Securities code: 6287

Integrated Report 2018



SATO HOLDINGS CORPORATION

Ceaseless Creativity for a Sustainable World

www.satoworldwide.com

SATO HOLDINGS CORPORATION

www.satoworldwide.com

Printed in Japan
2018.11.5000_EN

SATO Values

Corporate motto

あくなき創造

Akunaki sozo — Ceaseless Creativity

Mission

Our mission is to create new value for our customers through products and services of superior quality, and to contribute towards a better and more sustainable world.

Vision

We aim to be the leader and most trusted company in the auto-ID solutions industry worldwide, exceeding customer expectations in an ever-changing world.

Credo

- **We inspire changes, new ideas, and the courage of promoting customer-centric innovation in the spirit of Ceaseless Creativity.**
- **We seek to be true professionals by constantly striving to exceed the expectations of our customers.**
- **We see things as they are, and do the right thing right away.**
- **We show respect for all individuals, extend trust to each other, and work together as one cohesive team.**
- **We enable a vibrant and open-minded workplace, eliminating the formalities that cause "Big Company Disease."**
- **We share the returns from our business with our four stakeholders: shareholders, employees, society and the company.**

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Editorial concept

This report is the record of the tangible and intangible aspects of the SATO Group's medium- to long-term value-creation story through its core business of auto-ID solutions.

Where change always began for over 40 years

Teiho: our means of participatory management

Founder Yo Sato started the Teiho reporting system in 1976 from the belief that management alone cannot run the company and keep it growing; every employee should pitch in for the company to contribute to the global society.
Teiho is a system for every employee to submit original ideas, innovations and proposals aimed to make the company better and on how to put them into action. These are submitted to top management every day. Customer feedback and market information that employees obtain from their field of operations are submitted daily in the form of suggestions and reports, which all serve as the source of management decisions and change.
For employees, the tool helps develop the habit to think, "How could I make this company better?" and take action with a sense of ownership. And with a set word count (about 320 characters in English) to write each one, it is an exercise on summarizing and writing, which, in itself, is personal development.
After four decades of use, Teiho has firmly established itself as SATO's corporate culture. More than eight million entries of on-site voices form the core of our Ceaseless Creativity, and continue to drive small changes that help us and our company grow and contribute to society.



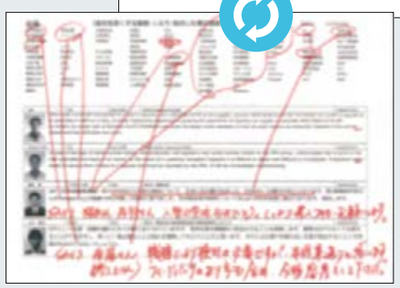
Growing database of over 8 million entries



Use in daily work



Submission form



Top management comments on/sends instructions on ideas submitted

For more about Teiho, see:
www.satoworldwide.com/sato-group/teiho-system.aspx

From the President and CEO



Ryutaro Kotaki
President and CEO,
SATO Holdings Corporation

We aim to be the most trusted company in the auto-ID solutions industry, innovating our main line of business and exceeding expectations of customers and society

Maximizing our strengths to speed global growth

Prior to my appointment as President and CEO of SATO Holdings this April, I have long served the front lines of our Japan business, relentlessly pursuing customer centricity to expand and strengthen the auto-ID solutions business in our home market. More recently, I have been fully engaged in open innovations and strategic alliances to create new customer value. These efforts are what I hope to extend beyond Japan to global markets that now act as our business growth drivers, in order to develop SATO into a corporate group that is one of its kind in the world. Our aim to establish sustainable growth and stable profits to heighten corporate value can only be accomplished with firm management intent, which I have embodied in our new management principles: “Perfect the basics,” “Collaborate,” and “Take new challenges.”
We are able to exceed customer expectations when we see from customer perspectives to identify the real issue, get people in and outside the company involved to suggest and execute a solution, and do the right thing completely right.
As small efforts to achieve a goal build up into extraordinary results, we want to do the ordinary to inimitable perfection, which is our determination I have summed up in “Perfect the basics.” And in the spirit of Ceaseless Creativity, each and every one of us around the world will “Take new challenges” in seeking new ideas and added value as we “Collaborate” as a team beyond organizations and national borders. SATO Group will strive to operate our businesses under these principles, toward meeting and exceeding expectations of customers and society to become a company they need and count on.

The value we create is rooted in “tagging”

Since inventing and releasing the hand labeler in 1962, SATO has centered its business on tagging — attaching information to things. We tag people and things at our customer’s sites of operation (factories, warehouses and hospitals) with information (data) to be supplied accurately to core IT systems for the purpose of improving productivity, and this is the very source of the value we provide customers today.
During my career in sales working directly with customers in their diverse environments, I have constantly given careful thought on how I could solve their operational challenges without stopping operations. I believe it is our hands-on approach of going to the actual site to find and test solutions tirelessly that has fostered SATO’s signature strength of *genbaryoku* (Page 50) over the years.
The pain points of our customers have become more sophisticated and diverse with time, but we have addressed each one, while expanding on the value we provide, from ensuring accuracy and saving labor and resources to offering reassurance and sustainability, and to building emotional connections. We seek to solve more operational challenges of customers on a global scale with this value which has been built up over many years, and my resolve has become even firmer upon assuming the CEO role.

Evolving to meet changing technological trends

The technological mega-trends of IoT, Big Data, AI and robotics span the world today, while businesses face operational challenges that include labor shortages and food and patient safety. Drawing on these global trends to fill the gap between the customer’s ideal management strategy and on-site operational challenges is what SATO’s auto-ID solutions do (Page 18). I believe the auto-ID solutions business is yet to mature, and has potential to grow further in Japan and worldwide.
But when the trends of technological innovation change drastically over time, challenges we can solve today may not be solvable with the same know-how and technology. That’s why it’s critical for us to keep upgrading our auto-ID solutions to meet these new trends. We intend to see the customer’s operations from a broader perspective to expand and innovate our existing solutions for supply chain traceability and more so as to answer to greater needs of the future.

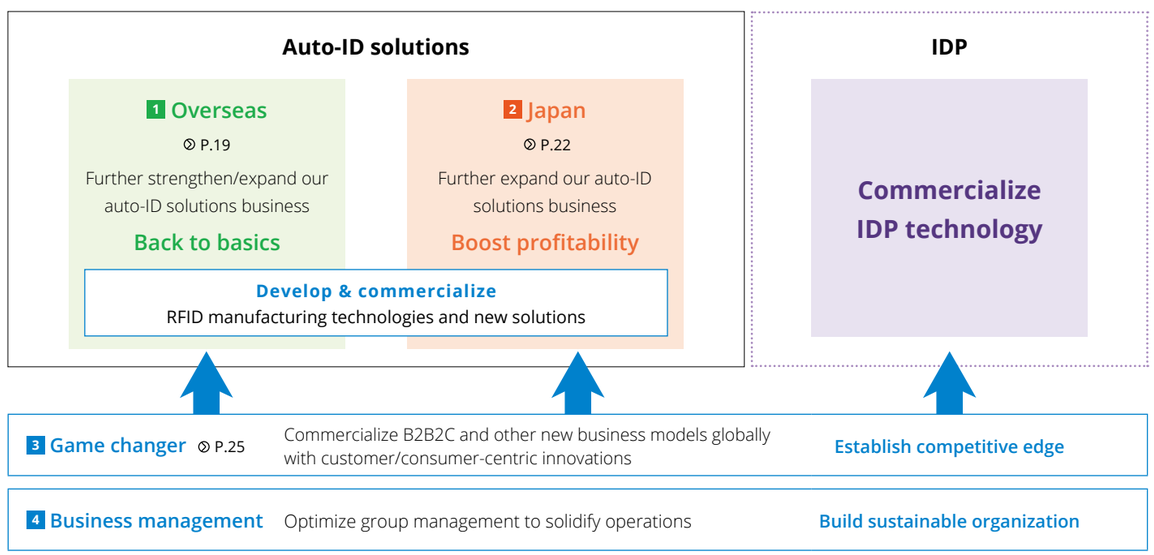
What we aim for in the medium-term management plan

I have set our medium-term objective to "concentrate resources on our auto-ID solutions business (DCS & Labeling +One) and establish sustainable growth and stable profits." As shown in the figure below, we intend to boost profitability of our core business and create new business models, starting with strengthening and expanding the overseas segment of our growth-potent auto-ID solutions business as our top strategy. We consider this overseas business our medium- to long-term growth driver, and will work to make it stronger by leveraging our knowledge and know-how accumulated from diverse markets/industries. For Japan, we will be offering new solutions that incorporate locating and image recognition technologies to solve customer's challenges with labor shortages and other social trends to create customer value that, in turn, would boost our profitability. Our third strategy to change the game would focus on developing and commercializing new technologies and solutions of competitive advantage. IDP (Inline Digital Printing) is a new marking technology that uses no labels or consumable media, and its monochrome and color printing technologies are currently under development. And in terms of business management, we will optimize operations and human resources at the global level to solidify our foundations for a sustainable business.

Being specific in our strategies outside Japan

Management pain points and operational challenges differ by country, market or industry, and are changing with increasing momentum. For SATO, this global trend presents a business opportunity. Our Group's sales in FY 2017 from overseas businesses increased 9.4 percent from the year before, which was hardly satisfactory compared with what we are truly capable of. Main reasons for this disappointment were in the lack of detailed action plans that would translate the company's policies and strategies to more operational levels for employees to understand, and inadequacy of the necessary support for driving them. With our new overseas strategy, we will make sure to provide details to help frontline employees — the ones working with customer challenges and providing value — know exactly how they should act. We are also working on internal knowledge management for custom solutions (tacit knowledge), developing a space to share and consolidate into standardized customizations (explicit knowledge). These are our actions toward achieving our target for the overseas business.

Key aspects of our medium-term management plan



Changing the game

Our idea of changing the game is to innovate from the perspective of our customer's customer (the consumer) to globally commercialize new business models.
One example is solutions using RFID. With retail and other fields turning to the technology to meet increased needs for productivity arising from labor shortages, we foresee dramatic growth in store. Seeing this extreme potential, we decided to develop our very own manufacturing facility that would allow us to offer our services throughout the entire value chain. It would radically cut manufacturing costs while enabling us to shape the size and design the antenna to meet customer requests and deliver tags of high readability in made-in-Japan quality. We are eying to dominate the market with this competitive advantage.
Another game changer is our IDP technology. The advantage of IDP is in its ability to print variable information at the final stages of production or packaging, obviating the need to stock multiple variations of packaging while opening up the possibility to personalize packaging design or text for each individual consumer to arouse emotional connections with the product. We plan to break even in the IDP business in FY 2020 and turn it into a profit driver by FY 2025 with target operating income of ¥5 billion.

Keeping up the fundamentals that help us achieve sustainable growth

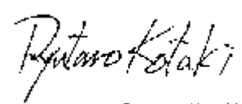
We aim to continue building and expanding on the fundamentals of our business that help us contribute toward a better and more sustainable world.
Our human resource development stands on the notion of "Building People, Building Business." It is our global initiative to foster talents who are capable of exercising our corporate values ("SATO Values") and *genbaryoku* to understand the customer's operational needs and provide value to our customers.
Teiho is a means for the management to receive unrestrained ideas and reports directly from employees every day. Continuing for over 40 years since 1976, it provides us understanding on what goes on at operational levels furthest from management, inspiring change and driving sustainable growth of our Group.



And we have enhanced our actions on corporate governance since 1999 when we first named an external director. Today, a majority of our board of directors is comprised of external directors, each with diverse backgrounds ranging from business ownership to law and academic research.
The board — chaired in rotation by directors without executive responsibilities — maintains an environment for free and open discussions, allowing external directors to raise opinions based on their respective knowledge fields that we actively incorporate into our business management.

In closing

As per previous years, we continue to share the returns from our business with our four stakeholders: shareholders, employees, society and the company.
Total dividend per share for FY 2017 was approved at the General Meeting of Shareholders at ¥65, up five yen from the year before. We will aim to keep providing increased dividends, planning ¥70 for FY 2018.
Standing at the helm of the company as the new CEO, I feel the winds of expectation from our stakeholders stronger than ever. In order for us to achieve our medium-term management goals and raise corporate value, we must engage in constructive dialogue with each and every one of you. I look forward to your candid feedback.
On behalf of SATO Group, I ask for your continued support as the new management team steers the business forward and into the future.



Ryutaro Kotaki
President and CEO,
SATO Holdings Corporation

History of SATO Group

Committed to “do something” about customer challenges

Seventy-eight years of solving pain points

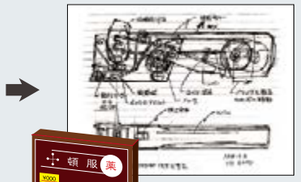
Founder Yo Sato had always wanted to “do something” to make work easier for workers at factories, warehouses and stores, which led to the creation of our bamboo processors, hand labelers and barcode printers. The SATO business model of manufacturing and selling products has now shifted to focus on solutions, but the founding spirit to support people working at the very site of operations still remains the culture of our company.

1962: Invented the world’s first hand labeler



Labeling price on a product in these times meant tearing each label off from a sheet, moistening the adhesive side, and applying it to the product by hand. As the retail industry grew rapidly and more products were handled day after day, price labeling was a painstaking task for department stores and supermarkets.

Drawing of the first hand labeler



An adhesive price label used on medicine boxes of the time inspired founder Yo Sato to devise and develop a mechanical price printer/labeler.



Sold around the world, the hand labeler became a signature product of SATO, laying the foundations for our business model today of tagging identifier information to things at the site of business operations.

1940
SATO founded. Started manufacturing & sales of bamboo processors.



1958
Started manufacturing & sales of binding machines (to bundle newspapers and products).



1962
Started manufacturing & sales of hand labelers.

1964
Started production of labels.

Established own plant to produce hand labeler labels. Our consumables business started here.

1981
Developed the world’s first thermal transfer barcode printer.

World’s first



1986
Built printer manufacturing plant in Malaysia.

1997
Listed on the First Section of the Tokyo Stock Exchange.



Toward more innovative auto-ID solutions

1990s

Started DCS & Labeling

DCS (Data Collection Systems) & Labeling is SATO’s very own business model of using barcodes and other auto-ID technology to tag identifier information to things and people at the customer’s site of business operation to be processed by core IT systems. It is how we bring labels, printers, software and peripherals together into a single system that meets the customer’s on-site needs and deliver it complete with post-installation servicing.

2010s

Shifted to DCS & Labeling +One

We took DCS & Labeling further, meeting the more intricate needs of customers with “+One” value, such as voice recognition and locating technologies that become possible through open innovations and partnerships.

2014–2015
Launched the CLNX series, the world’s first IoT-ready label printer.
Launched SOS (SATO Online Services), a preventative maintenance system using IoT to monitor business printers 24/7 to minimize downtime.



2017
Fully launched in-house production of original RFID consumables.

FY 2018 targets

Consolidated sales
¥120.0 billion

Consolidated operating income
¥7.3 billion

FY 2025 targets

Consolidated sales
¥200.0 billion

Consolidated operating income
¥24.0 billion

Worldwide sales

Japan (left axis) Overseas (left axis)
Consolidated operating income (right axis)

(Billions of JPY)
200
150
100
50
0

(Billions of JPY)
25
20
15
10
5
0

1940 1950 1960 1970 1980 1990 2000 2010 2018 2025

1985 Plaza Accord
2008 Global financial crisis
Planned

Our business model

Tagging information to people and things to enrich our lives

Auto-ID solutions

DCS & Labeling +One is SATO's business model of offering auto-ID technologies together with hardware in the form of solutions, to tag identifier information to things and people at the site of business operations so that core IT systems can process the data. Every customer has different business operations with their own pain points, which can never be resolved overnight; they require knowledge of each individual site in relation to the supply chain of its market. We at SATO visit each of these sites to understand the operation and its challenges and come up with a solution, and this *genbaryoku* always lies at the heart of our solutions. We solve the social challenges of the times with DCS & Labeling +One.

