Ceaseless Creativity for a Sustainable World

February 8, 2019

SATO HOLDINGS CORPORATION

FY2018 Q3 Financial Results

(Nine Months Ended December 31, 2018)

Securities Code: 6287

Summary of Apr-Dec 2018

Consolidated sales and OI increased YoY.

Auto-ID Solutions business ▶ **Progressed steadily.**

Overseas : Recovery momentum mostly continued despite some soft spots.

Japan : Growth remained solid despite some adverse external environments.

IDP business ▶ R&D progressed largely as planned.

Sales and OI by Business Segment

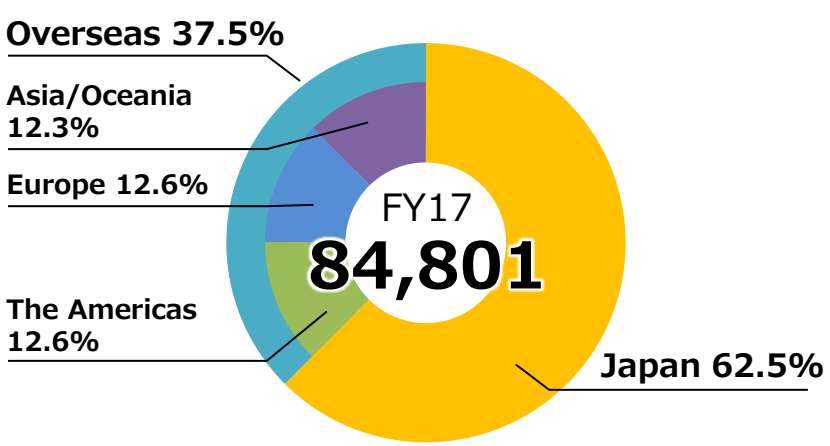
(Millions of JPY)

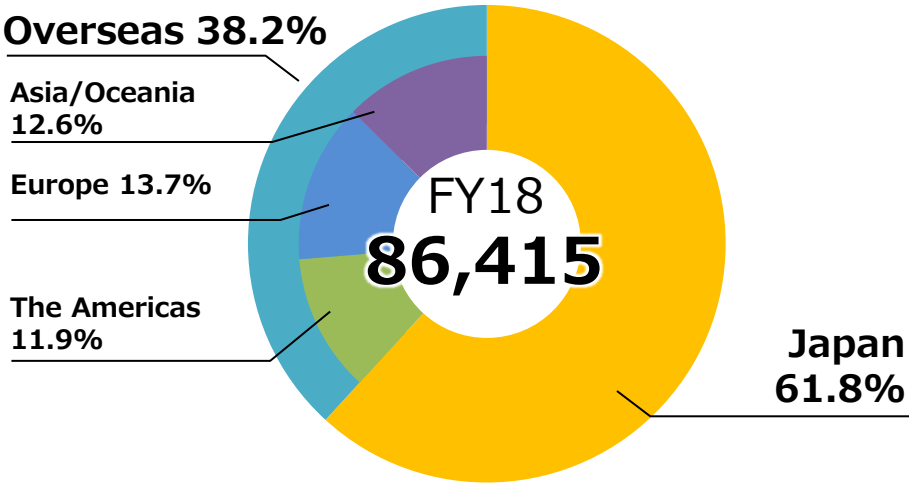
		FY2018	FY2017	YoY	excl. FX impact
Auto-ID Solutions business	**Total Sales**	**86,415**	**84,801**	**101.9%**	**103.7%**
	Operating Income	**6,586**	**5,823**	**113.1%**	**116.4%**
Overseas	Total Sales	33,017	31,829	103.7%	108.6%
	Operating Income	1,894	1,763	107.4%	111.2%
Japan	Total Sales	53,397	52,971	100.8%	100.8%
	Operating Income	4,691	4,059	115.6%	118.6%
IDP business	**Total Sales**	**346**	**215**	**161.1%**	**160.5%**
	Operating Income	**-1,013**	**-1,083**	**-**	**-**
Consolidated (incl. eliminations)	**Total Sales**	**86,761**	**85,016**	**102.1%**	**103.9%**
	Operating Income	**5,444**	**4,675**	**116.4%**	**120.6%**

Sales and OI by Region

(Millions of JPY)

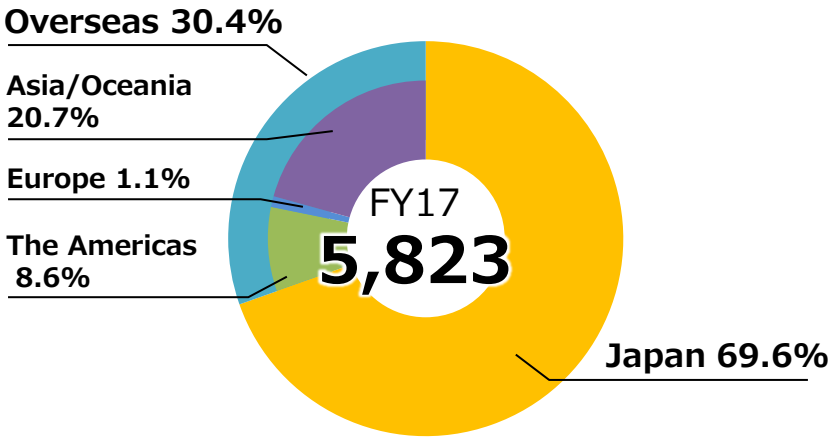
Sales



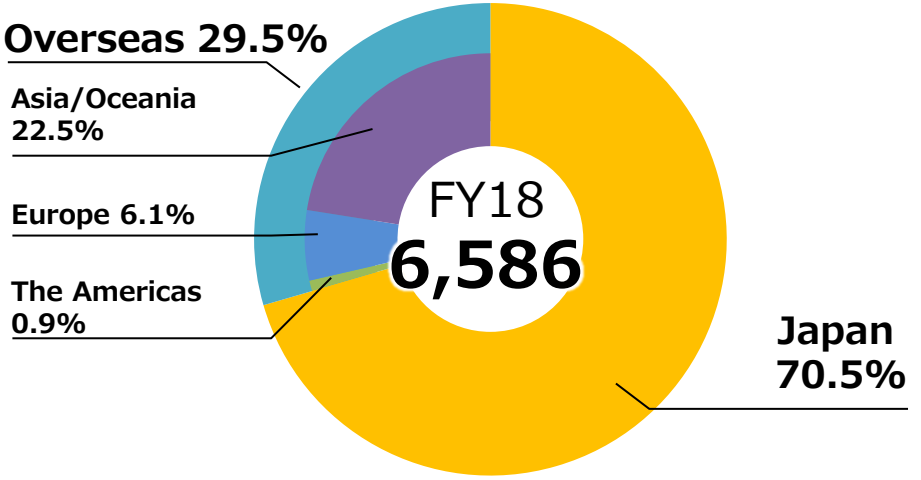


Operating Income

*Ratio excludes eliminations.



