Ceaseless Creativity for a Sustainable World

August 2, 2019

SATO HOLDINGS CORPORATION

FY2019 Q1 Financial Results
(Three Months Ended June 30, 2019)

Securities Code: 6287

Summary

Consolidated sales and OI increased YoY.

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

Overseas
Sales and OI were flat but increased YoY, excluding adverse FX impact.

Japan
Sales and OI increased YoY driven by mechatronics sold through solutions offerings.

IDP business ▶ R&D progressed as planned.

Sales and OI by Business Segment

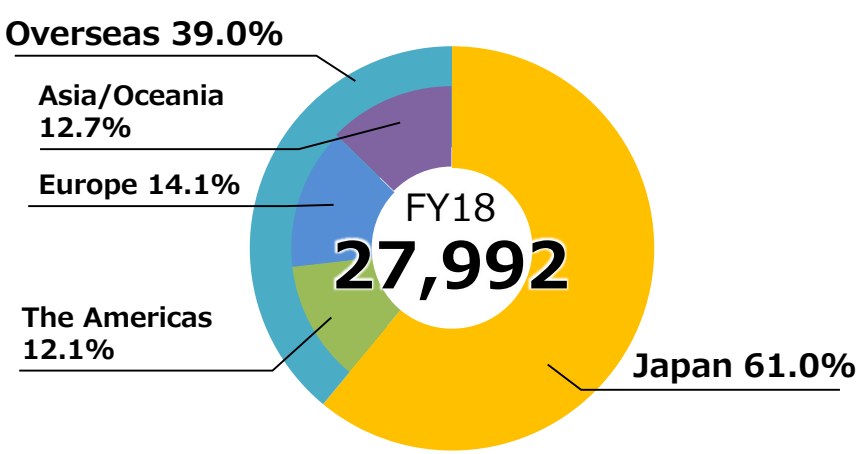
(Millions of JPY)

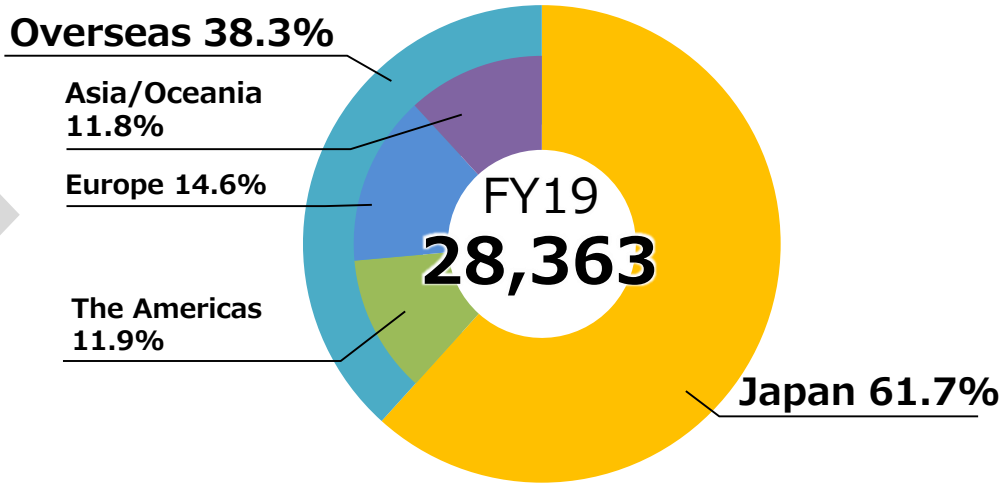
		FY2019	FY2018	YoY	excl. FX impact
Auto-ID Solutions business	**Total Sales**	**28,363**	**27,992**	**101.3%**	**103.2%**
	Operating Income	**1,878**	**1,777**	**105.7%**	**107.0%**
Overseas	Total Sales	10,867	10,910	99.6%	104.4%
	Operating Income	560	553	101.2%	108.2%
Japan	Total Sales	17,495	17,081	102.4%	102.4%
	Operating Income	1,318	1,224	107.7%	106.4%
IDP business	**Total Sales**	**100**	**125**	**80.0%**	**83.7%**
	Operating Income	**-394**	**-303**	**-**	**-**
Consolidated (incl. eliminations)	**Total Sales**	**28,463**	**28,118**	**101.2%**	**103.1%**
	Operating Income	**1,514**	**1,473**	**102.7%**	**103.0%**

Sales and OI by Region

(Millions of JPY)

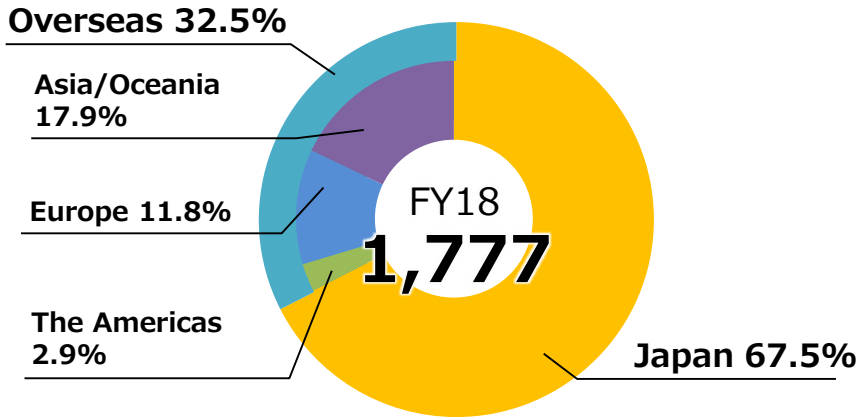
Sales

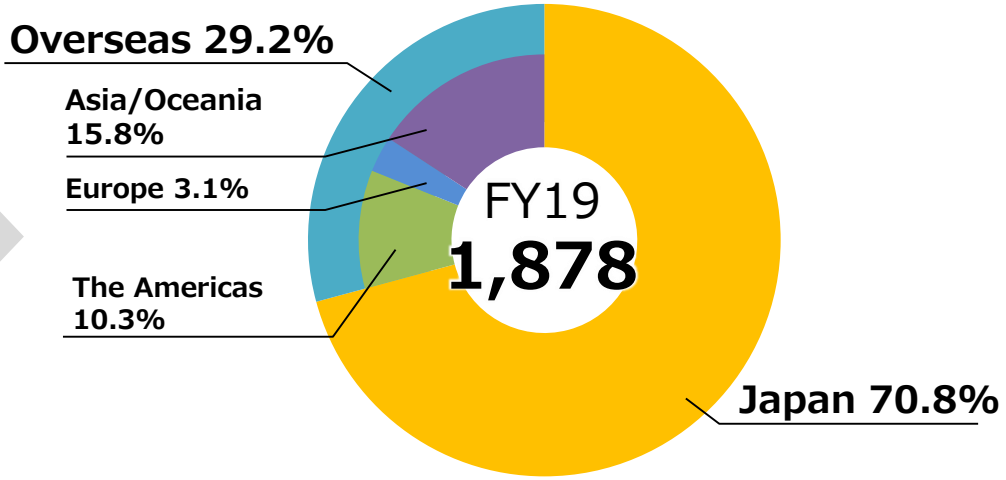




Operating Income

*Ratio excludes eliminations.





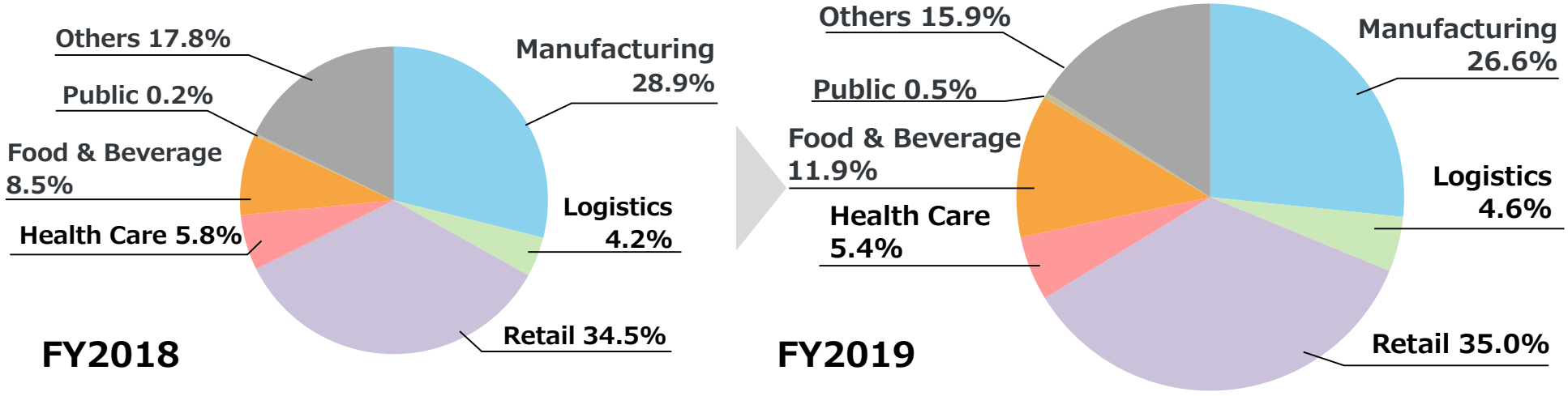
OI Ratio : **Japan : 7.2%, Overseas : 5.1%**