Feasibility gap (challenges)

Markets

- Retail
- Manufacturing
- Food & beverage
- Logistics
- Health care
- Public

See Page 18

DCS & Labeling +One

Core IT systems (e.g., ERP, WMS, MES*)

Digitize on-site information & send to IT systems

Products/services: Hardware, Consumables, Software, Maintenance, Designs, Peripherals

Auto-ID technology: Barcodes, Two-dimensional barcodes, RFID, Location tracking, Voice recognition, Image recognition

Process on-site information

Tag information to things and people



Supply chain by segment

Example: Food & beverage



Raw materials → Processing → Delivery → Stores → Consumers

Genbaryoku

- Go see the site
- Understand operations
- Identify essence of the issue
- Propose & implement solutions

Our value creation

- Ensure accuracy
- Save labor
- Save resources
- Offer reassurance
- Achieve sustainability
- Build emotional connections

Contribute toward a sustainable world

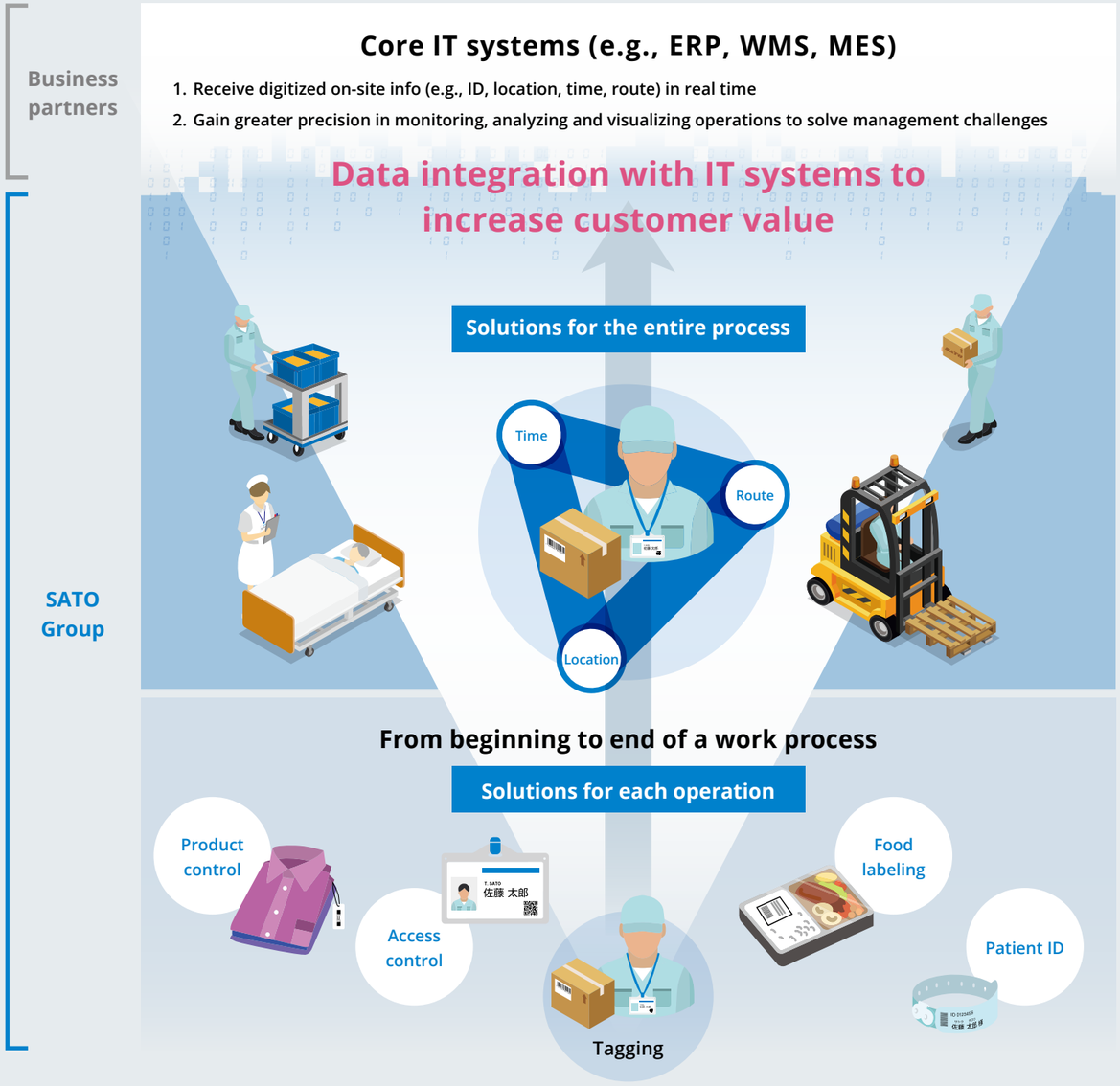
* ERP: Enterprise Resource Planning WMS: Warehouse Management System MES: Manufacturing Execution System

Expanding horizons

Evolution of our auto-ID solutions

Optimizing entire operations to heighten productivity

Technological innovations of the times have come to add a new dimension to our tagging business, allowing us to obtain real-time data on even the location and movement of the tagged 'thing' or person. By feeding this data to core IT systems, we now help customers solve challenges not simply in each individual operation but in the entire series of operations by monitoring, analyzing and visualizing the entire workplace and offering answers to issues spanning a broader range of work processes.
Core IT systems of our business partners — i.e., ERP (enterprise resource planning) and WMS (warehouse management system) — need to receive accurate information from the workplace in real time to function effectively. SATO's solutions make that possible to increase connectivity with these systems of our partners to offer higher customer value.



Examples of customer value

Greater productivity

Warehouse logistics

As labor shortages grow more severe, rapid growth in online shopping has led to more item variations in warehouses and smaller, more frequent parcel shipments, impacting warehouse productivity. Logistics sites now need to hire more people, but find new problems in having to spend extra hours on training and handle variability in productivity caused by the skills gap between new and experienced workers. SATO's solutions optimize the "walk & search" process that accounts for most of warehouse work with the use of digital 3D mapping, which creates a visual representation of the warehouse and derives the shortest picking route from where a worker currently is.

Food safety

Traceability

In Japan, food imports and inbound tourism are steadily growing, as well as incidents involving food falsification and contamination, which increase the demand for ingredient/nutrient labeling, production control and traceability. Our labeling solutions manage the entire supply chain from the factory to the dining table, digitizing information and making them visible along the way to allow traceability in the origins, distribution paths and processing methods of each ingredient. Accurate labeling and compliance with food labeling laws also play a vital part in food safety.

Shorter lead times

More visible SCM*

Key challenges in the apparel industry are out-of-stocks (that result in sales loss), excess inventory (that results in disposals) and dead stock. We use RFID to track products from upstream in the supply chain to achieve efficiency in shipping/receiving and inspecting products and shorten the time from the factory to the store. Shorter lead time allows the factory to start manufacturing based on a more accurate demand forecast, which optimizes inventory.

* SCM: Supply Chain Management

Expanding horizons: Health care

Reassurance for patients; efficiency for medical staff

IoT solutions for hospitals

SATO Healthcare teamed with the Medical IT Center at Nagoya University Hospital to conduct a joint proof of concept for its Smart Hospital initiative that aims to innovate medical services using ICT/IoT technologies. We assist health care practitioners in their efforts to deliver safety and reassurance to patients and achieve greater efficiency on site.

From the customer

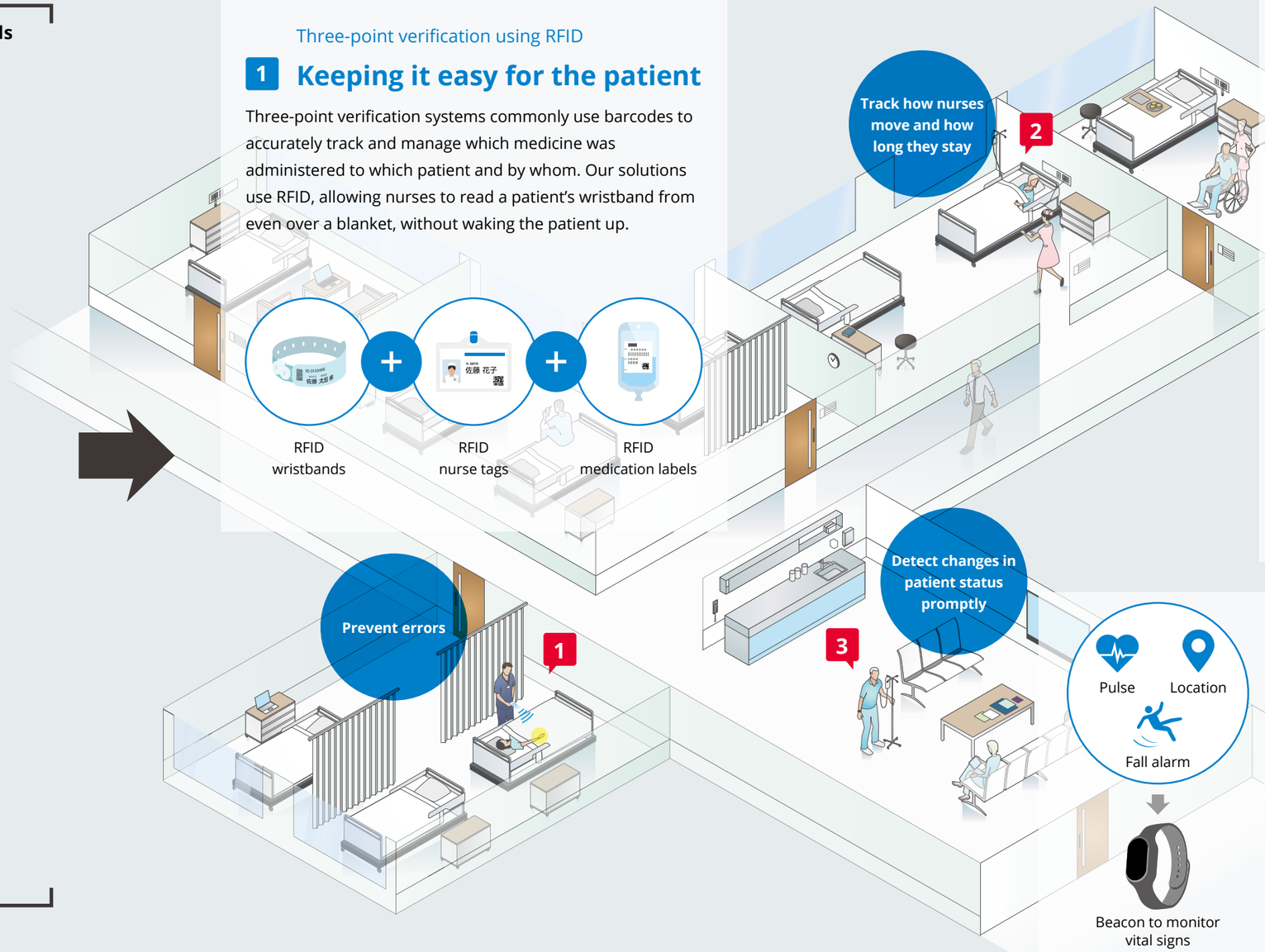
As the government continues to cut medical costs, we're required to meet the needs of a hyper-aging population and widening concepts of what constitutes a disease. Under these circumstances, we see IT tools as crucial to continue providing care with safety and reassurance. The greater work efficiency they bring not only cuts costs, but heightens safety as well. SATO Healthcare plays an integral part in our Smart Hospital initiative with its logistics and operation management solutions and extensive know-how on implementation that are far ahead of its competitors.

Dr. Shintaro Oyama
Project Assistant Professor,
Medical IT Center,
Nagoya University Hospital



Challenges of hospitals

- Shortage of nurses
- Medication errors
- High quality demanded of services



Three-point verification using RFID

1 Keeping it easy for the patient

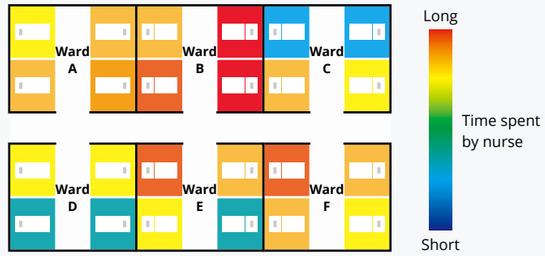
Three-point verification systems commonly use barcodes to accurately track and manage which medicine was administered to which patient and by whom. Our solutions use RFID, allowing nurses to read a patient's wristband from even over a blanket, without waking the patient up.

Location tracking to visualize work patterns

2 Improve health care services

Nurses have a lot to do every day: care for and communicate with patients, administer medication, manage drugs and documents. Location technology can track and visualize nurses' movements, allowing appropriate staff allocations and speeding response to emergency situations to improve the quality of the hospital's services.

Precision indoor locating system



Vital signs monitoring beacon + location tracking technology

3 Inpatient monitoring

A wristband with a feature to monitor vital signs will pick up the patient's pulse, activity/stress levels and location in real time, keeping nurses alert when a patient falls or is in an emergency state. Knowing that a nurse would come when they need help is always reassuring for patients.

Financial & non-financial highlights

Financial

POINT

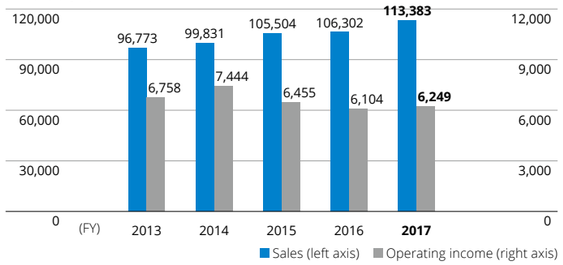
Sales for the SATO Group hit a record high for the fifth consecutive year to reach ¥113.4 billion in FY 2017, up 6.7% year on year. Operating income and profit attributable to owners of parent rose to ¥6.2 billion (up 2.4%) and ¥4.1 billion (up 26.5%) respectively as the Group's core auto-ID solutions business topped its highest-ever profits marked three years ago, thanks to a strong showing in Japan.

Sales & operating income

Sales

¥113,383 million

Achieved operating gains as modest OI growth was enough to absorb the increase in IDP-related costs in FY 2017.

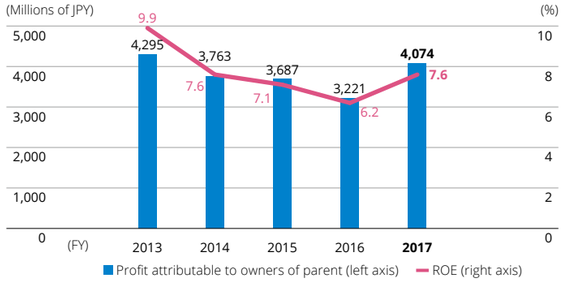


Profit attributable to owners of parent & ROE

ROE

7.6%

Recovered from downward trend, due in part to the recording of extraordinary income in FY 2017.

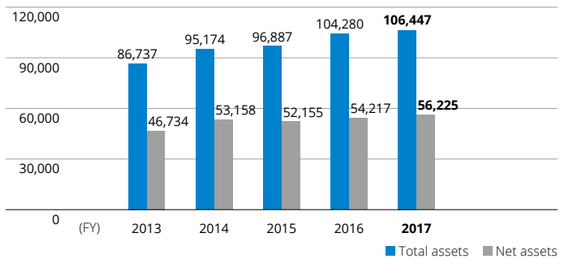


Total assets & net assets

Net assets

¥56,225 million

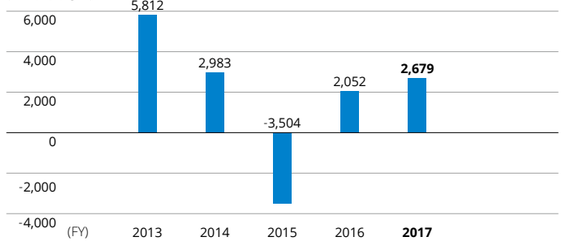
Sustaining gradual growth.



Free cash flow

¥2,679 million

Continuing to generate free cash flow as in past years (with exception of FY 2015 that was impacted by the company's ERP system investments).

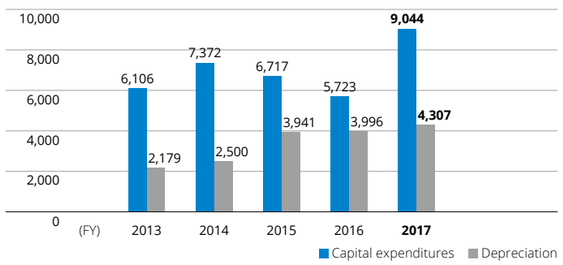


Capital expenditures & depreciation

Capital expenditures

¥9,044 million

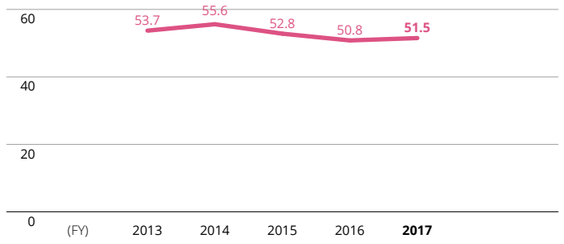
Saw one-time surge in capital expenditures in FY 2017 as a result of enhancing production equipment and relocating plant.



Equity ratio

51.5%

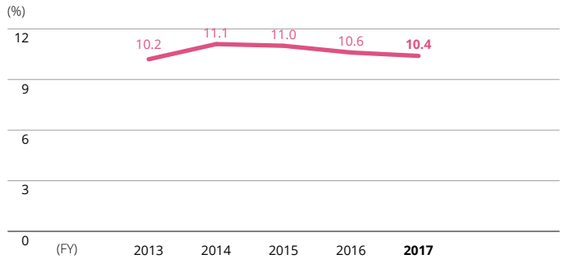
Maintaining ratio at above 50% as an indication of sound financial health.



EBITDA margin

10.4%

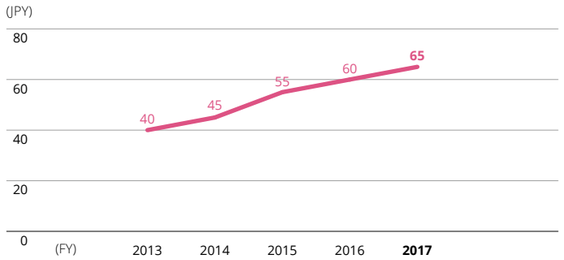
Sustaining stable stream of earnings before interest, tax, depreciation and amortization.