OI ratio: **Japan: 7.7%, Overseas: 5.5%**

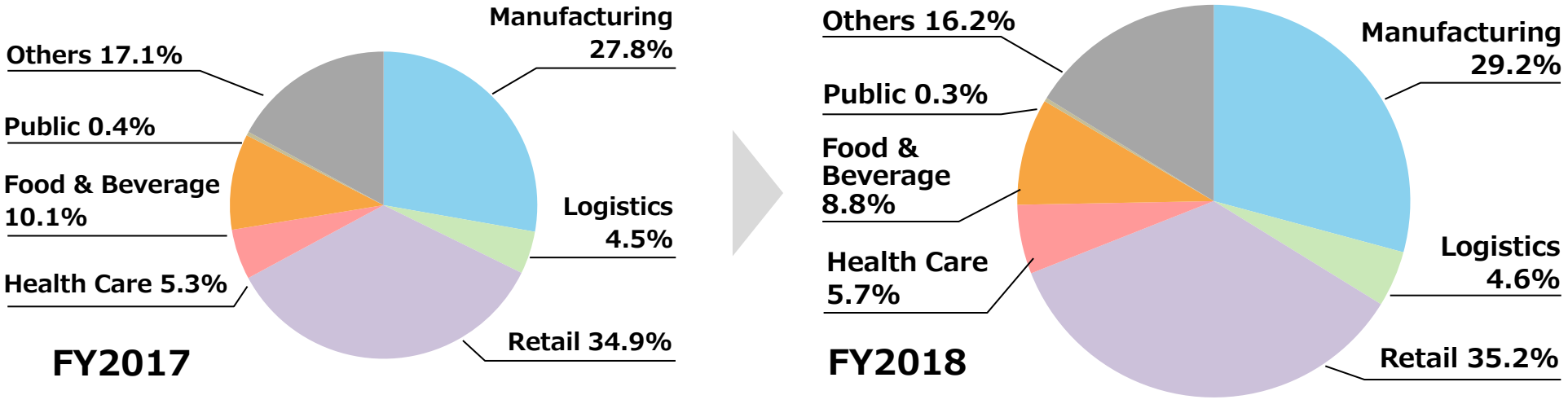


OI ratio: **Japan: 8.8%, Overseas: 5.7%**

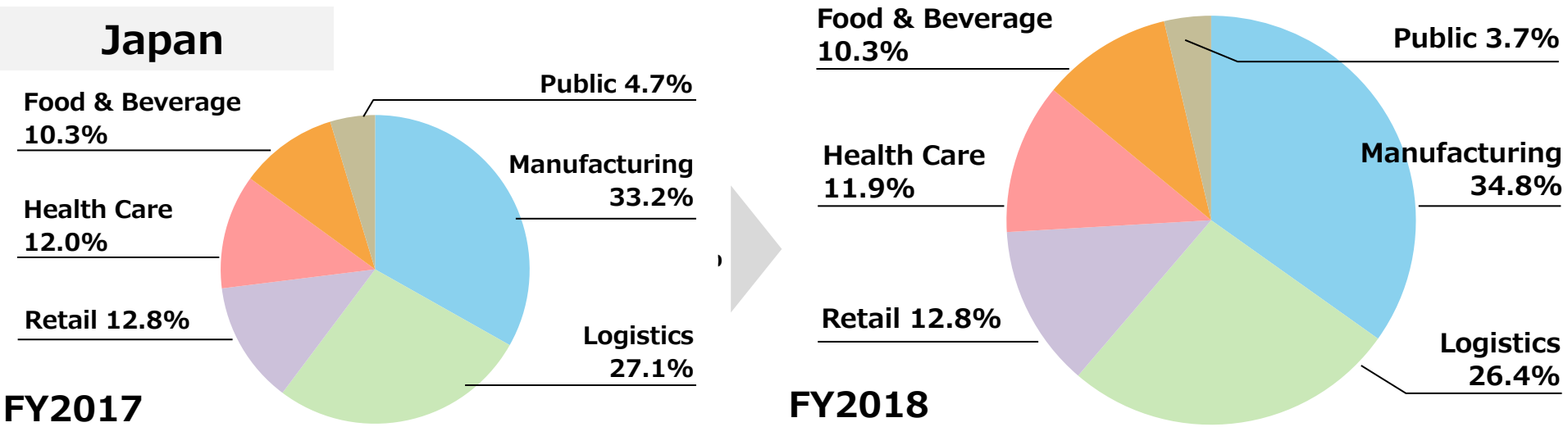
Sales by Vertical

Overseas

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



Japan



Consolidated Results

(Millions of JPY)

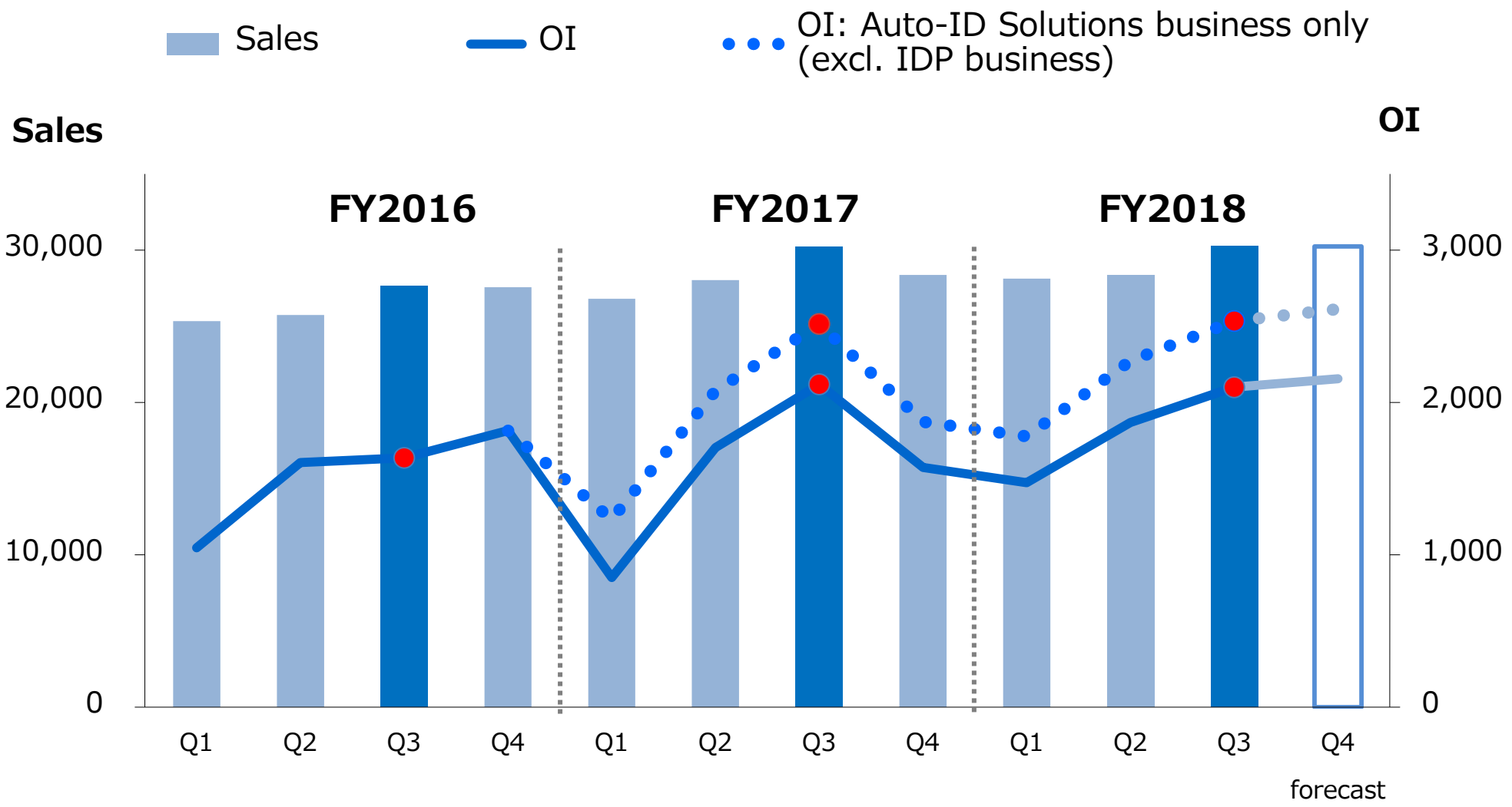
	FY2018	FY2017	Change	YoY
Net Sales	86,761	85,016	+1,745	102.1%
Operating Income	5,444	4,675	+768	116.4%
Operating Income %	6.3%	5.5%	+0.8pt	-
Ordinary Income	5,104	4,381	+723	116.5%
Profit attributable to owners of parent*1	3,078	3,565	-487	86.3%
Effective Tax Rate*2	39.7%	43.1%	-3.4pt	-
EBITDA*3	9,628	8,821	+807	109.2%

Average exchange rates (Apr-Dec): FY18: JPY 111.14/USD, JPY 129.46/EUR, FY17: JPY 111.68/USD, JPY 128.55/EUR
FX sensitivity for FY18: JPY +435 million in sales and JPY -11 million in OI for +1 JPY against USD and assuming all others move by the same ratio

*1 Profit attributable to owners of parent for FY17 reflected extraordinary income from gain on sales of non-current assets.
*2 Effective Tax Rate for FY17 was high due mainly to additional goodwill impairment at Argox.
*3 EBITDA = Operating Income + Depreciation + Amortization
・Depreciation for Apr-Dec FY18: JPY 3,335 million Apr-Dec FY17: JPY 3,178 million
・Amortization for Apr-Dec FY18: JPY 848 million (incl. 467 mil. for DataLase) Apr-Dec FY17: JPY 967 million (incl.465 mil. for DataLase)

