November 10, 2020

SATO HOLDINGS CORPORATION

FY2020 1H Financial Results
(Six Months Ended September 30, 2020)

Securities Code: 6287

FY2020 Apr-Sep Results

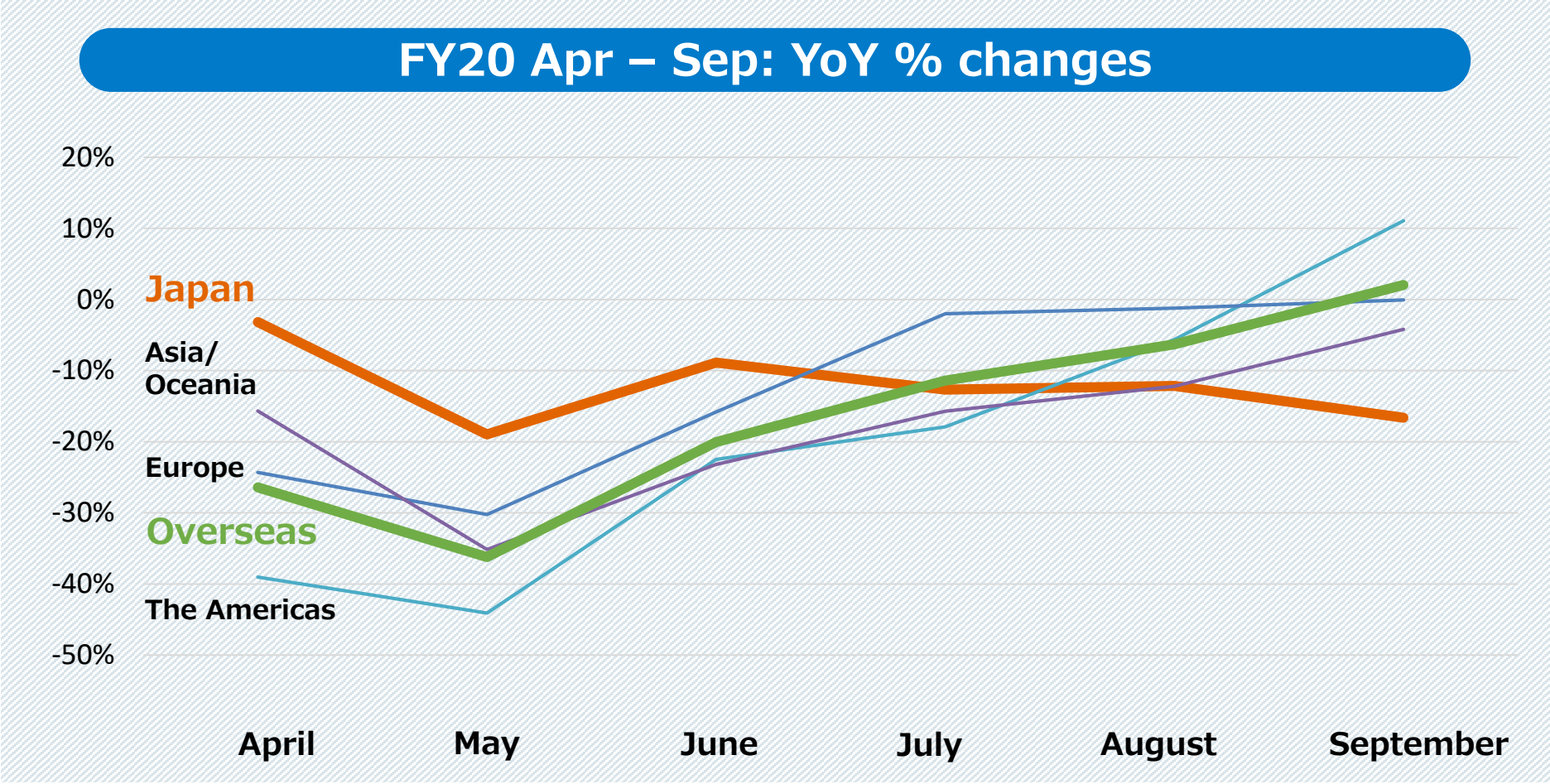
Medium-term Management Plan FY20-22

FY2020 Apr-Sep Results

Medium-term Management Plan FY20-22

Monthly sales trends by region

After bottoming out in May, performance, especially overseas, has markedly improved as sales activities and customer operations gradually restarted.



Summary

- Consolidated performance has been on a path to recovery, but sales and OI decreased YoY as a result of the slowdown in Q1.
- Sales and OI in the overseas Auto-ID Solutions business decreased.
  While performance in the Base business has been improving, sales and OI decreased due to lasting effects of the Q1 slowdown.
  Primary Labels business was robust with industries that maintain essential infrastructure. While sales declined due to FX impact, OI increased due to reduced cost to sales ratio.
- In Japan, sales and OI decreased as business dealings from the previous fiscal year offered some support against the effects of the coronavirus pandemic in Q1, but recovery slowed in Q2 due to extended lead times before closing deals.
- Losses shrank in the IDP business. All shares of DataLase were transferred in September.

Sales and OI by Business Segment

(Millions of JPY)

		FY2020 Apr-Sep	FY2019 Apr-Sep	YoY	YoY excl. FX impact
Auto-ID Solutions business	**Total Sales**	**49,736**	**57,680**	**-13.8%**	**-11.6%**
	Operating Income	**1,609**	**4,239**	**-62.0%**	**-61.7%**
Overseas	Total Sales	18,013	21,607	-16.6%	-10.9%
	Operating Income	761	1,155	-34.1%	-26.3%
Japan	Total Sales	31,722	36,073	-12.1%	-12.1%
	Operating Income	847	3,083	-72.5%	-74.9%
IDP business	**Total Sales**	**136**	**194**	**-30.1%**	**-29.5%**
	Operating Income	**-148**	**-737**	**-**	**-**
Consolidated (incl. eliminations)	**Total Sales**	**49,872**	**57,875**	**-13.8%**	**-11.7%**
	Operating Income	**1,470**	**3,542**	**-58.5%**	**-58.1%**

Sales and OI by Business Segment

(Millions of JPY)

		FY2020 Jul-Sep	FY2019 Jul-Sep	YoY	excl. FX impact
Auto-ID Solutions business	**Total Sales**	**26,160**	**29,317**	**-10.8%**	**-8.9%**
	Operating Income	**1,132**	**2,360**	**-52.0%**	**-50.7%**
Overseas	Total Sales	10,168	10,739	-5.3%	-0.1%
	Operating Income	683	595	+14.8%	+27.1%
Japan	Total Sales	15,991	18,578	-13.9%	-13.9%
	Operating Income	448	1,765	-74.6%	-77.0%
IDP business	**Total Sales**	**60**	94	**-35.9%**	**-39.1%**
	Operating Income	**-77**	**-343**	**-**	**-**
Consolidated (incl. eliminations)	**Total Sales**	**26,221**	**29,411**	**-10.8%**	**-9.0%**
	Operating Income	**1,084**	**2,028**	**-46.5%**	**-44.9%**

Consolidated Results

(Millions of JPY)

	FY2020 Apr-Sep	FY2019 Apr-Sep	Change	YoY
Net Sales	49,872	57,875	-8,003	-13.8%
Operating Income	1,470	3,542	-2,072	-58.5%
Operating Income %	2.9%	6.1%	-3.2pt	-
Ordinary Income	1,231	3,237	-2,005	-61.9%
Profit attributable to owners of parent*1	3,249	2,880	+369	+12.8%
Effective Tax Rate*2	-	26.7%	-	
EBITDA*3	3,650	6,488	-2,838	-43.7%

Average exchange rates for Apr-Sep FY20: JPY 106.92/USD, JPY 121.33/EUR, Apr-Sep FY19: JPY 108.60/USD, JPY 121.40/EUR
FX sensitivity for FY20: JPY +352 million in sales and JPY +3 million in OI for +1 JPY against USD and assuming all others move by the same ratio

*1, 2 Profit attributable to owners of parent and Effective Tax Rate:
Income tax related to the impairment loss at DataLase in FY19 was adjusted following the transfer of its shares in Sep.
*3 EBITDA = Operating Income + Depreciation + Amortization
・Depreciation for Apr-Sep FY20: JPY 2,066 million Apr-Sep FY19: JPY 2,509 million
・Amortization for Apr-Sep FY20: JPY 113 million*4 Apr-Sep FY19: JPY 436 million (incl. 290 mil. for DataLase)
*4 Full value of DataLase's goodwill was written off in FY19 Q4.

Consolidated Results

(Millions of JPY)

	FY2020 Jul-Sep	FY2019 Jul-Sep	Change	YoY
Net Sales	26,221	29,411	-3,190	-10.8%
Operating Income	1,084	2,028	-943	-46.5%
Operating Income %	4.1%	6.9%	-2.8pt	-
Ordinary Income	613	1,898	-1,284	-67.7%
Profit attributable to owners of parent*1	3,036	2,038	+998	+49.0%
Effective Tax Rate*2	-	24.3%	-	
EBITDA*3	2,142	3,509	-1,367	-39.0%

Average exchange rates for Apr-Sep FY20: JPY 106.92/USD, JPY 121.33/EUR, Apr-Sep FY19: JPY 108.60/USD, JPY 121.40/EUR
FX sensitivity for FY20: JPY +352 million in sales and JPY +3 million in OI for +1 JPY against USD and assuming all others move by the same ratio

*1, 2 Profit attributable to owners of parent and Effective Tax Rate:
Income tax related to the impairment loss at DataLase in FY19 was adjusted following the transfer of its shares in Sep.
*3 EBITDA = Operating Income + Depreciation + Amortization
・Depreciation for Apr-Sep FY20: JPY 1,001 million Apr-Sep FY19: JPY 1,268 million
・Amortization for Apr-Sep FY20: JPY 56 million*4 Apr-Sep FY19: JPY 212 million (incl. 140 mil. for DataLase)
*4 Full value of DataLase's goodwill was written off in FY19 Q4.

Overview

Jul-Sep

- Sales have been recovering after bottoming out in May, but are still down YoY.
- OI increased due to reduced cost to sales ratio and sales growth in the Primary Labels business.

(Millions of JPY)

	FY2020 Jul-Sep	FY2019 Jul-Sep	Change	YoY	excl. FX impact
Total Sales	**10,168**	**10,739**	**-570**	**-5.3%**	**-0.1%**
Gross Profit	3,572	3,721	-149	-4.0%	-
Gross Profit %	35.1%	34.7%	+0.5pt	-	-
Operating Income	**683**	**595**	**+87**	**+14.8%**	**+27.1%**
Operating Income %	6.7%	5.5%	+1.2pt	-	-

	FY2020 Apr-Sep	FY2019 Apr-Sep	Change	YoY	excl. FX impact
Total Sales	**18,013**	**21,607**	**-3593**	**-16.6%**	**-10.9%**
Gross Profit	6,323	7,506	-1182	-15.8%	-
Gross Profit %	35.1%	34.7%	+0.4pt	-	-
Operating Income	**761**	**1,155**	**-394**	**-34.1%**	**-26.3%**
Operating Income %	4.2%	5.3%	-1.1pt	-	-

Breakdown by Business Segment

Jul-Sep

Base business: While performance has been markedly improving, sales and OI decreased YoY due to the preceding steep decline.

Primary Labels business: Sales decreased slightly but OI increased sharply as sales were supported by business with customers in industries that maintain essential infrastructure such as food & beverage and pharmaceuticals. Sales and OI both increased on a local currency basis.

(Millions of JPY)

		FY2020 Jul-Sep	FY2019 Jul-Sep	Change	YoY	excl. FX impact
Base	Total Sales	7,779	8,286	-506	-6.1%	-5.5%
	Operating Income	423	517	-94	-18.2%	-15.7%
Primary Labels	Total Sales	2,389	2,453	-64	-2.6%	+18.3%
	Operating Income	245	61	+184	4x	5x
Eliminations	Operating Income	14	16	-1	-11.8%	-
Total	Total Sales	10,168	10,739	-570	-5.3%	-0.1%
	Operating Income	683	595	+87	+14.8%	+27.1%

		FY2020 Apr-Sep	FY2019 Apr-Sep	Change	YoY	excl. FX impact
Base	Total Sales	13,534	16,825	-3290	-19.6%	-17.7%
	Operating Income	396	1,095	-698	-63.8%	-62.8%
Primary Labels	Total Sales	4,478	4,782	-303	-6.3%	+13.1%
	Operating Income	345	27	+318	12x	15x
Eliminations	Operating Income	18	32	-14	-43.3%	-
Total	Total Sales	18,013	21,607	-3,593	-16.6%	-10.9%
	Operating Income	761	1,155	-394	-34.1%	-26.3%

Breakdown by Region: The Americas

Jul-Sep

Base business: Sales are holding at a minor decrease thanks to more retail store reopening and restarting of sales activities in US. OI increased thanks to the recovery in sales.

Primary Labels business: Sales and OI significantly increased on a local currency basis for Achernar in Argentina, supported mainly by demand from food & beverage and cosmetics. Sales and OI also increased on a local currency basis for Prakolar in Brazil due to strong performance in sales to the pharmaceuticals, food & beverage, and cosmetics industries.

(Millions of JPY)

		FY2020 Jul-Sep	FY2019 Jul-Sep	Change	YoY	excl. FX impact
Base	Total Sales	2,660	2,714	-53	-2.0%	+1.4%
	Operating Income	170	117	+53	+45.6%	+51.4%
Primary Labels ・Achernar ・Prakolar	Total Sales	498	586	-88	-15.0%	+20.9%
	Operating Income	72	60	+11	+19.8%	+75.4%
Total	Total Sales	3,159	3,301	-142	-4.3%	+4.9%
	Operating Income	243	178	+65	+36.8%	+59.6%

		FY2020 Apr-Sep	FY2019 Apr-Sep	Change	YoY	excl. FX impact
Base	Total Sales	4,442	5,512	-1,070	-19.4%	-16.4%
	Operating Income	126	291	-165	-56.8%	-54.8%
Primary Labels ・Achernar ・Prakolar	Total Sales	876	1,163	-287	-24.7%	+8.4%
	Operating Income	75	78	-2	-3.8%	+45.1%
Total	Total Sales	5,318	6,675	-1,357	-20.3%	-12.0%
	Operating Income	201	370	-168	-45.6%	-33.7%

Breakdown by Region: Europe

Jul-Sep

Base business: Despite the recovery in business with the retail market, sales decreased due to the impact from the large volume orders seen the previous year. OI increased as a result of cost reductions.
Primary Labels business: For the two subsidiaries in Russia, sales increased on a local currency basis due to increased demand for food & alcoholic beverages. OI increased due to sales growth and reduced cost to sales ratio.

(Millions of JPY)

		FY2020 Jul-Sep	FY2019 Jul-Sep	Change	YoY	excl. FX impact
Base	Total Sales	2,000	2,066	-65	-3.2%	-5.8%
	Operating Income	56	26	+30	2x	2x
Primary Labels ・Okil ・X-Pack	Total Sales	1,891	1,867	+23	+1.3%	+17.4%
	Operating Income	172	0	+172	503x	582x
Total	Total Sales	3,892	3,933	-41	-1.1%	+5.2%
	Operating Income	228	26	+202	8x	9x

		FY2020 Apr-Sep	FY2019 Apr-Sep	Change	YoY	excl. FX impact
Base	Total Sales	3,454	4,453	-998	-22.4%	-22.2%
	Operating Income	-29	135	-165	-	-
Primary Labels ・Okil ・X-Pack	Total Sales	3,602	3,618	-16	-0.4%	+14.6%
	Operating Income	270	-51	+321	-	-
Total	Total Sales	7,056	8,071	-1,014	-12.6%	-5.7%
	Operating Income	240	84	+156	2x	3x

Breakdown by Region: Asia/Oceania

Jul-Sep

Base business: Sales and OI decreased due to the slow recovery in production activities by our customers. Sales increased slightly YoY in China, where economic activities resumed earlier than elsewhere.

(Millions of JPY)

		FY2020 Jul-Sep	FY2019 Jul-Sep	Change	YoY	excl.FX Impact
Base	Total Sales	3,117	3,504	-387	-11.1%	-10.8%
	Operating Income	196	374	-178	-47.6%	-47.2%

		FY2020 Apr-Sep	FY2019 Apr-Sep	Change	YoY	excl.FX Impact
Base	Total Sales	5,638	6,860	-1,222	-17.8%	-15.9%
	Operating Income	300	668	-367	-55.0%	-54.5%

Overview

Jul-Sep

Although business dealings have increased as sales activities moved online, sales decreased as recovery slowed due to longer lead times before closing deals for more complex solutions. OI also decreased due to lower sales and lower gross profit margins from adverse product mix.

