

November 10, 2021

SATO HOLDINGS CORPORATION

FY2021 1H Financial Results
(Six Months Ended September 30, 2021)

Securities Code: 6287

Key Points of 1H Results

【Sales】

**Both overseas and Japan continued to recover.
Demand remained strong.**

FY21-Q1

- Overseas : Record-high sales thanks to initiatives for robust industries and special printer demand.
- Japan : Mixed recovery depending on market and industry. Consumables recovered ahead of mechatronics.

FY21-Q2

- Overseas : Continued to perform well, but with a smaller increase YoY due to drop-off in special demand for printers.
- Japan : Some markets recovered pre-pandemic levels amid continued recovery in general.

【Profits】

Various risks emerged. Intended strategies were duly conducted.

Risks

- Rising costs (Components, raw materials, and shipping)
- Printer supply constraints

Strategies

- Conducted strategic initiatives at the expense of temporary decline in GPM.
- Made strategic investments for growth. Geared up sales activities.

Summary

Consolidated

1H sales and operating income increased YoY.
Q2 sales increased while OI remained flat.

Auto-ID Solutions Business (Overseas)

Sales and OI increased in 1H.

Sales increased in Q2 while OI was up slightly.

- Base business: 1H sales and OI increased due to recovery in existing demand and initiatives for robust industries.
- Primary Labels business: 1H sales and OI increased due to continued strong sales to the daily life infrastructure industry.

Auto-ID Solutions Business (Japan)

1H sales and OI increased due to recovery in existing demand and initiatives for robust industries.

Q2 sales were strong, but OI declined on higher costs and investments for long-term growth.

Sales and OI by Business Segment

(Millions of JPY)

		FY2021 Apr-Sep	FY2020 Apr-Sep	YoY	excl. FX impact
Auto-ID Solutions business	Total Sales	60,261	49,736	+21.2%	+18.9%
	Operating Income	2,762	1,609	+71.7%	+73.9%
	Overseas	Total Sales	18,013	+40.4%	+34.1%
		Operating Income	761	2.5x	2.4x
	Japan	Total Sales	31,722	+10.3%	+10.3%
		Operating Income	847	+4.8%	+14.7%
IDP business*	Total Sales	0	136	-	-
	Operating Income	0	-148	-	-
Consolidated (incl. eliminations)	Total Sales	60,261	49,872	+20.8%	+18.6%
	Operating Income	2,779	1,470	+89.0%	+91.5%

Sales and OI by Business Segment

(Millions of JPY)

		FY2021 Jul-Sep	FY2020 Jul-Sep	YoY	excl. FX impact
Auto-ID Solutions business	Total Sales	30,084	26,160	+15.0%	+12.9%
	Operating Income	1,001	1,132	-11.5%	-5.9%
Overseas	Total Sales	12,354	10,168	+21.5%	+16.0%
	Operating Income	698	683	+2.2%	-0.9%
Japan	Total Sales	17,729	15,991	+10.9%	+10.9%
	Operating Income	303	448	-32.4%	-13.6%
IDP business*	Total Sales	0	60	-	-
	Operating Income	0	-77	-	-
Consolidated (incl. eliminations)	Total Sales	30,084	26,221	+14.7%	+12.6%
	Operating Income	1,073	1,084	-1.0%	+4.9%

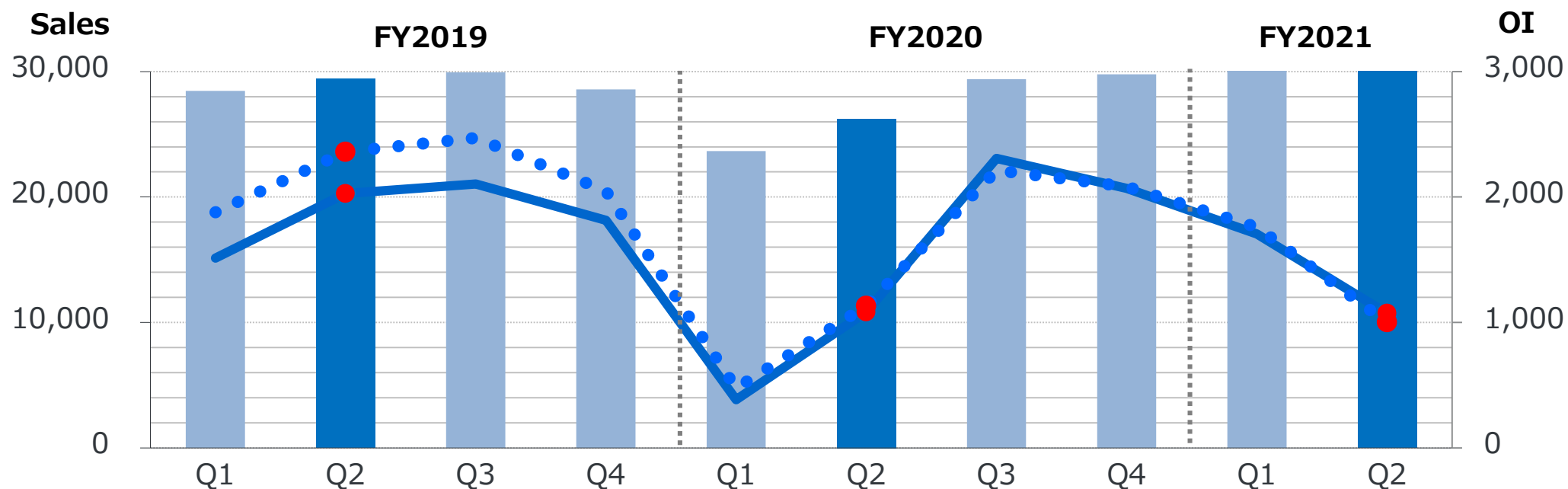
Quarterly Sales & OI

(Millions of JPY)

Sales

OI 1

OI 2: Auto-ID Solutions business only
(excl. IDP business & eliminations)



Sales	28,463	29,411	29,928	28,569	23,651	26,221	29,398	29,781	30,177	30,084
YoY	+1.2%	+3.7%	-1.1%	-2.9%	-16.9%	-10.8%	-1.8%	+4.2%	+27.6%	+14.7%
OI 1	1,514	2,028	2,103	1,815	385	1,084	2,307	2,069	1,706	1,073
YoY	+2.7%	+8.5%	+0.1%	-18.8%	-74.5%	-46.5%	+9.7%	+14.0%	4.4x	-1.0%
OI 2	1,878	2,360	2,471	2,047	476	1,132	2,213	2,083	1,760	1,001
YoY	+5.7%	+3.8%	-2.5%	-22.3%	-74.6%	-52.0%	-10.4%	+1.8%	3.7x	-11.5%

Consolidated Results

(Millions of JPY)

	FY2021 Apr-Sep	FY2020 Apr-Sep	Change	YoY
Net Sales	60,261	49,872	+10,389	+20.8%
Operating Income	2,779	1,470	+1,309	+89.0%
Operating Income %	4.6%	2.9%	+1.7pt	-
Ordinary Income	2,695	1,231	+1,463	2.2x
Profit attributable to owners of parent ^{*1}	1,848	3,249	-1,401	-43.1%
Effective Tax Rate ^{*2}	25.7%	-	-	-
EBITDA ^{*3}	4,974	3,650	+1,324	+36.3%

Average exchange rates for Apr-Sep FY21: JPY 109.81 /USD, JPY 130.88 /EUR, Apr-Sep FY20: JPY 106.92/USD, JPY 121.33/EUR

FX sensitivity for FY21: JPY +459 million in sales and JPY +17million in OI for +1 JPY against USD and assuming all others move by the same ratio

*1,2 Profit attributable to owners of parent and Effective Tax Rate:

For FY2020, income tax related to the impairment loss at DataLase in FY19 was adjusted following the transfer of its shares in Sep 2020.

*3 EBITDA = Operating Income + Depreciation + Amortization

· Depreciation for Apr-Sep FY21: JPY 2,076 million Apr-Sep FY20: JPY 2,066 million

· Amortization for Apr-Sep FY21: JPY 117 million Apr-Sep FY20: JPY 113 million

Consolidated Results

(Millions of JPY)

	FY2021 Jul-Sep	FY2020 Jul-Sep	Change	YoY
Net Sales	30,084	26,221	+3,863	+14.7%
Operating Income	1,073	1,084	-10	-1.0%
Operating Income %	3.6%	4.1%	-0.6pt	-
Ordinary Income	1,051	613	+437	+71.3%
Profit attributable to owners of parent ^{*1}	762	3,036	-2,274	-74.9%
Effective Tax Rate ^{*2}	21.3%	-	-	-
EBITDA ^{*3}	2,176	2,142	+33	+1.6%

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*3 EBITDA = Operating Income + Depreciation + Amortization

· Depreciation for Jul-Sep FY21: JPY : 1,043 million Jul-Sep FY20: JPY 1,001 million

· Amortization for Jul-Sep FY21: JPY : 59 million Jul-Sep FY20: JPY 56 million

Overview

Jul-Sep

Sales increased in all regions due to recovery in existing demand and initiatives for robust industries. OI gains were limited against the backdrop of supply constraints on printers and soaring raw material prices.

