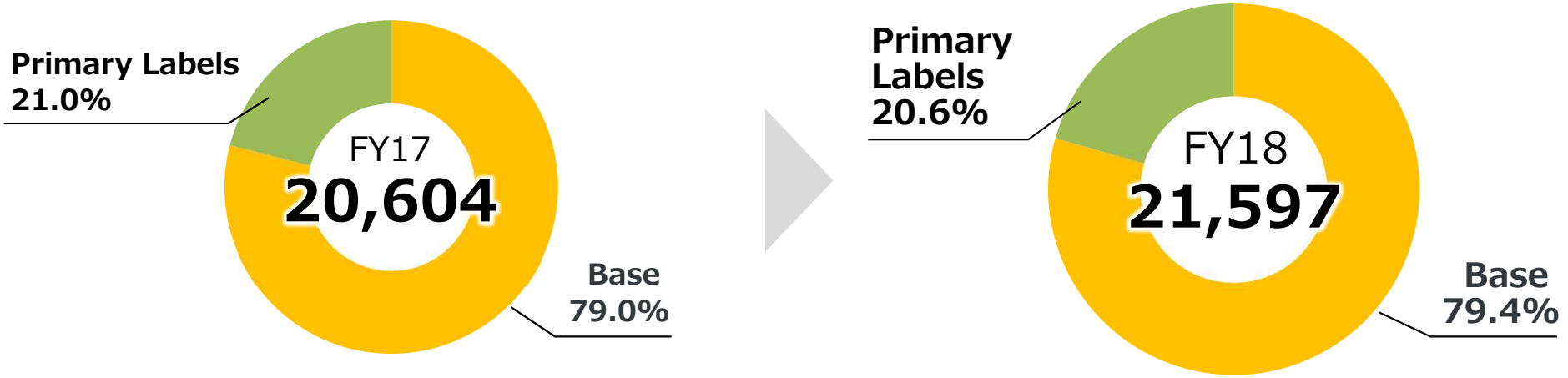


Auto-ID Solutions Business

(Overseas Breakdown of Sales and OI by Business Segment) (Apr-Sep)

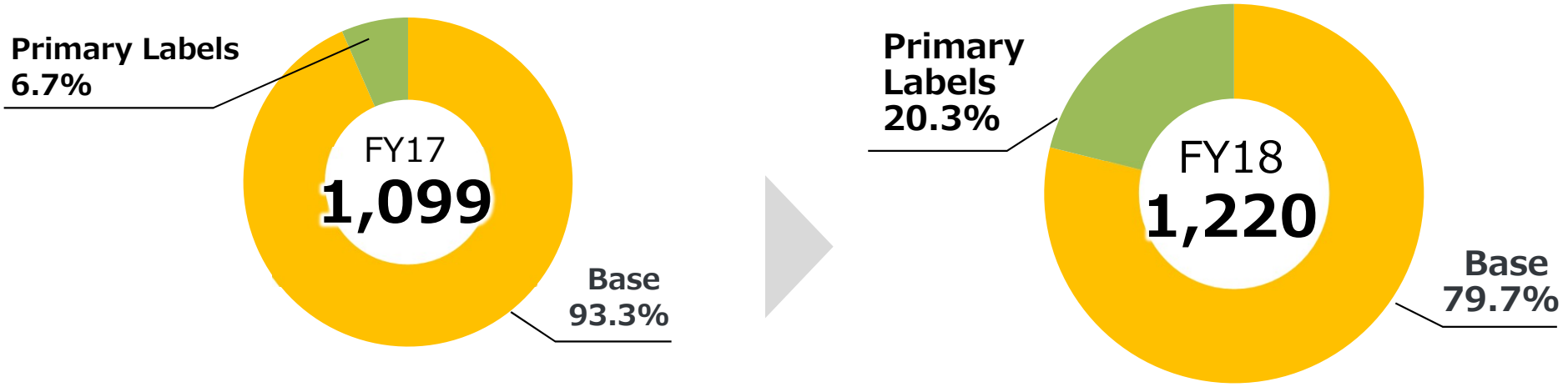
(Millions of JPY)

Sales



Operating Income

*Ratio excludes elimination.



OI ratio: **Base : 6.3%, Primary Labels: 1.7%**

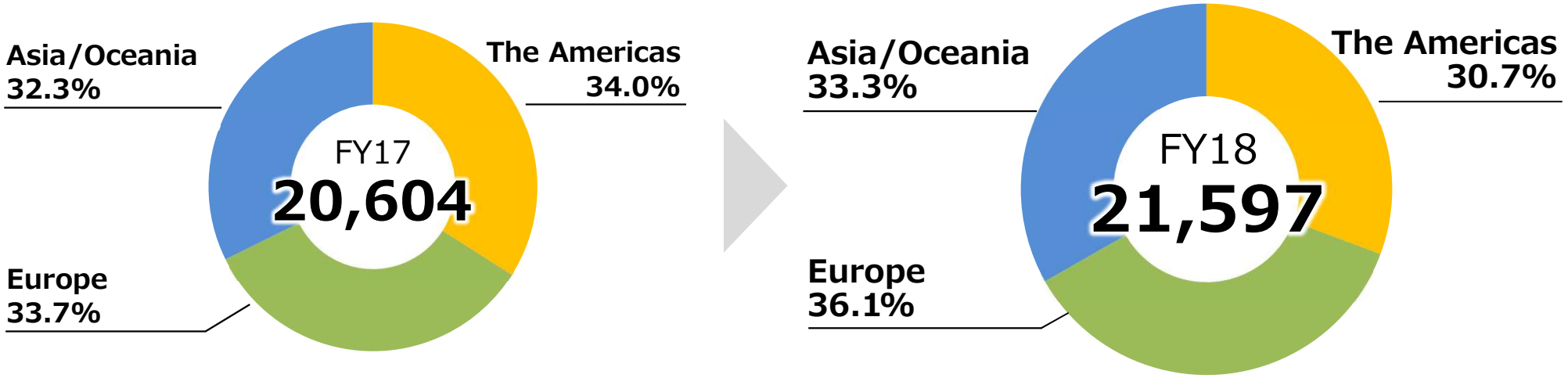
OI ratio: **Base : 5.9%, Primary Labels: 5.8%**

Auto-ID Solutions Business

(Overseas Breakdown of Sales and OI by Region) (Apr-Sep)