Dividends per share

¥65

Continuing steady increases in dividend payouts.



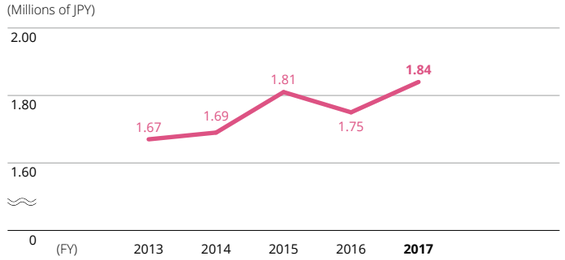
Non-financial

Per capita productivity

Per capita productivity = Operating income plus goodwill amortization and ERP system depreciation per working employee

POINT

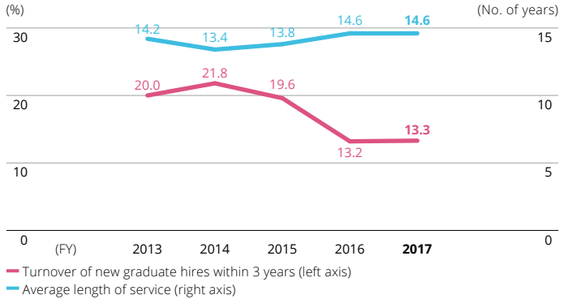
Rose mainly on account of profit rebound this term, and is set to benefit from sales and work efficiency improvements from next term onward.



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

POINT

Turnover lowered with enhancements to first- and second-year training programs. Average years of service for employees increasing due to improved work-life balance support.

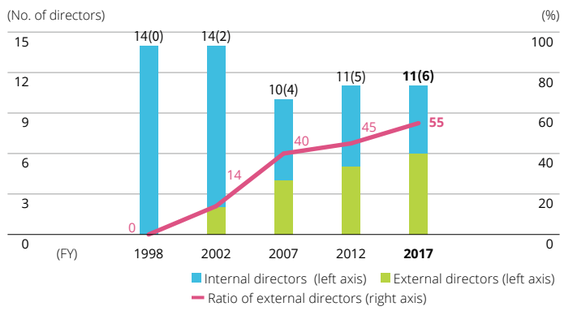


Board size & ratio of external directors

Figures in parentheses: No. of external directors

POINT

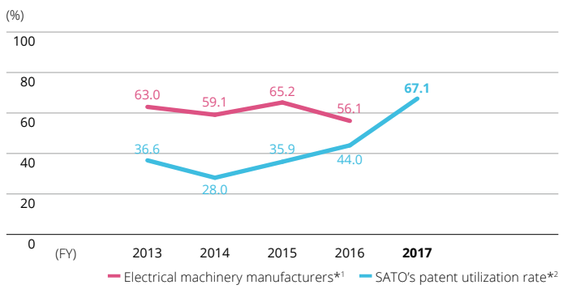
Increased number of external directors from one in 1999 to two or more since 2002 to now account for the majority amid growing importance of board independence.



Patent utilization rate (Japan)

POINT

Trending upward as a result of the company's conscious efforts in obtaining patents for customer value creation.



*1 Utilization rate of (owned) patent rights
Source: Japan Patent Office Annual Reports 2015–2018
*2 Based on date registered
Source: In-house records

Medium-term management plan

SATO Group's FY 2018–20 medium-term management plan

Under a new management team, we have refreshed our medium-term management plan to concentrate more resources than ever on the auto-ID solutions business and reinforce sustainable growth and stable profits. In the belief that each employee must be committed to proactive action to ensure continuous value creation in response to changing customer needs, we have added "per capita productivity" (productivity per working employee) to this plan as a new performance indicator.
We have also set consolidated sales of ¥200 billion, operating income of ¥24 billion and operating income ratio of 12% as our FY 2025 targets to ensure that we run our business with the long-term perspective. We anticipate our overseas business to overtake our Japan business to become our dominant profit source by FY 2025, and our IDP business to break even in FY 2020 based on technologies that we are currently working to commercialize. Our focus with regard to IDP, in particular, will be on generating profits from the closing of qualified leads that are showing keen interest.

1 Management objectives

(Millions of JPY)

	FY 2017 actuals	FY 2018 planned	FY 2019 planned	FY 2020 planned	vs. FY 2017
Sales	113,383	120,000	126,000	135,000	6.0%*1
Overseas sales ratio (%)	37.8	39.9	41.6	43.6	+5.8pt
Operating income	6,249	7,300	9,300	12,800	27.0%*1
Operating income ratio (%)	5.5	6.1	7.4	9.5	+4.0pt
EBITDA margin (%)	10.4	10.8	12.0	13.3	+2.9pt
ROE (%)	7.6	7.4	9.5	12.0	+4.4pt
Per capita productivity*2	1.84	1.90	2.10	2.50	10.7%*1

FY 2025 planned
Sales **200,000**
Operating income **24,000**
Operating income ratio **12%**

*1 CAGR (compound annual growth rate)
*2 Per capita productivity = Operating income plus goodwill amortization and ERP system depreciation per working employee

2 Investment plans

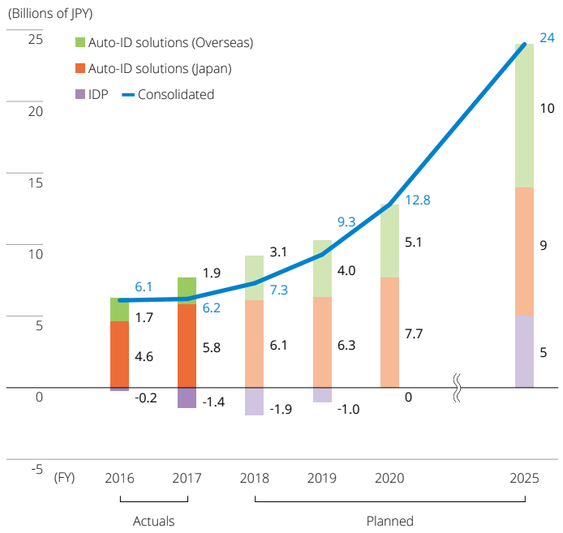
We have devised specific investment plans that are tied to our medium-term strategies and are each assigned an owner responsible for raising decision-making speed and execution.

Eight investment plans

1. Invest in personnel who would drive our auto-ID solutions business worldwide
2. Develop high-speed RFID manufacturing equipment in-house
3. Optimize consumables production functions globally
4. Establish global network for primary labels business outside Japan
5. Invest in research & development of strategic printer models
6. Build global sales infrastructure (CRM* system)
7. Develop and roll out our solution services in Japan for the overseas market
8. Develop IDP technologies and IDP solutions businesses

* CRM: Customer Relationship Management

3 Operating income by business



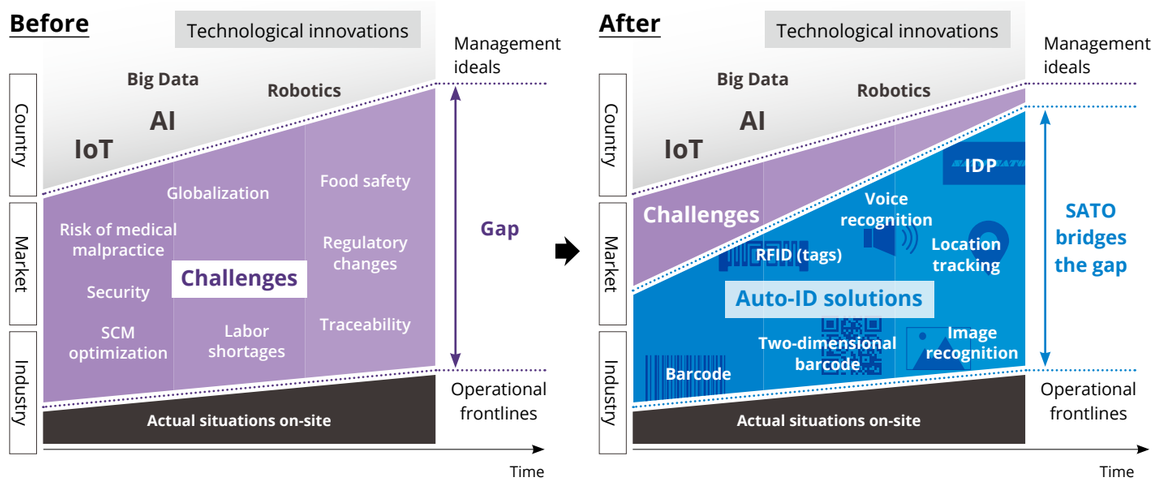
4 Three growth strategies

4-1. Grow and advance the auto-ID solutions business

With the development of IoT, AI and robotics, business leaders envision using these technologies as part of their management strategies but face operational realities that are far from the ideals they seek.

SATO bridges this gap by globally growing and evolving our business in auto-ID solutions to address the customer's on-site challenges and incorporating the latest technologies and trends.

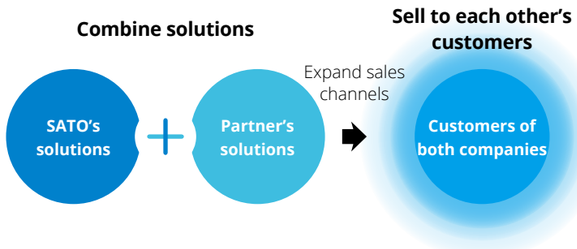
The role of auto-ID solutions



4-2. Create and widen business through global alliances

See Page 21

We drive global alliances that promise synergy so as to build strategic business models that keep up with digital innovations and to continue creating new value.



4-3. Expand our IDP solutions

See Pages 27–28

Consumer buying behaviors are changing and diversifying, and we see this as an opportunity to further our business growth. We focus on the needs of our customer's customer (the consumer) to create value through the B2B2C approach to contribute to greater profits for brand owners and retailers.



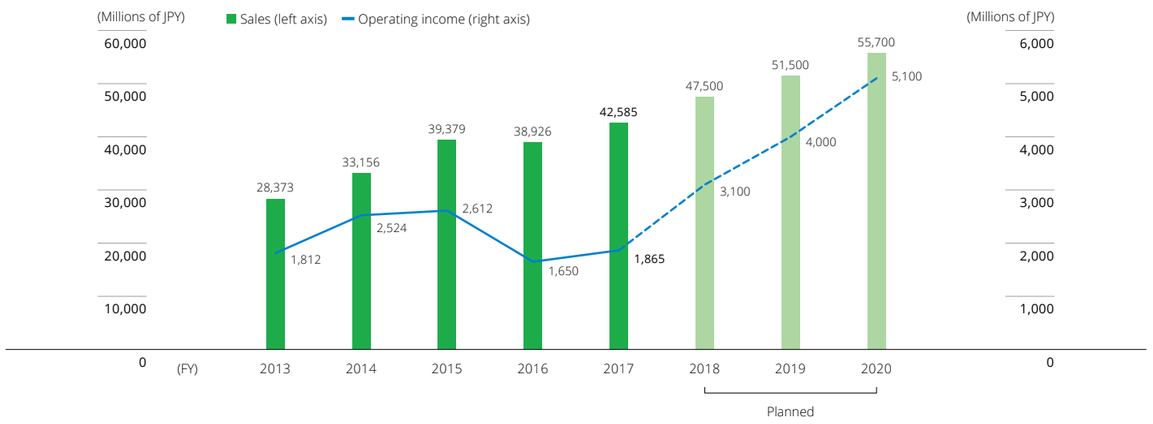


Overseas

Drive global change in the way we think and act

The combined efforts of our group companies around the world contributed to higher sales and profits. We will continue to invest in talents capable of thinking in terms of solutions, and deliver value to more customers as we switch to a *koto-uri* mindset (selling the solution, not the product) and collaborate with business partners.

Overseas business





Hayato Shindo

Executive Officer,
SATO Holdings Corporation
President,
SATO International Co., Ltd.

FY 2017 recap

Strengthening business foothold to step up growth

While our businesses outside Japan recorded higher operating costs in FY 2017 arising from increased R&D expenses at our US software company, office/factory relocation of our UK sales company and foreign currency effects, sales and profits rose overall thanks to the steady performance of sales companies in the US, Germany, and Asia and Oceania regions.

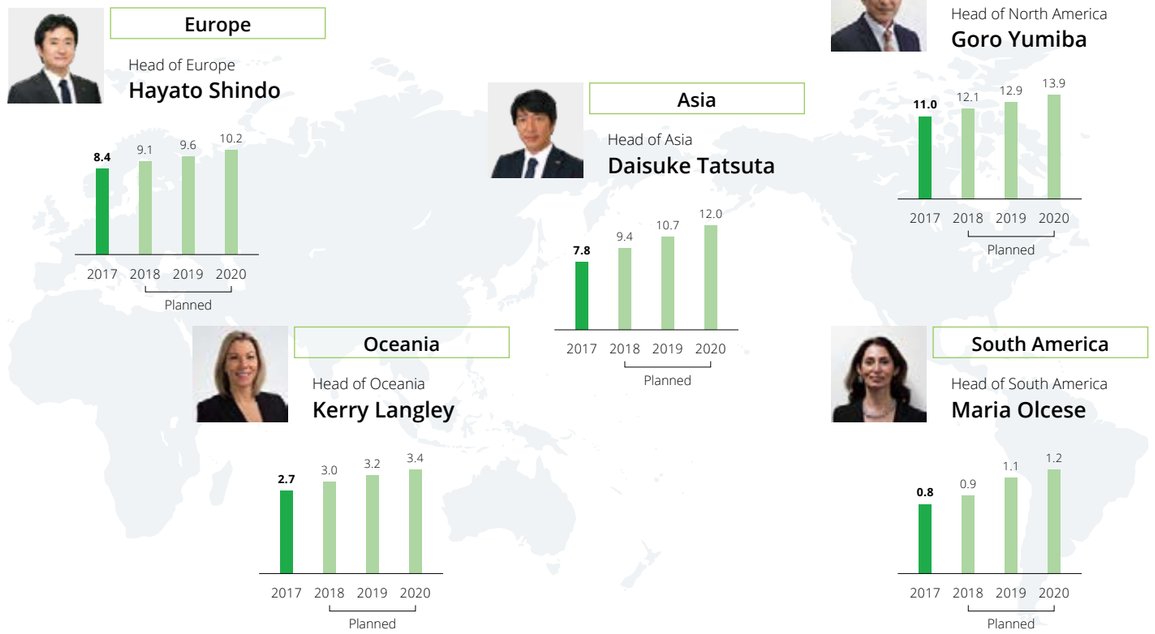
In the past year, we have invested in human resources in Europe, structural reforms in India and facility/headcount expansion in Indonesia. Although these additional up-front investments led to a slight slowdown in our profit growth, I believe they helped establish a strong foothold for our overseas business to soar to new heights.

We have also made steady progress in laying the necessary foundations for sustainable growth, particularly in terms of transitioning our business model overseas to implement a koto-uri sales approach, solving customer issues on-site less with simply the product itself than through solutions that draw on hardware like our CLNX printer series and the high value-add it offers with IoT technology.

Actions for growth

Sales targets for each region (Billions of JPY)

*Figures include sales only from group companies managed under SATO International. Do not include contributions from primary label companies, Argox or DataLase.



1. Link projects and business across regions

For a long time, we had allowed our group companies around the world to implement their own strategies with minimal collaboration and support across regions and from headquarters. This meant that any achievement or success had also stayed within the respective regions. But we now know that a successful deal closed with a fast food chain in Europe, for example, may open up similar opportunities in North America. As our focal markets are identified globally in retail, manufacturing, food and health care, regions could share their success cases in a particular market with one another; salespeople could collaborate on market-specific needs or other key influential factors to close deals; information on customers, sales leads and specific businesses could be entered into the CRM system to trigger follow-up actions. By perfecting these basics, we believe every region can deliver their targeted outcomes.

Since FY 2017, we have been hosting workshops in Japan, inviting outstanding sales personnel from around the world to discuss solution proposals that were successful with customers. Our objective is to have participants spread the koto-uri mindset and their acquired understanding of the business scheme to coworkers and business partners in their regions.

It is through these actions that we aim to improve the strengths of our sales companies overseas and further accelerate their growth with the support of the Japan headquarters.

Overseas

2. Increase our market presence and create new businesses through global alliances

One of our growth strategies is to build alliances with companies that bring strengths we do not have for us to better meet the needs of the global market. Through alliances, we can combine our solutions with those of partners to create new value. We can also sell each other's solutions to expand our sales channels and speed up their deployment.

