



Ceaseless Creativity for a Sustainable World

August 3, 2018

# **SATO HOLDINGS CORPORATION**

**FY2018 Q1 Financial Results**  
(Three Months Ended June 30, 2018)

Securities Code: 6287

# Summary of Apr-Jun FY2018

Consolidated sales increased while OI jumped YoY.

Auto-ID Solutions business ► **Performed satisfactorily.**

**Overseas** : Recovery momentum gathered steam thanks to initiatives that met existing challenges.

**Japan** : Continuous drive on internal measures bore fruit amid a favorable business environment.

IDP business ► R&D progressed largely as planned.

# Sales and OI by Business Segment

(Millions of JPY)

		FY2018 (Apr-Jun)	FY2017 (Apr-Jun)	YoY	excl. FX impact	
Auto-ID Solutions business	Total Sales	27,992	26,717	104.8%	105.6%	
	Operating Income	1,777	1,232	144.3%	144.8%	
	Overseas	Total Sales	10,910	10,087	108.2%	110.4%
		Operating Income	553	369	149.8%	148.1%
	Japan	Total Sales	17,081	16,630	102.7%	102.7%
		Operating Income	1,224	862	141.9%	143.4%
IDP business	Total Sales	125	82	153.2%	147.3%	
	Operating Income	-303	-319	--	--	
Consolidated (incl. eliminations)	Total Sales	28,118	26,799	104.9%	105.7%	
	Operating Income	1,473	851	173.1%	175.2%	

# Consolidated Results (Apr-Jun)

(Millions of JPY)

	FY2018	FY2017	Change	YoY
Net Sales	28,118	26,799	+1,318	104.9%
Operating Income	1,473	851	+622	173.1%
Operating Income %	5.2%	3.2%	+2.1pt	--
Ordinary Income	1,403	721	+681	194.5%
Profit attributable to owners of parent	781	337	+443	231.2%
Effective Tax Rate* <sup>1</sup>	44.0%	74.6%	-30.6pt	
EBITDA* <sup>2</sup>	2,866	2,261	+605	126.8%

Average exchange rates for Apr-Jun FY18: JPY 109.09/USD, JPY 130.03/EUR  
Apr-Jun FY17: JPY 111.09/USD, JPY 122.26/EUR

\*1 Effective Tax Rate of Apr-Jun FY17 was high due mainly to additional goodwill impairment at Argox.

\*2 EBITDA = Operating Income + Depreciation + Amortization

· Depreciation for Apr-Jun FY18: JPY 1,105 million

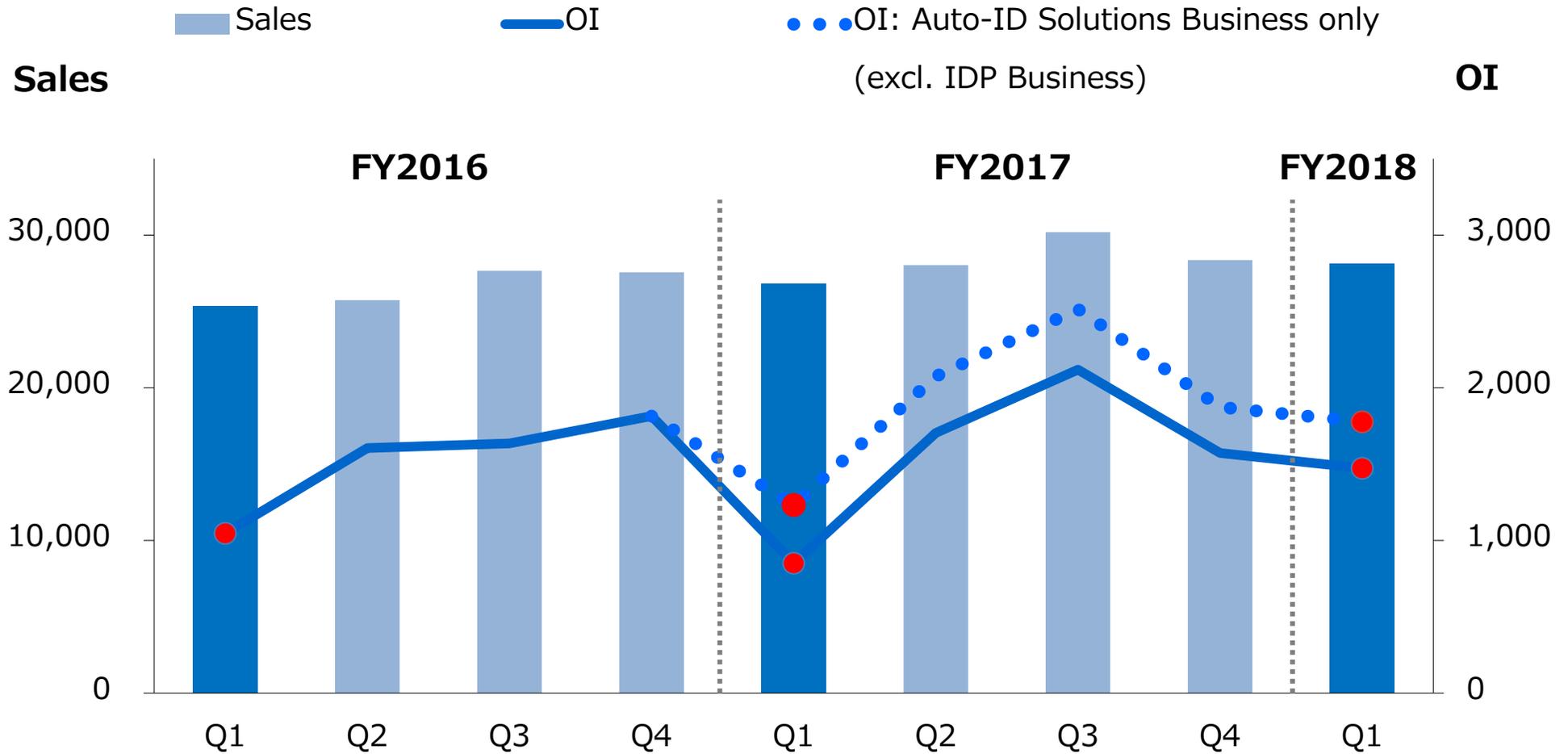
· Amortization for Apr-Jun FY18: JPY 287 million (incl. 158 mil. for DataLase)

Apr-Jun FY17: JPY 1,043million

Apr-Jun FY17: JPY 366 million (incl.151 mil. for DataLase)

