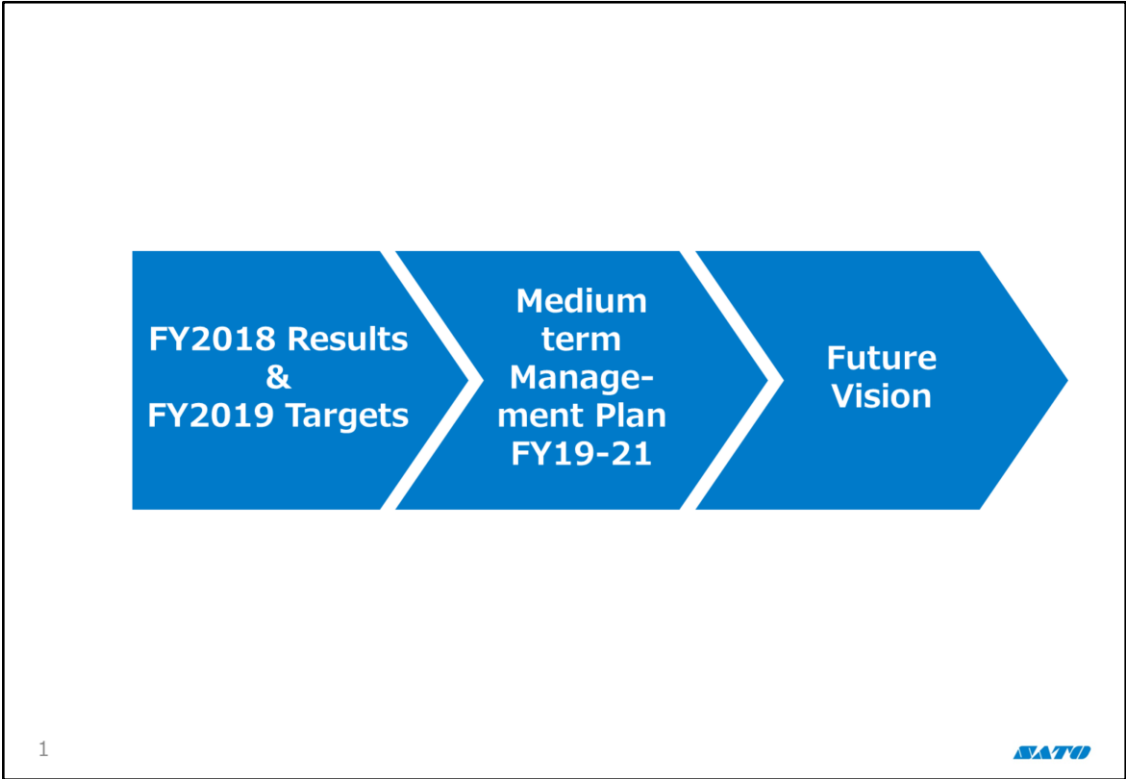**SATO** Ceaseless Creativity for a Sustainable World
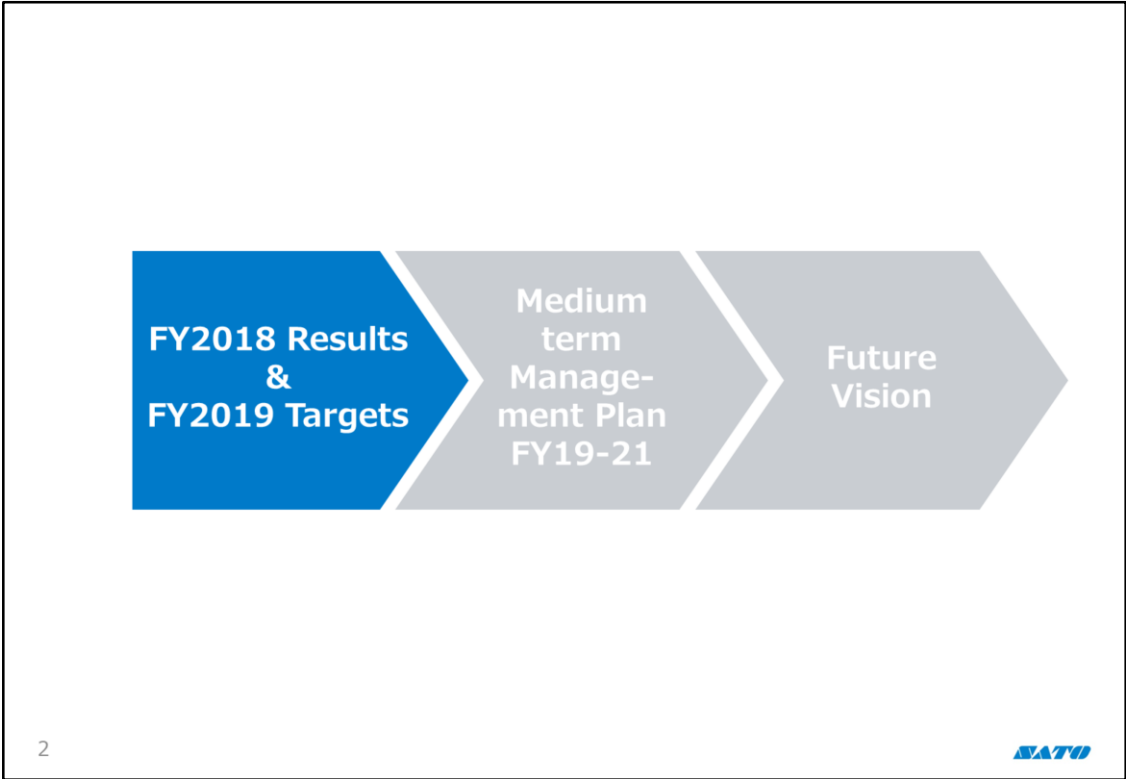
May 13, 2019

SATO HOLDINGS CORPORATION

FY2018 Financial Results
(Fiscal Year Ended March 31, 2019)

Securities Code: 6287

● This is the order in which I will present my talk today.

● First, I will explain our financial results.

Summary

Achieved record highs in consolidated sales and OI.

Auto-ID Solutions business ▶ Progressed steadily.

Overseas
Sales and OI increased due mainly to growth in Base business.
Unachieved targets as more time was required to transform
**strategies.**

Japan
Recorded higher YoY sales and highest-ever OI through business
expansion and better product mix led by industry-specific strategies
since FY2016 and structurally favorable environments.

IDP business ▶ R&D progressed largely as planned.

3   SATO

- We posted record high consolidated sales and operating income (OI).
- In the overseas auto-ID solutions business, sales and OI both grew mainly on the back of the contribution from the base business.
- However, we failed to achieve our targets as shifting our strategies took time, particularly in the Americas and Europe.
- The auto-ID solutions business in Japan also posted record high sales and OI.
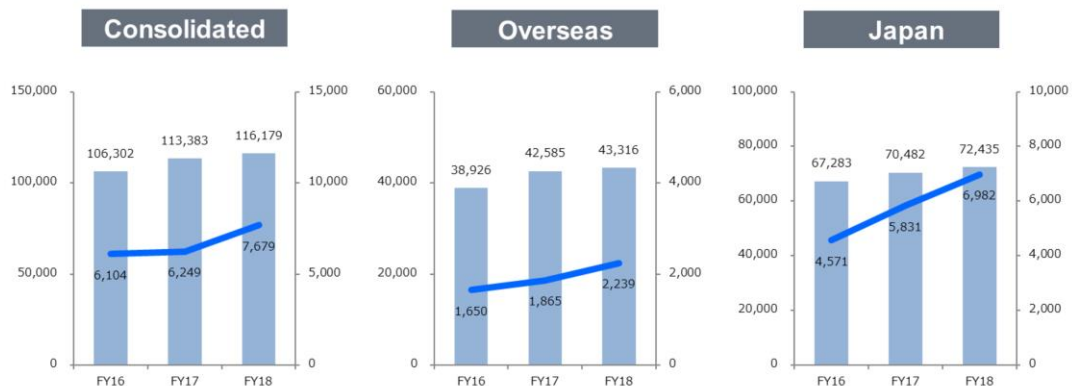
- I will now review our performance in the past three years.
- In FY2018, consolidated sales fell 1% shy of the 117-billion-yen target, while OI exceeded the 7.6-billion-yen target by 1%.
- Overseas, sales were 3% short of the 44.6-billion-yen target and OI was 20% below the target of 2.8 billion yen.
- The weaker-than-projected OI reflects higher raw materials prices in the Americas and Europe.
- In Japan, sales were slightly above the 72-billion-yen target by 0.6% and OI exceeded the target of 6.4 billion yen by 9%.
- The better-than-expected OI was attributable to the improved gross profit margin resulting from the various activities that had been continuing for three years to improve the sales ratio of mechatronics.

Sales and OI by Business Segment
Made new highs for sales & OI in Auto-ID Solutions & consolidated results.

(Millions of JPY)

☐ new highs

		FY2018	FY2017	YoY	excl. FX impact
Auto-ID Solutions business	Total Sales	115,751	113,068	102.4%	104.4%
	Operating Income	9,221	7,697	119.8%	122.9%
Overseas	Total Sales	43,316	42,585	101.7%	107.0%
	Operating Income	2,239	1,865	120.0%	125.1%
Japan	Total Sales	72,435	70,482	102.8%	102.8%
	Operating Income	6,982	5,831	119.7%	122.2%
IDP business	Total Sales	427	315	135.7%	136.7%
	Operating Income	-1,421	-1,426	-	-
Consolidated (incl. eliminations)	Total Sales	116,179	113,383	102.5%	104.4%
	Operating Income	7,679	6,249	122.9%	126.5%

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- By business segment, the figures surrounded by the red frame indicate the record high results.
- We were able to increase OI in the auto-ID solutions business by 20% year on year in both Japan and overseas.

Consolidated Results

(Millions of JPY)

☐ new highs

	FY2018	FY2017	Change	YoY
Net Sales	116,179	113,383	+2,796	102.5%
Operating Income	7,679	6,249	+1,430	122.9%
Operating Income %	6.6%	5.5%	+1.1pt	-
Ordinary Income	7,618	5,888	+1,730	129.4%
Profit attributable to owners of parent*1	3,773	4,074	-301	92.6%
Effective Tax Rate*2	42.4%	39.5%	+3.0pt	-
EBITDA*3	13,250	11,814	+1,435	112.2%

Average exchange rates: FY18: JPY 110.92/USD, JPY 128.44/EUR, FY17: JPY 110.85/USD, JPY 129.65/EUR
FX sensitivity for FY18: JPY +435 million in sales and JPY -11 million in OI for +1 JPY against USD and assuming all others move by the same ratio