Focus

Partnering with JDA to deliver the future of warehouse management



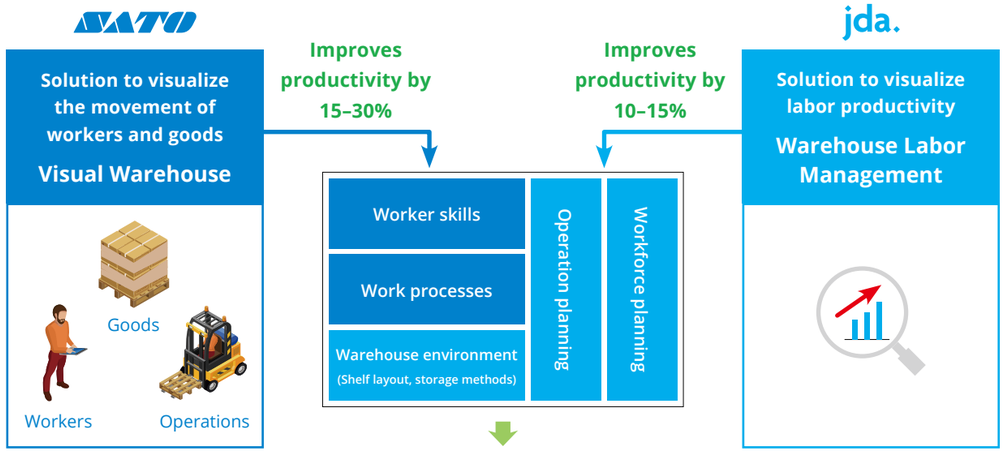
Noriyasu Yamada

Executive Officer and Chief Product Planning Officer (CPO), SATO Holdings Corporation

The SATO Group offers tagging solutions for the supply chain management arena worldwide, drilling down to the real needs of customers at their operating sites and providing accurate field data in real time to assure traceability.
One recent example is the strategic alliance we formed with JDA Software Group in 2017. Operating globally with over 40 locations around the world, JDA is a leading provider of end-to-end supply chain planning and execution solutions for more than 4,000 customers that include major players in various industries. With our solution capturing and collecting data on the movement of people and goods in the warehouse, and JDA's Warehouse Labor Management solution providing visibility into worker productivity, we can expect overall warehouse productivity to increase by 30 to 40 percent. By forming alliances with such companies boasting strong presence overseas, we develop new business domains together with a framework for us to effectively incorporate the latest technologies from outside the company into the solutions we create.

Combining JDA's Warehouse Labor Management with SATO's Visual Warehouse* to develop a solution package

* Visual Warehouse is a trademark or a registered trademark of SATO Holdings Corporation in Japan and other countries.



Boost overall productivity in the warehouse 30–40% when used together

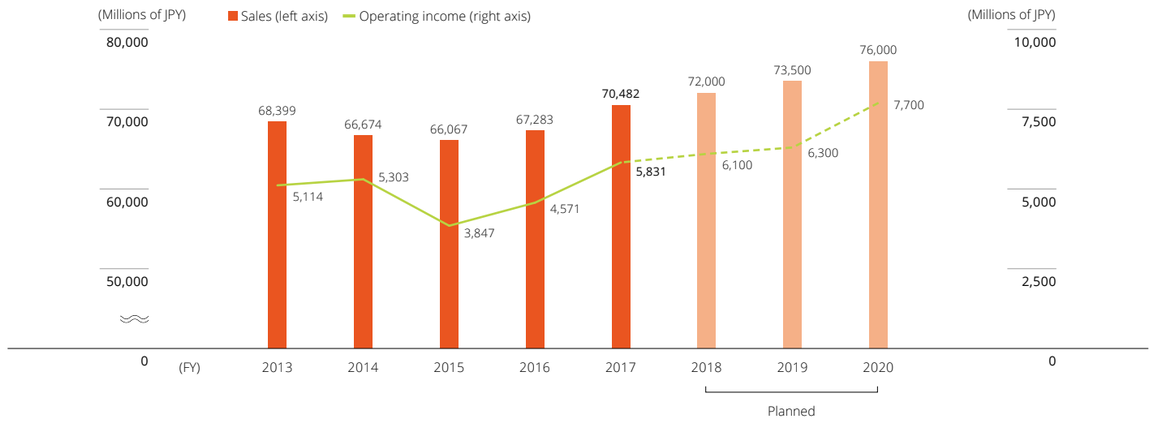


Japan

Focus on our core business to build the groundwork for stable profits

Our actions over the past two years have come to establish a solid groundwork for sustainable profits. Sales for FY 2017 marked a record high of ¥70.5 billion, and operating income reached ¥5.8 billion.

Japan business





Yoshinori Sasahara

Vice President,
SATO Holdings Corporation
Director and Vice President,
SATO Corporation

FY 2017 recap

Koto-uri: Selling the solution, not the product

Two factors contributed to our bounce-back. One was that the demand for automation and higher efficiency in production grew as more customers identified labor shortage as a challenge in their business management. We met this trend by suggesting solutions that quantify the effects they would bring to improving the customer's manufacturing or logistics operations. This method of "selling the solution, not the product" — what we call *koto-uri* — raised the sales ratio of printers and software, which drove profits. And by answering to the needs of customers nearing printer replacement not merely by selling the successor model but also providing software and added value under a strategic replacement plan, we saw hardware sales grow in our CLNX printer series (up 38% year on year), software (35%) and automatic print & apply systems (21%).
Two is in how we strengthened our customer touchpoints. Our sales support and contact centers back our sales team, and our customer engineers and help desk contribute to raising customer satisfaction. Information obtained directly and indirectly through these channels is entered into our CRM that we installed the prior fiscal. We have been closely following up on visitors to our exhibition booths and seminars, and these efforts centered on customer touchpoints to raise sales efficiency and create customer satisfaction are, I believe, paying off, and have contributed to our FY 2017 results.

Japan

Actions for growth

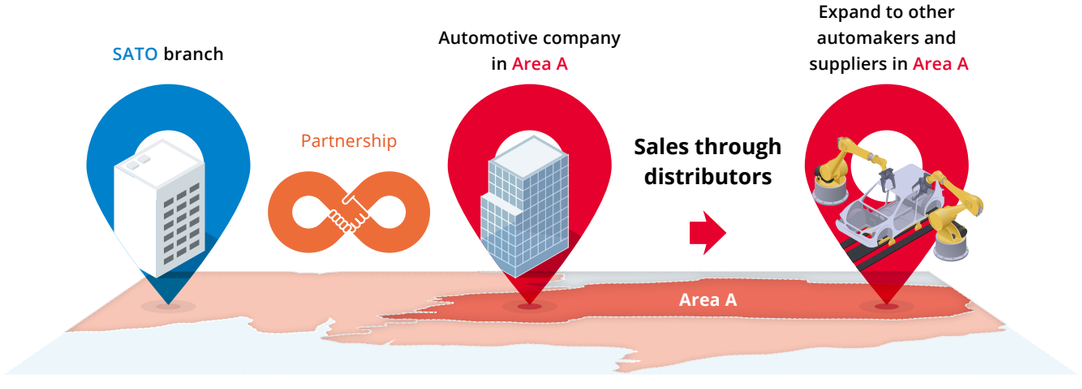
1. Expand on our auto-ID solutions

As the nation moves more toward improving productivity and changing how people work, we have set a strategy to create solutions of high customer value by forming alliances with our business partners. An example of such value would be Visual Warehouse, our cloud-based work efficiency solution, which can be integrated with a WMS solution from a leader in the logistics services industry. Customers not only improve their picking operations but can also manage their workforce with optimal allocation of workers, to gain greater effects in productivity.
Automation is another area of solutions we will be focusing on to better customers' productivity. Print-and-apply solutions we have been providing merely automated simple labeling procedures. But by partnering with a major manufacturer of industrial robots, we can now deliver solutions for more ways to apply labels and more complex lines to play a greater part in resolving labor shortages and improving productivity in factories.
These solutions innovated through alliances are what we will take to our focal markets of retail, manufacturing, food and health care to achieve our goals.

2. Gain greater share in a region

We have developed the Area Alliance Partner (AAP) initiative in Japan, which aims to expand our local share in specific regions. While we provide our services to many of our national customers to fulfill their needs, there are limitations to meeting each and every need at the local region. Some regions tend to specialize in a certain industry like food or automobile. AAP allows our branches to take the initiative in partnering with local businesses so that we see each region more locally to instill our auto-ID solutions in areas and industries we have yet to cover, and raise our local share.
The solutions we offer require an uninterrupted supply of labels and consumables. By making online ordering available to our partners' customers to ease the hassle of placing orders, or by providing maintenance support, we create value for our customer's customer. AAP is a key initiative that would support stable growth of our business in Japan.

How Area Alliance Partner works



3. Collaborate more closely with global units

SATO's strength is in the way it can take a solution made for a certain country and roll it out in another. In FY 2018, we will take a better look at how this could be done per country, market and industry, with particular focus on collaborating with our Asia group companies as Asia tends to serve as a manufacturing site and the starting end of the supply chain for Japan-based companies.

We will be training salespeople to be auto-ID consultants, while expanding our CRM to keep track of and share information on business opportunities per customer account at the global level, as we believe timely information inspires ideas and action. CRM was first launched in April for our Logistics Sales Department to use among Japan and nine countries in Asia, already leading to better sales.



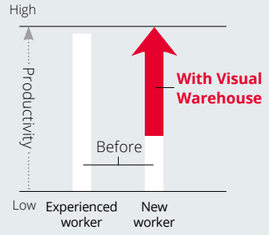
Focus

MonotaRO case

Industrial supplies e-retailer MonotaRO deployed our Visual Warehouse solution in FY 2017, with aims to improve the productivity of its warehousing operations. This solution is almost like a warehouse version of a car navigation system; it navigates the worker to put away or pick a product in the shortest possible route, to allow even a new person on the job to operate with the productivity of an experienced worker.
With SATO's solution, MonotaRO meets the challenges of the growing e-commerce industry without having to staff extra workers to its warehouses to handle the greater load, yet optimizing the longer worker routes and preventing out-of-stocks that result in lost sales at its online store.

Better productivity with warehouse navigation

Productivity of entire site up 20%



From the customer

One reason for deploying Visual Warehouse was because of its route optimization feature, in which we saw possibilities to expedite put-away or picking tasks that are performed by workers who typically choose their routes to storage locations based on experience and intuition. SATO suggested a cloud-based operation, which made the system compact, yet allowed us to analyze data. Productivity improved by 20 percent compared with our previous operation, but apparently more for that of our new and less-experienced workers. We're planning to start using the system in other new areas, and I look forward to SATO again offering us not just products but also feedback and solutions for streamlining our on-site operations.



Jun Yamanishi
Amagasaki DC Manager, Logistics Dept., MonotaRO Co., Ltd.



New technology to challenge industry norms

Custom RFID and IDP

Our strategy on changing the game, as set out in our new medium-term management plan, is to "commercialize B2B2C and other new business models globally with customer/consumer-centric innovations." We specifically aim to set new industry standards and gain competitive advantage with two completely new technologies — custom RFID tags and IDP (Inline Digital Printing) — and their corresponding solutions.

SATO's customer/consumer-centric innovations

Custom RFID (Radio Frequency Identification)



RFID is increasingly accepted today as a means to ensure accuracy and save labor/resources in business operations, as it allows near-instantaneous reads of large amounts of tagged items with contactless scanning. As a company that meets the intricate needs of customers with our core competency in *genbaryoku*, SATO has now set up its own manufacturing facility to produce its very own RFID tags.

IDP (Inline Digital Printing)



Days of producing and selling uniform products in mass volumes are changing. Now, companies are seeking to add value to their products with personalization while boosting productivity. SATO's culture of rejoicing in change leads us to creating new value for the new age, on the global stage.

See Pages 27–28

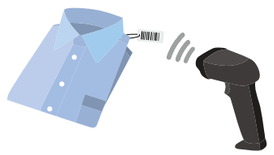
Custom RFID

Made-in-Japan quality, offered in one-stop solutions

Meeting expectations with genbaryoku

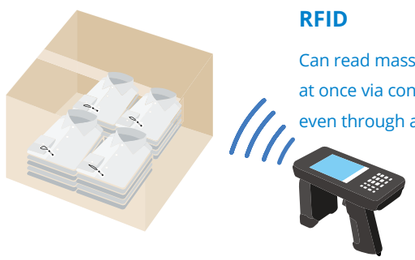
Manufacturing, logistics and retail fields have growing expectations on the contactless, volume-scanning features of RFID that barcodes do not have. The key for us to providing their full benefits to customers is to meet the varying operations and challenges at each customer site with precise solutions, because items to tag, sizes of tags, and scan distances are different with each site. Customers cannot afford to sacrifice smooth operations for read rates that fluctuate with surrounding conditions or the way the system is run. How we ensure read accuracy that customers expect is the key to us succeeding in RFID.
Change in technology does not change the need for accurate, on-site knowledge and expertise, which are what genbaryoku is all about. We offer the most out of RFID with our quality, one-stop solutions that meet the customer's operation, its environment and applications.

Comparing ID methods



Barcode

Low cost & high read rate, but must scan each tag individually



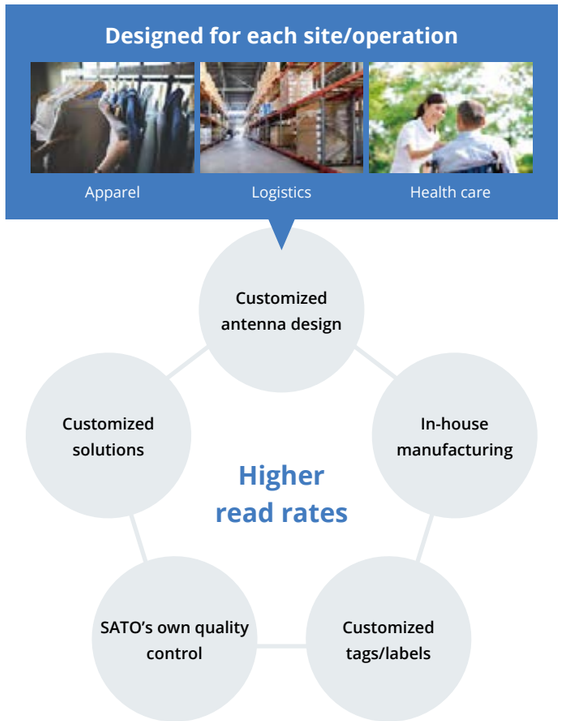
RFID

Can read mass volumes of tags at once via contactless scanning, even through a closed box

Custom RFID tags to reshape the industry landscape

We launched our very own RFID manufacturing facility in 2017 in Kitakami, giving us the capability to manufacture RFID tags that equip not just standard inlays but also inlays that are tailored to our customer's requests. SATO's original RFID lineup features five qualities (see below) that provide best-in-class read rates.
Antennas we design to meet the customer's operation are manufactured at our very own facility at high speed, and then converted to tags/labels that are optimized for the customer's purpose. Our experience and knowledge in label production ensures their quality, and our genbaryoku serves as the groundwork to developing one-stop solutions using these original tags. Few companies design inlays and convert them to labels on their own. SATO goes beyond the limits of conventional RFID hardware to produce RFID tags of made-in-Japan quality that form our solutions for asset/product/human resource management challenges in industries such as apparel and health care. We are setting our sights on eventually expanding this production capacity to be competitive on the global stage.

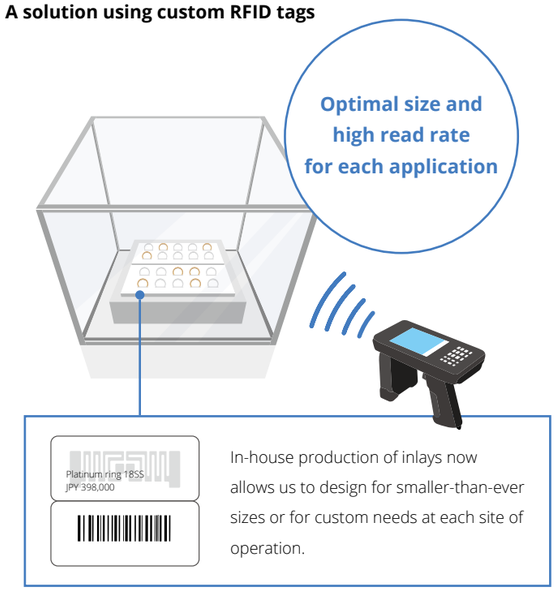
Five qualities of SATO's RFID lineup



Potential answer to a variety of operational challenges

A jewelry manufacturer was expending great time and effort painstakingly maintaining strict inventory control of its small, high-value items at stores and in logistics. In considering RFID, the customer needed tags that were smaller and would read in the presence of metal and from outside a showcase, which existing, standardized inlays were unable to do. SATO's custom-designed, miniature RFID tags cut stocktaking time in stores by 90 percent to a mere fraction of what it used to take.
If this solution adds a stationary RFID antenna that would track shopper attention on a product (e.g., how often product was picked up, how often it was put back), the data could serve marketing purposes. SATO's RFID solutions that draw on our genbaryoku streamline and innovate the customer's operations, which is value that currently attracts attention from businesses in retail, manufacturing, logistics and health care.

A solution using custom RFID tags



RFID solution cuts stocktaking time by 90%

IDP (Inline Digital Printing)

Creating consumer value B2B2C solutions (for our customer's customer)

Toward an age of personalized products and services

With the rise of online shopping as the new field of competition, retailers around the world today are forced to make major changes to their business style. Consumers now choose from a vast pool of information, and greater diversity in purchase behavior has run conventional mass marketing aground. Retail companies and B2C brand owners must gear up on consumer-centered marketing, while heightening productivity over the supply chain and dealing with labor shortages and ever-increasing volumes of shipments. For SATO, B2B2C is about arousing purchase motive in consumers with personalized products or services that create emotional value and would help retailers and brand owners — our customers — improve their sales and profits. This new business model is what we eye with our new IDP technology.