OI Ratio: **Japan : 7.5%, Overseas : 5.2%**

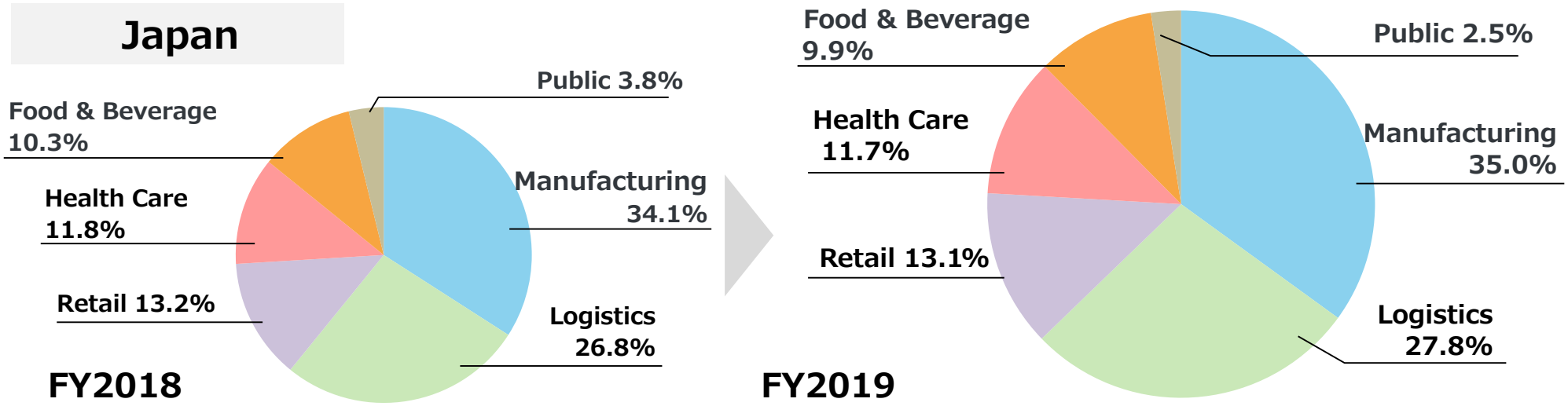
Sales by Vertical

Overseas

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



Japan



Consolidated Results

(Millions of JPY)

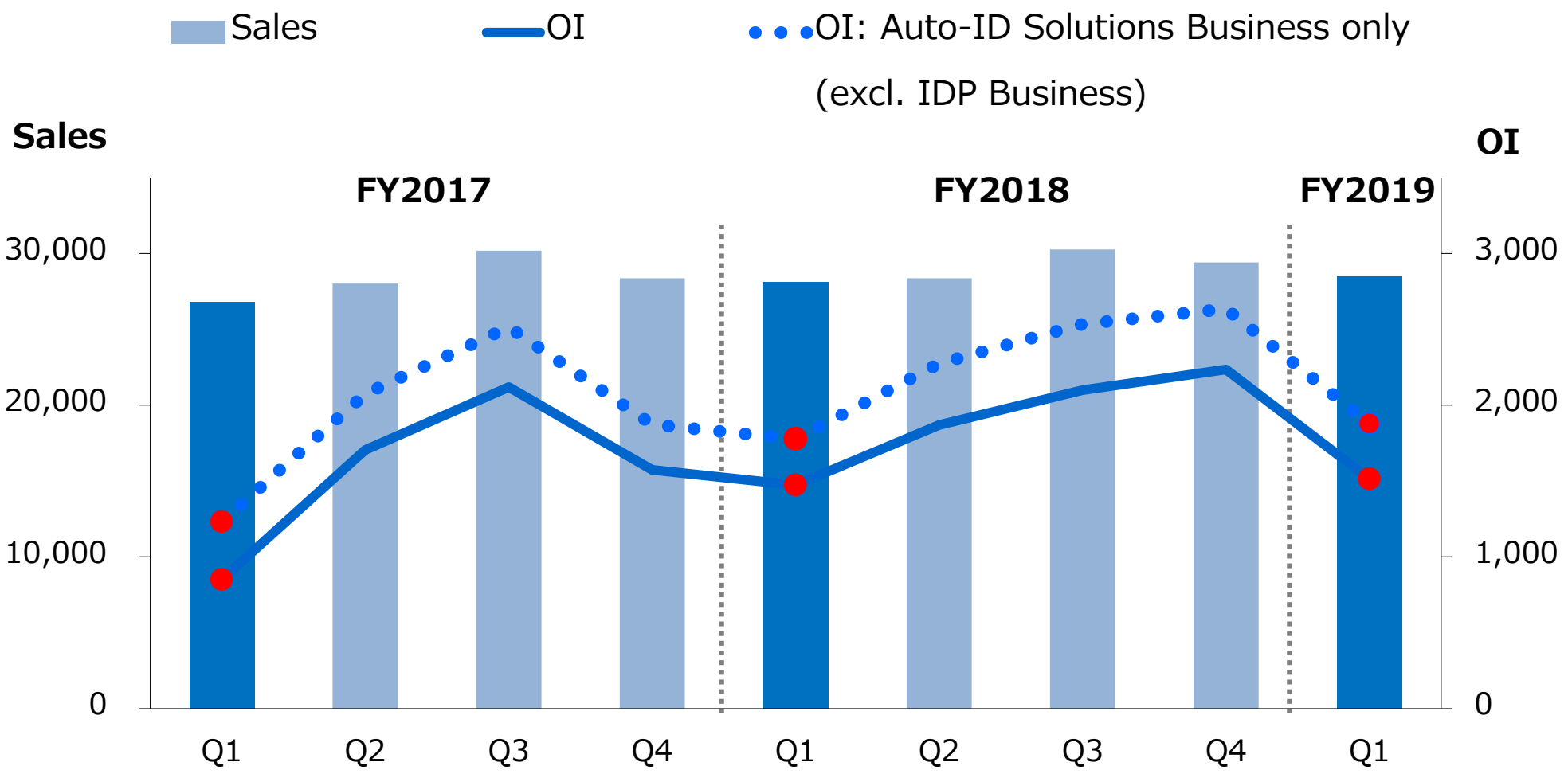
	FY2019	FY2018	Change	YoY
Net Sales	28,463	28,118	+345	101.2%
Operating Income	1,514	1,473	+40	102.7%
Operating Income %	5.3%	5.2%	+0.1pt	-
Ordinary Income	1,338	1,403	-64	95.4%
Profit attributable to owners of parent	842	781	+60	107.8%
Effective Tax Rate*1	31.8%	44.0%	-12.2pt	
EBITDA*2	2,978	2,866	+111	103.9%

Average exchange rates for Apr-Jun FY19: JPY 109.90/USD, JPY 123.49/EUR, Apr-Jun FY18: JPY 109.09/USD, JPY 130.03/EUR
FX sensitivity for FY19: JPY +423 million in sales and JPY +5 million in OI for +1 JPY against USD and assuming all others move by the same ratio

*1 Effective Tax Rate of Apr-Jun FY18 was high due mainly to adjustments related to reorganization of Japanese subsidiaries.
*2 EBITDA = Operating Income + Depreciation + Amortization
・Depreciation for Apr-Jun FY19: JPY 1,240 million Apr-Jun FY18: JPY 1,105 million
・Amortization for Apr-Jun FY19: JPY 224 million (incl. 150 mil. for DataLase) Apr-Jun FY18: JPY 287 million (incl.158 mil. for DataLase)

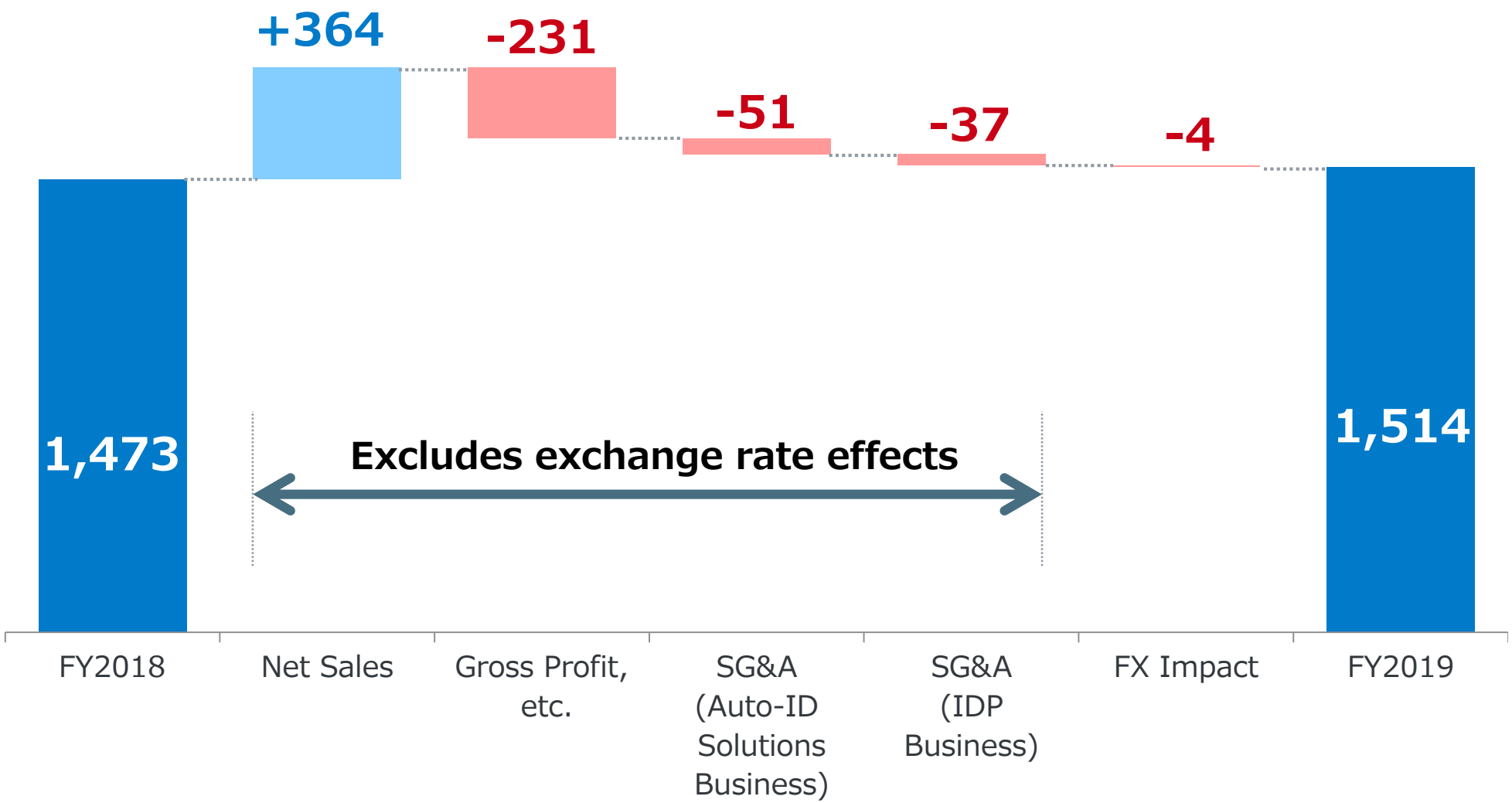
Quarterly Consolidated Sales & OI

(Millions of JPY)