(Millions of JPY)

	FY2020 Jul-Sep	FY2019 Jul-Sep	Change	YoY
Mechatronics Sales	6,319	7,675	-1,355	-17.7%
Consumables Sales	9,672	10,902	-1,230	-11.3%
Total Sales	**15,991**	**18,578**	**-2,586**	**-13.9%**
Gross Profit	7,613	9,317	-1,704	-18.3%
Gross Profit %	47.6%	50.2%	-2.5pt	-
Operating Income	**448**	**1,765**	**-1,316**	**-74.6%**
Operating Income %	2.8%	9.5%	-6.7pt	-

	FY2020 Apr-Sep	FY2019 Apr-Sep	Change	YoY
Mechatronics Sales	12,496	14,630	-2,133	-14.6%
Consumables Sales	19,226	21,443	-2,216	-10.3%
Total Sales	**31,722**	**36,073**	**-4,350**	**-12.1%**
Gross Profit	14,953	18,058	-3,104	-17.2%
Gross Profit %	47.1%	50.1%	-2.9pt	-
Operating Income	**847**	**3,083**	**-2,235**	**-72.5%**
Operating Income %	2.7%	8.5%	-5.9pt	-

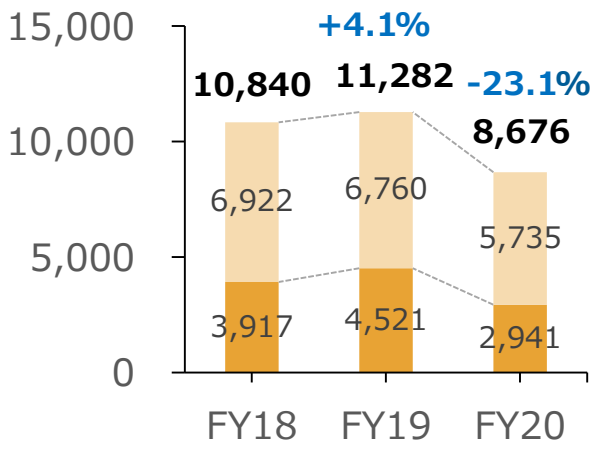
Auto-ID Solutions Business (Japan) Apr-Sep

(Millions of JPY)

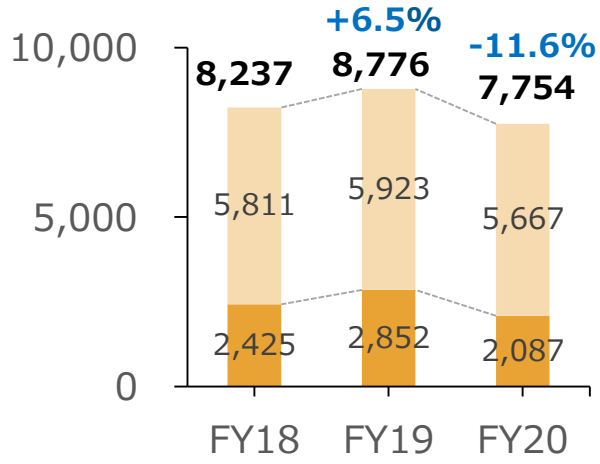
■ : Mechatronics ■ : Consumables *% indicates YoY change

*1 : ex-Retail

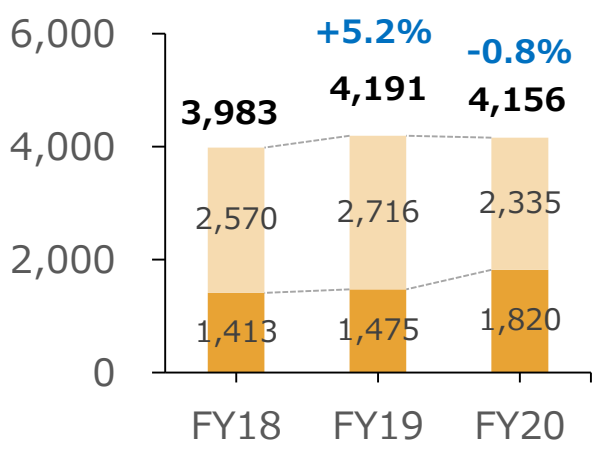
Manufacturing



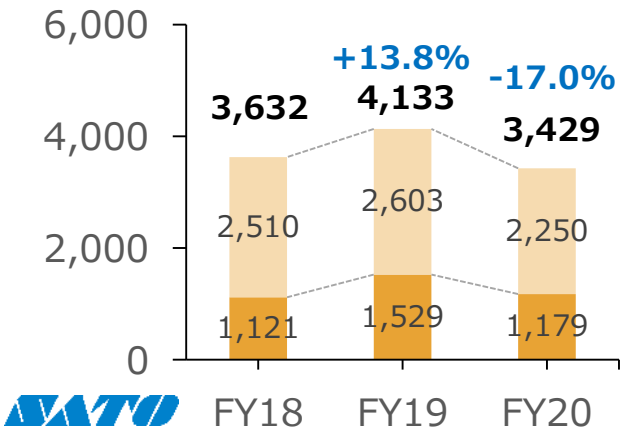
Logistics



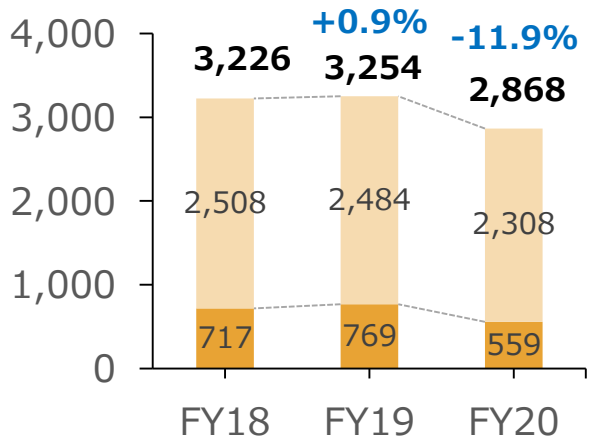
Retail/Apparel *1



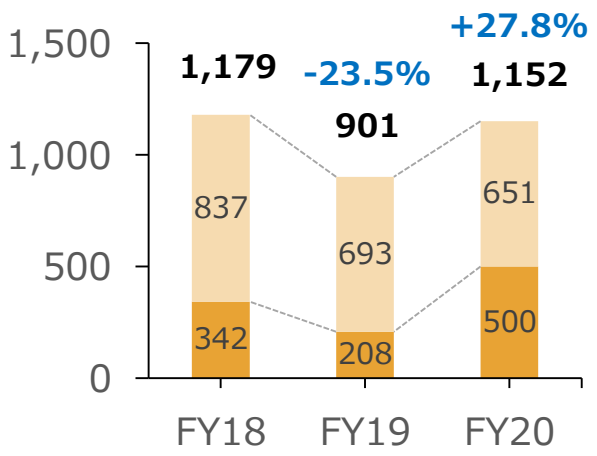
Health Care



Food & Beverage



Public



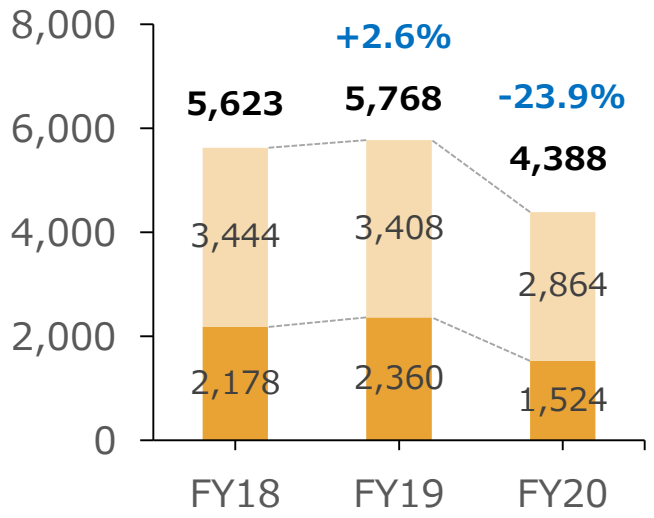
Sales by Vertical [1]

(Millions of JPY)

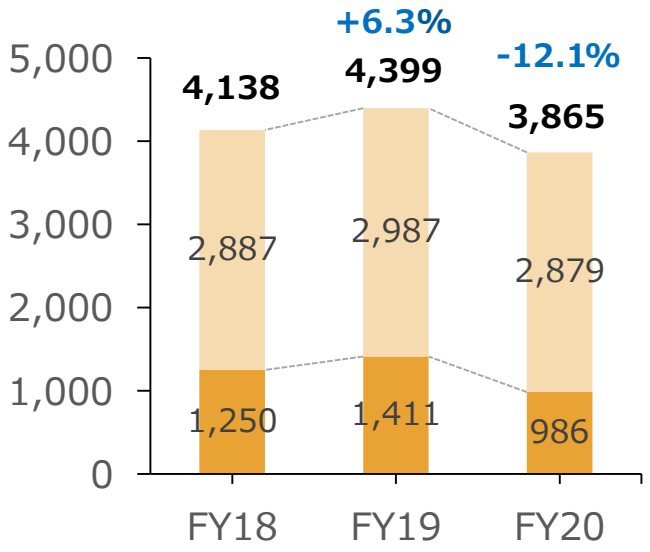
■ : Mechatronics ■ : Consumables *% indicates YoY change

*1 : ex-Retail

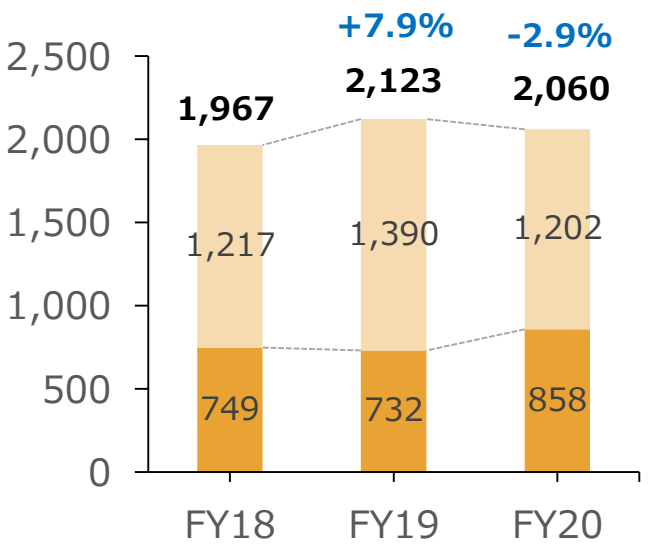
Manufacturing



Logistics



Retail/Apparel *1



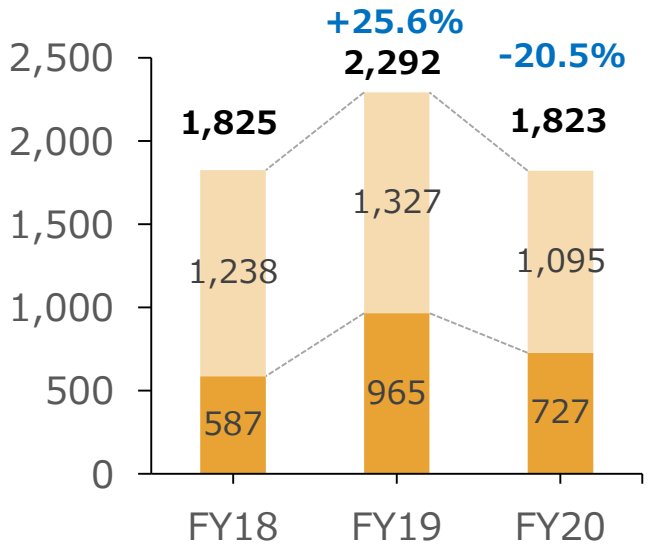
	Manufacturing	Logistics	Retail/Apparel *1
Business Environment	Production activities have been recovering, but circumstances remain harsh compared to last year.	Logistics volume increased due to briskness in e-commerce. In addition to addressing labor shortages, needs for ensuring employee safety increased.	Sales were brisk in supermarkets and drug stores. Specialty stores bided their time as inbound demand slumped and sales at physical stores declined.
SATO	Needs were robust for automated labeling and RFID, but growth in mechatronics sales abated as orders were delayed and printer replacements tapered off. Consumables sales declined as the market was sluggish overall.	Although automation to tackle labor shortages in 3PL grew, mechatronics sales decreased due to stagnant wholesale for restaurants and apparel. Despite increased logistics volume, consumables sales fell slightly due to sluggishness in wholesale.	Mechatronics sales grew amidst larger orders along with needs for HACCP solutions and automated labeling. Consumables sales slowed due to slumping demand in labels for specialty stores.

Sales by Vertical [2]

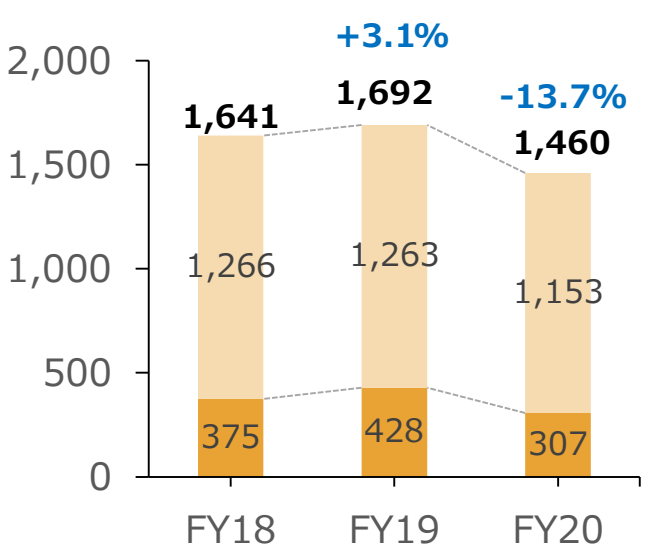
(Millions of JPY)

■ : Mechatronics ■ : Consumables *% indicates YoY change

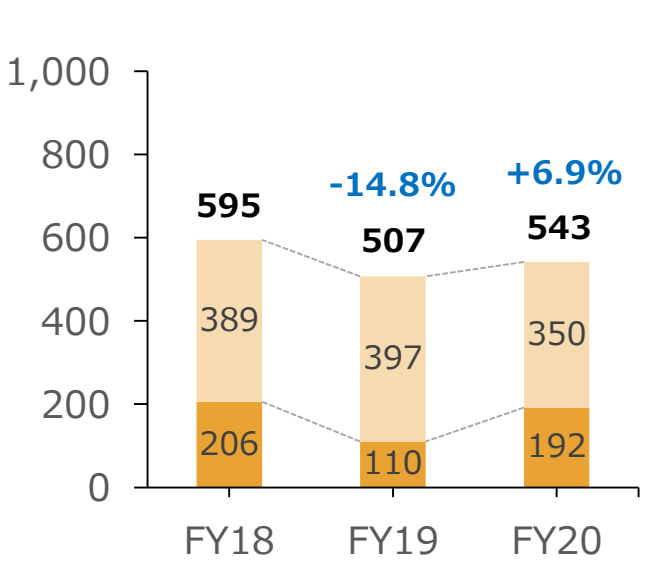
Health Care



Food & Beverage



Public



	Health Care	Food & Beverage	Public
Business Environment	Numbers of outpatients at medical institutions remained significantly lower than before the pandemic, and logistics volume decreased overall.	Demand was strong for home cooking and take-home meals. Restaurant and institutional demand slumped.	The overall business environment remained stable. Business dealings in areas such as operational efficiency and asset management increased.
SATO	In addition to the above, last minute demand before the consumption tax hike last year also impacted year-on-year numbers, resulting in less sales for both mechatronics and consumables.	Despite strong demand for automatic labeling, mechatronics sales decreased due to the drop in brisk printer replacements seen the previous year. Business slowed in consumables as food and beverage production for restaurants and business with restaurants slumped.	Mechatronics sales grew due to large-volume orders. Consumables sales shrank due to less transportation usage and shutdowns of educational institutions.

