

August 7, 2020

SATO HOLDINGS CORPORATION

FY2020 Q1 Financial Results

(Three Months Ended June 30, 2020)

Securities Code: 6287

Summary

- Consolidated sales and OI decreased YoY due to worldwide economic slowdown resulting from the spread of the novel coronavirus.
- Overseas, sales and OI decreased.
Both sales and OI decreased in the Base business due to significant restrictions on sales activities.
Sales in the Primary Labels business decreased as business with industries that support essential infrastructure could not fully compensate for sluggishness elsewhere—although OI increased mainly due to reduced cost to sales ratio.
- In Japan, sales and OI decreased due to an overall slowdown in economic activity.
- Commercialization of IDP business remains under consideration.



- Summary of our financial results are as described here.

Sales and OI by Business Segment

(Millions of JPY)

(Millions of JPY)

		FY2020	FY2019	YoY	excl. FX impact	
Auto-ID Solutions business	Total Sales	23,575	28,363	-16.9%	-14.5%	
	Operating Income	476	1,878	-74.6%	-75.5%	
	Overseas	Total Sales	7,844	10,867	-27.8%	-21.6%
		Operating Income	77	560	-86.1%	-83.1%
	Japan	Total Sales	15,730	17,495	-10.1%	-10.1%
		Operating Income	399	1,318	-69.7%	-72.3%
IDP business	Total Sales	75	100	-24.6%	-20.4%	
	Operating Income	-70	-394	-	-	
Consolidated (incl. eliminations)	Total Sales	23,651	28,463	-16.9%	-14.5%	
	Operating Income	385	1,514	-74.5%	-75.8%	

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- Sales decreased 4.8 billion yen year-on-year, while operating income decreased 1.1 billion yen.
- Due to the overall appreciation of the yen, foreign exchange impact was roughly negative 700 million yen in sales and positive 19 million yen in operating income.

Consolidated Results

(Millions of JPY)

	FY2020	FY2019	Change	YoY
Net Sales	23,651	28,463	-4,812	-16.9%
Operating Income	385	1,514	-1,128	-74.5%
Operating Income %	1.6%	5.3%	-3.7pt	-
Ordinary Income	618	1,338	-720	-53.8%
Profit attributable to owners of parent	213	842	-629	-74.7%
Effective Tax Rate	53.0%	31.8%	+21.3pt	
EBITDA *1	1,507	2,978	-1,471	-49.4%

Average exchange rates for Apr-Jun FY20: JPY 107.63/USD, JPY 118.59/EUR, Apr-Jun FY19 JPY 109.90/USD, JPY 123.49/EUR
FX sensitivity for FY20: JPY +400 million in sales and JPY +3 million in OI for +1 JPY against USD and assuming all others move by the same ratio
(Based on FY19 actuals)

*1 EBITDA = Operating Income + Depreciation + Amortization

· Depreciation for Apr-Jun FY20: JPY 1,064 million

· Amortization for Apr-Jun FY20: JPY 57 million

*2 Full value of DataLase's goodwill was written off in FY19 Q4.

Apr-Jun FY19: JPY 1,240 million

Apr-Jun FY19: JPY 224 million (incl. 150 mil. for DataLase) *2

- There was a non-operating profit of 230 million yen.
- We had no extraordinary profit or loss. Net profit for the quarter was 213 million yen, a decrease of 630 million yen year-on-year.

Overview

- Sales decreased due to significant restrictions on sales activities and due to negative FX impact.
- OI decreased overall, mainly due to decreased sales in the Base business.

(Millions of JPY)

	FY2020	FY2019	Change	YoY	excl. FX impact
Total Sales	7,844	10,867	-3,023	-27.8%	-21.6%
Gross Profit	2,751	3,784	-1,033	-27.3%	
Gross Profit %	35.1%	34.8%	+0.2pt		
Operating Income	77	560	-482	-86.1%	-83.1%
Operating Income %	1.0%	5.2%	-4.2pt		



- Overseas, sales decreased by 3 billion yen due to significant restrictions on sales activities and customer store closures.
- Operating income decreased 480 million yen mainly due to lower sales in our Base business.

Breakdown by Business Segment

Base business: Sales and OI decreased mainly due to significant restrictions on sales activities in markets and industries which comprise a large portion of sales.

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

(Millions of JPY)

		FY2020	FY2019	Change	YoY	excl. FX impact
Base	Total Sales	5,755	8,539	-2,784	-32.6%	-29.5%
	Operating Income	-26	577	-604	-	-
Primary Labels	Total Sales	2,089	2,328	-238	-10.3%	+7.6%
	Operating Income	100	-33	+134	-	-
Eliminations	Total Sales	3	16	-12	-75.8%	-
Total	Total Sales	7,844	10,867	-3,023	-27.8%	-21.6%
	Operating Income	77	560	-482	-86.1%	-83.1%



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- In our Base business, sales and profit decreased as we were severely impacted by lockdowns in each country.
- In our Primary Labels business, sales and profit increased on a local currency basis, supported by business with customers in industries that support essential infrastructure.

Breakdown by Region: The Americas

Base business: Sales and OI decreased mainly due to the impact of store closures in the retail industry which comprises a large portion of sales for our US subsidiary.

Primary Labels business: Sales and OI increased on a local currency basis for Achernar in Argentina, supported mainly by demand from customers in the food and beverage industries. On the other hand, sales and OI decreased on a local currency basis for Prakolar in Brazil whose brisk performance in pharmaceuticals could not fully compensate for poorly performing segments such as cosmetics.

(Millions of JPY)

		FY2020	FY2019	Change	YoY	excl. FX impact
Base	Total Sales	1,781	2,797	-1,016	-36.3%	-33.6%
	Operating Income	-44	174	-219	-	-
Primary Labels • Achernar • Prakolar	Total Sales	378	577	-198	-34.5%	-4.3%
	Operating Income	2	17	-14	-85.4%	-59.8%
Total	Total Sales	2,159	3,374	-1,214	-36.0%	-28.6%
	Operating Income	-42	192	-234	-	-



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- In our Base business in the Americas, sales and profit decreased mainly due to a severe drop in consumables orders resulting from retail store closures.
- In our Primary Labels business, sales and profit increased on a local currency basis for Achernar in Argentina, supported mainly by demand from customers in the food and beverage industries. On the other hand, sales and profit decreased on a local currency basis for Prakolar in Brazil whose brisk performance in pharmaceuticals could not fully compensate for poorly performing segments such as cosmetics.

Breakdown by Region: Europe

Base business: Sales and OI decreased due to the impact of store closures in the retail industry which comprises a large portion of sales.

Primary Labels business: Sales increased on a local currency basis due to increased needs from customers who comprise a large portion of sales such as those in the food and alcoholic beverage industries. OI increased due to sales growth and reduced cost to sales ratio.

(Millions of JPY)

		FY2020	FY2019	Change	YoY	excl. FX impact
Base	Total Sales	1,453	2,386	-933	-39.1%	-36.3%
	Operating Income	-86	109	-195	-	-
Primary Labels • Okil • X-Pack	Total Sales	1,711	1,751	-40	-2.3%	+11.5%
	Operating Income	98	-51	+149	-	-
Total	Total Sales	3,164	4,137	-973	-23.5%	-16.1%
	Operating Income	11	57	-46	-79.8%	-60.5%



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● Similarly to the situation in the Americas, sales and profit decreased in our base business in Europe due to the impact of store closures in the retail industry, which comprises a large portion of sales.

● In our Primary Labels business, sales at Okil in Russia increased on a local currency basis due to stay-home consumption fueling greater needs by customers who comprise a large portion of sales such as those in the food and alcoholic beverage industries. Profit increased due to sales growth and reduced cost to sales ratio.

Breakdown by Region: Asia/Oceania

Base business: Sales and OI decreased mainly due to a slowdown in manufacturing. Sales remained flat YoY in China where economic activities resumed earlier than elsewhere.

(Millions of JPY)

		FY2020	FY2019	Change	YoY	excl.FX Impact
Base	Total Sales	2,520	3,355	-834	-24.9%	-21.2%
	Operating Income	104	294	-189	-64.5%	-63.8%



- In Asia and Oceania where many of our customers are manufacturers, we were significantly impacted by the slowdown in production activities resulting in lower sales and profit.
- Sales remained virtually flat year-on-year in China which resumed economic activities relatively early.

Overview

Sales declined due to slowdown in overall economy and delayed business dealings behind restrictions on sales activities.

OI decreased due to sales decline and lower gross profit margin as a result of unfavorable product mix. Impact on OI was mitigated, however, with reduced SG&A.