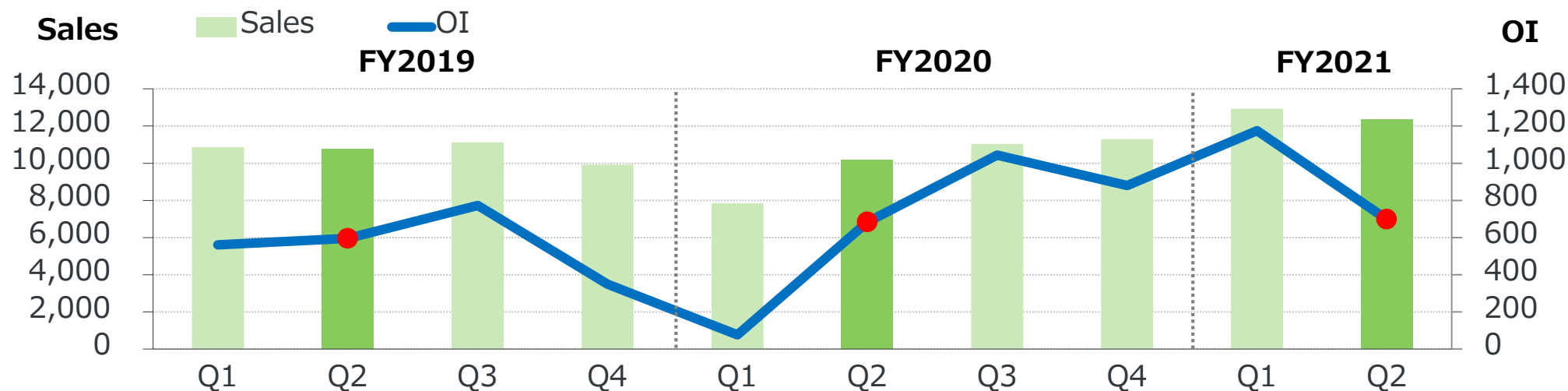
(Millions of JPY)

	FY2021 Jul-Sep	FY2020 Jul-Sep	Change	YoY	excl. FX impact
Total Sales	12,354	10,168	+2,186	+21.5%	+16.0%
Gross Profit	3,992	3,572	+420	+11.8%	-
Gross Profit %	32.3%	35.1%	-2.8pt	-	-
Operating Income	698	683	+14	+2.2%	-0.9%
Operating Income %	5.7%	6.7%	-1.1pt	-	-

	FY2021 Apr-Sep	FY2020 Apr-Sep	Change	YoY	excl. FX impact
Total Sales	25,284	18,013	+7,270	+40.4%	+34.1%
Gross Profit	8,686	6,323	+2,362	+37.4%	-
Gross Profit %	34.4%	35.1%	-0.7pt	-	-
Operating Income	1,873	761	+1,112	2.5x	2.4x
Operating Income %	7.4%	4.2%	+3.2pt	-	-

Quarterly Sales & OI

(Millions of JPY)



Sales	10,867	10,739	11,118	9,922	7,844	10,168	11,045	11,290	12,929	12,354
YoY	-0.4%	+0.5%	-2.6%	-3.7%	-27.8%	-5.3%	-0.7%	+13.8%	+64.8%	+21.5%
OI	560	595	772	349	77	683	1,043	880	1,175	698
YoY	+1.2%	-10.7%	+14.6%	+1.4%	-86.1%	+14.8%	+35.1%	2.5x	15.1x	+2.2%

Breakdown by Business Segment

Jul-Sep

Base business: Sales increased, driven mainly by consumables in the targeted retail market.

OI growth was limited due to constraints on printer supply and rising costs.

Primary Labels business: Sales increased due to robust sales to the daily life infrastructure industry.

OI decreased due to cost increases.

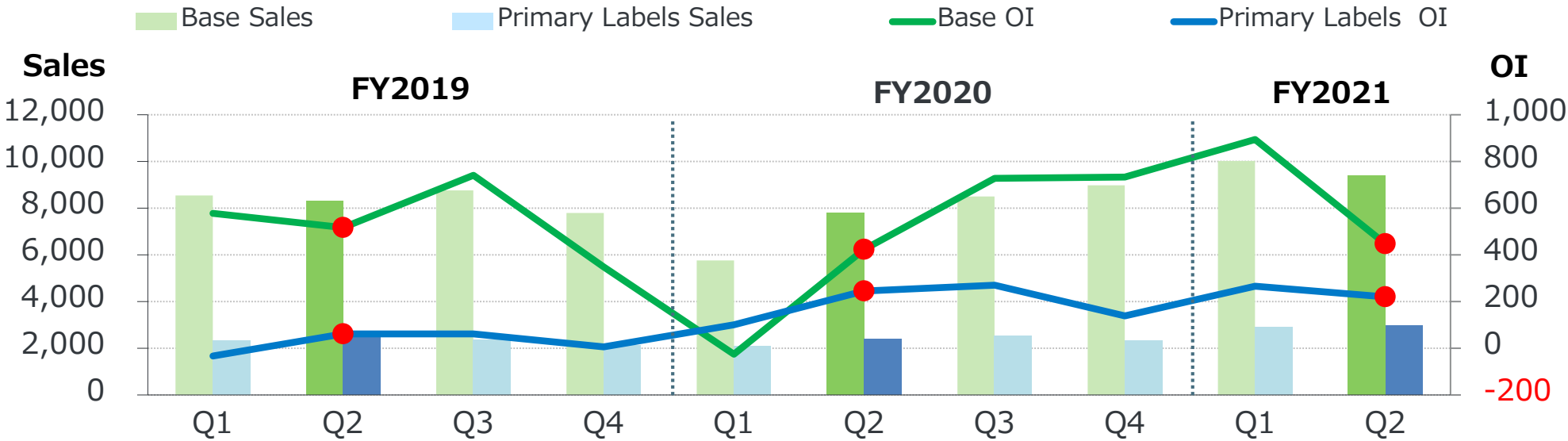
(Millions of JPY)

		FY2021 Jul-Sep	FY2020 Jul-Sep	Change	YoY	excl. FX impact
Base	Total Sales	9,399	7,779	+1,620	+20.8%	+14.5%
	Operating Income	447	423	+24	+5.8%	-0.7%
Primary Labels	Total Sales	2,955	2,389	+565	+23.7%	+20.9%
	Operating Income	220	245	-24	-10.1%	-7.4%
Eliminations	Operating Income	29	14	+15	2.0x	2.0x
Total	Total Sales	12,354	10,168	+2,186	+21.5%	+16.0%
	Operating Income	698	683	+14	+2.2%	-0.9%

		FY2021 Apr-Sep	FY2020 Apr-Sep	Change	YoY	excl. FX impact
Base	Total Sales	19,423	13,534	+5,888	+43.5%	+35.0%
	Operating Income	1,342	396	+945	3.4x	3.2x
Primary Labels	Total Sales	5,860	4,478	+1,382	+30.9%	+31.6%
	Operating Income	486	345	+140	+40.7%	+50.0%
Eliminations	Operating Income	44	18	+25	2.4x	2.4x
Total	Total Sales	25,284	18,013	+7,270	+40.4%	+34.1%
	Operating Income	1,873	761	+1,112	2.5x	2.4x

Quarterly Sales & OI

(Millions of JPY)



Base	Sales	8,539	8,286	8,758	7,794	5,755	7,779	8,499	8,976	10,023	9,399
	YoY	-2.2%	-1.6%	-3.9%	-6.8%	-32.6%	-6.1%	-3.0%	+15.2%	+74.2%	+20.8%
	OI	577	517	740	348	-26	423	727	733	894	447
	YoY	+21.1%	-3.9%	+9.2%	-27.1%	-	-18.2%	-1.8%	2.1x	-	+5.8%
Primary Labels	Sales	2,328	2,453	2,360	2,128	2,089	2,389	2,546	2,313	2,905	2,955
	YoY	+6.8%	+8.3%	+2.5%	+9.7%	-10.3%	-2.6%	+7.9%	+8.7%	+39.1%	+23.7%
	OI	-33	61	61	6	100	245	270	139	266	220
	YoY	-	-58.3%	4.9x	-	-	4.0x	4.4x	22.0x	2.6x	-10.1%

Breakdown by Region: The Americas

Jul-Sep

Base business: Logistics volume increased in the brisk U.S. retail market. Sales increased, driven by consumables. OI decreased due to supply constraints on printers and rising costs for consumables.

Primary Labels business: Sales increased by capturing demand in the daily life infrastructure industry. OI growth was limited due to higher raw material costs.

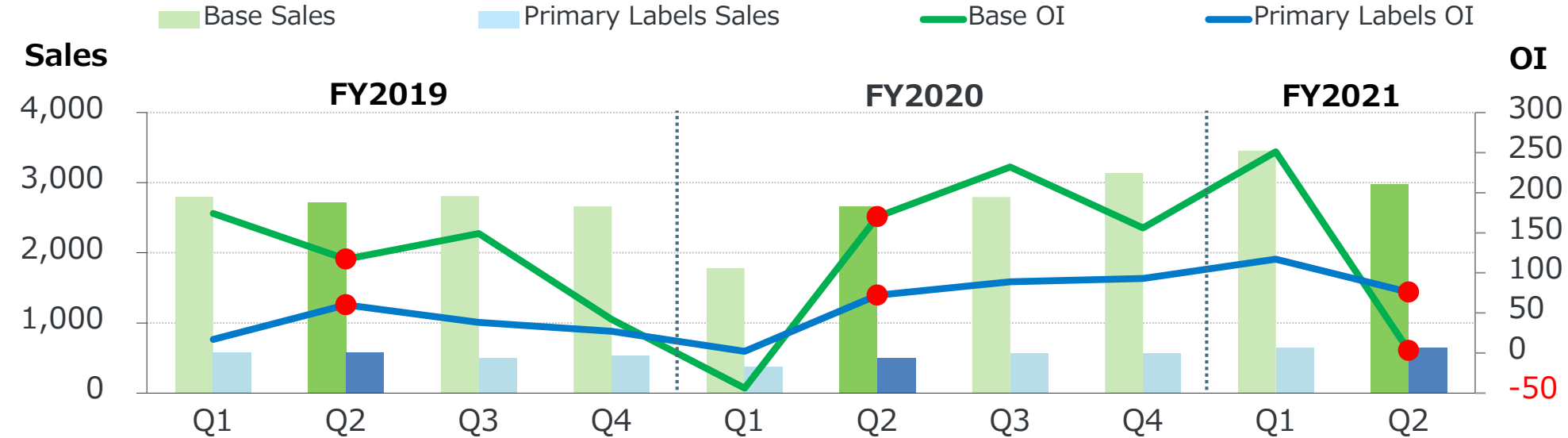
(Millions of JPY)

		FY2021 Jul-Sep	FY2020 Jul-Sep	Change	YoY	excl. FX impact
Base	Total Sales	2,970	2,660	+309	+11.6%	+8.0%
	Operating Income	3	170	-167	-97.8%	-97.6%
Primary Labels • Achernar • Prakolar	Total Sales	643	498	+145	+29.2%	+34.3%
	Operating Income	76	72	+3	+4.7%	+21.7%
Total	Total Sales	3,614	3,159	+454	+14.4%	+12.1%
	Operating Income	79	243	-163	-67.2%	-62.0%

		FY2021 Apr-Sep	FY2020 Apr-Sep	Change	YoY	excl. FX impact
Base	Total Sales	6,429	4,442	+1,987	+44.7%	+41.5%
	Operating Income	255	126	+129	2.0x	2.0x
Primary Labels • Achernar • Prakolar	Total Sales	1,292	876	+415	+47.4%	+58.2%
	Operating Income	193	75	+118	2.6x	3.1x
Total	Total Sales	7,721	5,318	+2,402	+45.2%	+44.2%
	Operating Income	448	201	+247	2.2x	2.4x

The Americas: Quarterly Sales & OI

(Millions of JPY)



Base	Sales	2,797	2,714	2,811	2,664	1,781	2,660	2,794	3,140	3,458	2,970
	YoY	-2.0%	+2.8%	-7.6%	-3.2%	-36.3%	-2.0%	-0.6%	+17.8%	+94.2%	+11.6%
	OI	174	117	149	42	-44	170	232	156	251	3
	YoY	4.1x	17.0x	-	3.8x	-	+45.6%	+54.8%	3.6x	-	-97.8%
Primary Labels	Sales	577	586	497	536	378	498	571	576	648	643
	YoY	+5.6%	+0.4%	-15.2%	-2.5%	-34.5%	-15.0%	+14.9%	+7.3%	+71.4%	+29.2%
	OI	17	60	38	27	2	72	89	93	117	76
	YoY	+86.3%	+76.8%	3.2x	-1.1%	-85.4%	+19.8%	2.3x	3.4x	45.9x	+4.7%

Breakdown by Region: Europe

Jul-Sep

Base business: Sales increased due to initiatives for strong-performing industries, such as food supermarkets, and recovering sectors, such as restaurants.