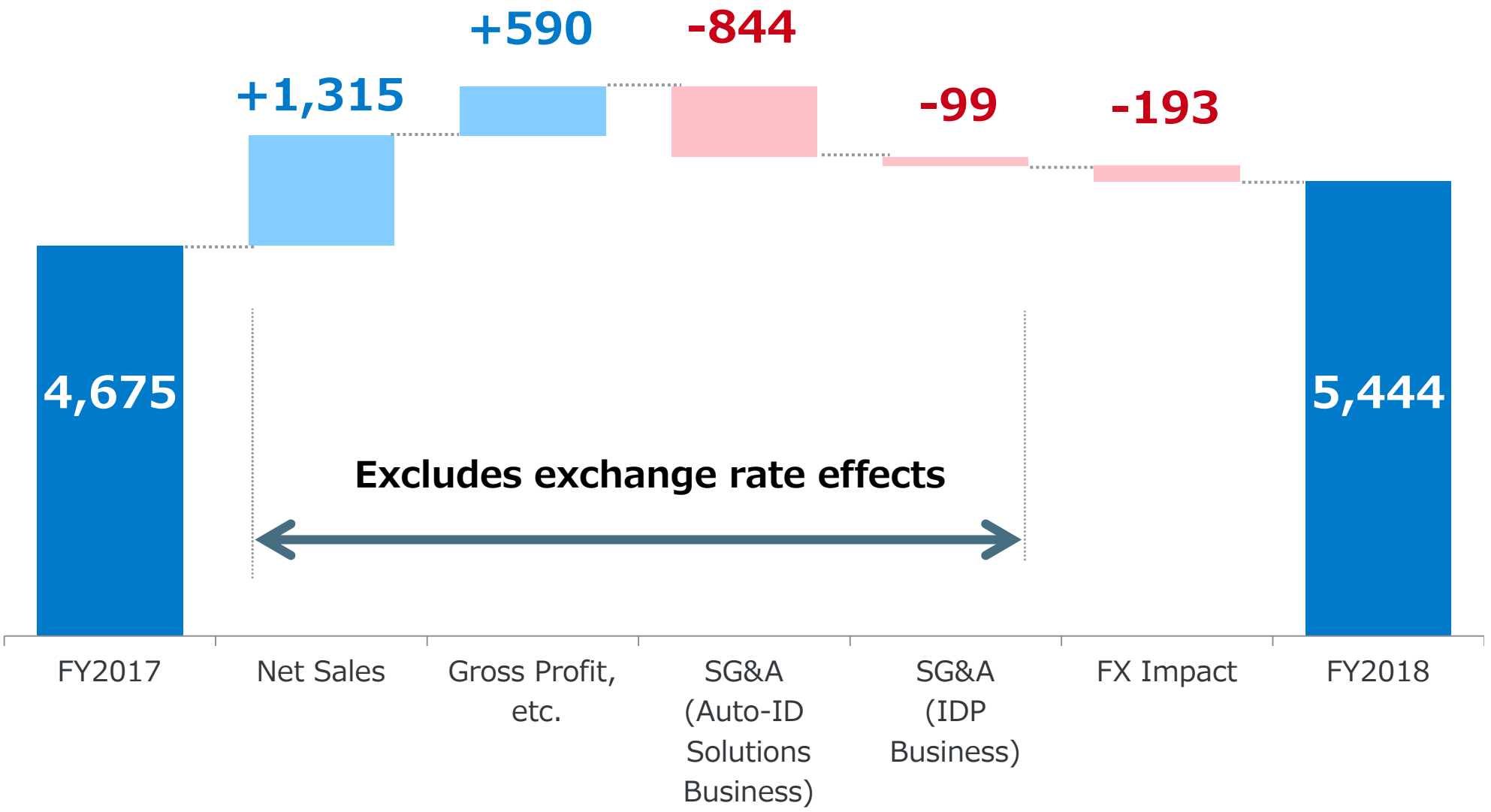
Quarterly Consolidated Sales & OI

(Millions of JPY)



Major Gains/Losses in OI

(Millions of JPY)

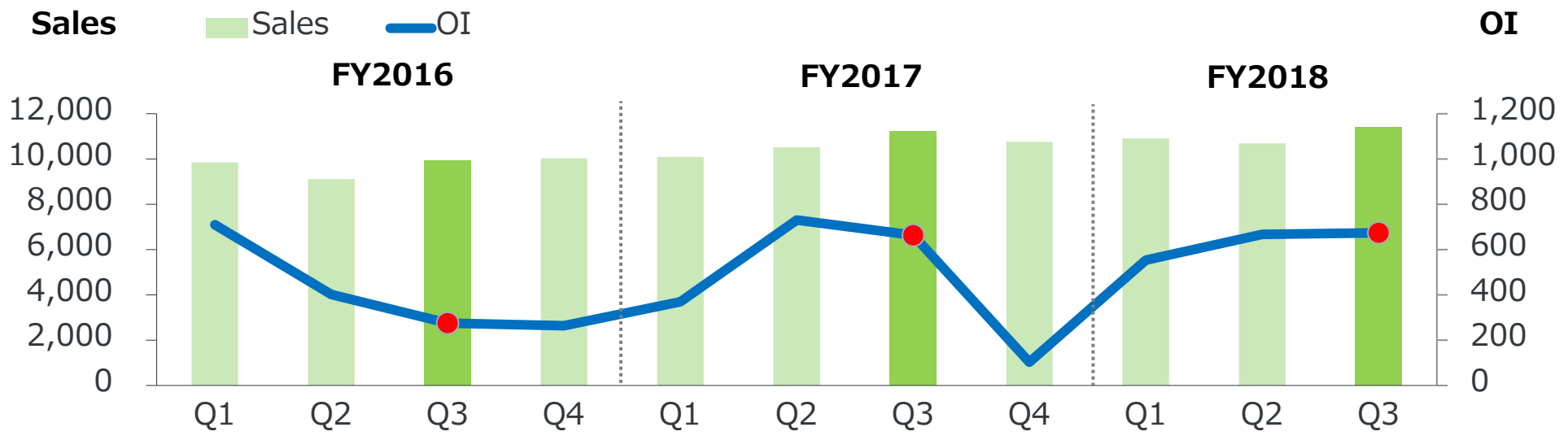


Overview

Recovery momentum mostly continued despite some soft spots.

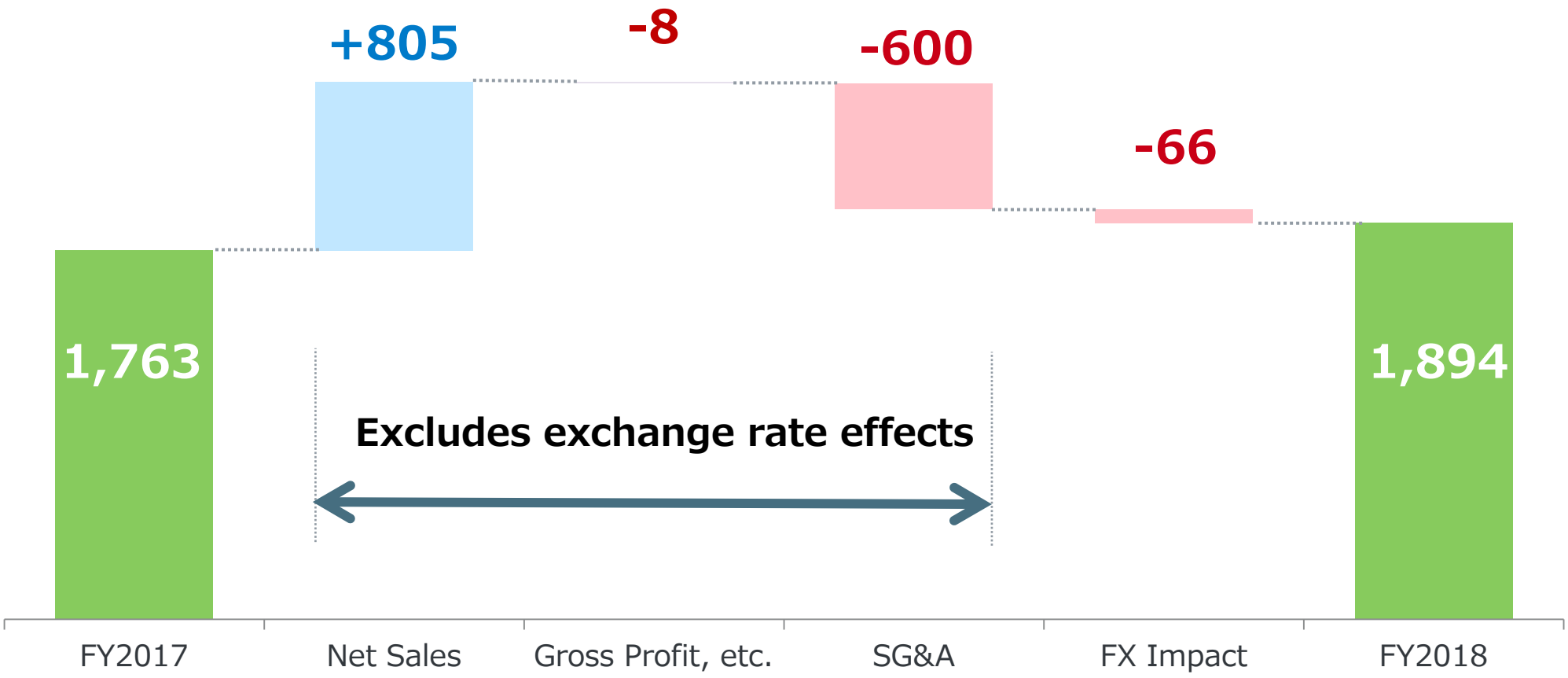
(Millions of JPY)

	FY2018	FY2017	Change	YoY	excl. FX impact
Total Sales	**33,017**	**31,829**	**+1,187**	**103.7%**	**108.6%**
Gross Profit	12,245	11,917	+327	102.7%	-
Gross Profit %	37.1%	37.4%	-0.4pt	-	-
Operating Income	**1,894**	**1,763**	**+131**	**107.4%**	**111.2%**
Operating Income %	5.7%	5.5%	+0.2pt	-	-



Major Gains/Losses in OI

(Millions of JPY)

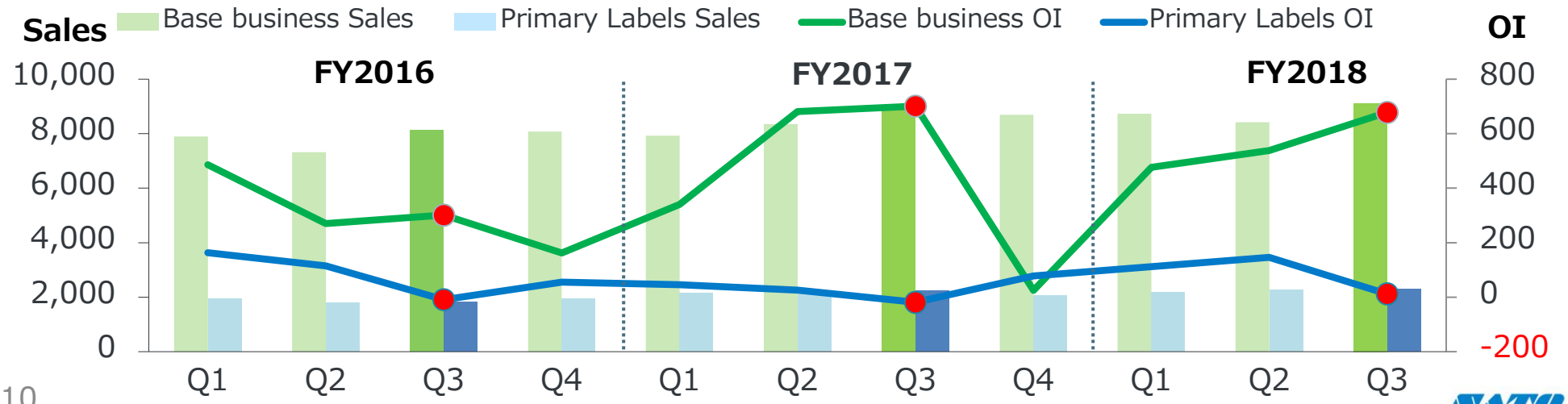


Breakdown by Business Segment

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

(Millions of JPY)