Changes in the retail environment

- Everything turning digital
- Consumer needs diversifying

↓

Retailer challenges

- Limits to mass marketing

↓

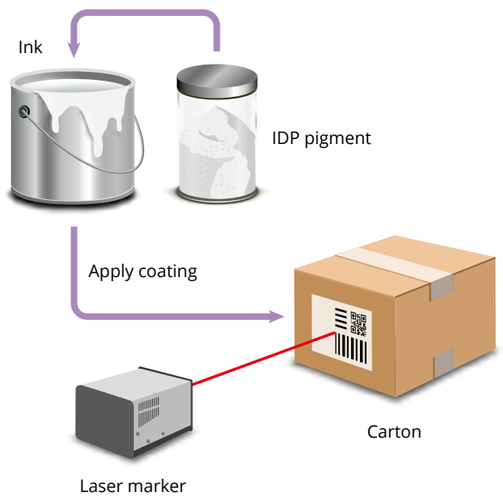
Changes demanded of retailers

- Consumer-centered marketing

New tagging technology that creates consumer value

IDP is direct marking technology owned by DataLase, our group company in the UK. Its heat-sensitive pigment is mixed into ink, which, when coated onto a substrate, develops color upon exposure to laser. Operations that currently use inkjet or thermal printers could print without consumables or servicing with this technology, reducing downtime and running costs. And by applying the laser-reactive coating only onto the variable parts of a product or packaging, businesses could print information at the very final stage of production or packing. Whether to prepare however many packages necessary only when they are necessary, or have the flexibility to personalize print for each individual, IDP fulfills these needs to realize both productivity and consumer value creation for retailers.

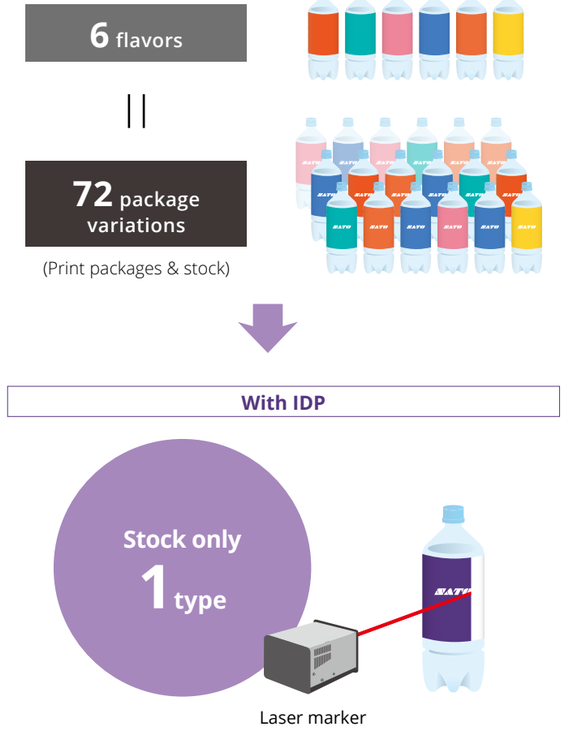
How IDP works



Diminish inventory of multi-variation packages

Manufacturers producing for customers worldwide in multiple languages or labeling specifications need to print and keep stock of numerous variations of the same package. But with IDP, which can print on a product or package at the very final leg of production prior to shipping, this could be cut to just one, with the development of multicolor printing. This is value for global manufacturers when preparing packages for promotional campaigns.

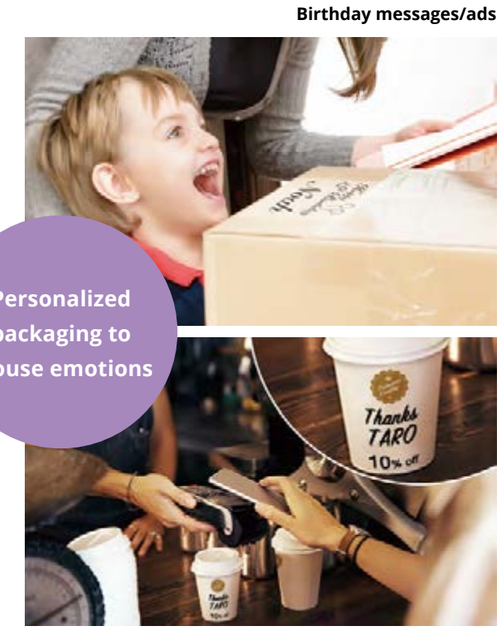
IDP reduces package variations



Offering consumers "My very own"

Planning global release of a faster- and mass-printing upgrade of the monochrome technology in 2019, we are currently undertaking R&D with PARC, a Xerox company in the US possessing the latest laser printing technologies, and aiming to market multicolor print in 2021. This will be when product packages could come to bear consumer-personalized information or the latest news or messages intended for particular consumer groups, and be delivered to their targets faster than ever. By providing consumers individually differentiated products with personalized wonder and excitement, we help our customers in their sales and profits — that's the game-changing B2B2C solution we seek to offer.

Personalized packaging solutions



From the CFO

Maintain overall financial health and improve capital efficiency to build a strong business base



Yoichi Abe

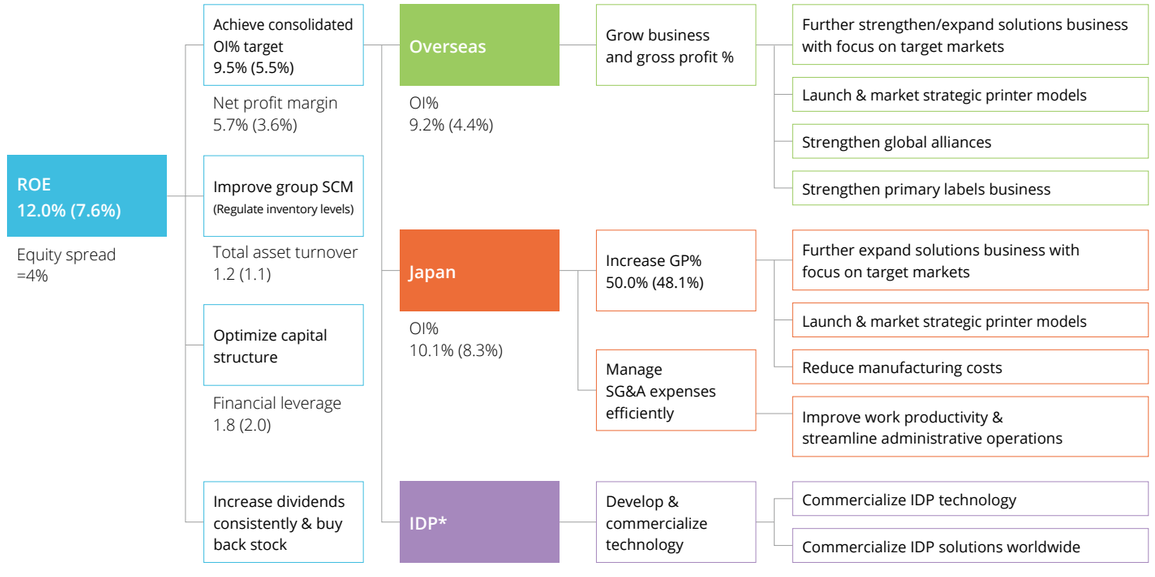
Director, Vice President and CFO,
SATO Holdings Corporation

Our financial strategy in line with the medium-term management plan

In SATO Group's FY 2018–2020 medium-term plan, we have defined our dedication to concentrating resources on our core business in auto-ID solutions and further establishing sustainable growth and stable profits. We follow this policy to develop a stable financial base and increase our business efficiency so as to ultimately maximize shareholder value (earnings per share).

The medium-term plan also associates strategies with investment plans, which are targeted at achieving sustainable growth by including a good balance of investments for both expanding existing businesses and creating new businesses in the future. To minimize investment risks, we set up a new Business Risk Committee under the board of directors in FY 2018. Headed by myself, this advisory committee will thoroughly study and evaluate justifications, business plan, risk analysis, and return on investment (with considerations to cost of capital and country risks involved) of projects from professional perspectives to submit opinions to the board for decision-making. Projects will also be monitored with greater care after implementation.

Roadmap to higher capital efficiency



- Figures in brackets denote FY 2017 actuals
- Cost of shareholders' equity estimated at 8%

* Aiming to break even in FY 2020 from current ¥1.4 billion operating loss

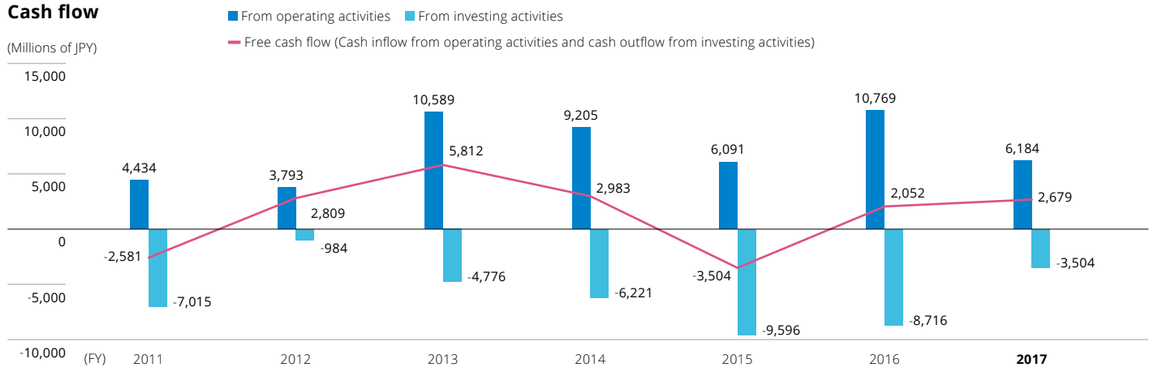
Improving capital efficiency

Recognizing ROE as one of the key benchmarks for capital efficiency, we have drafted a roadmap for the market and employees to understand that we drive business toward specific ROE and capital efficiency targets.
For FY 2020, we have set our target ROE at 12% and equity spread at 4% (with cost of shareholders' equity estimated at 8%), seeing the former figure as a level required in sustaining growth of our global businesses while remaining financially sound. Our aim is to improve this ratio over the long term.
Of the four building blocks outlined in our roadmap, we place top priority on increasing consolidated operating income ratio, and will work to particularly improve the profitability of our auto-ID solutions business overseas through investment of necessary resources.

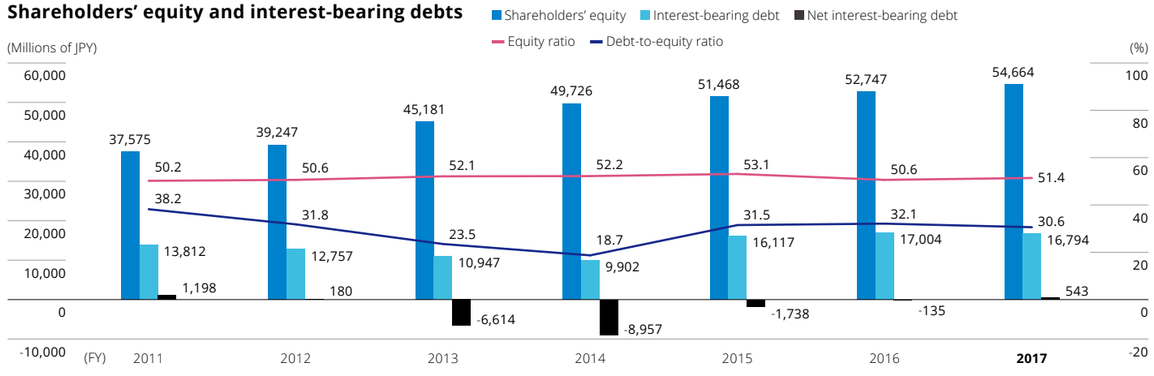
Managing cash flows and strengthening financial base

Our cash flow from operating activities in FY 2017 fell to ¥6.1 billion, partly because year-end closing coincided with a non-working day. Cash flow from investing activities, on the other hand, was contained at ¥3.5 billion as cash inflow from the sale of company-owned assets compensated for investments involved in setting up new label plants in Japan and overseas. This resulted in positive free cash flow of ¥2.6 billion overall.
The Group's basic stance on cash flow management is to maintain positive free cash flow, which we will keep up by making investments within the limits of our cash flow from operating activities and maximizing returns. We also set overall financial health as our top priority, controlling financial leverage at no more than 2.0 times (equivalent to equity ratio of at least 50%) without relying excessively on borrowings or other outside sources, and considering balance with dividends and other shareholder returns.

Cash flow



Shareholders' equity and interest-bearing debts



Sustainability

Basic policy

The SATO Group defined the following basic policy on actions for sustainability in July 2018.

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

Why we formulated the basic policy

Sustainability is not a new concept to SATO, as we have included it in our corporate philosophy as an inseparable aspect of our core business.
Through dialogues primarily with investors in recent years, however, we have become strongly conscious of how we create non-financial value that addresses social challenges through our core business, and realized that we needed to put together our basic views to help us drive business further and disclose related information proactively. While concepts such as CSR, ESG and SDGs are commonly used in this context, we concluded after in-house discussions that they all fall under “sustainability,” which is what society and our company should ultimately come to achieve. Although it took us repeated discussions with frontline employees, directors, and other internal stakeholders to work this idea into our policy, we were able to benefit from this process to build a common understanding in making sustainability not the objective but the natural outcome of our business.
Challenges faced by society change with time at increasing speed. SATO will confront and solve these challenges through our core business as our way of pursuing social and corporate sustainability, while we disclose what we do to the public to gain feedback for continuous improvements.

External recognition

“White 500” Outstanding Health and Productivity Management Organization

SATO has received certification as a White 500 company for the second consecutive year under the Certified Health and Productivity Management Organization Recognition Program operated jointly by METI* and Nippon Kenko Kaigi (Japan Health Conference).
Aimed at spreading awareness on employee wellness, the White 500 recognition is given to large companies (not limited to TSE-listed firms) that practice outstanding health-conscious management in collaboration with their health insurance providers.

2018 健康経営優良法人 Health and productivity ホワイト500

Diversity Management Selection 100 company

SATO is a Diversity Management Selection 100 company (selected in 2013) that METI recognizes as having excellent diversity management practices.

DIVERSITY 100 2013

* The Japan Ministry of Economy, Trade and Industry

Social commitment

Fostering talent that demonstrate *genbaryoku* and the spirit of SATO to create customer value and enhance the organization



Shigeki Egami
Executive Officer,
Chief Human Resources Officer (CHRO),
SATO Holdings Corporation

Basic concept

The SATO Group offers labor-saving, automated solutions to support the globalization of business activities and address needs for better productivity, food/medical safety and other issues affecting society. These ideas are driven from genbaryoku, the value that our employees create by going to the customers’ sites of operation to understand and solve their problems. It is what SATO employees demonstrate in order to become a reliable presence that customers can trust for answers and contribute to developing a sustainable world.

Building People, Building Business

As Chief Human Resources Officer, my mission is to instill genbaryoku and SATO Values — our fundamentals to creating value — in each and every employee, and by doing so, fill our offices worldwide with talents who can keep delivering value to customers. With this notion, we developed in FY 2016 a set of competencies that we expect our managers to develop, which we reflected into our ‘Building People, Building Business’ initiative. We also created a strategy roadmap for putting necessary HR structure and processes into place, which saw progress in FY 2017 both in Japan and overseas.
We will continue following the roadmap in FY 2018, while also exploring creative efforts such as building talent management systems or using Teiho (Page 2) in HR development.

HR roadmap

	Completed	FY 2018	FY 2019	FY 2020
Japan	Design new HR structure for managers	Kick off changes	Reinforce talent management	Achieve productive and rewarding workplaces
		New HR structure for managers	Train managers	Globally standardized manager trainings
	Define management competency	Talent management	Apply Big Data analytics to talent management	
	Devise ways to draw on experience of long-serving employees	New HR development model + career advancement		
		Promote workforce diversity (in terms of age, gender, etc.)		
	Set action menu for workstyle innovations	Trial of workstyle innovations	Results-oriented work practices	
		Prepare for HR investments overseas	Send koto-uri talents overseas (esp. Asia)	
Overseas	Conduct SATO Values workshops (Europe)	Spread SATO Values and management competency		
		Global grading system		
	Design concept of global-standard HR structure for executives	Review executive pay	Global-standard HR structure for executives	Globally standardized manager trainings
			Talent management	
	Pilot programs to train overseas employees at Japan HQ	Review expat rules and processes	Optimize expat system	
		Invest in koto-uri talents, starting with Asia		Global mobility policy
				Global career development for local employees
				Global benefit management

Building People, Building Business

Building People

Instilling SATO Values worldwide

Building on our corporate motto “Ceaseless Creativity” penned by founder Yo Sato, we have developed our corporate culture, values and code of conduct over time into what we now call SATO Values. Here at SATO, our colleagues around the world continuously collaborate and take on challenges with eyes on the company’s reason for being (Mission) and what it aims to achieve (Vision) to create new businesses, and inseparable from this action of Building Business is our approach on Building People. Our talent development program drives the two initiatives with equal importance to employees around the world. The current program focuses on “The Spirit of SATO” and SATO Values, and is targeted at all SATO Group members worldwide.
We also hold SATO Values workshops where we pick up, analyze and discuss case studies from around the global group that demonstrate how Credo-based actions have led to business success. By understanding the cases, we realize our winning strengths and areas of improvement, and would gain awareness on behaving in such ways. Starting in FY 2018, we added a module that aims to inspire future leaders of SATO by providing an understanding of how the corporate values came about.