OI decreased due to constraints on printer supply and rising costs.

Primary Labels business: Sales increased due to deeper cultivation of existing businesses such as food and beverages at Okil in Russia. OI decreased due to cost increases in raw materials.

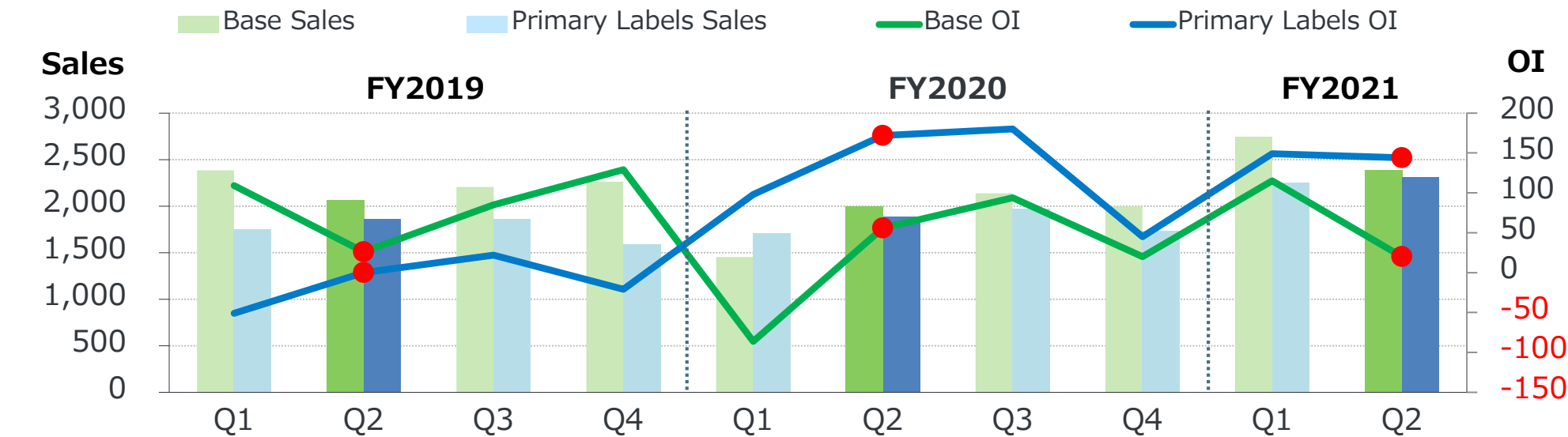
(Millions of JPY)

		FY2021 Jul-Sep	FY2020 Jul-Sep	Change	YoY	excl. FX impact
Base	Total Sales	2,391	2,000	+391	+19.5%	+13.2%
	Operating Income	20	56	-36	-63.8%	-60.2%
Primary Labels • Okil • X-Pack	Total Sales	2,311	1,891	+420	+22.2%	+17.3%
	Operating Income	144	172	-28	-16.3%	-19.7%
Total	Total Sales	4,703	3,892	+811	+20.8%	+15.2%
	Operating Income	164	228	-64	-28.0%	-29.7%

		FY2021 Apr-Sep	FY2020 Apr-Sep	Change	YoY	excl. FX impact
Base	Total Sales	5,138	3,454	+1,684	+48.8%	+36.6%
	Operating Income	136	-29	+166	-	-
Primary Labels • Okil • X-Pack	Total Sales	4,568	3,602	+966	+26.8%	+25.1%
	Operating Income	293	270	+22	+8.4%	+7.0%
Total	Total Sales	9,707	7,056	+2,650	+37.6%	+30.8%
	Operating Income	429	240	+189	+78.6%	+73.0%

Europe: Quarterly Sales & OI

(Millions of JPY)



Base	Sales	2,386	2,066	2,205	2,264	1,453	2,000	2,137	1,996	2,746	2,391
	YoY	+3.1%	-4.4%	-5.4%	-0.7%	-39.1%	-3.2%	-3.1%	-11.8%	+89.0%	+19.5%
	OI	109	26	85	129	-86	56	94	20	115	20
	YoY	-0.8%	-10.7%	+61.7%	+11.1%	-	2.2x	+9.6%	-84.2%	-	-63.8%
Primary Labels	Sales	1,751	1,867	1,862	1,591	1,711	1,891	1,974	1,737	2,256	2,311
	YoY	+7.2%	+11.1%	+8.6%	+14.6%	-2.3%	+1.3%	+6.0%	+9.2%	+31.9%	+22.2%
	OI	-51	0	22	-21	98	172	180	45	149	144
	YoY	-	-	36.2x	-	-	-	8.0x	-	+51.8%	-16.3%

Breakdown by Region: Asia/Oceania

Jul-Sep

Base business: Sales increased at all sales subsidiaries, driven particularly by those in China.
OI increased in line with increased sales.

(Millions of JPY)

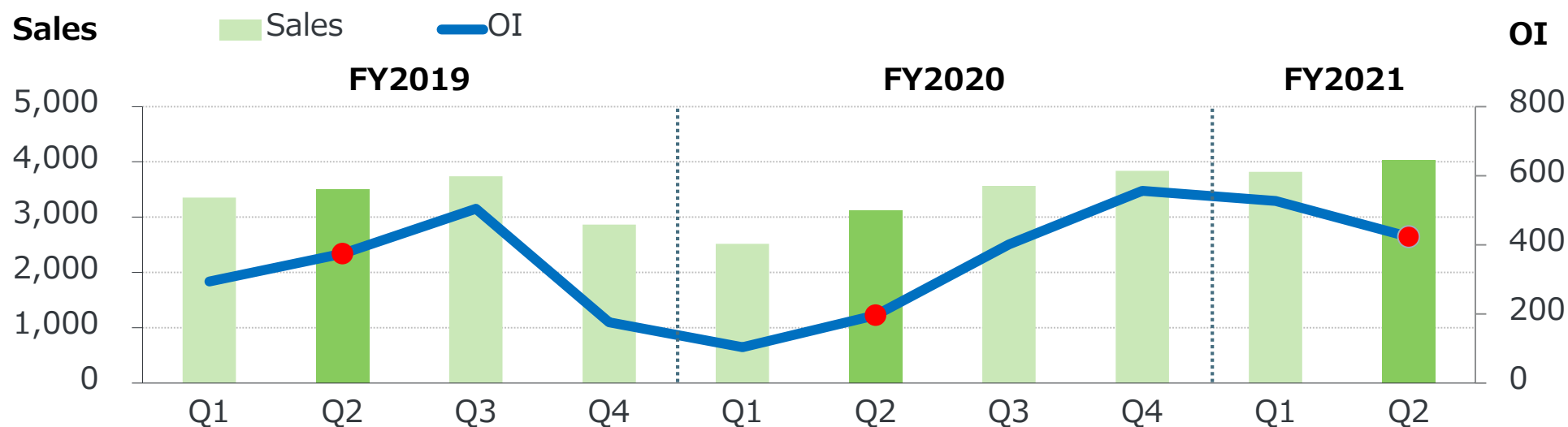
		FY2021 Jul-Sep	FY2020 Jul-Sep	Change		
					YoY	excl.FX Impact
Base	Total Sales	4,037	3,117	+919	+29.5%	+21.0%
	Operating Income	423	196	+227	2.2x	2.0x

		FY2021 Apr-Sep	FY2020 Apr-Sep	Change		
					YoY	excl.FX Impact
Base	Total Sales	7,855	5,638	+2,217	+39.3%	+28.8%
	Operating Income	950	300	+650	3.2x	2.9x



Asia/Oceania: Quarterly Sales & OI

(Millions of JPY)



Base	Sales	3,355	3,504	3,740	2,865	2,520	3,117	3,567	3,839	3,817	4,037
	YoY	-5.8%	-3.2%	-0.1%	-13.9%	-24.9%	-11.1%	-4.6%	+34.0%	+51.5%	+29.5%
	OI	294	374	504	176	104	196	401	556	527	423
	YoY	-9.4%	-25.5%	-24.7%	-49.7%	-64.5%	-47.6%	-20.5%	3.2x	5.1x	2.2x

Overview

Jul-Sep

Sales increased on continued recovery overall. GPM declined due to increase in printer sales with relatively low gross profit as a result of strategic initiatives for robust industries. OI decreased due to higher shipping costs and investments for growth.