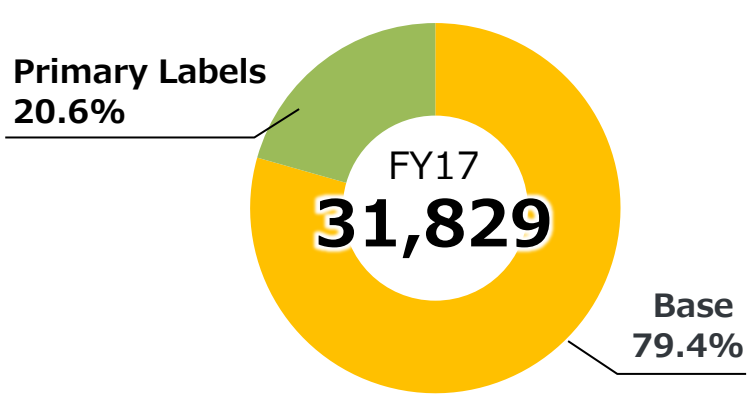
		FY2018	FY2017	Change	YoY	excl. FX impact
Base business	**Total Sales**	**26,270**	**25,268**	**+1,002**	104.0%	105.4%
	Operating Income	**1,694**	**1,724**	**-30**	98.3%	99.1%
Primary Labels	**Total Sales**	**6,746**	**6,561**	**+185**	102.8%	120.9%
	Operating Income	**271**	**52**	**+218**	513.5%	611.5%
Eliminations	**Operating Income**	**-70**	**-13**	**-57**	-	-

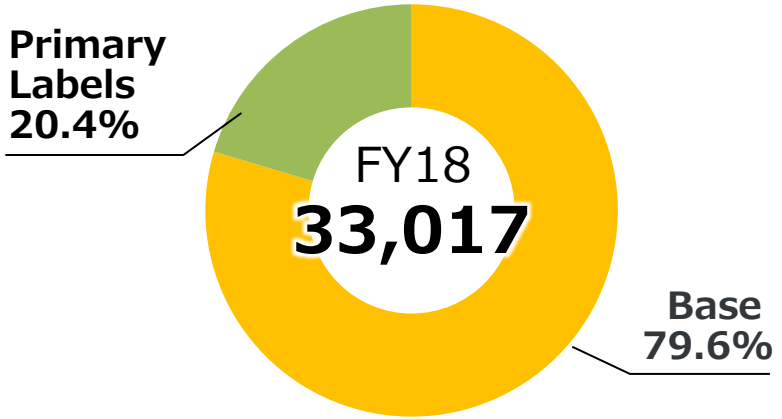


Breakdown of Sales and OI by Business Segment

(Millions of JPY)

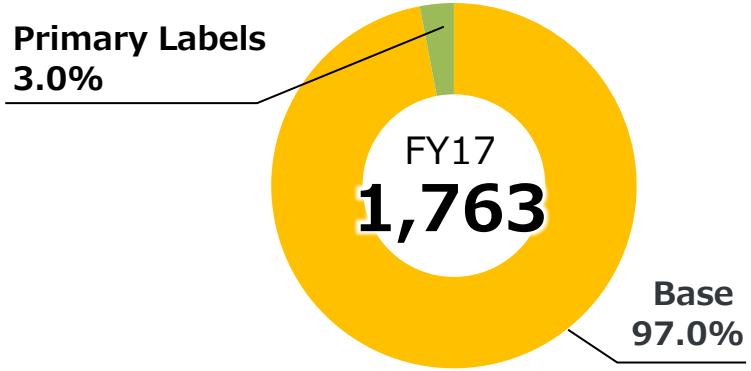
Sales

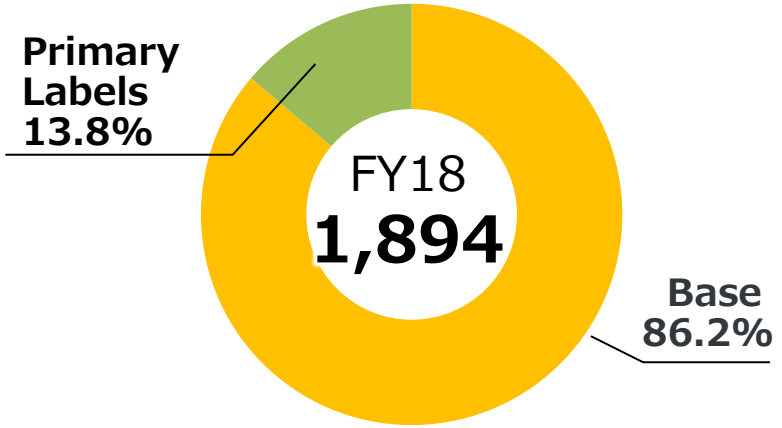




Operating Income

*Ratio excludes eliminations.





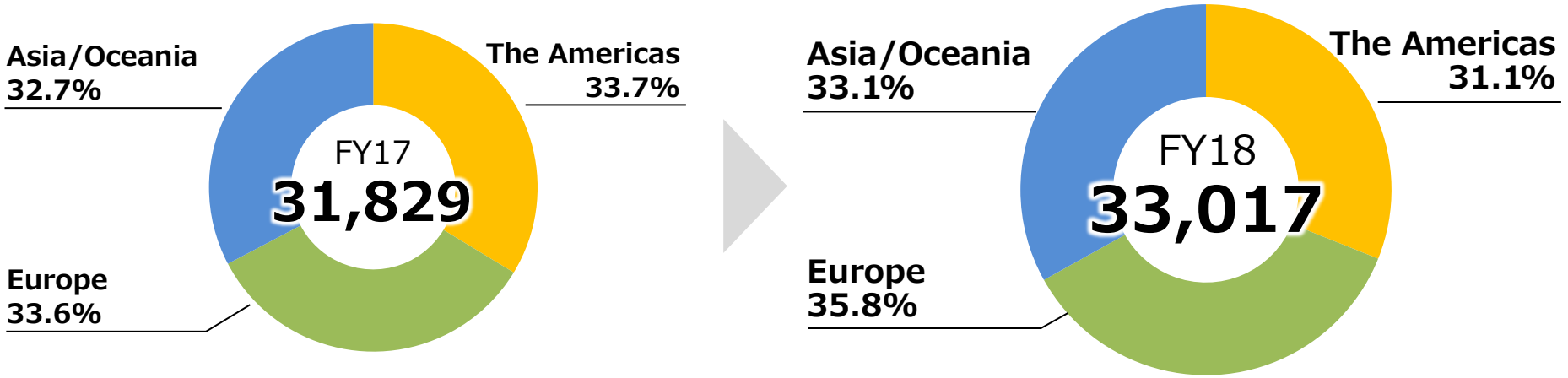
OI ratio: **Base: 6.8%, Primary Labels: 0.8%**

OI ratio: **Base: 6.4%, Primary Labels: 4.0%**

Breakdown of Sales and OI by Region

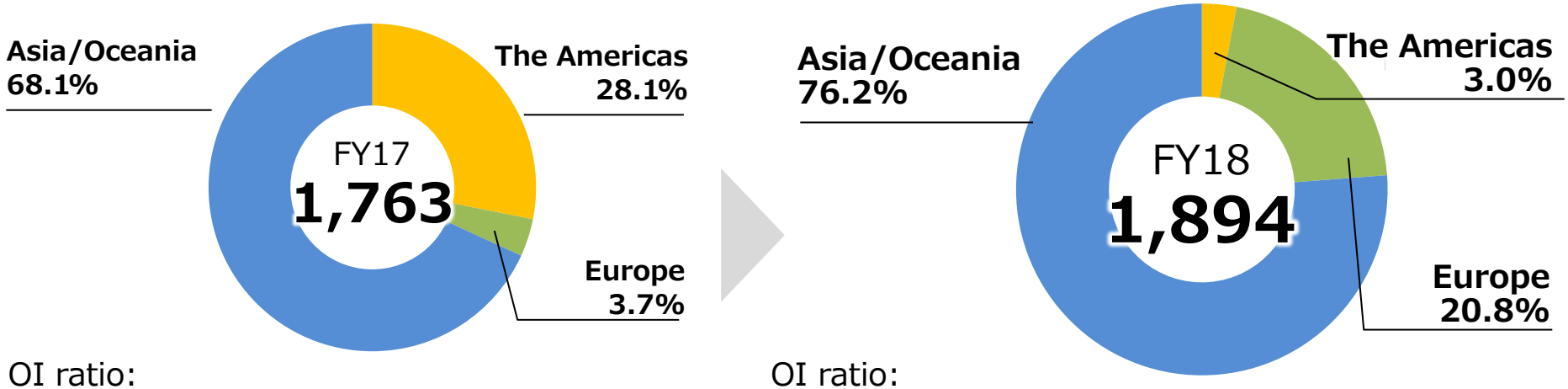
(Millions of JPY)

Sales



Operating Income

*Ratio excludes eliminations.