*1 Profit attributable to owners of parent for FY18 reflected impairment at a UK subsidiary and that for FY17 reflected extraordinary income from gain on sales of non-current assets.
*2 Effective Tax Rate was high for FY18 due to impairment at a UK subsidiary and for FY17 due mainly to additional goodwill impairment at Argox.
*3 EBITDA = Operating Income + Depreciation + Amortization
·Depreciation for FY18: JPY 4,489 million   FY17: JPY 4,307 million
6 ·Amortization for FY18: JPY 1,081 million (incl. 620 mil. for DataLase)   FY17: JPY 1,258 million (incl. 625 mil. for DataLase)
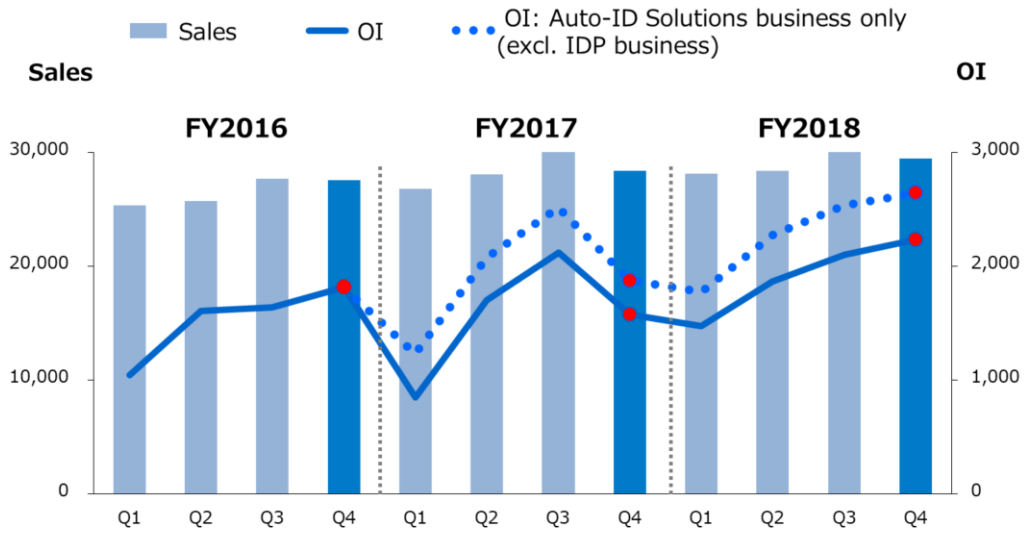
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- On a consolidated basis, we posted record high results in all income categories, except for profit attributable to owners of parent which declined 7.4% year on year.
- This reflects the impairment loss posted at a UK sales subsidiary in FY2018 as well as the absence of the gain on sales of non-current assets posted in FY2017 .
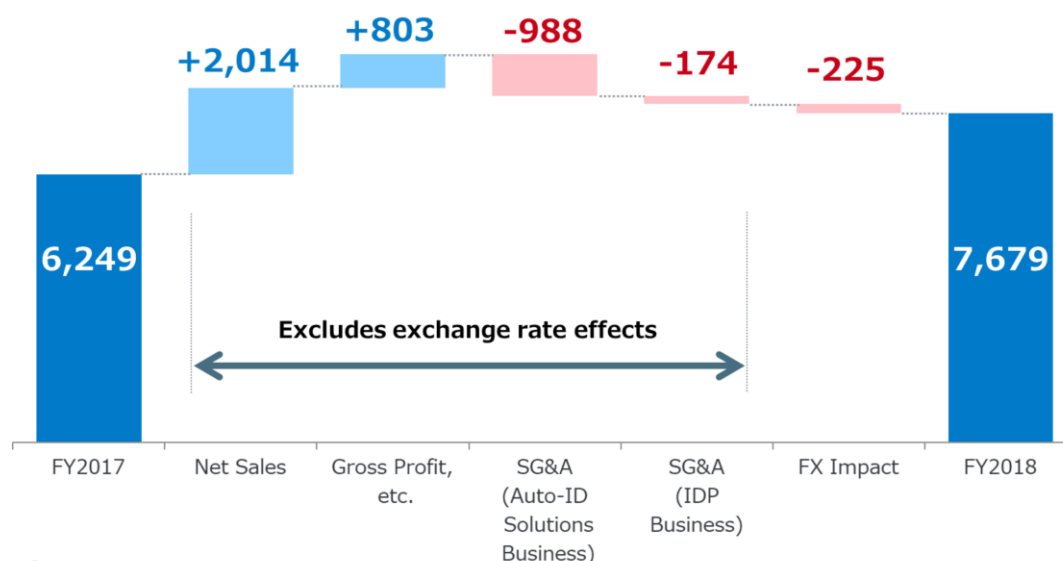
Quarterly Consolidated Sales & OI

(Millions of JPY)

Sales ▢ OI ━━ OI: Auto-ID Solutions business only (excl. IDP business) ●●●

- As shown in the graph, our quarterly results grew stably.

- This shows the year-on-year comparison of OI. The 2-billion-yen rise in the net sales component comprises an 800-milllion-yen growth overseas and 1.2-billion-yen hike in Japan.
- The 800-milllion-yen rise in the gross profit component reflects a 200-million-yen drop overseas and 1-billion-yen increase in Japan.
- The domestic business accounted for 90% of the 1-billion-yen increase in the SG&A expenses component in the auto-ID solutions business.

Overview

Sales and OI increased due mainly to growth in Base business.
Unachieved targets as more time was required to transform strategies.

(Millions of JPY)

	FY2018	FY2017	Change	YoY	excl. FX impact
Total Sales	43,316	42,585	+730	101.7%	107.0%
Gross Profit	15,812	15,853	-41	99.7%	-
Gross Profit %	36.5%	37.2%	-0.7pt	-	-
Operating Income	2,239	1,865	+373	120.0%	125.1%
Operating Income %	5.2%	4.4%	+0.8pt	-	-

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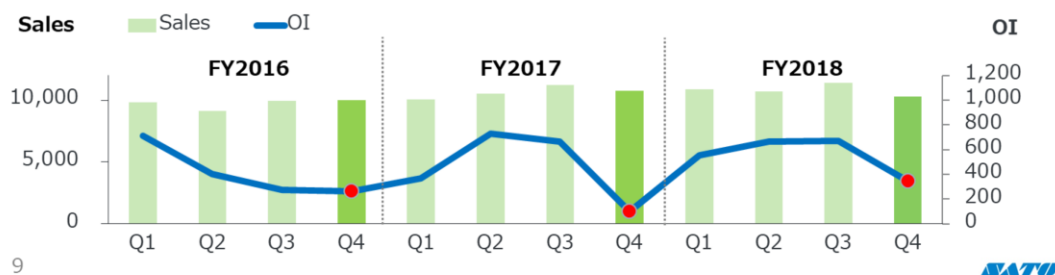
- This is an overview of our performance in the auto-ID solutions business overseas. Both sales and OI grew with record high sales.
- The 0.7-percentage-point drop in the gross profit margin reflects higher raw materials costs.

Auto-ID Solutions Business (Overseas) — FY2018

Breakdown by Business Segment

Base business: Sales and OI increased as a whole, with solution offerings succeeding in APAC and action plans in the Americas and Europe expected to bear fruit in FY19.
Primary Labels business: Sales increased due mainly to new transactions and positive FX impact in Russia. OI increased, covering for costs on new business developments there.

(Millions of JPY)

		FY2018	FY2017	Change	YoY	excl. FX impact
Base	Total Sales	34,630	33,964	+665	102.0%	103.8%
	Operating Income	2,172	1,749	+422	124.2%	126.3%
Primary Labels	Total Sales	8,685	8,620	+64	100.7%	119.3%
	Operating Income	163	131	+32	124.8%	169.1%
Eliminations	Operating Income	-96	-15	-81	-	-
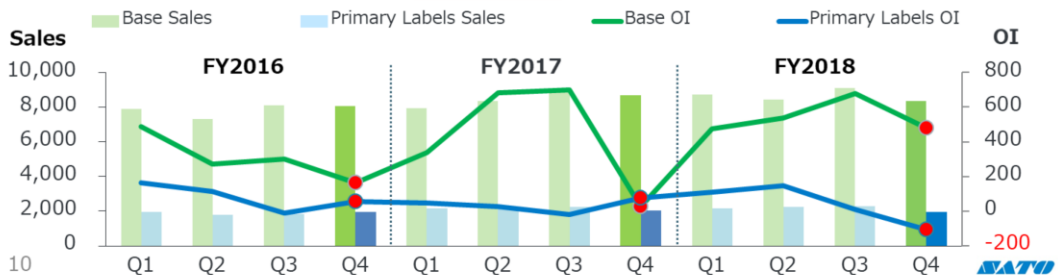
- A breakdown by business segment shows that, although the base business overall recorded higher sales and OI, it could not enjoy the full impact of the change in our strategic direction in FY2018 as it took time for its execution.
- The primary labels business recorded higher sales and OI thanks to the business with new customers in Russia, which, combined with the favorable exchange rate, absorbed the costs to enter new business areas in Russia and costs incurred in South America.

## Major Gains/Losses in OI

(Millions of JPY)
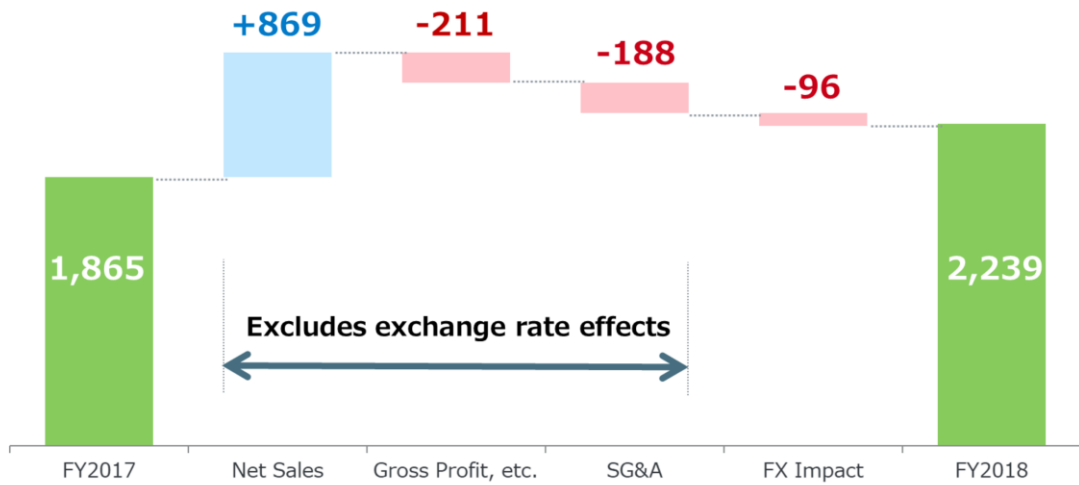
- This shows the year-on-year comparison of overseas OI. Europe and Asia were major contributors to the net sales component .
- The negative gross profit impact is attributable to our results in North America, Germany, and Prakolar in Brazil.

Overview

Recorded higher YoY sales and highest-ever OI through business expansion and better product mix led by industry-specific strategies since FY2016 and structurally favorable environments.

(Millions of JPY)

	FY2018	FY2017	Change	YoY
Mechatronics Sales	29,197	27,564	+1,632	105.9%
Consumables Sales	43,238	42,917	+320	100.7%
Total Sales	**72,435**	**70,482**	**+1,952**	**102.8%**
Gross Profit	35,970	33,896	+2,074	106.1%
Gross Profit %	49.7%	48.1%	+1.6pt	-
Operating Income	**6,982**	**5,831**	**+1,151**	**119.7%**
Operating Income %	9.6%	8.3%	+1.4pt	-

12
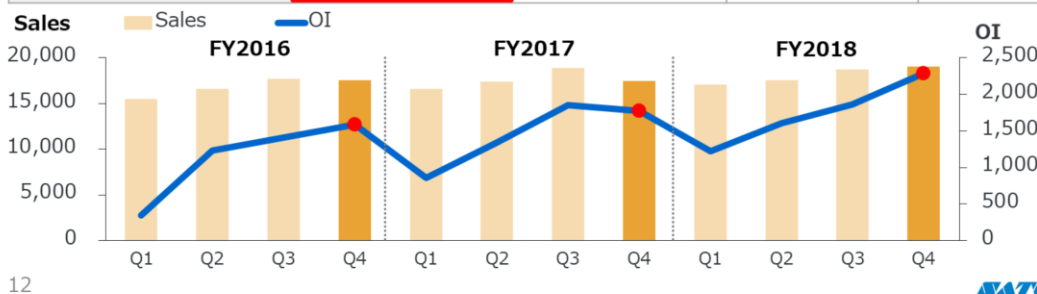
- This is an overview of our performance in Japan. We posted record high sales and OI thanks to the business expansion and better product mix achieved by the enhancement to strategies and structural reform efforts, which we began in FY2016.
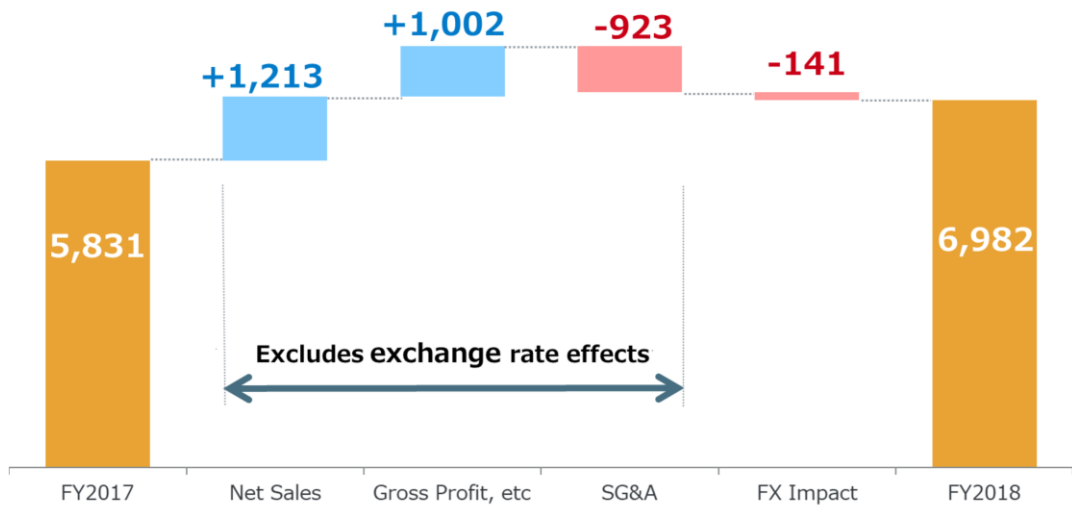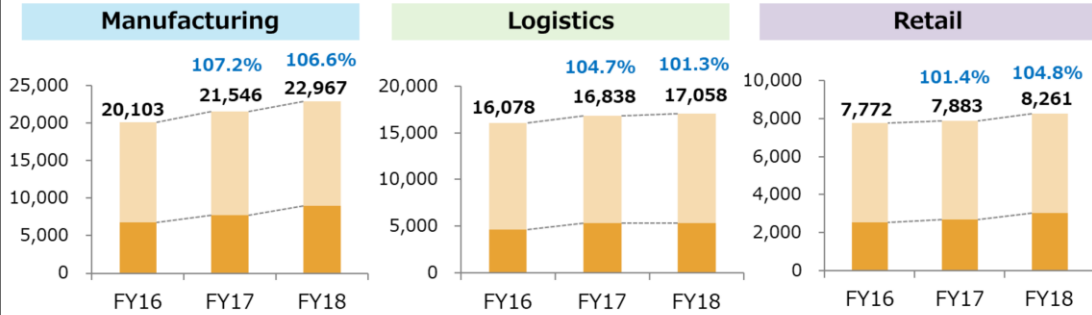
- This shows the year-on-year comparison of OI in the Japanese business. The net sales component grew 1.2 billion yen as all our business markets expanded on the back of the favorable external environment.
- The gross profit component rose 1 billion yen as the gross profit margin improved 1.6 percentage points.
- The SG&A expenses component grew due to the payment of performance-based bonuses to employees and the development cost of RFID equipment.