(Millions of JPY)

	FY2021 Jul-Sep	FY2020 Jul-Sep	Change	YoY
Mechatronics Sales	7,337	6,319	+1,017	+16.1%
Consumables Sales	10,405	9,672	+733	+7.6%
Total Sales	17,729	15,991	+1,737	+10.9%
Gross Profit	8,203	7,613	+590	+7.8%
Gross Profit %	46.3%	47.6%	-1.3pt	-
Operating Income	303	448	-145	-32.4%
Operating Income %	1.7%	2.8%	-1.1pt	-

	FY2021 Apr-Sep	FY2020 Apr-Sep	Change	YoY
Mechatronics Sales	14,076	12,496	+1,580	+12.6%
Consumables Sales	20,932	19,226	+1,705	+8.9%
Total Sales	34,977	31,722	+3,254	+10.3%
Gross Profit	16,450	14,953	+1,496	+10.0%
Gross Profit %	47.0%	47.1%	-0.1pt	-
Operating Income	888	847	+40	+4.8%
Operating Income %	2.5%	2.7%	-0.1pt	-

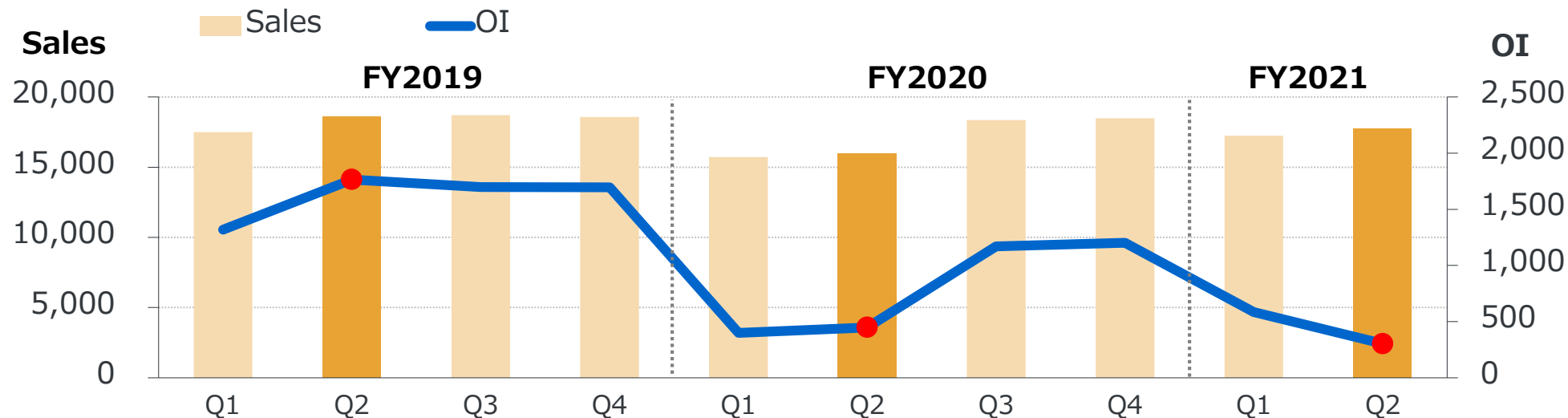
Mechatronics: Hardware (e.g., printers, automatic labelers, scanners, hand labelers), software and maintenance services.

Consumables: Products such as variable information labels, RFID tags, primary labels (product labels) and ribbons.

Note : Total Sales is sum of mechatronics, consumables, and others.

Quarterly Sales & OI

(Millions of JPY)



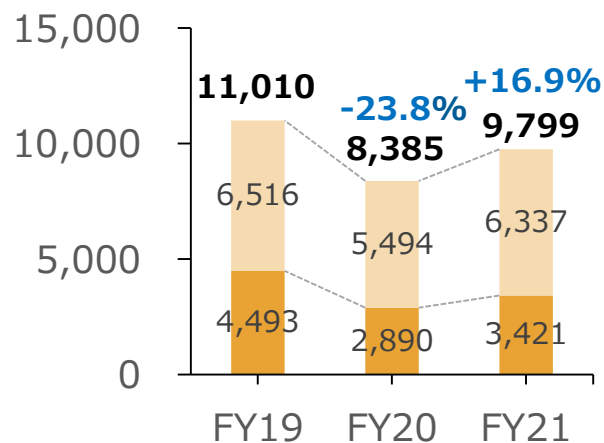
Sales	17,495	18,578	18,709	18,578	15,730	15,991	18,352	18,490	17,248	17,729
YoY	+2.4%	+5.7%	-0.1%	-2.4%	-10.1%	-13.9%	-1.9%	-0.5%	+9.6%	+10.9%
OI	1,318	1,765	1,698	1,697	399	448	1,170	1,203	585	303
YoY	+7.7%	+9.8%	-8.7%	-25.9%	-69.7%	-74.6%	-31.1%	-29.1%	+46.7%	-32.4%

N.B.: Market segmentation revised in FY2021. Figures for FY2019 and FY2020 have been retroactively adjusted.

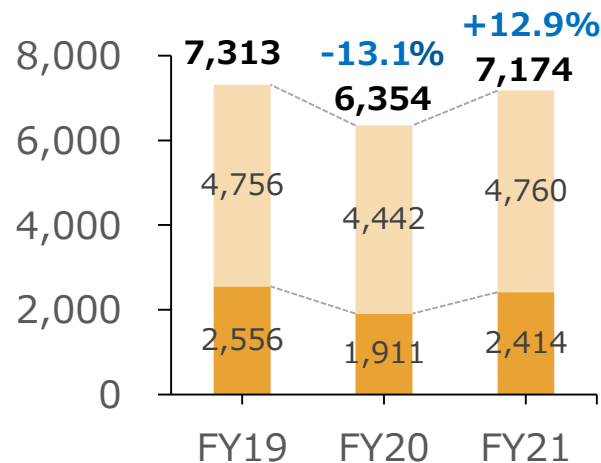
(Millions of JPY)

■ : Mechatronics ■ : Consumables *% indicates YoY change

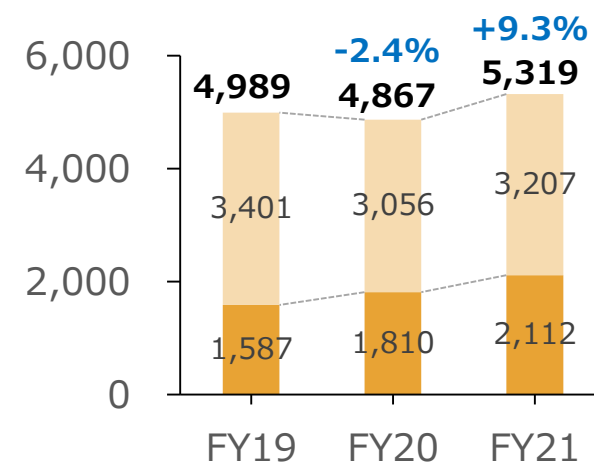
Manufacturing



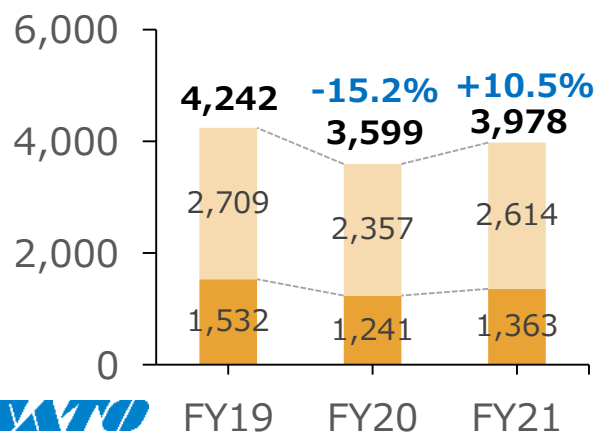
Logistics



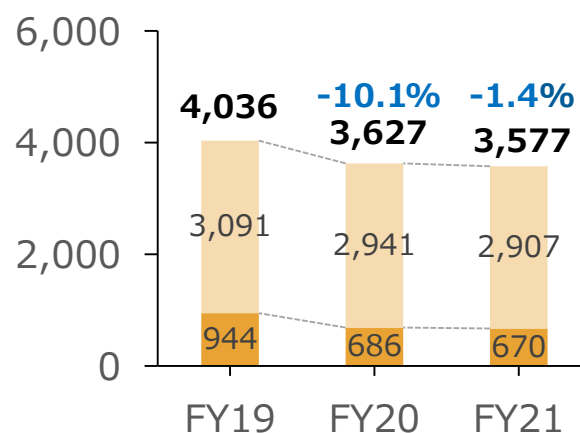
Retail



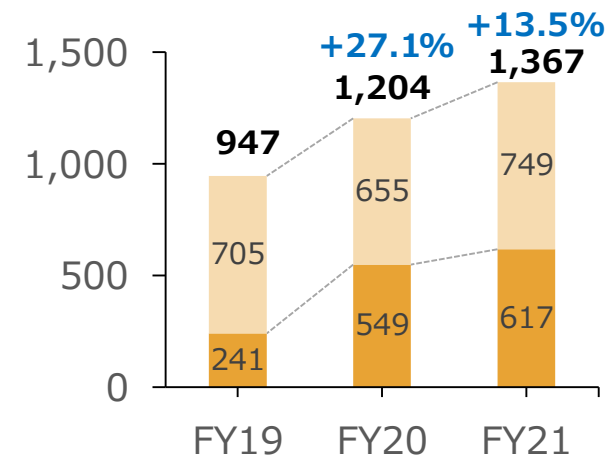
Health Care



Food & Beverage



Public

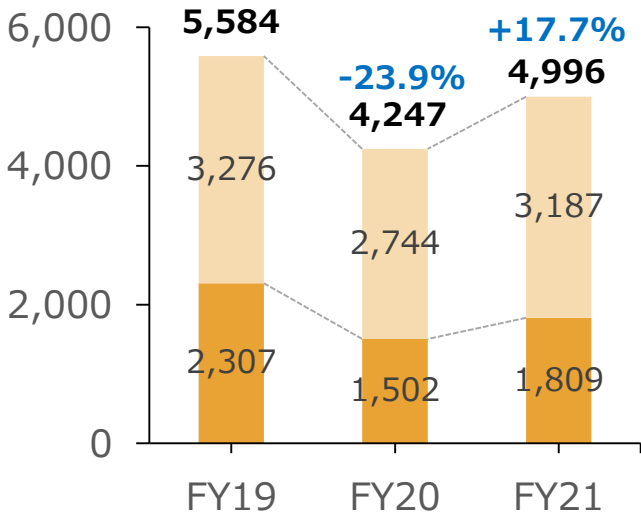


Sales by Vertical 1/2

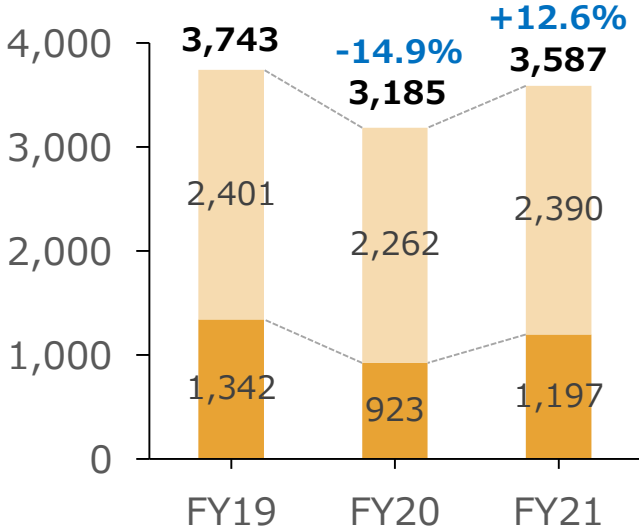
(Millions of JPY)