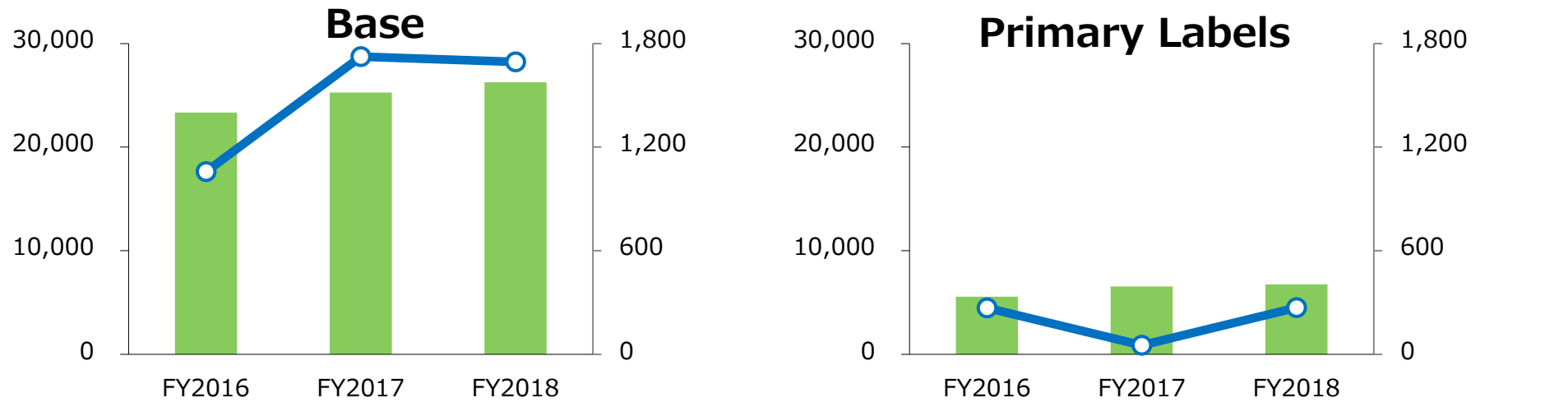


OI ratio:
The Americas: 4.7%, Europe: 0.6%, Asia/Oceania: 11.6%

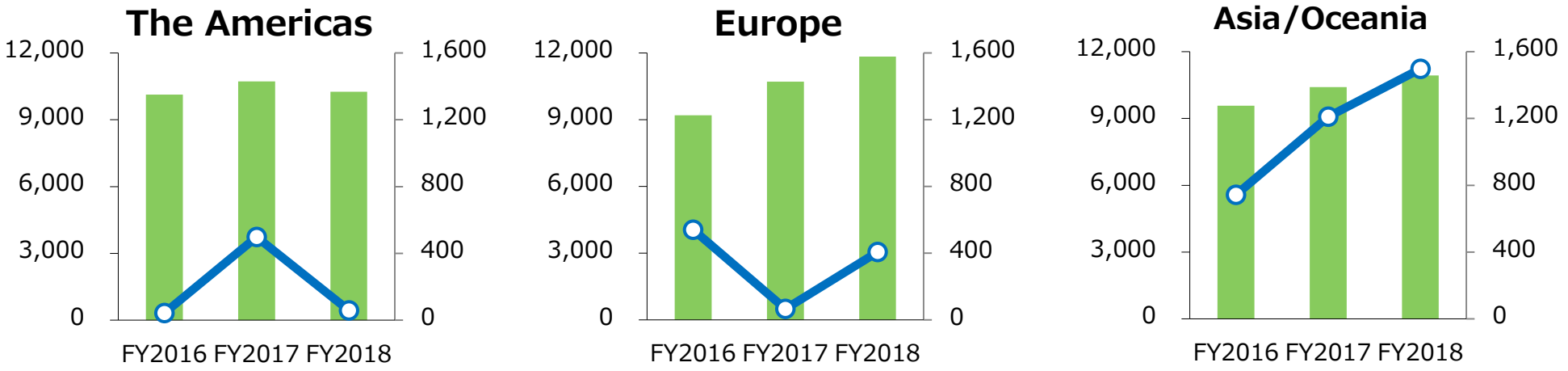
OI ratio:
The Americas: 0.6%, Europe: 3.4%, Asia/Oceania: 13.7%

Sales and OI Trends by Business Segment and Region

By Business Segment



By Region



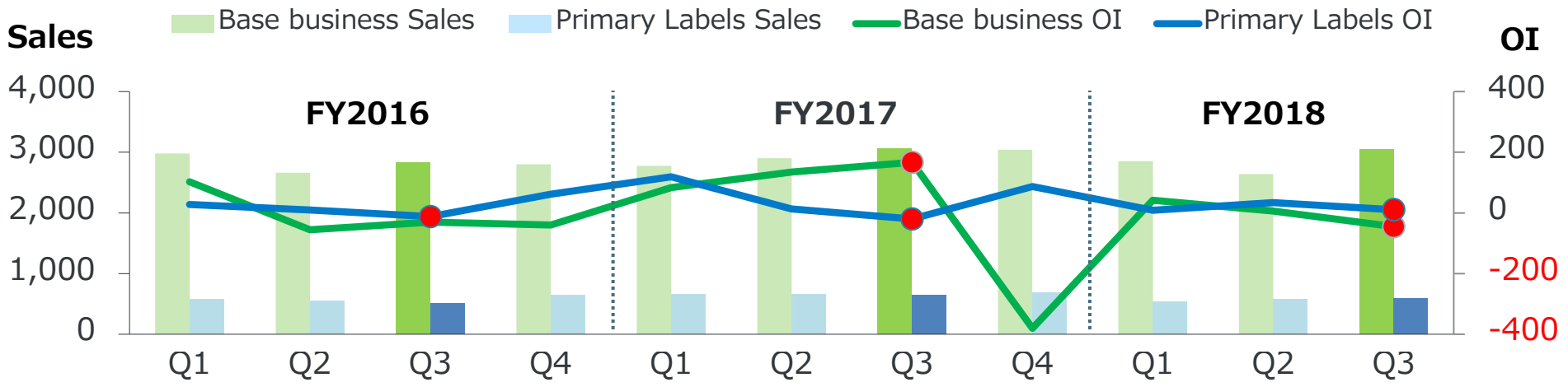
Breakdown by Region: The Americas

Base business: Sales increased slightly. OI grew in real terms, disregarding R&D costs at former SGS booked to Japan in FY2017.

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

(Millions of JPY)

		FY2018	FY2017	Change	YoY	excl. FX impact
Base business	Total Sales	8,538	8,742	-204	97.7%	100.5%
	Operating Income	4	386	-382	1.1%	7.3%
Primary Labels • Achernar • Prakolar	Total Sales	1,718	1,976	-258	86.9%	117.3%
	Operating Income	55	113	-57	49.2%	72.8%



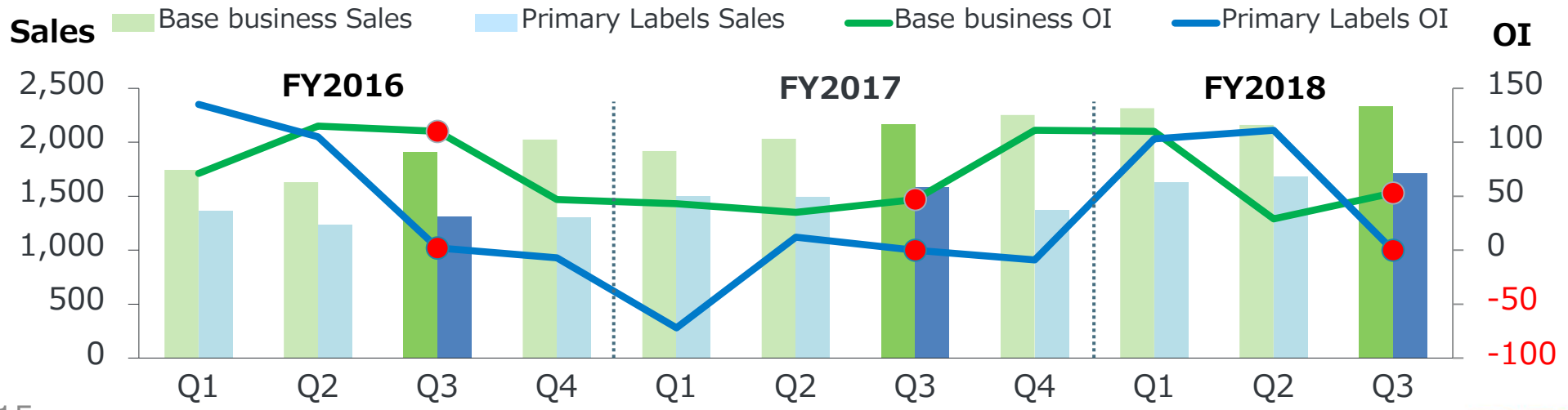
Breakdown by Region: Europe

Base business: Recovery momentum prevailed resulting in profitability improvement.
Primary Labels business: Sales increased and OI jumped at Okil thanks mainly to positive FX impact.