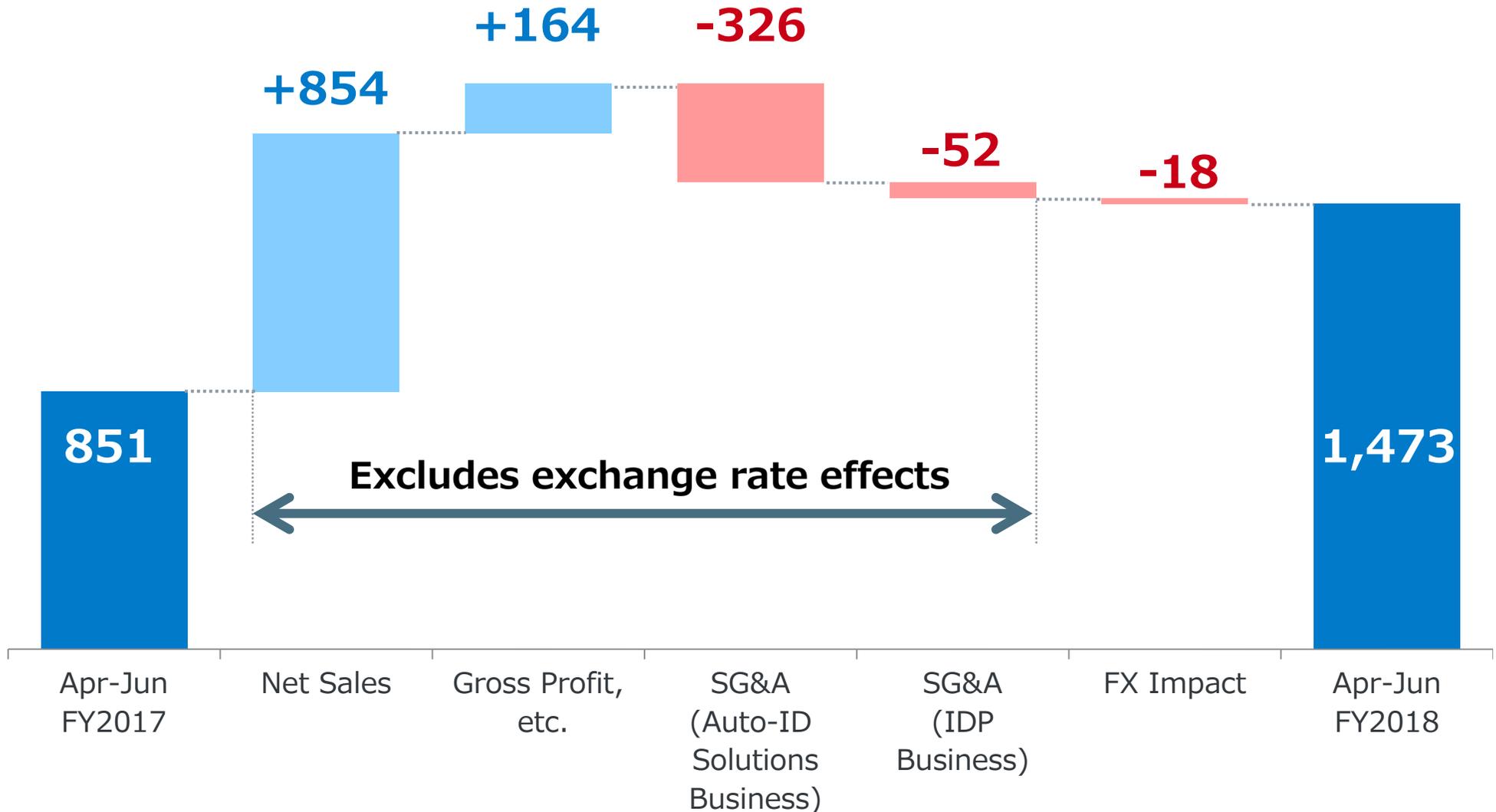
# Quarterly Consolidated Sales & OI

(Millions of JPY)



# Major Gains/Losses in Consolidated OI

(Millions of JPY)

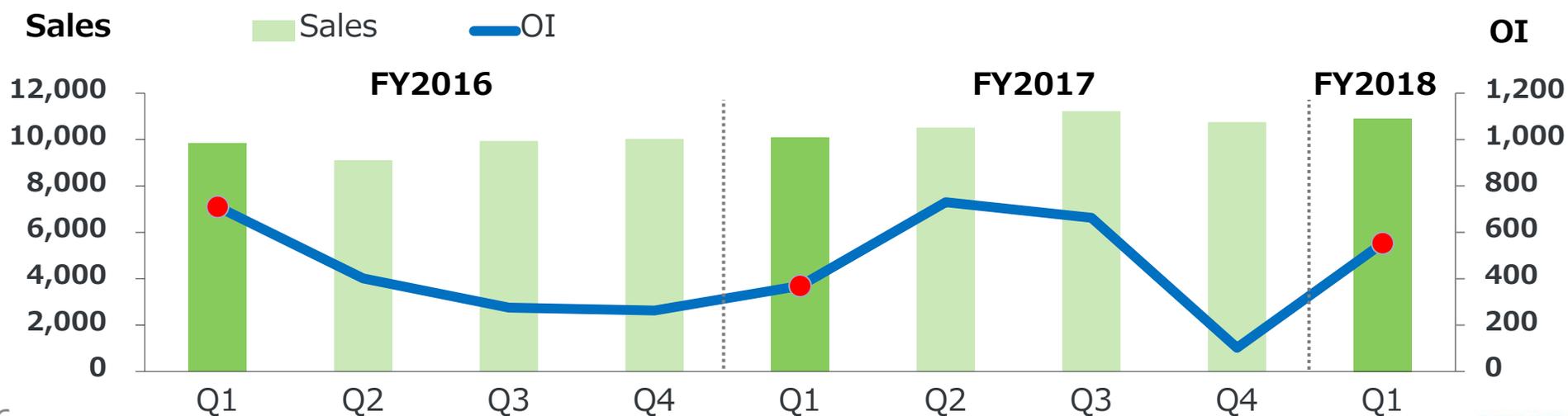


# Auto-ID Solutions Business (Overseas)

Initiatives that met existing challenges and promotion of growth strategies resulted in sales and OI increases YoY.

(Millions of JPY)