Major Gains/Losses in OI

(Millions of JPY)

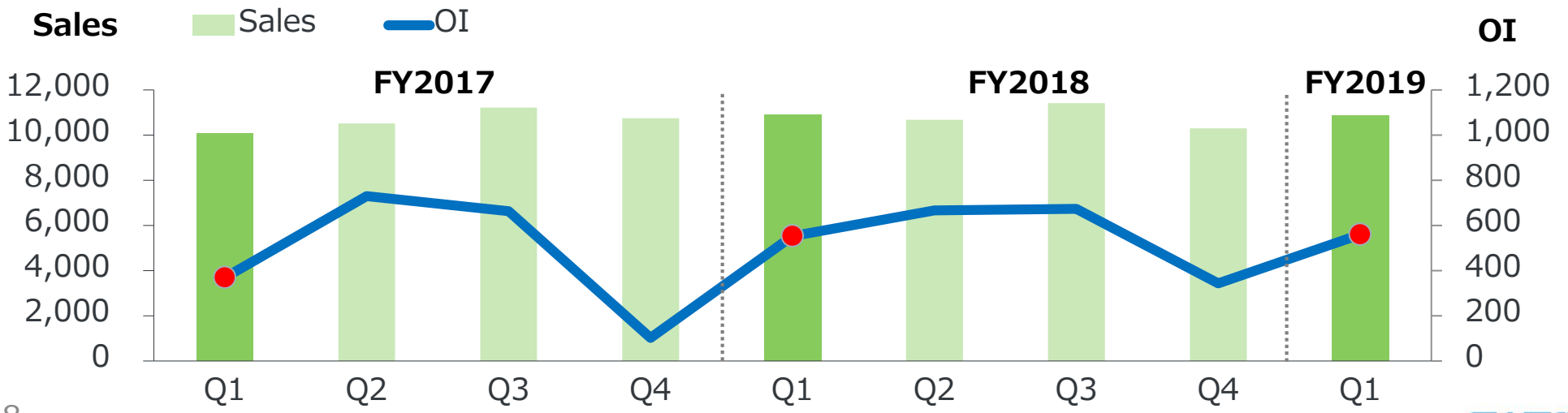


Overview

Sales and OI were flat but increased YoY, excluding adverse FX impact.

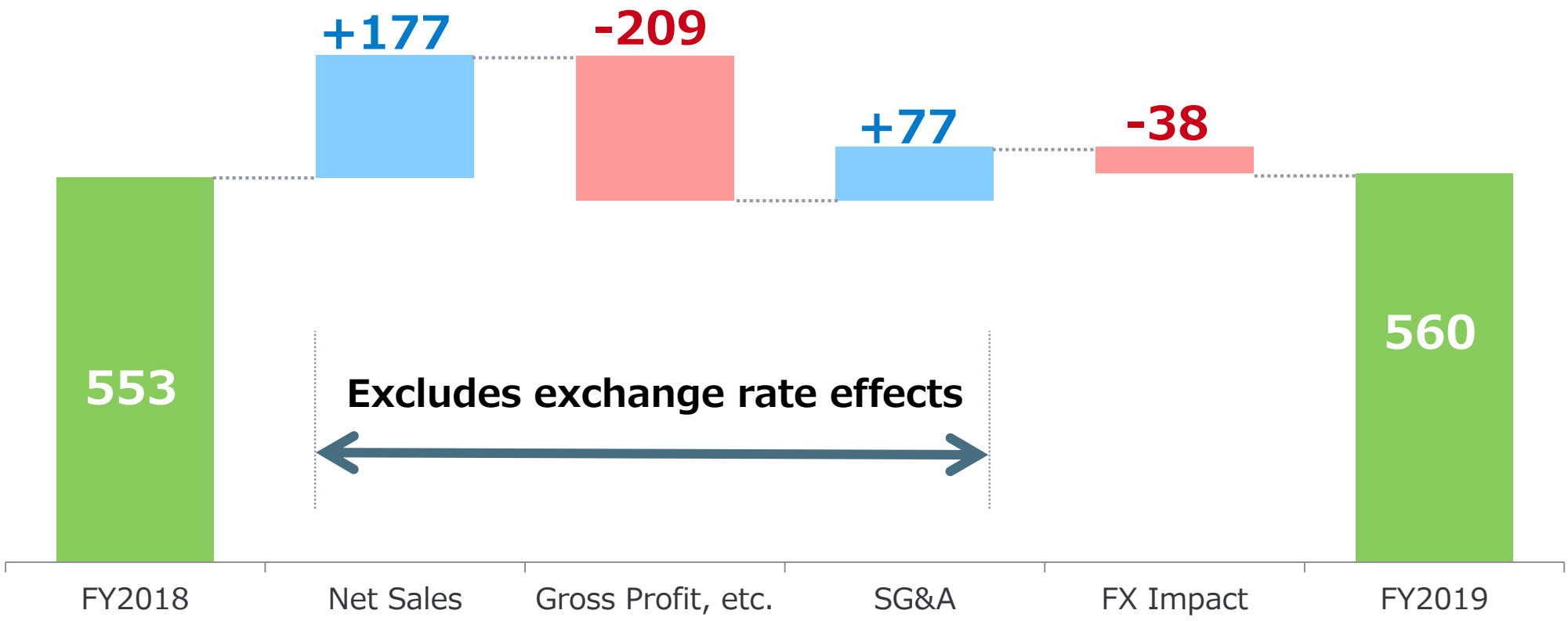
(Millions of JPY)

	FY2019	FY2018	Change	YoY	excl. FX impact
Total Sales	**10,867**	**10,910**	**-42**	**99.6%**	**104.4%**
Gross Profit	3,784	4,012	-227	94.3%	-
Gross Profit %	34.8%	36.8%	-1.9pt	-	-
Operating Income	**560**	**553**	**+6**	**101.2%**	**108.2%**
Operating Income %	5.2%	5.1%	+0.1pt	-	-



Major Gains/Losses in OI

(Millions of JPY)



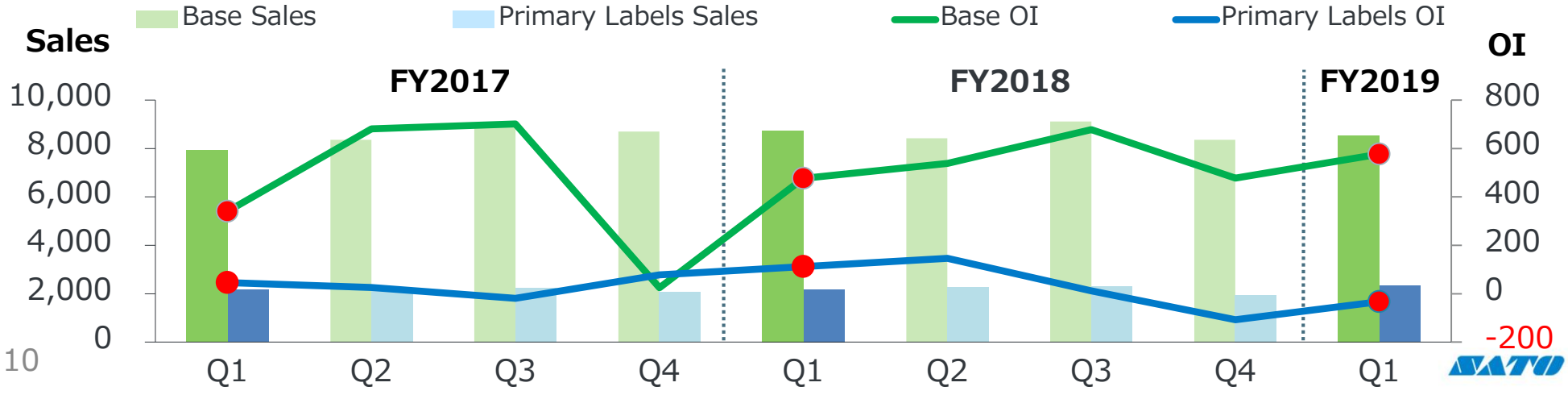
Breakdown by Business Segment

Base business: Sales decreased YoY due to impact from US-China trade conflict on China-related business. OI grew as R&D cost in US diminished and UK sales subsidiary moved into the black.

Primary Labels business: Sales increased YoY thanks mainly to Okil, while OI decreased due to adverse FX impact at Okil and others.