Sales by Vertical [1]

(Millions of JPY)

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

Manufacturing

107.2% 106.6%

20,103	21,546	22,967

25,000
20,000
15,000
10,000
5,000
0

FY16   FY17   FY18

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

Logistics

104.7% 101.3%

16,078	16,838	17,058

20,000
15,000
10,000
5,000
0

FY16   FY17   FY18

- Business environment remained favorable reflecting e-commerce and C2C market expansion and labor shortage.
- Mechatronics sales remained flat as printer-replacement orders came to a pause, while sales in consumables were steady reflecting increased flow of goods.

Retail

101.4% 104.8%

7,772	7,883	8,261

10,000
8,000
6,000
4,000
2,000
0

FY16   FY17   FY18

- Sales for real stores remained sluggish, while demands to meet labor shortage, e-commerce expansion and compliance to amended regulations were steady.
- Printer-replacement orders remained firm, and solutions including RFID and HACCP compliance contributed to sales.

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- By market, sales steadily grew in the manufacturing and retail markets against the backdrop of greater sales in both mechatronics and consumables.
- Our enhanced efforts to cultivate new clients helped shore up mechatronics and solutions consultations.
- The same trend was seen in other markets.

Sales by Vertical [2]

(Millions of JPY)

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

Health Care

	FY16	FY17	FY18
Total	7,547	7,801	7,981
YoY		103.4%	102.3%
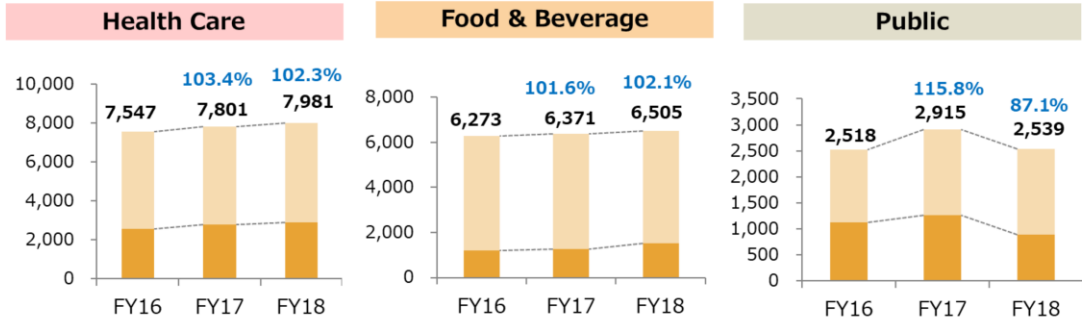
- Business environment remained favorable due mainly to reinforcement of regulations related to barcode labeling of drugs and medical devices, and labor shortage.

- In addition to barcodes, demand for solutions utilizing RFID and positioning systems remained steady.

Food & Beverage

	FY16	FY17	FY18
Total	6,273	6,371	6,505
YoY		101.6%	102.1%

- Business environment remained favorable as the industry sought compliance to the amended Food Labeling Act and automation to mitigate labor shortage.

- Mechatronics sales increased as our internal initiatives took advantage of printer-replacement opportunities.

Public

	FY16	FY17	FY18
Total	2,518	2,915	2,539
YoY		115.8%	87.1%

- Business environment remained stable.

- Consumables sales were sluggish owing to the lack of a large printer order seen in FY17, and to reduced orders from the same customer seeking operational efficiency and order smoothing.

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SATO

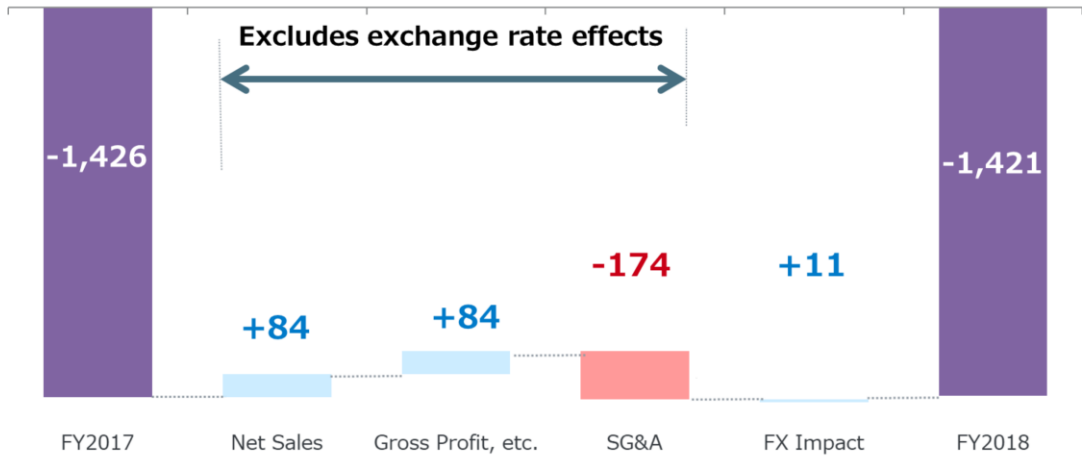## Overview

R&D progressed largely as planned.

(Millions of JPY)

	FY2018	FY2017	Change	YoY	excl. FX impact
Total Sales	427	315	+112	135.7%	136.7%
Gross Profit	399	234	+164	170.2%	-
Gross Profit %	93.4%	74.4%	+19.0pt	-	-
Operating Income	-1,421	-1,426	+4	-	-
Operating Income %	-	-	-	-	-
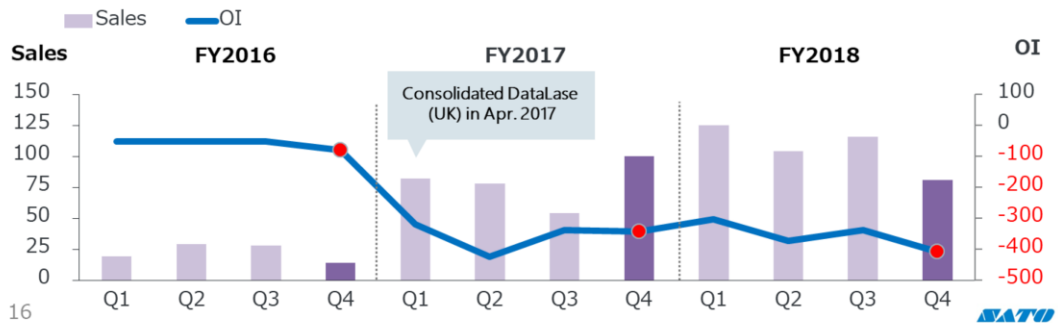
- In the IDP business, research and development activities progressed largely as planned.
- The progress toward commercialization is also as scheduled.
- Sales of existing business helped drive sales and gross profit higher.

Major Gains/Losses in OI

(Millions of JPY)

Excludes exchange rate effects

-1,426   +84   +84   -174   +11   -1,421

FY2017   Net Sales   Gross Profit, etc.   SG&A   FX Impact   FY2018

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Dividends

	FY2017	FY2018	FY2019 (Forecast)
EPS	¥121.5	¥112.5	¥149.0
ROE	7.6%	6.9%	8.8%
(Ref.) Payout ratio	53%	62%	49%

Total dividends planned for FY18: JPY 70 (+5 yen YoY)
Total dividends planned for FY19: JPY 73 (+3 yen YoY)

(JPY per share)

Dividend Policy — Deliver incremental dividend increases by enhancing market value per share

FY2018 Breakdown
Interim dividend: 35 yen
Year-end dividend: 35 yen (Forecast)
Total: 70 yen (Forecast)

Values plotted (FY 99–19): 17, 22, 23, 24, 28, 30, 31, 32, 33, 33, 33, 34, 35, 37, 40, 45, 55, 60, 65, 70, 73

18   (FY)   SATO
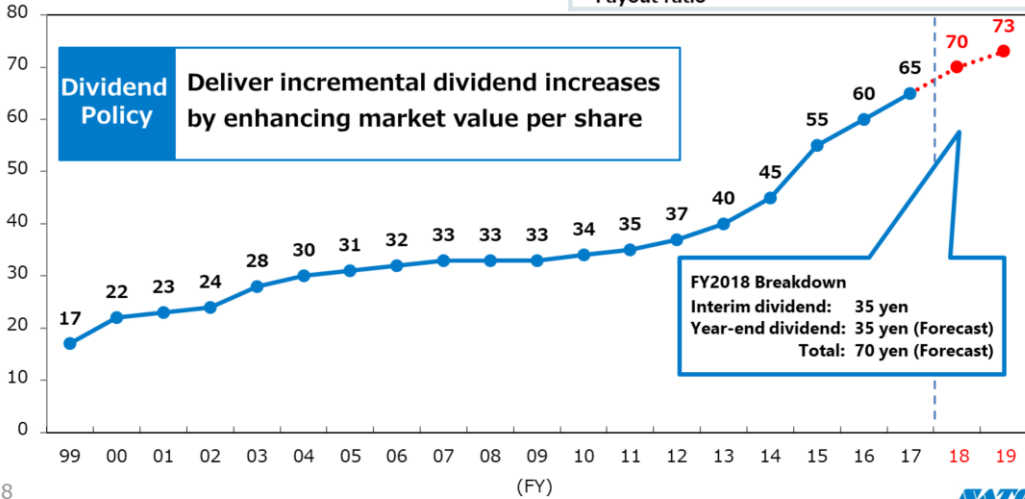
- The proposed term-end dividend for FY2018 is 35 yen per share, as projected at the beginning of the period.
- The proposed full-year dividend for FY2019 is 73 yen, which is 3 yen greater than FY2018.

Consolidated

FY2019 Consolidated Forecasts

(Millions of JPY)

	FY2019 (Targets)	FY2018	Full Year	%
Net Sales	120,000	116,179	+3,820	103.3%
Operating Income	8,500	7,679	+820	110.7%
Operating Income%	7.1%	6.6%	+0.5pt	-
Ordinary Income	8,300	7,618	+681	108.9%
Profit attributable to owners of parent	5,000	3,773	+1,226	132.5%
EBITDA※	14,100	13,250	+849	106.4%

Exchange rates assumed in FY19 forecast: JPY 112/USD, JPY 130/EUR
Average exchange rates for FY18: JPY 110.92/USD, JPY 128.44/EUR
※ EBITDA＝Operating Income + Depreciation + Amortization

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- For FY2019, we forecast 120 billion yen in sales and 8.5 billion yen in OI.
- OI is projected to rise 10% year on year.
- While return on equity (ROE) was 6.9% in FY2018 due to the impact of the impairment loss posted in the UK sales subsidiary, we aim to improve it by 1.8 percentage points to 8.7% in FY2019.