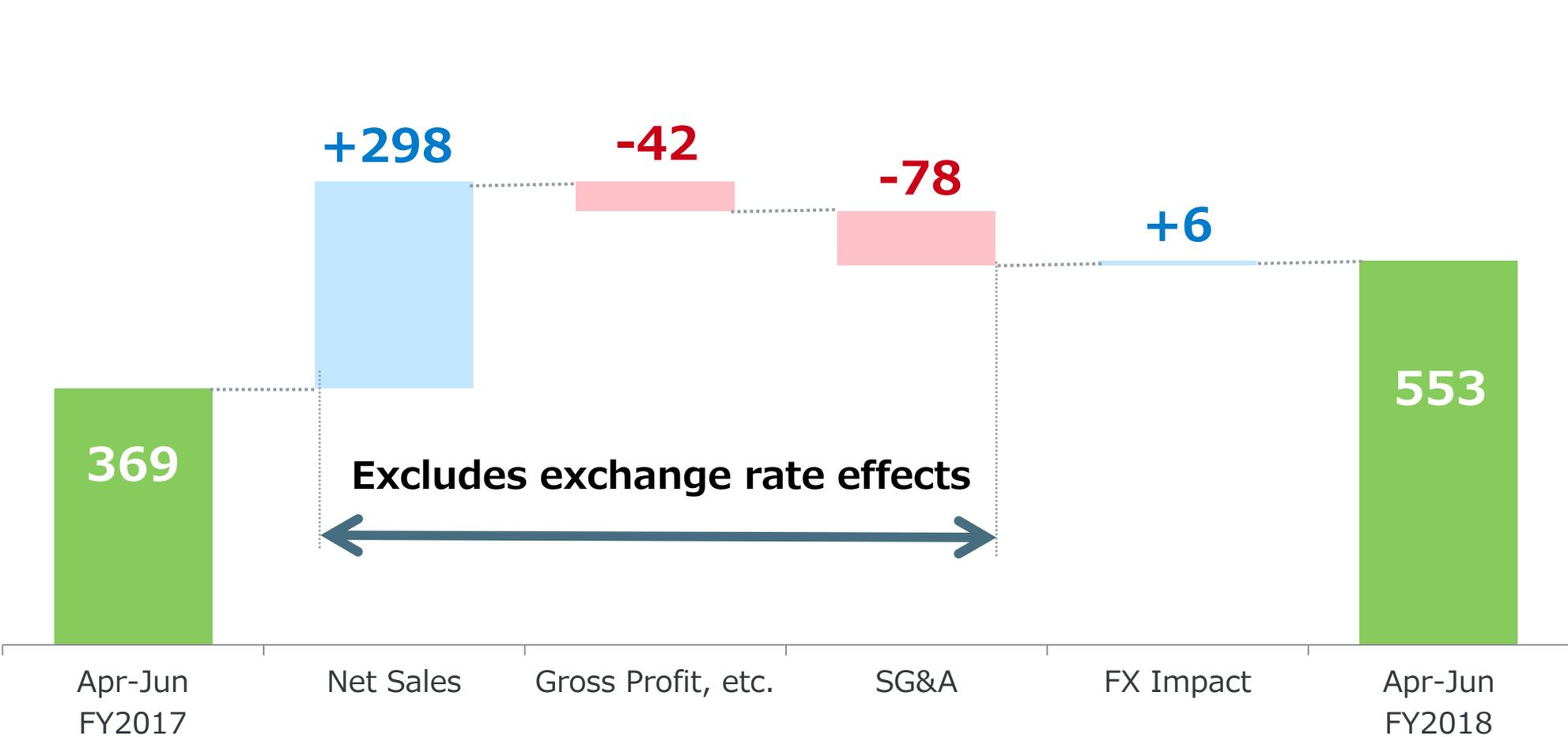
	FY2018 (Apr-Jun)	FY2017 (Apr-Jun)	Change	YoY	
				YoY	excl. FX impact
<b>Total Sales</b>	<b>10,910</b>	<b>10,087</b>	<b>+823</b>	<b>108.2%</b>	<b>110.4%</b>
Gross Profit	4,012	3,793	+218	105.8%	--
Gross Profit %	36.8%	37.6%	-0.8pt	--	--
<b>Operating Income</b>	<b>553</b>	<b>369</b>	<b>+183</b>	<b>149.8%</b>	<b>148.1%</b>
Operating Income %	5.1%	3.7%	+1.4pt	--	--



# Auto-ID Solutions Business (Overseas)

## Major Gains/Losses in OI

(Millions of JPY)



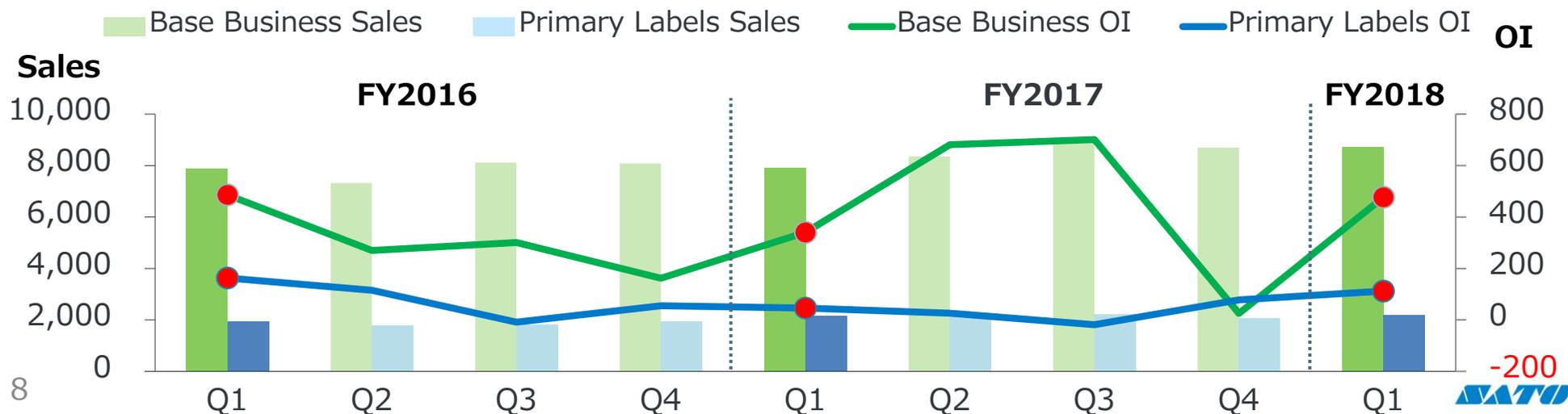
# Auto-ID Solutions Business (Overseas Breakdown by Business Segment)

Base business: Europe and APAC saw sales and OI increase YoY, while the Americas increased sales but fell behind in OI due to structural reforms at SGS.

Primary Labels business: Sales and OI increased YoY largely due to positive FX impact at Okil.

(Millions of JPY)

		FY2018 (Apr-Jun)	FY2017 (Apr-Jun)	Change	Change	
					YoY	excl. FX impact
Base Business	Total Sales	8,730	7,925	+805	110.2%	109.2%
	Operating Income	477	340	+136	139.9%	134.9%
Primary Labels	Total Sales	2,180	2,161	+18	100.8%	114.7%
	Operating Income	112	46	+66	241.7%	265.6%
Eliminations	Operating Income	-36	-18	-18	--	--