(Millions of JPY)

	FY2020	FY2019	Change	YoY
Mechatronics Sales	6,176	6,954	-777	-11.2%
Consumables Sales	9,554	10,540	-986	-9.4%
Total Sales	15,730	17,495	-1,764	-10.1%
Gross Profit	7,339	8,740	-1,400	-16.0%
Gross Profit %	46.7%	50.0%	-3.3pt	-
Operating Income	399	1,318	-919	-69.7%
Operating Income %	2.5%	7.5%	-5.0pt	-



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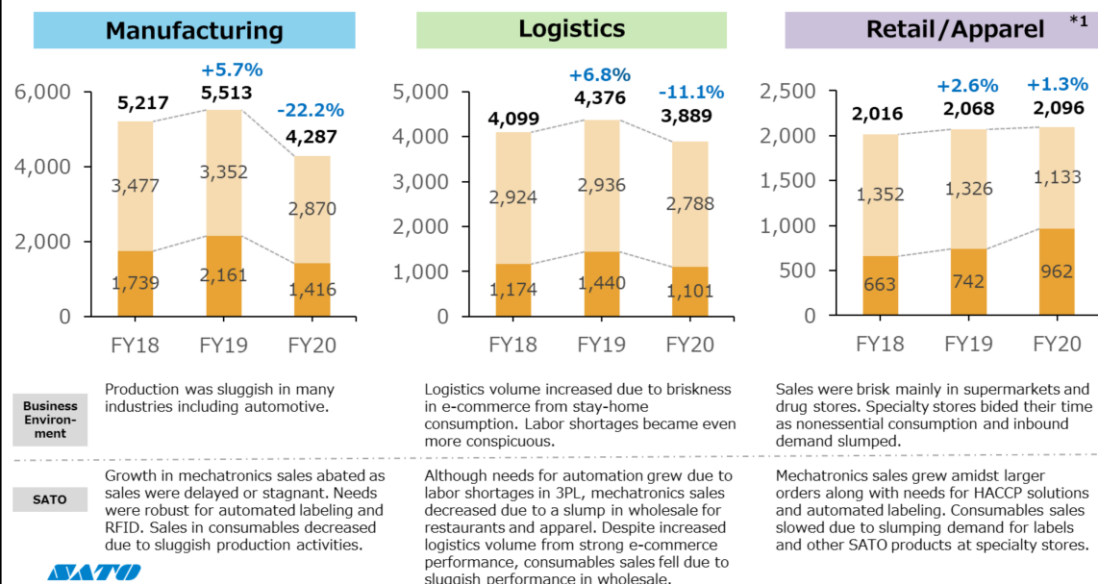
- In Japan, sales decreased as business dealings slowed due to the overall economic slowdown and restrictions on sales activities.
- Ripple effects from US-China friction which slowed manufacturing activities contributed heavily to lower sales of consumables, which comprise a large portion of total sales.
- In addition to lower sales, profit also decreased due to lower gross profit margins from adverse produce mix. However, we mitigated operating profit losses by curtailing SG&A expenses.

Sales by Vertical [1]

■ : Mechatronics ■ : Consumables *% indicates YoY change

(Millions of JPY)

*1 : ex-Retail



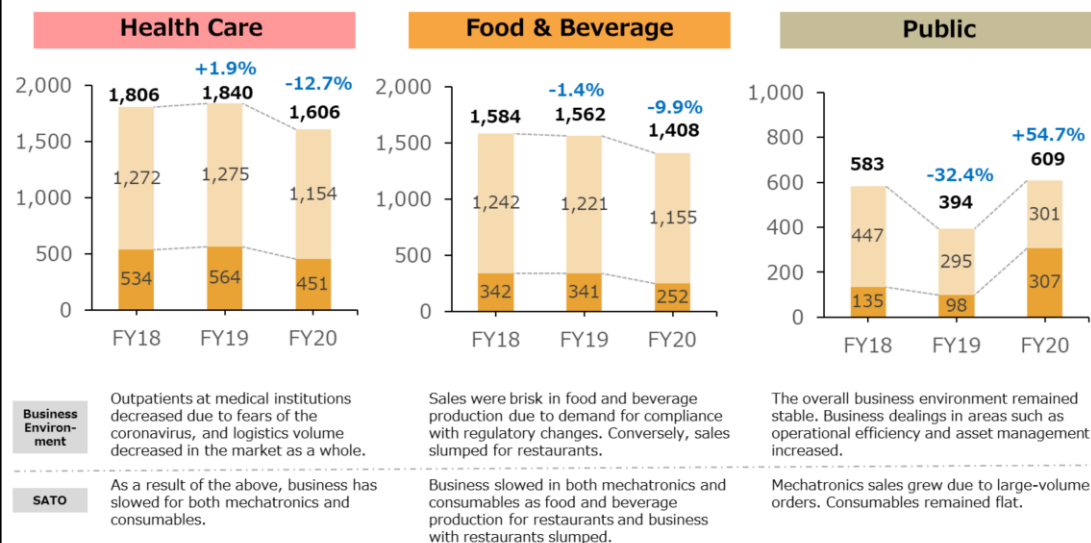
10

- Details by vertical in Japan are as follows.
- In manufacturing, production by customers was sluggish. Sales decreased particularly due to slower sales in mechatronics.
- In logistics, volume increased in sectors such as e-commerce, but sales decreased due to postponed business dealings in mechatronics.
- In retail and apparel, sales were significantly impacted by store closures of specialty stores but still increased due to large volume orders in mechatronics, as well as brisk business with supermarkets and drug stores.

Sales by Vertical [2]

(Millions of JPY)

■ : Mechatronics ■ : Consumables *% indicates YoY change



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- In health care, new business deals are proceeding mainly for the pharmaceutical industry, but sales decreased due to a decline in outpatients.
- In food and beverage, sales decreased due to significant impact from slumping business in restaurants and in food and beverage production for restaurants.
- In the public sector, sales increased due to large-volume orders in mechatronics.

Overview

Commercialization of IDP business remains under consideration.

(Millions of JPY)

	FY2020	FY2019	Change	YoY	excl. FX impact
Total Sales	75	100	-24	-24.6%	-20.4%
Gross Profit	58	67	-9	-13.4%	-
Gross Profit %	77.5%	67.5%	+10.0pt	-	-
Operating Income	-70	-394	+323	-	-
Operating Income %	-	-	-	-	-

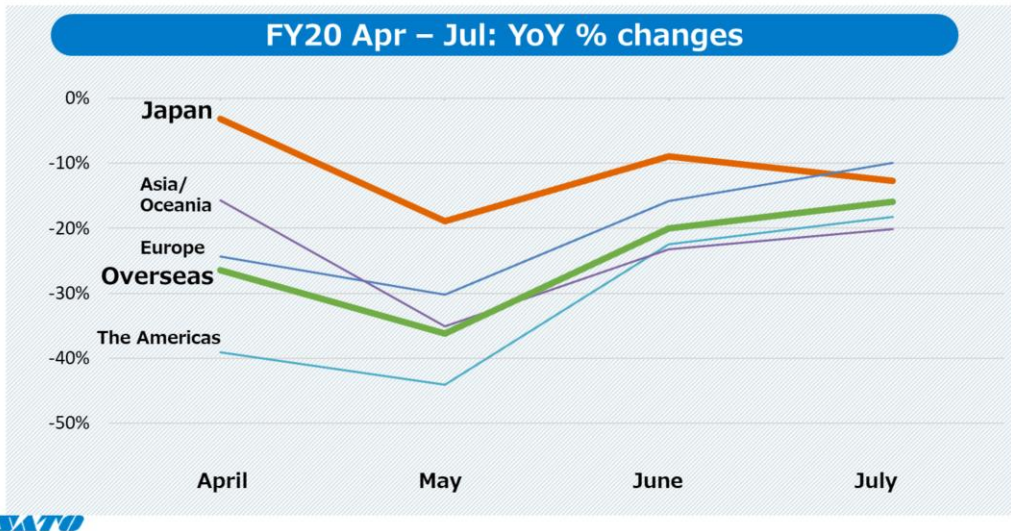


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- In IDP business, we reduced operating losses by 320 million yen year-on-year with eliminated amortization expenses after impairment of goodwill and by curtailing SG&A expenses.

Monthly sales trends by region

Business dealings for this fiscal year and beyond are increasing after bottoming out in May as sales activities and customer operations gradually restart.