FY2018 Results & FY2019 Targets → Medium term Management Plan FY19-21 → Future Vision
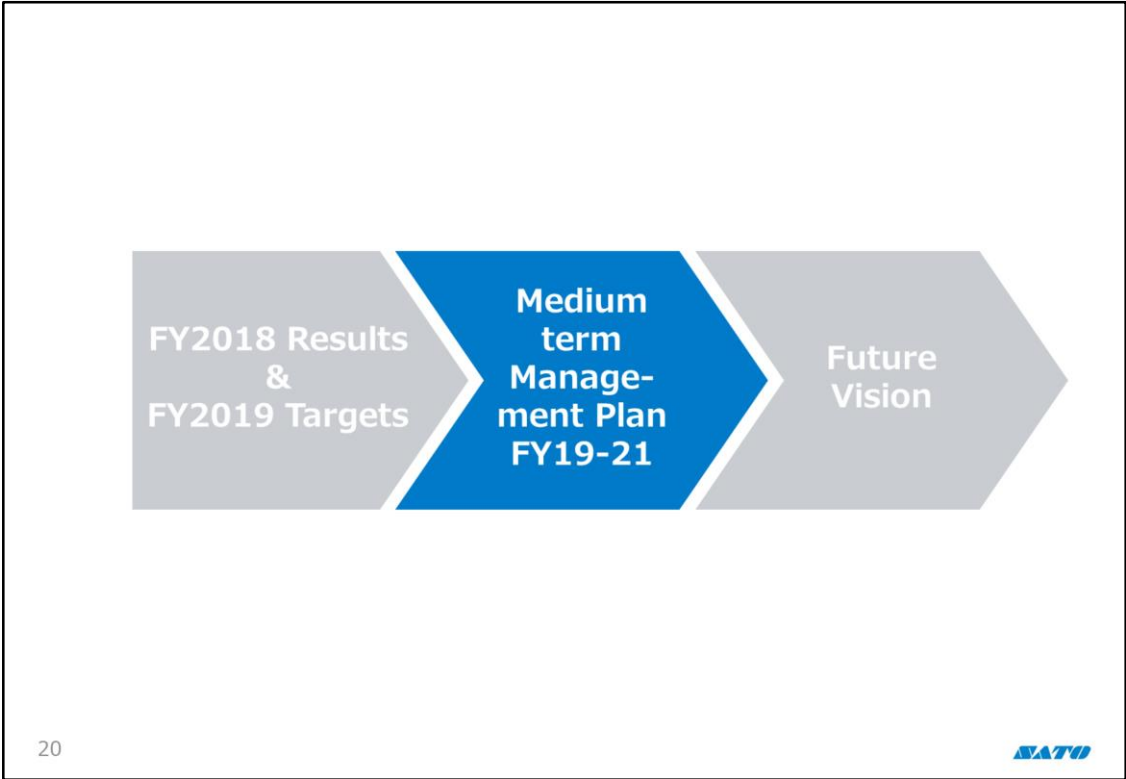
● I am now going to explain our Medium-Term Management Plan.

Management Policy & Growth Strategy

No change has been made to our management policy & growth strategy.
We will concentrate resources on Auto-ID Solutions business where high
potential lies.

Management Policy

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

Growth Strategy

1. Grow and evolve the Auto-ID Solutions business

2. Strengthen and expand business through global alliances

3. Develop B2B2C business to create consumer value

    (Commercialization of IDP solutions and new RFID technology)

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- The Management Policy and Growth Strategy will remain
  unchanged, with a focus on the auto-ID solutions business which
  has a strong potential.
- Our Management Policy is to concentrate management resources
  on the auto-ID solutions business to foster the ability to maintain
  sustainable growth and to solidify our earnings basis.
- Our Growth Strategy is to continue promoting the three actions
  stated here as in the previous fiscal year.

Strategic policy for FY2019

Accelerate growth by zooming in on industry- and area-specific potentials and by executing focused strategies & investments.

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- Based on the challenges and opportunities that have become evident through my overseas visits, we are currently working on instilling ideas to turn strategies into success in both Japan and overseas.
- The approach we are promoting is to identify focal countries, map out their geographical areas and industries, assess the business environment and potential of industries, and narrow down geographical areas and industries to target.
- We will then make strategic investments aimed at these targets to accelerate growth.

Overseas Review

We have yet to see our recent M&As achieve sufficient synergy with our base business.
Despite the current strain on our management resources, we see potential for synergy selling solutions.
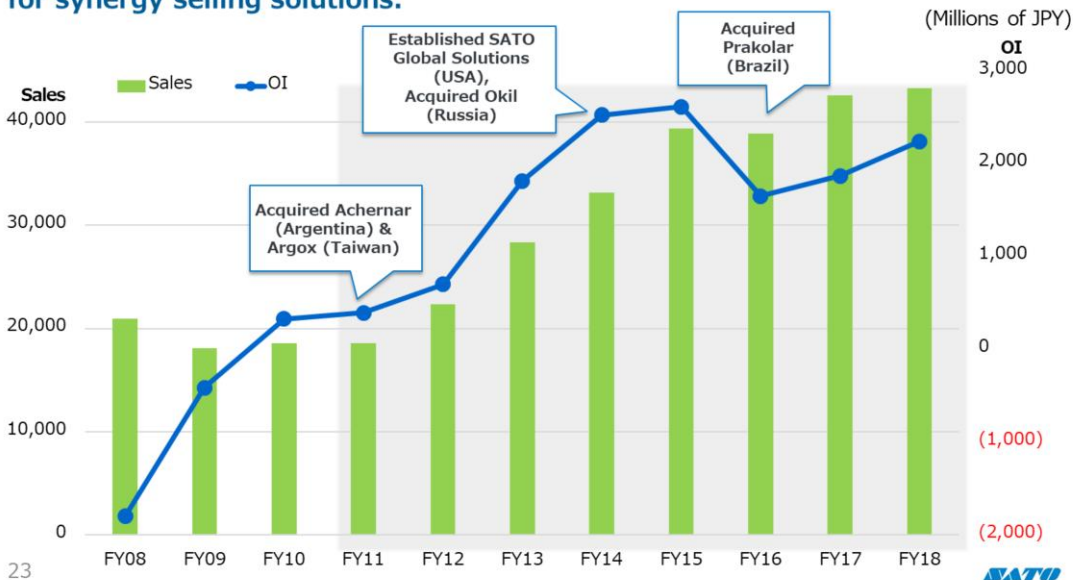
- I am now going to review our performance in the overseas business over a longer time span.
- The acquisitions we have made since FY2011 are yet to generate sufficient synergies with our base business. It is undeniable that the investments we have made were more like single dots.
- In particular, the three primary label companies have continued managing their business independently within the group, without fully taking advantage of SATO's strengths.
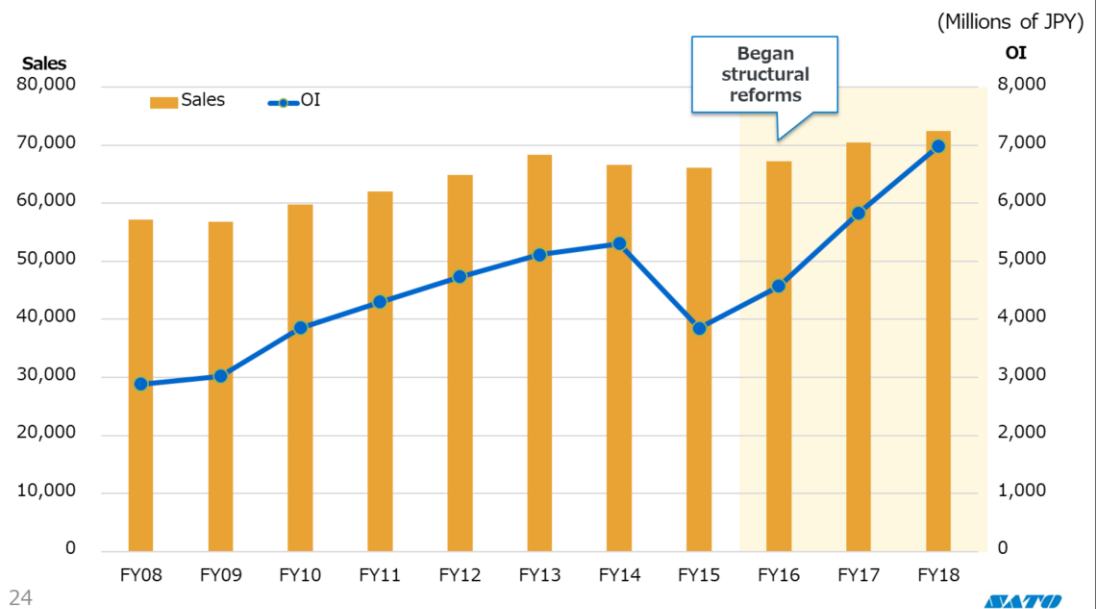
- We were able to build a strong earnings basis in Japan thanks to the strategies we have adopted since FY2016.

- We have newly clarified what SATO aims to be.
- We aim to become a global solutions provider.

Differentiating ourselves from competitors

Establish competitive advantage as a solutions provider with onsite expertise

(*) Refer to "SATO Terminologies, " page 64, #8.
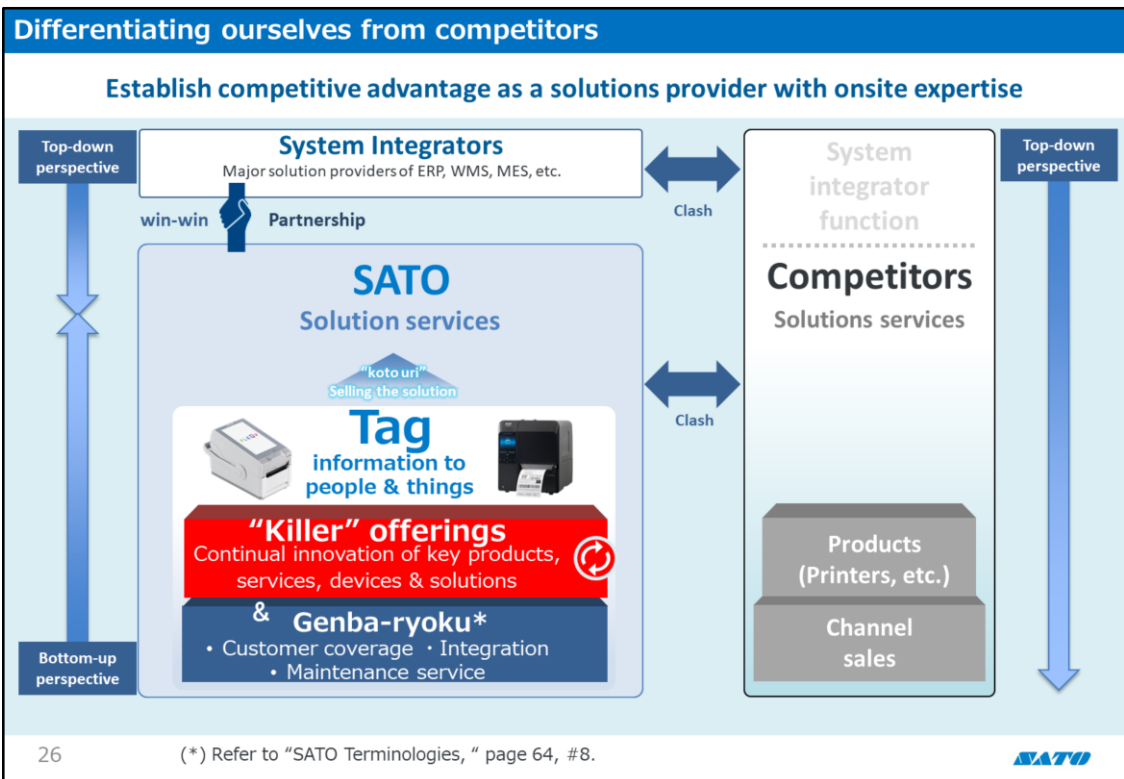
- This is because SATO aims to become a solutions provider whose focus is its customers and challenges they face on sites. We consider that this approach will become our unique competitive advantage.
- More specifically, SATO's core competency is our coverage, integration capability, and maintenance services. These are what we call *genbaryoku* — on-site, hands-on approach to problem-solving.
- In addition, we offer solutions services that combine key products — *"Killer" offerings* — and tag information to people and goods.
- To sell our key products, we market our solutions services through *koto-uri* (selling the solution, not the product).
- On the other hand, system integrators, who are considered our peers in providing solutions, approach their customers in a top-down manner.
- System integrators do not have on-site strengths and "Killer" offerings, which are the source of SATO's competitive advantage.
- We can say that system integrators are in a complementary relationship with SATO and can add value to solutions.
- This means that we can form partnerships with them in Japan and overseas in our current positioning.
- Meanwhile, our typical competitors are aiming to become top-down solutions providers and are not deeply involved in tagging on site .

- They sell packaged solutions services as their products via their business partners; as a result, they compete with system integrators.
- Although SATO and its competitors both aim to become *solutions providers*, our positioning and business model differ from those of our competitors.
- SATO's position is unique. We believe that our business model enables us to establish an overwhelming competitive advantage if we keep creating "Killer" offerings and honing our on-site, hands-on approach to problem-solving.

(Supplementary explanations)
- Coverage: Extensive problem-solving know-how that we have built by deepening our knowledge about what is happening at the customer's sites. We find solutions based on the combination of "industry, sector, and application."
- Integration capability: Ability to make proposals that achieve optimum operation by, for instance, proposing the best combination of equipment and consumables and integrating our technologies with other technologies and services.
- Maintenance service: Equipment maintenance service; it provides the structure and approach to build long-term, deep, and continuous relationships with customers.

Selling the solution: Learning customer operations by industry to identify pain points and deliver solutions on a continual basis.

Industries within verticals

Manufacturing	Logistics	Retail	Health Care	Food & Beverage
Automobile	Transportation	Supermarkets	Hospitals	QSR
Robots/ Machinery	Warehouses	Specialty stores	Pharmaceuticals	Restaurants
Electronic components	Manufacturer logistics	Drug stores	Medical equipment	Food manufacturing
Steel/Metal	3PL	CVS	Medical supplies	Food processing
Chemicals	·	·	Blood testing	·
·	·	·	·	·
·	·	·	·	·

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● This table lists the industries in which we will roll out our competitively advantageous business model globally.