(Millions of JPY)

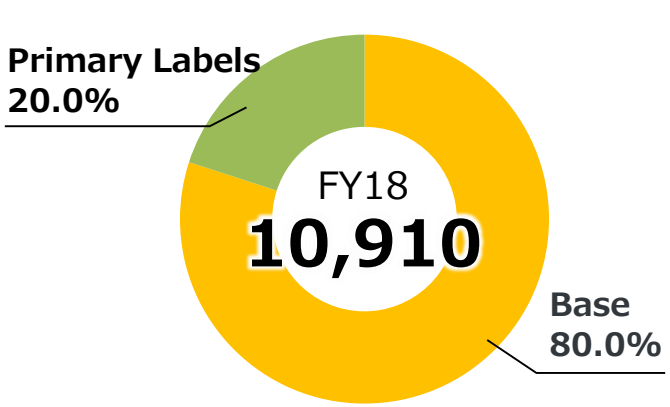
		FY2019	FY2018	Change	YoY	excl. FX impact
Base	Total Sales	8,539	8,730	-191	97.8%	101.1%
	Operating Income	577	477	+100	121.1%	124.2%
Primary Labels	Total Sales	2,328	2,180	+148	106.8%	117.5%
	Operating Income	-33	112	-146	-	-
Eliminations	Operating Income	16	-36	+52	-	-

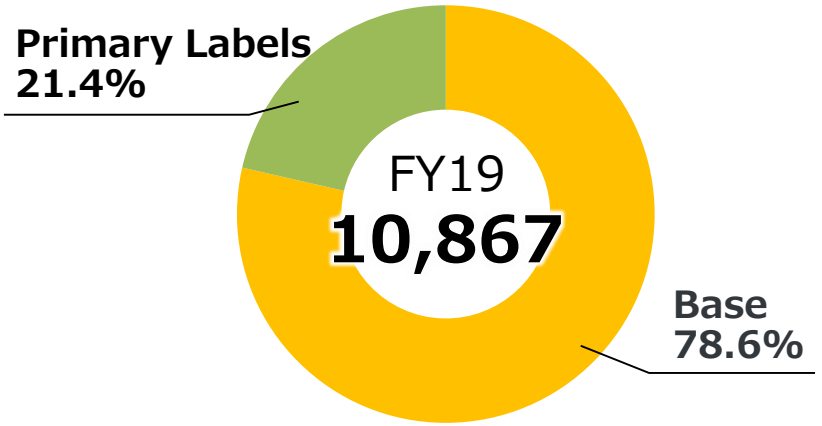


Breakdown of Sales and OI by Business Segment

(Millions of JPY)

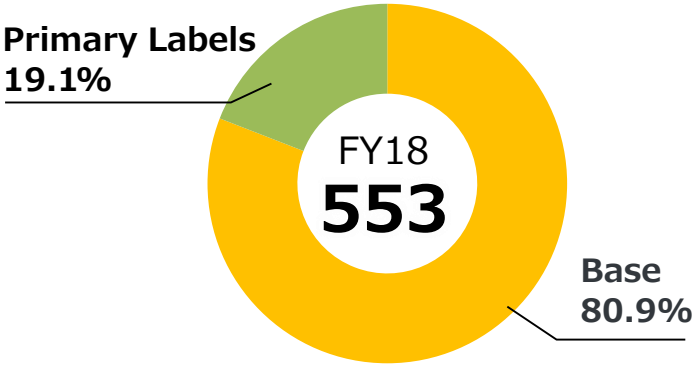
Sales

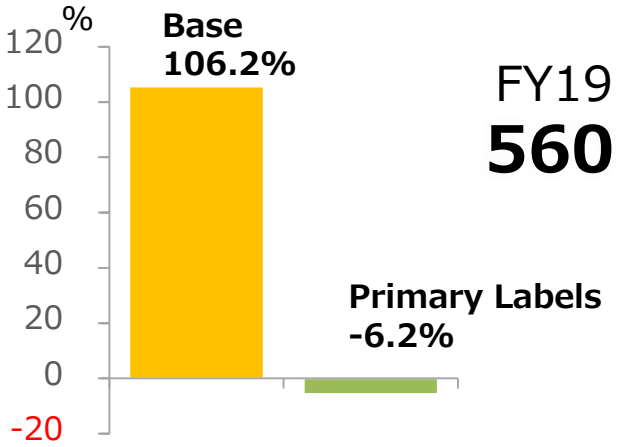




Operating Income

*Ratio excludes eliminations.





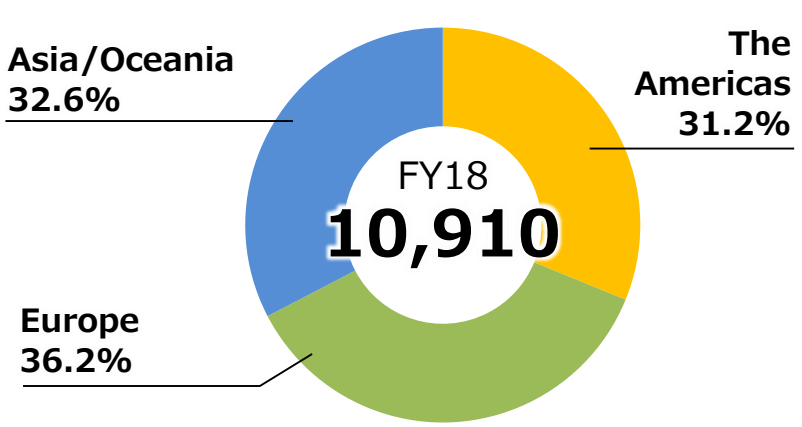
OI ratio: **Base : 5.5%, Primary Labels : 5.2%**

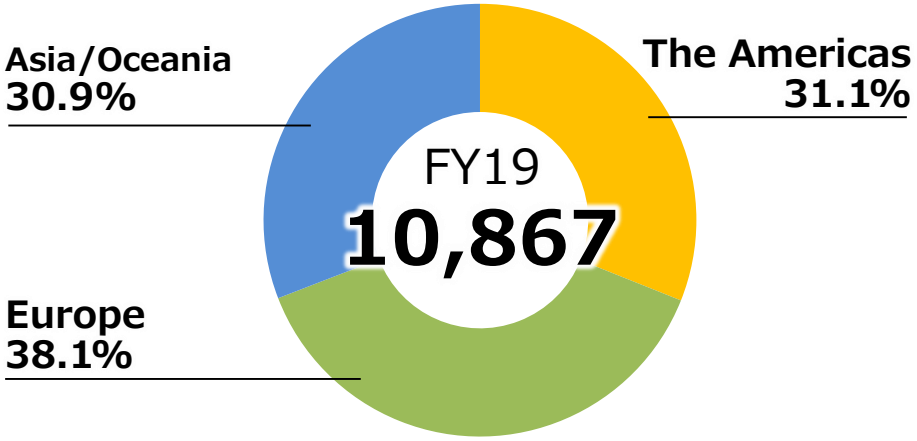
OI ratio: **Base : 6.8%, Primary Labels : N/A**

Breakdown of Sales and OI by Region

(Millions of JPY)

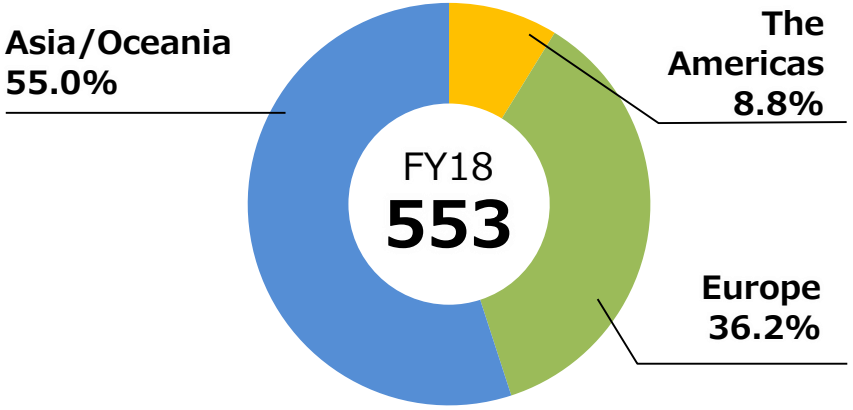
Sales



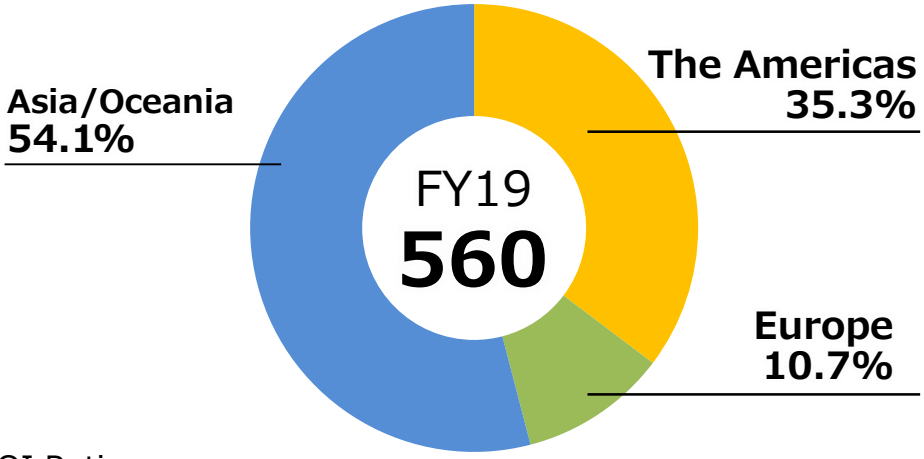


Operating Income

*Ratio excludes eliminations.