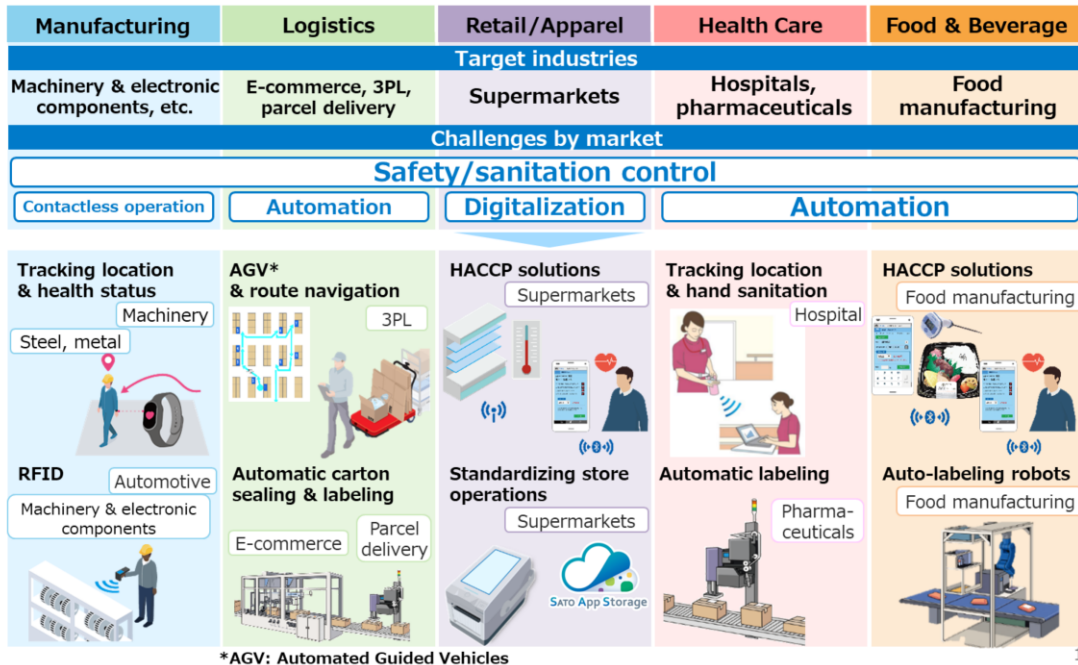


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- This slide shows year-on-year sales from April through July by region.
- We believe Japan's state of emergency declaration and lockdowns in other countries caused May to be the trough in sales.
- The June rebound in Japan was due to large-volume orders secured last year. Otherwise, the recovery trend would be more gradual.
- In the Americas and Europe, consumables orders are recovering since June from retail customers who comprises a large portion of sales.
- In Asia where many of our customers are in manufacturing, we believe recovery will take longer than in Europe and the Americas.
- With various tools shifting more of our sales activities online, business dealings have been increasing since June. Many of these will take time to close, so resulting sales will most likely be recorded in the following quarter or thereafter.

Auto-ID Solutions Business (Japan)

Key initiatives following the coronavirus outbreak



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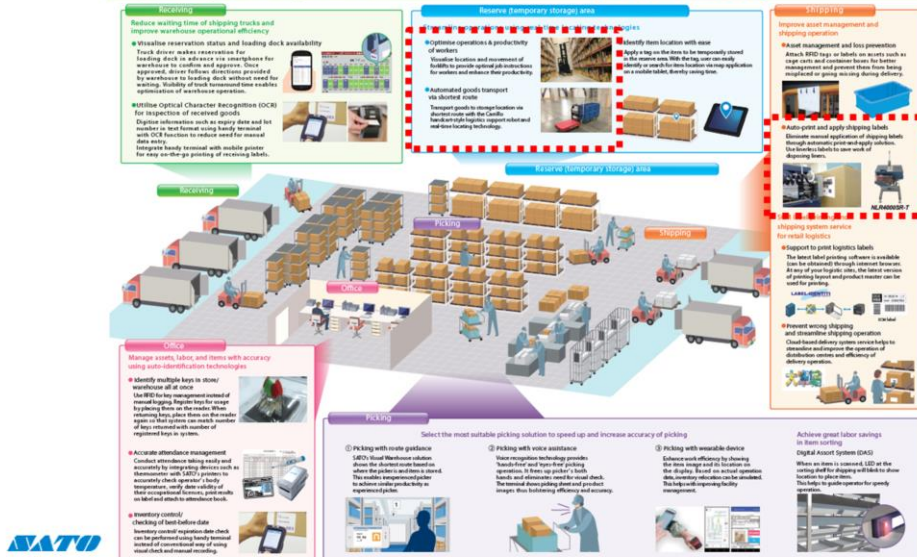
- Having listened to our customers, we have narrowed down the actions that should be prioritized in the coronavirus pandemic in each market and industry and displayed them as “Challenges by market”.
- Here we will introduce the growing needs in each market in Japan, along with the solutions to address them.
- In manufacturing, there is an increased need to protect the health and safety of employees, in addition to combating persistent labor shortages. Inquiries are increasing for solutions that use positioning technology and RFID to improve operational efficiency and productivity, and to perform tasks without physical contact in order to protect employees from heatstroke and infections.
- In logistics, similarly to manufacturing, there are now needs to maintain distance between employees in addition to dealing with labor shortages. Needs for automation are increasing as a key to boost productivity and ensure employee safety by introducing handcart robots to reduce workers and implementing devices such as automatic labelers.
- In retail as well as food and beverage, business dealings are brisk for solutions that add health condition management for employees to existing HACCP solutions.
- In health care, we are aggressively addressing needs for automated labeling in the pharmaceutical industry since business dealings with hospitals are currently not proceeding due to the coronavirus pandemic.

Auto-ID Solutions Business (Japan)

Offering precisely the right solutions for customers' on-site operations that have come to face issues following the coronavirus outbreak

e.g. Logistics, e-commerce

Automation

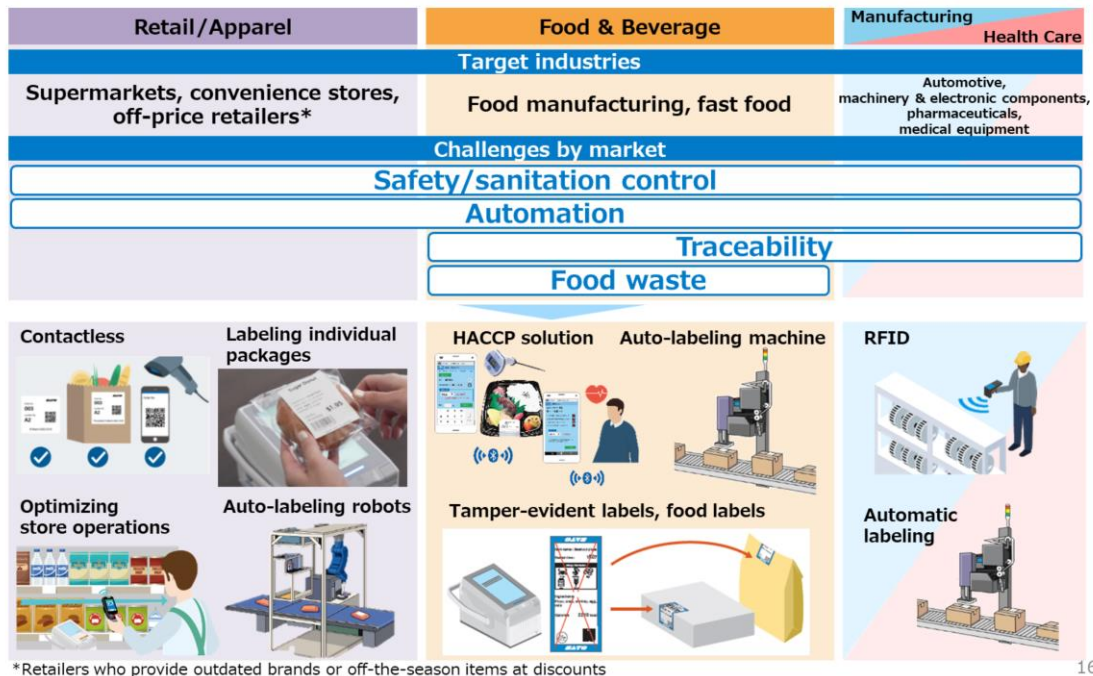


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- Amongst numerous on-site operations, we are determining which ones must immediately be addressed for coronavirus pandemic-related problems and proceeding with business dealings accordingly.
- The dotted red boxes show examples of solutions that SATO is providing in e-commerce distribution centers.
- The scope of what can be automated before and after the process of boxing products has expanded, thus making it possible to work faster and with greater accuracy. Additionally, since there are more automated ways to move things around, we are utilizing these to help reduce strain on workers and boost efficiency.
- In all these cases, we are meeting needs for work processes that avoid physical contact because of the capability to adjust workforce.