- Many business opportunities or applications exist in each industry.
- Overseas, however, we had only catered to certain industries or applications in each country. In some countries, we were unable to make any proposals on the application of our solutions.
- There is great growth potential if we fundamentally change our approach.
- Our Japanese business has much growth left in it through the cultivation of new customers as well as the deepening of relationships with our existing customers based on the combination of new technologies.

Growth Strategy: What it means

Overseas: Shift to "Sell the solution, not the product" (koto-uri).
Do in three years what took Japan about 20 years to do.
Japan: Focus on selling solutions at the next level.

Selling the product | Selling the solution | Next stage in solutions

Japan Full focus

Over-seas Shift in 3 years

- The concept behind our Growth Strategy is to shift our overseas businesses from selling products to selling solutions in three years, which took approximately 20 years in Japan.
- Our base business will grow significantly if we strictly focus on selling solutions in our overseas business.
- In the overseas business, instead of aiming to move straight to the solutions business that solves management challenges, we will grow the base business by focusing on selling solutions that solve problems on sites.
- Conversely, we will rapidly evolve our solutions business for solving management challenges in Japan. We call this the "next stage in selling solutions."

- I am now going to explain our main overseas business strategies.
- The overall picture of our strategies is to narrow down our targets to countries, geographic areas, and industries with strong potential and speedily implement specific strategies, action plans, and investments.
- We have identified India, Vietnam, and the US as our most important countries.
- There are five main strategies, which are listed here and I will explain below.

Overseas Strategy Details

1. Optimize offices & personnel according to focal areas & industries

Invest in offices, consumables plants and industry experts according to business potential in specific areas & industries

e.g., India

- New Dehli
- HQ
- Assign industry experts
- Consumables plants
- Mumbai
- New branch
- Partner with industry system integrators
- Bangalore
- Chennai

Investments: M&A, Alliances
Consumables plants
Industry System Integrators
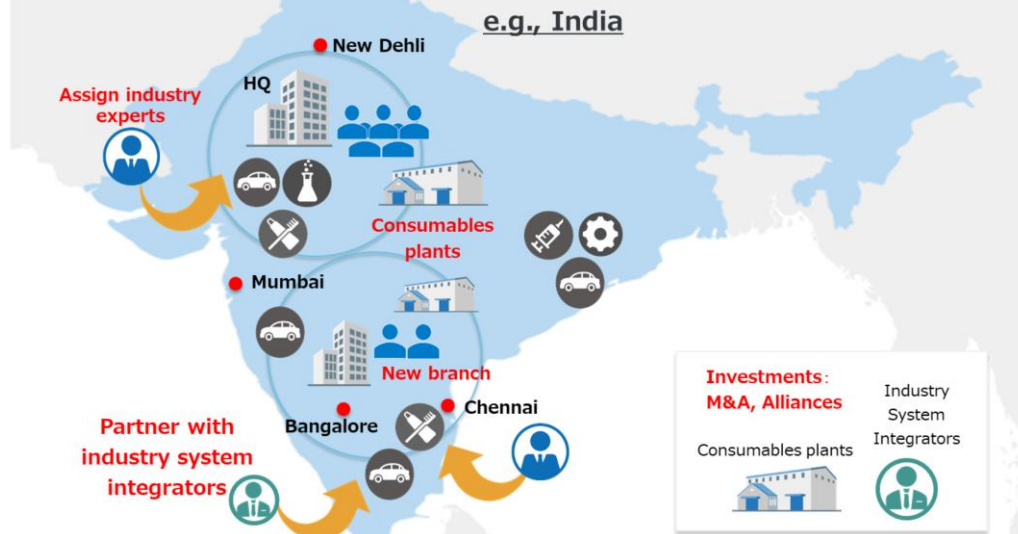
- The first strategy is to narrow down geographical areas and industries and invest in offices, consumables plants, and human assets according to their business potential.
- This is an example in India.
- We have chosen four focus areas, namely Delhi , Mumbai, Chennai, and Bangalore.
- We have assigned specialists suited to their respective targets, established offices, and worked on initiatives such as forming alliances with system integrators with strengths in the target industries and geographical areas or acquiring suppliers to expand and improve supply routes.

- The second strategy is to introduce "Killer" offerings, which will become core products of the base business.
- We will focus on growing the base business through persistent emphasis on selling solutions.
- We will roll out, primarily to focal countries, growth businesses in our solution services for which we have a good track record in Japan.

Overseas Strategy Details

2. Expand our line of products, services & solutions

Commercialize IDP (Inline Digital Printing) technology

✓ Pursue consumer value and help retailers boost sales & profits.

Change in consumer (C) behavior → Challenges for brand owners (B)

E-commerce
Online ads

Whenever & whatever I want

My one & only product

Consumers

IDP solution
Prompt printing of variable information, helping brand owners to grow sales and reduce costs.

10 billion cups

1 trillion bottles

Tests ongoing as planned with customers overseas, targeting commercialization within FY2019.

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- The third strategy is to commercialize IDP technologies as a growth driver of the overseas business.
- We are investing in the development of drinking bottle and cup businesses.
- Although there has been a slight delay for reasons attributable to our customers, we are working toward commercialization in FY2019.
- The drink bottle business is in the converter evaluation phase, while the drink cup business is in the end user evaluation phase.
- Arrangements have been made to run a trial for the cup business in coffee shops in North America.

- We will further enhance our global marketing function to establish a framework for successful selling.
- A unit endowed with the global marketing function to connect our overseas offices with headquarters has been established and begun its operations.
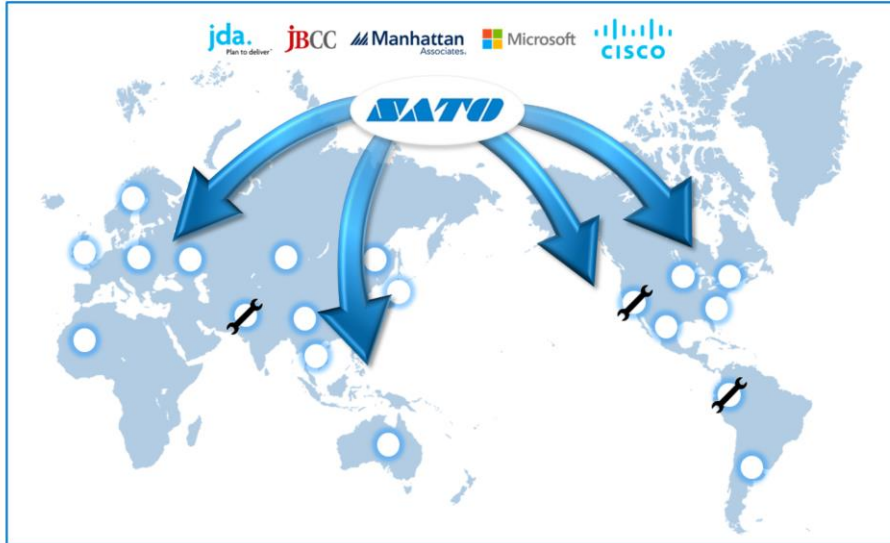
- The fourth strategy is to strengthen our global alliances.
- There are two points. The first is to enhance our alliance with major companies with global operations.
- The second is to find optimal alliance partners in each country and industry and for each application.
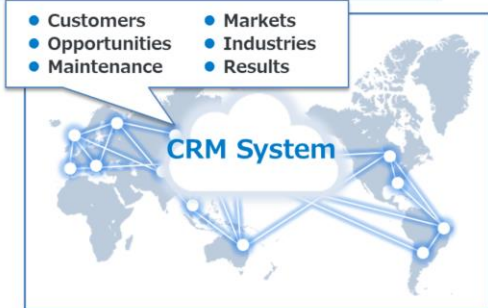
- The fifth strategy is to build infrastructure.
- There are two points in this strategy. The first is to introduce and disseminate CRM.
- We introduced a CRM system in Europe in the period under review. This has created a structure to connect operations within Japan, North America, and some countries in Asia.
- The next phase is to connect information among regions.
- The second point is organizational reforms, which include the establishment of global headquarters.
- We will eliminate the walls separating Japan and overseas in FY2020 and merge headquarters functions.

Overseas by region – North America

Capture business with global key accounts through direct sales and build strong ties with system integrators in target industries for channel sales.

- I will now shift my focus to initiatives in each geographical region overseas.
- First, let me talk about North America. Although we adopt the same basic concept as in India, there are three initiatives that are unique to North America.
- The first initiative is to assign the business promotion function for global key accounts to North American headquarters.
- This is because we can expect large transactions with major companies with global operations.
- We consider it natural to place the promotion function in North America where these major companies are located.
- The second initiative is to enhance a consumables production system to cover wide areas.
- Currently, we only have a manufacturing base in Charlotte, North Carolina where our North American headquarters is located.
- Going forward, we will develop a production and supply system of consumables in the western part of North America as well.
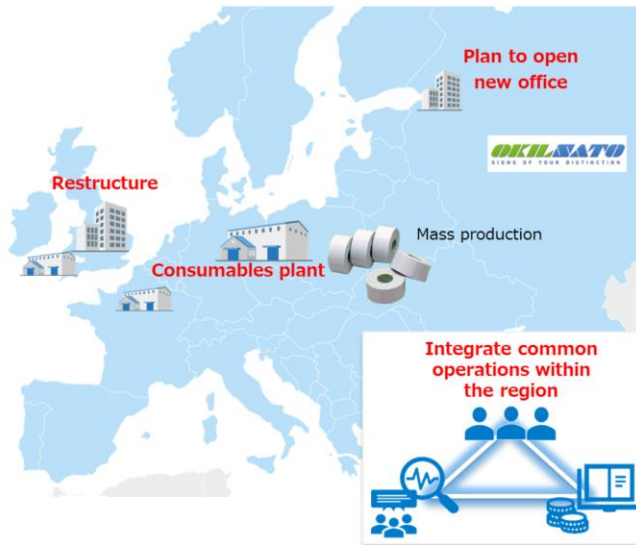- The third initiative is the ongoing plan to build a sales office in Mexico to target the automobile industry.

- Our primary labels business in South America has so far been built through acquisitions and managed independently. Going forward, we will enhance its synergies with the base business.
- One advantage in these primary labels businesses is that their clients include consumer goods brands.
- We have not been marketing our base business sufficiently to consumer goods brands.
- One of the options to penetrate into the market in highly populated countries may be to make investments that promote synergies between the base business and primary label businesses.

- In Europe, we will embark on structural reforms of our UK sales subsidiary.
- In the base business in Russia, we currently conduct business only through sales agents. To develop business in Russia and generate synergies with Okil's customers, we are thinking of opening an office in Russia.