Overview

Jul-Sep **Operating losses were trimmed with no more goodwill amortization and curbed R&D costs. All shares of DataLase leading the IDP business were transferred in September.**

(Millions of JPY)

	FY2020 Jul-Sep	FY2019 Jul-Sep	Change	YoY	excl. FX impact
Total Sales	**60**	**94**	**-33**	**-35.9%**	**-39.1%**
Gross Profit	42	70	-27	-39.2%	-
Gross Profit %	70.7%	74.5%	-3.8pt	-	-
Operating Income	**-77**	**-343**	**+265**	-	-
Operating Income %	-	-	-	-	-

	FY2020 Apr-Sep	FY2019 Apr-Sep	Change	YoY	excl. FX impact
Total Sales	**136**	**194**	**-58**	**-30.1%**	**-29.5%**
Gross Profit	101	137	-36	-26.5%	-
Gross Profit %	74.4%	70.9%	+3.6pt	-	-
Operating Income	**-148**	**-737**	**+589**	-	-
Operating Income %	-	-	-	-	-

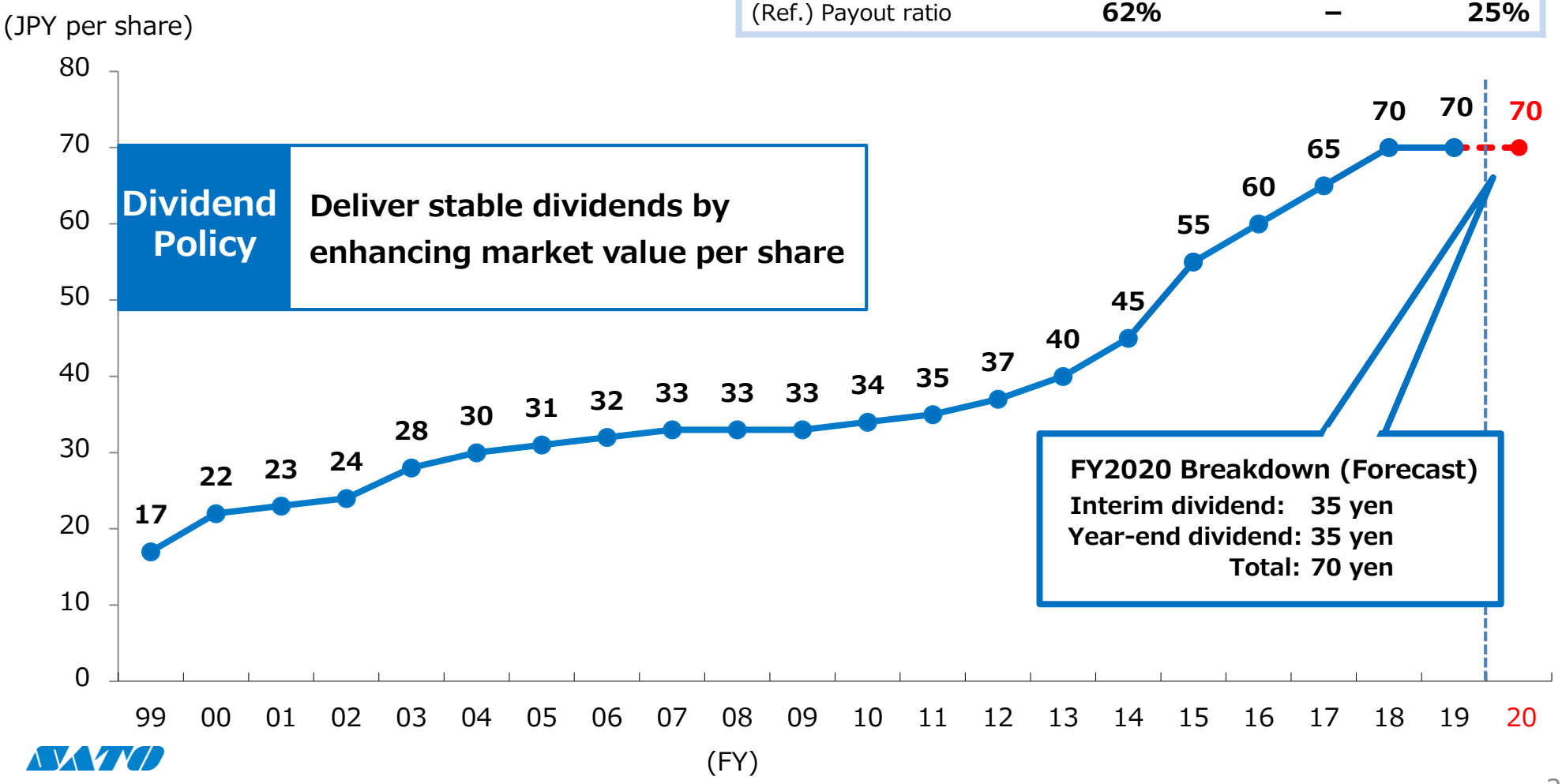
Termination of the IDP Business

- **Brief history**
  - Assumed partial ownership of DataLase by share transfer in 2015, made it a wholly-owned subsidiary in 2017
  - Relinquished ownership of DataLase in 2020 by stock transfer
- **Purpose of acquisition**
  - To commercialize revolutionary printing technology (direct printing via laser irradiation)
  - To specifically enter the packaging industry with multi-color technology
- **Reason for withdrawal**
  - Insurmountable technical issues related to the quality of high-speed monochrome printing became apparent
  - Development of multi-color technology was significantly delayed
- **Future direction**
  - Higher emphasis on due diligence from a technological perspective
  - Stay close to our core business in our acquisition and alliance strategy

Dividends

Interim dividend payment of 35 yen is scheduled.

	FY2018	FY2019	FY2020 (Forecast)
EPS	112.5yen	-56.1yen	279.9yen
ROE	6.9%	-3.6%	18.3%
(Ref.) Payout ratio	62%	–	25%



Dividend Policy

Deliver stable dividends by enhancing market value per share

FY2020 Breakdown (Forecast)
Interim dividend: 35 yen
Year-end dividend: 35 yen
Total: 70 yen

FY2020 Consolidated Forecasts

(Millions of JPY)

	1H		2H		Full Year	
	Results	YoY	Forecast	YoY	Forecast	YoY
Net Sales	49,872	-13.8%	52,627	-10.0%	102,500	-11.9%
Operating Income	1,470	-58.5%	2,129	-45.7%	3,600	-51.7%
Ordinary Income	1,231	-61.9%	2,068	-38.0%	3,300	-49.8%
Profit attributable to owners of parent	3,249	+12.8%	6,150	-	9,400	-
	<Reference>					
EBITDA*	13,376	←FY2019 full year			8,300	-38.0%

* EBITDA=Operating Income + Depreciation + Amortization

Exchange rates assumed in FY20 forecast: JPY 106/USD, JPY 120/EUR
Average exchange rates for Apr-Sep FY20: JPY 106.92/USD, JPY 121.33/EUR
Average exchange rates for FY19 : JPY 108.69/USD, JPY 120.79/EUR

FY2020 Apr-Sep Results

Medium-term Management Plan FY20-22

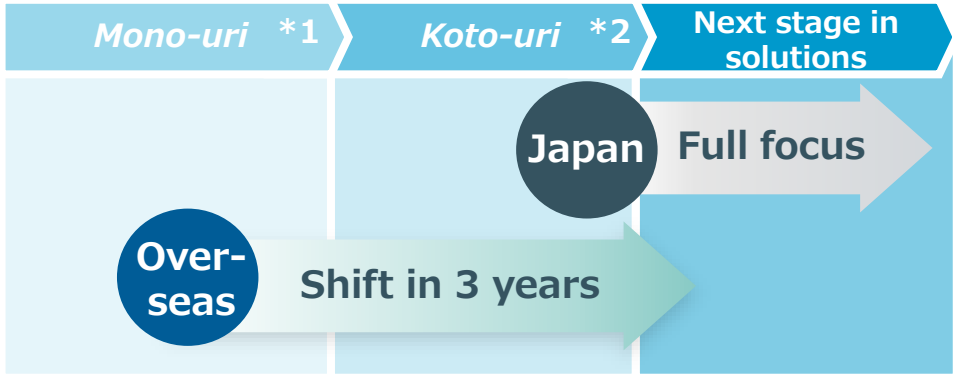
Growth Strategy

Concentrate resources on the Auto-ID solutions business and establish sustainable growth and stable profits.

1. Advance and expand Auto-ID solutions business
2. Bolster and expand business through global alliances
3. Create B2B2C business that generates value for consumers

Review: Auto-ID Solutions Business

■ **Medium-term plan at the beginning of FY2019**



***1: Selling the product**
***2: Selling the solution**

Overseas

The shift to *koto-uri* in 3 years has been taking longer than planned.

[External factors]
US-China trade friction, pandemic

[Internal factors]
Global collaboration faced more challenges than expected.
・Establishing mindsets
・Localizing solutions

[Progress]
Collaboration improved via the new global headquarters.
***Koto-uri* expanded with increased partner collaboration.**
・The market and application based H/Q structure boosted business dealings via expertise sharing with our global offices.
・Tie-ups with more partners drove expansion in sales channels and enhancement of solutions.

* Achievements on next page

Japan

Despite the impact from changes in environment, the announced initiatives progressed as planned

[Progress]
・Created new solutions suiting each industry
・Launched subscription businesses
・Expanded AAPs (Area Alliance Partners)

[Achievements]

- Automotive, 3PL: Warehouse navigation systems, asset management packages
- Supermarkets: Visualizing in-store behavior HACCP solutions
- Apparel: Visualizing supply chains
- Food & beverage production: HACCP solutions

Review: Auto-ID Solutions Business / Overseas Achievements (1)

Sales Headquarters

- Accelerating PDCA centered on CRM
- Specialized, specific support by market and industry
- Proliferation and localization of marketing tools and sharing of success cases

Bolstering *koto-uri* and partnerships by country, market, and industry

Major US retailer

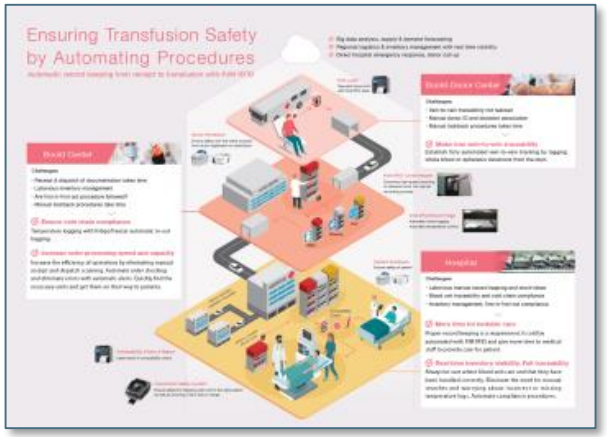
- Centralized management of different printers
  > Printers with emulation functions
  > Asset management tool developed with partners
- Received orders for over 500 printers
  > Potential to replace 10x or more in US





- Expand other business such as consumables

Localization of marketing tools



Visualizing solution applications for each industry

- Working closely with H/Q marketing team
  > Advanced use of industry maps

Review: Auto-ID Solutions Business / Overseas Achievements (2)

Sales Headquarters

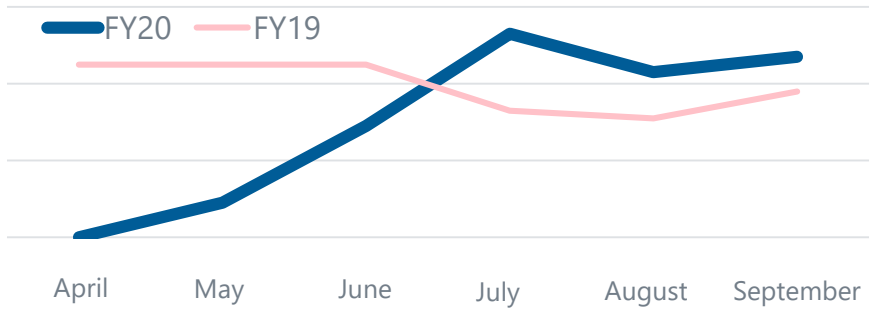
- Accelerating PDCA centered on CRM
- Specialized, specific support by market and industry
- Proliferation and localization of marketing tools and sharing of success cases

Bolstering *koto-uri* and partnerships by country, market, and industry

Regular CRM talks with headquarters

- Performance monitoring allows headquarters and local offices to identify issues
- In depth discussion and faster execution of market oriented measures
- *Koto-uri* promotion through collaboration with local partners

Sales by month in India



Creating global solutions through timely information sharing

- Food delivery has grown globally
- Turning success cases into global solutions by sharing know-how



Package seals for product deliveries

- Greater RFID demands from manufacturers to achieve non-contact and efficient operations
- Deployed H/Q-developed ROI calculators on a global basis

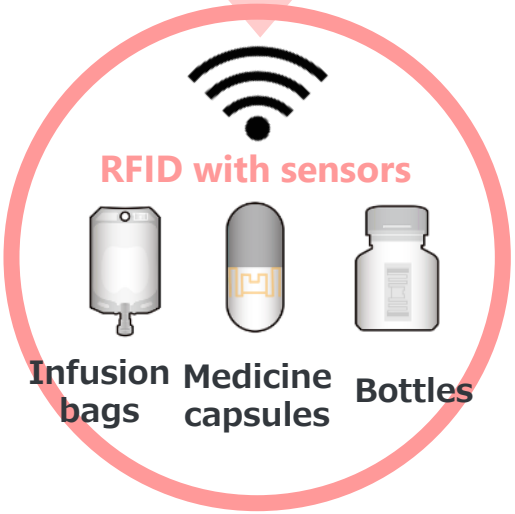
RFID

Review: Creating B2B2C Business

- B2B2C business made steady progress, proposing technologies, products, and operations that satisfy the needs of customers in different markets.
- Utilized and applied tagging expertise and partnerships accumulated in a wide range of markets and industries.

Health Care Market

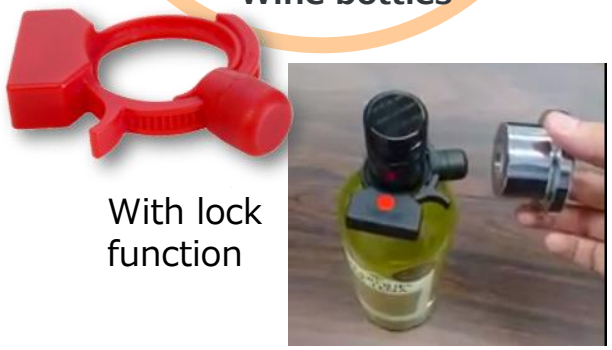
- Medication history
- Traceability



Food & Beverage Market

- Temperature info
- Traceability





With lock function

Retail Market

- In-store customer behavior (matched with POS data)



Medium-Term Business Plan Framework

Auto-ID solutions business

① Overseas

Further bolster and expand base business with *koto-uri* as the key

- Manufacturing
- Health Care
- Retail/Apparel
- Food & Beverage

Instill *koto-uri*

② Japan

Make growing businesses even stronger and further expand solutions businesses

- Manufacturing
- Logistics
- Public
- Retail/Apparel
- Health Care
- Food & Beverage

Evolve *koto-uri*

③ Game change (B2B2C Business)

Globally commercialize new business models through customer and consumer-centric innovation

- Driven by revolutionary elemental technologies for devices
- IDP solutions → **Terminated**

→ **Establish differentiation & superiority**

④ Group management

- Build firm IT infrastructure and risk management program
- Improve capital efficiency
- Optimize value chain in-house

→ **Build a sustainable organization structure**

Medium-Term Business Plan Framework

FY2020-2022

Accelerate growth

■ **Auto-ID Solutions Business**
Focus on market-specific strategies + partnerships

Overseas	Drive **growth** by instilling *koto-uri*
Japan	Improve **profitability** by evolving *koto-uri*

■ **Strengthen our sustainable business base**

Promote sustainability (ESG), leverage on new IT infrastructure, strengthen our risk management system, improve capital efficiency, and more

Create B2B2C business

Brand statement (What SATO aims to be)

SATO Powered On Site

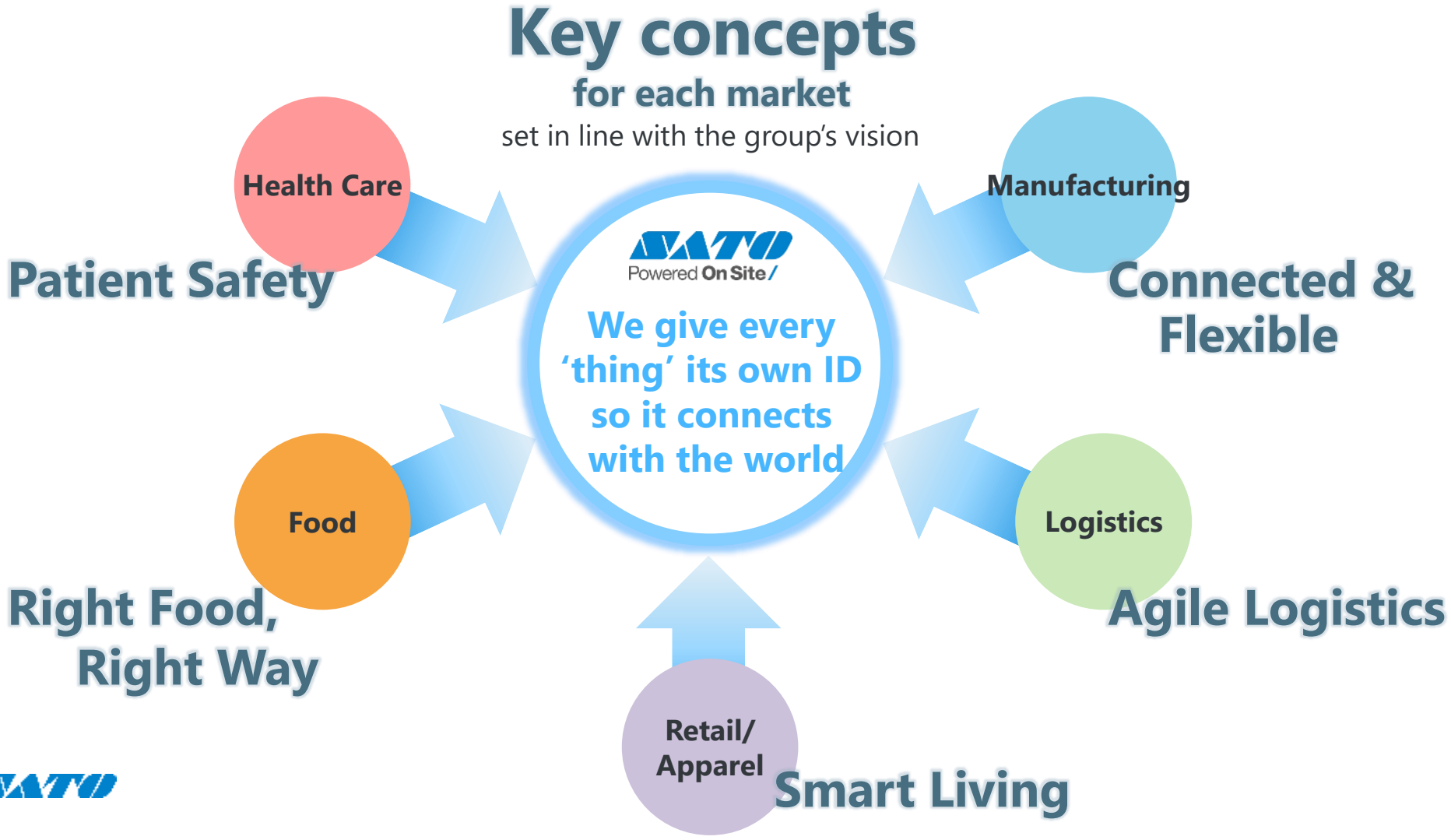
We give every 'thing' its own ID so it connects with the world