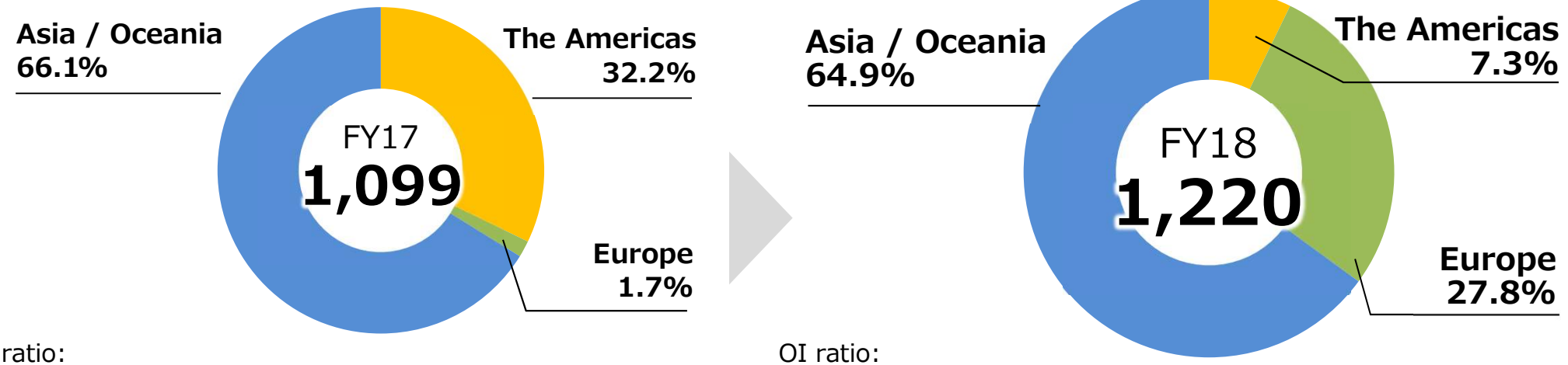
(Millions of JPY)

Sales



Operating Income

*Ratio excludes elimination.



OI ratio:
The Americas : 5.0%, Europe: 0.3%, Asia/Oceania: 10.9%

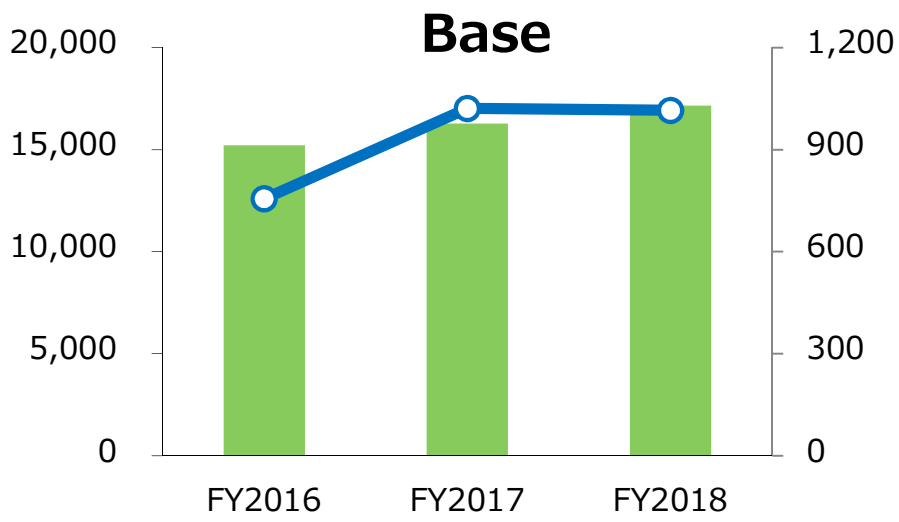
OI ratio:
The Americas : 1.4%, Europe: 4.6%, Asia/Oceania: 11.5%

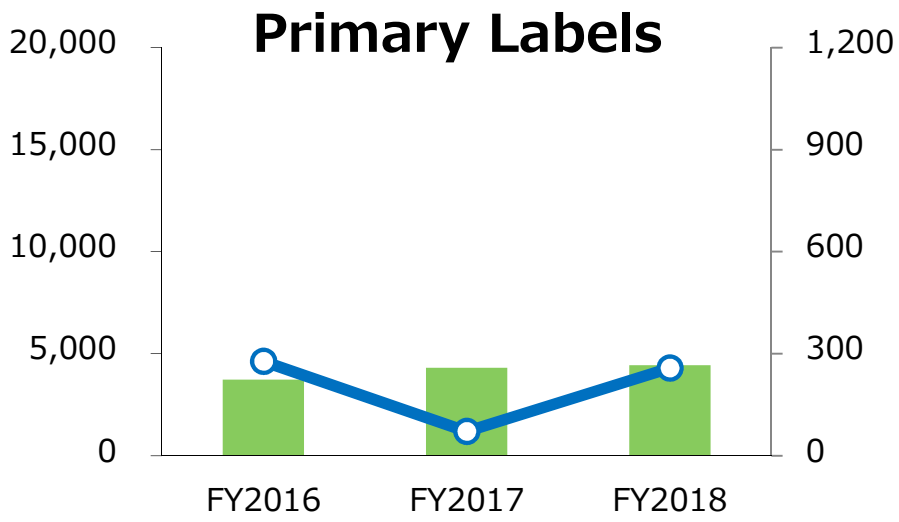
Auto-ID Solutions Business

(Overseas Sales and OI by Business Segment and by Region) (Apr-Sep)