- In Asia and Oceania, we have identified countries with high potential to which we can transplant our business in Japan.
- We will focus our investments in the countries shown in the slide to accelerate growth of our business.
- In addition, we will divide Asia into East Asia and South/Southeast Asia to raise the speed at which we implement our strategies.
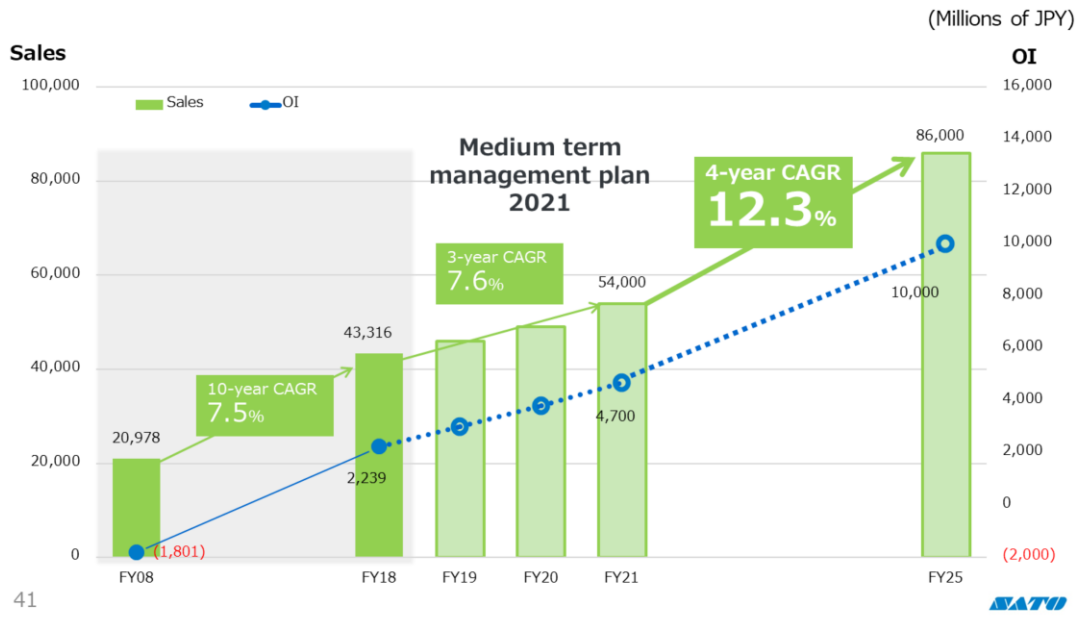
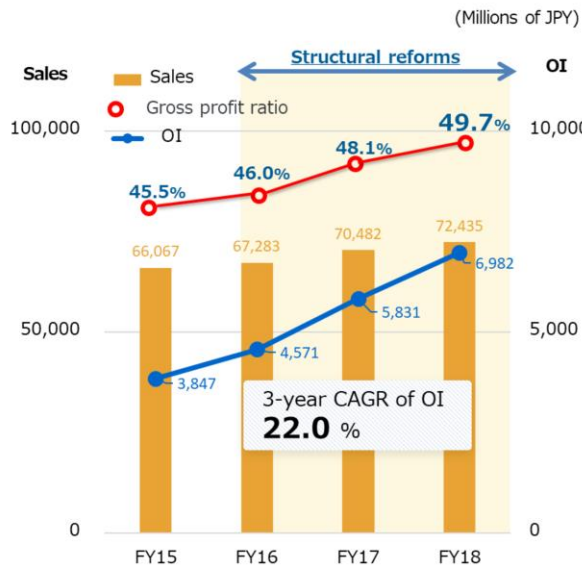- This graph shows our performance and targets overseas.
- We will enhance and accelerate our main growth strategies and regional initiatives.
- We will strengthen our business base during the three years defined in this Medium-Term Management Plan and increase compound annual growth rate of our sales to 12% beyond FY2021.
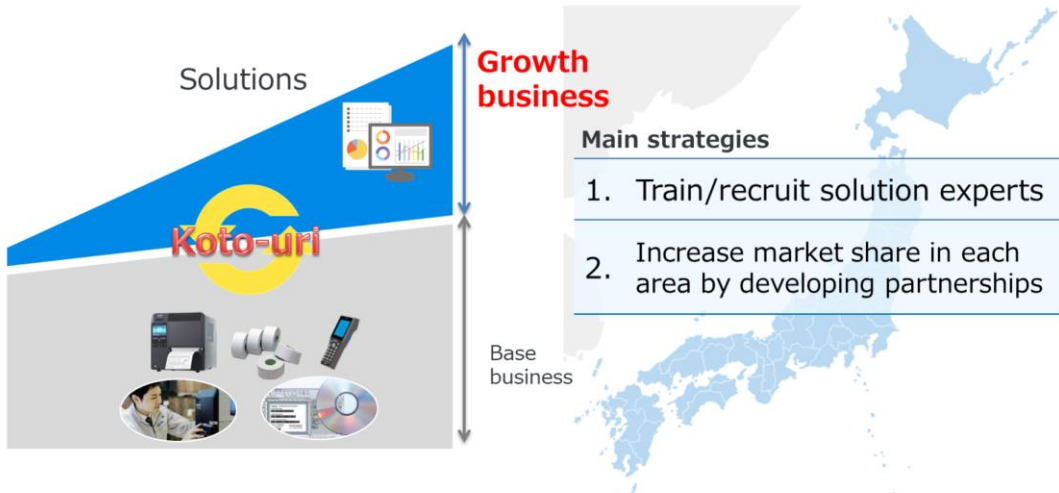
- Looking back at our operations in Japan, our earnings power has improved dramatically.
- The 3-year compound annual growth rate of OI has grown to 22.0%.

Japan Strategy Overview

Focus on creating solutions with new technologies and on seeking more latent needs from each customer to solve universal challenges.

Solutions

Growth business

Koto-uri

Base business

Main strategies

1. Train/recruit solution experts

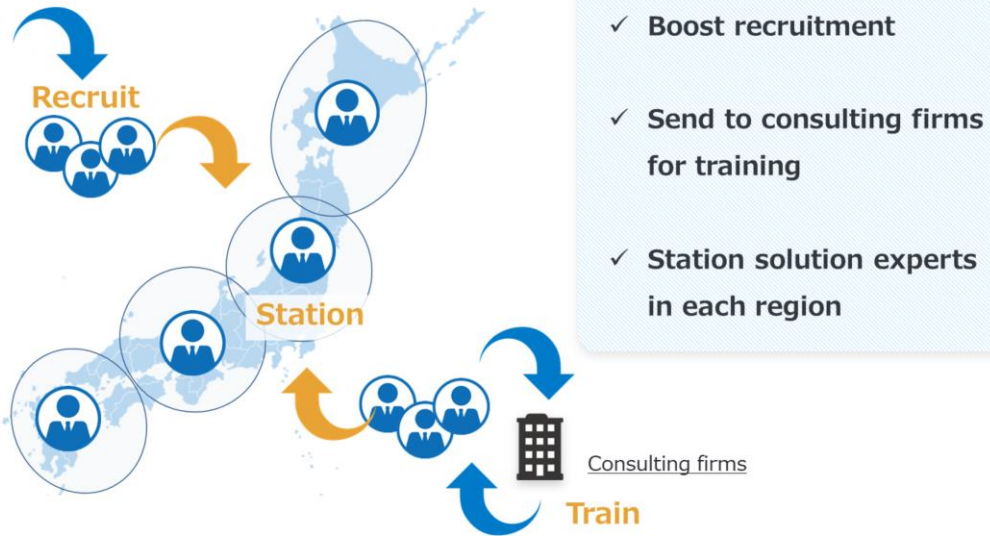2. Increase market share in each area by developing partnerships

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- As our main strategy for the overall domestic business, we will focus on expanding growth businesses in solutions services.
- We have a solid foundation for the base business in Japan thanks to strategies we have steadily implemented over the past three years. We will continue these strategies, while narrowing down our focus to the following two main strategies.

Japan Strategy Details

1. Train/recruit solution experts

Recruit

Station

Consulting firms

Train

✓ Boost recruitment

✓ Send to consulting firms for training
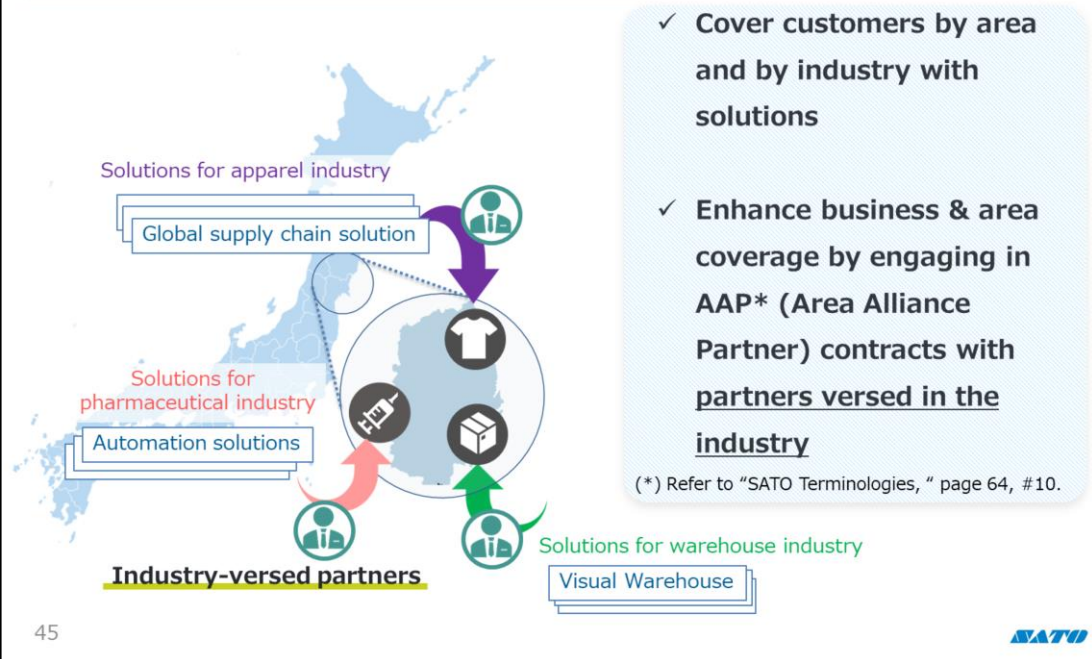
✓ Station solution experts in each region

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- The first is to enhance our human assets for the solutions business. We will divide the country into blocks and launch a structure to support offices by establishing targets and assigning a person in charge in each block.

Japan Strategy Details

2. Increase market share in each area by developing partnerships

- The second main strategy is to step up our efforts in cultivating partners who will help us expand our solutions business. This will be done based on a detailed analysis of the industry matrix in each prefecture.

Japan Sales & OI

Lead our global shift to selling solutions by taking koto-uri to the next level, and continue to improve profitability
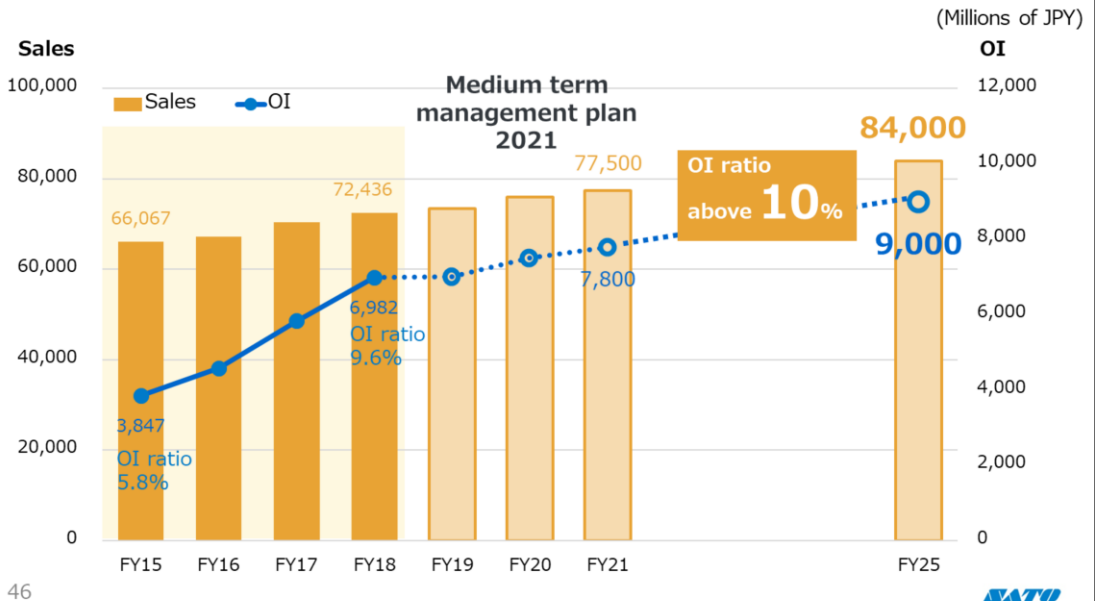
- This graph shows our performance and targets for our Japan business.
- Under the current Medium-Term Management Plan, we will facilitate a shift to selling solutions by taking *koto-uri* to the next level in order to raise profitability.
- Our solutions will also drive our business development in focal countries overseas.

Sales and OI by Business Segment

Concentrate resources on the Auto-ID solutions business and establish sustainable growth and stable profits by capturing ample opportunities.
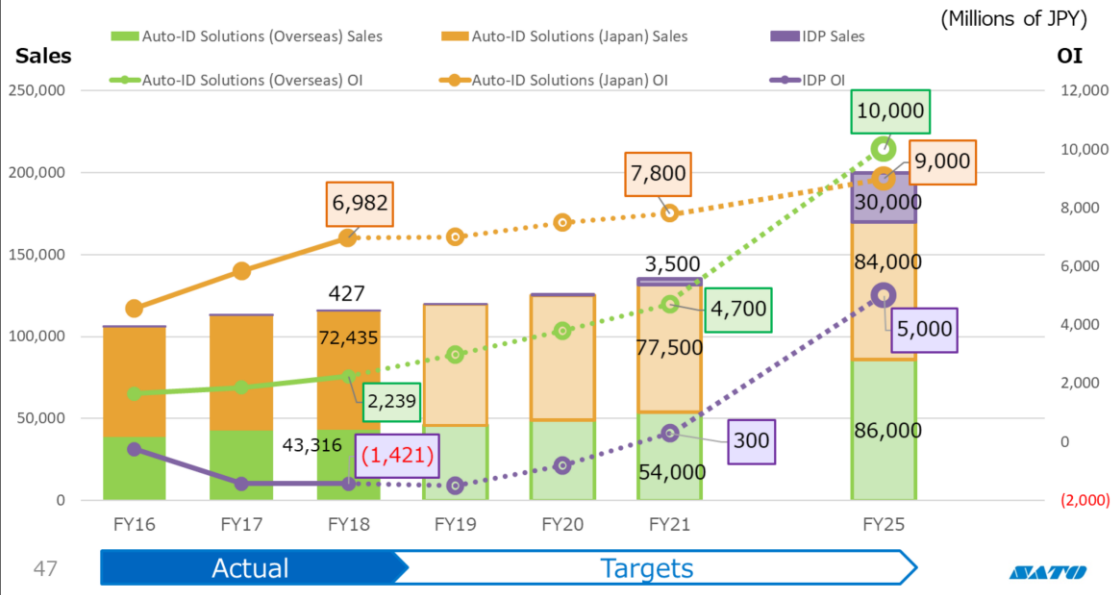
- We will endeavor to reverse the ratios of Japan and overseas in terms of sales and OI by the end of FY2025.