Auto-ID Solutions Business (Overseas)

Key initiatives following the coronavirus outbreak

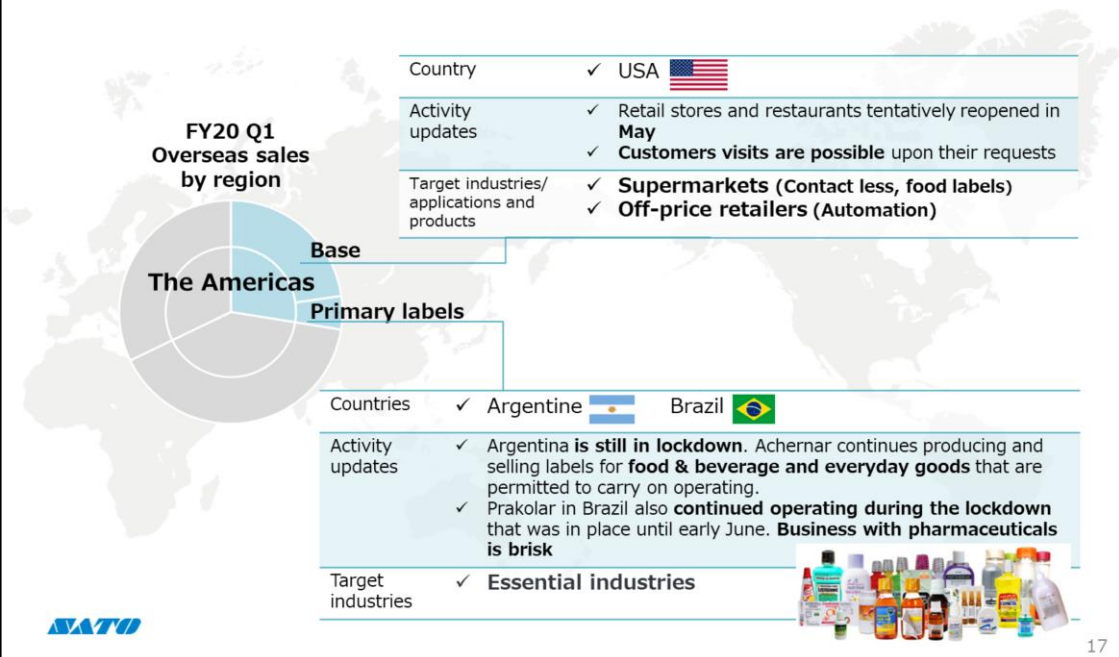


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- Overseas we are also working on similar initiatives to those in Japan.
- Having listened to our customers, we are building solutions for newly-added challenges with coronavirus, tailored to business practices in each region.
- Our headquarters in Japan is providing extra support to advance global business dealings with a sense of speed. This includes sharing industry-specific solutions globally.

Auto-ID Solutions Business (Overseas)

Key initiatives following the coronavirus outbreak: The Americas

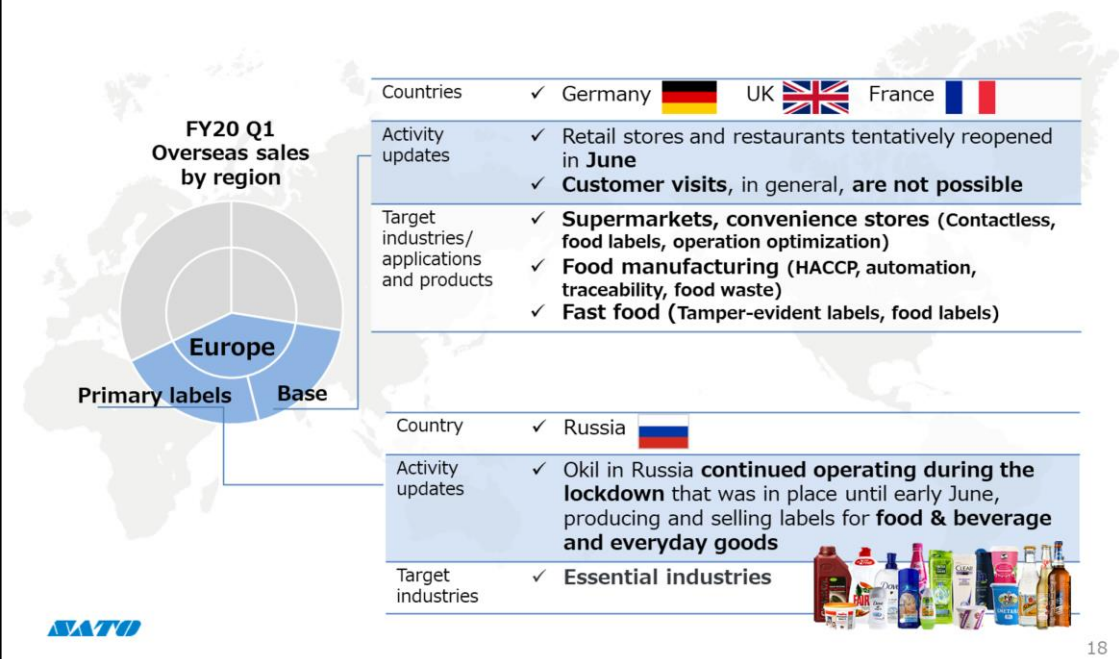


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- In the Americas, our sales activities are mainly conducted online, but we are traveling out for business dealings at customers' request.
- Consumables orders from large existing retail customers have recovered to about 70 to 80% of the previous year.
- In Argentina, sales activities are ongoing even during the lockdown. This includes new orders mainly in essential industries.

Auto-ID Solutions Business (Overseas)


Key initiatives following the coronavirus outbreak: Europe









- For our Base business in Europe, we are preparing contact-free solutions derived from HACCP solutions.
- In addition to the existing business that addresses food labeling regulations, the increase in deliveries and take-out orders due to the coronavirus pandemic has led to more business dealings for related printers and consumables.
- Okil in the Primary Labels business has many high-end customers. Their sales have been strong in labels for alcoholic beverages, food and beverage, and everyday goods, and they are continuing to approach new customers.

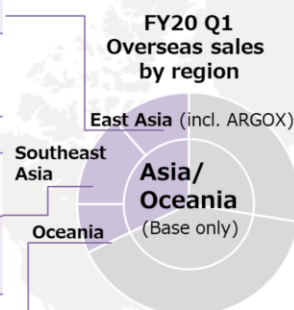
Auto-ID Solutions Business (Overseas)

Key initiatives following the coronavirus outbreak: Asia/Oceania

Country	✓ China 
Activity updates	✓ Operating as normal , but production has slowed in manufacturing (particularly automotive) due to decreased exports
Target industries/applications and products	✓ Automotive, machinery & electronic components (RFID, automation, traceability) ✓ Food manufacturing (HACCP, automation, traceability, food waste)

Countries	✓ Thailand  Singapore  India  Vietnam 
Activity updates	✓ Customer visits are not possible in Singapore or India ✓ Operating as normal in Thailand and Vietnam, but production has slowed due to decreased imports and exports
Target industries/applications and products	✓ Automotive, machinery & electronic components (RFID, automation, traceability) ✓ Pharmaceuticals, medical equipment (Automation, traceability) ✓ Food manufacturing (HACCP, automation, traceability, food waste)

Countries	✓ Australia  New Zealand 
Activity updates	✓ As parts of Australia have gone back into lockdown , activities are mostly conducted from home. New Zealand is operating as normal
Target industries/applications	✓ Off-price retailers (Automation) ✓ Food manufacturing (HACCP, automation, traceability, food waste)

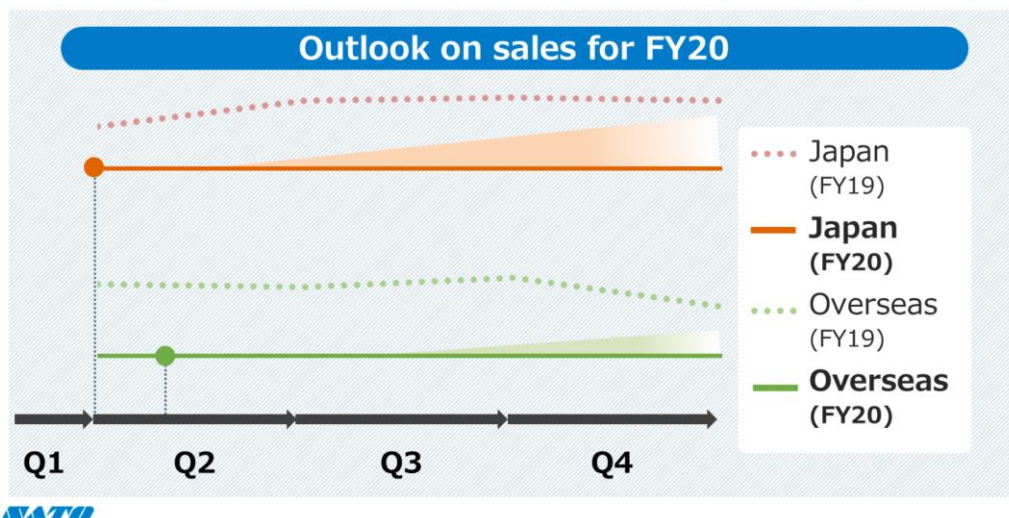


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- In East and Southeast Asia, sales slumped in our main market of manufacturing, but sales to the consumer goods industry increased due to demand for food and beverage and stay-home consumption.
- Going forward, we are targeting the food and beverage production industry as we expect increasing needs for solutions such as food product labeling and management of expiration dates.

Outlook for FY20

Japan and overseas businesses to gradually recover from Q2



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- Currently we believe that our business both in Japan and overseas will recover gradually from the second quarter onward. However, the recovery is not likely to reach previous year levels.
- On the other hand, needs for visualization of information will certainly increase. Automation of operations is also certain to progress in all markets and industries.
- The knowledge and experience we have accumulated in visualization and automation from our solutions over the years are particularly suited to the societal changes caused by the coronavirus.
- We believe that timely proposals of solutions to our customers to deal with the societal changes will drive our business recovery.
- Since the global economic circumstances remain too unclear to formulate any credible guidance at this point, we will withhold announcement of our business performance forecast. SATO intends to announce it with the financial results for the first half.

