Ceaseless Creativity for a Sustainable World

February 7, 2020

SATO HOLDINGS CORPORATION

FY2019 Q3 Financial Results

(Nine Months Ended December 31, 2019)

Securities Code: 6287

Summary

- **Both consolidated sales and OI increased YoY.**
- **Overseas, sales remained flat while OI increased YoY. Excluding adverse FX impact, both sales and OI increased as performance remained strong.**
- **In Japan, both sales and OI increased YoY driven by mechatronics as solution offerings grew.**
- **The full year guidance has been revised to reflect increased uncertainty.**

Sales and OI by Business Segment

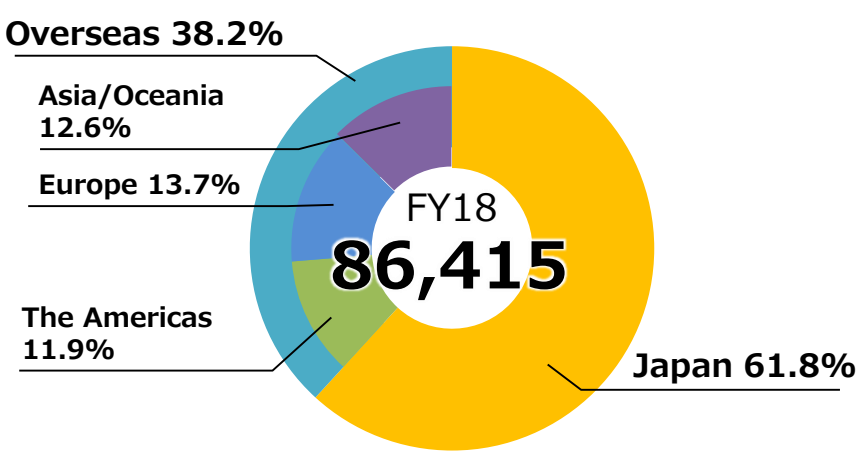
(Millions of JPY)

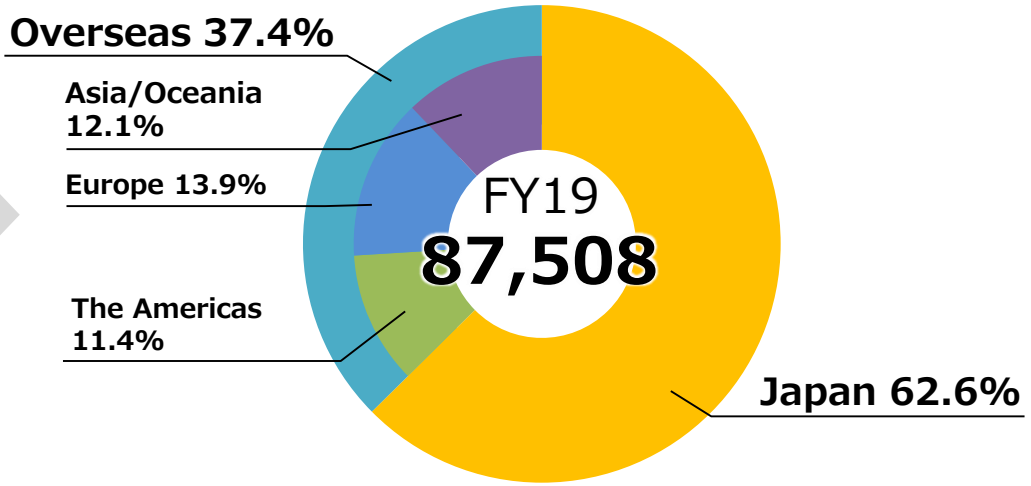
		FY2019	FY2018	YoY	YoY excl. FX impact
Auto-ID Solutions business	**Total Sales**	**87,508**	**86,415**	**101.3%**	**103.3%**
	Operating Income	**6,710**	**6,586**	**101.9%**	**103.9%**
Overseas	Total Sales	**32,725**	33,017	99.1%	104.5%
	Operating Income	**1,928**	1,894	101.8%	109.9%
Japan	Total Sales	**54,782**	53,397	102.6%	102.6%
	Operating Income	**4,782**	4,691	101.9%	101.5%
IDP business	**Total Sales**	**294**	**346**	**85.1%**	**90.1%**
	Operating Income	**-1,055**	**-1,013**	**-**	**-**
Consolidated (incl. eliminations)	**Total Sales**	**87,803**	**86,761**	**101.2%**	**103.3%**
	Operating Income	**5,645**	**5,444**	**103.7%**	**105.0%**

Sales and OI by Region

(Millions of JPY)

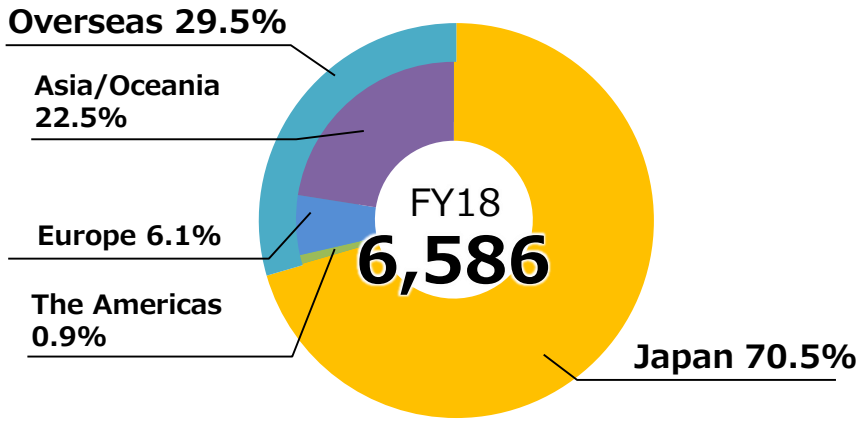
Sales

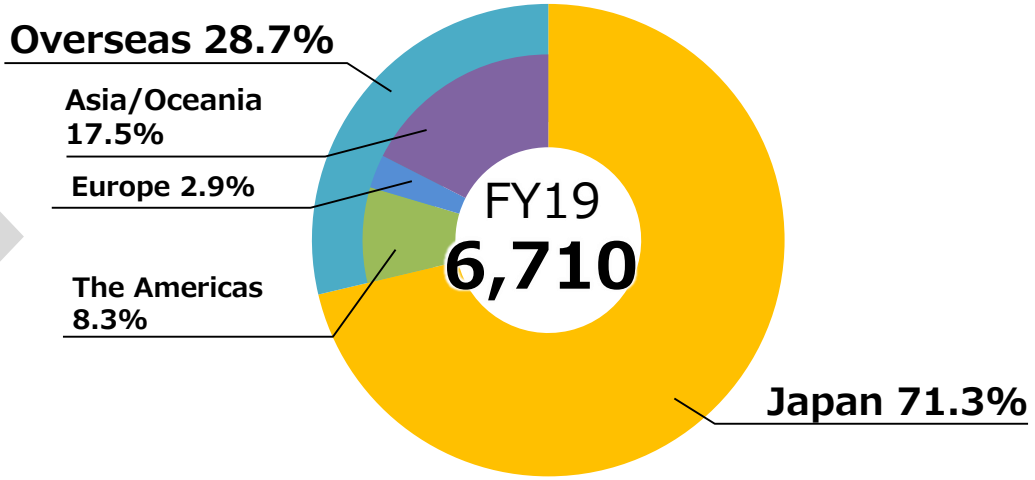




Operating Income

*Ratio excludes eliminations.





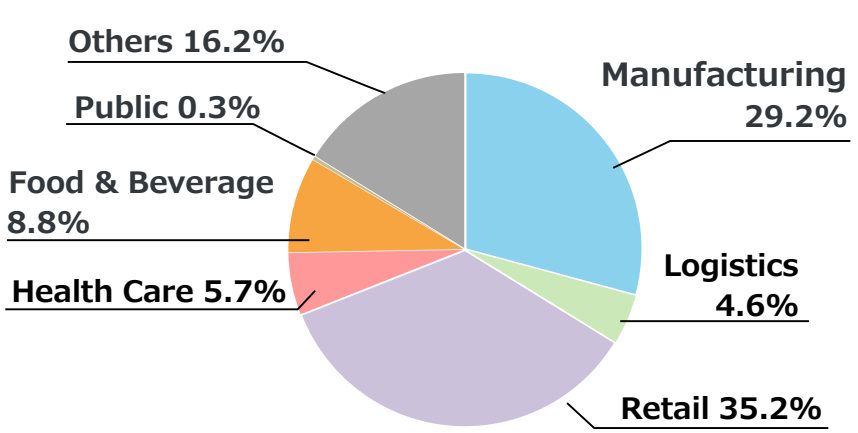
OI Ratio: **Japan : 8.8%, Overseas : 5.7%**