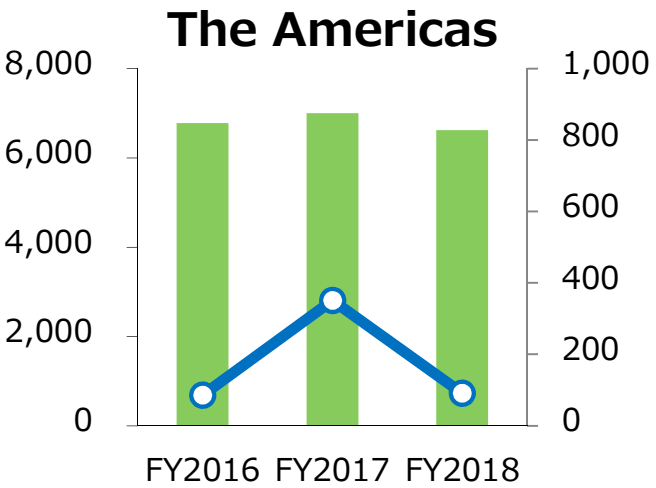
By Business Segment

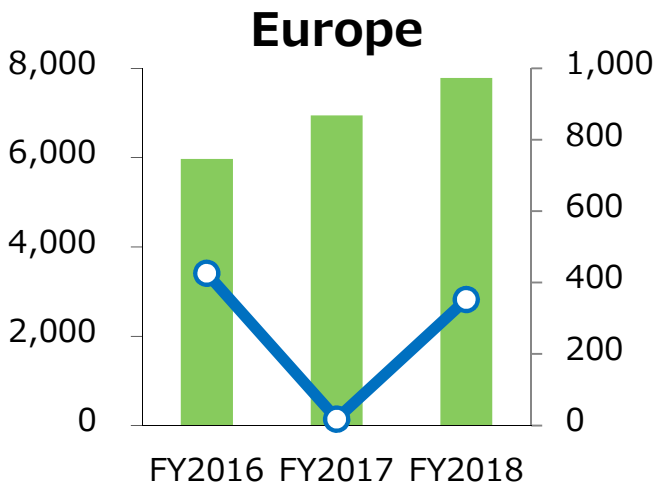


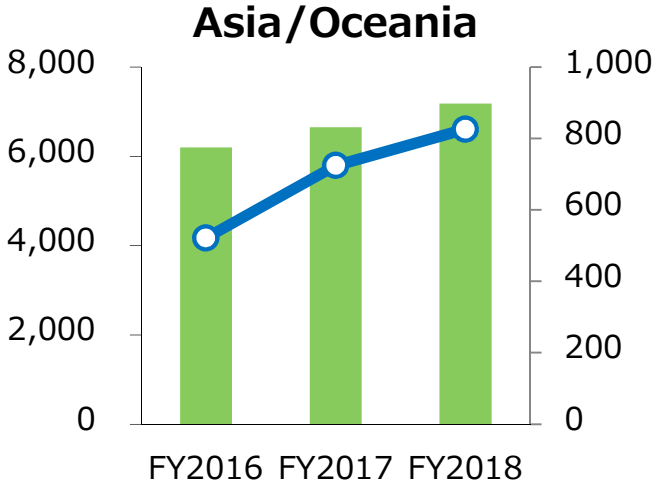




By Region







Auto-ID Solutions Business

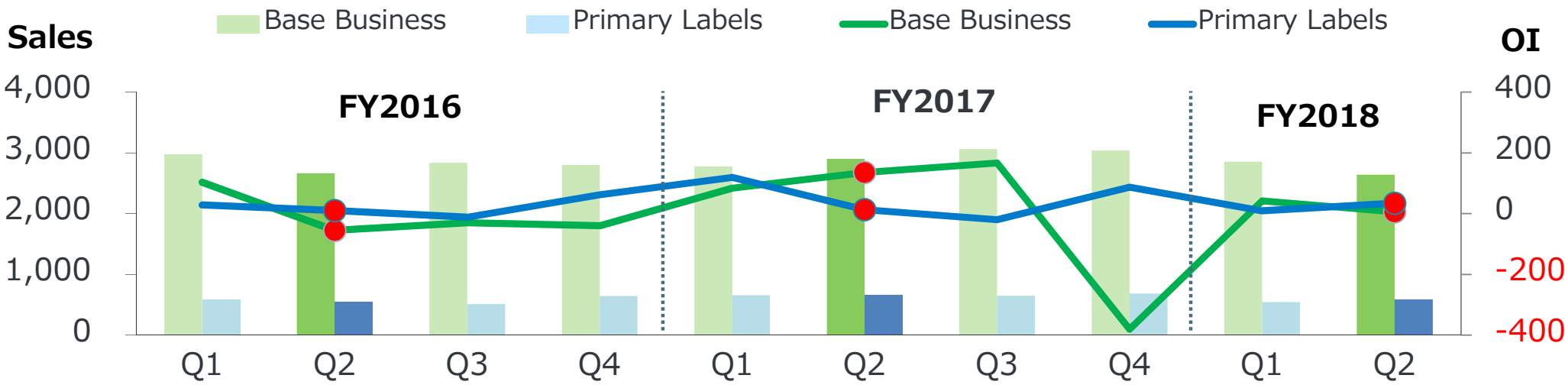
(Overseas Breakdown by Region: The Americas) (Apr-Sep)

Base business: Sales decreased YoY due mainly to a slowdown in demand from a major SAL client, while OI fell as R&D expenses at SGS were booked to Japan in FY17. Disregarding the one-off accounting, OI increased in real terms.

Primary Labels business: Adverse macroeconomic trends and one-off, high-margin sales in FY17 at Prakolar translated to decreases in sales and OI YoY.

(Millions of JPY)

		FY2018	FY2017	Change	YoY	excl. FX impact
Base Business	**Total Sales**	**5,495**	**5,679**	**-184**	**96.8%**	**99.6%**
	Operating Income	**49**	**219**	**-170**	**22.5%**	**28.0%**
Primary Labels **• Achernar** **• Prakolar**	**Total Sales**	**1,130**	**1,324**	**-193**	**85.4%**	**111.8%**
	Operating Income	**43**	**133**	**-89**	**32.8%**	**39.5%**



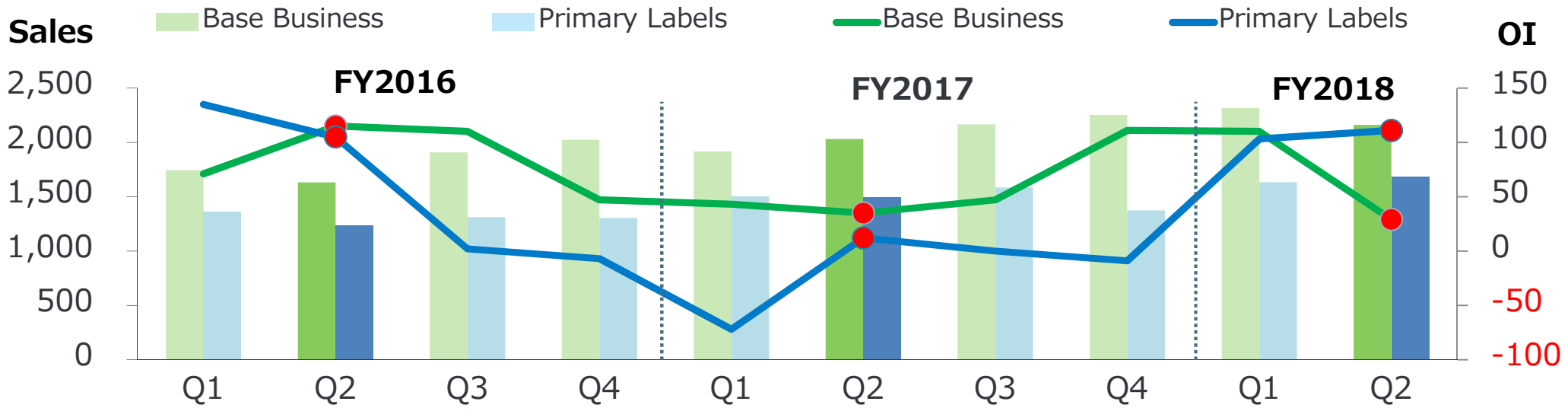
Auto-ID Solutions Business
(Overseas Breakdown by Region: Europe) (Apr-Sep)

Base business: Recovery momentum remained although short-term performances of each country varied.
Primary Labels business: Positive FX impact at Okil led to increases in sales and OI YoY.

(Millions of JPY)

*X-Pack: A Russian subsidiary owned 60% by SATO Holdings. Produces and sells shrink sleeves, in-mould labels and soft packages.