(Aim to be an indispensable player for data collection to solve on-site challenges by innovating tagging)

Auto-ID solutions business

Strengthening strategies for each market (1)

We aim for sustainable growth by further strengthening
our **market strategies that are seeing notable results**



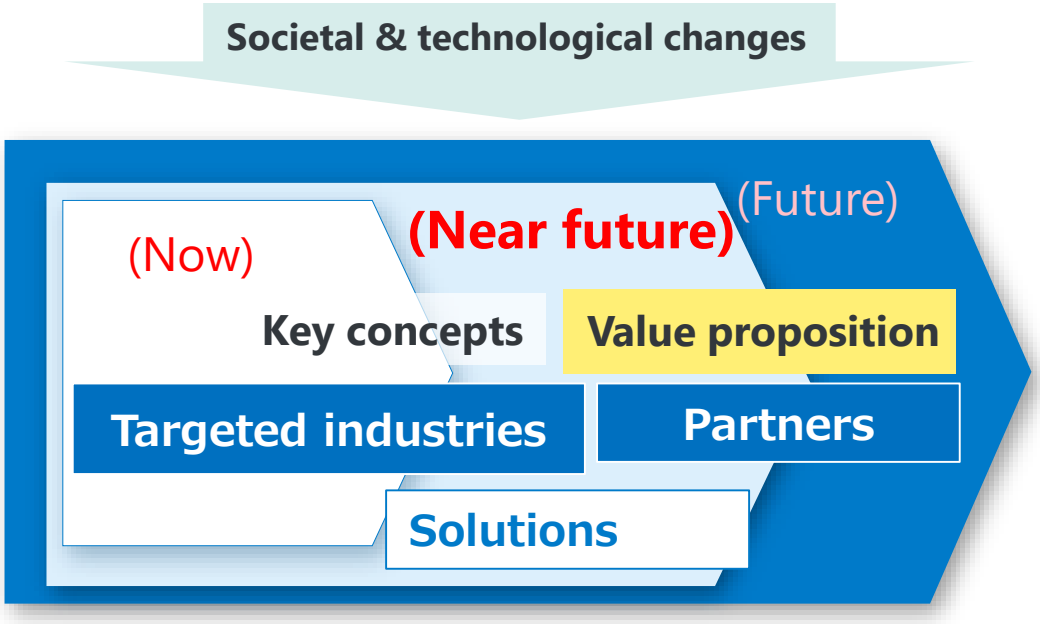
Auto-ID Solutions Business

Strengthening strategies for each market (2)

- Our offerings have mostly been in response to prevailing needs.
- Leveraging on current initiatives, we aim to be proactive to societal & technological changes.
- Key concepts for each market will render clearer images for employees to shift gears and for customers and partners to feel united and to collaborate with SATO.
- With sights set on the future, our business would gain momentum and sustainability even amid rapid changes in the environment.

<How key concepts are set up>

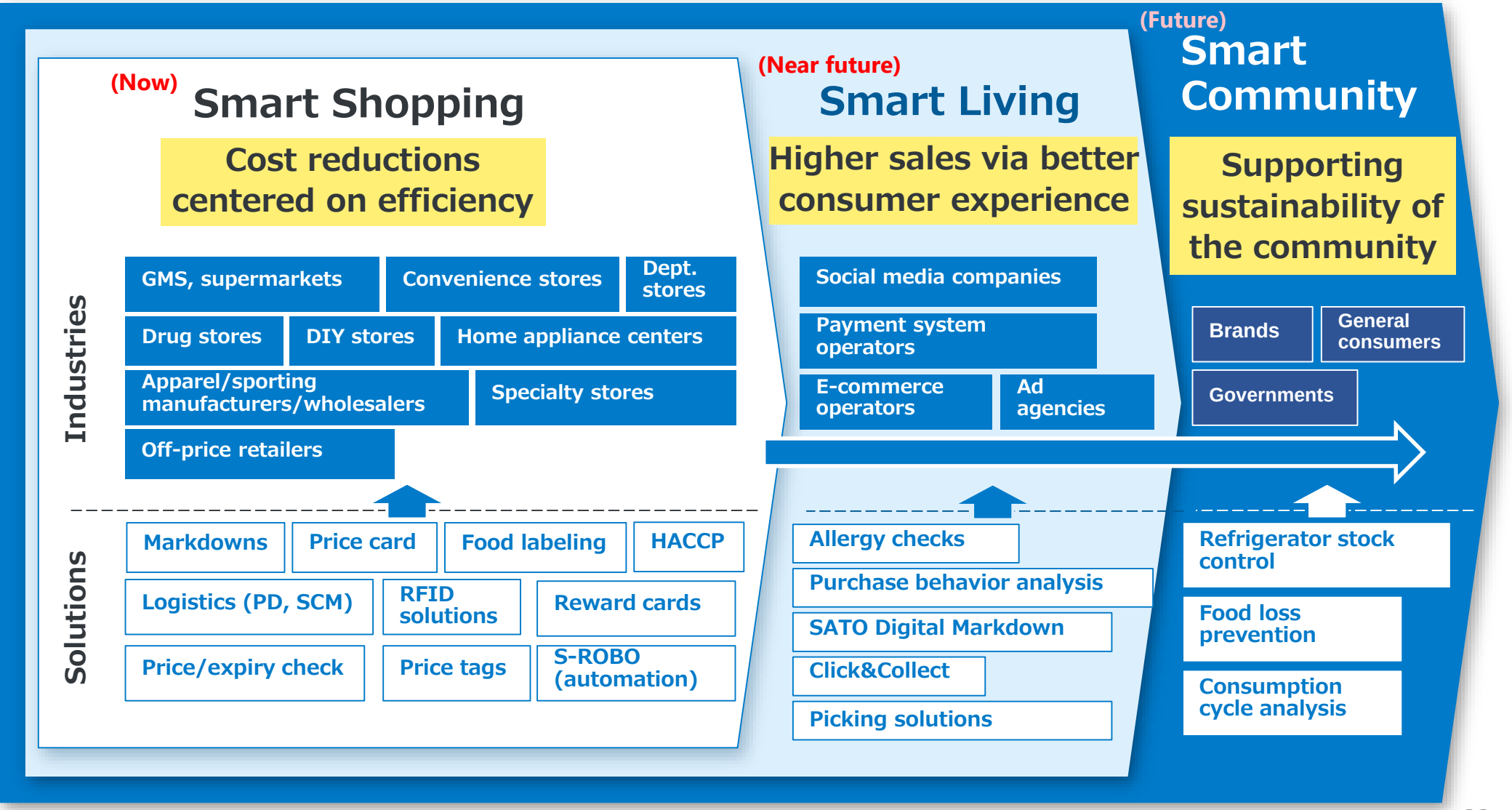
Putting coming changes in sight, value propositions and solutions are identified along time horizons



Auto-ID solutions

Strengthening strategies for each market

[e.g., Our concept for the Retail/Apparel market 1]



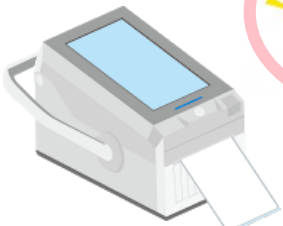
Auto-ID solutions business

Strengthening strategies for each market

[Actual examples: Retail/Apparel market 2]

Smart Shopping
(Tagging sought deeper)

Better store efficiency



Barcode printers



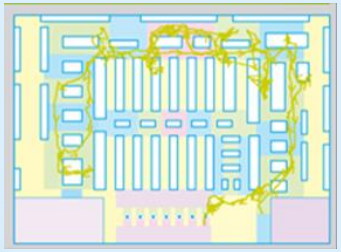
Scanners



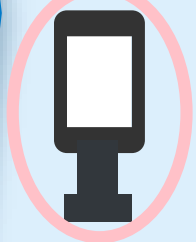
Barcode labels

Smart Shopping
(Tagging innovated)

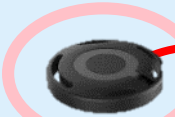
Better shopping experience



System planning, behavior analysis



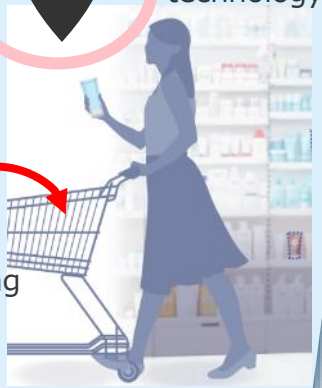
Digital signage



Location tracking devices



Location tracking technology



Smart Community
(Tagging in new ways)

Sustainability of the community



Source tagging at factories



Making use of household data



Collaborate with partners

Auto-ID Solutions Business

Overseas: Instill *koto-uri*

The newly established Sales Headquarters has been steadily producing results

Drive Growth

- Bolster *koto-uri* through **alliance strategy** (globally & locally)
- Sharpen **unbeatable offerings** (particularly printers & consumables)
- Create **market experts in each country**

Japan: Evolve *koto-uri*

Market and industry-specific solutions have been produced persistently

Drive Profitability

- Sharpen **unbeatable offerings** (common solutions by market & industry)
- Revamp **sales practice**
- **Cost reduction**

Auto-ID Solutions Business
Boost profitability in Japan

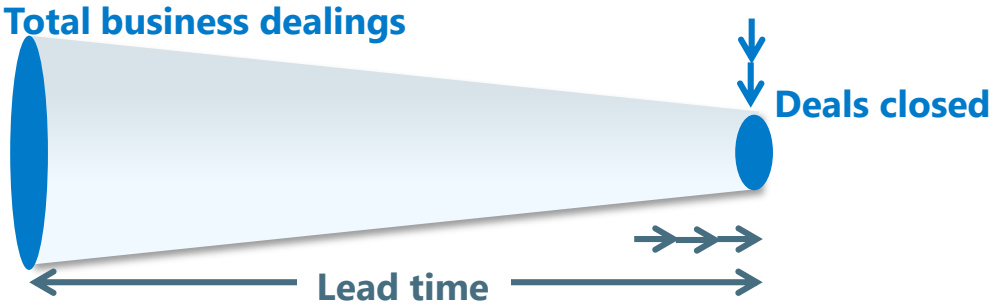
(Before)

- Business dealings are increasing in response to COVID-19

However,

- Solutions become more complex

Longer lead times, less deals closed



(After)

1 Sharpen unbeatable offerings

Capture needs of targeted industries, reflect them to products

・**Printers** ・**Consumables**
・**Solutions** ・**Maintenance**

Common solutions
Standardization
Packages

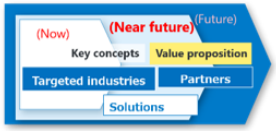
→ **Easy to sell**

2 Revamp sales practice

・Deal closing by non-sales
・Collaborate with industry-expert partners

→ **Expand points of contact**

+ Strategies by market



OI ratio in Japan

approx. +2pt

※by FY 25 vs. FY19

Boost Profitability

3 Optimize the entire SATO value chain

Innovate operations, shift saved resources to sales

R&D⇒Production⇒Logistics⇒Sales, Maintenance

New IT infrastructure（FY24～）

・**Increase saved resources** by efficient info sharing
・**Power resources** with explicit know-how

→
- **Improve labor productivity**
- **Make know-how explicit**
- **Expand points of contact**

4 Cost reduction

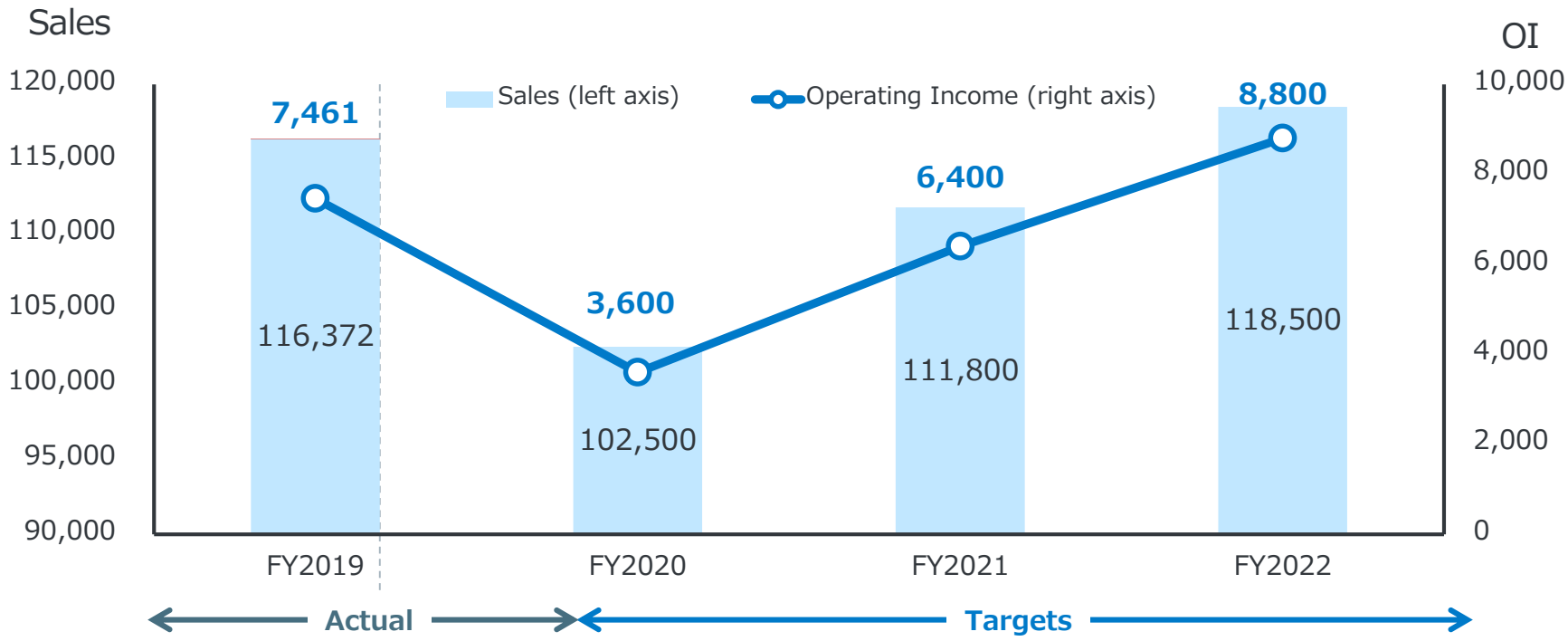
alternative materials, less parts

→ **Improve gross Profit**

Medium-term Targets (Consolidated)

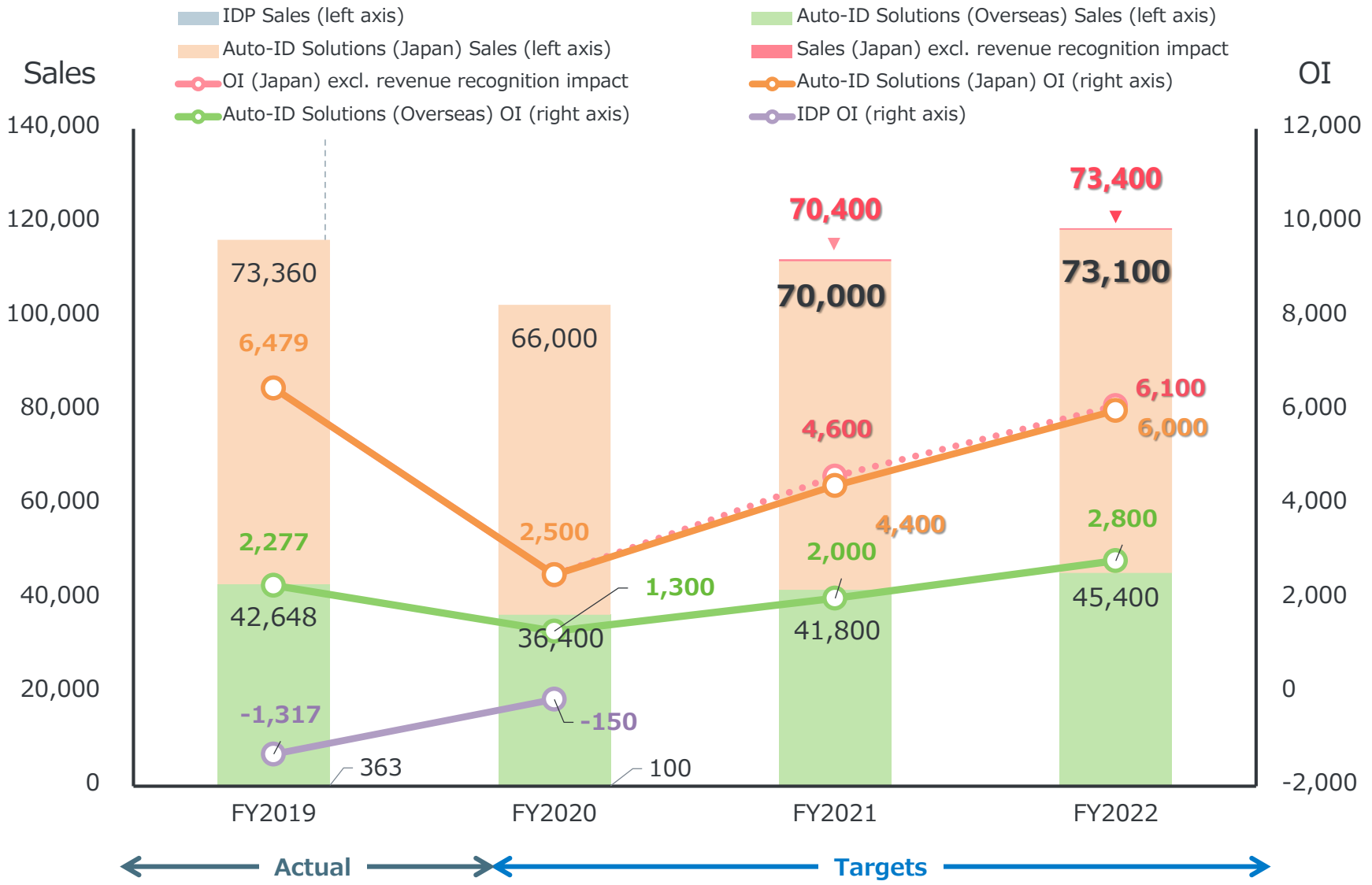
(Millions of JPY)