OI Ratio: **Japan : 8.7%, Overseas : 5.9%**

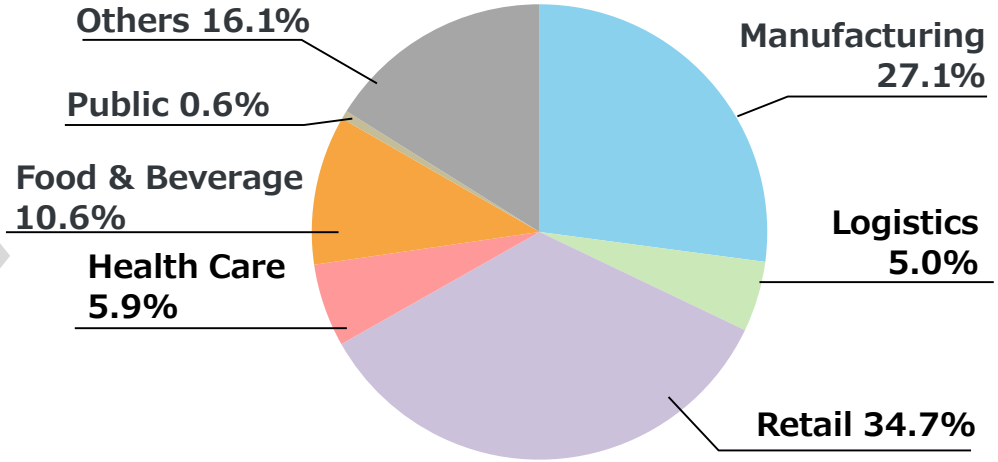
Sales by Vertical

Overseas

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

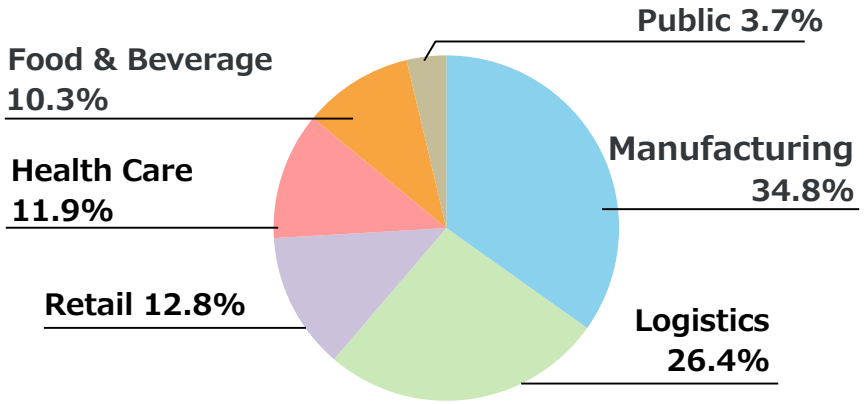


FY18

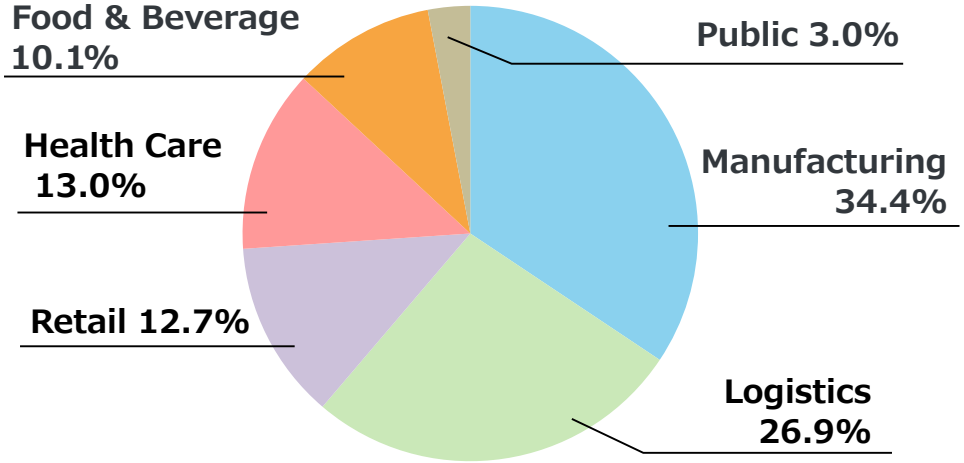


FY19

Japan



FY18



FY19

Consolidated Results

(Millions of JPY)

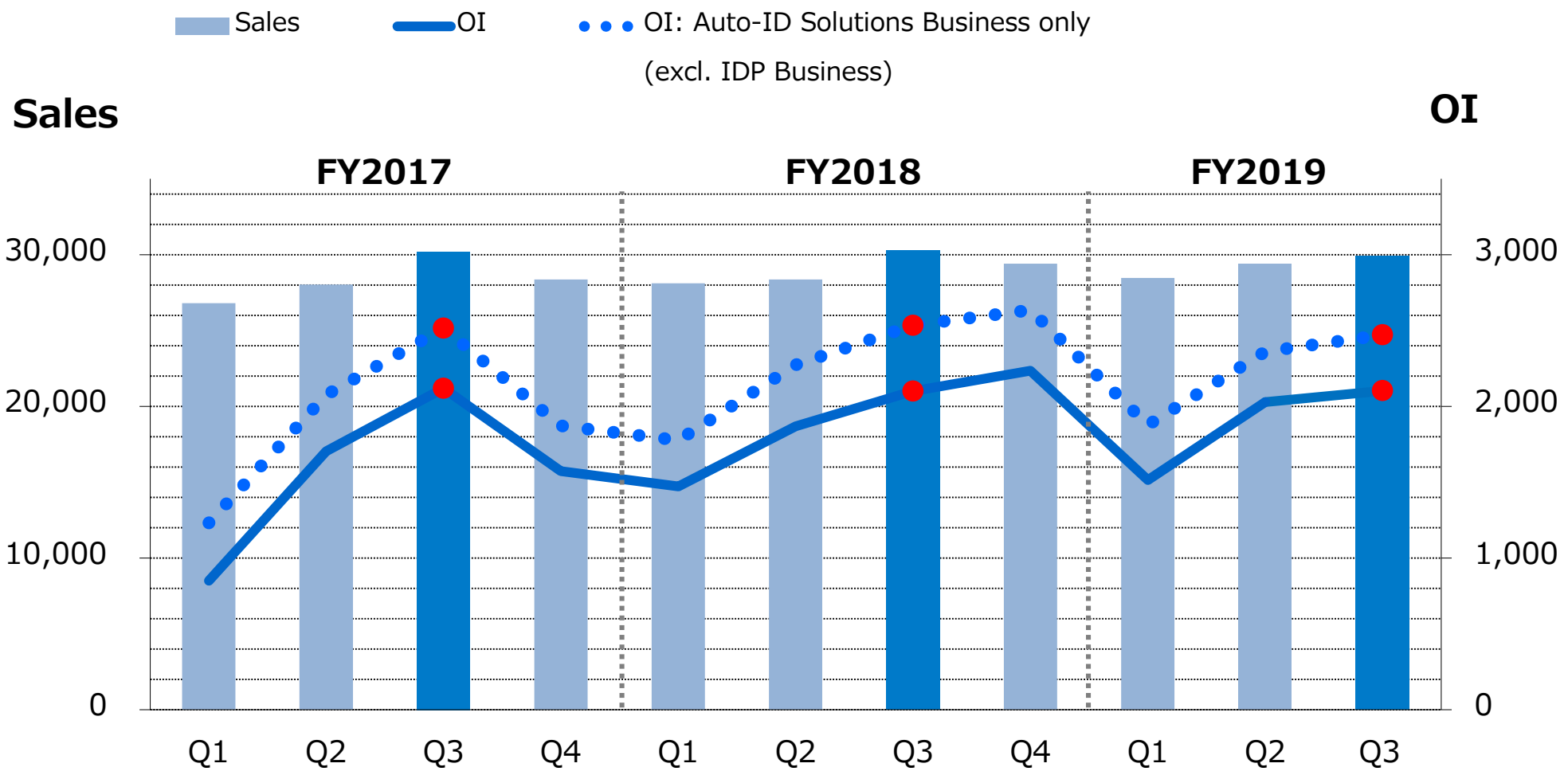
	FY2019	FY2018	Change	YoY
Net Sales	87,803	86,761	+1,041	101.2%
Operating Income	5,645	5,444	+201	103.7%
Operating Income %	6.4%	6.3%	+0.2pt	-
Ordinary Income	5,362	5,104	+257	105.1%
Profit attributable to owners of parent *1	4,157	3,078	+1,078	135.0%
Effective Tax Rate*2	30.0%	39.7%	-9.7pt	
EBITDA*3	10,096	9,628	+467	104.9%

Average exchange rates for Apr-Dec FY19: JPY 108.64 /USD, JPY 121.02 /EUR, Apr-Dec FY18: JPY 111.14/USD, JPY 129.46 /EUR
FX sensitivity for FY19: JPY +423 million in sales and JPY +5 million in OI for +1 JPY against USD and assuming all others move by the same ratio

*1 Profit attributable to owners of parent in Apr-Sep FY19 reflected extraordinary income from gain on sale of fixed assets overseas.
*2 Effective Tax Rate of Apr-Sep FY18 was high due mainly to adjustments related to reorganization of Japanese subsidiaries.
*3 EBITDA = Operating Income + Depreciation + Amortization
・Depreciation for Apr-Dec FY19: JPY 3,794 million Apr-Dec FY18: JPY 3,335 million
・Amortization for Apr-Dec FY19: JPY 656 million (incl. 439 mil. for DataLase) Apr-Dec FY18: JPY 848 million (incl.467 mil. for DataLase)