		FY2018	FY2017	Change	YoY	excl. FX impact
Base Business	Total Sales	4,475	3,949	+526	113.3%	110.4%
	Operating Income	139	78	+60	177.3%	173.4%
Primary Labels • Okil • X-Pack*	Total Sales	3,314	2,999	+314	110.5%	122.0%
	Operating Income	215	-60	+275	--	--



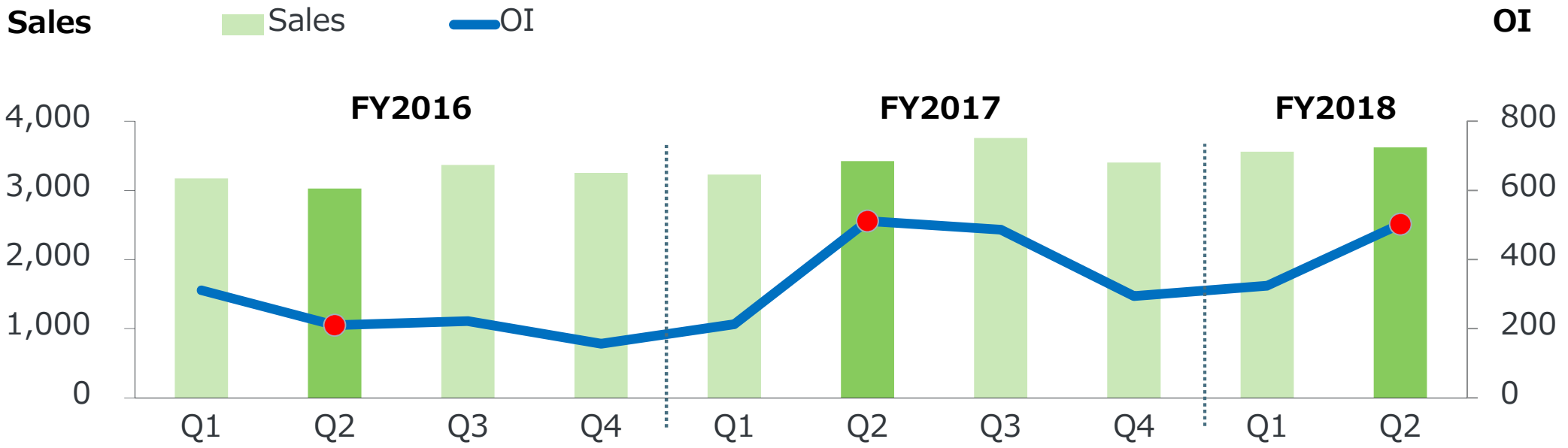
Auto-ID Solutions Business

(Overseas Breakdown by Region: Asia/Oceania) (Apr-Sep)

Base business: China and India saw robust performances. Business in India turned profitable. Transition from selling products to providing solutions progressed thanks to an improved mindset in the region to sell solutions.

(Millions of JPY)

		FY2018	FY2017	Change	YoY	excl. FX impact
Base Business	**Total Sales**	**7,181**	**6,652**	**+529**	108.0%	108.5%
	Operating Income	**827**	**724**	**+102**	114.1%	111.5%

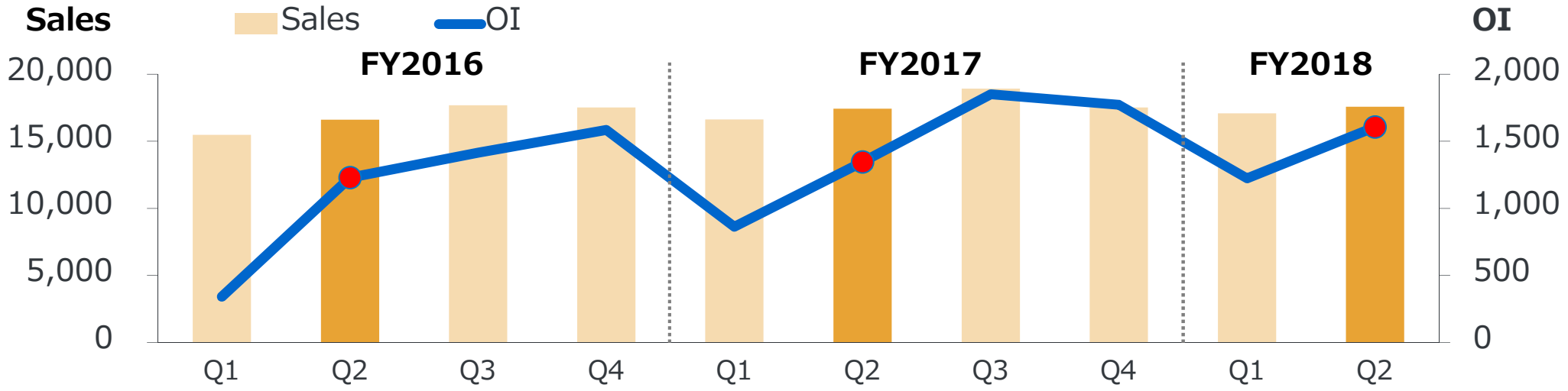


Auto-ID Solutions Business (Japan) (Apr-Sep)

Continuous drive on internal measures bore fruit amid a favorable business environment.