OI Ratio :
The Americas : 1.5%, Europe : 5.4%, Asia/Oceania : 9.1%

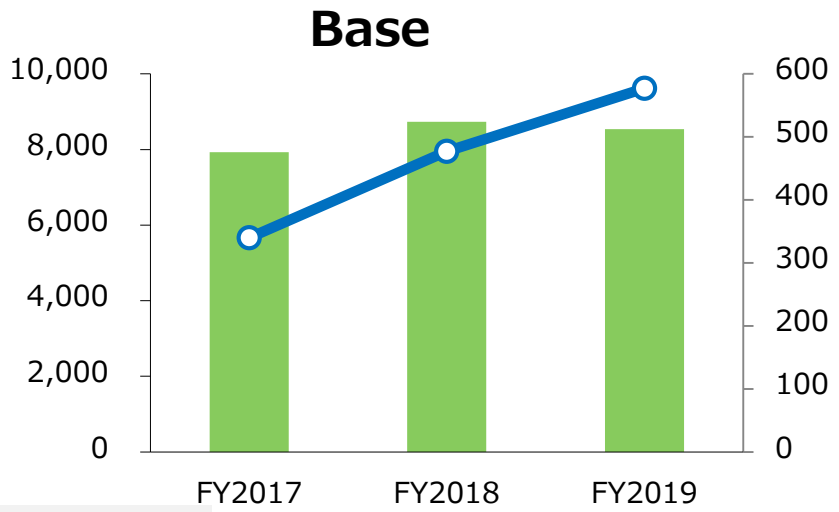


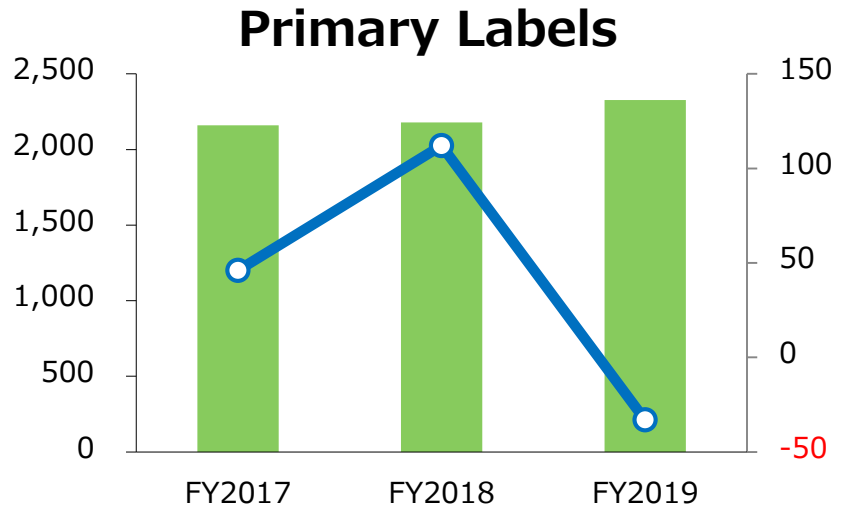
OI Ratio :
The Americas : 5.7%, Europe : 1.4%, Asia/Oceania : 8.8%

Sales and OI Trends by Business Segment and Region

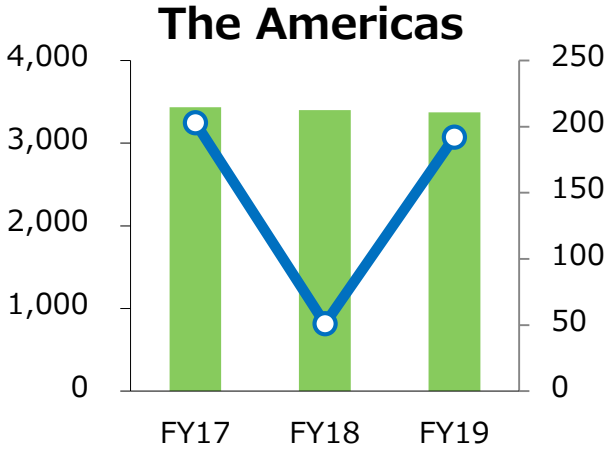
By Business Segment

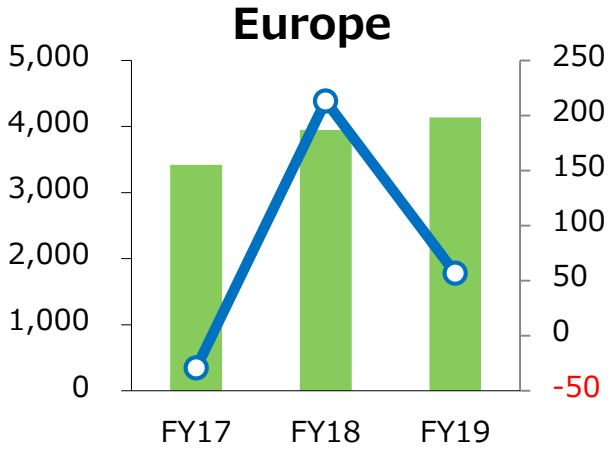
Sales OI (Millions of JPY; Sales (left axis), OI (right axis))

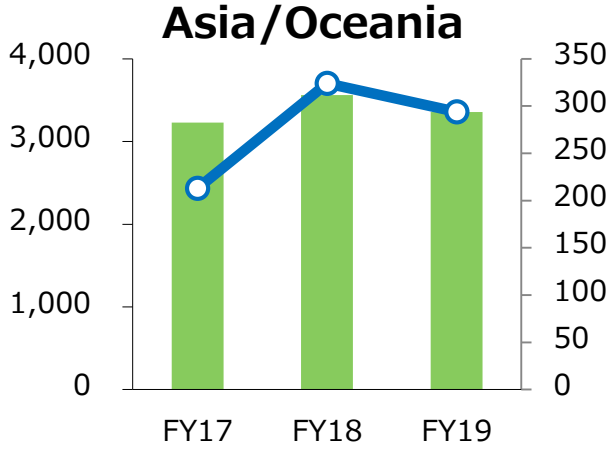




By Region





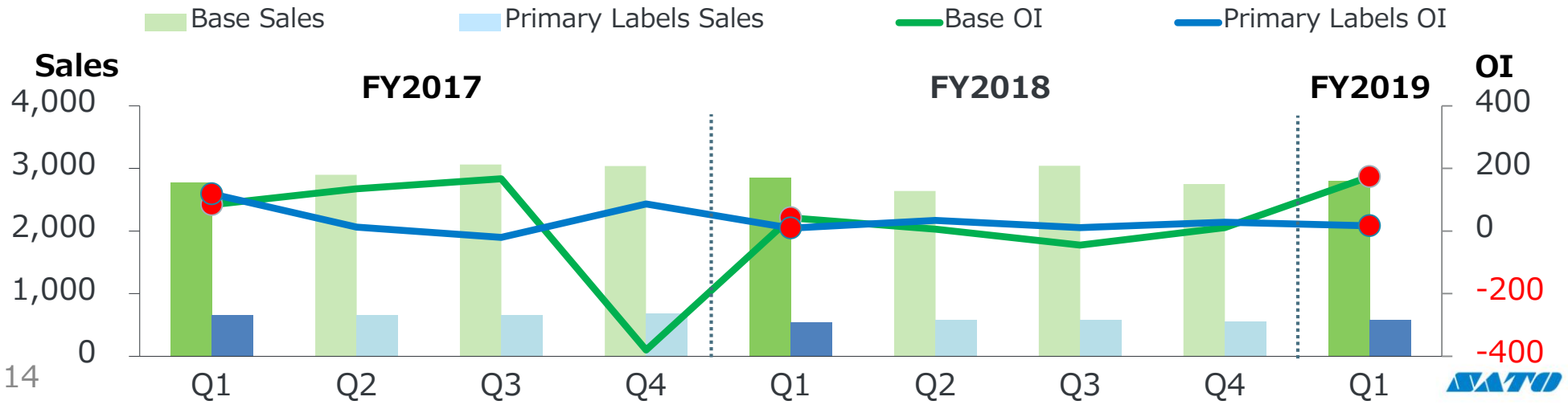


Breakdown by Region: The Americas

Base business: Sales declined at SAL YoY as major customers adjusted inventories and delayed orders. OI grew as R&D costs diminished due to SGS liquidation.
Primary Labels business: Sales increased and OI jumped YoY. The latter was driven by Achernar, which managed to pass cost increases to customers.

(Millions of JPY)

		FY2019	FY2018	Change	YoY	excl. FX impact
Base	Total Sales	2,797	2,854	-57	98.0%	99.7%
	Operating Income	174	42	+132	411.1%	415.0%
Primary Labels • Achernar • Prakolar	Total Sales	577	546	+30	105.6%	137.1%
	Operating Income	17	9	+8	186.3%	456.7%

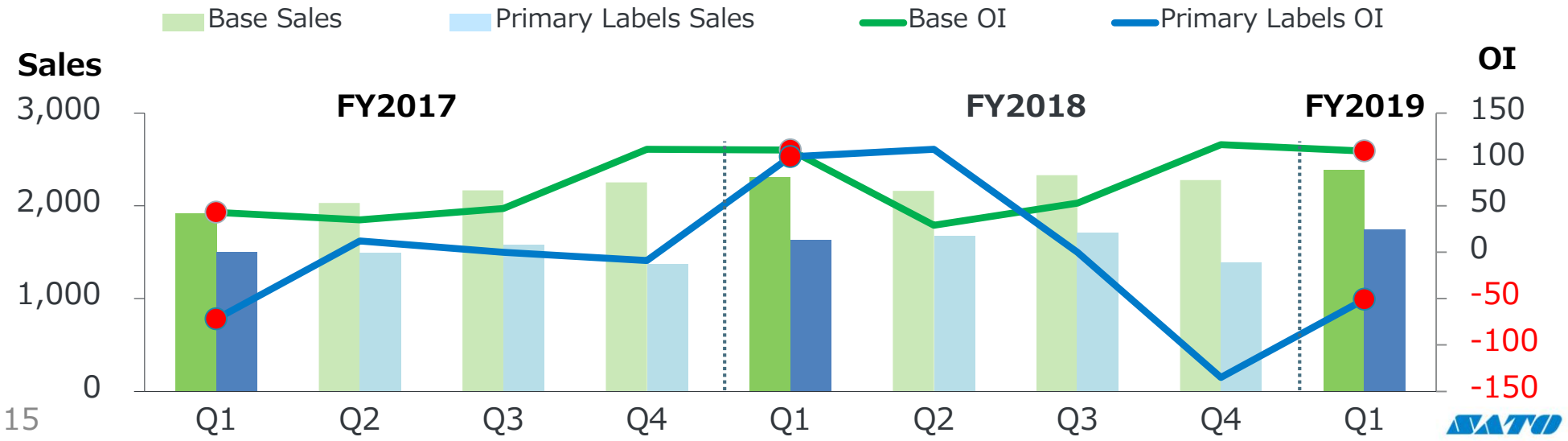


Breakdown by Region: Europe

Base business: The UK sales subsidiary increased sales and moved into the black after securing a large order related to food safety. Overall, sales increased and OI dropped slightly YoY.
Primary Labels business: Sales increased YoY thanks to new business at Okil. Adverse FX impact and raw material cost increases led to decrease in OI YoY.