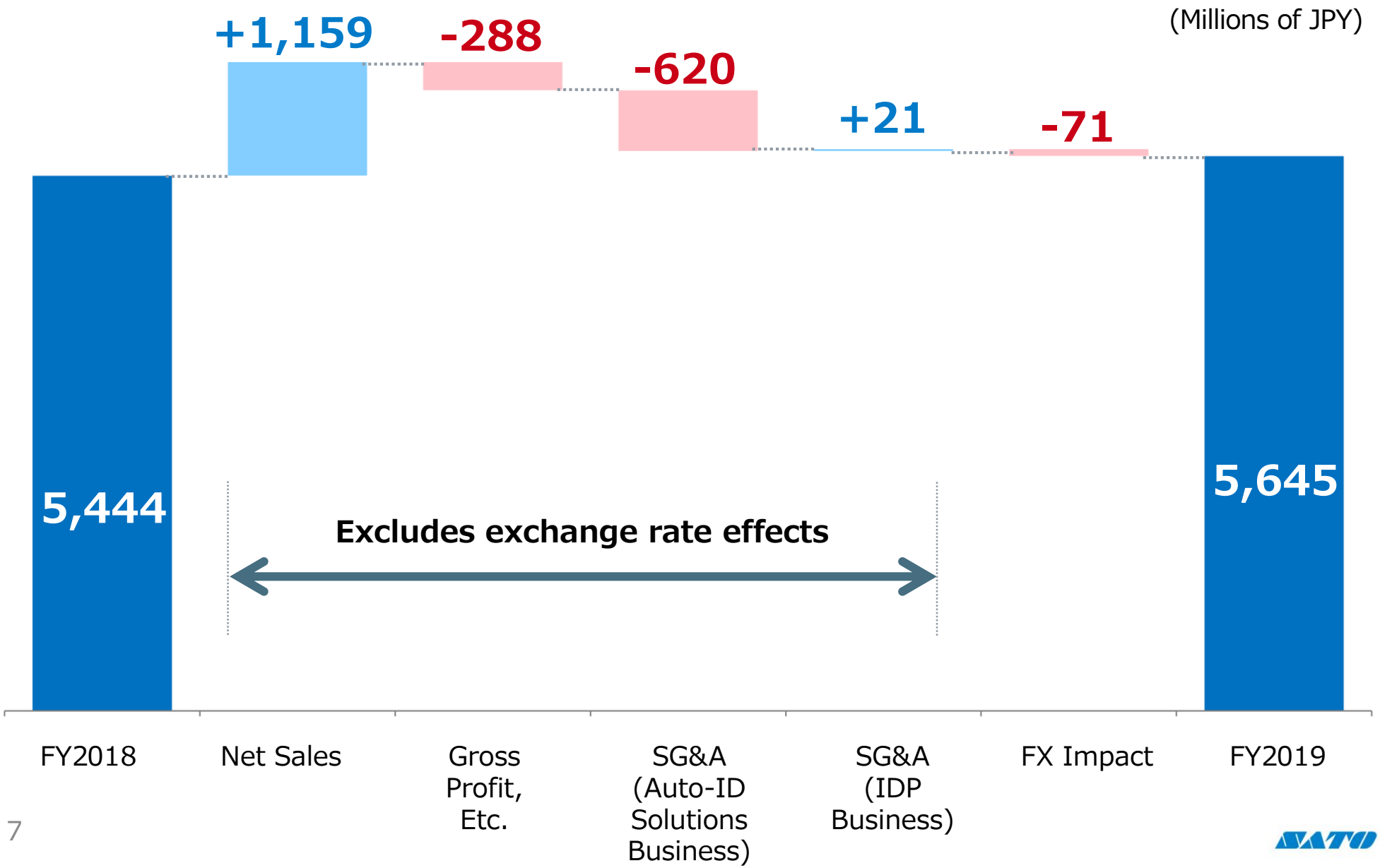
Quarterly Consolidated Sales & OI

(Millions of JPY)



Major Gains/Losses in OI

(Millions of JPY)

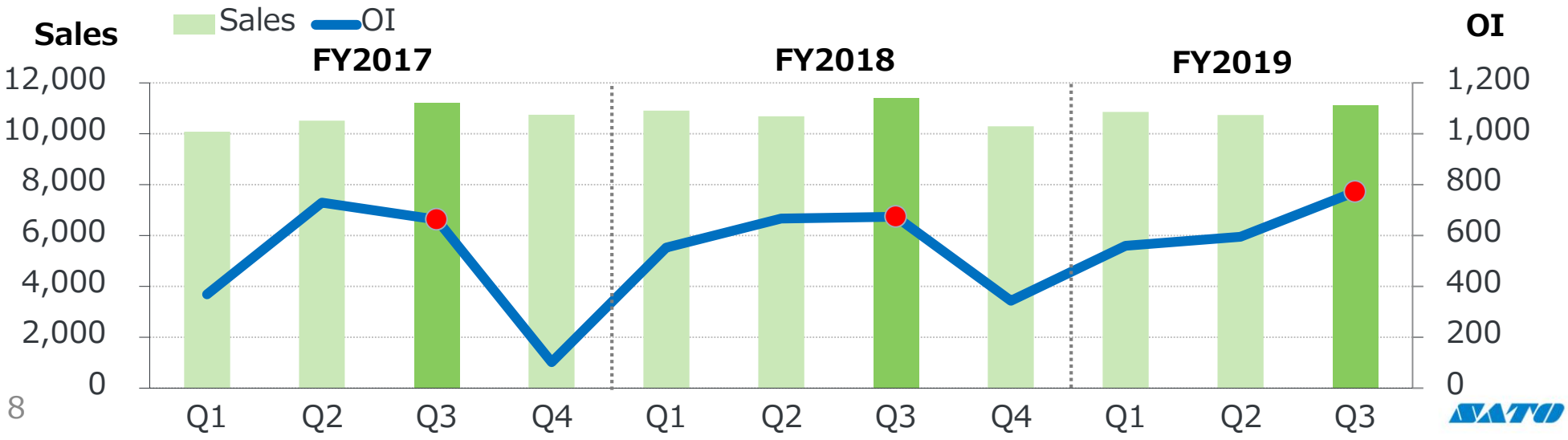


Overview

Sales remained flat while OI increased YoY. Excluding adverse FX impact, both sales and OI increased as performance remained strong.

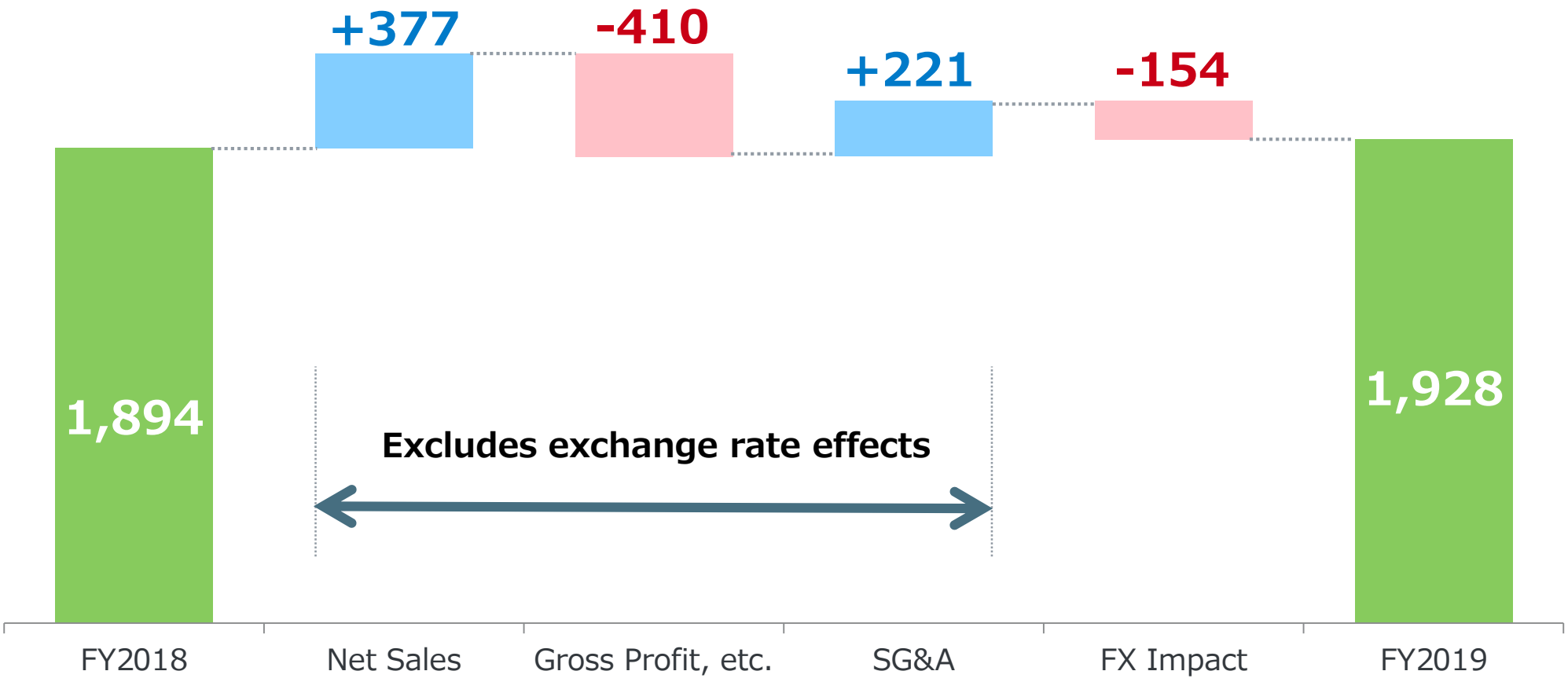
(Millions of JPY)

	FY2019	FY2018	Change	YoY	excl. FX impact
Total Sales	**32,725**	**33,017**	**-291**	**99.1%**	**104.5%**
Gross Profit	11,510	12,245	-734	94.0%	-
Gross Profit %	35.2%	37.1%	-1.9pt	-	-
Operating Income	**1,928**	**1,894**	**+33**	**101.8%**	**109.9%**
Operating Income %	5.9%	5.7%	+0.2pt	-	-



Major Gains/Losses in OI

(Millions of JPY)