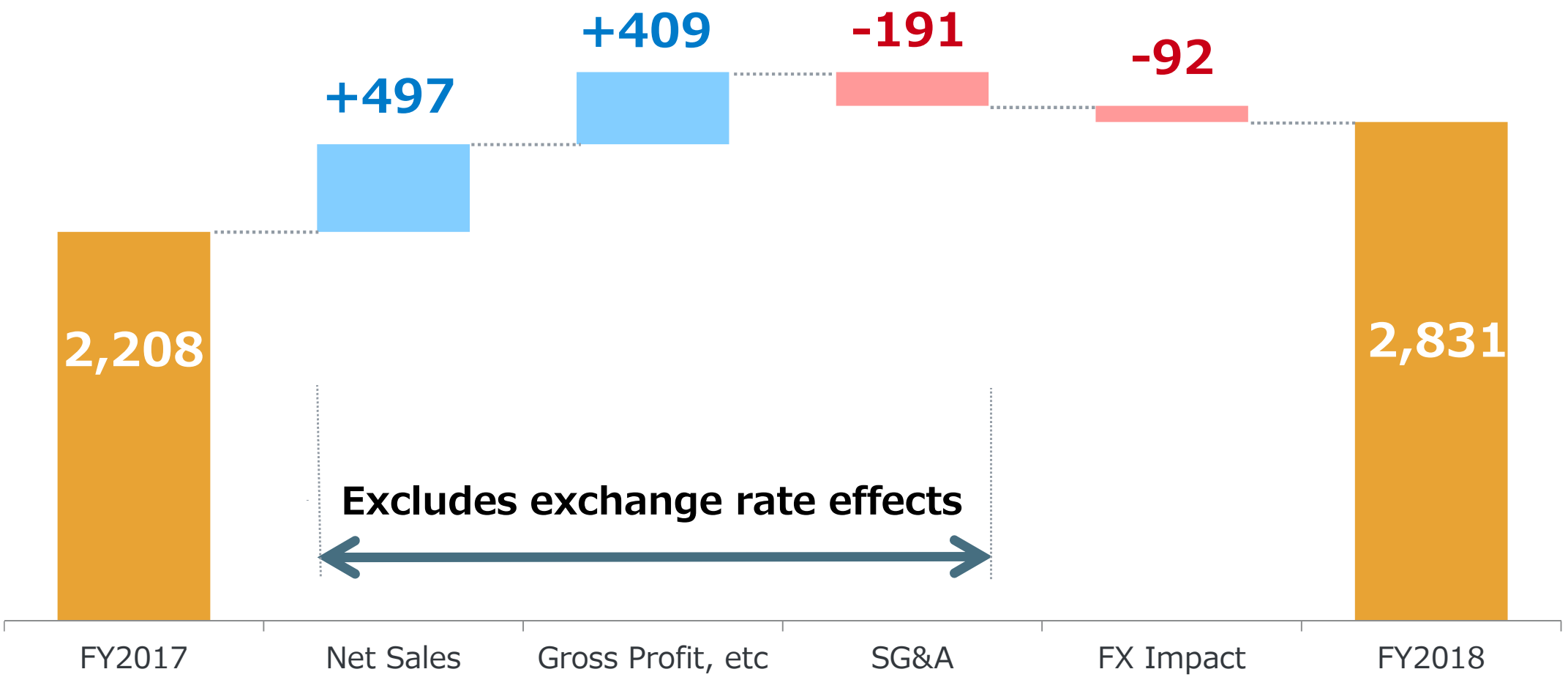
(Millions of JPY)

	FY2018	FY2017	Change	YoY
Mechatronics Sales	13,217	12,920	+297	102.3%
Consumables Sales	21,443	21,138	+305	101.4%
Total Sales	**34,661**	**34,058**	**+602**	**101.8%**
Gross Profit	17,269	16,455	+814	105.0%
Gross Profit %	49.8%	48.3%	+1.5pt	--
Operating Income	**2,831**	**2,208**	**+623**	**128.2%**
Operating Income %	8.2%	6.5%	+1.7pt	--



Auto-ID Solutions Business (Japan)
Major Gains/Losses in OI (Apr-Sep)

(Millions of JPY)

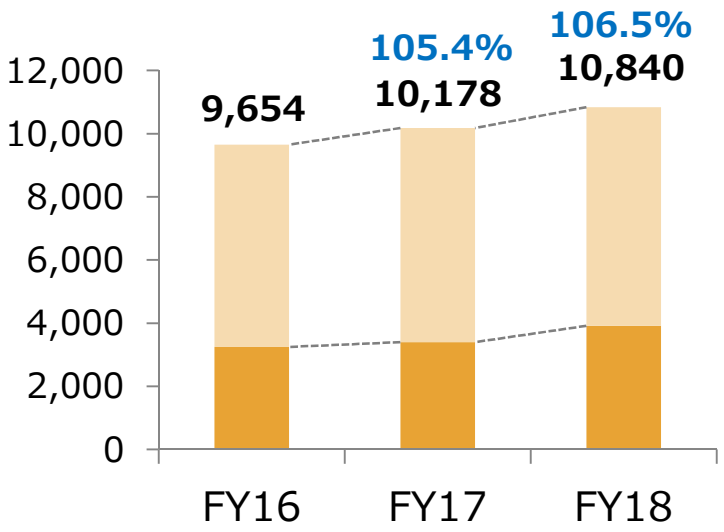


Auto-ID Solutions Business (Japan)
Sales by Vertical (Apr-Sep) [1]

(Millions of JPY)

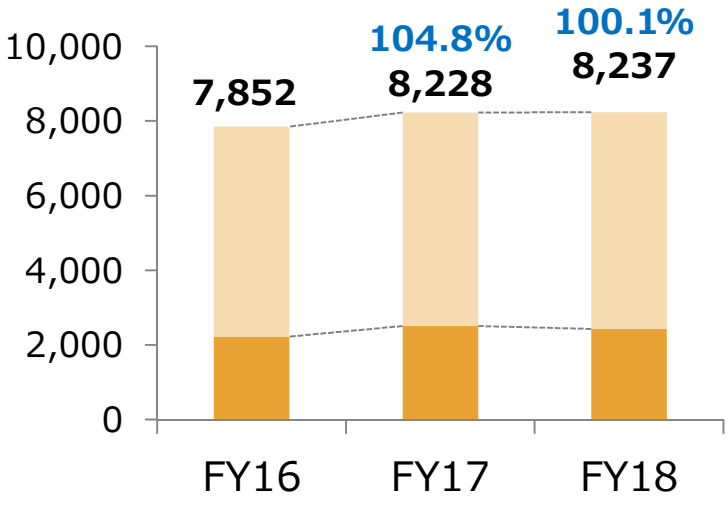
■ : Mechatronics ■ : Consumables *Figures are total sales; % indicates YoY change

Manufacturing



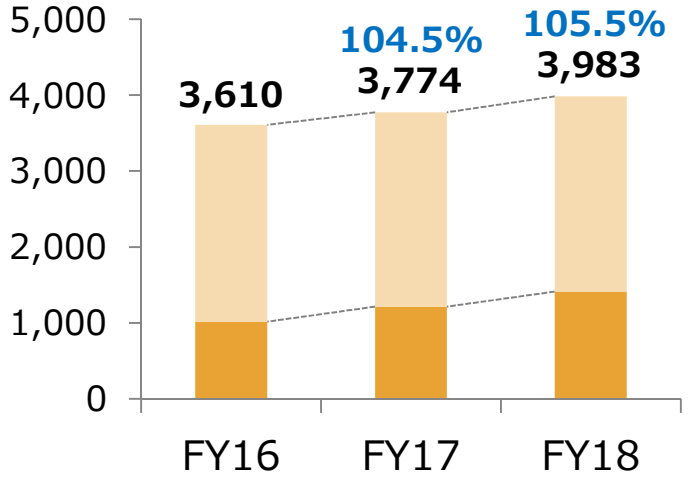
- Production adjustments at machine tool manufacturers negatively impacted sales in consumables, while sales in mechatronics was robust due to steady CAPEX spending.
- Our solution approach meeting the growing demand for automation and visibility in automotives and other industries turned out to be successful.

Logistics



- Business environment remained favorable reflecting e-commerce expansion and labor shortages.
- Proposals for automation and efficiency using auto-labelers and warehouse navigation systems were well received.