Sales and OI by Business Segment

(Millions of JPY)

	FY2018		FY2019 (Targets)		FY2020 (Targets)		FY2021 (Targets)
	Actual	Previous	**New**	Previous	**New**	Previous	**New**
1. Auto-ID Solutions (Overseas)							
Sales	43,316	44,600	46,000	51,500	49,000	55,700	54,000
OI	2,239	2,800	3,000	4,000	3,800	5,100	4,700
2. Auto-ID Solutions (Japan)							
Sales	72,435	72,000	73,500	73,500	76,000	76,000	77,500
OI	6,982	6,400	7,000	6,300	7,500	7,700	7,800
3. IDP Solutions							
Sales	427	400	500	1,000	1,000	3,300	3,500
OI	-1,421	-1,600	-1,500	-1,000	-800	0	300
Consolidated							
Sales	116,179	117,000	120,000	126,000	126,000	135,000	135,000
OI	7,679※	7,600	8,500	9,300	10,500	12,800	12,800
OI ratio	6.6%	6.5%	7.1%	7.4%	8.3%	9.5%	9.5%

Figures under "Previous" are those as of 5 Nov. 2018
※ Includes eliminations

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- This table shows our consolidated results and targets by business segment.
- Through my visits of overseas offices over a period of one year since my appointment as president, I came to recognize the challenges we face and decided that we should focus on building the foundation for growth.
- Based on this decision, we have revised the Medium-Term Management Plan. We will work on achieving our targets.

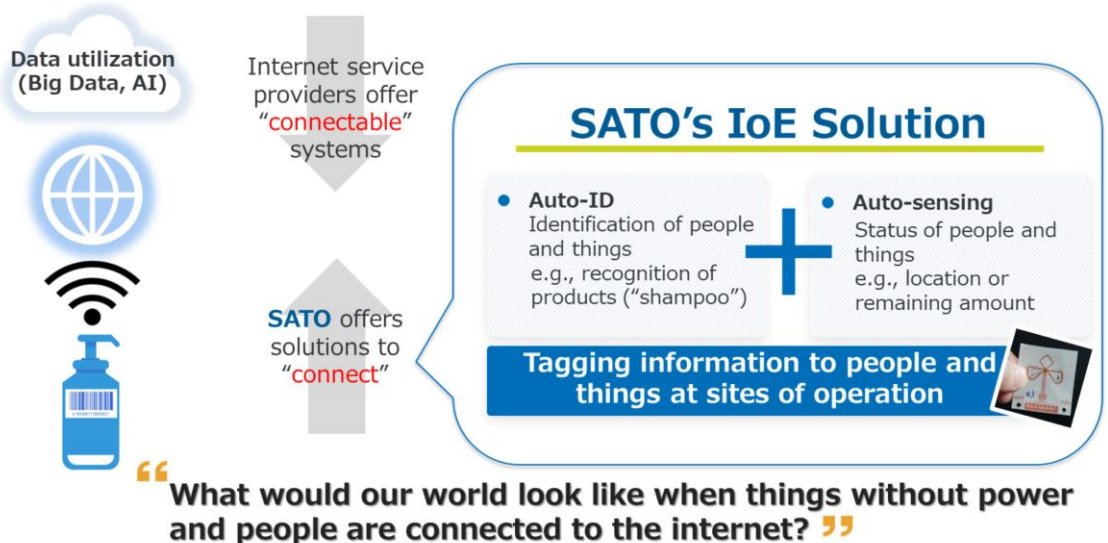Consolidated: Roadmap to Higher Capital Efficiency（FY2019–FY2021）
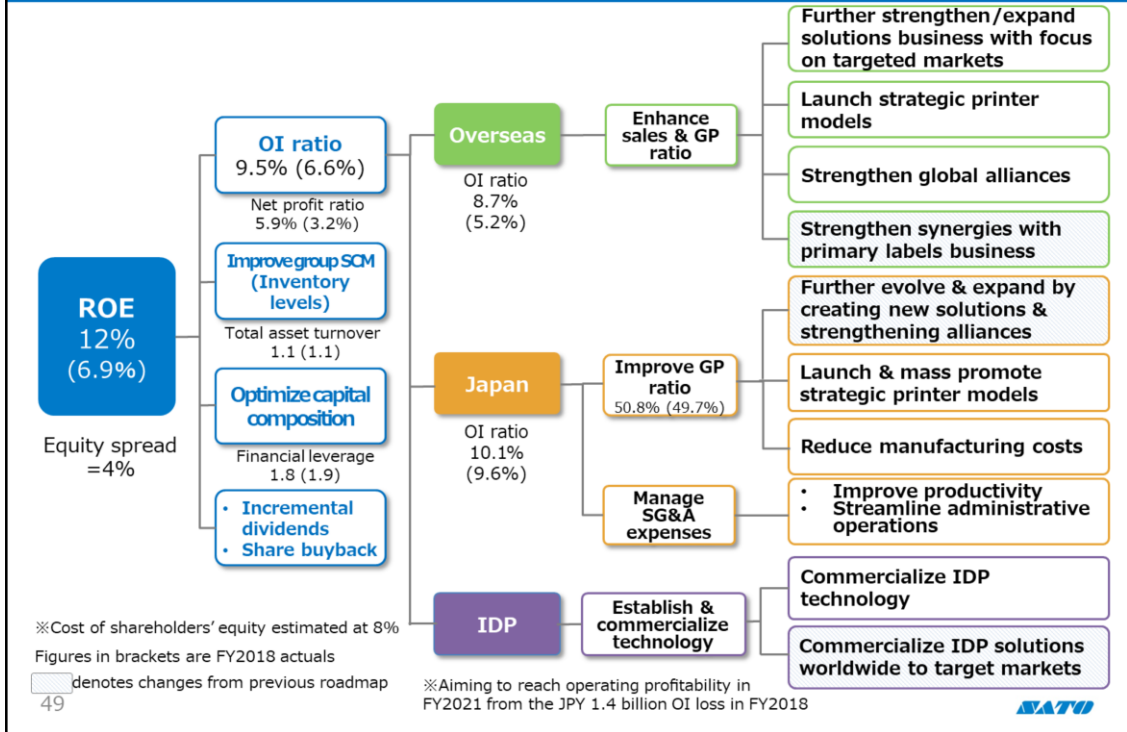
- No significant change has been made to our roadmap to higher capital efficiency.
- We aim to increase ROE to 12% by FY2021.
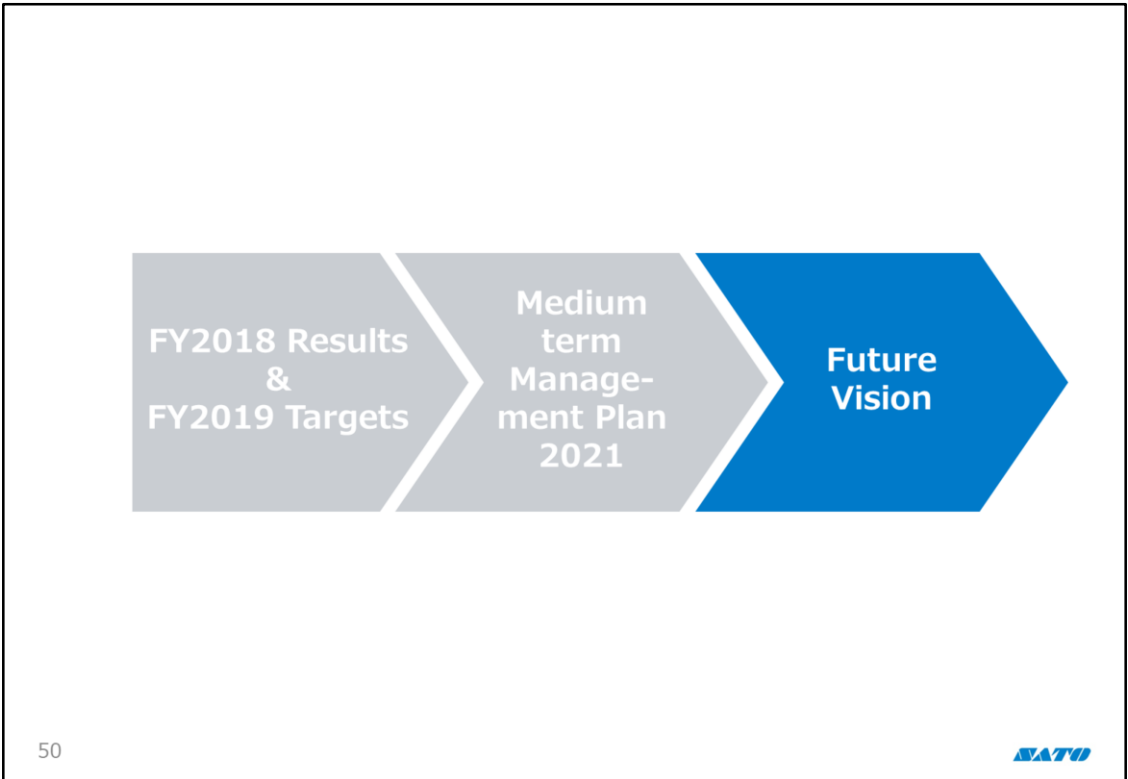
- We will work on developing solutions services that will become "Killer" offerings and ensure our competitive advantage, and solutions that will drive our growth in the next generation.
- In this section, I will introduce B2B2C projects that create consumer value.

- I will introduce SATO's Internet of Everything (IoE) solutions that will be provided by combining auto-ID and auto-sensing technologies through tagging.
- The key message is, "What would our world look like when things without power and people are connected to the Internet?"

- We are developing this greatly promising business for commercialization.
- RFID devices that do not require a power source can connect people and things to the internet and create data.
- Next-generation auto-ID technologies offer more than simply digitalized market information.
- Matching manufacturing with consumption will be epoch-making and completely transform supply chains.
- We will build relationships with partners involved in IoT sensors to establish our business.

- We have already begun negotiations with various partners to consolidate technologies.
- We will create a consortium with partners who are sensing a business potential even if technologies are not yet consolidated.
- Specifically, we have started negotiating with partner companies such as platformers, communication equipment makers, solutions providers, and communication infrastructure providers.
- We will promote the commercialization of this business through a project team we form with end users with a view to selling our solutions to major retailers and consumer goods manufacturers.

Appendix

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Auto ID Solutions Business — FY2018

Sales and OI by Region
(Millions of JPY)

Sales

FY17 113,068
- Overseas 37.7%
  - Asia/Oceania 12.2%
  - Europe 12.7%
  - The Americas 12.8%
- Japan 62.3%

FY18 115,751
- Overseas 37.4%
  - Asia/Oceania 12.3%
  - Europe 13.4%
  - The Americas 11.7%
- Japan 62.6%

Operating Income
*Ratio excludes eliminations.