(Millions of JPY)

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

		FY2018	FY2017	Change	YoY	excl. FX impact
Base business	Total Sales	6,806	6,115	+690	111.3%	110.6%
	Operating Income	192	126	+65	152.0%	152.0%
Primary Labels • Okil • X-Pack*	Total Sales	5,028	4,584	+443	109.7%	122.4%
	Operating Income	215	-60	+276	-	-

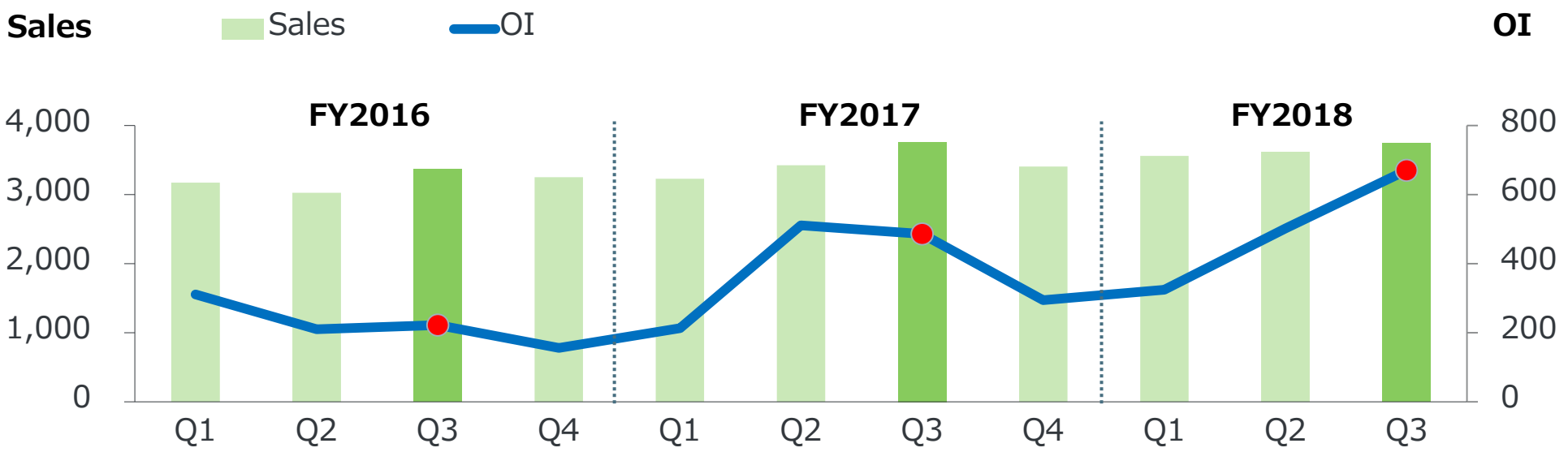


Breakdown by Region: Asia/Oceania

Base business: Most subsidiaries made satisfactory progress. Transition from selling products to providing solutions progressed thanks to improved mindset in the region.

(Millions of JPY)

		FY2018	FY2017	Change	YoY	excl. FX impact
Base business	**Total Sales**	**10,925**	**10,409**	**+515**	105.0%	106.5%
	Operating Income	**1,497**	**1,210**	**+286**	123.7%	122.9%

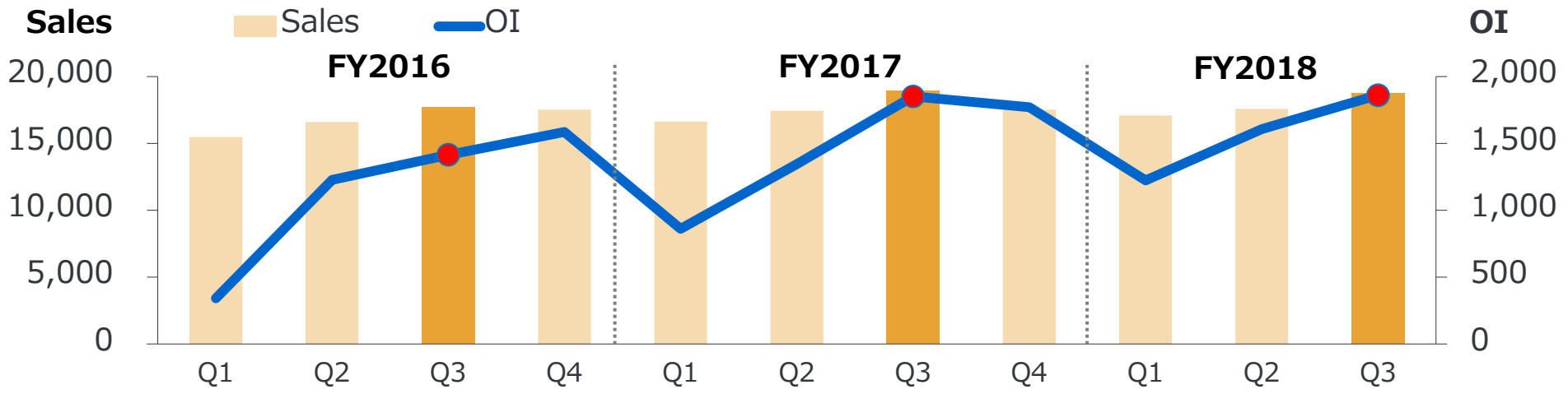


Overview

Growth remained solid despite some adverse external environments.

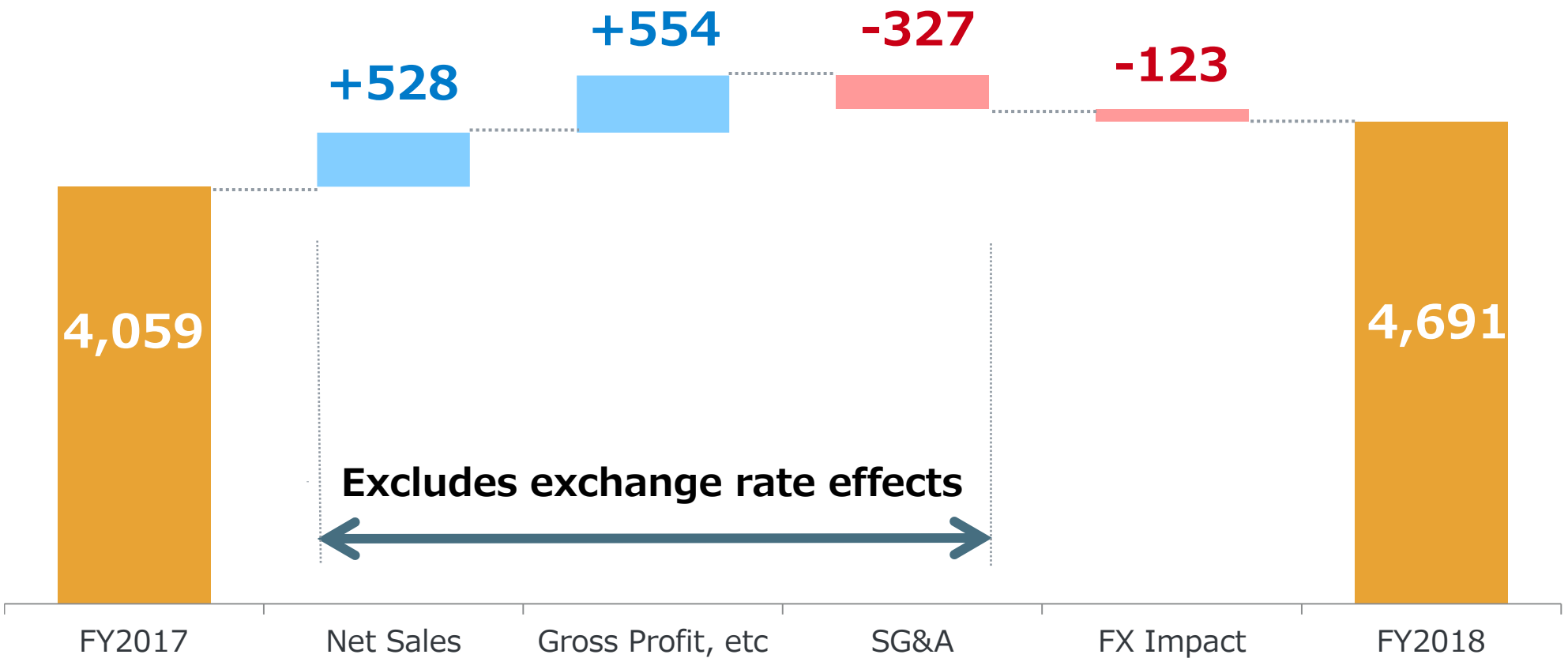
(Millions of JPY)

	FY2018	FY2017	Change	YoY
Mechatronics Sales	20,168	20,121	+46	100.2%
Consumables Sales	33,229	32,849	+379	101.2%
Total Sales	**53,397**	**52,971**	**+426**	**100.8%**
Gross Profit	26,353	25,395	+958	103.8%
Gross Profit %	49.4%	47.9%	+1.4pt	-
Operating Income	**4,691**	**4,059**	**+631**	**115.6%**
Operating Income %	8.8%	7.7%	+1.1pt	-



Major Gains/Losses in OI

(Millions of JPY)

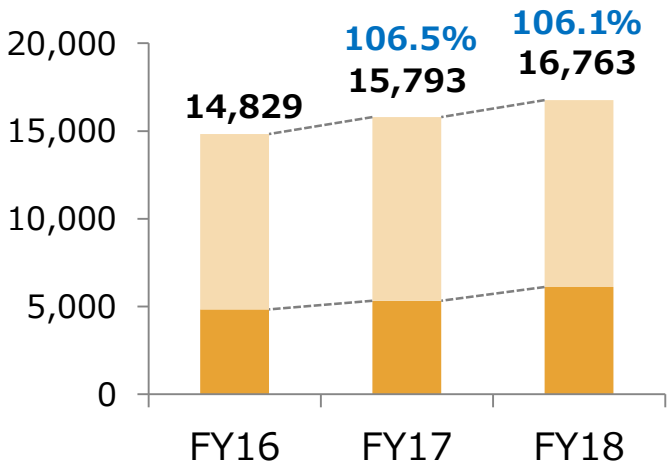


Sales by Vertical [1]