Workshop in session

Focus

“The Spirit of SATO,” a booklet for all employees

Now distributed in e-book format, this handbook written by our second president Tokuo Fujita guides readers on what SATO does as a company and what behavior is considered the SATO Way using stories from the past. It is translated into eight languages, and now serves as a code of conduct that employees turn to for answers when forced to make difficult decisions.



From the Group

Members of our European offices gathered in Amsterdam for their first-ever SATO Values workshop. Participants came back with comments like, “Highly practical content,” and “Was worth every minute for the opportunity to discuss and exchange opinions with everyone.” Being able to meet face-to-face with colleagues from other countries whom you hardly get to meet and to talk about corporate values was a huge benefit to developing a sense of unity. By standing on the same common values we are able to collaborate with one another over our diverse historical and cultural backgrounds and produce successful results in our business. Every one of us here at SATO Techno Lab Europe now understands the importance of corporate values and is exercising them in our daily work.



Mats Hedberg
General Manager,
SATO Techno Lab Europe AB (Sweden)

Building Business

Practicing SATO Values to offer new value to our customers

— Otafuku Sauce case

Condiment maker Otafuku Sauce eyes growth of the restaurant and ready-made meals market. Setting strategic focus on made-to-order products, it launched a cross-functional ODM*1 project in 2016.
The project decided to develop a BIB*2 automatic filler equipped with a cooling device and automate its entire production line. SATO was there to support its post-production process with printers that print ingredient labels, cameras to verify the printed labels, auto-applicators using multi-axis robots, and a carton former to work with a sealer to assemble boxes for use in shipping and on cargo conveyors.
The printing procedure was done separately from the production line, on the fifth floor of its headquarters building. Employees would manually check print by sight, and then carry the labels to the line to be applied to the products by hand. If the line needed additional labels, someone had to go pick them up at the fifth floor, which was inefficient and inconvenient work that could be improved. And manual checks were hardly risk free, posing challenges in safety and reassurance critical to food manufacturers.

*1 Original Design Manufacturing: Designing and manufacturing products to another company’s specifications.
*2 Bag In Box: Volume containers (10L & 20L) used to fill food and chemicals. As they require time to cool their entire content, BIB filling lines rarely equip cooling devices.

Our team saw this, and suggested automating the process of printing and applying the labels and the procedures before and after them. For technologies we don’t own, such as cameras, multi-axis robots, conveyors and carton formers/fillers, the team sought support of our business partners to solve the customer’s challenges. While this process brought about difficulties that would never arise merely selling printers and linking them with systems, our Credo that encourages us to “inspire changes, new ideas, and the courage of promoting customer-centric innovation in the spirit of Ceaseless Creativity” ultimately drove the team to deliver far greater value to Otafuku Sauce than we ever had.
We believe that talent who exemplify and demonstrate SATO Values build our business, and that’s why we commit to Building People and Building Business.



From the customer

Accuracy and efficiency of our post-production procedures improved with automation, and by bringing the label printing operations down to the line, we’ve cut work time by 900 hours per year. It also allowed us to reallocate people from manual labor to more value-add work, which boosted motivation as well.



Kazunori Tani
Engineer, Production Technology Section, Head Office Factory, Otafuku Sauce Co., Ltd.

From the Group



Ryoichi Kono
Hiroshima Branch, SATO Corporation

With the automation request from Otafuku Sauce, I took on the challenge of suggesting our automation solutions. Some things were completely new for me, but I collaborated with experts in and outside the company, committing myself to exceed customer expectations. I’m now happy to hear the customer jokingly tell me that I should get a desk at their office.

Environmental commitment

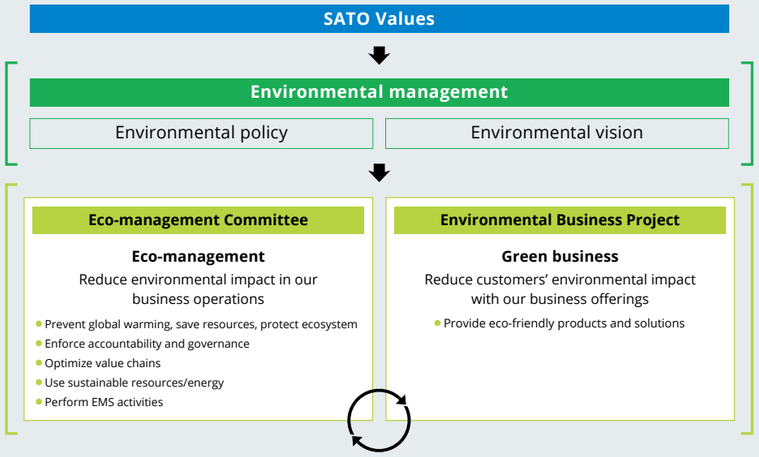
Eco-management for a sustainable world



Koichi Nishida
Director, SATO Holdings Corporation
Environmental Management Officer and
Chairperson of the Eco-management Committee

Basic concept

Recognizing environmental protection as a priority common to humankind, we uphold an environmental policy to not only provide products and services that are eco-friendly, but also conduct our business in harmony with the environment.
Our environmental vision is to enhance our corporate value through management that aims to realize a greener economy. These policy and vision direct us toward preventing global warming, creating a circular economy, and conserving biodiversity through our business activities.



Implemented hand in hand

Medium- to long-term targets and progress

Action items	Target contributions	Key indicators		FY 2017 results	FY 2018 targets	FY 2020 targets	FY 2030 targets
Reduce environmental impact in our business activities	Reduce Scope 1 & Scope 2 CO_2 emissions	Japan	CO_2 emitted, compared with FY 2013	Cut by 9.9%	Cut by 10%	Cut by 15%	Cut by 26%
	Reduce Scope 1 & Scope 2 CO_2 emissions (key production plants)	Overseas	CO_2 emitted, compared with FY 2015	Up 6.9%	Cut by 6%	Cut by 10%	Cut by 26%
Conduct activities to conserve forest ecosystem	Reduce CO_2 by participating in tree planting projects to conserve forests and coexist with nature	Japan/ Overseas	CO_2 absorbed	13.2t	13.2t	40.0t	145.0t

Focus

Our efforts for a circular economy

Since 2007, we have been working to sustain the value of products and resources in the economy for as long as possible to minimize waste. Whenever a customer switches to a new printer, we collect the old printer at no cost to disassemble it and recover the components or metals (iron, copper, brass, stainless steel, aluminum, rubber, wires, waste plastics, etc.) for reuse through recyclers.
In FY 2017, we recycled 10% more printers than the previous year, making 230 tons of materials reusable (including those from recycled service parts).


Recycling room at our East Japan Logistics Center


Parts sorted by material type

Special roundtable

Ryutaro Kotaki
President and CEO

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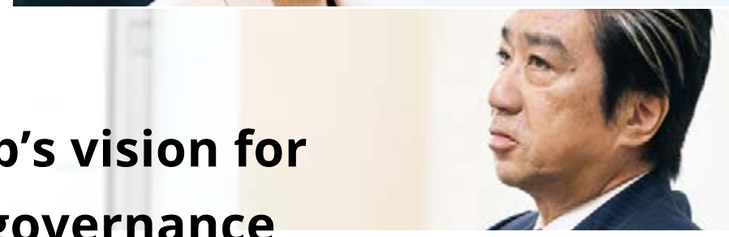
Yuko Tanaka
External director

×

Hideo Yamada
External director







Special roundtable

SATO Group's vision for corporate governance

SATO Group is committed to ensuring soundness and transparency of its management so as to realize sustainable growth and higher business value on a medium- to long-term basis. The following is a special roundtable regarding the present and future of our corporate governance.

SATO's governance and its challenges

Hideo Yamada: One key characteristic of SATO's board of directors is that it is comprised in majority by external directors (six out of 11), meaning that many outside perspectives are involved in directing and controlling the company. SATO's first external director was named in 1999 on the initiative of then-Chairman Tokuo Fujita, who aimed to realize a more vigilant and transparent board. This shows SATO's foresight in corporate governance, considering that the appointment of external directors only gained importance and limelight after the mid-2000s.
With external directors of diverse backgrounds tapping into their respective expertise to exchange opinions in an open and transparent manner, the board functions more effectively to contribute to the company's sound governance.

Ryutaro Kotaki: Indeed, the insights of external directors have been a strong force of support for business execution. Our recent establishment of a new Business Risk Committee (Feb 2018) is an example of us putting these insights to work. Reporting directly to the board of directors, this committee helps to identify and analyze risks that become necessary as we grow our business through, say, investments and M&As. As proposals are reviewed thoroughly in this committee before it reports the key arguments to the board, we are now able to make quick, accurate decisions on the essences of the discussion.

Yuko Tanaka: I, too, feel the progress SATO has made in strengthening its governance. Proper risk management is a must now, especially as more risks will surface with SATO

planning to grow its businesses overseas. The key here is for the company to collect as much negative information as possible from its frontline employees to use in risk analysis. It's generally the good news that is reported readily to the board of directors, so SATO must put in place an information sharing network across its offices worldwide to adequately capture the negative reports as well.



HY: I agree. Compared with companies operating only in Japan, global companies are naturally subject to more risks as their overseas businesses grow in size. This is particularly because headquarters often have difficulties monitoring and keeping up with details of what goes on at their overseas subsidiaries. In my career as an attorney working with many companies, I have found that most corporate scandals occur due to compliance issues at overseas subsidiaries. That's why I hope to help SATO assess risks properly while working closely with its new Business Risk Committee.

RK: Also contributing to governance is Teiho, our system for employees to submit reports to top management. For over 40 years now, this system has allowed all employees — regardless of rank or years of service — to share information or ideas freely, which has served as a means of monitoring misconduct or fraudulent behaviors for effective compliance. But as employees may be less forthcoming in disclosing governance failures or compliance breaches via Teiho reports that are linked to their names, we have also established external points of contact that are independent from management or execution functions to accept anonymous reports to be investigated and followed up on.

Diversity and human resources

YT: Employees committed to solving problems at customer sites are the source of value creation at SATO. In that sense, how the company develops and works with its talents should be one of its topmost priorities. With its group-wide policy that promises respect for individual differences including but not limited to race, ethnicity, gender, nationality, culture and religion, SATO can scale greater heights on the global stage if it can create a corporate climate for diverse talents with varying values and perspectives to realize their capabilities.



RK: Yes, diversity is a priority, and we are driving a number of initiatives. Hiring and training of female leaders and managers are areas we are particularly focused on.

We have also been driving workstyle innovations from perspectives of talent empowerment as well as work efficiency, although I am thinking that employee mindsets will have to change first. Even with the management showing the way, workstyle innovations are only skin-deep if employees stick to doing what others expect them to do or waiting to be told what to do. True workstyle innovations require that we turn passive employees proactive, which is a radical change we will make sure to achieve, no matter how much time it takes.



Engaging shareholders and investors

RK: I have met with some ten and more institutional investors since I took on the CEO post, and from our dialogues, I became keenly aware that little is known about how SATO's business contributes to the society. Auto-ID solutions have huge potential in tackling challenges faced by businesses around the world, and I'm hoping to find more opportunities to talk and communicate to help our investors better understand what it is that we do.

HY: In my opinion, an ideal company is one that coexists with its investors and all other stakeholders. In steering business forward, SATO should maintain strong awareness of the need to communicate and work closely with its stakeholders to create and share value, so as to stay relevant and survive into the future.

From vision to reality

YT: The more rapidly the business environment changes, the more important it is for companies to be aggressive in seeking new breakthroughs while deepening relations with other business counterparts, which I hope to support in my role as external director. As SATO's strength lies with the capabilities of its frontline employees to deliver solutions that focus on customer value, I will extend my full support to building an environment where employees can learn actively and upgrade their skills to further enhance this strength and realize the company's vision.



Ryutaro Kotaki President and CEO (left)

Hideo Yamada External director (center)

President, Yamada & Ozaki Law Office
Chairman, Akiko Tachibana Memorial Foundation

Attorney since 1984, Yamada has specialized in corporate law and general civil cases. He has served as external auditor/director of numerous companies following his first appointment to Taiyo Chemical Industry's audit & supervisory board in 1998. External Director of SATO since 2004.

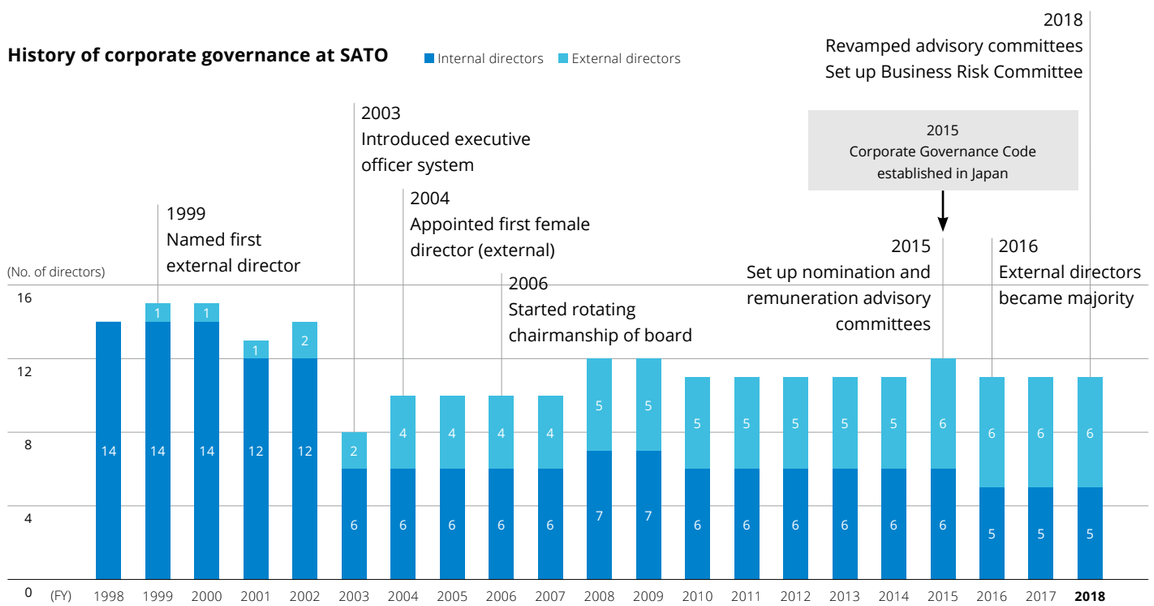
Yuko Tanaka External director (right)

President, Hosei University
Professor with the Department of Media and Communication Studies (Faculty of Social Sciences) and the Research Center for International Japanese Studies, both at Hosei University

With her extensive experience and broad knowledge as faculty professor (since 2003) and President and Chief Trustee (since 2014) of Hosei University, Tanaka has been actively offering suggestions on diversity management to our board of directors following her appointment as External Director in 2004.

HY: To raise corporate value on a medium- to long-term basis, SATO must go beyond pursuing profits to improving its environmental, social and corporate governance (ESG) practices. Together with other directors, we will take the lead in exercising the fundamental concept of SATO's management to share returns with its four stakeholders: shareholders, employees, society, and the company.