Appendix

Performance data Pages 22-37

SATO terminologies Pages 38-41



Sales and OI by Region

(Millions of JPY)

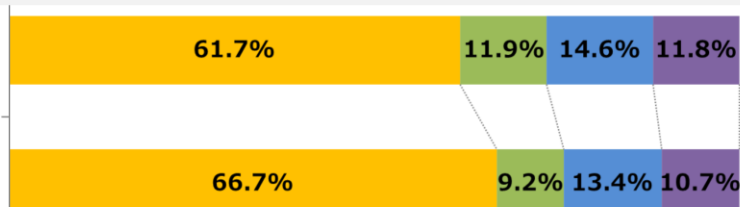
■ Japan
 ■ The Americas
 ■ Europe
 ■ Asia/Oceania

Sales

28,363 FY19



23,575 FY20



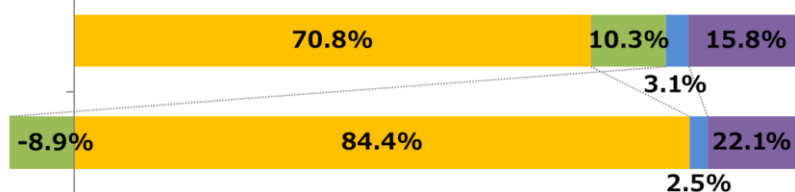
Operating Income

*Ratio excludes eliminations.

1,878 FY19



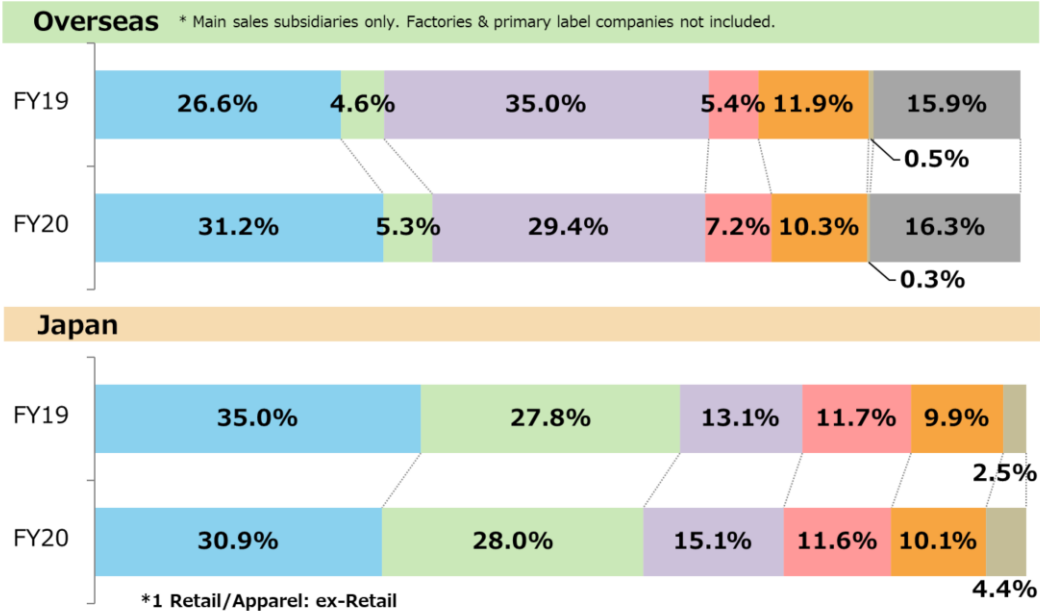
476 FY20



OI Ratio FY19 Japan : 7.5%, Overseas : 5.2%
 FY20 Japan : 2.5%, Overseas : 1.0%

Sales by Vertical

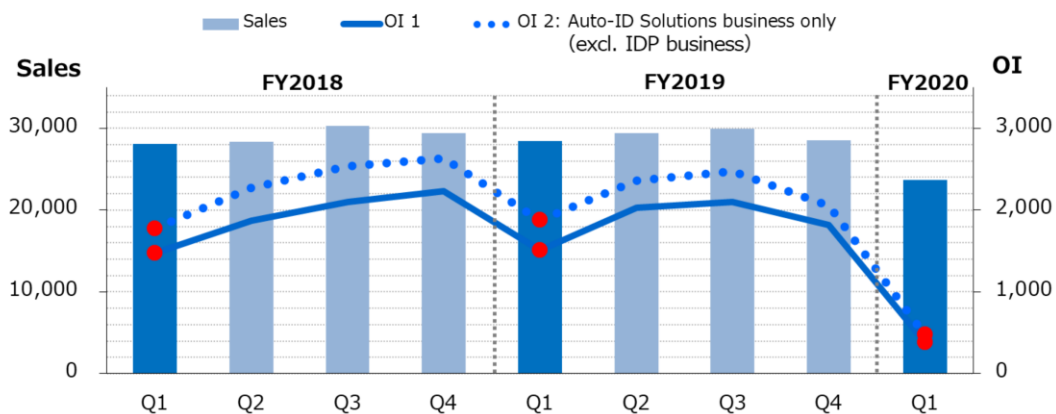
Manufacturing Logistics Retail/Apparel *1 Health Care Food & Beverage Public Others



Consolidated

Quarterly Sales & OI

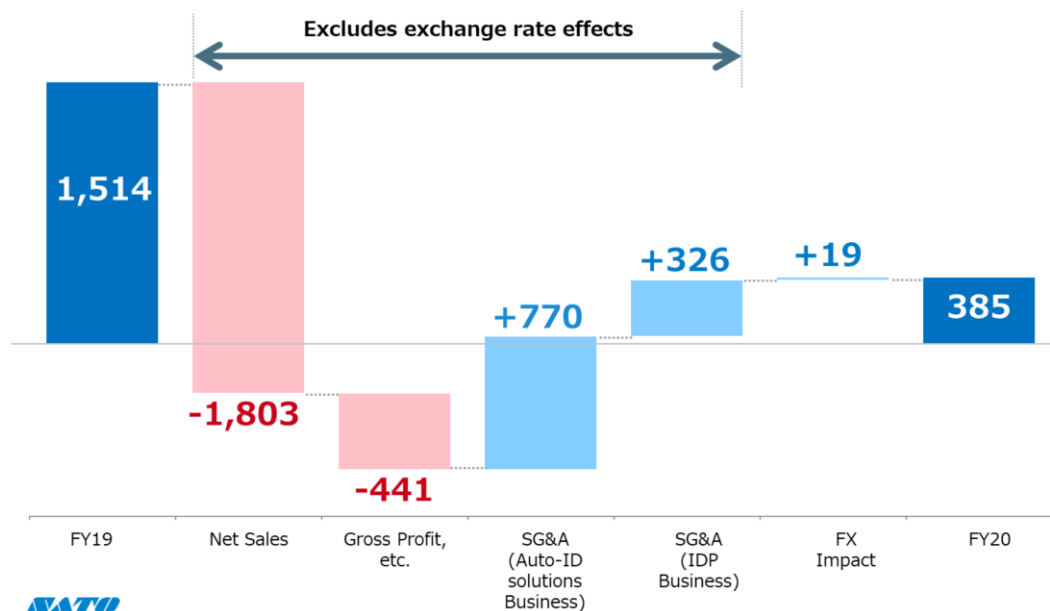
(Millions of JPY)



	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1
Sales	28,118	28,371	30,272	29,417	28,463	29,411	29,928	28,569	23,651
YoY	+4.9%	+1.2%	+0.3%	+3.7%	+1.2%	+3.7%	-1.1%	-2.9%	-16.9%
OI 1	1,473	1,869	2,100	2,235	1,514	2,028	2,103	1,815	385
YoY	+73.1%	+9.7%	-0.9%	+42.0%	+2.7%	+8.5%	+0.1%	-18.8%	-74.5%
OI 2	1,777	2,274	2,534	2,635	1,878	2,360	2,471	2,047	476
YoY	+44.3%	+9.6%	+0.8%	+40.6%	+5.7%	+3.8%	-2.5%	-22.3%	-74.6%

Major Gains/Losses in OI

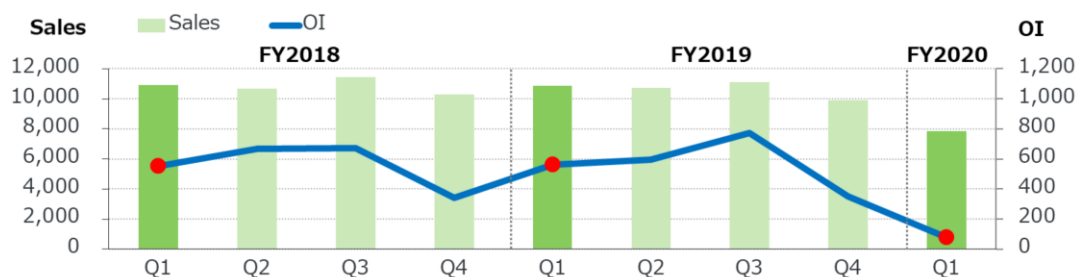
(Millions of JPY)