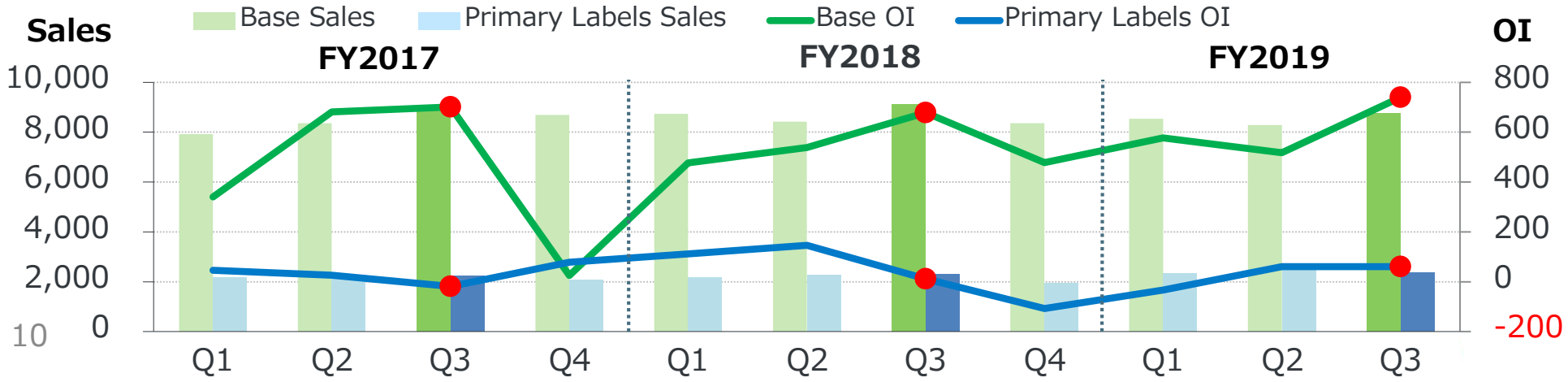
Breakdown by Business Segment

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

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

(Millions of JPY)

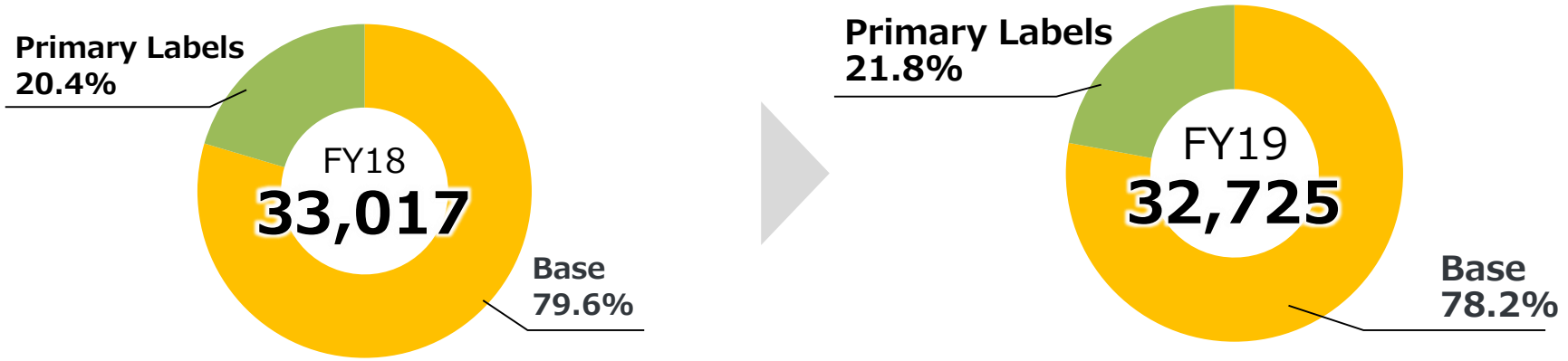
		FY2019	FY2018	Change	YoY	excl. FX impact
Base	Total Sales	25,583	26,270	-686	97.4%	101.9%
	Operating Income	1,836	1,694	+142	108.4%	112.8%
Primary Labels	Total Sales	7,142	6,746	+395	105.9%	114.6%
	Operating Income	88	271	-183	32.6%	61.6%
Eliminations	Operating Income	3	-70	+74	-	-



Breakdown of Sales and OI by Business Segment

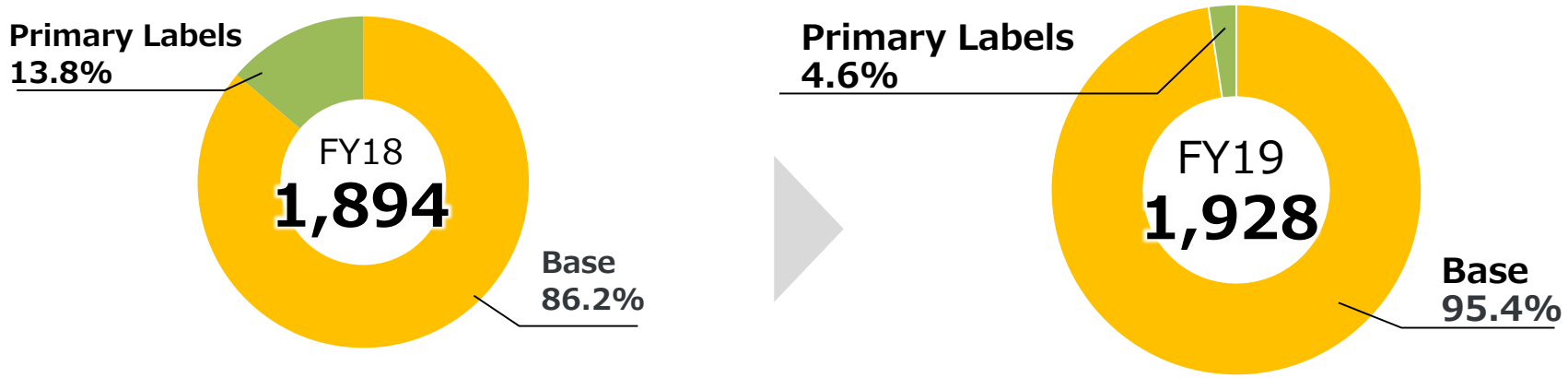
(Millions of JPY)

Sales



Operating Income

*Ratio excludes eliminations.



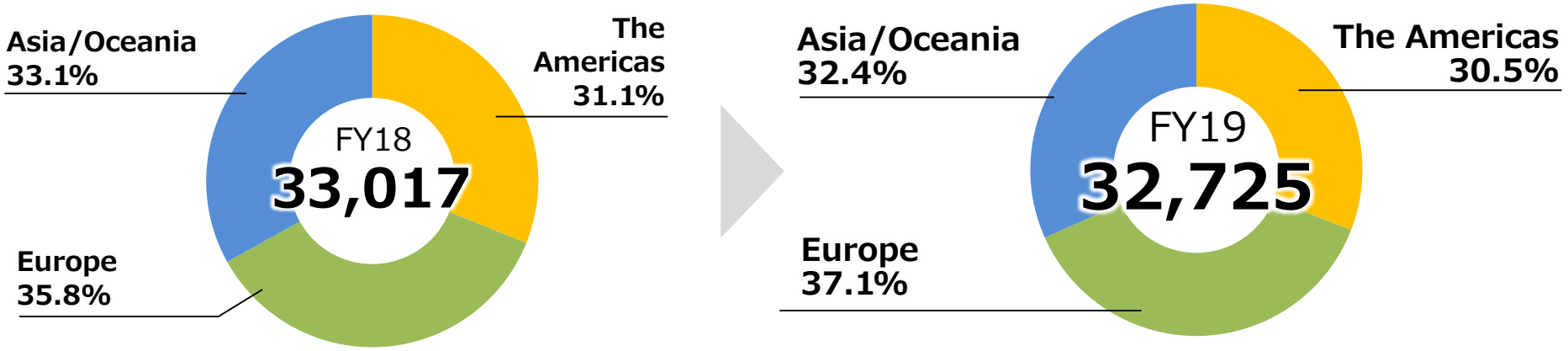
OI ratio: **Base : 6.4%, Primary Labels : 4.0%**

OI ratio: **Base : 7.2%, Primary Labels : 1.2%**

Breakdown of Sales and OI by Region

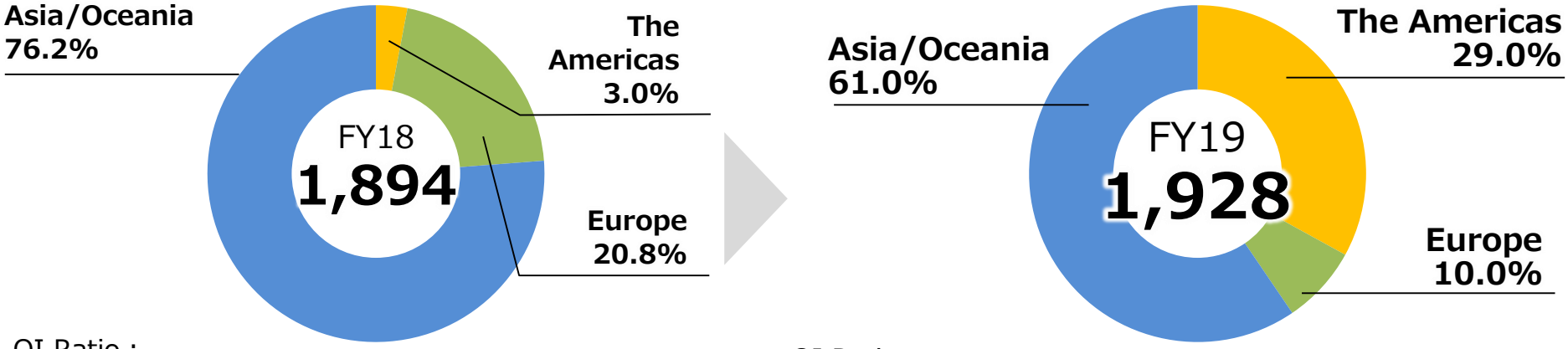
(Millions of JPY)

Sales



Operating Income

*Ratio excludes eliminations.