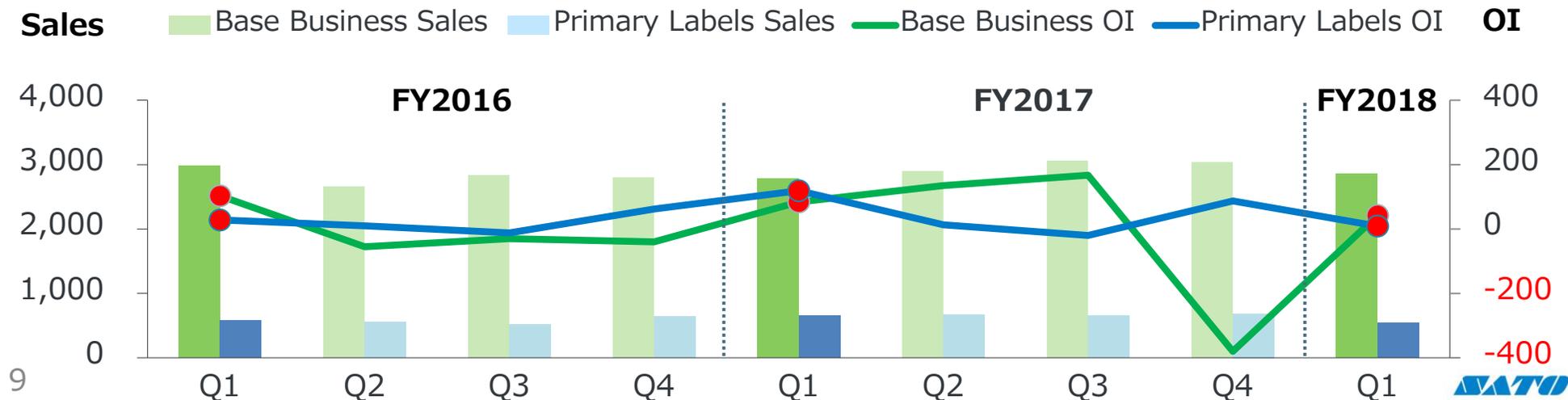
# Auto-ID Solutions Business (Overseas Breakdown by Region: The Americas)

Base business: SAL continues to perform well, yet structural reforms at SGS caused OI for the region to drop YoY despite increase in sales.

Primary Labels business: Adverse macroeconomic trends and a lack of one-off, high-margin sales at Prakolar booked last FY translated to decreases in sales and OI YoY.

(Millions of JPY)

		FY2018 (Apr-Jun)	FY2017 (Apr-Jun)	Change	YoY	excl. FX impact
Base Business	Total Sales	2,854	2,778	+76	102.7%	106.3%
	Operating Income	42	84	-42	50.3%	56.7%
Primary Labels • Achnar • Prakolar	Total Sales	546	657	-110	83.1%	103.4%
	Operating Income	9	119	-109	7.9%	7.5%



# Auto-ID Solutions Business (Overseas Breakdown by Region: Europe)

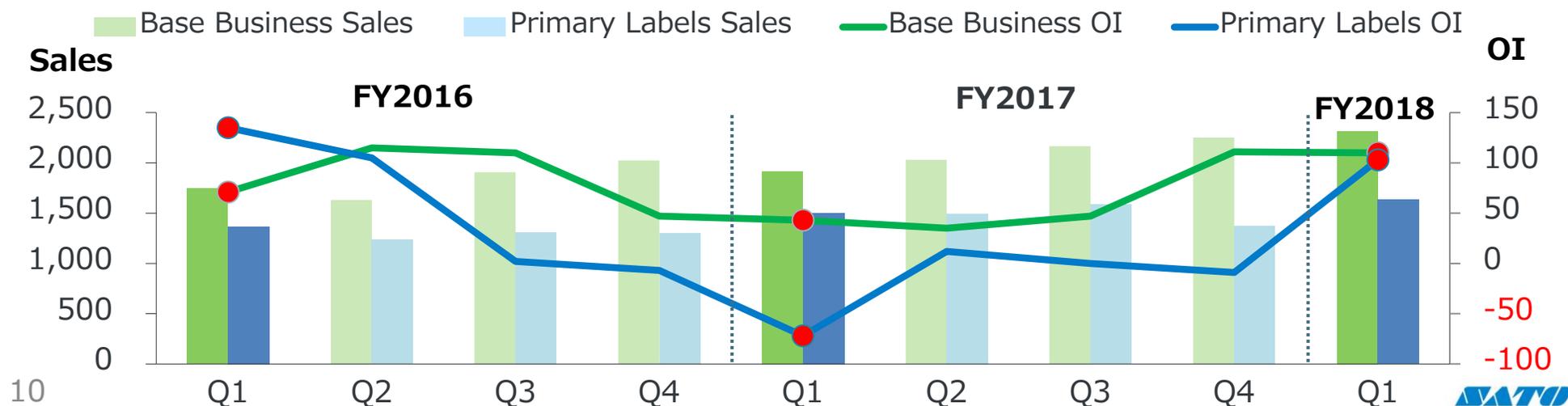
Base business: Recovery momentum remained intact as most countries saw increases in sales and OI YoY.

Primary Labels business: Positive FX impact at Okil led to increases in sales and OI YoY.

(Millions of JPY)

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

		FY2018 (Apr-Jun)	FY2017 (Apr-Jun)	Change	YoY	excl. FX impact
Base Business	Total Sales	2,315	1,917	+398	120.8%	114.0%
	Operating Income	110	43	+66	253.7%	238.9%
Primary Labels • Okil • X-Pack*	Total Sales	1,633	1,504	+128	108.6%	119.7%
	Operating Income	103	-72	+175	--	--



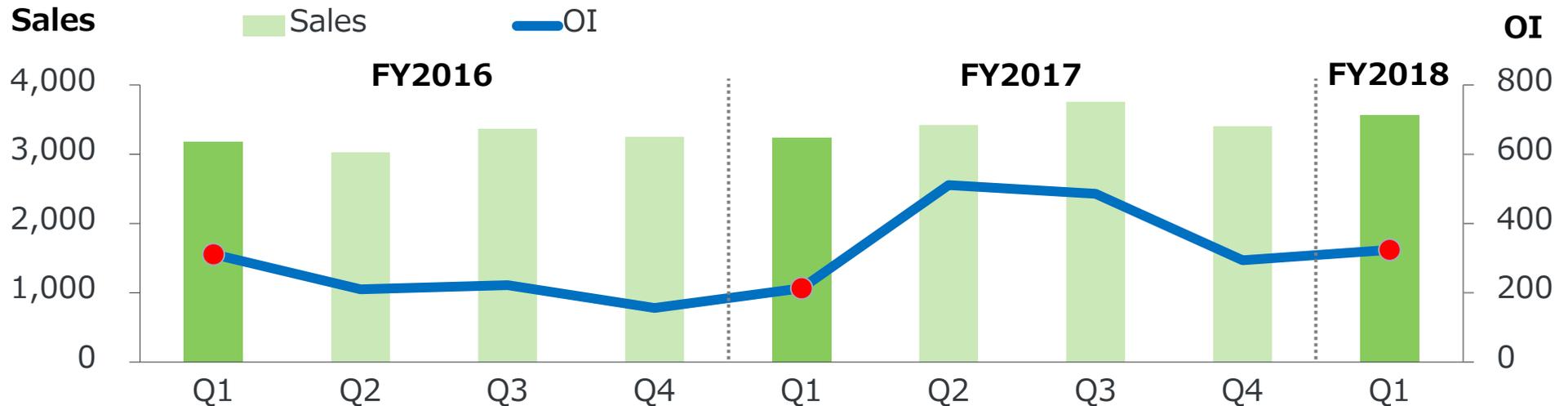
# Auto-ID Solutions Business (Overseas Breakdown by Region: Asia/Oceania)

Base business: Transition from selling products to providing solutions progressed.