■ : Mechatronics ■ : Consumables *% indicates YoY change

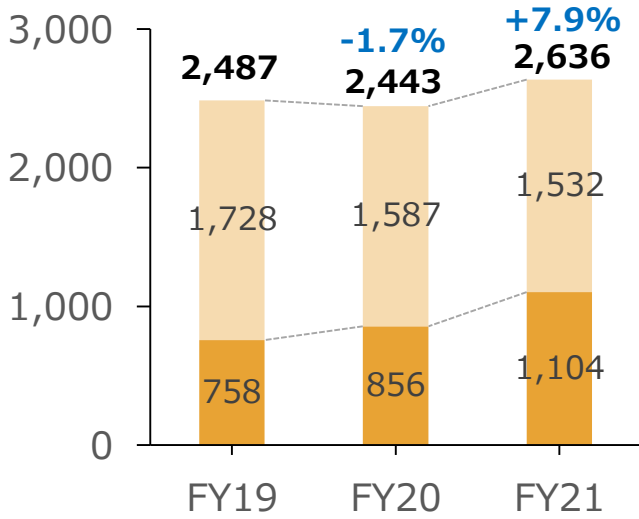
Manufacturing



Logistics



Retail



Business environment

Due to the rapid increase in demand for semiconductors, related chemical and electronic component industries have performed well. Meanwhile, production in the automobile and steel industries has been stagnant.

Various industries responded to the expansion of the EC market and continued stay-home demand. Demand increased for automation and digitization.

Strong performance in grocery supermarkets and EC continued. Demand increased for automation in industries to improve store work efficiency and to enter the EC market.

SATO performance

Consumables grew significantly YoY, capturing the needs of robust industries. Mechatronics sales also grew significantly due to the need to respond to labor shortages and to improve efficiency.

Consumables grew as the wholesale industry accounting for a large proportion of sales responded to stay-home demand. Mechatronics grew significantly due to needs for automation and digitization, such as receipt and shipment management.

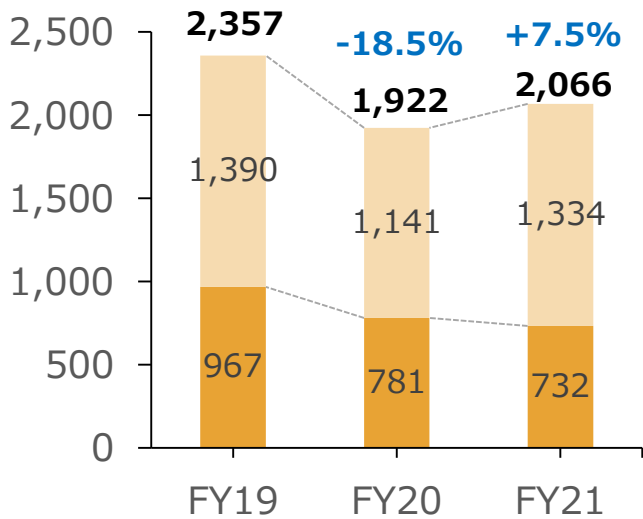
Consumables declined due to shorter opening hours at specialty stores offsetting demand in strong industries. Mechatronics increased significantly due to needs in response to labor shortages in robust industries.

Sales by Vertical 2/2

(Millions of JPY)

■ : Mechatronics ■ : Consumables *% indicates YoY change

Health Care



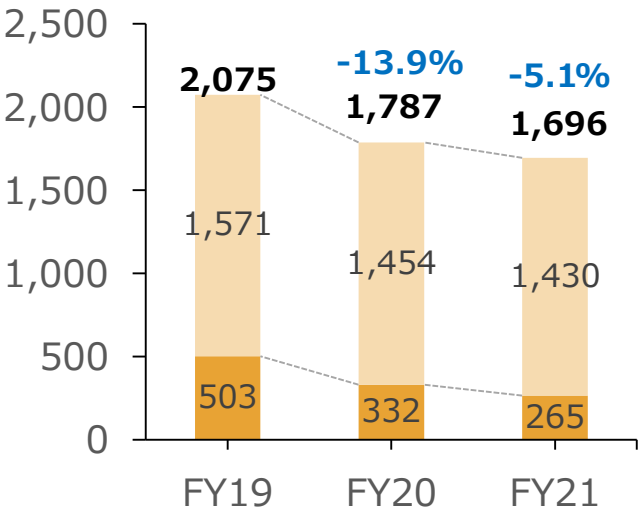
Business environment

Outpatients to medical institutions have been recovering. Demand remains firm overall, including efficient management of medical devices and measures to address labor shortages.

SATO performance

Consumables increased due to higher demand from medical equipment manufacturers and hospitals. Mechatronics declined due to the absence of large orders from the pharmaceutical industry last FY despite sales recovery to hospitals.

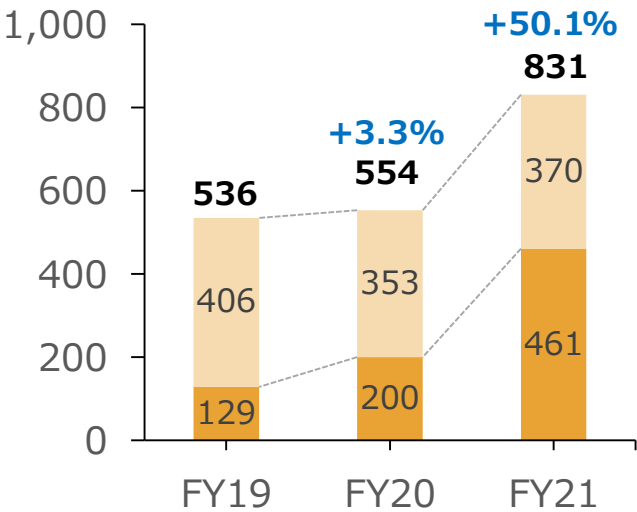
Food & Beverage



Demand for traceability and operational efficiency has been increasing against the backdrop of legal compliance and increased awareness of quality control.

Consumables declined slightly due to drop-off in stay-home food demand seen last FY despite general recovery. Mechatronics declined despite recovery in restaurants due to the absence of large-scale orders booked last FY.

Public



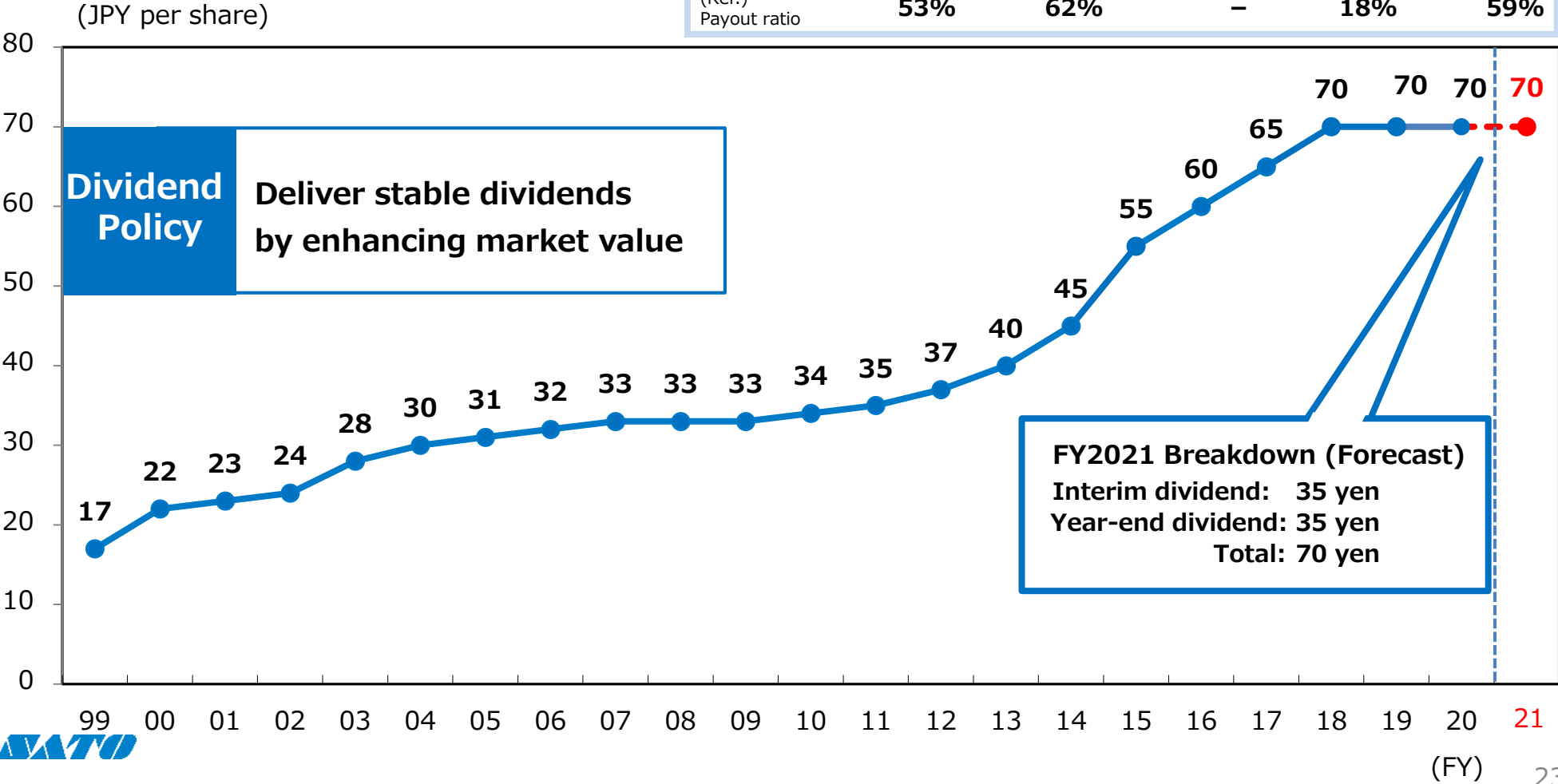
Overall business environment remained stable.