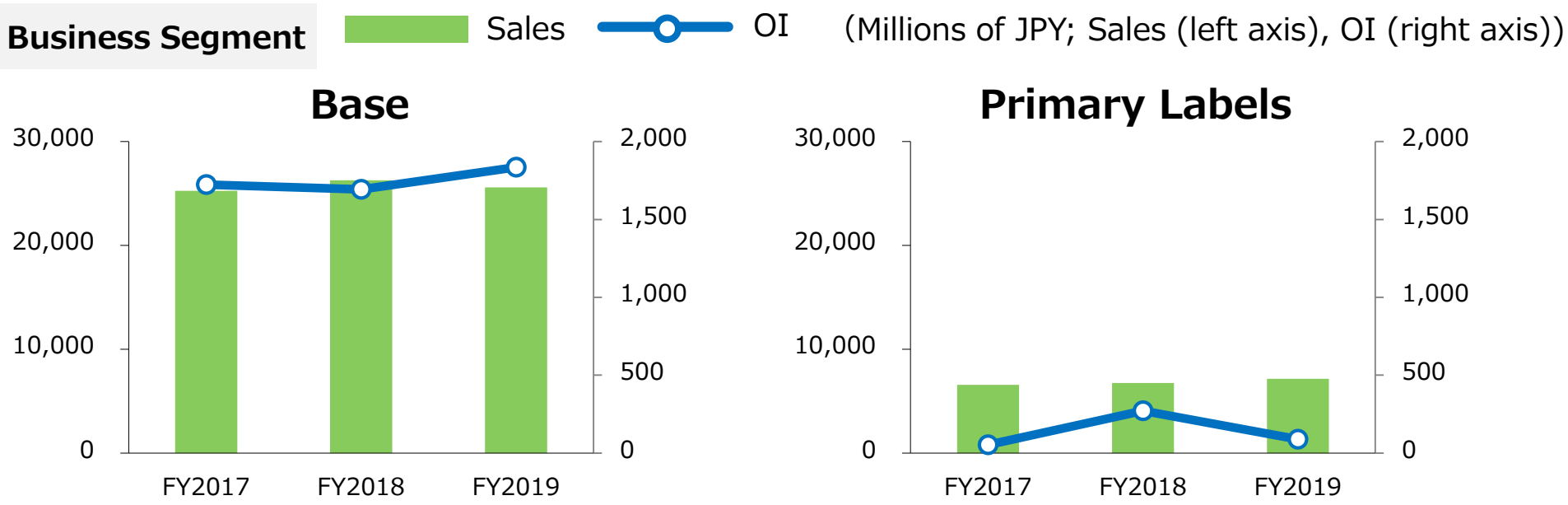


OI Ratio :
The Americas : 0.6%, Europe : 3.4%, Asia/Oceania : 13.7%

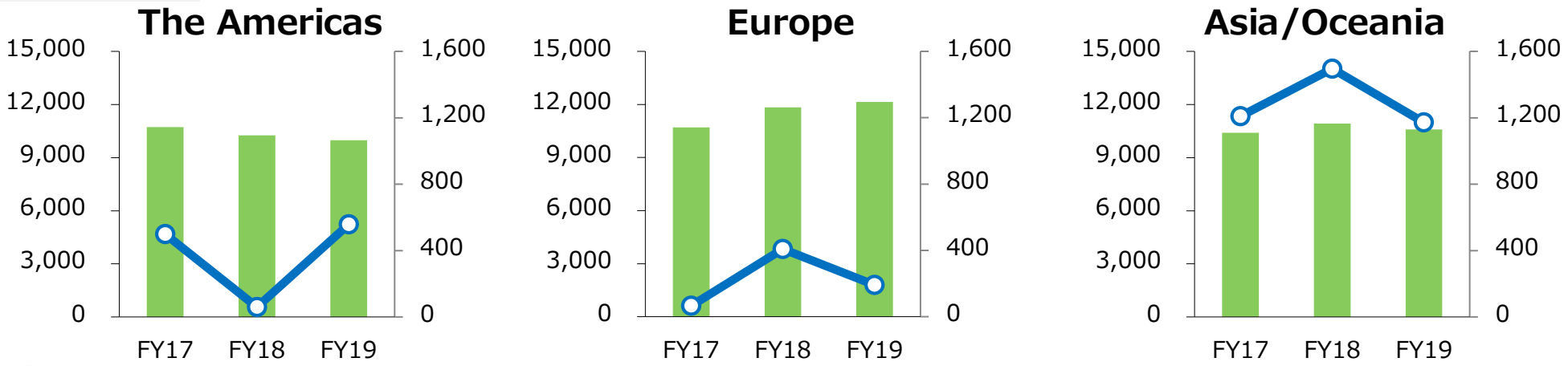
OI Ratio :
The Americas : 5.6%, Europe : 1.6%, Asia/Oceania : 11.1%

Sales and OI Trends by Business Segment and Region

By Business Segment



By Region



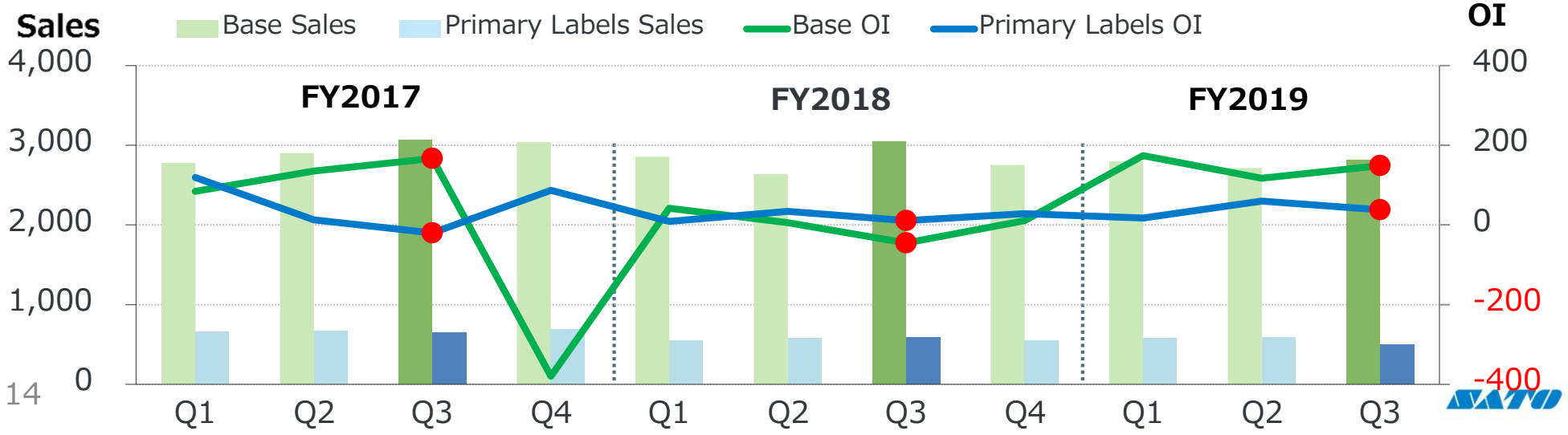
Breakdown by Region: The Americas

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

Primary Labels business: Sales decreased YoY due to adverse FX impact, but OI increased significantly due mainly to Achernar in Argentina, which managed to pass on cost increases to customers.

(Millions of JPY)

		FY2019	FY2018	Change	YoY	excl. FX impact
Base	Total Sales	8,323	8,538	-214	97.5%	101.4%
	Operating Income	441	4	+437	105x	112x
Primary Labels • Achernar • Prakolar	Total Sales	1,661	1,718	-56	96.7%	123.3%
	Operating Income	116	55	+61	210.1%	352.9%



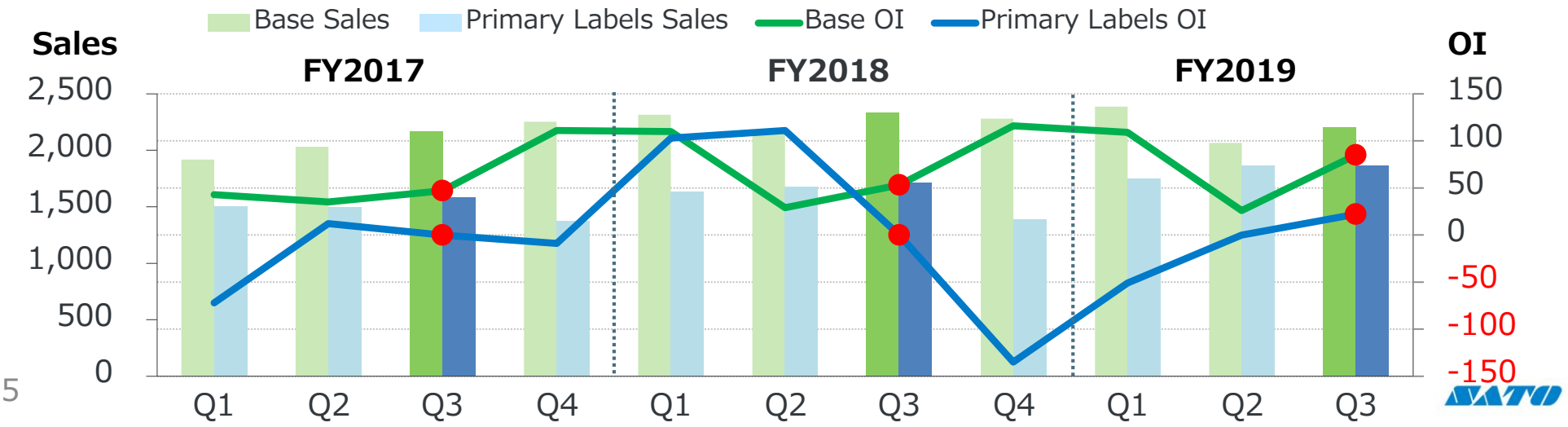
Breakdown by Region: Europe

Base business: Sales decreased YoY mainly due to adverse FX impact. In addition to securing a large order in 1H, the UK sales subsidiary also made structural reforms that lead to increase OI.