Those with operating losses last FY, namely Taiwan, Indonesia and India, recovered.

(Millions of JPY)

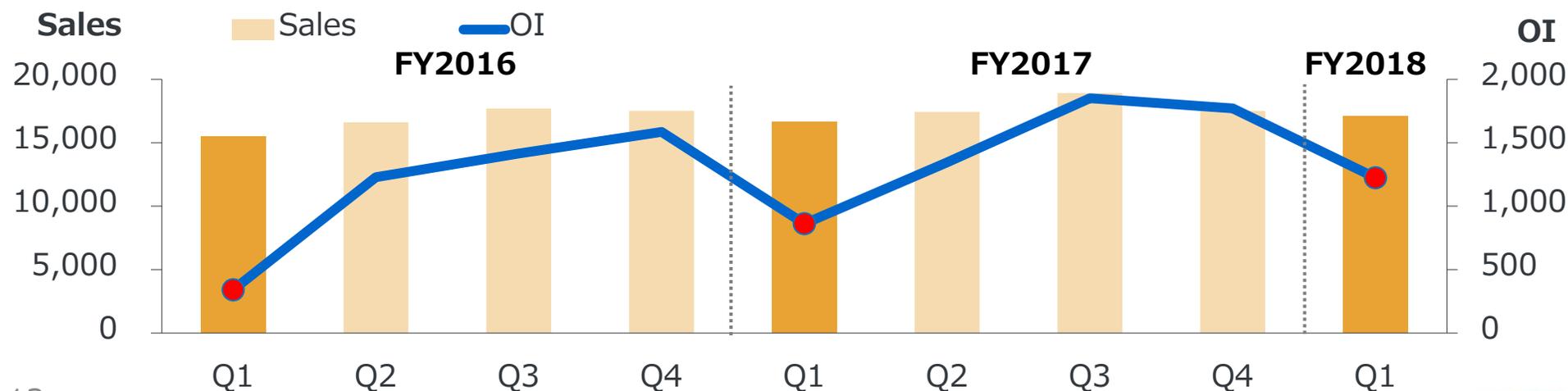
		FY2018 (Apr-Jun)	FY2017 (Apr-Jun)	Change		
					YoY	excl. FX impact
Base Business	Total Sales	3,560	3,229	+331	110.3%	108.8%
	Operating Income	324	213	+111	152.3%	144.6%



# Auto-ID Solutions Business (Japan)

Mechatronics and consumables sales increased YoY. GP and OI margins improved.  
Sales grew in all verticals except the Public sector. (Millions of JPY)

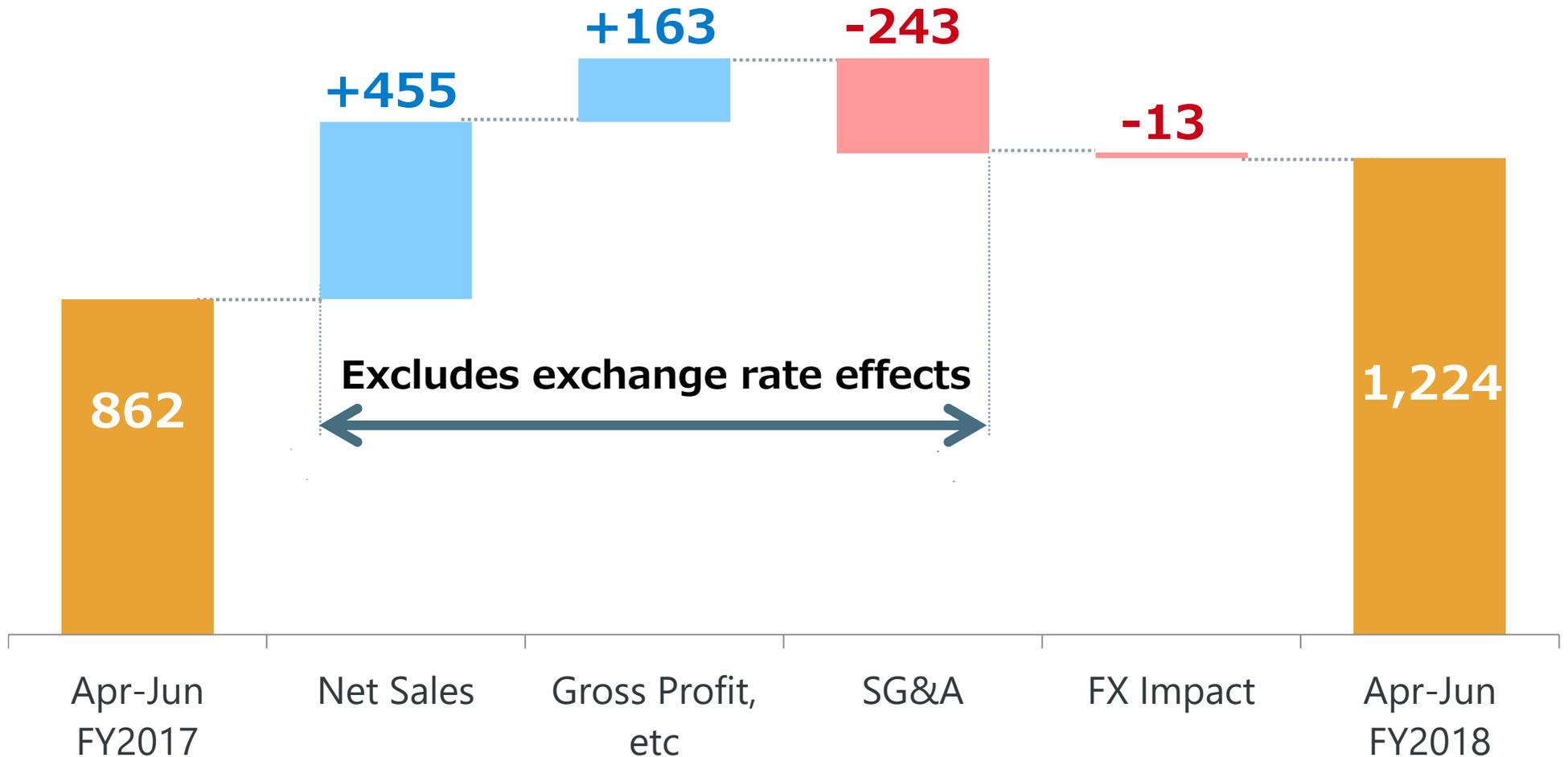
	FY2018 (Apr-Jun)	FY2017 (Apr-Jun)	Change	YoY
Mechatronics Sales	6,220	6,026	+193	103.2%
Consumables Sales	10,861	10,604	+257	102.4%
<b>Total Sales</b>	<b>17,081</b>	<b>16,630</b>	<b>+450</b>	<b>102.7%</b>
Gross Profit	8,500	7,895	+604	107.7%
Gross Profit %	49.8%	47.5%	+2.3pt	--
<b>Operating Income</b>	<b>1,224</b>	<b>862</b>	<b>+361</b>	<b>141.9%</b>
Operating Income %	7.2%	5.2%	+2.0pt	--