Consumables increased due to accumulation of new orders. Mechatronics grew significantly due to orders from large customers.

Dividends

Interim dividend payment of 35 yen is scheduled.

	FY2017	FY2018	FY2019	FY2020	FY2021 (Forecast)
EPS	121.5yen	112.5yen	-56.1yen	385.9yen	118.9yen
ROE	7.6%	6.9%	-3.6%	24.4%	6.7%
(Ref.) Payout ratio	53%	62%	—	18%	59%



FY2021 Consolidated Forecasts

Full year sales target revised upward while others left unchanged

(Millions of JPY)

Figures in parentheses are initial plans.	Apr-Sep		Oct-Mar		FY2021	
	Results	YoY	Targets	YoY	Targets	YoY
Net Sales	60,261 (56,700)	+20.8%	61,738 (60,300)	+4.3%	122,000 (117,000)	+11.9%
Operating Income	2,779 (2,400)	+89.0%	3,620 (4,000)	-17.3%	6,400	+9.4%
Ordinary Income	2,695 (2,300)	2.2x	3,504 (3,900)	-18.3%	6,200	+12.3%
Profit attributable to owners of parent	1,848 (1,500)	-43.1%	2,151 (2,500)	-77.8%	4,000	-69.1%

<Reference>

EBITDA *	10,163	←FY2020	10,800	+6.3%
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* EBITDA=Operating Income +
Depreciation + Amortization

Exchange rates assumed in FY21 forecast : JPY 110/USD, JPY 131/EUR
Average exchange rates for Apr-Sep FY21 : JPY 109.81 /USD, JPY 130.88 /EUR
Average exchange rates for FY20 : JPY 106.10/USD, JPY 123.75/EUR

Factors behind forecast of OI decline YoY and countermeasures

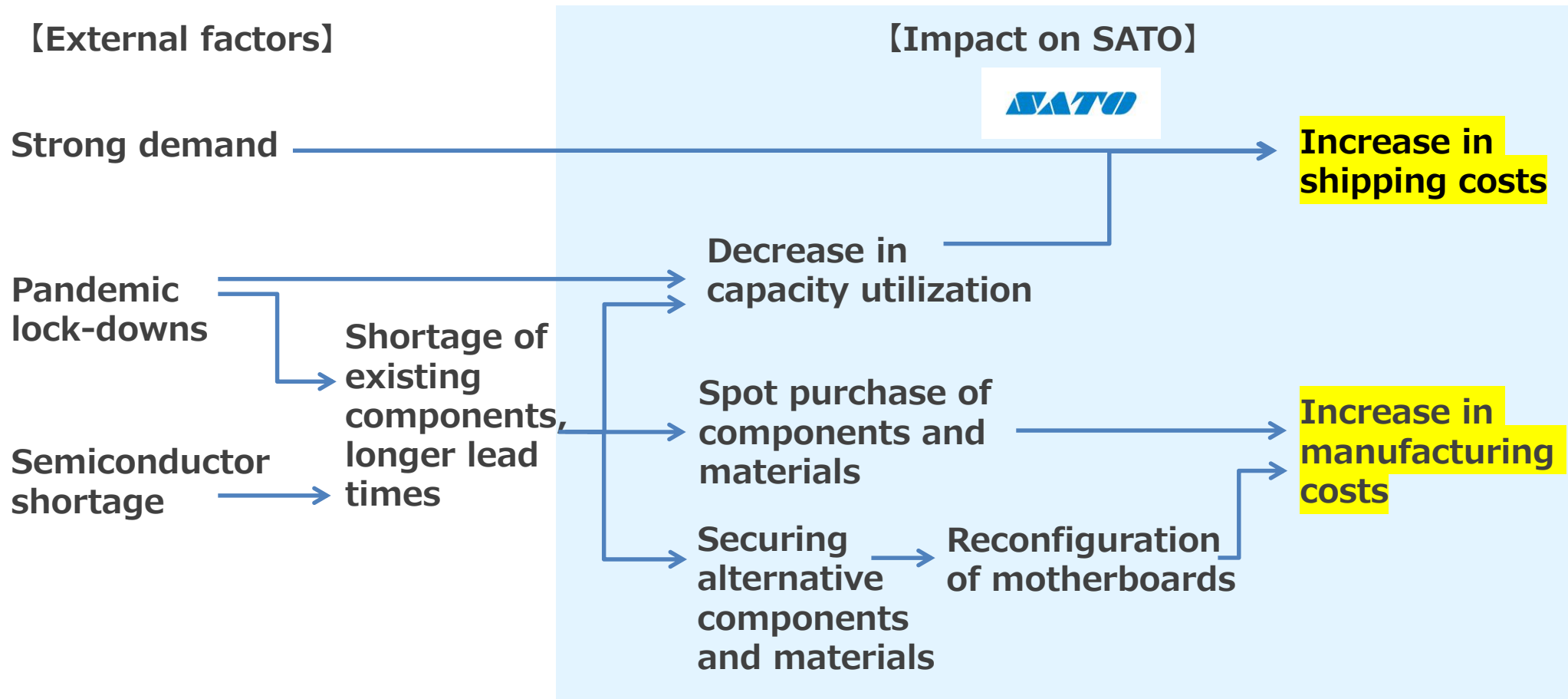
Demand remains strong, but unexpected costs have surfaced.
Short and medium to long-term countermeasures have been put in place.

■ OI decline factors ■ Countermeasures

-  **Printers**
Higher manufacturing costs (Soaring component prices and procurement of substitutes due to semiconductor shortage and unstable operation of suppliers)
-  **Printers**
Rising costs (Increase in use of air freights to meet customer demands)
-  **Labels**
Rising costs of raw materials (Increase in prices of pulp)
-  **Higher R&D costs with expansion of strategic investment scope** (DX investment)
-  **Countermeasures to curb impact of OI decline factors**
 - Further focus on robust industries and applications. Expand sales of high-value-added solutions and printers including replacements.
 - Pass on cost increases, reduce costs, and optimize SG&A expenses.
 - Enhance profitability in Japan.

Factors behind forecast of OI decline YoY (printers)

External factors related to printers and their impact on SATO



Expected impact of OI decline factors and countermeasures

Impact of OI decline factors to increase in 2H, but most will likely alleviate after FY2021.

Impact of countermeasures to come into effect mainly after Q3.

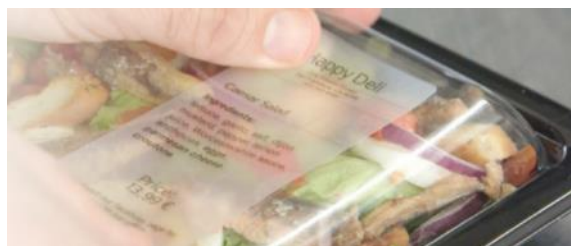
■ OI decline factors
 ■ Countermeasures

		Expected impact in 2H	Timeframe
Gross Profit	Printers Higher manufacturing costs	Large	Evident from Q2, to increase in 2H. Risk of continuation into FY2022.
	Labels Rising costs of raw materials	Large	Evident from Q2, to increase further in 2H. High risk of continuation thereafter.
	Expand sales of high-value-added solutions and printers	Medium	To be evident from Q3, to peak in Q4.
	Printers/Labels Pass on costs, reduce costs	Large	Slowly evident from Q2, to gradually expand thereafter.
SG&A	Printers Higher shipping costs	Medium	Evident from Q2, to increase in 2H. To alleviate by end of FY2021.
	Higher R&D costs with expansion of strategic investment scope	Medium	Limited to 2H
	Optimize SG&A expenses	Large	Emergency measures limited to 2H

Expand sales of high-value-added solutions to robust industries

Fast-food

(For issuing ingredient labels)



Electrical and electronics

(For inventory control)



Off-price Retailer*



(For tagging at distribution centers)



Food supermarket

(For issuing various labels)



*Retailers who provide outdated brands or out-of-season items at discounts

Enhance profitability in Japan

Initiatives to support sales of high-value-added solutions by increasing contact points with customers and thereby to improve productivity per person.



1. Reform sales

Reform sales organization and share knowledge

- Increase business leads from marketing activities
- Expand printer replacements and consumables sales by sales assistants and maintenance services

2. Enhance unbeatable offerings

Strengthen products and services, in part through platforms and standardization

- Create competitive products such as RFID thermo loggers
- Expand sales of SATO standard labels

3. Optimize value chain

Improve efficiency of back office

- Consolidate functions into operations centers
 - Consolidate registration operations at sales offices
 - Consolidate operations to accommodate small customers

4. Reduce costs

- Optimize printer components and label materials

Appendix

Performance data Pages 31-38

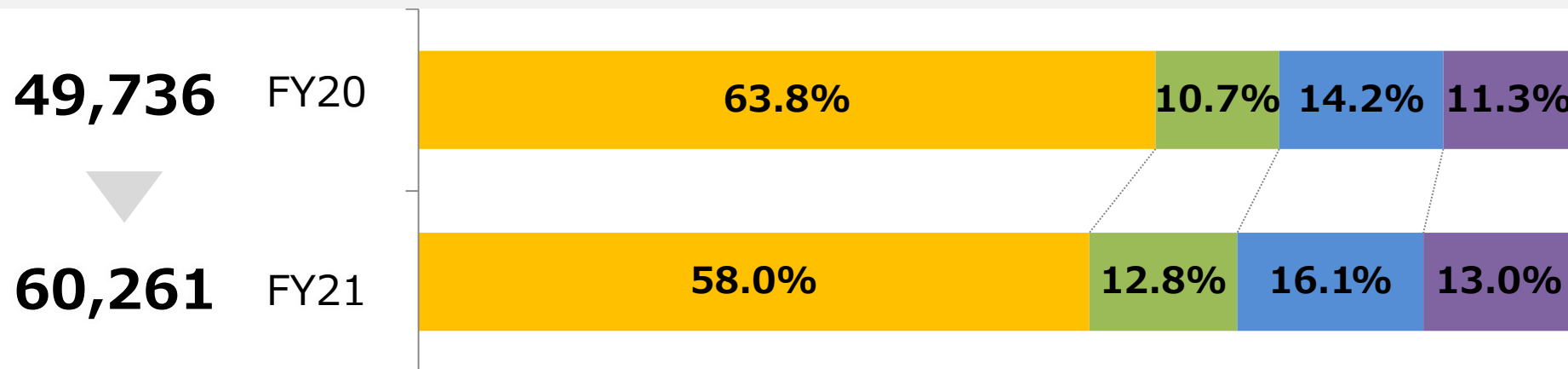
SATO terminologies Pages 39-42

Sales and OI by Region

(Millions of JPY)