(Millions of JPY)

		FY2019	FY2018	Change	YoY	excl. FX impact
Base	Total Sales	2,386	2,315	+71	103.1%	108.5%
	Operating Income	109	110	+0	99.2%	105.2%
Primary Labels • Okil • X-Pack	Total Sales	1,751	1,633	+117	107.2%	111.0%
	Operating Income	-51	103	-154	-	-

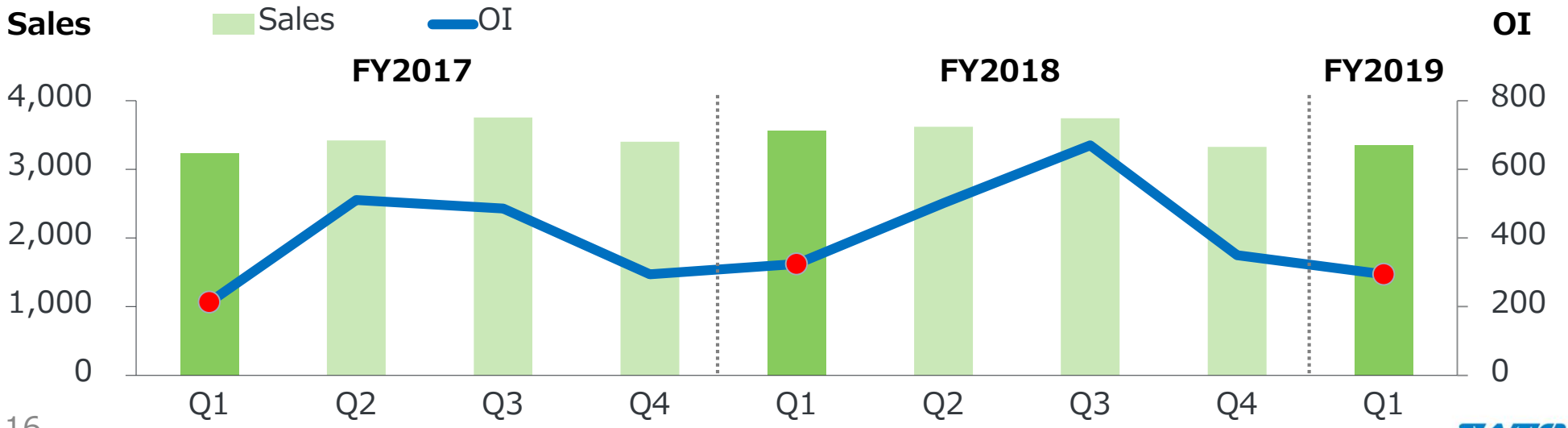


Breakdown by Region: Asia/Oceania

Base business: Sales decreased YoY due mainly to US-China trade conflict that impacted business in China and at Argox. Investment in inland China where growth is expected resulted in OI reduction YoY.

(Millions of JPY)

		FY2019	FY2018	Change	YoY	excl. FX impact
Base	Total Sales	3,355	3,560	-205	94.2%	97.5%
	Operating Income	294	324	-30	90.6%	92.7%

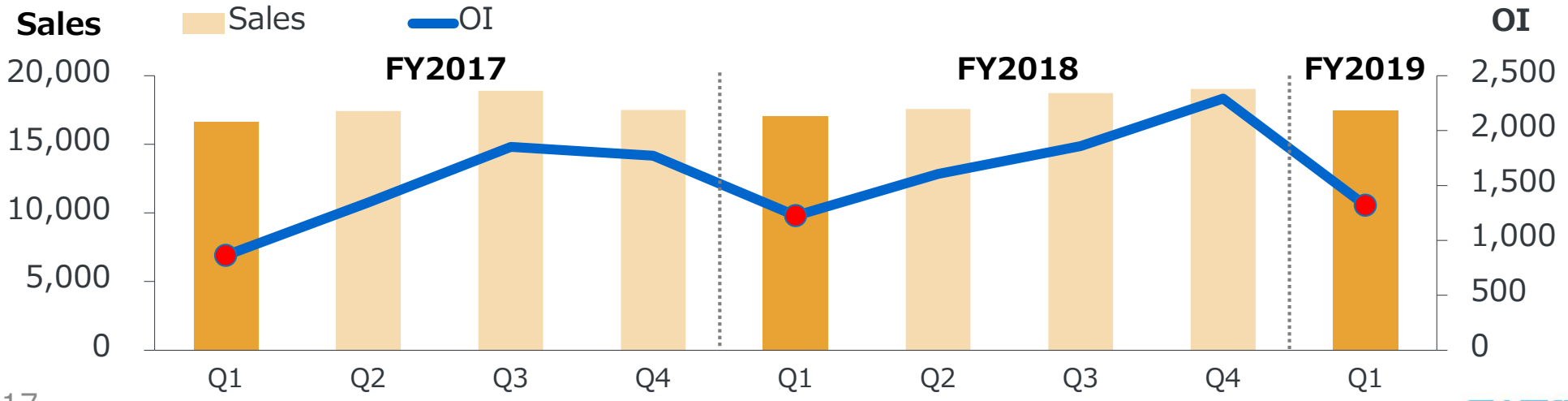


Overview

Sales and OI increased YoY driven by mechatronics sold through solutions offerings.

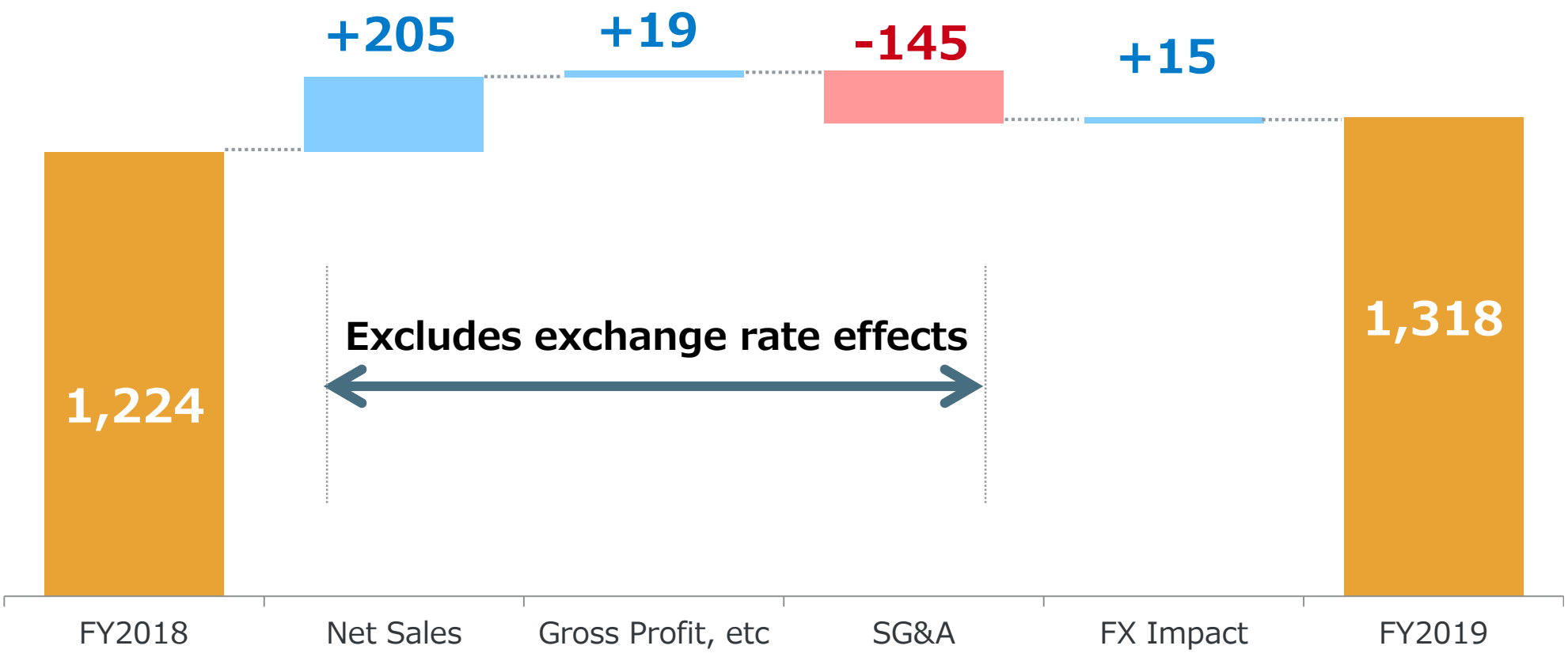
(Millions of JPY)