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

(Millions of JPY)

		FY2019	FY2018	Change	YoY	excl. FX impact
Base	Total Sales	6,658	6,806	-148	97.8%	104.5%
	Operating Income	221	192	+28	114.9%	124.3%
Primary Labels • Okil • X-Pack	Total Sales	5,480	5,028	+452	109.0%	111.6%
	Operating Income	-28	215	-244	-	-

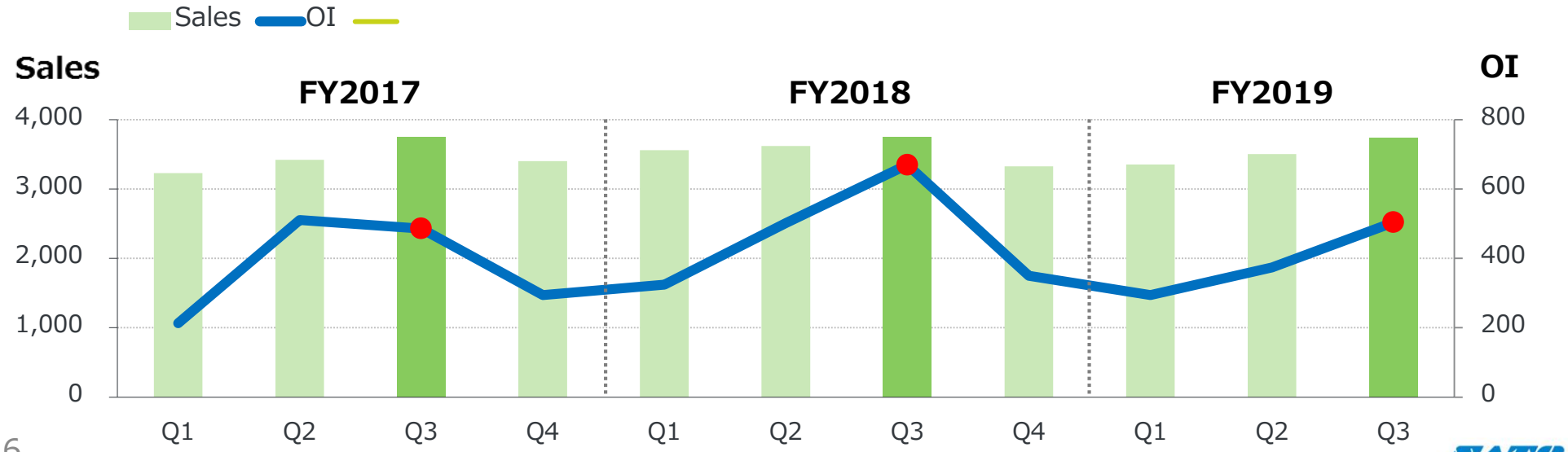


Breakdown by Region: Asia/Oceania

Base business: Sales and OI decreased YoY due to trade conflict resulting in slower business at Chinese sales subsidiaries and the printer subsidiary in Taiwan for which China is the main market.

(Millions of JPY)

		FY2019	FY2018	Change	YoY	excl. FX impact
Base	Total Sales	10,601	10,925	-323	97.0%	100.6%
	Operating Income	1,173	1,497	-324	78.3%	80.3%

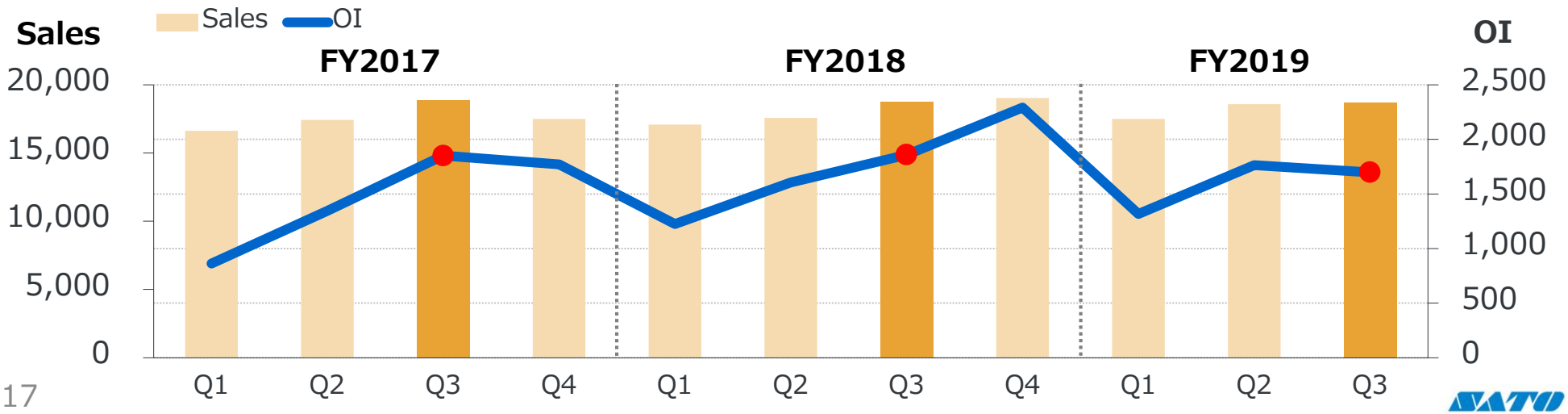


Overview

Both sales and OI increased YoY driven by mechatronics as solution offerings grew.

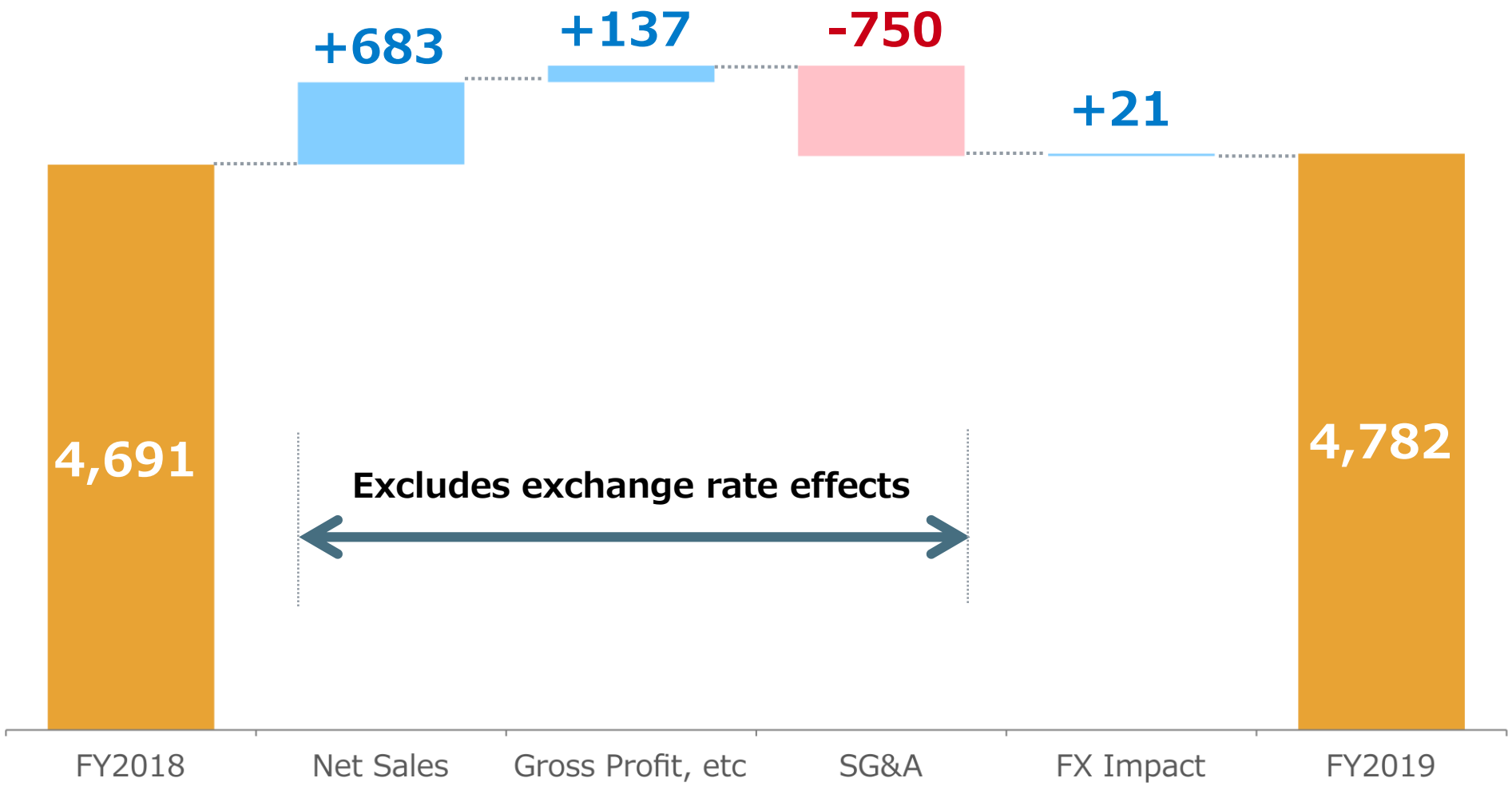
(Millions of JPY)

	FY2019	FY2018	Change	YoY
Mechatronics Sales	22,086	20,168	+1,917	109.5%
Consumables Sales	32,696	33,229	-532	98.4%
Total Sales	**54,782**	**53,397**	**+1,385**	**102.6%**
Gross Profit	27,194	26,353	+840	103.2%
Gross Profit %	49.6%	49.4%	+0.3pt	-
Operating Income	**4,782**	**4,691**	**+90**	**101.9%**
Operating Income %	8.7%	8.8%	-0.1pt	-



Major Gains/Losses in OI

(Millions of JPY)