Auto-ID Solutions Business (Overseas)

Quarterly Sales & OI

(Millions of JPY)



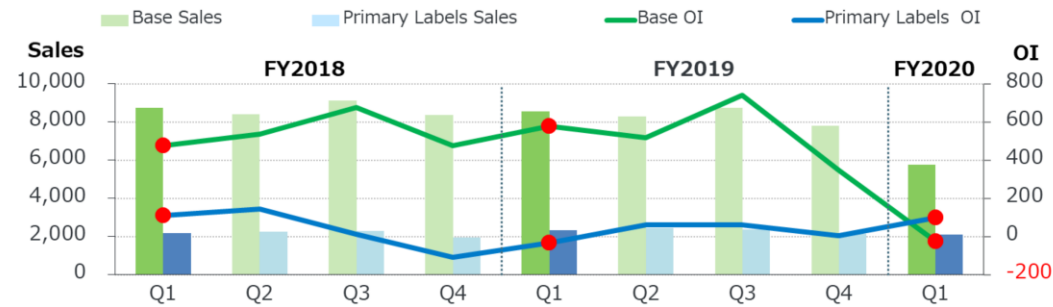
Sales	10,910	10,686	11,419	10,298	10,867	10,739	11,118	9,922	7,844
YoY	+8.2%	+1.6%	+1.7%	-4.2%	-0.4%	+0.5%	-2.6%	-3.7%	-27.8%
OI	553	667	674	344	560	595	772	349	77
YoY	+49.8%	-8.6%	+1.6%	+236.8%	+1.2%	-10.7%	+14.6%	+1.4%	-86.1%



Auto-ID Solutions Business (Overseas)

Quarterly Sales & OI

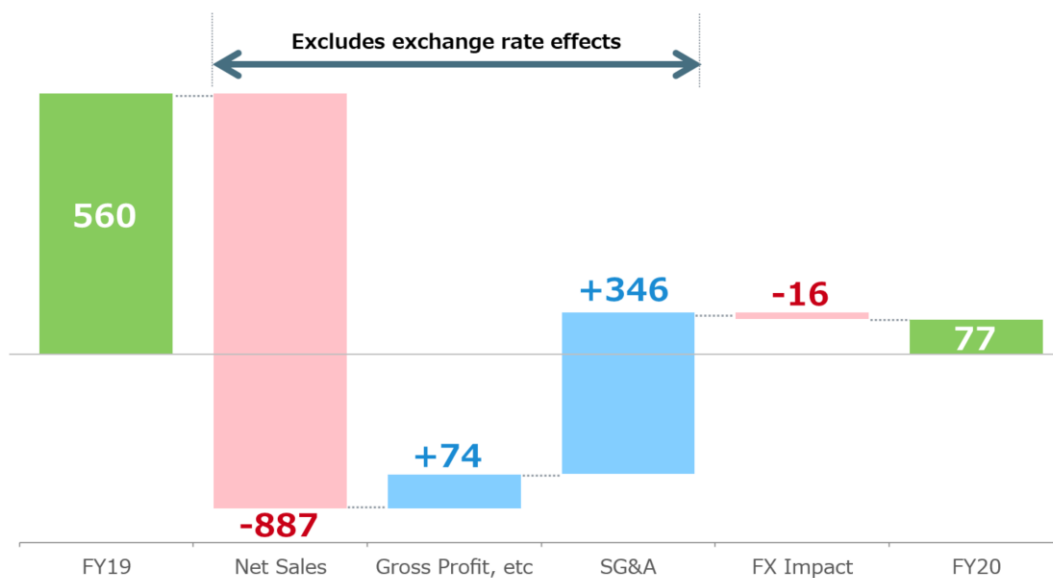
(Millions of JPY)



Base	Sales	8,730	8,421	9,118	8,359	8,539	8,286	8,758	7,794	5,755
	YoY	+10.2%	+0.8%	+1.5%	-3.9%	-2.2%	-1.6%	-3.9%	-6.8%	-32.6%
	OI	477	538	678	478	577	517	740	348	-26
	YoY	+39.9%	-21.0%	-3.3%	+1768.8%	+21.1%	-3.9%	+9.2%	-27.1%	-
Primary Labels	Sales	2,180	2,264	2,301	1,939	2,328	2,453	2,360	2,128	2,089
	YoY	+0.8%	+4.8%	+2.9%	-5.9%	+6.8%	+8.3%	+2.5%	+9.7%	-10.3%
	OI	112	146	12	-107	-33	61	61	6	100
	YoY	+141.7%	+457.4%	-	-	-	-58.3%	+388.8%	-	-

Major Gains/Losses in OI

(Millions of JPY)

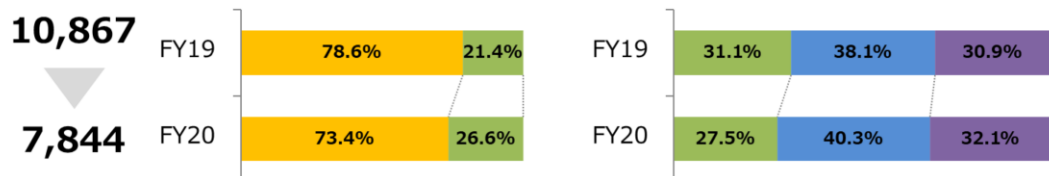


Sales and OI by Business Segment/Region

(Millions of JPY)

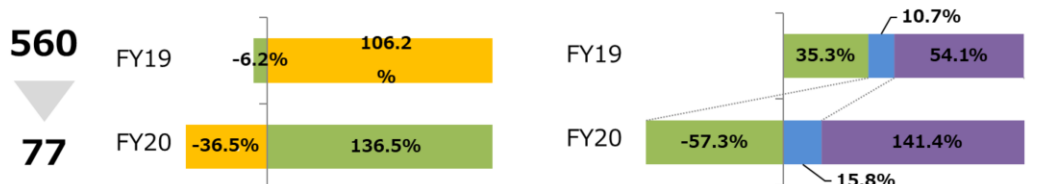
■ Base ■ Primary Labels ■ The Americas ■ Europe ■ Asia/Oceania

Sales



Operating Income

*Ratio excludes eliminations.



OI ratio:

FY19 Base : 6.8%, Primary Labels : N/A%

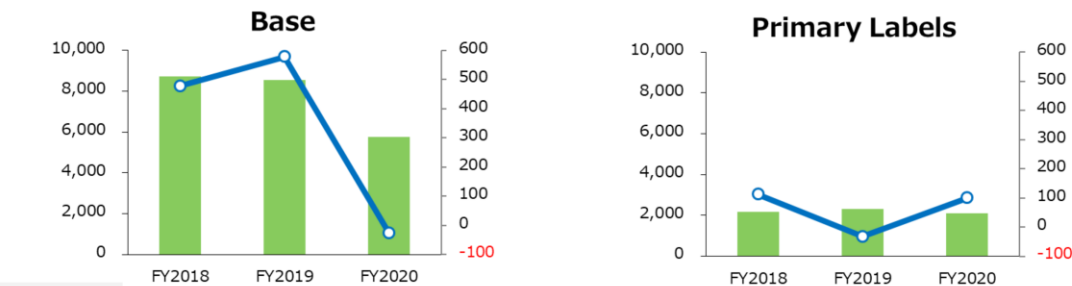
FY20 Base : N/A, Primary Labels : 4.8%

FY19 The Americas : 5.7%, Europe : 1.4%, Asia/Oceania : 8.8%

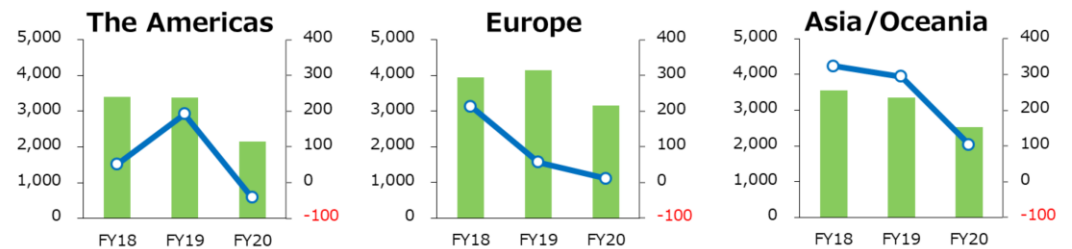
FY20 The Americas : N/A, Europe : 0.4%, Asia/Oceania : 4.1%