	FY2019		FY2022	
Sales	116,372	Sales	118,500	+0.6% (CAGR)
Operating Income	7,461	Operating Income	8,800	+5.7% (CAGR)
OI ratio	6.4%	OI ratio	7.4%	+1.0pt
ROIC	7.5%	ROIC	8.0%	+0.5pt



Medium-term Targets by Business Segment

(Millions of JPY)

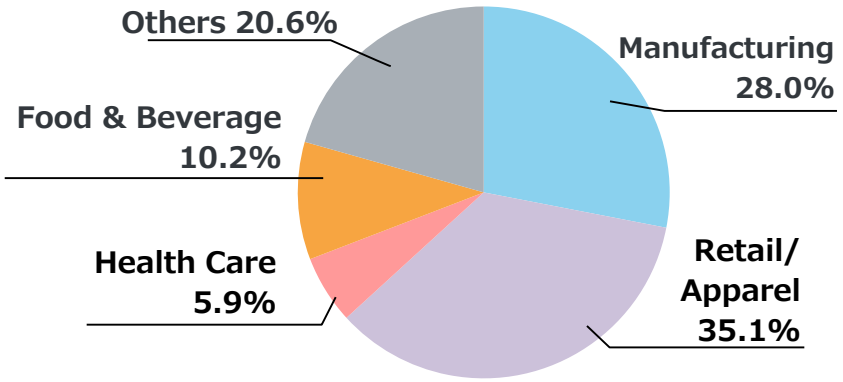


Medium-term Targets by Vertical

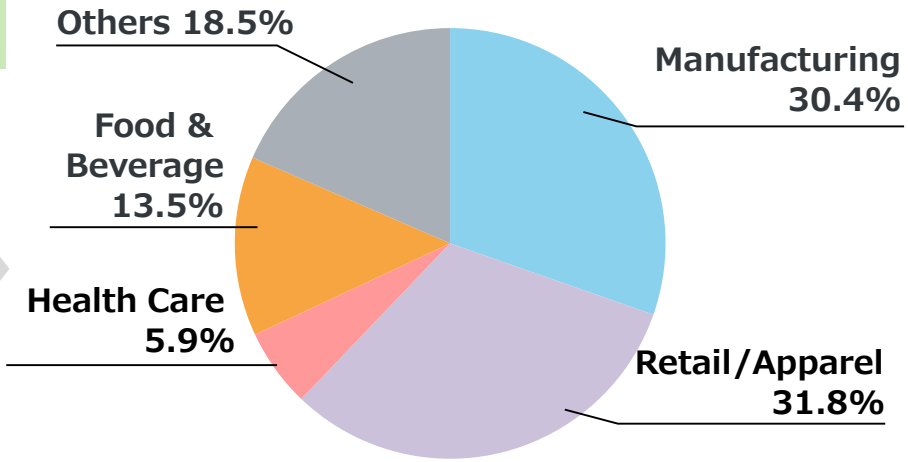
- Compositions of manufacturing and food overseas and heath care in Japan are expected to grow

Overseas

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

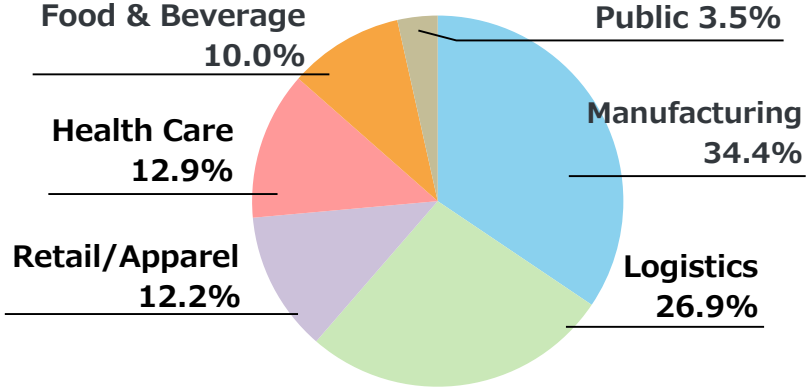


FY19

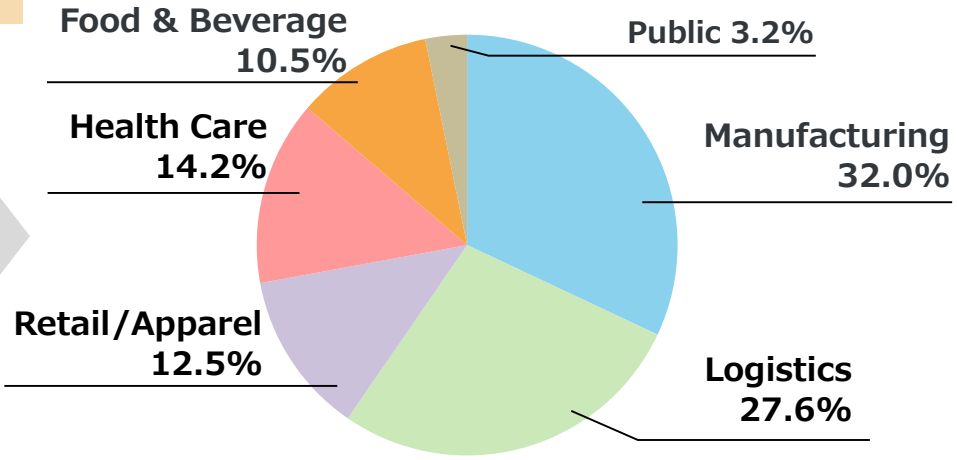


FY22

Japan



FY19



FY22

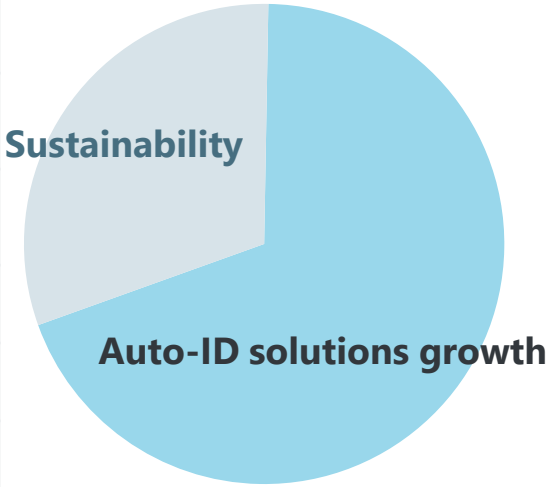
Cash allocation: based on our medium-term objectives

<from FY20 to FY22>

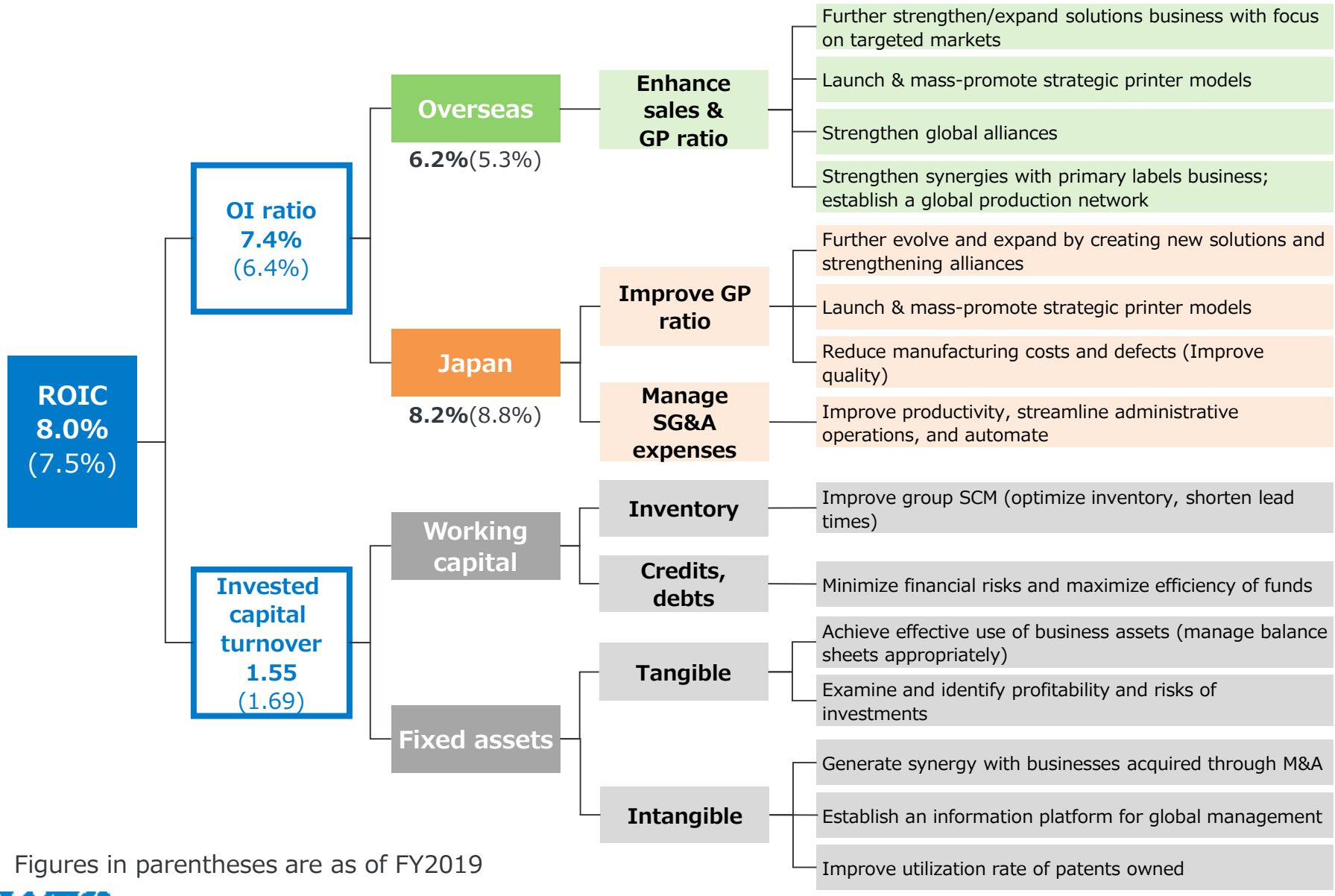


Investment fields	Major Allocations	Impact		
		Profit-ability	Produc-tivity	Cost savings
Auto-ID solutions growth	(1) R&D of strategic printers			
	(2) High-speed RFID equipment			
	(3) Consumables plants and equipment			
	(4) Development of solutions by market			
	(5) Alliances with partners and M&A			
Sustainability	(6) New IT infrastructure			
	(7) Talent development infrastructure			
	(8) Source tagging technology			

<Allocation by investment field>



ROIC tree: based on our medium-term objectives



Figures in parentheses are as of FY2019

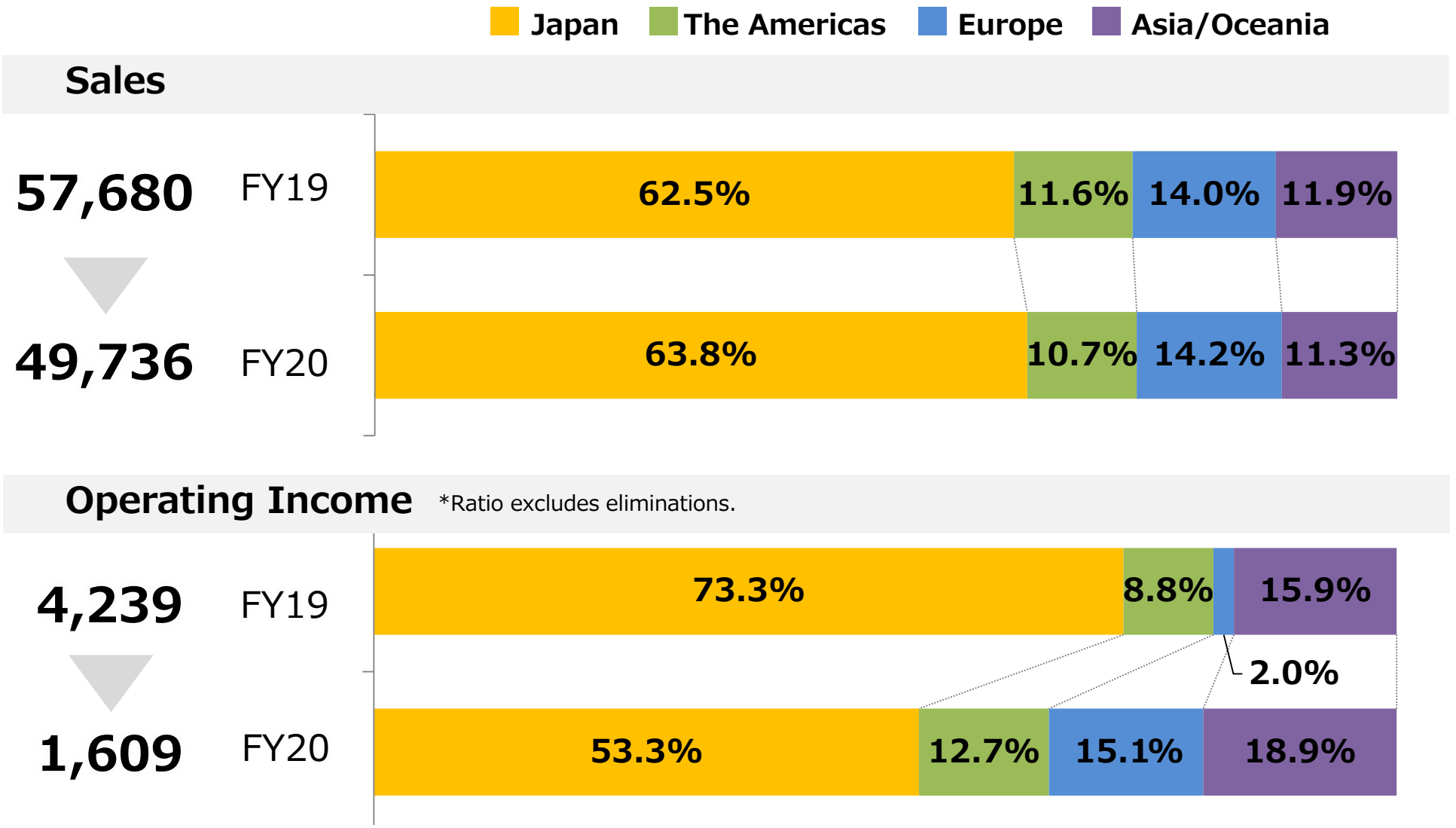
Appendix

Performance data Pages 42-57

SATO terminologies Pages 58-61

Sales and OI by Region

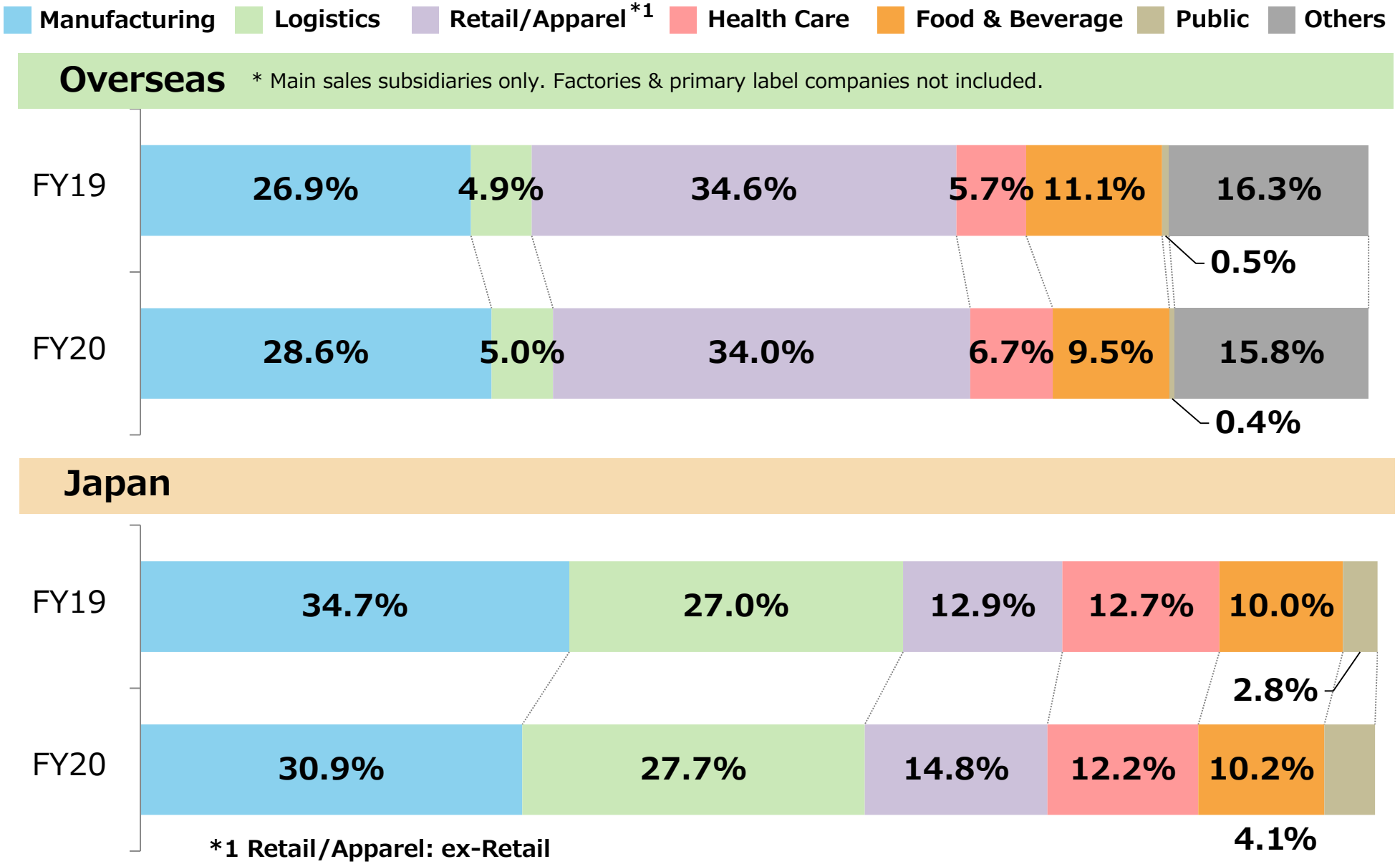
(Millions of JPY)