# Auto-ID Solutions Business (Japan)

## Major Gains/Losses in OI

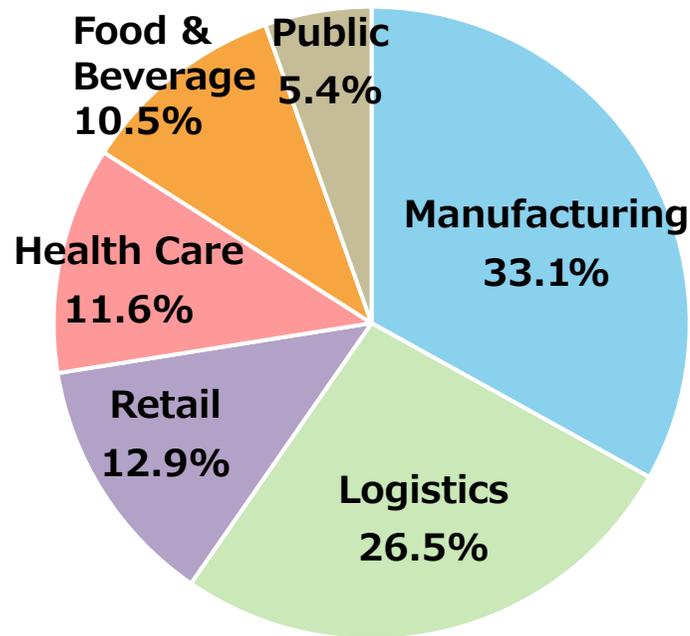
(Millions of JPY)



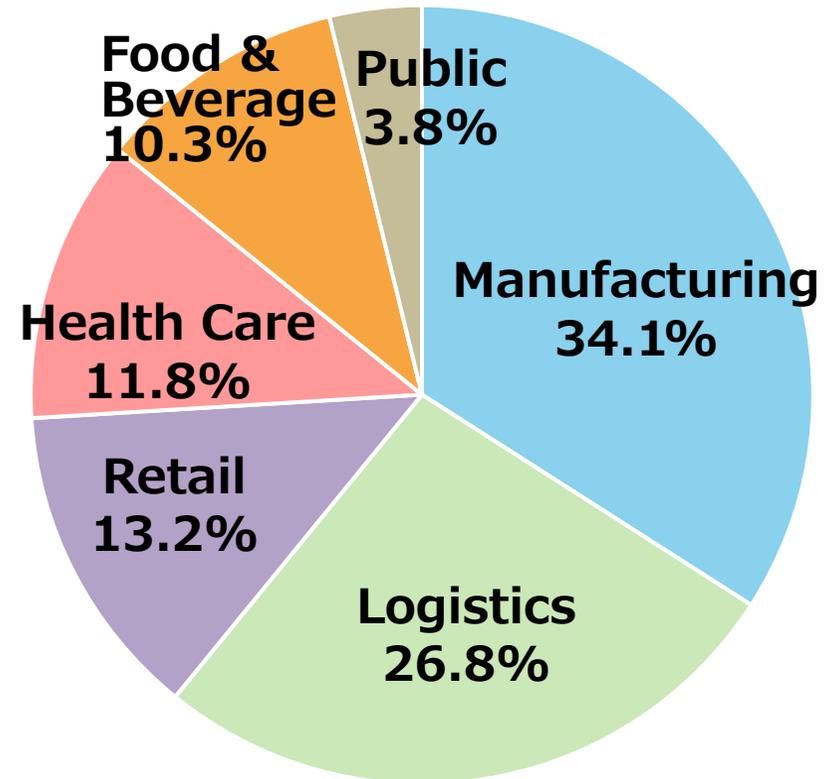
# Auto-ID Solutions Business (Japan)

## Sales by Vertical (Apr-Jun)

**FY2017**



**FY2018**



Manufacturing : 33.1% ➔ 34.1% (+1.0pt)  
Public : 5.4% ➔ 3.8% (-1.6pt)

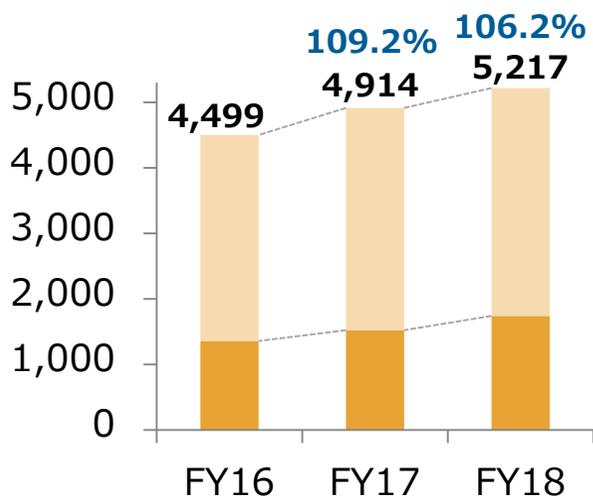
# Auto-ID Solutions Business (Japan)

## Sales by Vertical (Apr-Jun) [1]

(Millions of JPY)

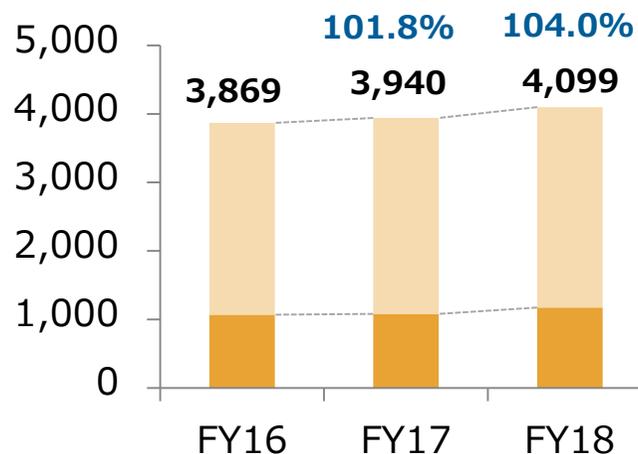
■ : Mechatronics   ■ : Consumables   \*Figures are total sales; % indicates YoY change

### Manufacturing



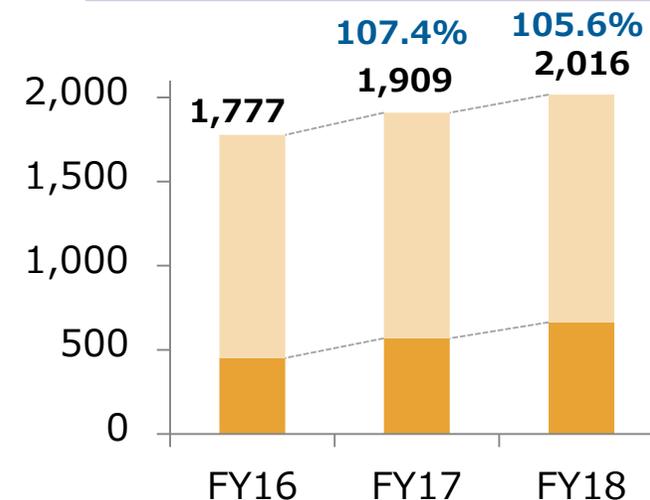
- Consumables suffered as quality falsification issues in the industry hindered mass production.
- Solutions suggesting consumables use and preventative maintenance with our printers contributed to sales.