(Millions of JPY)

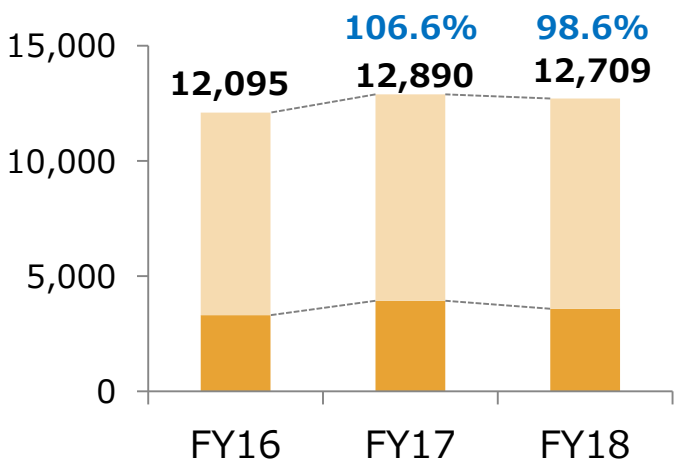
■: Mechatronics ■: Consumables *Figures are total sales; % indicates YoY change

Manufacturing



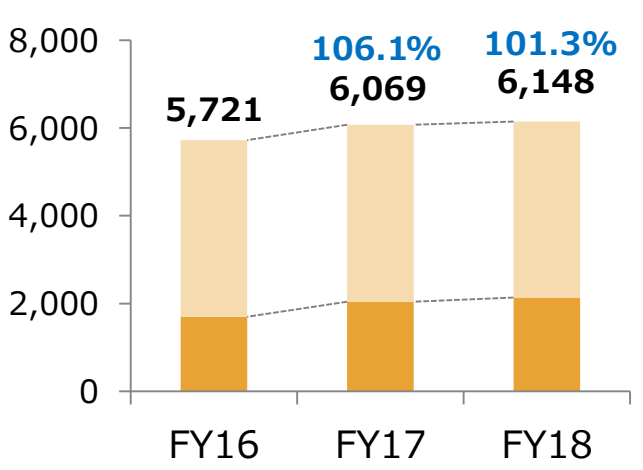
- Production cuts in industries including electronic components negatively impacted consumables sales, while investments to improve productivity and visibility remained solid.
- Our solutions to meet robust demand for automation and visibility enhancement in automotive and other industries helped to drive sales.

Logistics



- Business environment remained favorable reflecting e-commerce and C2C market expansion and labor shortage.
- Mechatronics sales were weak due mainly to decline in printer-replacement orders, while sales in consumables were steady reflecting increased flow of goods.

Retail



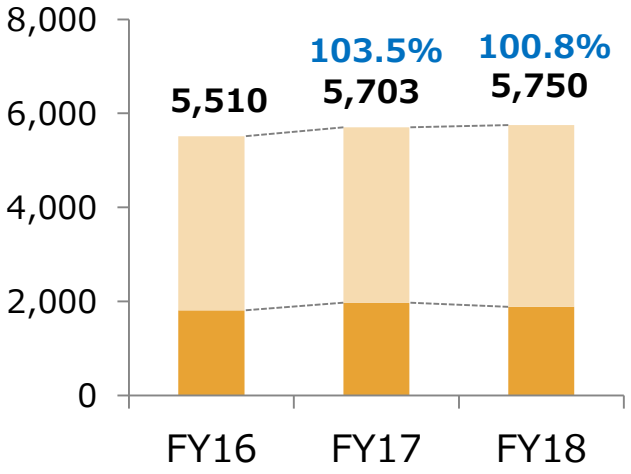
- Sales in consumables were sluggish resulting from decreased goods flow in food & beverage, while labor shortage, e-commerce expansion and demand for compliance to amended regulations were steady.
- Printer-replacement orders remained firm, and solutions including RFID contributed to sales.

Sales by Vertical [2]

(Millions of JPY)

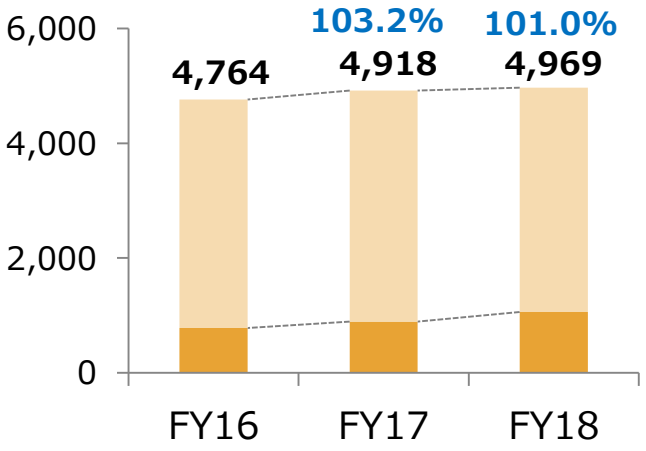
■: Mechatronics ■: Consumables *Figures are total sales; % indicates YoY change

Health Care



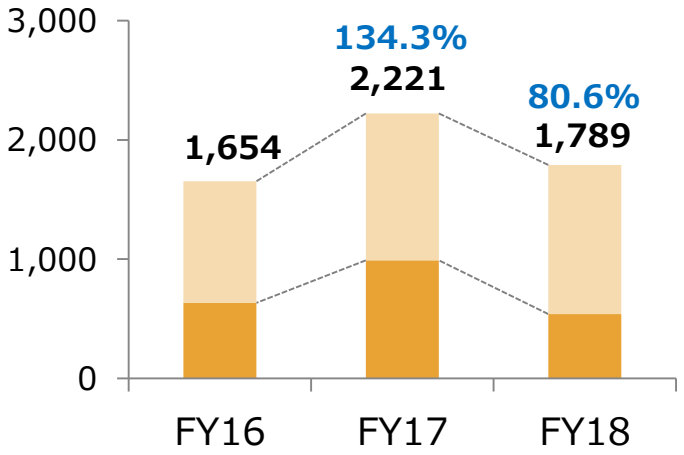
- Business environment remained favorable due mainly to reinforcement of regulations related to barcode labeling of medicine and medical devices, and labor shortage.
- In addition to barcodes, demand for solutions utilizing RFID and positioning systems remained steady.

Food & Beverage



- Business environment remained favorable as the industry sought compliance to the amended Food Labeling Act and automation to mitigate labor shortage.
- Opportunities increased in printer replacements and solutions for law compliance, and demand to improve traceability in the beverage industry stayed in good shape.

Public



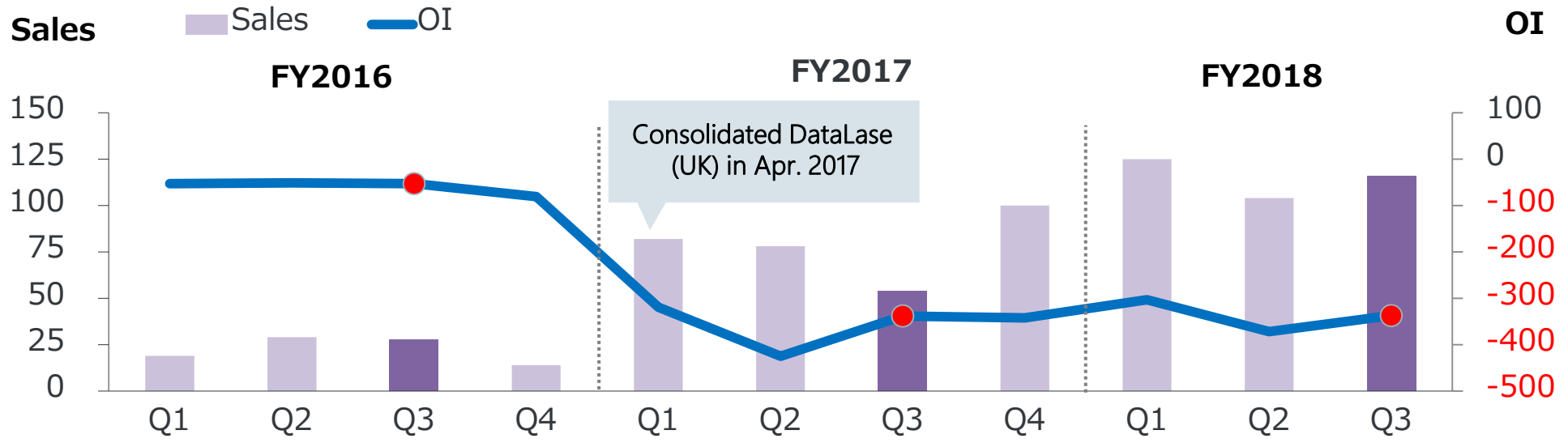
- Business environment remained stable.
- Consumables sales slowed down owing to the lack of a large printer order seen in FY17, and to reduced orders from the same customer seeking operational efficiency and order smoothing.

Overview

R&D progressed largely as planned.