Retail



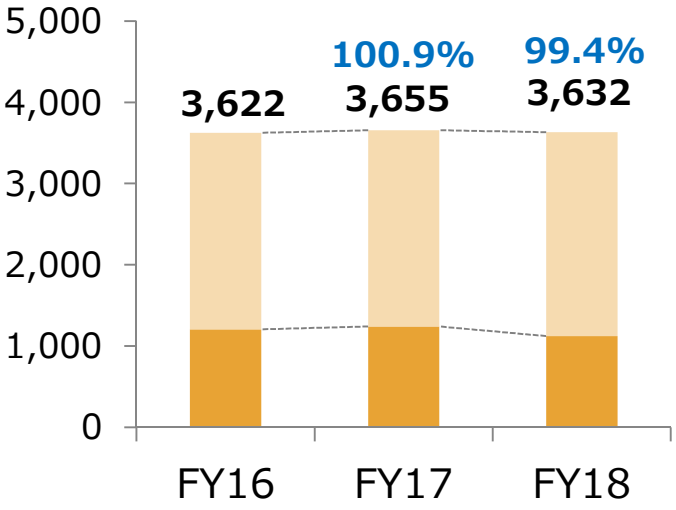
- Business environment remained favorable due mainly to growths in e-commerce and RFID application in the apparel industry, and to stricter hygiene requirements in supermarkets.
- Printer-replacement orders and solution proposals to meet the stricter requirements drove sales.

Auto-ID Solutions Business (Japan)
Sales by Vertical (Apr-Sep) [2]

(Millions of JPY)

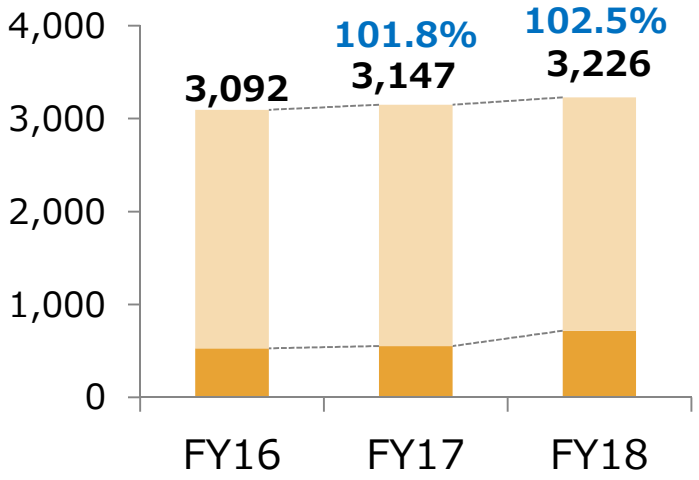
■ : Mechatronics ■ : Consumables *Figures are total sales; % indicates YoY change

Health Care



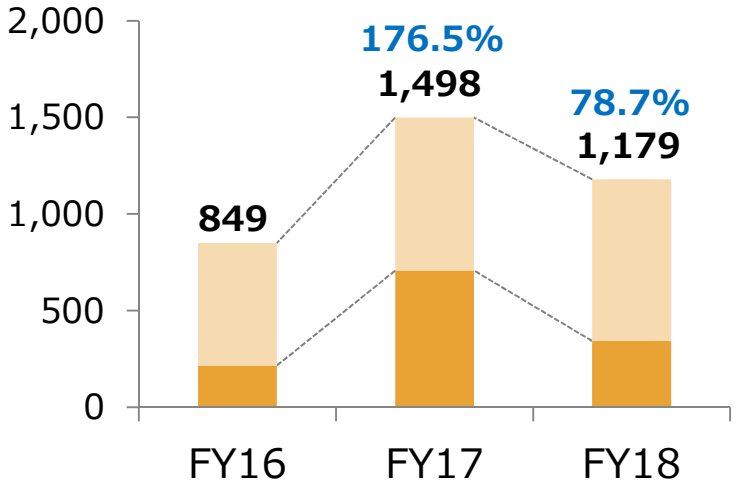
- Business environment remained favorable as UDI* guidelines were applied on medical devices and labor shortage continued.
- Even without a volume order as seen in FY17, sales maintained YoY levels owing to initiatives such as genuine labels promotion.

Food & Beverage



- Business environment remained favorable as the industry sought compliance to the amended Food Labeling Act and hygiene standards, and automation at warehouses.
- Printer-replacement orders and measures to diversify customer channels (e.g., legal seminars) drove sales.

Public



- No significant change was seen in the business environment.
- A large printer order in FY17 from a customer did not repeat, but their purchase of logistics labels stayed buoyant with increased delivery of goods.

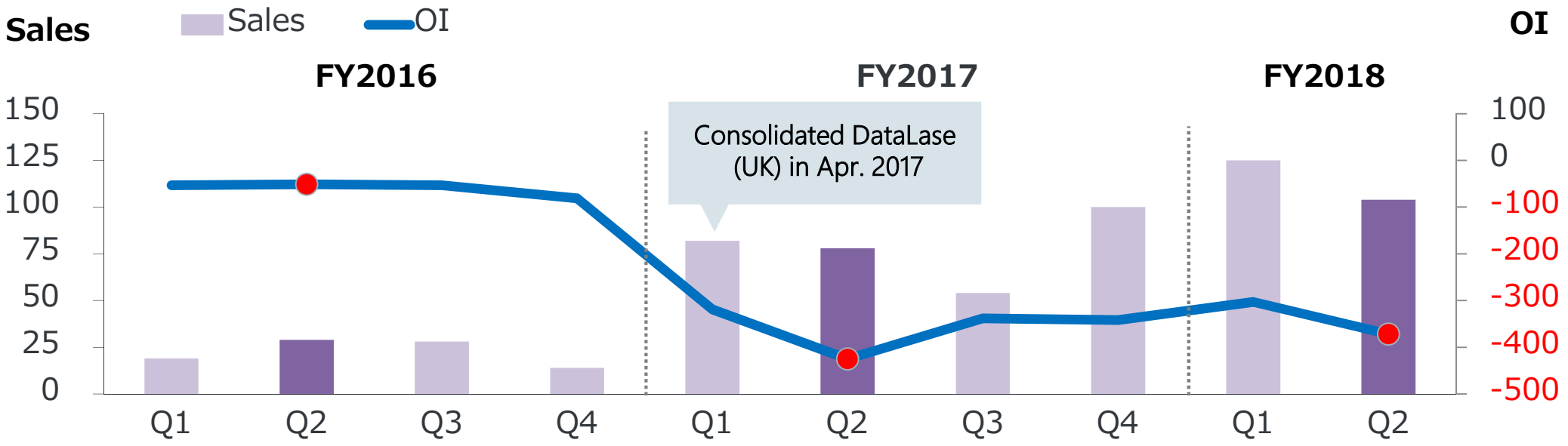
*Unique Device Identification

IDP Business (Apr-Sep)

R&D progressed largely as planned.