### Logistics



- Business environment was favorable as e-commerce and frozen food markets expanded and labor shortage continued.
- Our automation offerings, such as auto-labelers that solve social issues, were popular.

### Retail



- Business environment was favorable as physical stores and e-commerce realized synergy and the ready-made meals market maintained growth.
- Large printer-replacement orders and our solution proposals drove sales.

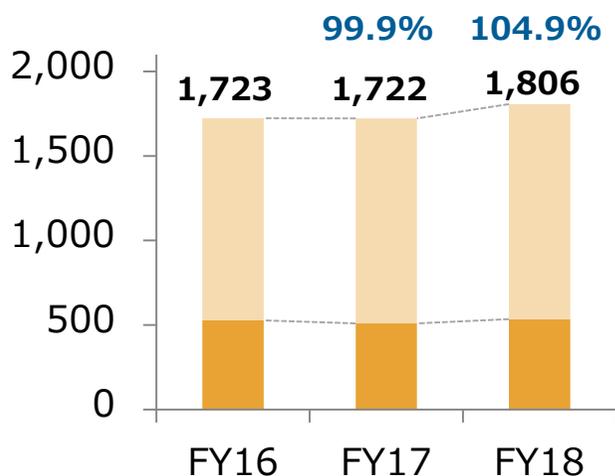
# Auto-ID Solutions Business (Japan)

## Sales by Vertical (Apr-Jun) [2]

(Millions of JPY)

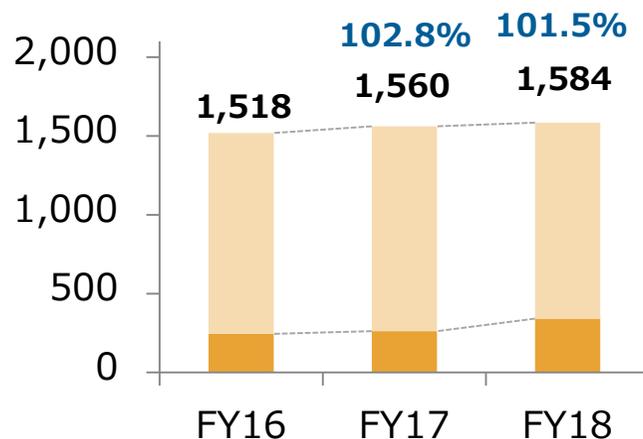
■ : Mechatronics    ■ : Consumables    \*Figures are total sales; % indicates YoY change

### Health Care



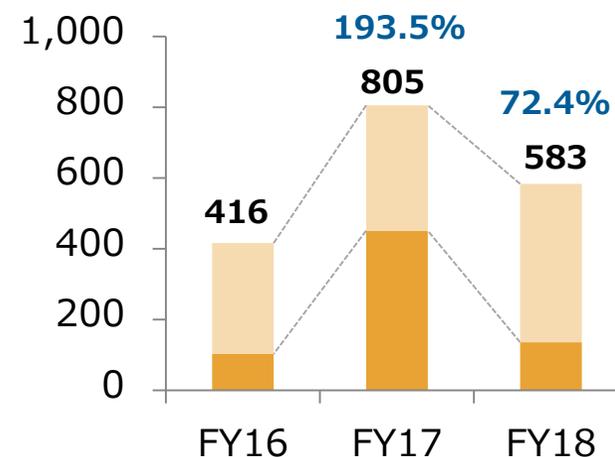
- Business environment was favorable as UDI\* guideline was applied on medical devices and labor shortage continued.
- Genuine labels found new customers. Locating technology solutions also contributed to sales.

### Food & Beverage



- Business environment was favorable as the industry sought compliance to the amended Food Labeling Act and faced labor shortage.
- Measures to diversify customer channels (e.g., legal seminars) and sales of new strategic printers drove sales.

### Public



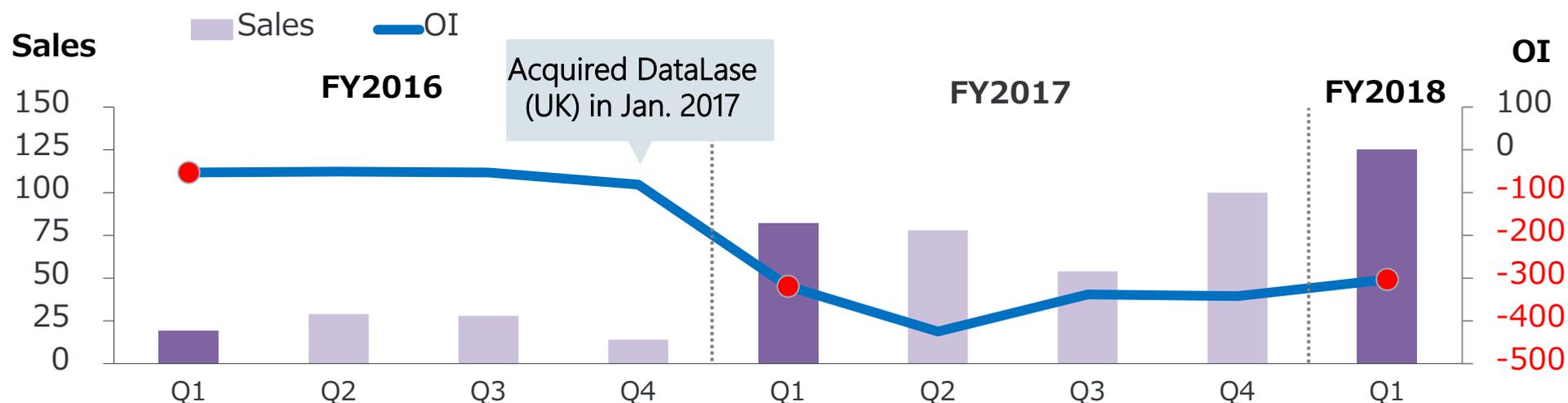
- No significant change was seen in the business environment.
- A large printer order last FY from a customer was lost, but their purchase of logistics labels stayed buoyant with increased deliveries.

# IDP Business

R&D at DataLase, consolidated in FY2017, progressed largely as planned.