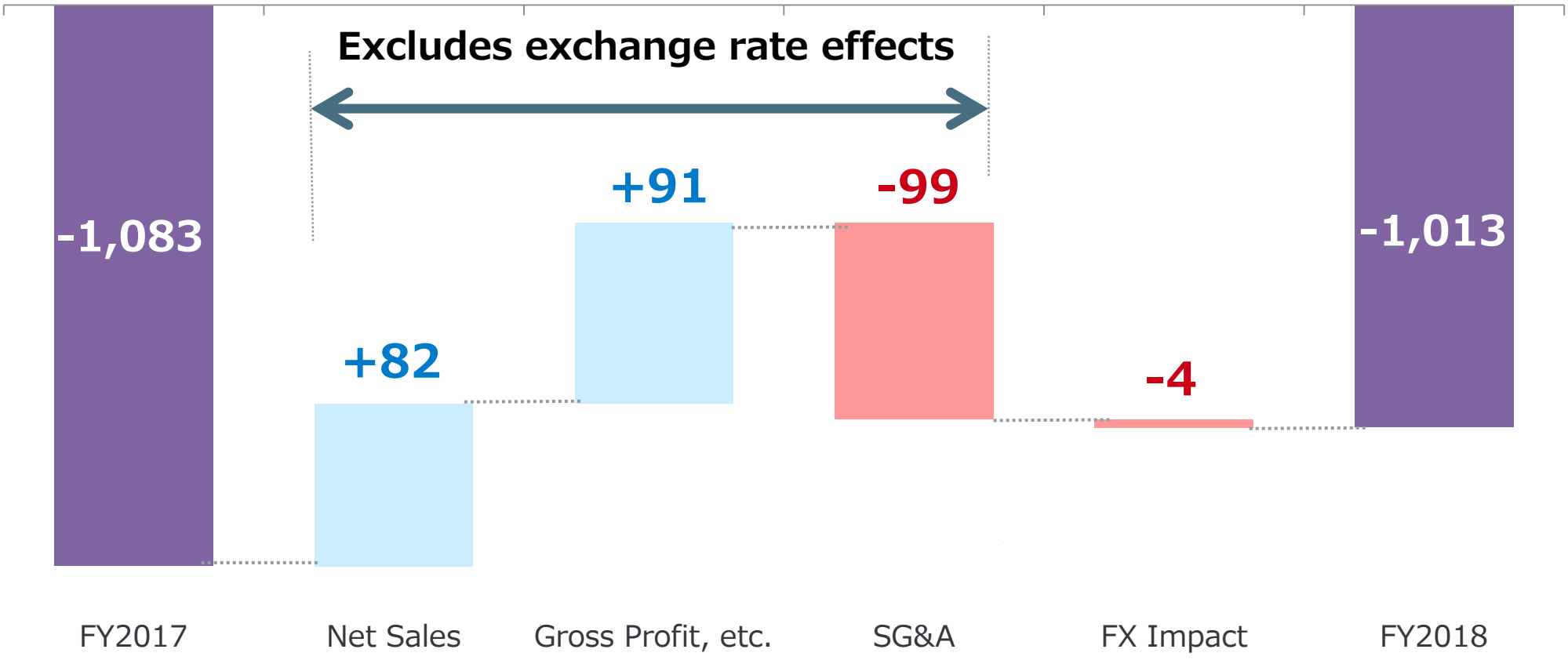
(Millions of JPY)

	FY2018	FY2017	Change	YoY	excl. FX impact
Total Sales	**346**	**215**	**+131**	**161.1%**	**160.5%**
Gross Profit	324	149	+174	216.2%	-
Gross Profit %	93.5%	69.7%	+23.8pt	-	-
Operating Income	**-1,013**	**-1,083**	**+70**	**-**	**-**
Operating Income %	-	-	-	-	-



Major Gains/Losses in OI

(Millions of JPY)



FY2018 Consolidated Forecasts

(Millions of JPY)

	Apr-Dec		Jan-Mar		Full Year	
	Actual	YoY	Forecast	YoY	Forecast*2	YoY
Net Sales	86,761	102.1%	30,238	106.6%	117,000	103.2%
Operating Income	5,444	116.4%	2,155	137.0%	7,600	121.6%
Ordinary Income	5,104	116.5%	2,295	152.3%	7,400	125.7%
Profit attributable to owners of parent	3,078	86.3%	1,221	239.9%	4,300	105.5%
<Reference>						
EBITDA*1	11,814	←FY2017 full year			13,300	112.6%

*1 EBITDA=Operating Income + Depreciation + Amortization

*2 Figures are forecasts announced as of November 2, 2018.

Exchange rates assumed in FY18 forecast: JPY 110/USD, JPY 130/EUR
Average exchange rates for Apr-Dec FY18: JPY 111.14/USD, JPY 129.46/EUR
Average exchange rates for FY17 : JPY 110.85/USD, JPY 129.65/EUR

Appendix

SATO Terminologies　P.25 – P.28

SATO Terminologies (1/4)

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

SATO Terminologies (2/4)

SATO-unique business concepts/initiatives		Description
8	Teiho	Teiho is SATO‘s unique system of reports and proposals in effect since 1976. Employees share new information and ideas they come across on-site every day to top management via the Teiho system. Teiho helps top management gain immediate insight into the internal/external business situation to facilitate quick decision-making and execution of initiatives, while allowing "participation by all" in the management of the company. As Teiho involves all employees regardless of rank or years of service, it is also an effective means of compliance monitoring to prevent malpractice and other inappropriate behavior and assist in corporate governance. Some of our global offices have also started Teiho, with more to follow.
Products, services, technologies		**Description**
1	Mechatronics	All products not consumables, including hardware (e.g., barcode printers, automatic labelers, scanners, hand labelers), software and maintenance services. They generate higher gross profit margin than consumables. Printers are manufactured in Malaysia, Vietnam and Taiwan.
2	Consumables	“Consumable” products such as printer labels/tags, primary labels (product labels) and ribbons. They generate lower gross profit margin than mechatronics, but incur low SG&A expenses as they are typically sold through repeat business.
3	Auto-ID Solutions	Combination of products such as barcode printers, labels, software and maintenance services using auto-ID technologies to connect people, things and information. To meet ever complex and diverse user needs, SATO also looks beyond its own resources and interests to pursue open partnerships, for example, to enable solutions combining auto-ID and location technologies to track items by tags and inventory/worker movements in real time for managing manufacturing processes and visualizing productivity on-site.
4	CLNX series	SATO's first universal printer released worldwide in 2014 (2015 for the Japan market). Engineered for zero downtime, the CLNX series is built to be strong, simple to operate and ready for use with SOS (SATO Online Services), the industry's first IoT maintenance platform for printers.
5	SOS (SATO Online Services)	A cloud-based monitoring service for printers that enables preventative maintenance and on-the-spot troubleshooting. With SOS, users can view the status of their cloud-connected printers at a glance and manage them centrally with ease, while SATO can increase productivity of its service personnel through preventative maintenance and improve responsiveness over widely spread areas outside Japan with limited service teams.

SATO Terminologies (3/4)

Products, services, technologies		Description
6	AEP (Application Enabled Printing)	Intelligence (i.e. label/tag printing application installed) inside the printer to enable PC-less printing. AEP-enabled printers also support communication with host databases or IT systems.
7	API (Application Programming Interface)	A set of programming instructions and standards that allows applications to communicate with each other and exchange data, making it easier to create applications across a wide variety of platforms, devices, and programming languages.
8	Variable information labels	Blank or pre-printed labels used to print variable elements such as barcode, product price, manufactured or expiry date on-demand at the customer's site of operations. Unlike fixed information labels that are identical and printed at large quantities in a single run, variable information labels offer flexibility to print whenever and wherever needed.
9	RFID (Radio Frequency Identification)	A type of auto-ID technology that uses radio waves to read/write data from/to an RFID tag without making contact. RFID offers faster read rates (from reading multiple tags at the same time) and greater read range than traditional barcode technology. Also, unlike barcodes, RFID tags can be read when covered by another object or stained, and are read/write-capable to enable updates to the encoded data. Because of these key benefits, RFID can significantly improve operational efficiency.
10	IDP (Inline Digital Printing)	A revolutionary, direct marking technology comprised of a special color-change pigment that can be applied as a coating to virtually any substrate and exposed to a laser beam to create a color change. As IDP uses no ink or labels at the point of printing, it eliminates the need for labels, minimizes stock keeping units (SKUs) and reduces waste, while also shortening time spent on hardware maintenance. Besides delivering cost savings, productivity improvements and environmental benefits, IDP allows the printing of variable data for late stage customization/personalization of products and packaging, making it ideal for real-time, consumer-directed marketing. Joint development with Xerox for multi-color capability – crucial for marketing applications – currently underway with target commercialization in FY 2021.

SATO Terminologies (4/4)

Key acquisitions since 2012		Description
1	Argox Information Co., Ltd. (Taiwan)	[2012] Company engaging in the development, production and sales of entry level printers.
2	Achernar S.A. (Argentina)	[2012] Company specializing in primary labels.
3	Magellan Technology Pty Ltd. (Australia)	[2013] Company from which SATO acquired its healthcare business for PJM (Phase Jitter Modulation), a highly unique RFID technology that can quickly and accurately identify large volumes of tagged items stacked or stored in any physical orientation even in the presence of metals and liquids. Now SATO Vicinity Pty Ltd.
4	Okil-Holding, JSC (Russia)	[2014] Primary label company in which SATO acquired 75% ownership stake.
5	Prakolar Rótulos Autoadesivos LTDA. (Brazil)	[2015] Company specializing in primary labels.
6	DataLase Ltd. (UK)	[2017] Company engaging in the development, production and sales of the Inline Digital Printing color-change pigment and related products. Now a SATO consolidated subsidiary.



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