Sales and OI Trends by Business Segment and Region

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



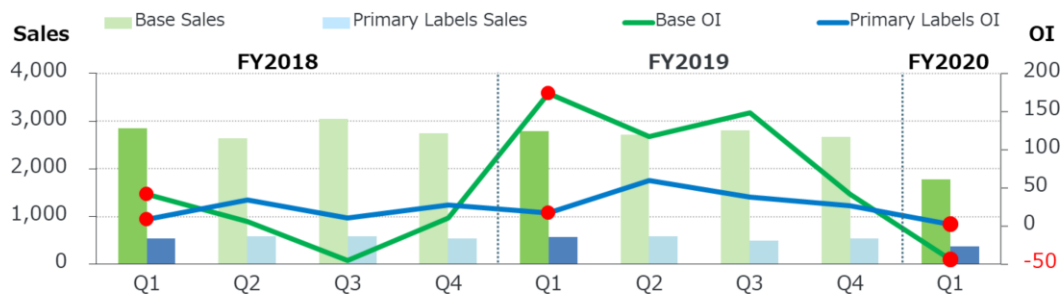
By Region



Auto-ID Solutions Business (Overseas)

The Americas: Quarterly Sales & OI

(Millions of JPY)

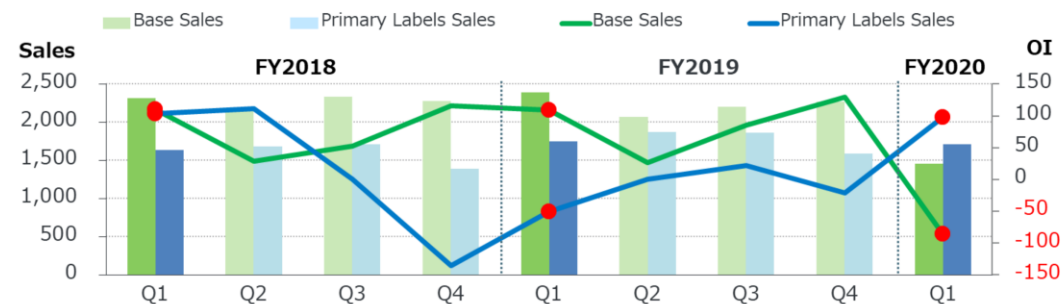


Base	Sales	2,854	2,640	3,043	2,753	2,797	2,714	2,811	2,664	1,781
	YoY	+2.7%	-9.0%	-0.6%	-9.4%	-2.0%	+2.8%	-7.6%	-3.2%	-36.3%
	OI	42	6	-45	11	174	117	149	42	-44
	YoY	-49.7%	-94.9%	-	-	+311.1%	+1599.3%	-	+276.4%	-
Primary Labels	Sales	546	584	587	550	577	586	497	536	378
	YoY	-16.9%	-12.4%	-9.9%	-19.6%	+5.6%	+0.4%	-15.2%	-2.5%	-34.5%
	OI	9	34	11	28	17	60	38	27	2
	YoY	-92.1%	+145.4%	-	-68.0%	+86.3%	+76.8%	+224.6%	-1.1%	-85.4%

Auto-ID Solutions Business (Overseas)

Europe: Quarterly Sales & OI

(Millions of JPY)

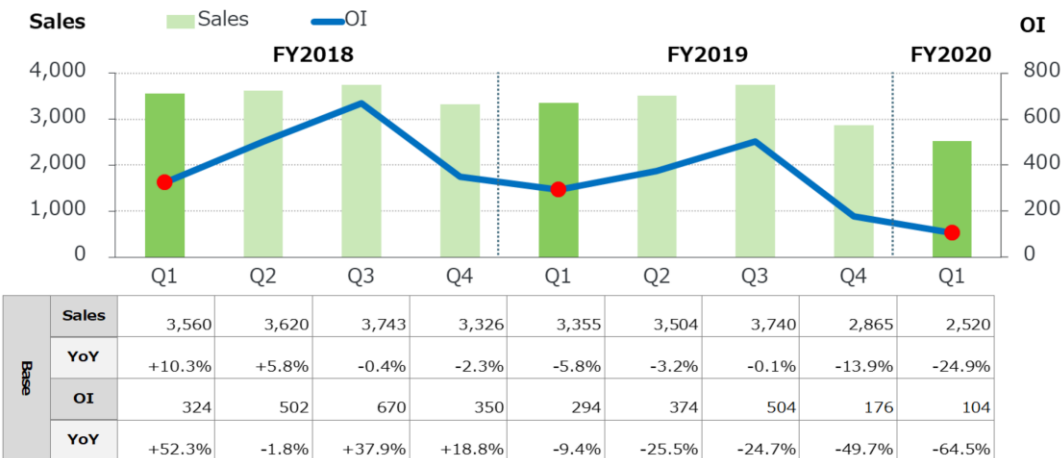


Base	Sales	2,315	2,160	2,330	2,279	2,386	2,066	2,205	2,264	1,453
	YoY	+20.8%	+6.3%	+7.6%	+1.2%	+3.1%	-4.4%	-5.4%	-0.7%	-39.1%
	OI	110	29	53	116	109	26	85	129	-86
	YoY	+153.7%	-17.2%	+10.6%	+4.5%	-0.8%	-10.7%	+61.7%	+11.1%	-
Primary Labels	Sales	1,633	1,680	1,714	1,388	1,751	1,867	1,862	1,591	1,711
	YoY	+8.6%	+12.5%	+8.1%	+1.0%	+7.2%	+11.1%	+8.6%	+14.6%	-2.3%
	OI	103	111	0	-135	-51	0	22	-21	98
	YoY	-	+813.3%	+282.6%	-	-	-99.7%	+3518.6%	-	-

Auto-ID Solutions Business (Overseas)

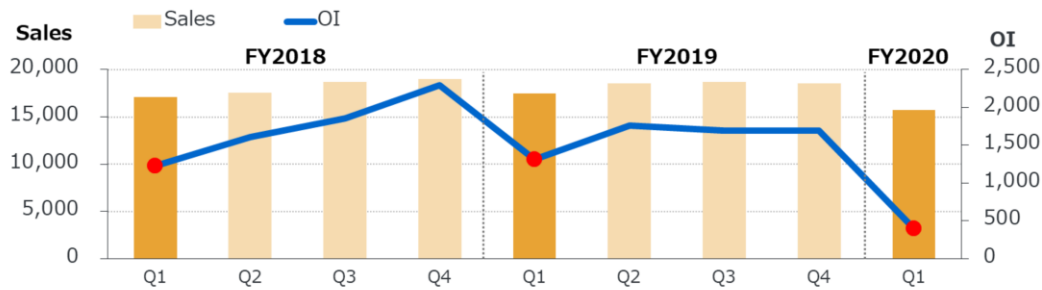
Asia/Oceania: Quarterly Sales & OI

(Millions of JPY)



Quarterly Sales & OI

(Millions of JPY)

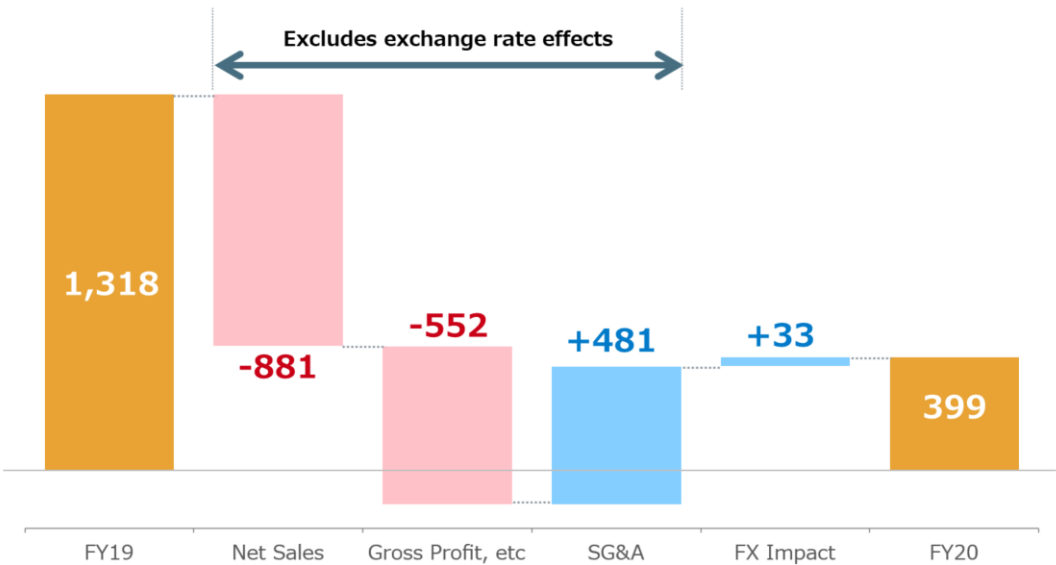


Sales	17,081	17,579	18,736	19,037	17,495	18,578	18,709	18,578	15,730
YoY	+2.7%	+0.9%	-0.9%	+8.7%	+2.4%	+5.7%	-0.1%	-2.4%	-10.1%
OI	1,224	1,606	1,860	2,291	1,318	1,765	1,698	1,697	399
YoY	+41.9%	+19.4%	+0.5%	+29.3%	+7.7%	+9.8%	-8.7%	-25.9%	-69.7%