History of corporate governance at SATO



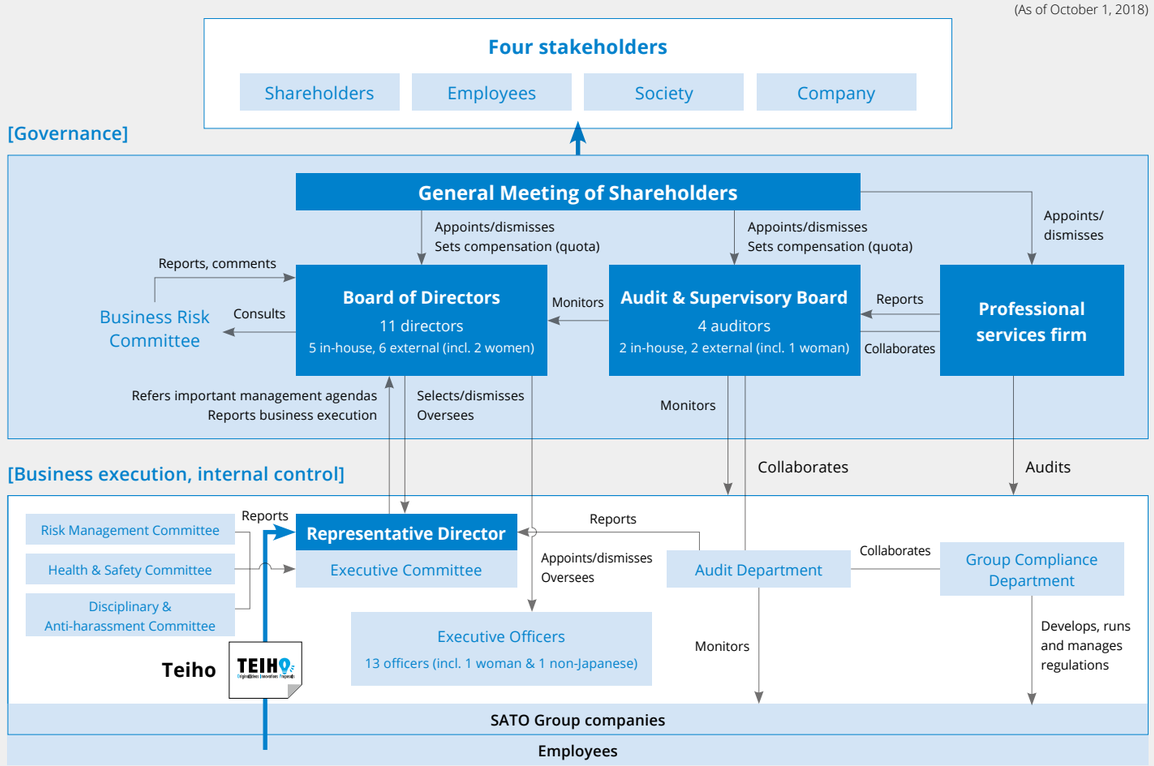
Corporate governance

Basic concept

We aim to realize sustainable growth and higher corporate value on a medium- to long-term basis under our vision of becoming "the leader and most trusted company in the auto-ID solutions industry worldwide, exceeding customer expectations in an ever-changing world." We believe that building and continuously strengthening our corporate governance system to support these aims is critical to ensuring the soundness, transparency, and efficiency of our management.
In developing a sound foundation for this system, we seek to achieve effective corporate governance for our shareholders and other stakeholders by enhancing functionality of our Audit & Supervisory Board and management oversight of our board of directors, which is structured to constitute a majority of independent external directors for a high standard of transparency.

SATO's corporate governance

(As of October 1, 2018)



1. General meeting of shareholders

Create deeper understanding of our company through dialogue with shareholders

Aside from its intended function to vote on proposals concerning distribution of earned surplus, election of board members, and other major matters for resolution, the general meeting of shareholders serves as the most important opportunity for us to engage in direct dialogue with shareholders. We take care to address any feedback or questions raised to develop greater understanding of our company.

2. Board of directors

Improve effectiveness of the board by continuously strengthening its functionality

We believe we can achieve effective corporate governance by making our board of directors function more robustly.

(a) Involve external directors in active discussions

We have increased the number of our external directors from one in 1999 to two or more since 2002, and to now account for the majority of our board as board independence gains growing importance. All six selected external directors at present (of which two are women) have expert knowledge and extensive experience in diverse fields to support our aims in realizing sustainable growth and higher corporate value on a medium- to long-term basis.

(b) Revamp advisory committees for effective use

In February 2018, we established a new Business Risk Committee to advise the board of directors with identifying, analyzing, and continuously monitoring risks that the company would take in driving business. As our board is already comprised in majority of independent external directors from diverse backgrounds, we have abolished the nomination and remuneration advisory committees for the board to better serve its actual functions in line with Corporate Governance Code principles.

(c) Evaluate the board's effectiveness

We regularly conduct surveys to analyze and evaluate the effectiveness of our board of directors to check our corporate governance and take appropriate measures.
Evaluation results from May 2018 showed that the board, with external directors raising questions and opinions freely in constructive discussions, is functioning better than ever and maintains its effectiveness in making important management decisions and supervising business execution.

(d) Have directors chair the board in rotation; no assigned seating

Since 2006, directors (now limited to external directors and internal directors without executive responsibilities) chair the board in rotation to ensure transparency and fairness in management. There are also no formal seating assignments at board meetings for the same reason.

(e) Set up meetings for non-executive directors and Audit & Supervisory Board members

Besides attending board meetings, non-executive directors also meet with Audit & Supervisory Board members regularly for free discussion to identify and sort out medium- to long-term management issues.

3. Audit & Supervisory Board

Provide accountability to stakeholders through vigilant cooperation

Audit & Supervisory Board members (four including two external), who have been voted on by our shareholders, attend important meetings including board of directors meetings, and exchange opinions regularly with our representative director to share matters concerning corporate governance and discuss their solutions. This board has access to Teiho and weekly reports (submitted by employees), information from internal networks (shared by in-house members on the same board), and complaints of misconduct (reported via external channels) to help it develop a common understanding, duly reflecting the objective perspectives and knowledge of its external members.

4. Executive Committee

Make decisions for efficient business execution

The Executive Committee, comprised of executive officers, reviews important matters related to the company's overall management and makes decisions for execution or submission to the board of directors.
Its meetings are also attended by internal directors and Audit & Supervisory Board members who provide advice as necessary.

5. Teiho

Empower employees to participate in company management

Introduced in 1976, Teiho is SATO's very own system for employees to submit short daily reports (written within a set word count) about new information or ideas derived from work and interactions with customers directly to top management. The Teiho system is an important pillar of our corporate culture that helps top management stay at the forefront of situations inside and outside the company to facilitate quick decision-making and actions, while allowing employees to think and take part in running the company from the management's perspective. And as everyone regardless of rank or years of service participates, it serves as a form of monitoring to prevent misconduct or fraudulent behaviors for effective compliance.

6. Other practices for supporting corporate governance

- The Audit Department conducts financial audits, operational audits, and internal control evaluations for different departments and SATO Group companies.
- The Group Compliance Department works with administrative departments in the SATO Group to set operating standards, ensure compliance with existing rules, and provide support for improvement from the perspective of group-wide optimization.
- The Risk Management Committee identifies risks associated with natural disasters, accidents, and other unforeseen circumstances that would significantly harm our business value, and draws up countermeasures for such risks should they occur.
- The Health & Safety Committee defines basic guidelines to prevent accidents at work, maintaining and enhancing the well-being and safety of employees while creating a conducive environment for our workplaces.
- Employees can report governance failures or compliance breaches with anonymity via channels that are set up at external law firms and managed by the Audit & Supervisory Board.

Management team

(As of October 1, 2018)

Directors and Audit & Supervisory Board Members



Nobuhiro Yokoi
Audit & Supervisory Board Member

Junichi Nagakura
Audit & Supervisory Board Member

Tatsuo Narumi
Director

Ryutaro Kotaki
President and CEO

Koichi Nishida
Director

Ikuo Dobashi
Director

Yoichi Abe
Director, Vice President and CFO

Takao Yamaguchi External
Audit & Supervisory Board Member
President, Yamaguchi C.P.A. Office

Noriko Yao External
Audit & Supervisory Board Member
Partner, TMI Associates

Ken Suzuki External
Director
Chairman, Vital KSK Holdings, Inc.
Chairman, Vital-Net, Inc.

Mitsuaki Shimaguchi External
Director
Professor Emeritus, Keio University
President, Japan Marketing Association

Yuko Tanaka External
Director
President, Hosei University
Professor, Department of Media and Communication Studies, Faculty of Social Studies, Hosei University
Professor, Research Center for International Japanese Studies, Hosei University

Ryoji Itoh External
Director
Project Professor, Graduate School of Media and Governance, Keio University
Representative Director, Planet Plan. Co., Ltd.

Chieko Matsuda External
Director
Professor, Graduate School of Social Sciences, Tokyo Metropolitan University
Professor, Faculty of Urban Liberal Arts, Tokyo Metropolitan University

Hideo Yamada External
Director
President, Yamada & Ozaki Law Office
Chairman, Akiko Tachibana Memorial Foundation

Executive Officers

Yoshinori Sasahara
Vice President, SATO Holdings Corporation
Director and Vice President, SATO Corporation

Akihiro Kushida
Vice President, SATO Holdings Corporation
Director; General Manager of Production, SATO Corporation

Kenji Ushiki
Vice President, SATO Holdings Corporation
Director; General Manager of R&D, SATO Corporation

Keisuke Yamada
Executive Officer, SATO Holdings Corporation
Chairperson and President, Argox Information Co., Ltd.
Managing Director, SATO Argox India Pvt. Ltd.

Maria Olcese
Executive Officer, SATO Holdings Corporation
Head of South America
General Manager, Achernar S.A.

Hiroyuki Konuma
Executive Officer,
Chief Wellness Officer (CWO),
SATO Holdings Corporation
Head of PJM business
President, SATO Healthcare Co., Ltd.

Hironori Onishi
Executive Officer, SATO Holdings Corporation
Director; General Manager of Sales, SATO Corporation

Shigeki Egami
Executive Officer,
Chief Human Resources Officer (CHRO),
SATO Holdings Corporation
Head of Kitakami Operations

Noriyasu Yamada
Executive Officer,
Chief Product Planning Officer (CPO),
SATO Holdings Corporation

Goro Yumiba
Executive Officer, SATO Holdings Corporation
Head of North America
Chairperson and CEO, SATO America, LLC.

Hayato Shindo
Executive Officer, SATO Holdings Corporation
President of SATO International Co., Ltd.
Head of Europe

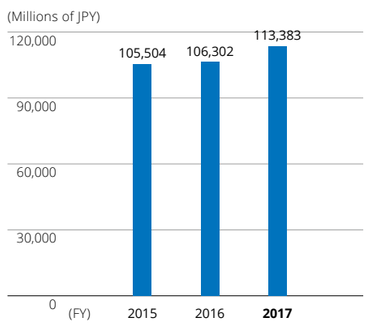
Financial review for FY 2017

Financial performance for fiscal year ended March 2018 (FY 2017)

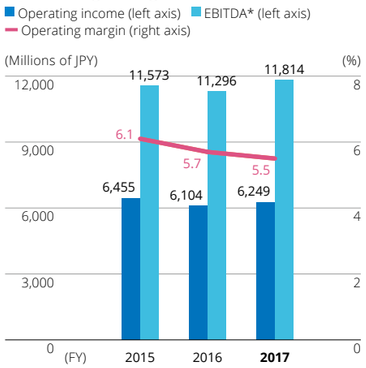
Our Group recorded sales of ¥113,383 million (up 6.7% from previous year), operating income of ¥6,249 million (up 2.4%), ordinary income of ¥5,888 million (up 8.5%) and profit attributable to owners of parent at ¥4,074 million (up 26.5%).

Sales figures were the highest ever for the fifth consecutive year, while our core auto-ID solutions business achieved its first highest-ever profit in three years owing to a strong showing from the Japan business.

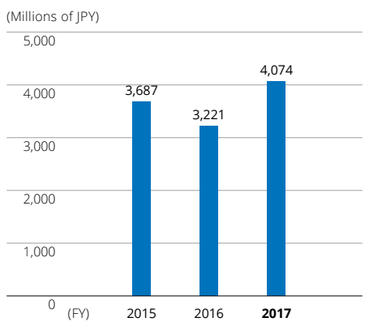
Sales



Operating income, operating margin, EBITDA



Profit attributable to owners of parent



* EBITDA = operating income + depreciation + amortization

By business segment

• Auto-ID solutions (Japan)

The auto-ID solutions business in Japan generated a year-on-year increase in revenues across all markets amid robust demand primarily from the manufacturing and logistics sectors. Sales reached a record high, surpassing initial forecasts and previous year's levels.

As the effects of an aging workforce and labor shortage continue to surface nationwide, companies face the common need to increase productivity and optimize business operations. This has heightened the demand for automation and operational efficiency, significantly increasing consultations on solutions using RFID and collaborative robots. We are also seeing rising needs for greater accuracy and traceability in the manufacturing, health care and food markets.

Our commitment to "Sell the solution, not the product" with focus on increasing customer value resulted in marked growth in transactions involving all-inclusive solutions of maintenance services, consumables products and software, which also boosted sales volume of our strategic CLNX printer series. These factors ultimately led to increased sales and profits and improved profitability.

We aim to further strengthen our ability to propose solutions for the increasingly sophisticated challenges of our customers, while collaborating with partners to grow this business stably.

Under these circumstances, net sales rose by 4.8% to ¥70,482 million and operating income by 27.5% to ¥5,831 million compared with the previous fiscal year.

• Auto-ID solutions (Overseas)

Our core business overseas posted higher sales and profits amid moderate recovery in the global economy. Yet overall profits declined for our companies specializing in primary labels, as improved revenues/earnings at Prakolar in Brazil owing to increased sales of high value-add labels were unable to offset the drop in operating income at Okil-Holding of Russia as its gross profit margin declined from foreign currency effects and increased up-front investments aimed to improve productivity and create new business opportunities.

In other countries, some sales subsidiaries recorded operating losses due to increased software development expenses (SATO Global Solutions, Inc., US) or higher costs as a result of factory relocation and foreign currency effects (UK). But as subsidiaries in the US, Germany and the Asia and Oceania regions delivered steady performance from switching to "selling the solution, not the product" and their CLNX sales followed, sales and profits increased for our base business overall.

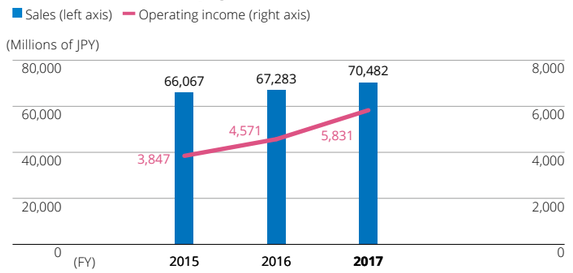
Under these circumstances, net sales rose 9.4% from the previous fiscal year to ¥42,585 million (increase of 4.0%, excluding foreign currency effects) and operating income 13.1% to ¥1,865 million.

• Materials

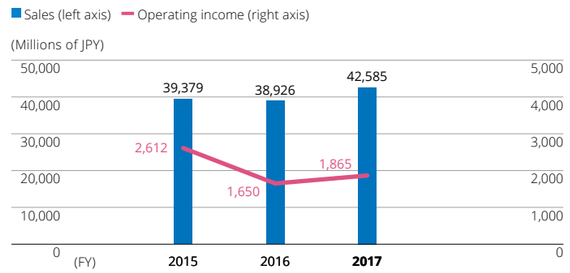
Officially a new segment from FY 2017, our materials business sets Inline Digital Printing (IDP) as its core technology after fully acquiring UK-based DataLase in January 2017. Despite consolidation of sales revenue from existing DataLase customers, the segment recorded operating loss due to R&D costs, up-front investments on the technology, and amortization of acquisition-related goodwill. DataLase continues discussions with multiple partners and customers on joint technology developments and full-scale IDP rollout, and a number of specific projects are currently underway. In November 2017, it started working together with Palo Alto Research Center (PARC; a wholly owned subsidiary of Xerox located in California, US) to develop a multicolor platform for the technology. Within our Group, we have started specific initiatives aimed at creating synergies with our existing businesses through sharing and exchanging technical knowledge between DataLase and other group companies, and uncovering new customer needs.

Under these circumstances, net sales rose 242.6% to ¥315 million (free from foreign currency effects), and operating loss to ¥1,426 million compared with that of ¥240 million for the previous fiscal year.

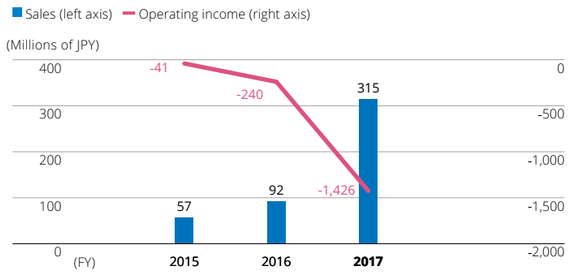
Auto-ID solutions (Japan)



Auto-ID solutions (Overseas)



Materials



Forecasts for fiscal year ending March 2019 (FY 2018)

We aim to achieve the consolidated targets disclosed on May 8, 2018, of sales at ¥120,000 million (up 5.8% from the previous fiscal year), operating income at ¥7,300 million (up 16.8%), and profit attributable to owners of parent at ¥4,100 million (up 0.6%), which is set at a slight increase as we do not anticipate the same level of extraordinary income as in FY 2017 when we sold off non-current assets.

Steady demand for automation and operational efficiency is likely to continue in our auto-ID solutions market. We will meet this demand by strengthening collaboration between our group companies in Japan and abroad, and expanding on "selling the solution, not the product" to solve our customers' operational issues and offer greater value. By closing many opportunities that exist for the overseas business — our growth driver — we expect to boost revenue significantly to achieve record sales and operating income.

Our increased focus on the IDP business* will see further investments into R&D, which will expand operating loss. Setting sight on advancing the current monochrome IDP technology to take on higher speed and resolution for greater selling potential, we will carefully control progress of the project aiming to commercialize the improved technology in FY 2019 and break even in FY 2020.

We will promptly execute our strategies in the medium-term management plan and devote our Group's efforts to achieving our objectives.

* The Materials business was renamed IDP business in FY 2018.