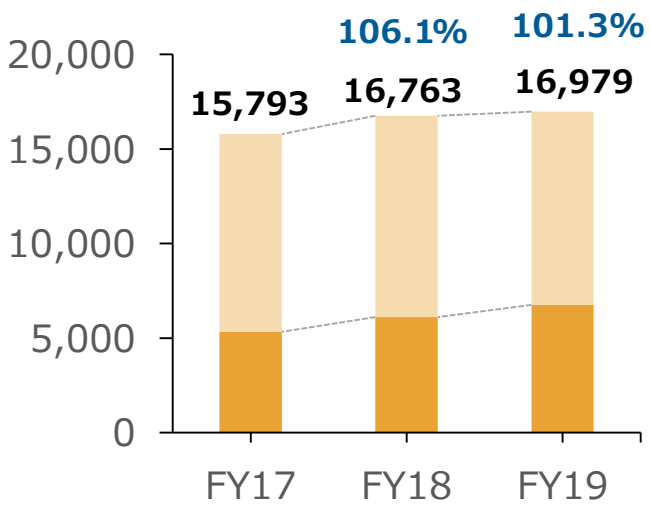


Sales by Vertical (Apr-Dec) [1]

(Millions of JPY)

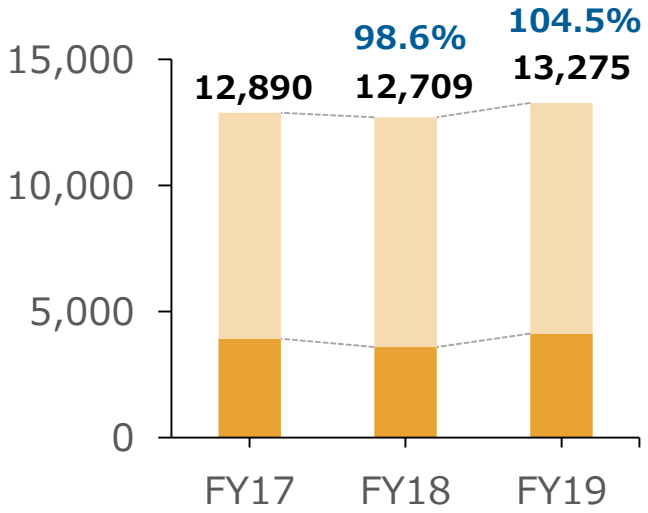
■ : Mechatronics ■ : Consumables *Figures are total sales; % indicates YoY change

Manufacturing



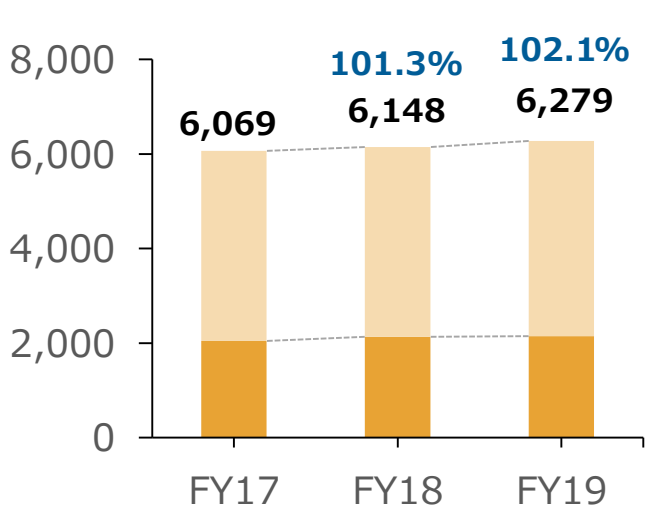
- Electronic components were slow to recover, but high-performance chemical and steel materials continued to perform well. Overall, there was continued willingness to invest in productivity improvements.
- Solutions involving RFID and location tracking systems expanded and mechatronics sales performed well, mainly in addressing labor shortages.

Logistics



- Demand for digitalization was strong due to increased logistics volume resulting from buoyant e-commerce, as well as labor shortages and regulatory compliance.
- Mechatronics sales performed well as business expanded in solutions in addition to automated printing/labeling and carton forming/sealing.

Retail



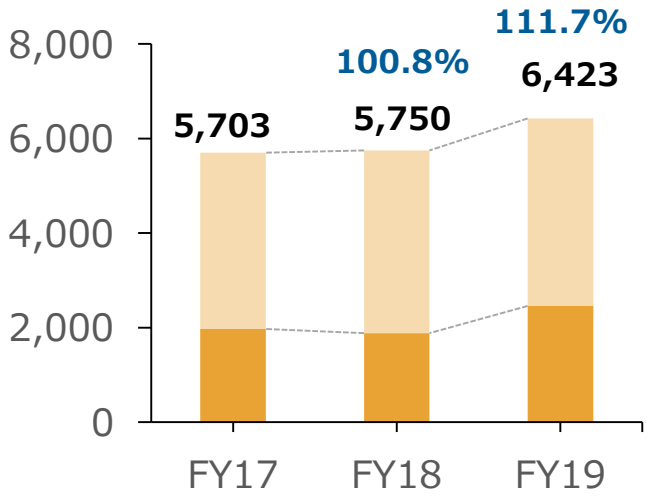
- Logistics volume increased due to the entry of more retailers into the e-commerce market. Demand related to labor shortages and regulatory compliance remained strong.
- Increased logistics volume drove increases in consumables sales. Mechatronics sales performed well due to solutions for automation and HACCP compliance.

Sales by Vertical (Apr-Dec) [2]

(Millions of JPY)

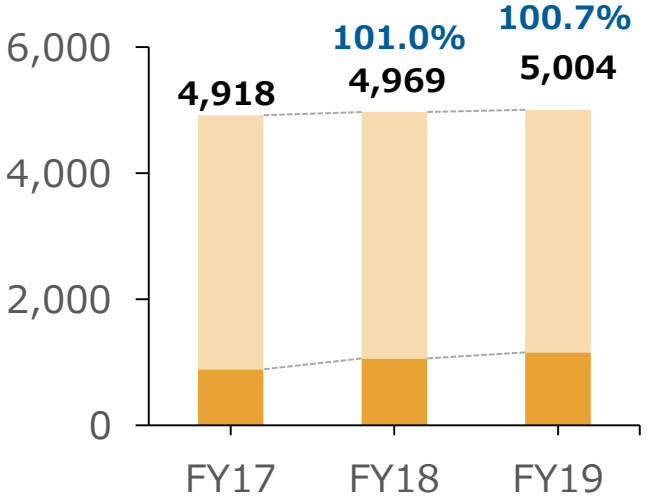
■ : Mechatronics ■ : Consumables *Figures are total sales; % indicates YoY change

Health Care



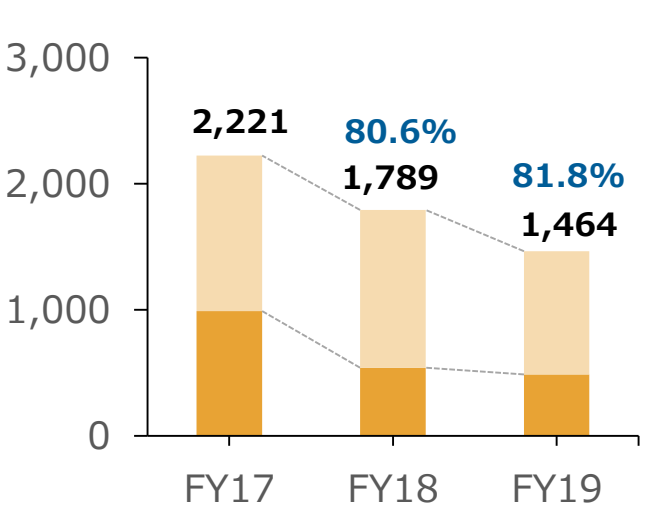
- Business environment remained favorable due mainly to steady demand related to labeling of drugs and medical devices, and labor shortage.
- Sales of solutions utilizing barcodes and RFIDs performed well. Balanced sales approach has led to a better mix of business opportunities.

Food & Beverage



- Business environment remained favorable as the industry sought compliance to amended regulations and enhancement of manufacturing process control.
- Printer-replacement orders and compliance with regulatory revisions led to sales growth in mechatronics. Consumables sales were down slightly due to factors such as reducing low margin businesses.

Public



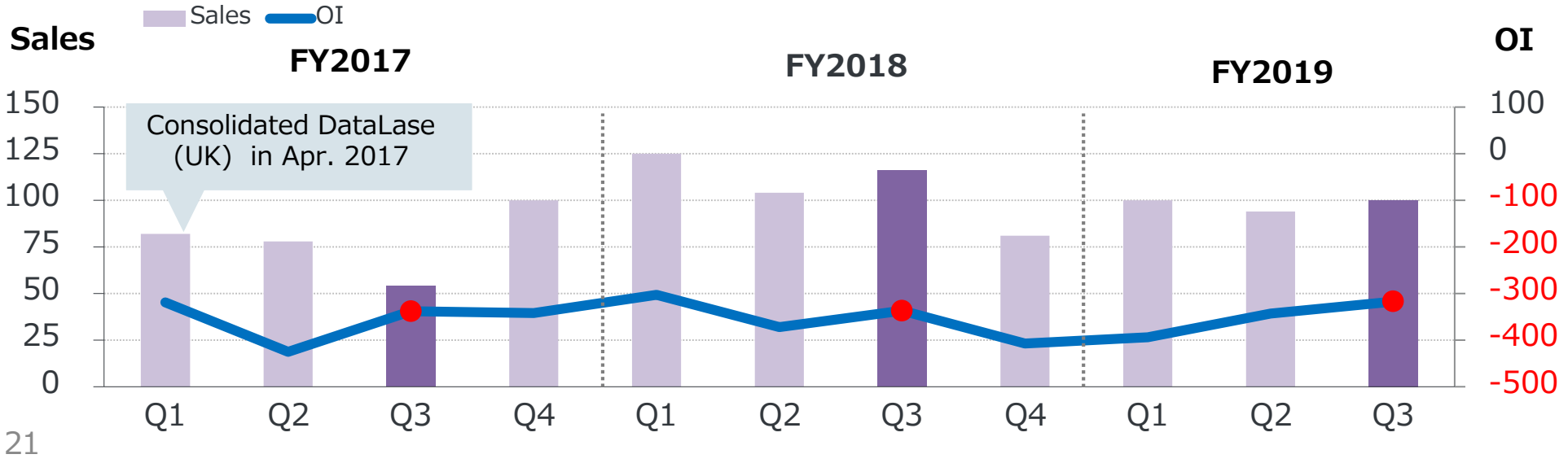
- Business environment remained stable.
- While new orders increased, most are coming in Q4. Sales dropped YoY as a volume-order customer adjusted inventories of consumables.