OI Ratio FY19 Japan : 8.5%, Overseas : 5.3%

FY20 Japan : 2.7%, Overseas : 4.2 %

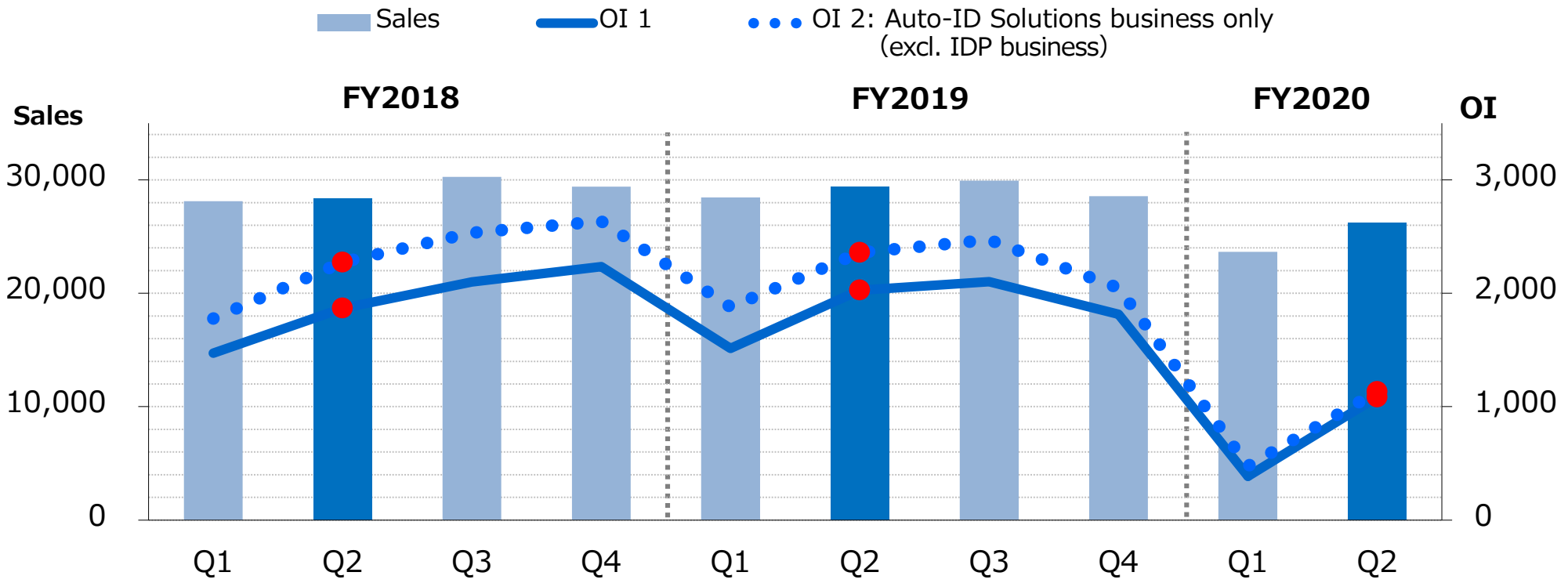
Sales by Vertical



*1 Retail/Apparel: ex-Retail

Quarterly Sales & OI

(Millions of JPY)

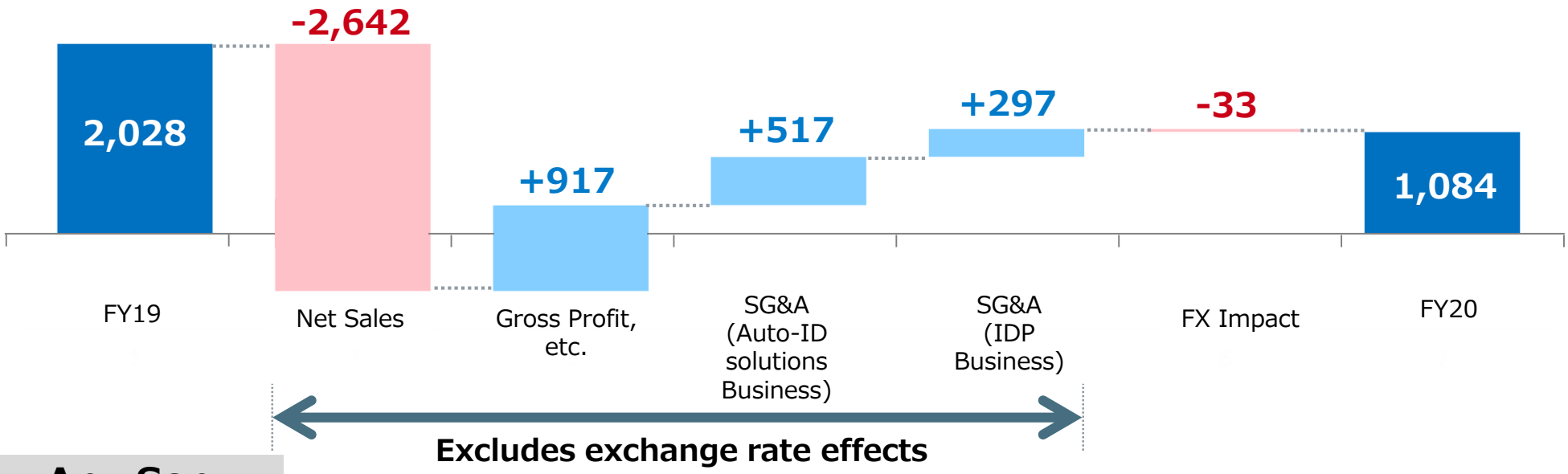


Sales	28,118	28,371	30,272	29,417	28,463	29,411	29,928	28,569	23,651	26,221
YoY	+4.9%	+1.2%	+0.3%	+3.7%	+1.2%	+3.7%	-1.1%	-2.9%	-16.9%	-10.8%
OI 1	1,473	1,869	2,100	2,235	1,514	2,028	2,103	1,815	385	1,084
YoY	+73.1%	+9.7%	-0.9%	+42.0%	+2.7%	+8.5%	+0.1%	-18.8%	-74.5%	-46.5%
OI 2	1,777	2,274	2,534	2,635	1,878	2,360	2,471	2,047	476	1,132
YoY	+44.3%	+9.6%	+0.8%	+40.6%	+5.7%	+3.8%	-2.5%	-22.3%	-74.6%	-52.0%

Major Gains/Losses in OI

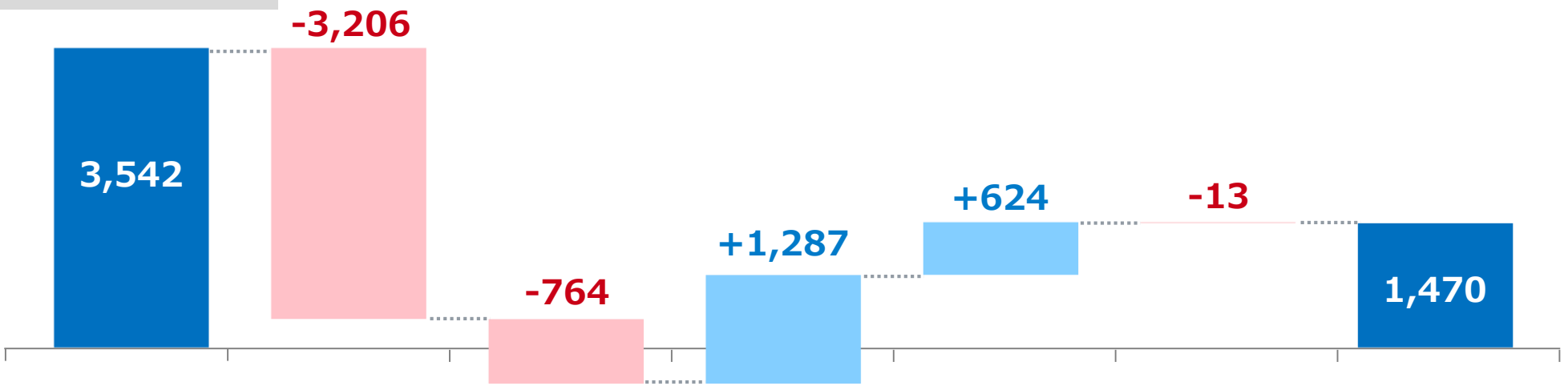
(Millions of JPY)

Jul-Sep



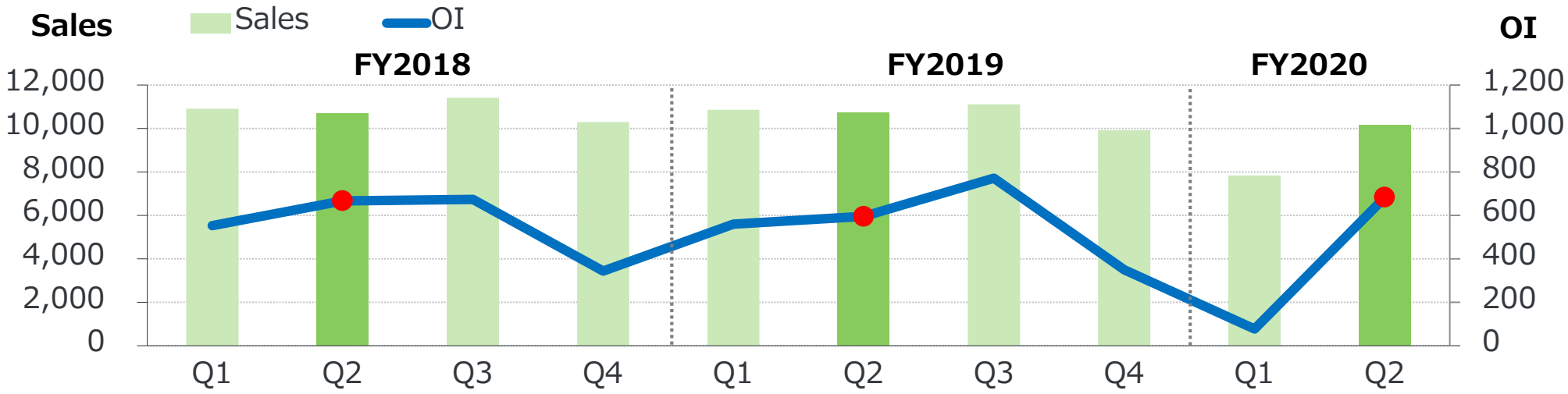
Excludes exchange rate effects

Apr-Sep



Quarterly Sales & OI

(Millions of JPY)

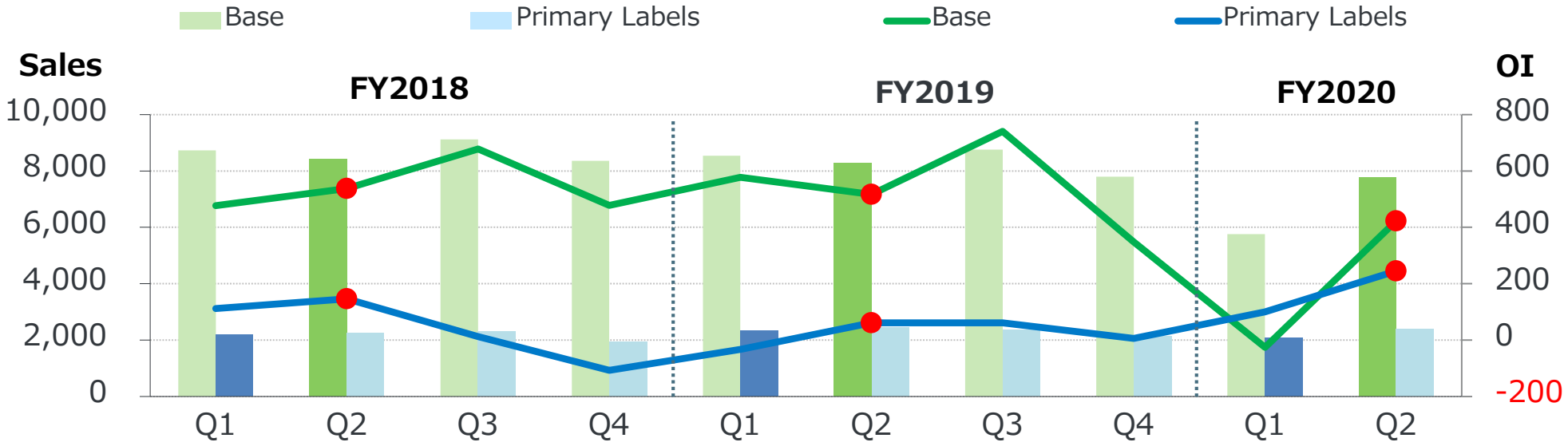


Sales	10,910	10,686	11,419	10,298	10,867	10,739	11,118	9,922	7,844	10,168
YoY	+8.2%	+1.6%	+1.7%	-4.2%	-0.4%	+0.5%	-2.6%	-3.7%	-27.8%	-5.3%
OI	553	667	674	344	560	595	772	349	77	683
YoY	+49.8%	-8.6%	+1.6%	3x	+1.2%	-10.7%	+14.6%	+1.4%	-86.1%	+14.8%

Auto-ID Solutions Business (Overseas)

Quarterly Sales & OI

(Millions of JPY)



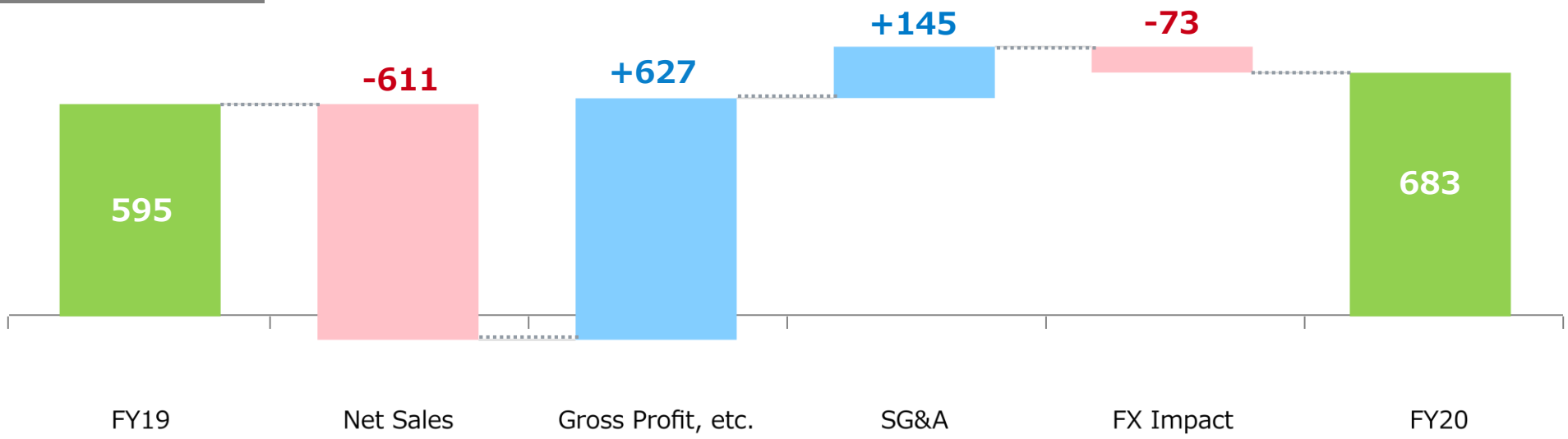
Base	Sales	8,730	8,421	9,118	8,359	8,539	8,286	8,758	7,794	5,755	7,779
	YoY	+10.2%	+0.8%	+1.5%	-3.9%	-2.2%	-1.6%	-3.9%	-6.8%	-32.6%	-6.1%
	OI	477	538	678	478	577	517	740	348	-26	423
	YoY	+39.9%	-21.0%	-3.3%	18x	+21.1%	-3.9%	+9.2%	-27.1%	-	-18.2%
Primary Labels	Sales	2,180	2,264	2,301	1,939	2,328	2,453	2,360	2,128	2,089	2,389
	YoY	+0.8%	+4.8%	+2.9%	-5.9%	+6.8%	+8.3%	+2.5%	+9.7%	-10.3%	-2.6%
	OI	112	146	12	-107	-33	61	61	6	100	245
	YoY	+141.7%	5x	-	-	-	-58.3%	4x	-	-	4x