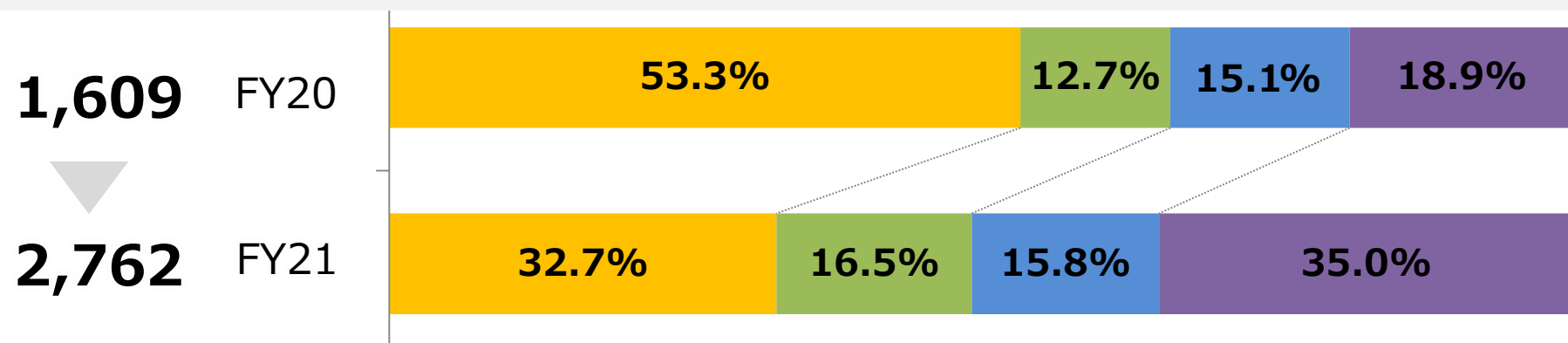
Japan The Americas Europe Asia/Oceania

Sales



Operating Income

*Ratio excludes eliminations.



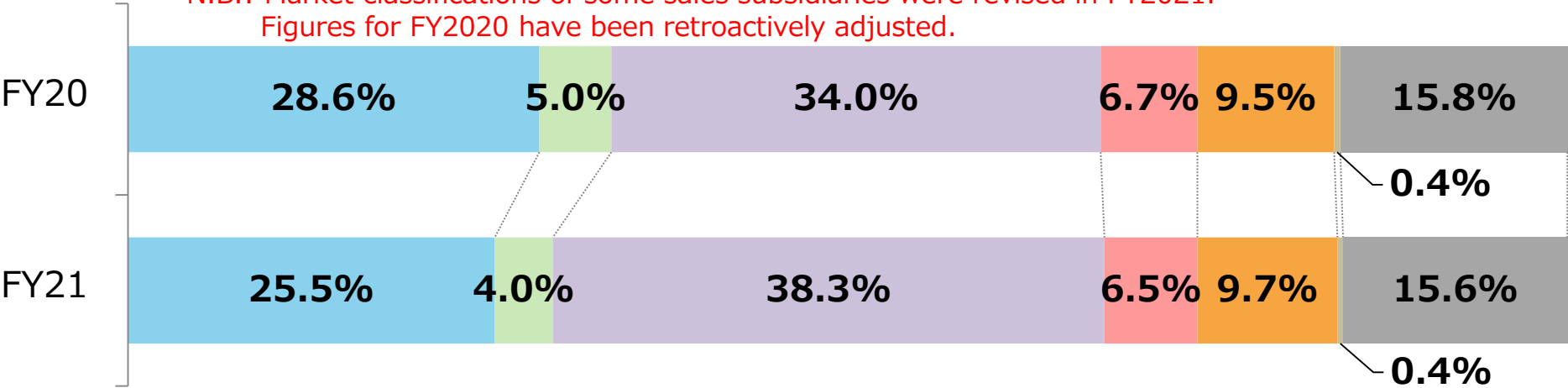
OI Ratio FY20 Japan : 2.7%, Overseas : 4.2 %
 FY21 Japan : 2.5%, Overseas : 7.4 %

Sales by Vertical

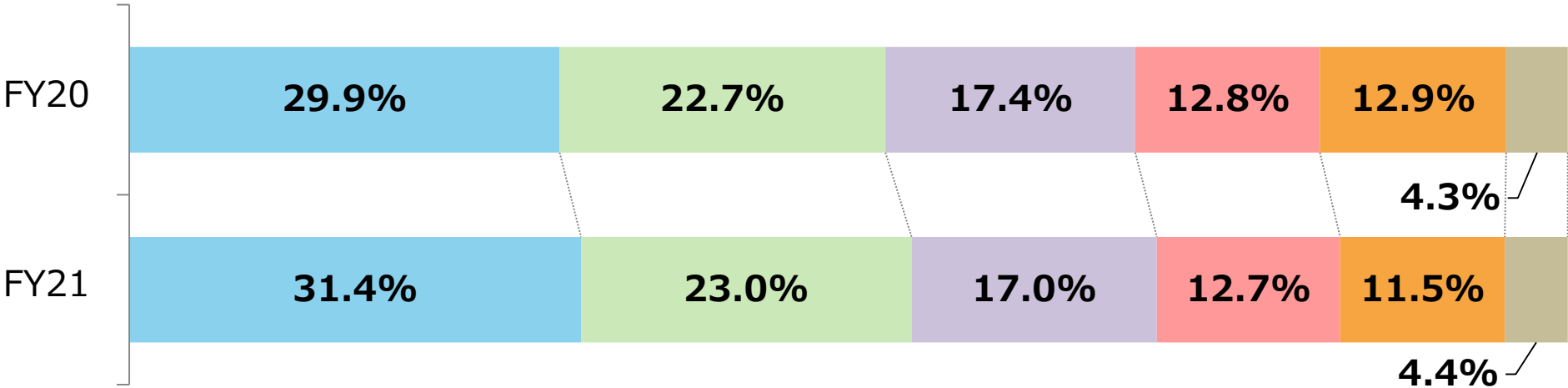
Manufacturing Logistics Retail Health Care Food & Beverage Public Others

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

N.B.: Market classifications of some sales subsidiaries were revised in FY2021.
Figures for FY2020 have been retroactively adjusted.