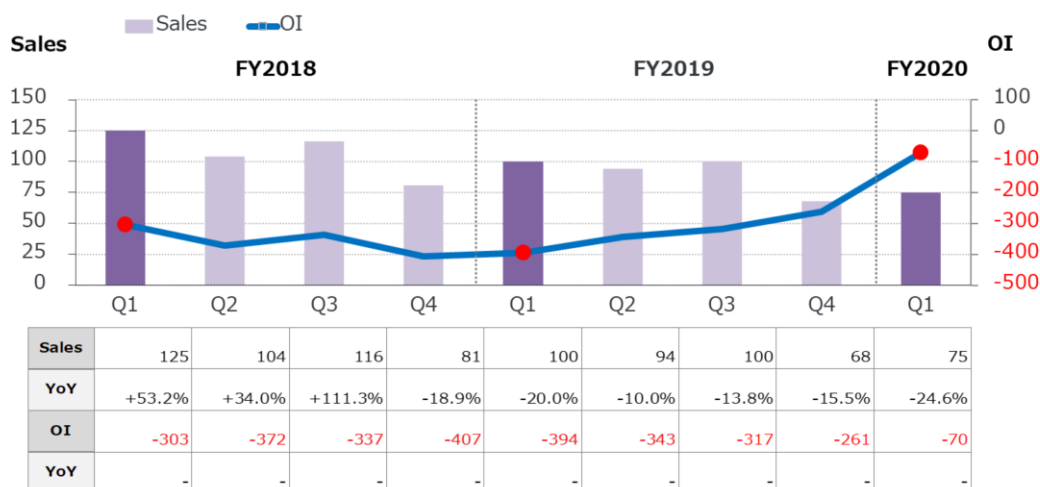
Major Gains/Losses in OI

(Millions of JPY)



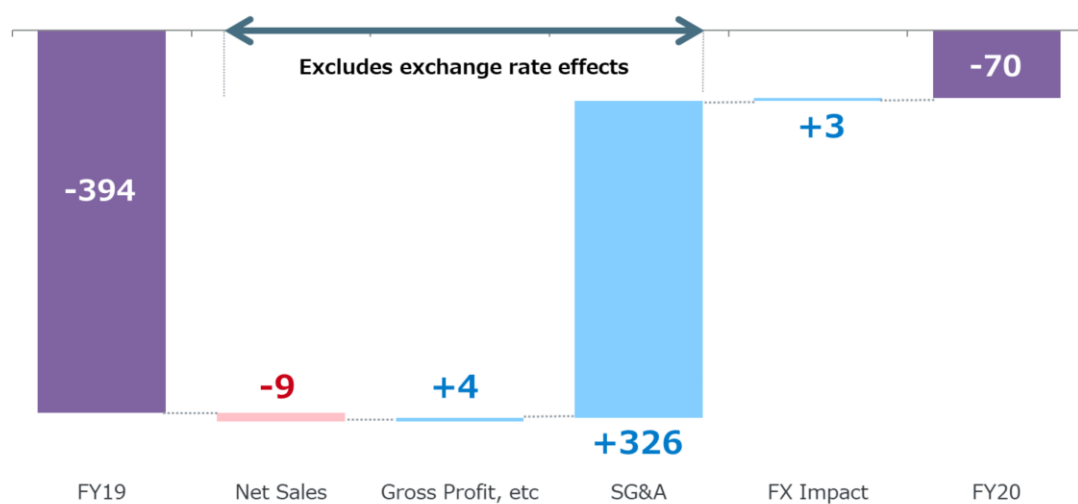
Quarterly Sales & OI

(Millions of JPY)



Major Gains/Losses in OI

(Millions of JPY)



SATO terminologies (1/4)

SATO-unique business concepts/initiatives	Description*
1 Auto-ID Solutions business	Our business that carries out <u>DCS & Labeling +One</u> . 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 <u>Base</u> and the <u>Primary Labels businesses</u> .
2 Base business	Business of <u>tagging</u> variable information, such as barcodes, at customer's site of operations.
3 Primary Labels business	Overseas business of <u>tagging</u> fixed information via product labels and other media. This business operates from SATO Group companies; <u>Achernar</u> (Argentina), <u>Prakolar</u> (Brazil), <u>Okil</u> (Russia) and <u>X-Pack</u> (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, <u>consumables</u> , 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 <u>RFID</u>) with barcode printers and labels/labeling services to (a) systematically collect data on people and things at business sites and (b) offer <u>tagging/labeling</u> of information, using accurate, efficient and optimized solutions. In line with increasingly sophisticated user needs, SATO also pursues a policy of open innovation and partnerships to provide value-added "+One" technologies such as image/voice recognition, location tracking and sensors to its legacy business model to better solve customer challenges.
8 Matching data with people and things	Connecting people and things at customer sites with information. Ever since our days of pioneering in hand labelers that attached price and other information to products, this concept has remained central to SATO's business.

(*) Underlined terms are described under its own heading



SATO terminologies (2/4)

SATO-unique business concepts/initiatives		Description
9	Genbaryoku	Our core competency of going to customer sites to understand their operations and identify the essence of issues to offer optimized solutions. It is our ability to (1) integrate products, services and technologies into solutions, working together with strategic partners, (2) address a wide range of market, industry and application needs with our expertise in sites of operations, and (3) offer maintenance services and solutions continuously to build trust and establish lasting relationships with customers.
10	Teiho	Teiho is SATO's unique system of reports and proposals in effect since 1976. Employees share new information and ideas they come across on-site every day to top management via the Teiho system. Teiho helps top management gain immediate insight into the internal/external business situation to facilitate quick decision-making and execution of initiatives, while allowing "participation by all" in the management of the company. As Teiho reports are directly addressed to top management, it is also an effective means of compliance monitoring to prevent malpractice and other inappropriate behavior and assist in corporate governance. Some of our global offices have also started Teiho, with more to follow.
11	AAP (Area Alliance Partner)	Our initiative in Japan to segment regions into smaller divisions and form alliances with partners having strong presence in areas/industries that we have yet to cover.
Products, services, technologies		Description
1	Mechatronics	All products not <u>consumables</u> , including hardware (e.g., printers, automatic labelers, scanners, hand labelers), software and maintenance services. They generate higher gross profit margin than <u>consumables</u> . Printers are manufactured in Malaysia, Vietnam and Taiwan.
2	Consumables	"Consumable" products such as <u>variable information labels</u> , <u>RFID</u> tags, primary labels (product labels) and ribbons. They generate lower gross profit margin than <u>mechatronics</u> , but incur low SG&A expenses ratio as they are typically sold through repeat business.
3	Auto-ID Solutions	Combination of products such as printers, labels, software and maintenance services using auto-ID technologies to carry out <u>DCS & Labeling +One</u> . To meet ever complex and diverse customer challenges, SATO also looks beyond its own resources and interests by pursuing partnerships, for example, to enable location technologies to track items by tags and inventory/worker movements in real time for managing manufacturing processes and visualizing productivity on-site.



SATO terminologies (3/4)

Products, services, technologies		Description
4	SOS (SATO Online Services)	A cloud-based monitoring service for printers that enables preventative maintenance and on-the-spot troubleshooting. With SOS, users can view the status of their cloud-connected printers at a glance and manage them centrally with ease, while SATO can increase productivity of its service personnel, allowing for even small service teams (as is often the case overseas) to provide improved support.
5	AEP (Application Enabled Printing)	A powerful on-board intelligence which enables customization of printer operation. Printers can link to other systems on a stand-alone basis, without going through any computers.
6	Variable information labels	Blank or pre-printed labels used to print information elements such as barcode, product price and manufactured or expiry date that vary with every customer's site of operation. Unlike fixed information labels that are identical and printed at large quantities in a single run, variable information labels can be printed on-demand as and when needed.
7	RFID (Radio Frequency Identification)	A type of auto-ID technology that uses radio waves to read/write data from/to an RFID tag without making contact. RFID offers faster read rates (from reading multiple tags at the same time) and greater read range than traditional barcode technology. Also, unlike barcodes, RFID tags can be read when covered by another object or stained, and are read/write-capable to enable updates to the encoded data. Because of these key benefits, RFID can significantly improve operational efficiency.
8	IDP (Inline Digital Printing)	A revolutionary, direct marking technology comprised of a special heat-sensitive pigment that can be applied as a coating to virtually any substrate and exposed to a laser beam to create a color change. As IDP uses no ink or labels at the point of printing, it eliminates the need for labeling, minimizes stock keeping units (SKUs) and reduces waste, while shortening time spent on hardware maintenance. Besides delivering cost savings, productivity improvements and environmental benefits, IDP allows the printing of variable data for late stage customization/personalization of products and packaging, making it ideal for real-time, consumer-directed marketing.



SATO terminologies (4/4)

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