Overview

R&D progressed largely as planned, and the service is under assessment.

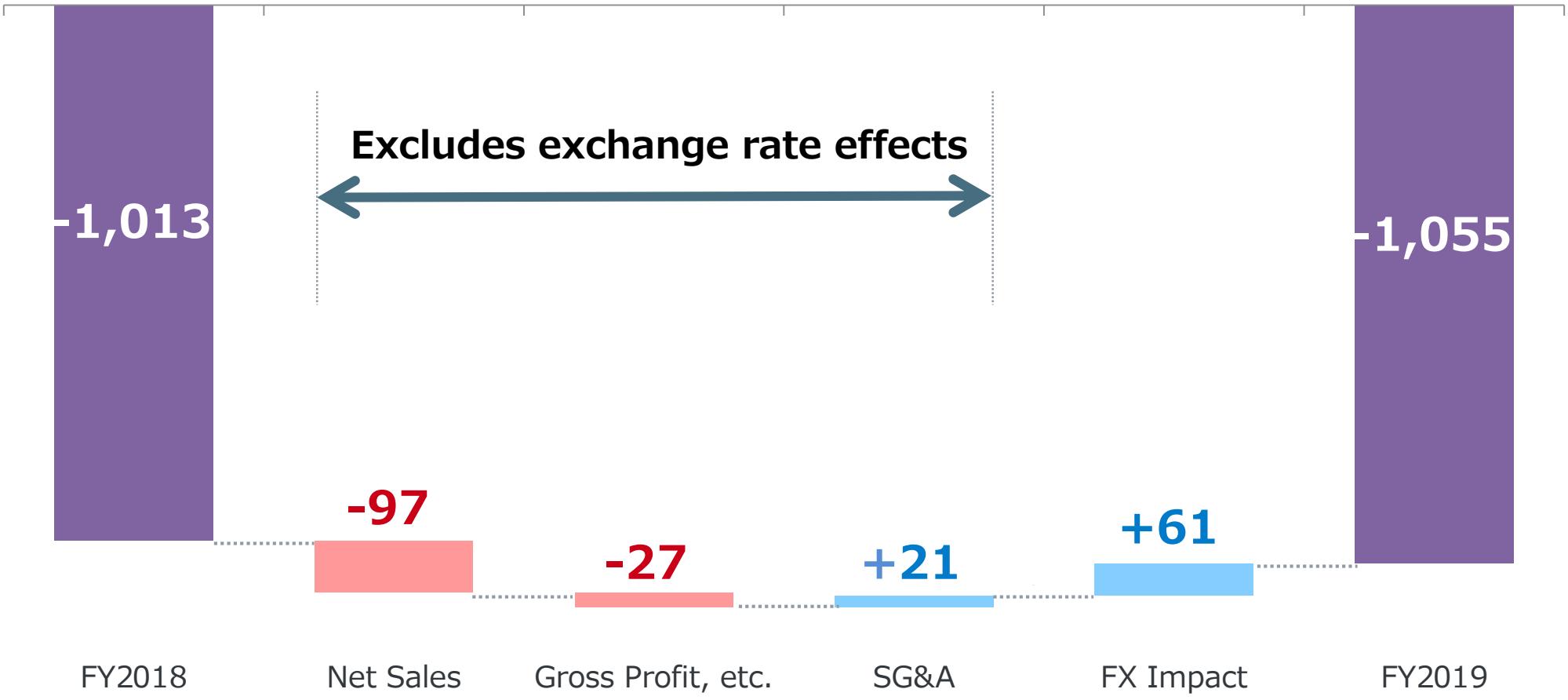
(Millions of JPY)

	FY2019	FY2018	Change	YoY	excl. FX impact
Total Sales	**294**	**346**	**-51**	**85.1%**	**90.1%**
Gross Profit	188	324	-135	58.1%	-
Gross Profit %	63.9%	93.5%	-29.7pt	-	-
Operating Income	**-1,055**	**-1,013**	**-41**	**-**	**-**
Operating Income %	-	-	-	-	-



Major Gains/Losses in OI

(Millions of JPY)



FY2019 Consolidated Forecasts

(Millions of JPY)

	Apr – Dec		Jan – Mar		Full Year	
	Results	YoY	Forecast	YoY	Forecast	YoY
Net Sales	87,803	101.2%	30,196	102.6%	118,000 (120,000)	101.6%
Operating Income	5,645	103.7%	2,154	96.4%	7,800 (8,500)	101.6%
Ordinary Income	5,362	105.1%	2,037	81.0%	7,400 (8,100)	97.1%
Profit attributable to owners of parent	4,157	135.0%	842	121.2%	5,000 (5,900)	132.5%

* Figures in parentheses are forecasts announced as of Nov. 1, 2019

<Reference>

EBITDA*	13,250	←FY2018 full year	13,400 (14,100)	101.1%

* EBITDA=Operating Income + Depreciation + Amortization

Exchange rates assumed in FY19 forecast: JPY 108/USD, JPY 120/EUR
Average exchange rates for Apr-Dec FY19: JPY 108.64/USD, JPY 121.02/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 with products and technologies from partners to resolve customers' worksite issues. This business is separated into Overseas and Japan segments, with the former comprised of the Base and the Primary Labels businesses.
2	Base business	Business of tagging variable information at customer's site of operations.
3	Primary Labels business	Overseas business of tagging fixed information via product labels and other media. This business operates from SATO Group companies; Achernar (Argentina), Prakolar (Brazil), Okil (Russia) and X-Pack (Russia).
4	IDP business	Develops, manufactures and sells materials used mainly in Inline Digital Printing (IDP). A reporting segment formerly named "Materials business."
5	Koto-uri (Selling the solution, not the product)	Sales approach of selling not the product but combinations of products in the form of solutions that include hardware, consumables, maintenance services and software, together with ROI and other value propositions for the customer.
6	Tagging	The process of physically attaching to something data that identifies and/or locates it. This involves digitizing information of the things it is tagged to so that the tagged data can be fed to and processed by core IT systems.
7	DCS & Labeling +One (DCS: Data Collection Systems)	SATO's business model that incorporates auto-ID technology (such as barcodes and RFID) with barcode printers and labels/labeling services to (a) systematically collect data on people and things at business sites and (b) offer tagging/labeling of information, using accurate, efficient and optimized solutions. In line with increasingly sophisticated user needs, SATO also pursues a policy of open innovation and partnerships to provide value-added "+One" technologies such as image/voice recognition, location tracking and sensors to its legacy business model to better solve customer challenges.
8	Matching data with people and things	Connecting people and things at customer sites with information. Ever since our days of pioneering in hand labelers that attached price and other information to products, this concept has remained central to SATO's business.

(*) Underlined terms are described under its own heading

SATO Terminologies (2/4)

SATO-unique business concepts/initiatives		Description
9	Genbaryoku	Our core competency of going to customer sites to understand their operations and identify the essence of issues to offer optimized solutions. It is our ability to (1) integrate products, services and technologies into solutions, working together with strategic partners, (2) address a wide range of market, industry and application needs with our expertise in sites of operations, and (3) offer maintenance services and solutions continuously to build trust and establish lasting relationships with customers.
10	Teiho	Teiho is SATO‘s unique system of reports and proposals in effect since 1976. Employees share new information and ideas they come across on-site every day to top management via the Teiho system. Teiho helps top management gain immediate insight into the internal/external business situation to facilitate quick decision-making and execution of initiatives, while allowing "participation by all" in the management of the company. As Teiho reports are directly addressed to top management, it is also an effective means of compliance monitoring to prevent malpractice and other inappropriate behavior and assist in corporate governance. Some of our global offices have also started Teiho, with more to follow.
11	AAP (Area Alliance Partner)	Our initiative in Japan to segment regions into smaller divisions and form alliances with partners having strong presence in areas/industries that we have yet to cover.
Products, services, technologies		**Description**
1	Mechatronics	All products not 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 variable information 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.

SATO Terminologies (3/4)

Products, services, technologies		Description
4	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.
5	AEP (Application Enabled Printing)	A powerful on-board intelligence which enables customization of printer operation. Printers can link to other systems on a stand-alone basis, without going through any computers.
6	Variable information labels	Blank or pre-printed labels used to print information elements such as barcode, product price and manufactured or expiry date that vary with every customer's site of operation. Unlike fixed information labels that are identical and printed at large quantities in a single run, variable information labels can be printed on-demand as and when needed.
7	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.
8	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 shortening time spent on hardware maintenance. Besides delivering cost savings, productivity improvements and environmental benefits, IDP allows the printing of variable data for late stage customization/personalization of products and packaging, making it ideal for real-time, consumer-directed marketing. Development for multicolor capability — crucial for enhancing marketing effectiveness — is currently underway with commercialization targeted for FY 2021.

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 producing and selling shrink sleeves, in-mould labels and soft packages in Primary Labels business, owned 60% by SATO Holdings.
2	SATO Healthcare Switzerland AG	[2018] A subsidiary specializing in health care, owned 100% by SATO Holdings.
3	SATO Productivity Solutions Mexico S.A. de C.V.	[2019] A sales subsidiary, mainly focusing on automobile industry, owned nearly 100% by SATO Holdings.



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