(Millions of JPY)

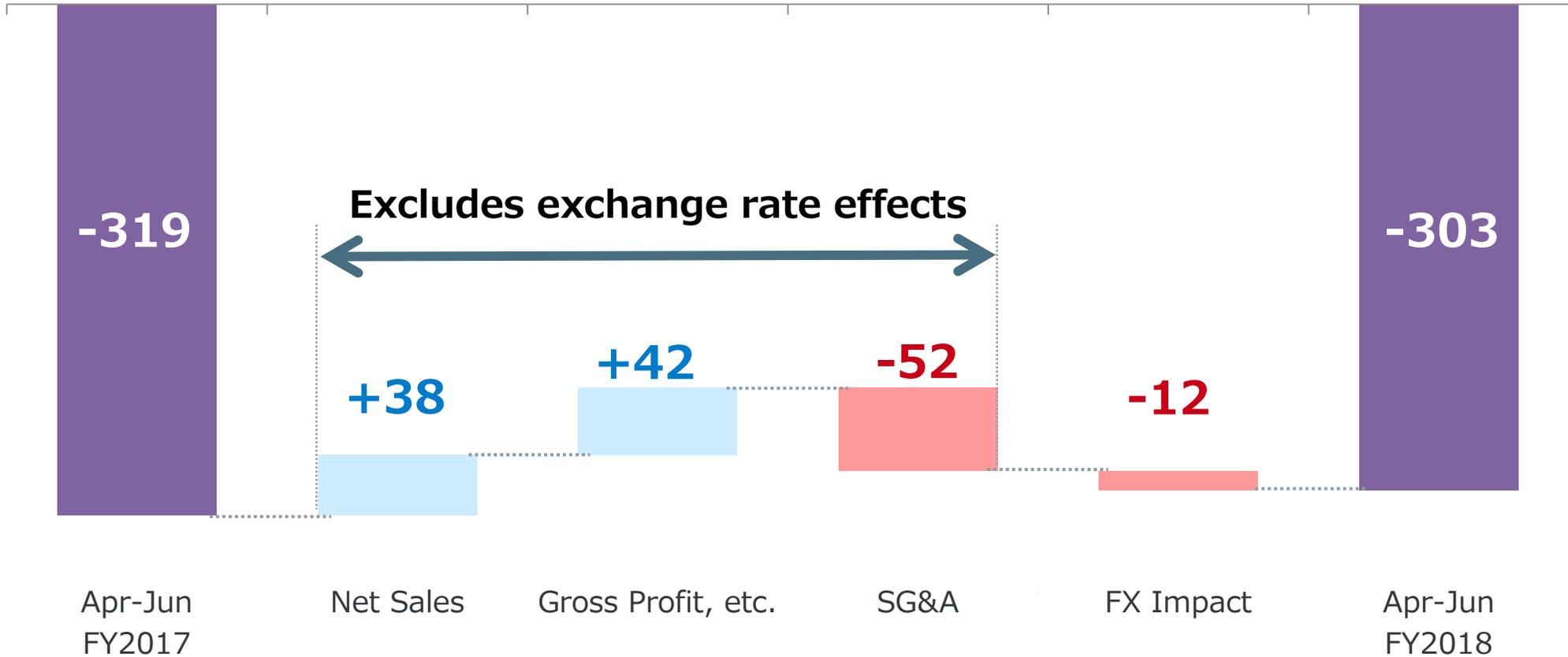
	FY2018 (Apr-Jun)	FY2017 (Apr-Jun)	Change	YoY	
				YoY	excl. FX impact
<b>Total Sales</b>	<b>125</b>	<b>82</b>	<b>+43</b>	<b>153.2%</b>	<b>147.3%</b>
Gross Profit	143	58	+85	246.4%	--
Gross Profit %	114.4%	71.1%	+43.3pt	--	--
<b>Operating Income</b>	<b>-303</b>	<b>-319</b>	<b>+16</b>	<b>--</b>	<b>--</b>
Operating Income %	--	--	--	--	--



# IDP Business

## Major Gains/Losses in OI

(Millions of JPY)



# FY2018 Consolidated Forecasts

(Millions of JPY)

	1H		2H		Full Year	
	Forecast	YoY	Forecast	YoY	Forecast	YoY
	<b>Net Sales</b>	58,000	105.8%	62,000	105.9%	120,000
<b>Operating Income</b>	2,800	109.5%	4,500	121.8%	7,300	116.8%
<b>Ordinary Income</b>	2,700	113.9%	4,400	125.0%	7,100	120.6%
<b>Profit attributable to owners of parent</b>	1,500	62.2%	2,600	156.5%	4,100	100.6%

<Reference>

<b>EBITDA*</b>	11,814	←FY2017 full year	13,000	110.0%
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\*EBITDA=Operating Income + Depreciation + Amortization

Exchange rates assumed in FY18 forecast: JPY 110/USD, JPY 130/EUR  
 Average exchange rates for Apr-Jun FY18: JPY 109.09/USD, JPY 130.03/EUR  
 Average exchange rates for FY17 : JPY 110.85/USD, JPY 129.65/EUR

# Appendix

SATO Terminologies P21 – P24

# SATO Terminologies (1/4)

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

# SATO Terminologies (2/4)

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

# SATO Terminologies (3/4)

Products, services, technologies		Description
6	AEP (Application Enabled Printing)	Intelligence (i.e. label/tag printing application installed) inside the printer to enable PC-less printing. AEP-enabled printers also support communication with host databases or IT systems.
7	API (Application Programming Interface)	A set of programming instructions and standards that allows applications to communicate with each other and exchange data, making it easier to create applications across a wide variety of platforms, devices, and programming languages.
8	Variable information labels	Blank or pre-printed labels used to print variable elements such as barcode, product price, manufactured or expiry date on-demand at the customer's site of operations. Unlike fixed information labels that are identical and printed at large quantities in a single run, variable information labels offer flexibility to print whenever and wherever needed.
9	RFID (Radio Frequency Identification)	A type of Auto-ID technology that uses radio waves to read/write data from/to an RFID tag without making contact. RFID offers faster read rates (from reading multiple tags at the same time) and greater read range than traditional barcode technology. Also, unlike barcodes, RFID tags can be read when covered by another object or stained, and are read/write-capable to enable updates to the encoded data. Because of these key benefits, RFID can significantly improve operational efficiency.
10	VISION Retail Platform	An RFID-based IoT solution for the retail industry that delivers a game-changing consumer experience. VISION was developed by SATO Global Solutions (SGS), a US subsidiary established in 2015 to globally drive the Auto-ID solutions integration business that includes development, production and maintenance of hardware and consumables.
11	IDP (Inline Digital Printing)	A revolutionary, direct marking technology comprised of a special color-change pigment that can be applied as a coating to virtually any substrate and exposed to a laser beam to create a color change. As IDP uses no ink or labels at the point of printing, it eliminates the need for labels, minimizes stock keeping units (SKUs) and reduces waste, while also shortening time spent on hardware maintenance. Besides delivering cost savings, productivity improvements and environmental benefits, IDP allows the printing of variable data for late stage customization/personalization of products and packaging, making it ideal for real-time, consumer-directed marketing. Joint development with Xerox for multi-color capability – crucial for marketing applications – currently underway with target commercialization in FY 2021.

# SATO Terminologies (4/4)

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



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