Auto-ID Solutions Business (Overseas)

Major Gains/Losses in OI

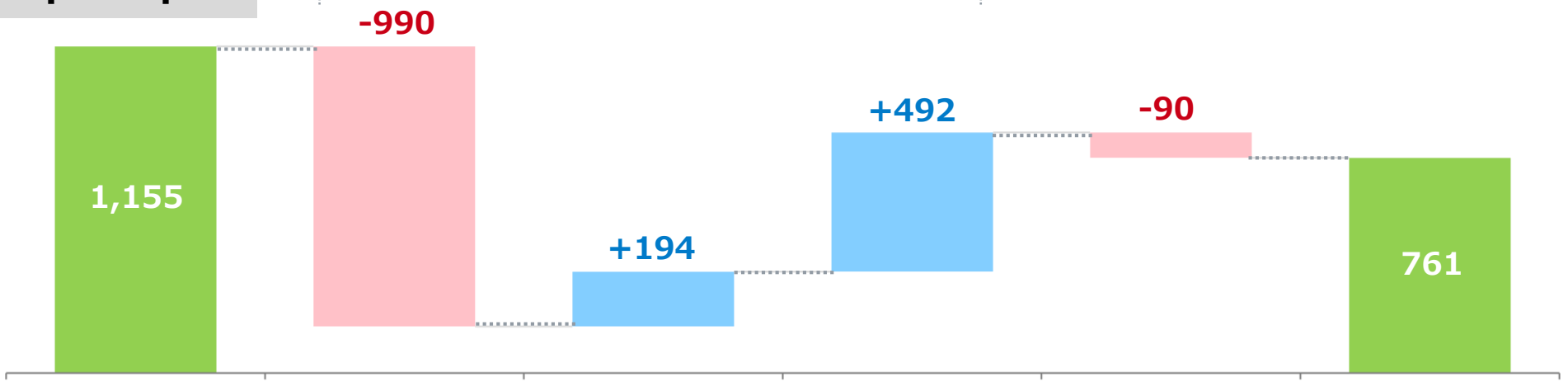
(Millions of JPY)

Jul-Sep



Excludes exchange rate effects

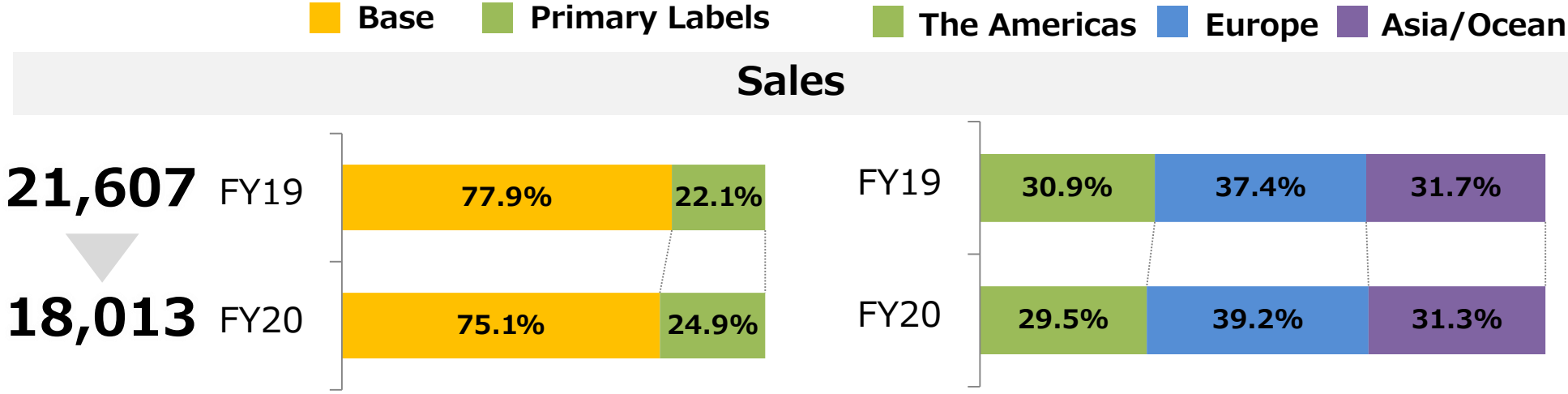
Apr-Sep



Sales and OI by Business Segment/Region

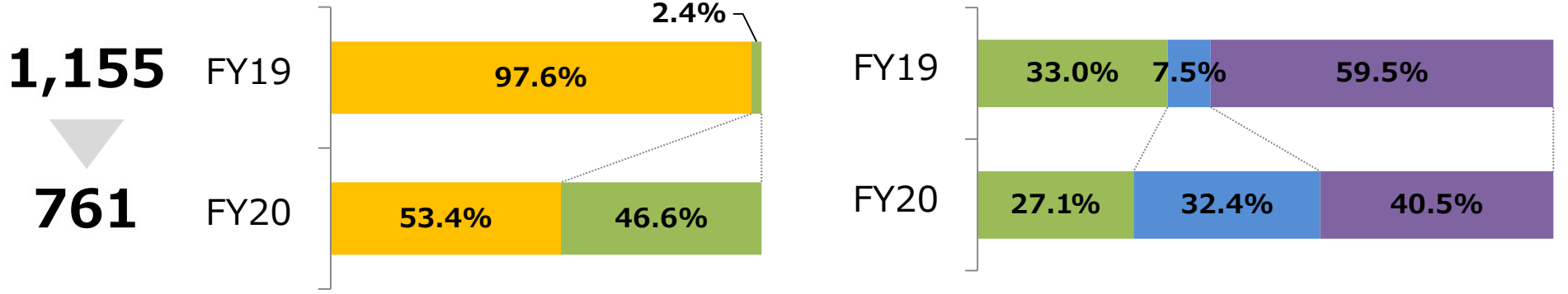
(Millions of JPY)

Sales



Operating Income

*Ratio excludes eliminations.

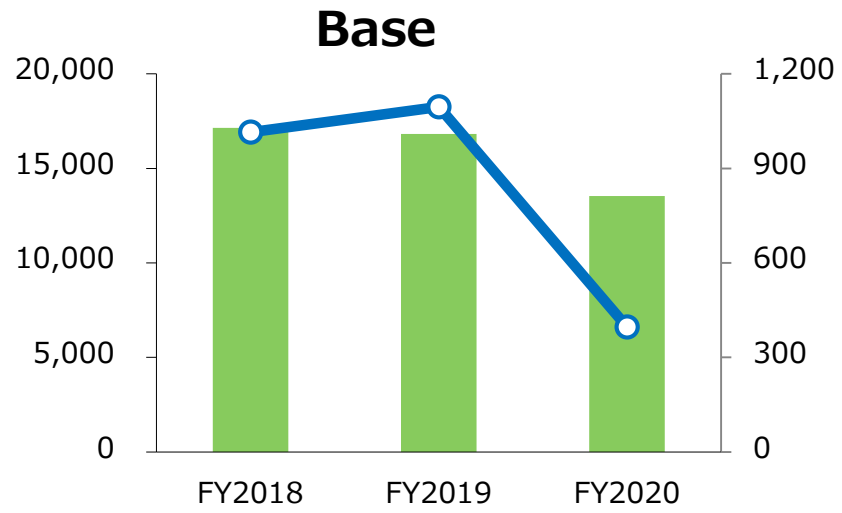


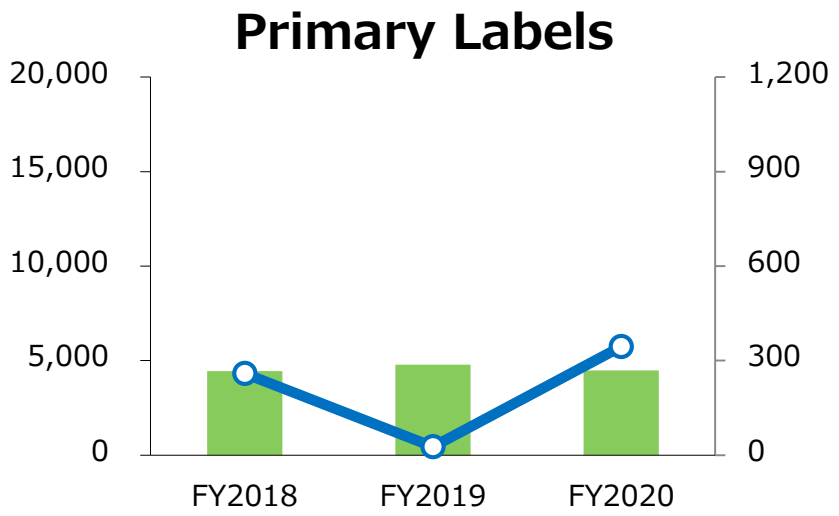
OI ratio:
FY19 Base : 6.5%, Primary Labels : 0.6%
FY20 Base : 2.9%, Primary Labels : 7.7%

FY19 The Americas : 5.5%, Europe : 1.0%, Asia/Oceania : 9.7%
FY20 The Americas : 3.8%, Europe : 3.4%, Asia/Oceania : 5.3%

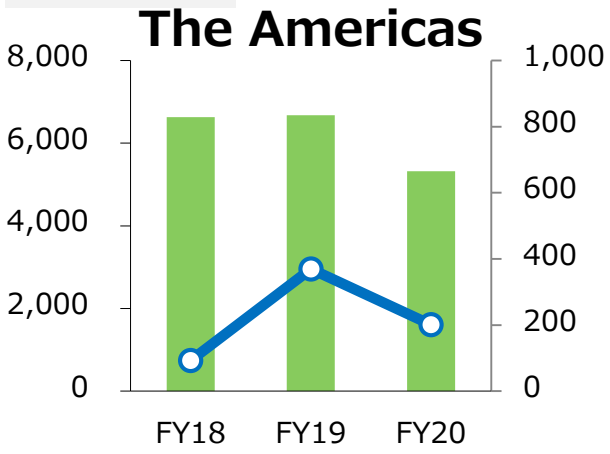
Sales and OI Trends by Business Segment and Region

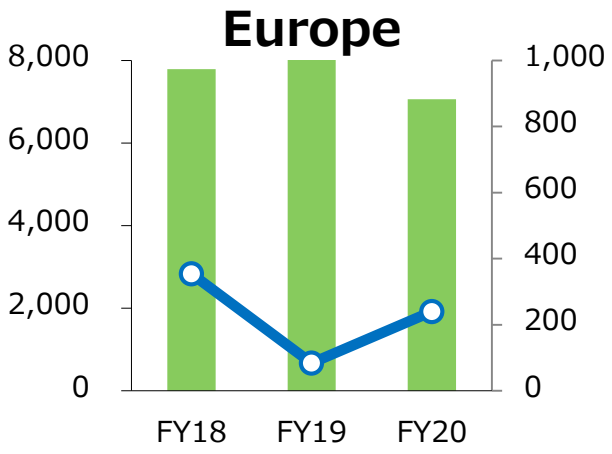
By Business Segment Sales OI (Millions of JPY, Sales (left axis), OI (right axis))

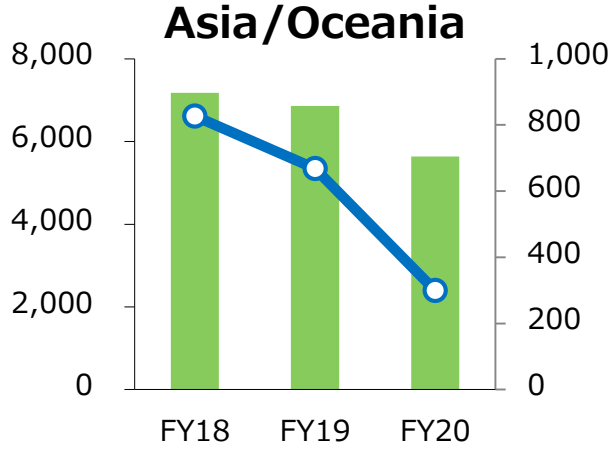




By Region

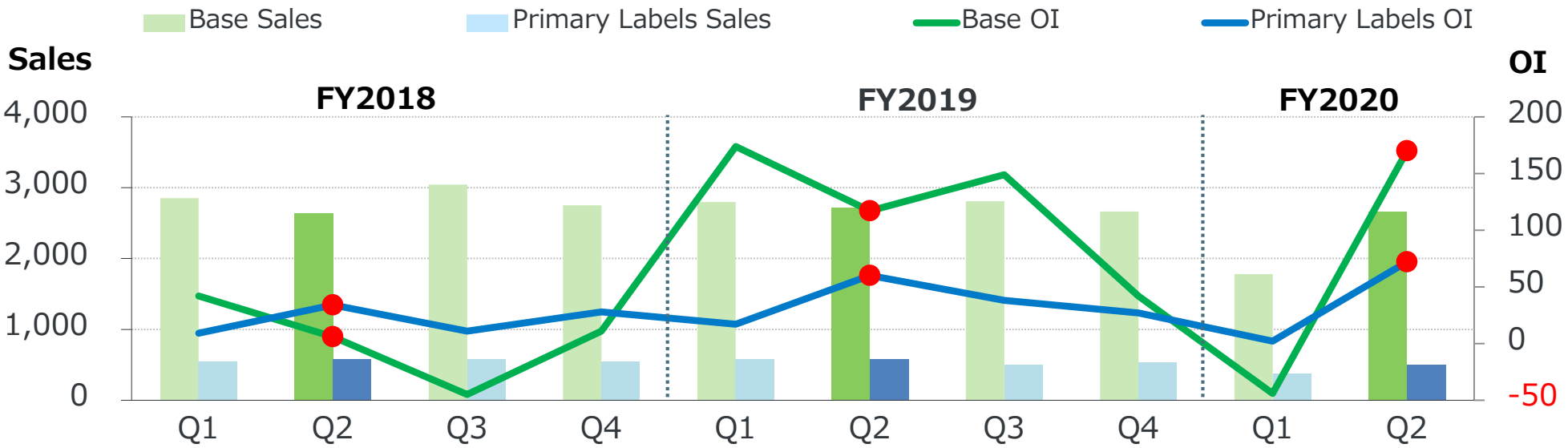






The Americas: Quarterly Sales & OI

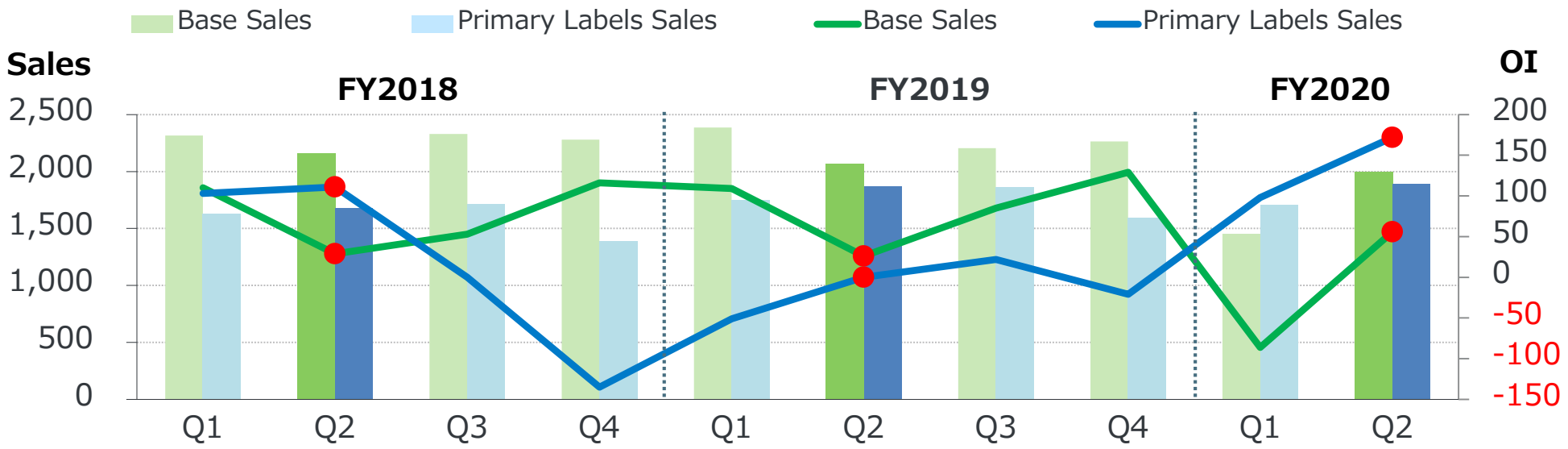
(Millions of JPY)



Base	Sales	2,854	2,640	3,043	2,753	2,797	2,714	2,811	2,664	1,781	2,660
	YoY	+2.7%	-9.0%	-0.6%	-9.4%	-2.0%	+2.8%	-7.6%	-3.2%	-36.3%	-2.0%
	OI	42	6	-45	11	174	117	149	42	-44	170
	YoY	-49.7%	-94.9%	-	-	4x	17x	-	3x	-	+45.6%
Primary Labels	Sales	546	584	587	550	577	586	497	536	378	498
	YoY	-16.9%	-12.4%	-9.9%	-19.6%	+5.6%	+0.4%	-15.2%	-2.5%	-34.5%	-15.0%
	OI	9	34	11	28	17	60	38	27	2	72
	YoY	-92.1%	2x	-	-68.0%	+86.3%	+76.8%	3x	-1.1%	-85.4%	+19.8%