FY17 7,697
- Overseas 24.4%
  - Asia/Oceania 19.5%
  - Europe 2.2%
  - The Americas 2.7%
- Japan 75.6%
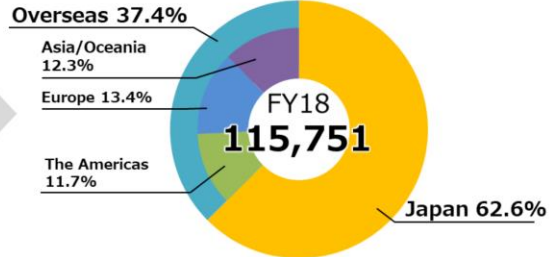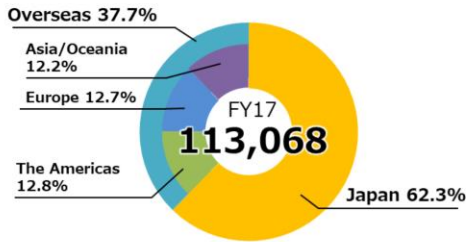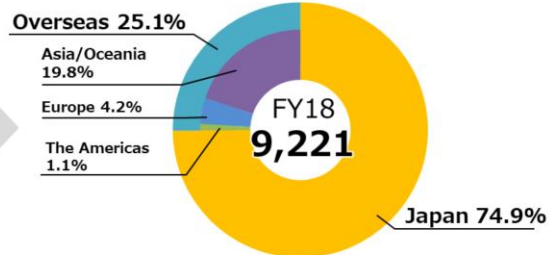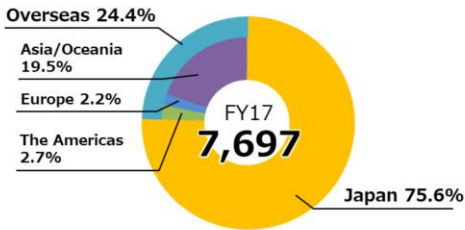
OI Ratio : **Japan : 8.3%, Overseas : 4.4%**

FY18 9,221
- Overseas 25.1%
  - Asia/Oceania 19.8%
  - Europe 4.2%
  - The Americas 1.1%
- Japan 74.9%

OI Ratio: **Japan : 9.6%, Overseas : 5.2%**

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Sales by Vertical

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

FY2017

- Others 18.0%
- Public 0.5%
- Food & Beverage 9.4%
- Health Care 5.2%
- Manufacturing 27.3%
- Logistics 4.4%
- Retail 35.2%

FY2018

- Others 16.6%
- Public 0.3%
- Food & Beverage 9.1%
- Health Care 5.6%
- Manufacturing 29.5%
- Logistics 4.4%
- Retail 34.4%

Japan

FY2017

- Food & Beverage 10.1%
- Health Care 12.3%
- Retail 12.4%
- Public 4.6%
- Manufacturing 34.0%
- Logistics 26.6%

FY2018

- Food & Beverage 10.0%
- Health Care 12.2%
- Retail 12.6%
- Public 3.9%
- Manufacturing 35.2%
- Logistics 26.1%

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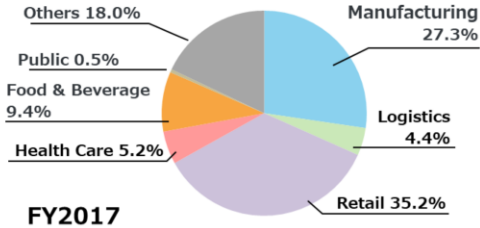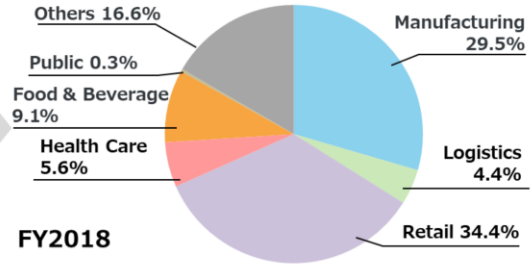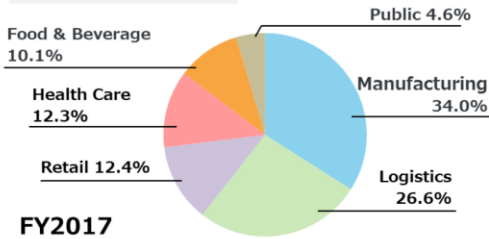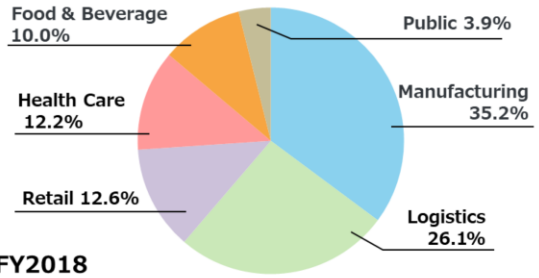
Breakdown of Sales and OI by Business Segment

(Millions of JPY)

Sales

Primary Labels 20.2%

FY17
42,585

Base
79.8%

Primary Labels 20.1%

FY18
43,316

Base
79.9%

Operating Income

*Ratio excludes eliminations.

Primary Labels 7.0%

FY17
1,865

Base
93.0%

Primary Labels 7.0%

FY18
2,239
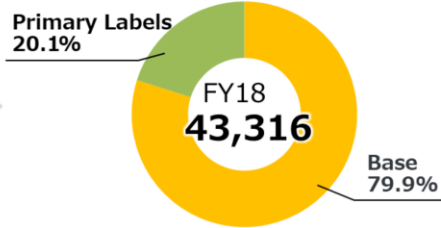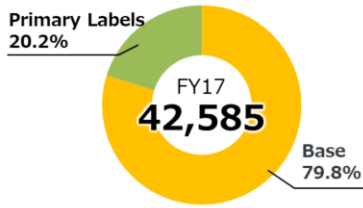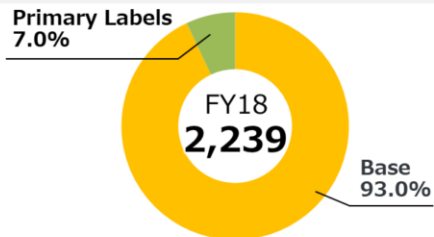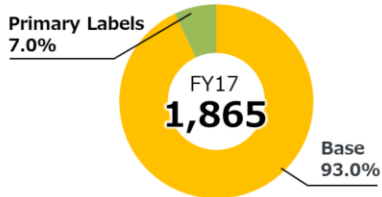
Base
93.0%

OI ratio: **Base : 5.2%, Primary Labels : 1.5%**   OI ratio: **Base : 6.3%, Primary Labels : 1.9%**

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Sales and OI Trends by Business Segment and Region

By Business Segment　　■ Sales　　─○─ OI　　(Millions of JPY; Sales (left axis), OI (right axis))
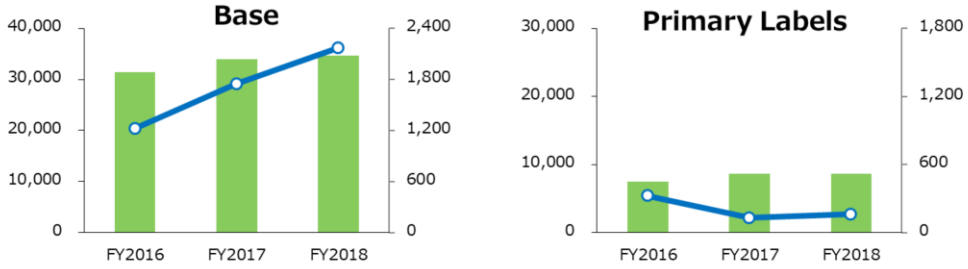
By Region
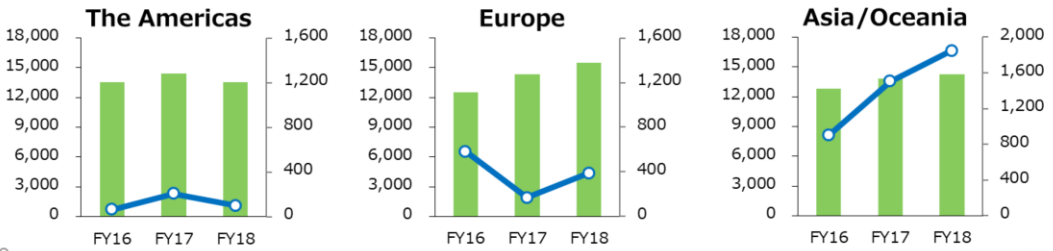
Breakdown by Region: The Americas

Base business: Saw less orders from large customers. OI grew due to R&D cost decrease from liquidating of former SGS.

Primary Labels business: Despite Achernar passing on raw material price increases, loss of high a margin order in FY17 at Prakolar translated to decreases in sales and OI YoY worsened by FX impact.

(Millions of JPY)

		FY2018	FY2017	Change	YoY	excl. FX impact
Base	**Total Sales**	11,292	11,783	-490	95.8%	98.3%
	Operating Income	15	5	+9	264.7%	859.3%
Primary Labels · Achernar · Prakolar	**Total Sales**	2,268	2,661	-392	85.3%	115.6%
	Operating Income	83	200	-117	41.7%	65.7%

Breakdown by Region: Europe

Base business: Sales increased due to measures to expand customer base. OI grew with increase in sales and restructuring benefits in UK.

Primary Labels business: Sales increased at Okil due mainly to new transaction and positive FX impact. OI increased, covering the cost of new business development at X-Pack.　　(Millions of JPY)

		FY2018	FY2017	Change	YoY	excl. FX impact
Base	Total Sales	9,086	8,368	+717	108.6%	109.6%
	Operating Income	309	238	+70	129.8%	132.2%
Primary Labels • Okil • X-Pack*	Total Sales	6,416	5,959	+457	107.7%	121.0%
	Operating Income	79	-69	+149	-	-

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

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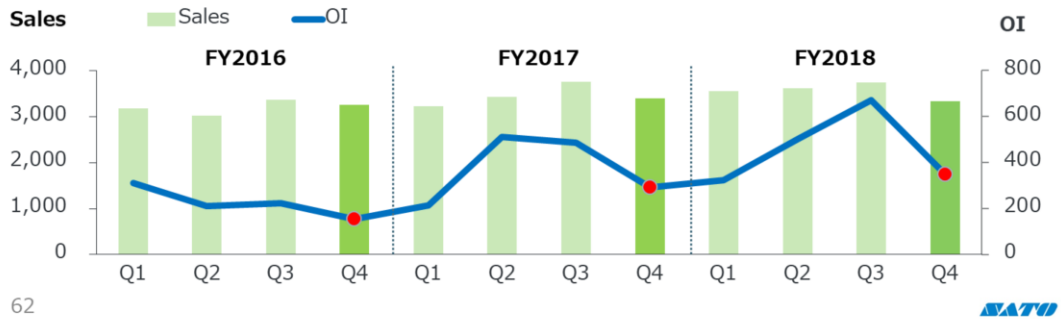## Breakdown by Region: Asia/Oceania

Base business: Established a stable profit base as the shift to "sell the solution, not the product" succeeded.

(Millions of JPY)

		FY2018	FY2017	Change	YoY	excl. FX impact
Base	Total Sales	14,251	13,813	+438	103.2%	105.1%
	Operating Income	1,847	1,505	+342	122.7%	122.5%

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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 (tagging fixed information, i.e., labels on products such as beverages and everyday goods.) The Primary Labels business consists of Achernar (Argentina), Prakolar (Brazil), Okil (Russia) and X-Pack (Russia).
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	Koto-uri solutions sales approach	Sales approach with focus on increasing customer value, involving selling not only single products, but combinations of providing solutions including hardware, consumables, maintenance services and software.
5	Tagging	The physical process of attaching identifier data to things and people. SATO is committed to tagging a diverse range of objects handled by different businesses, drawing upon a wealth of practical, technical know-how in auto-ID solutions backed by *Genbaryoku*.
6	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 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 image recognition, voice recognition and location tracking to its legacy business model to deliver greater customer value.
7	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 and other information to products, this concept has remained central to SATO's business.

SATO Terminologies (2/4)

	SATO-unique business concepts/initiatives	Description
8	Genbaryoku	Our core competency of going to customer sites to understand their operations and identify the essence of issues to offer optimized solutions.
9	Teiho	Teiho is SATO's unique system of reports and proposals in effect since 1976. Employees share new information and ideas they come across on-site every day to top management via the Teiho system. Teiho helps top management gain immediate insight into the internal/external business situation to facilitate quick decision-making and execution of initiatives, while allowing "participation by all" in the management of the company. As Teiho involves all employees regardless of rank or years of service, it is also an effective means of compliance monitoring to prevent malpractice and other inappropriate behavior and assist in corporate governance. Some of our global offices have also started Teiho, with more to follow.
10	AAP (Area Alliance Partner)	Our initiative in Japan to segment regions into smaller divisions and form alliances with partners having strong presence in areas/industries that we have yet to cover.

	Products, services, technologies	Description
1	Mechatronics	All products not consumables, including hardware (e.g., printers, automatic labelers, scanners, hand labelers), software and maintenance services. They generate higher gross profit margin than consumables. Printers are manufactured in Malaysia, Vietnam and Taiwan.
2	Consumables	"Consumable" products such as printer labels, RFID tags, primary labels (product labels) and ribbons. They generate lower gross profit margin than mechatronics, but incur low SG&A expenses as they are typically sold through repeat business.
3	Auto-ID Solutions	Combination of products such as printers, labels, software and maintenance services using auto-ID technologies to connect people, things and information. To meet ever complex and diverse user needs, SATO also looks beyond its own resources and interests to pursue open partnerships, for example, to enable solutions combining auto-ID and location technologies to track items by tags and inventory/worker movements in real time for managing manufacturing processes and visualizing productivity on-site.
4	CLNX series	SATO's first universal printer released worldwide in 2014 (2015 for the Japan market). Engineered for zero downtime, the CLNX series is built to be strong, simple to operate and ready for use with SOS (SATO Online Services), the industry's first IoT maintenance platform for printers.

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SATO Terminologies (3/4)

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

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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. X-Pack who produces and sells shrink sleeves, in-mould labels and soft packages is 60% owned by SATO and 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.

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