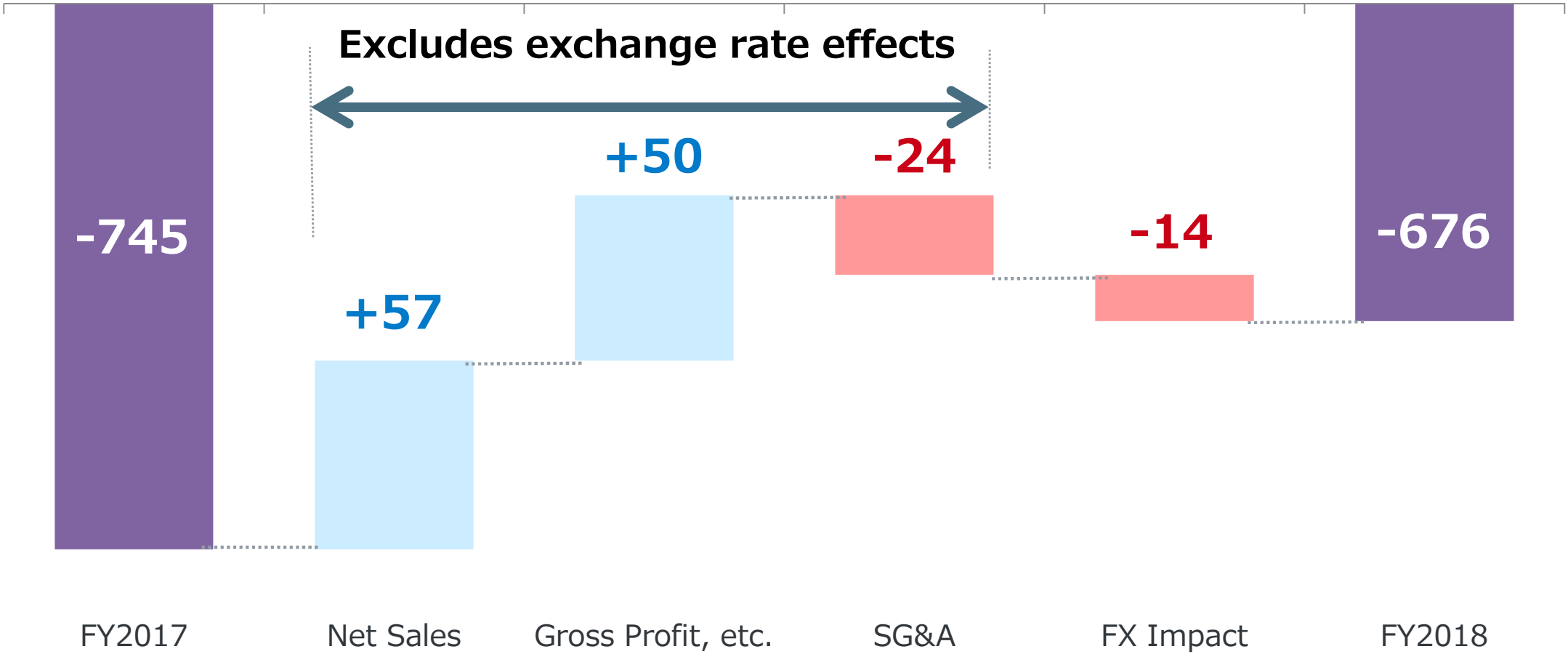
(Millions of JPY)

	FY2018	FY2017	Change	YoY	excl. FX impact
Total Sales	**230**	**160**	**+70**	**143.8%**	**141.0%**
Gross Profit	231	120	+110	191.3%	--
Gross Profit %	100.4%	75.5%	+24.9pt	--	--
Operating Income	**-676**	**-745**	**+68**	**--**	**--**
Operating Income %	--	--	--	--	--



IDP Business
Major Gains/Losses in OI (Apr-Sep)

(Millions of JPY)



FY2018 Consolidated Forecasts

(Millions of JPY)

	1H		2H		Full Year	
	Forecast	YoY	Forecast	YoY	Forecast*	YoY
Net Sales	56,489	103.0%	60,510	103.3%	117,000 (120,000)	103.2%
Operating Income	3,343	130.8%	4,256	115.2%	7,600 (7,300)	121.6%
Ordinary Income	3,190	134.7%	4,209	119.6%	7,400 (7,100)	125.7%
Profit attributable to owners of parent	1,919	79.6%	2,380	143.2%	4,300 (4,100)	105.5%
	<Reference>					
EBITDA**	11,814	←FY2017 full year			13,300 (13,000)	112.6%

*Figures in parentheses are forecasts announced as of May 8, 2018.

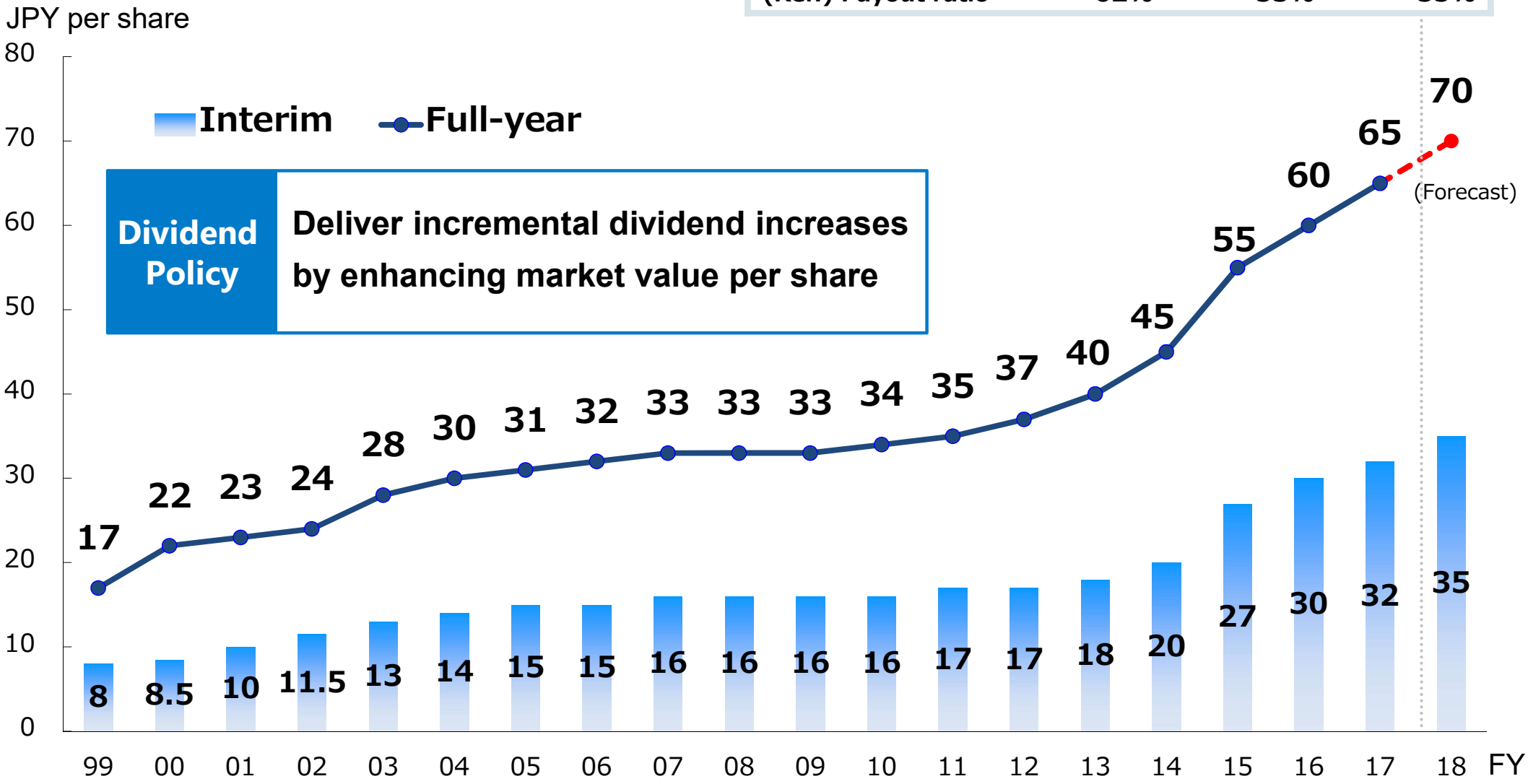
**EBITDA=Operating Income + Depreciation + Amortization