	FY2019	FY2018	Change	YoY
Mechatronics Sales	6,954	6,220	+734	111.8%
Consumables Sales	10,540	10,861	-320	97.0%
Total Sales	**17,495**	**17,081**	**+413**	**102.4%**
Gross Profit	8,740	8,500	+240	102.8%
Gross Profit %	50.0%	49.8%	+0.2pt	-
Operating Income	**1,318**	**1,224**	**+94**	**107.7%**
Operating Income %	7.5%	7.2%	+0.4pt	-



Major Gains/Losses in OI

(Millions of JPY)

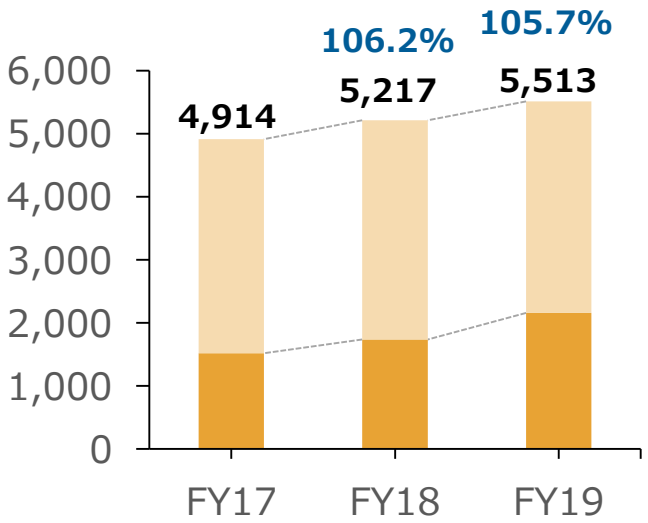


Sales by Vertical (Apr-Jun) [1]

(Millions of JPY)

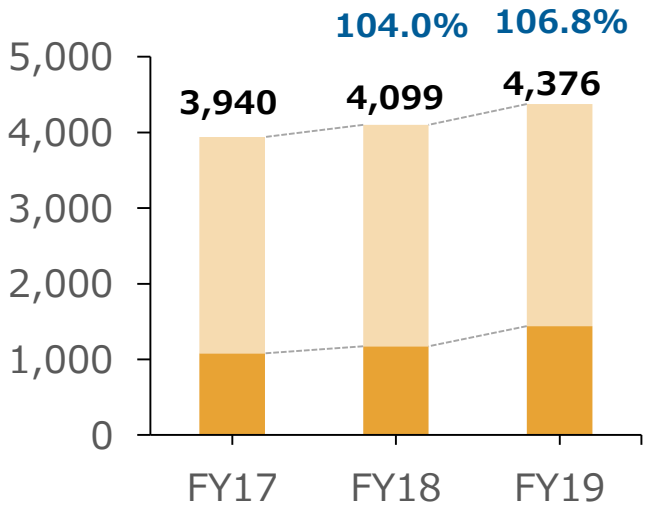
■ : Mechatronics ■ : Consumables *Figures are total sales; % indicates YoY change

Manufacturing



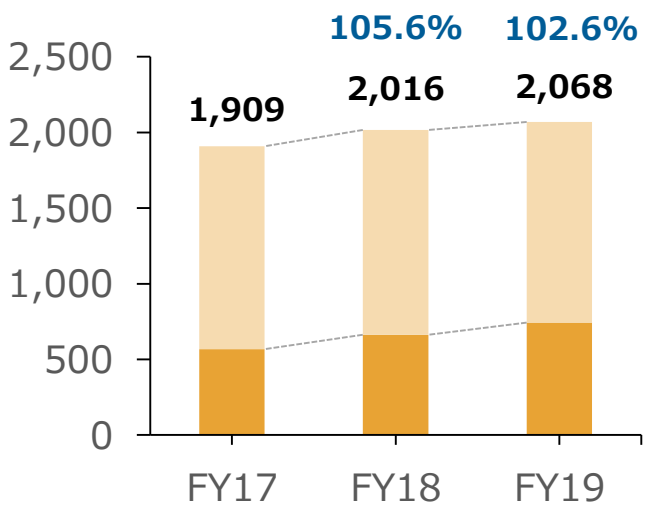
- Production cuts in electric appliance and electronic component industries negatively impacted consumables sales, while investments to improve productivity and visibility remained solid.
- In addition to fresh investments in the automotive industry, our solutions to meet robust demand for automation and visibility enhancement in general helped to drive sales.

Logistics



- Business environment in e-commerce and C2C market remained favorable. Investments for automation and digitalization to cover for labor shortage remained solid.
- Mechatronics sales performed well thanks to solutions combining printers, RFID and location tracking technology.

Retail



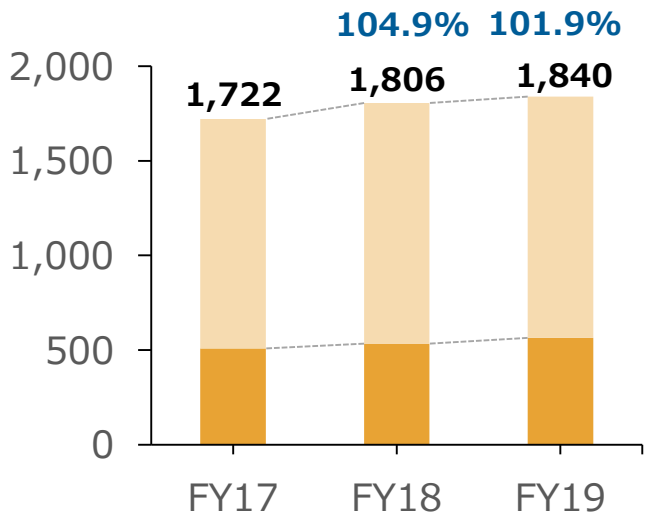
- Sales for real stores remained sluggish, while demands to meet labor shortage, omnichannel retailing and compliance to amended regulations were steady.
- Mechatronics sales grew on back of orders to develop customized software and HACCP compliance solutions.

Sales by Vertical (Apr-Jun) [2]

(Millions of JPY)

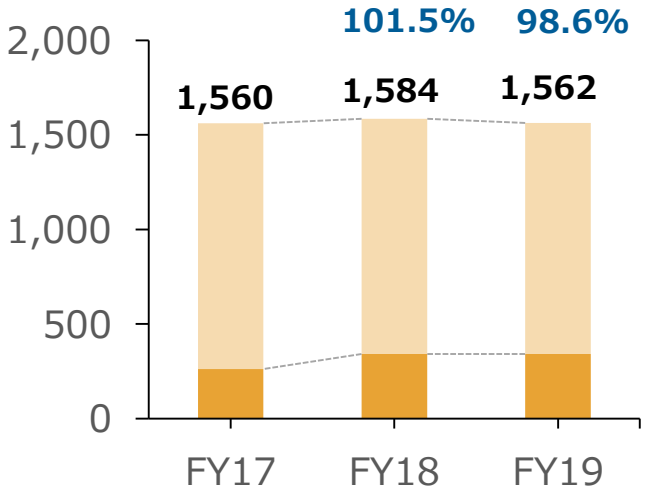
■ : Mechatronics ■ : Consumables *Figures are total sales; % indicates YoY change

Health Care



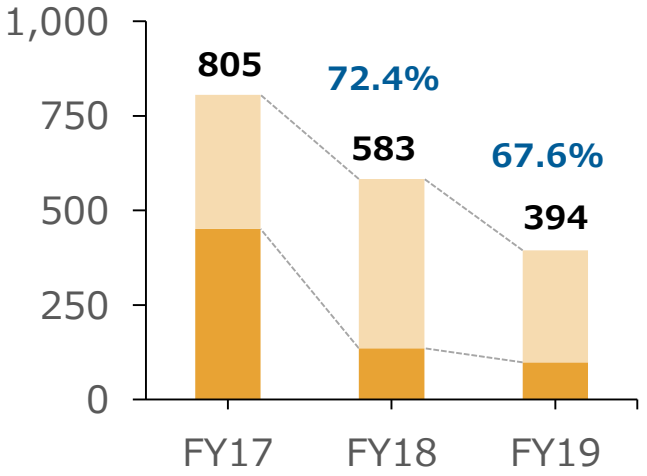
- Business environment remained favorable due mainly to steady demand related to barcode labeling of drugs and medical devices, and labor shortage.
- Sales of solutions utilizing RFID and location tracking technology as well as barcodes performed well.

Food & Beverage



- Business environment remained favorable as the industry sought compliance to amended regulations and enhancement of manufacturing process control.
- Despite printer-replacement orders and regulation-related demand, sales of mechatronics and consumables slightly declined due to loss of a large order from a restaurant chain seen last FY.

Public



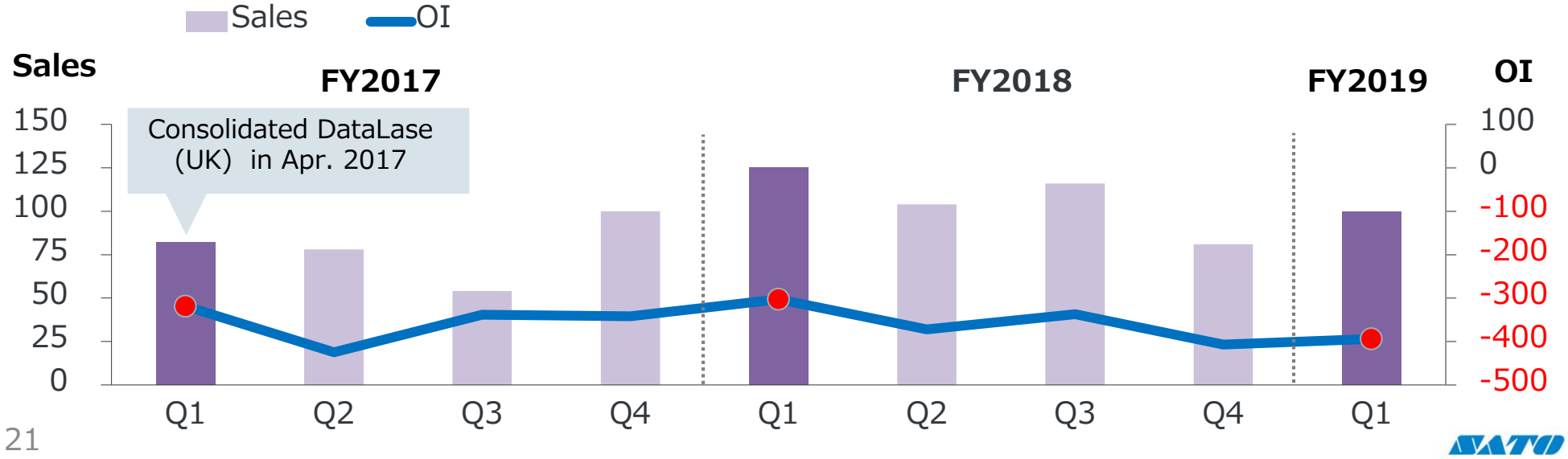
- Business environment remained stable.
- While approaches are being made to new industries, sales dropped as a whole YoY as a volume-order customer adjusted inventories of consumables.