Financial summary

Fiscal years ending March 31

(Millions of JPY)

	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017
Business performance											
Sales	87,790	78,163	74,917	78,368	80,536	87,256	96,773	99,831	105,504	106,302	**113,383**
Overseas sales ratio (%)	31.6	26.8	24.2	23.7	23.0	25.6	29.3	33.2	37.3	36.6	**37.8**
Gross profit	37,857	32,399	31,279	33,018	34,217	36,410	41,180	42,708	44,942	45,022	**48,655**
Selling, general and administrative expenses	32,453	31,669	28,705	28,791	29,564	30,958	34,421	35,264	38,487	38,917	**42,405**
Operating income	5,404	730	2,574	4,226	4,652	5,452	6,758	7,444	6,455	6,104	**6,249**
EBITDA (Operating income + depreciation + amortization of goodwill)	8,208	3,565	5,123	6,417	6,830	8,213	9,871	11,044	11,573	11,296	**11,814**
Profit attributable to owners of parent	2,062	2,050	781	503	1,953	2,726	4,295	3,763	3,687	3,221	**4,074**
Financial position											
Total assets	66,103	61,692	64,203	66,134	74,830	77,521	86,737	95,174	96,887	104,280	**106,447**
Net assets	36,671	35,918	35,985	34,929	36,172	40,205	46,734	53,158	52,155	54,217	**56,225**
Research and development	1,728	1,922	1,826	1,902	1,859	2,042	2,225	2,292	2,414	2,387	**2,994**
Capital expenditures	2,424	2,361	2,387	5,084	1,836	3,059	6,106	7,372	6,717	5,723	**9,044**
Depreciation and amortization of goodwill	2,804	2,835	2,549	2,190	2,177	2,760	3,112	3,599	5,118	5,191	**5,565**
Cash flow											
Cash flow from operating activities	4,108	4,994	5,860	1,595	4,434	3,793	10,589	9,205	6,091	10,769	**6,184**
Cash flow from investing activities	-2,522	-2,217	-2,093	-4,283	-7,015	-984	-4,776	-6,221	-9,596	-8,716	**-3,504**
Free cash flow (Net cash provided by operating activities and cash used in investing activities)	1,585	2,777	3,766	-2,687	-2,581	2,809	5,812	2,983	-3,504	2,052	**2,679**
Cash flow from financing activities	-793	-2,476	-826	-3	3,273	-2,839	-1,511	-3,062	3,254	-1,343	**-3,458**
Cash and cash equivalents at end of year	11,035	10,814	13,774	10,813	11,377	11,992	16,763	17,145	16,212	16,757	**16,026**
Per-share data (JPY)											
EPS (Earnings per share)	66.70	67.40	25.95	16.71	64.87	90.56	141.57	113.96	110.07	96.07	**121.54**
BPS (Book value per share)	1,195.69	1,189.50	1,191.84	1,156.88	1,201.02	1,330.77	1,454.90	1,579.15	1,525.09	1,579.53	**1,634.69**
DPS (Dividends per share)	33	33	33	34	35	37	40	45	55	60	**65**
Financial indicators (%)											
Gross profit margin	43.1	41.5	41.8	42.1	42.5	41.7	42.6	42.8	42.6	42.4	**42.9**
Operating income ratio	6.2	0.9	3.4	5.4	5.8	6.2	7.0	7.5	6.1	5.7	**5.5**
EBITDA margin	9.4	4.6	6.8	8.2	8.5	9.4	10.2	11.1	11.0	10.6	**10.4**
ROA (Return on assets)	7.1	0.6	3.6	5.7	5.9	7.1	8.6	8.2	6.4	5.4	**5.6**
ROE (Return on equity)	5.6	5.7	2.2	1.4	5.5	7.2	9.9	7.6	7.1	6.2	**7.6**
Equity ratio	55.4	58.1	55.9	52.7	48.3	51.7	53.7	55.6	52.8	50.8	**51.5**
Debt-to-equity ratio*	18.5	17.1	19.6	24.9	38.2	31.8	23.5	18.7	31.5	32.1	**30.6**

* Includes lease obligations and zero coupon convertible bonds

Stock information (As of March 31, 2018)

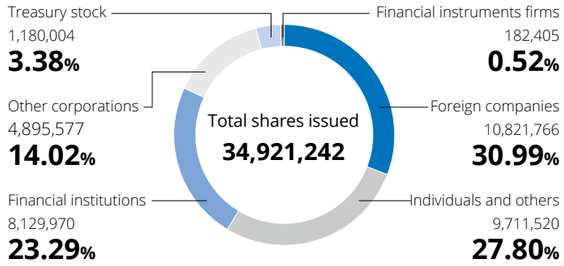
General information

Shares authorized	80,000,000
Shares issued	34,921,242
Shareholders	7,573
Stock listing	First section of the Tokyo Stock Exchange
Securities code	6287
Fiscal year	April 1 to March 31
General meeting of shareholders	June
Shareholder registry administrator	Mitsubishi UFJ Trust and Banking Corporation

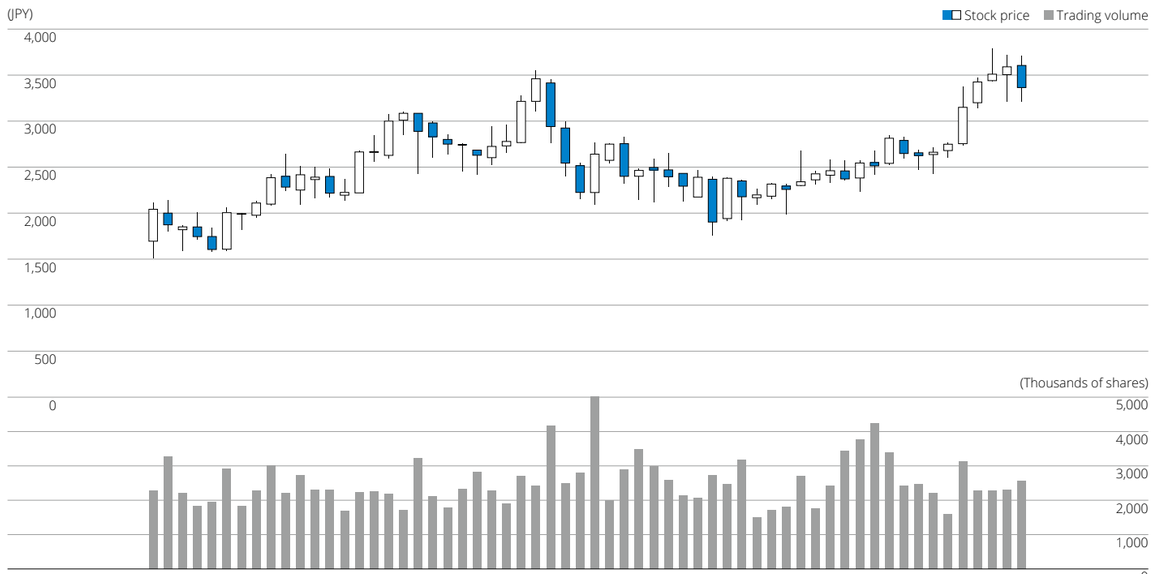
Major shareholders

Name	Shares owned	% of shares outstanding
Japan Trustee Service Bank, Ltd. (trust account)	4,857,600	14.39
Sato Yo International Scholarship Foundation	3,786,200	11.22
The Master Trust Bank of Japan, Ltd. (trust account)	1,502,500	4.45
CBNY–Government of Norway	1,383,794	4.10
SATO Employees' Stockholding	1,170,934	3.47
Goldman, Sachs & Co. Reg	1,052,800	3.12
Mieko Yokoi	900,145	2.66
Shizue Sato	897,470	2.65
Arena Co.	854,460	2.53
Mari Iwabuchi	794,570	2.35

Composition of shareholders



Stock price and trading volume



(JPY)	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017
High	2,640	3,105	3,550	2,676	3,785
Low	1,511	2,133	2,090	1,761	2,236
Fiscal year-end	2,391	2,725	2,396	2,372	3,365

Corporate data (As of March 31, 2018)

Corporate data

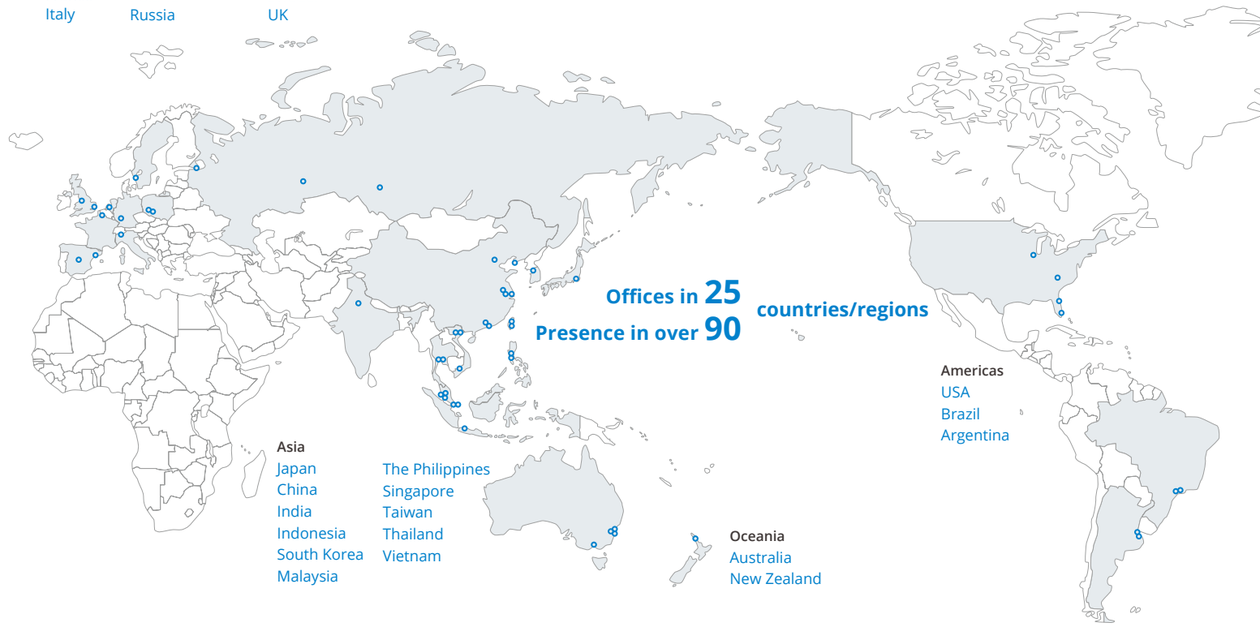
Name	SATO HOLDINGS CORPORATION
Location	Knowledge Plaza, 1-7-1 Shimomeguro, Meguro-ku, Tokyo 153-0064, Japan
Established	1940
Incorporated	1951
Representative director	Ryutaro Kotaki, President and CEO
Paid-in capital	¥8.4 billion
Employees	5,076
Consolidated sales	¥113.4 billion

For more IR information, see:
www.satoworldwide.com/investor-relations.aspx



Global network (As of September 1, 2018)

Global network



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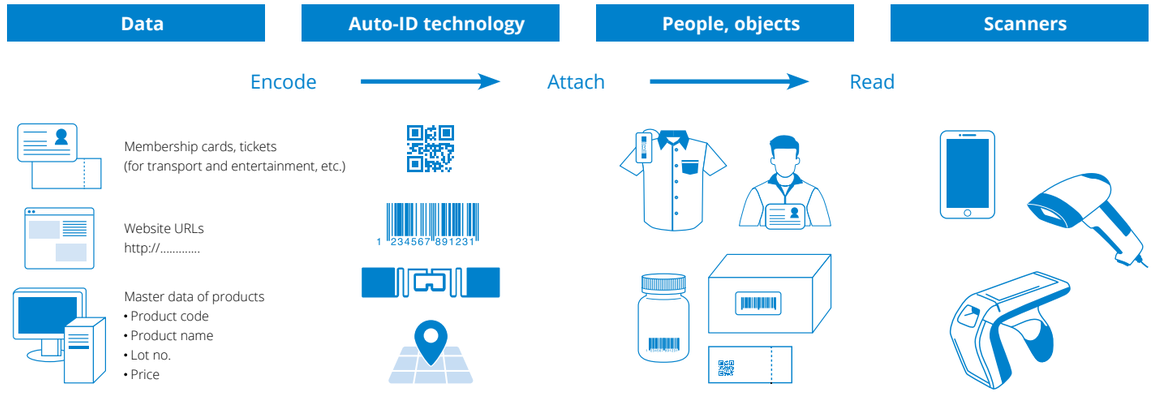
For investors: www.satoworldwide.com/investor-relations.aspx

Disclaimer

All information in this report, including the financial outlook, future forecast and strategies, is presented from judgments that are based on reasonable predictions made from information available at the time this report was prepared. Please note that actual results and performance may vary due to unforeseeable risks, events or consequences.

Basics of auto-ID technology

Auto-ID (automatic identification) is the technology we see in barcodes and RFID that allows information to be entered or identified automatically. It is used in distribution, logistics, manufacturing, service, health care, and many other sectors of daily life.



Barcode

An array of parallel, rectangular bars and spaces of varying widths used to represent data in machine-readable form. Popular for their low cost and highly reliable identification, barcodes are now an integral part of social infrastructure.
Most, if not all, consumer products on the market in Japan today are marked with barcodes to facilitate retail checkout procedures.





This barcode is specific to this particular product.

Two-dimensional (2D) barcode

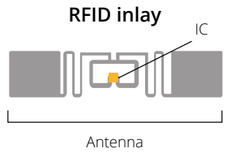
A pattern of squares, hexagons, dots, and other shapes used to represent data in machine-readable form. 2D barcodes store data horizontally and vertically so exponentially more data (including text data containing Japanese kana and kanji characters) can be encoded in a much smaller space compared with linear barcodes. This makes them popular for a wide range of applications such as consumer advertising (links to websites), entertainment ticketing, and tracking of electronic parts.





RFID

Short for Radio Frequency Identification, RFID is a method that uses radio waves for reading and writing data without making contact. Readable even when stained or in harsh environments, RFID tags can be read by batch and over long distances or through intervening objects as long as they are within the range of the reader.
RFID technology has developed rapidly to find its way into various applications such as incoming goods inspection, inventory control, and stocktaking.





Locating technologies

Best known by GPS*1 and IPS*2 which are capable of locating people or objects outdoors and indoors respectively, locating technologies have significant applications in self-driving vehicles, navigation, security tracking, and activity analyses.
IPS, in particular, is a core aspect of SATO's Visual Warehouse solution that measures operational data within logistics warehouses (e.g., distance between/traveled by workers and goods, time spent on jobs) at high precision and in real time to improve productivity.



*1 Global Positioning System
*2 Indoor Positioning System

SATO terminologies

* Underlined terms are elaborated under separate entries in the same table

Term	Description*
Auto-ID solutions business	Our business that carries out DCS & Labeling +One. It specifically involves integrating barcode printers, labels, software and services designed/manufactured in-house and products from partners to enable tagging and matching data with people and things to resolve customers' worksite issues. This business is separated into the overseas and Japan segments, with the former comprised of the Base business and the Primary Labels business.
Auto-ID solutions business overseas: **Base business** **Primary Labels business**	The overseas segment of our auto-ID solutions business that is made up of the Base business (to offer the tagging of variable information at worksites) and the Primary Labels business (to offer fixed information labels such as labels on beverages and everyday goods). The latter operates from four SATO Group companies: Achernar (Argentina), Prakolar (Brazil), Okil (Russia) and X-Pack (Russia).
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.
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. Working in line with increasingly sophisticated user needs, SATO pursues a policy of open innovation and partnerships to combine value-added "+One" technologies, such as voice recognition and location tracking, with its legacy business model to deliver greater customer value.
Genbaryoku	Our core competency of going to customer sites to understand their operations and identify the essence of issues to offer optimized solutions.
IDP **(Inline Digital Printing)**	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. 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 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 multicolor capability — crucial for enhancing marketing effectiveness — is currently underway with target commercialization in FY 2021.
IDP business	Our business for developing, manufacturing and selling special materials used mainly in IDP. A reporting segment established new in FY 2017 as "Materials business," it was renamed "IDP business" in FY 2018 to reflect our focus on IDP technology.
Matching data with people and things	Connecting people and things at customer sites with information. Ever since our days pioneering in hand labelers made for tagging price information to products, this concept has remained central to SATO's business.
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, allowing for even small service teams (as is often the case overseas) to provide improved support.
Tagging	The physical process of attaching identifier data to people and things. 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***.
Variable information	Information elements such as barcode, product price, manufactured or expiry date that vary with every customer's site of operation. Labels containing variable information can be printed on-demand as and when needed, unlike fixed information labels that are printed at large quantities in a single run.

Editor's note

We hope you enjoyed reading Integrated Report 2018 and found it useful in furthering your understanding of the SATO Group's value creation story. It is thanks to your support that we are able to bring you this annual publication for the fourth consecutive year.
Our Group started a new chapter in its business this fiscal year with a new CEO, and will continue to create value through our business, working toward achieving our medium-term management plan while engaging in sustainability efforts. The chapter is yet to develop, and that's why we hope to develop this publication further as an effective means for us to communicate with our stakeholders. Feel free to contact us with your feedback should you have any, and do offer us your continued support in our business operations. Thank you.

Shinichi Takagi
Head of IR Office



The Integrated Report 2018 production team