Europe: Quarterly Sales & OI

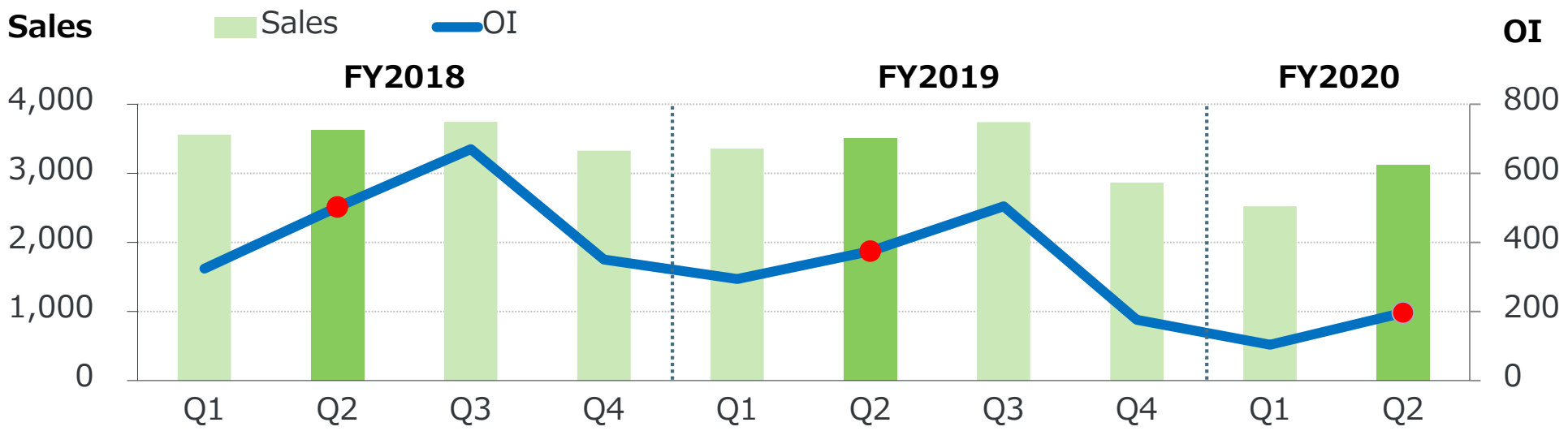
(Millions of JPY)



Base	Sales	2,315	2,160	2,330	2,279	2,386	2,066	2,205	2,264	1,453	2,000
	YoY	+20.8%	+6.3%	+7.6%	+1.2%	+3.1%	-4.4%	-5.4%	-0.7%	-39.1%	-3.2%
	OI	110	29	53	116	109	26	85	129	-86	56
	YoY	2x	-17.2%	+10.6%	+4.5%	-0.8%	-10.7%	+61.7%	+11.1%	-	2x
Primary Labels	Sales	1,633	1,680	1,714	1,388	1,751	1,867	1,862	1,591	1,711	1,891
	YoY	+8.6%	+12.5%	+8.1%	+1.0%	+7.2%	+11.1%	+8.6%	+14.6%	-2.3%	+1.3%
	OI	103	111	0	-135	-51	0	22	-21	98	172
	YoY	-	9x	3x	-	-	-99.7%	36x	-	-	503x

Asia/Oceania: Quarterly Sales & OI

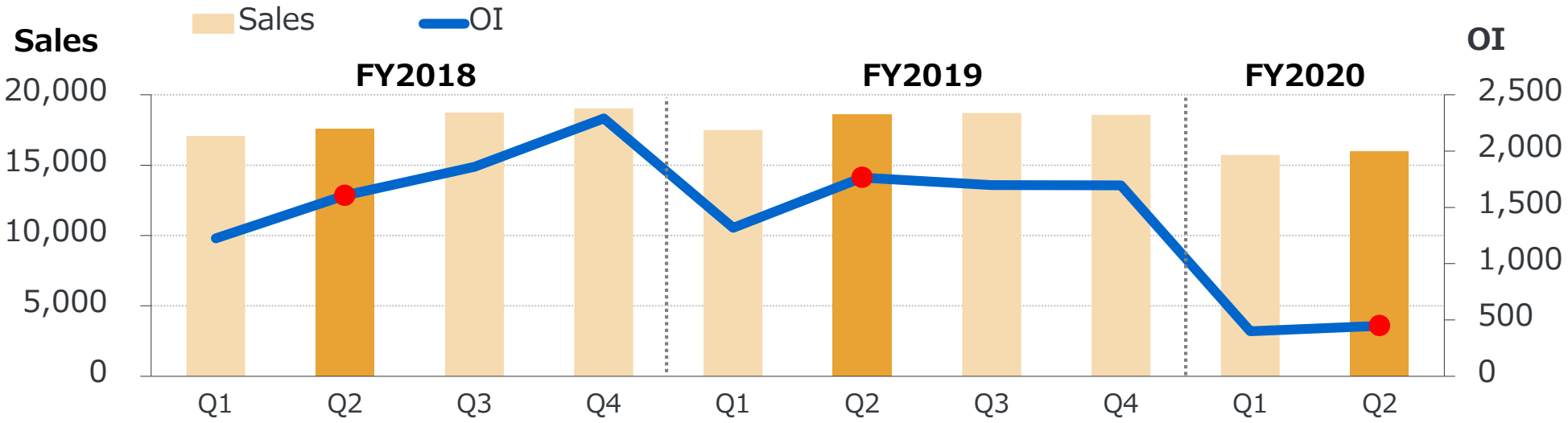
(Millions of JPY)



		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2
Base	Sales	3,560	3,620	3,743	3,326	3,355	3,504	3,740	2,865	2,520	3,117
	YoY	+10.3%	+5.8%	-0.4%	-2.3%	-5.8%	-3.2%	-0.1%	-13.9%	-24.9%	-11.1%
	OI	324	502	670	350	294	374	504	176	104	196
	YoY	+52.3%	-1.8%	+37.9%	+18.8%	-9.4%	-25.5%	-24.7%	-49.7%	-64.5%	-47.6%

Quarterly Sales & OI

(Millions of JPY)

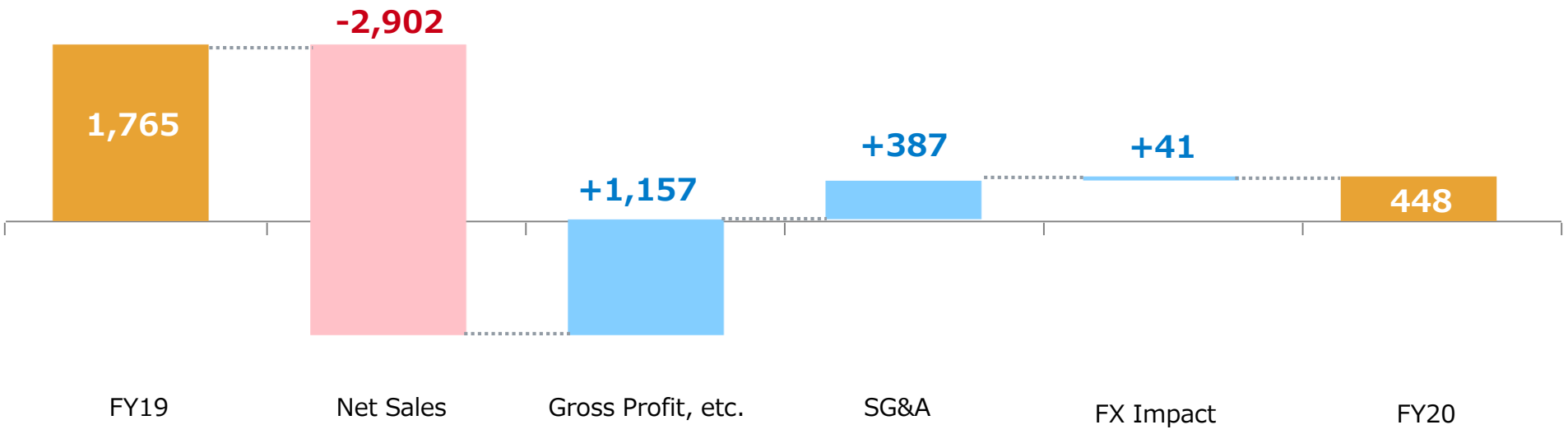


Sales	17,081	17,579	18,736	19,037	17,495	18,578	18,709	18,578	15,730	15,991
YoY	+2.7%	+0.9%	-0.9%	+8.7%	+2.4%	+5.7%	-0.1%	-2.4%	-10.1%	-13.9%
OI	1,224	1,606	1,860	2,291	1,318	1,765	1,698	1,697	399	448
YoY	+41.9%	+19.4%	+0.5%	+29.3%	+7.7%	+9.8%	-8.7%	-25.9%	-69.7%	-74.6%

Major Gains/Losses in OI

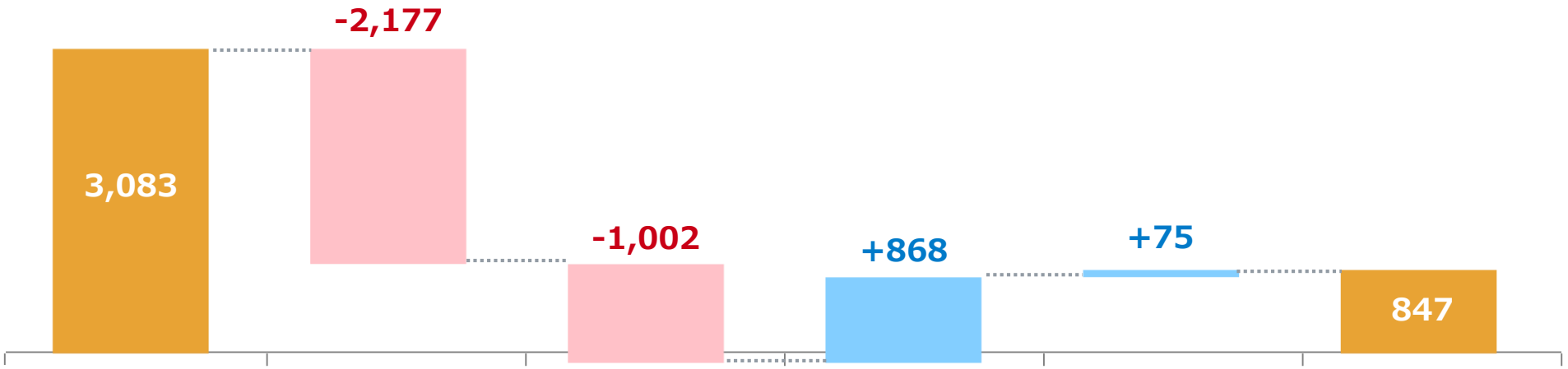
(Millions of JPY)

Jul-Sep



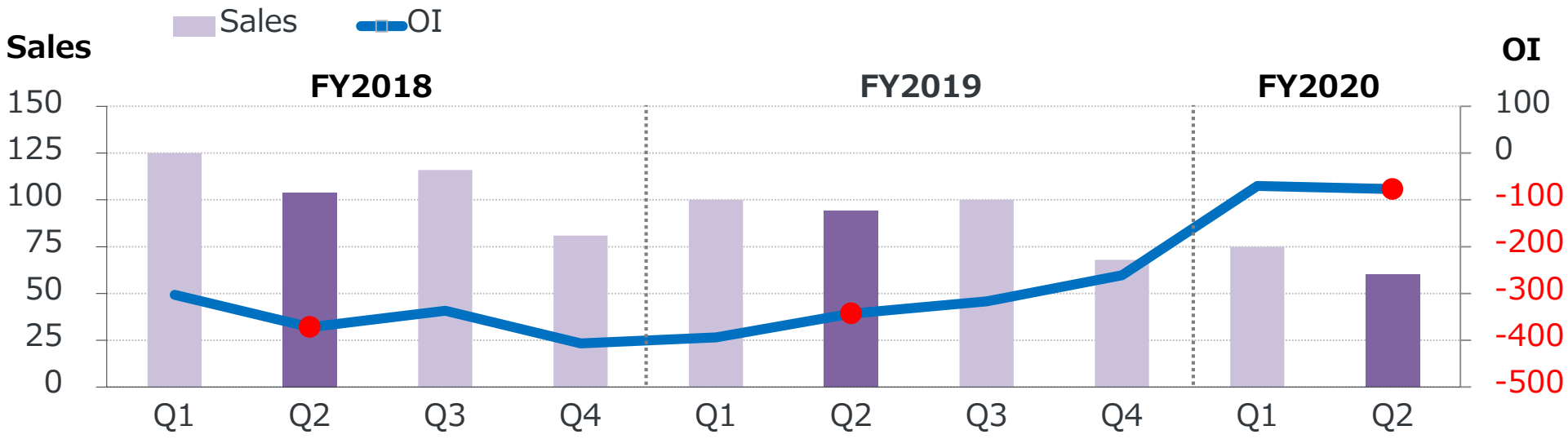
Apr-Sep

Excludes exchange rate effects



Quarterly Sales & OI

(Millions of JPY)

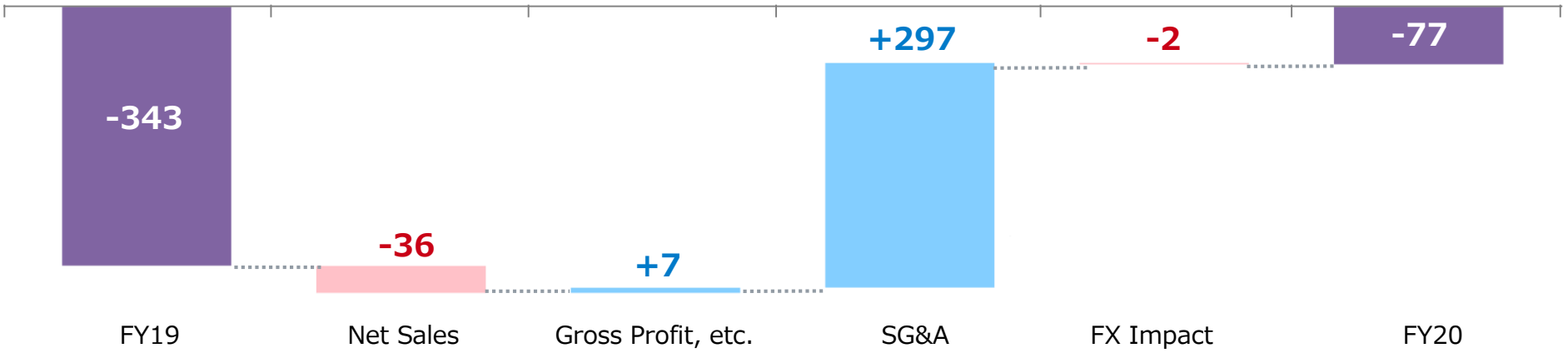


Sales	125	104	116	81	100	94	100	68	75	60
YoY	+53.2%	+34.0%	2x	-18.9%	-20.0%	-10.0%	-13.8%	-15.5%	-24.6%	-35.9%
OI	-303	-372	-337	-407	-394	-343	-317	-261	-70	-77
YoY	-	-	-	-	-	-	-	-	-	-

Major Gains/Losses in OI

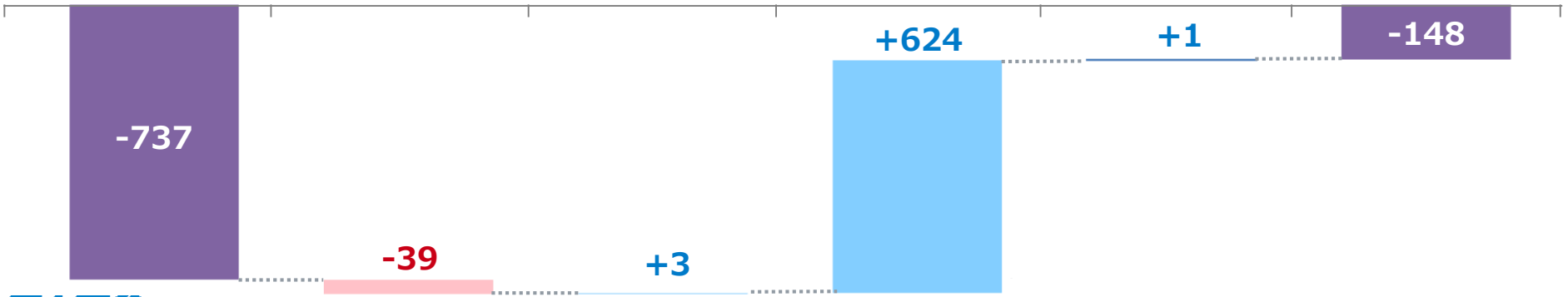
Jul-Sep

(Millions of JPY)



Apr-Sep

Excludes exchange rate effects



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, such as barcodes, 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. The opposite concept of "Mono-uri", or selling single products.
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.

(*) Underlined terms are described under its own heading

SATO terminologies (2/4)

SATO-unique business concepts/initiatives		Description
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.
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) address a wide range of market, industry and application needs with our expertise in sites of operations, (2) integrate products, services and technologies into solutions, working together with strategic partners, 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) strategy	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 that are 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 ratio as they are typically sold through recurring business.

SATO terminologies (3/4)

	Products, services, technologies	Description
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	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 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.

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 business including 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. SATO Holdings transferred all shares to DataLase Holdings Limited in September, 2020.
Overseas subsidiaries 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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