Overview

R&D at DataLase progressed as planned.

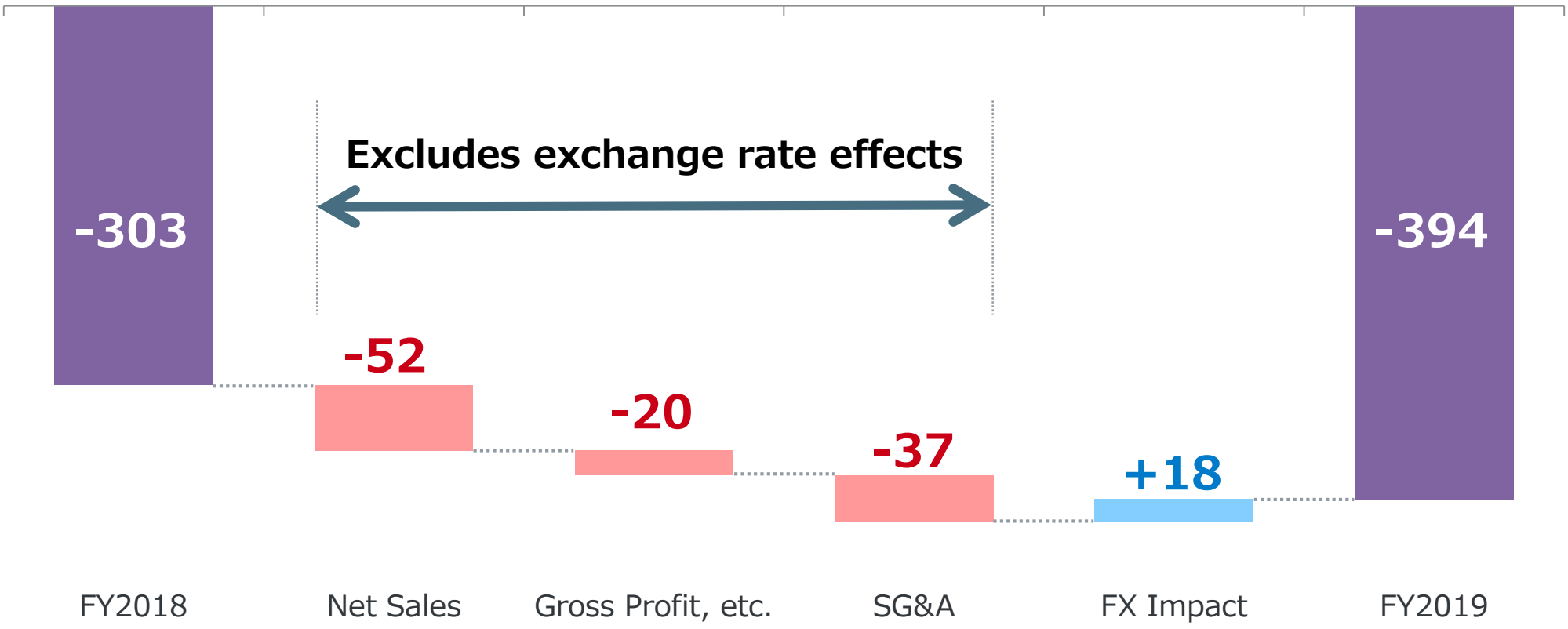
(Millions of JPY)

	FY2019	FY2018	Change	YoY	excl. FX impact
Total Sales	**100**	**125**	**-25**	**80.0%**	**83.7%**
Gross Profit	67	143	-76	47.1%	-
Gross Profit %	67.5%	114.4%	-47.0pt	-	-
Operating Income	**-394**	**-303**	**-90**	**-**	**-**
Operating Income %	-	-	-	-	-



Major Gains/Losses in OI

(Millions of JPY)



FY2019 Consolidated Forecasts

(Millions of JPY)

	1H		2H		Full Year	
	Forecast	YoY	Forecast	YoY	Forecast	YoY
Net Sales	58,700	103.9%	61,300	102.7%	120,000	103.3%
Operating Income	3,500	104.7%	5,000	115.3%	8,500	110.7%
Ordinary Income	3,400	106.6%	4,900	110.7%	8,300	108.9%
Profit attributable to owners of parent	2,000	104.2%	3,000	161.8%	5,000	132.5%
<Reference>						
EBITDA*	13,250	←FY2018 full year			14,100	106.4%

*EBITDA=Operating Income + Depreciation + Amortization

Exchange rates assumed in FY19 forecast: JPY 112/USD, JPY 130/EUR
Average exchange rates for Apr-Jun FY19: JPY 109.90/USD, JPY 123.49/EUR
Average exchange rates for FY18 : JPY 110.92/USD, JPY 128.44/EUR

Appendix

SATO Terminologies　Page 25–28

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 technologies and products from partners to resolve customers' issues. It breaks down into Overseas and Japan businesses. The latter is made up of Base and Primary Labels businesses.
2	Base business	Business of tagging variable information at customers' worksites.
3	Primary Labels business	Business of tagging 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).
4	IDP business	Develops, manufactures and sells products used in Inline Digital Printing (IDP). "Materials business" before FY 2018.
5	Koto-uri	Sales approach of selling not the product, but the solution that includes hardware, consumables, maintenance services and software.
6	Tagging	Process of physically attaching such information as identifier data and locations to things and people at customers' worksites and of passing the information to mainframe systems. It is the process of matching data with people and things, and of making such data available for value creation.
7	DCS & Labeling +One (DCS: Data Collection Systems)	DCS & Labeling is 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 printers and labels/labeling services. In line with increasingly sophisticated customer challenges, SATO is enhancing the model to DCS & Labeling +One by pursuing a policy of open innovation and partnerships to provide value-added "+One" technologies such as image recognition, voice recognition, location tracking and sensors in order to better solve customer issues.
8	Matching data with people and things	Connecting people and things at customer sites with information. Ever since our days of pioneering in hand labelers that attached price and other information to products, this concept has remained central to SATO's business.

(*) Underlined terms are described under its own heading

SATO Terminologies (2/4)

SATO-unique business concepts/initiatives		Description
9	Genbaryoku	Our core competency of going to customer sites to understand their operations and identify the essence of issues to offer optimized solutions.
10	Teiho	Teiho is SATO‘s unique system of reports and proposals in effect since 1976. Employees share new information and ideas they come across on-site every day to top management via the Teiho system. Teiho helps top management gain immediate insight into the internal/external business situation to facilitate quick decision-making and execution of initiatives, while allowing "participation by all" in the management of the company. As Teiho reports are directly addressed to top management, it is also an effective means of compliance monitoring to prevent malpractice and other inappropriate behavior and assist in corporate governance. Some of our global offices have also started Teiho, with more to follow.
11	AAP (Area Alliance Partner)	Our initiative in Japan to segment regions into smaller divisions and form alliances with partners having strong presence in areas/industries that we have yet to cover.
Products, services, technologies		**Description**
1	Mechatronics	All products not consumables, including hardware (e.g., 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, RFID 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 printers, labels, software and maintenance services using auto-ID technologies to carry out DCS & Labeling +One. To meet ever complex and diverse customer challenges, SATO also looks beyond its own resources and interests by pursuing partnerships, for example, to enable location technologies to track items by tags and inventory/worker movements in real time for managing manufacturing processes and visualizing productivity on-site.
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.

SATO Terminologies (3/4)

Products, services, technologies		Description
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 remotely 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.
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 labels or ink at the point of printing, it eliminates the need for applying labels 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 boxes and packaging, making it ideal for real-time, consumer-directed marketing in addition to minimizing stock keeping units (SKUs). Development for multi-color capability – crucial for marketing applications – is 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 superior RFID technology that can quickly and accurately identify large volumes of tagged items stacked or stored in any physical orientation even in the presence of metals and liquids. Now SATO Vicinity Pty Ltd.
4	Okil-Holding, JSC (Russia)	[2014] Primary labels company in which SATO acquired 75% ownership stake. X-Pack is affiliated with Okil.
5	Prakolar Rótulos Autoadesivos LTDA. (Brazil)	[2015] Company specializing in primary labels.
6	DataLase Ltd. (UK)	[2017] Company engaging in the development, production and sales of the IDP color-change pigment and related products. Now a SATO consolidated subsidiary.
Overseas subsidiary founded after 2017		**Description**
1	X-Pack (Russia)	[2017] A subsidiary owned 60% by SATO Holdings in Primary Labels business producing and selling shrink sleeves, in-mould labels and soft packages.
2	SATO Healthcare Switzerland AG	[2018] A subsidiary owned 100% by SATO Holdings specializing in health care.



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