Exchange rates assumed in FY18 forecast: JPY 110/USD, JPY 130/EUR
Average exchange rates for Apr-Sep FY18: JPY 110.26/USD, JPY 129.78/EUR
Average exchange rates for FY17 : JPY 110.85/USD, JPY 129.65/EUR

Dividends

Interim dividend payment of 35 yen is scheduled as planned.

	FY2016	FY2017	FY2018 (Forecast)
EPS	¥96.1	¥121.5	¥128.2
ROE	6.2%	7.6%	7.7%
(Ref.) Payout ratio	62%	53%	55%



Appendix

SATO Terminologies P.26 – P.29

SATO Terminologies (1/4)

SATO-unique business concepts/initiatives		Description
1	Auto-ID Solutions business	Our business that carries out DCS & Labeling +One. It is specifically about integrating barcode printers/labels, software and services designed in-house and products from partners to resolve customers' worksite issues. It involves matching data with people and things by tagging them with variable information. It breaks down into Overseas and Japan businesses. The latter is made up of Base and Primary Labels businesses.
2	Auto-ID Solutions business overseas: Base business and Primary Labels business	The overseas segment of our Auto-ID Solutions business is made up of Base business (tagging variable information at worksites) and Primary Labels business (handles fixed information, i.e., labels on products such as beverages and everyday goods.) The Primary Labels business consists of Achernar (Argentina), Prakolar (Brazil), Okil (Russia) and X-Pack (Russia).
3	IDP business	Develops, manufactures and sells special materials used mainly in Inline Digital Printing. A reporting segment established new in FY 2017 as "Materials business", it was renamed to "IDP business" in FY 2018 to reflect our focus on IDP technology.
4	Tagging	The physical process of attaching identifier data to things and people. SATO is committed to tagging a diverse range of objects handled by different businesses, drawing upon a wealth of practical, technical know-how in Auto-ID solutions backed by *Genbaryoku*.
5	DCS & Labeling +One (DCS: Data Collection Systems)	SATO's business model based on a) the systematic collection of data on people and things at business sites and b) tagging/labeling of information, using accurate, efficient and optimized solutions that incorporate Auto-ID technology such as barcodes and RFID with barcode printers and labels/labeling services. 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 voice recognition and location tracking to its legacy business model to deliver greater customer value.
6	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 tagged price information to products, this concept has remained central to SATO's business.
7	Genbaryoku	Our core competency of going to customer sites to understand their operations and identify the essence of issues to offer optimized solutions.

SATO Terminologies (2/4)

SATO-unique business concepts/initiatives		Description
8	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 involves all employees regardless of rank or years of service, 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.
Products, services, technologies		**Description**
1	Mechatronics	All products not consumables, including hardware (e.g., barcode printers, automatic labelers, scanners, hand labelers), software and maintenance services. They generate higher gross profit margin than consumables. Printers are manufactured in Malaysia, Vietnam and Taiwan.
2	Consumables	“Consumable” products such as printer labels/tags, primary labels (product labels) and ribbons. They generate lower gross profit margin than mechatronics, but incur low SG&A expenses as they are typically sold through repeat business.
3	Auto-ID Solutions	Combination of products such as barcode printers, labels, software and maintenance services using Auto-ID technologies to connect people, things and information. To meet ever complex and diverse user needs, SATO also looks beyond its own resources and interests to pursue open partnerships, for example, to enable solutions combining Auto-ID and location technologies to track items by tags and inventory/worker movements in real time for managing manufacturing processes and visualizing productivity on-site.
4	CLNX series	SATO's first universal printer released worldwide in 2014 (2015 for the Japan market). Engineered for zero downtime, the CLNX series is built to be strong, simple to operate and ready for use with SOS (SATO Online Services), the industry's first IoT maintenance platform for printers.
5	SOS (SATO Online Services)	A cloud-based monitoring service for printers that enables preventative maintenance and on-the-spot troubleshooting. 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 through preventative maintenance and improve responsiveness over widely spread areas outside Japan with limited service teams.

SATO Terminologies (3/4)

Products, services, technologies		Description
6	AEP (Application Enabled Printing)	Intelligence (i.e. label/tag printing application installed) inside the printer to enable PC-less printing. AEP-enabled printers also support communication with host databases or IT systems.
7	API (Application Programming Interface)	A set of programming instructions and standards that allows applications to communicate with each other and exchange data, making it easier to create applications across a wide variety of platforms, devices, and programming languages.
8	Variable information labels	Blank or pre-printed labels used to print variable elements such as barcode, product price, manufactured or expiry date on-demand at the customer's site of operations. Unlike fixed information labels that are identical and printed at large quantities in a single run, variable information labels offer flexibility to print whenever and wherever needed.
9	RFID (Radio Frequency Identification)	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.
10	IDP (Inline Digital Printing)	A revolutionary, direct marking technology comprised of a special color-change pigment that can be applied as a coating to virtually any substrate and exposed to a laser beam to create a color change. As IDP uses no ink or labels at the point of printing, it eliminates the need for labels, minimizes stock keeping units (SKUs) and reduces waste, while also 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. Joint development with Xerox for multi-color capability – crucial for marketing applications – currently underway with target commercialization in FY 2021.

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 unique 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 label company in which SATO acquired 75% ownership stake.
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 Inline Digital Printing color-change pigment and related products. Now a SATO consolidated subsidiary.



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