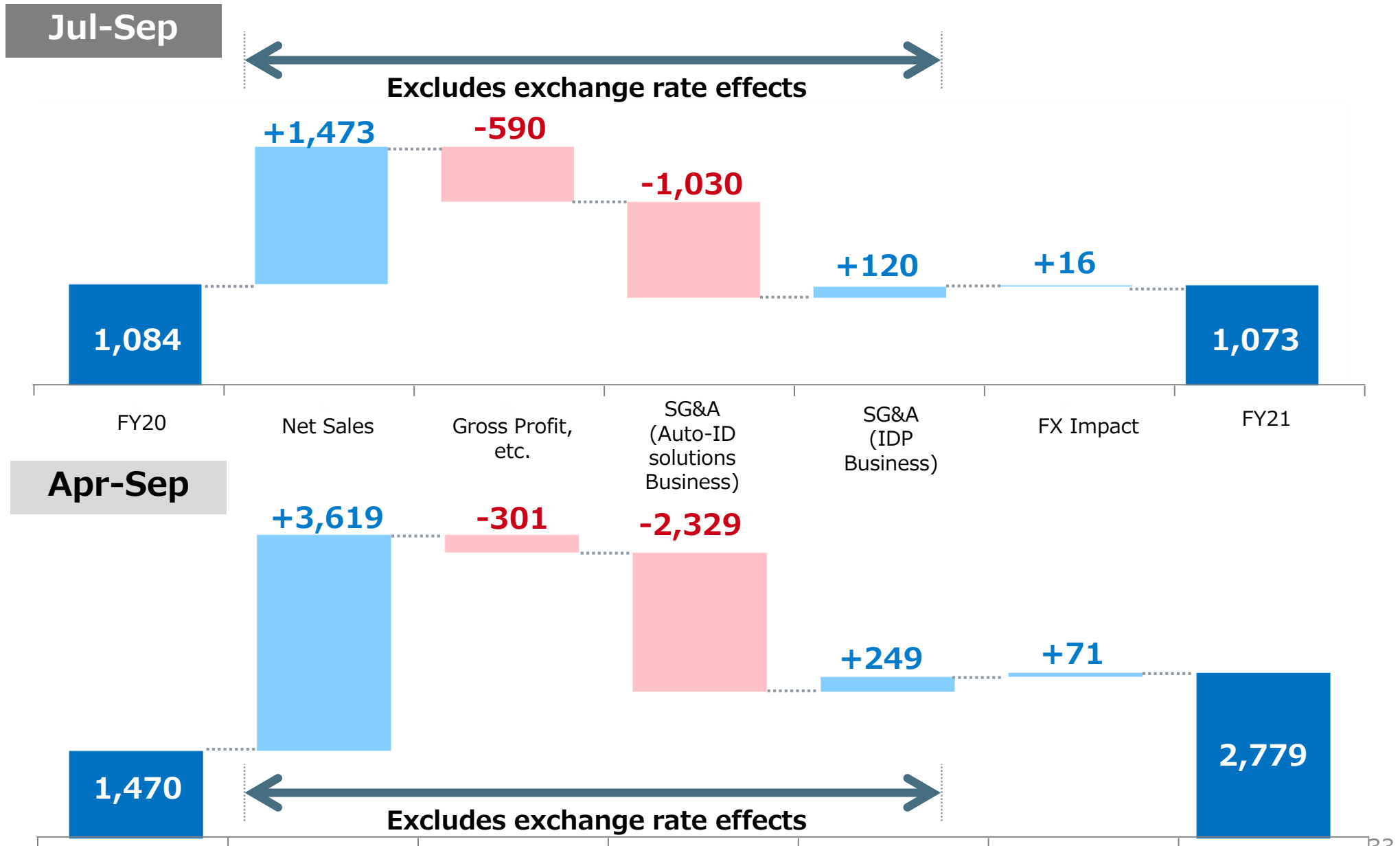


Japan *Maintenance services not included



Major Gains/Losses in OI

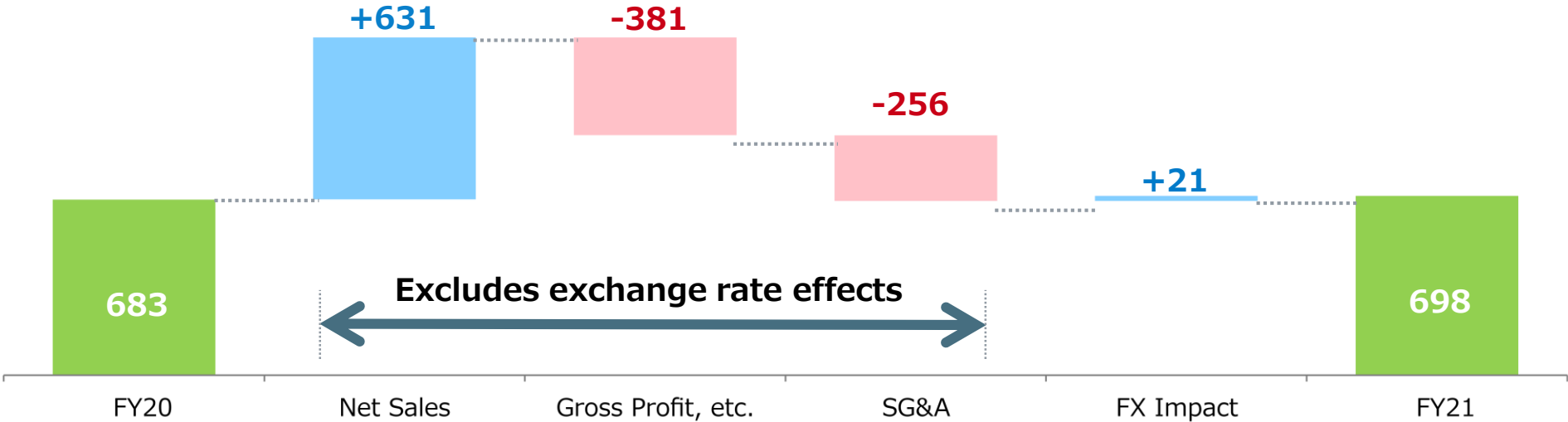
(Millions of JPY)



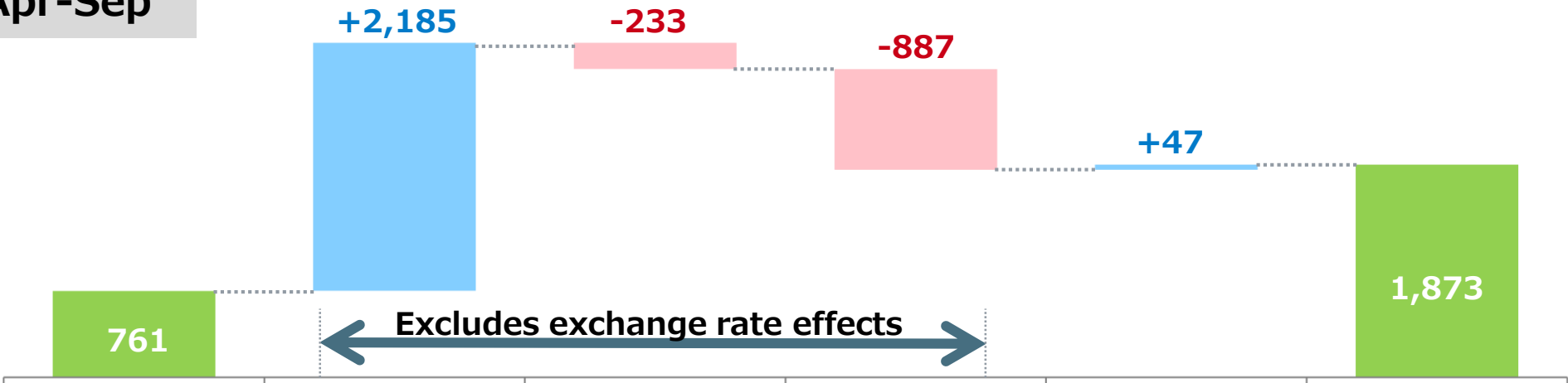
Major Gains/Losses in OI

(Millions of JPY)

Jul-Sep



Apr-Sep

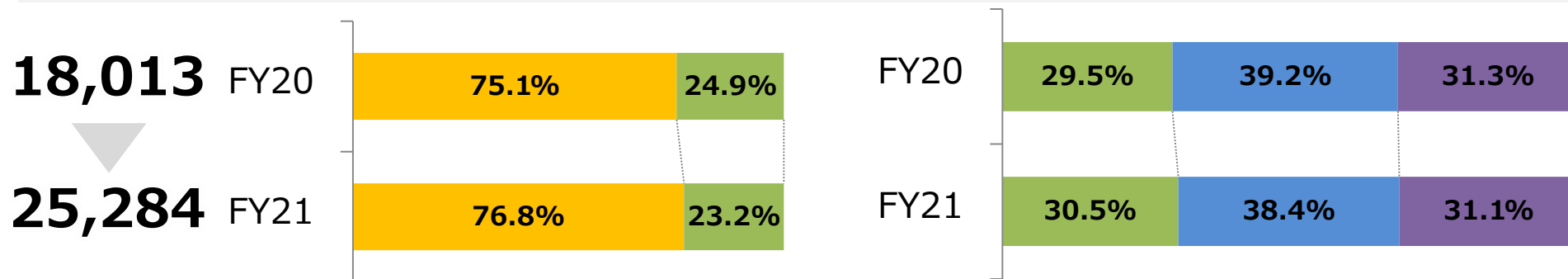


Sales and OI by Business Segment/Region

(Millions of JPY)

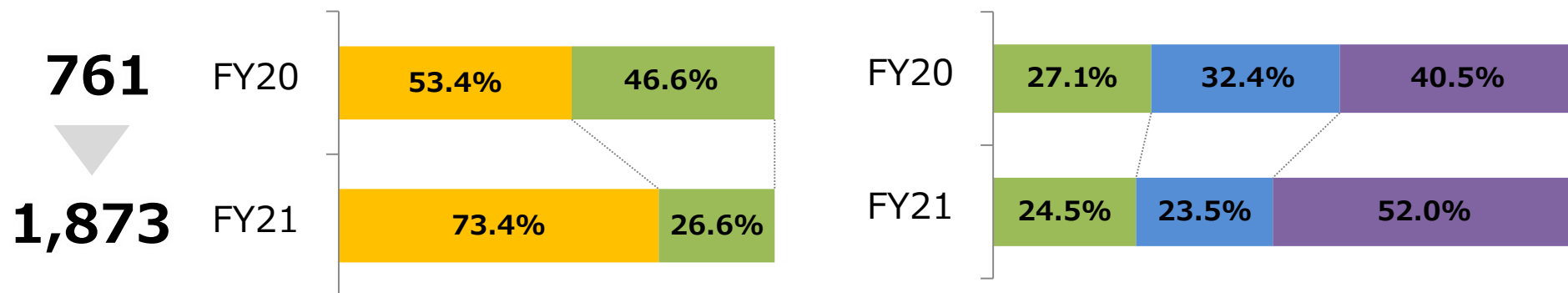
■ Base
 ■ Primary Labels
 ■ The Americas
 ■ Europe
 ■ Asia/Oceania

Sales



Operating Income

*Ratio excludes eliminations.



OI ratio:

FY20 Base : 2.9%, Primary Labels : 7.7%

FY21 Base : 6.9%, Primary Labels : 8.3%

FY20 The Americas : 3.8%, Europe : 3.4%, Asia/Oceania : 5.3%

FY21 The Americas : 5.8%, Europe : 4.4%, Asia/Oceania : 12.1%

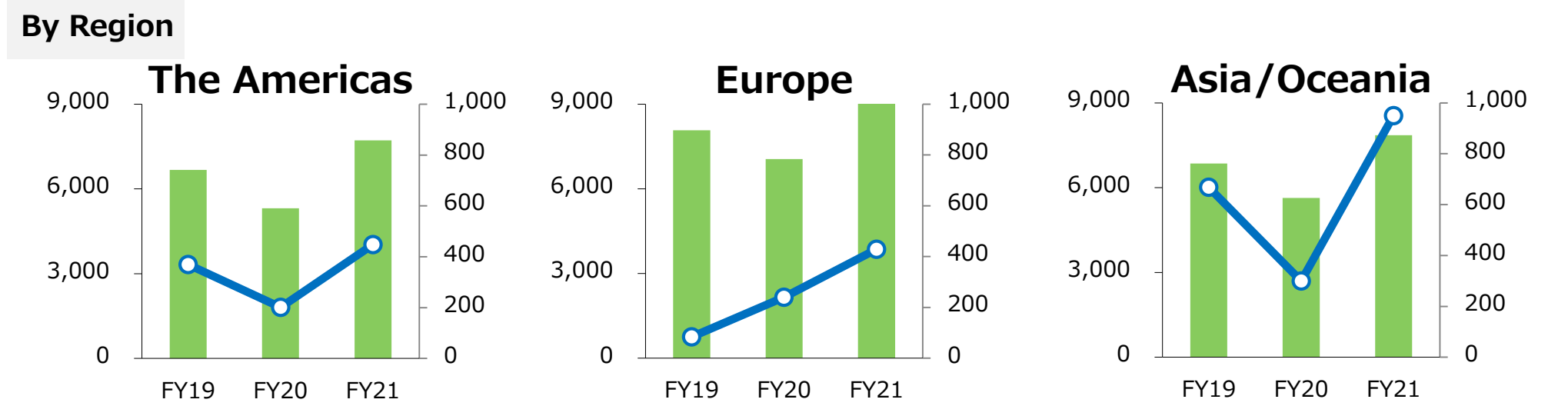
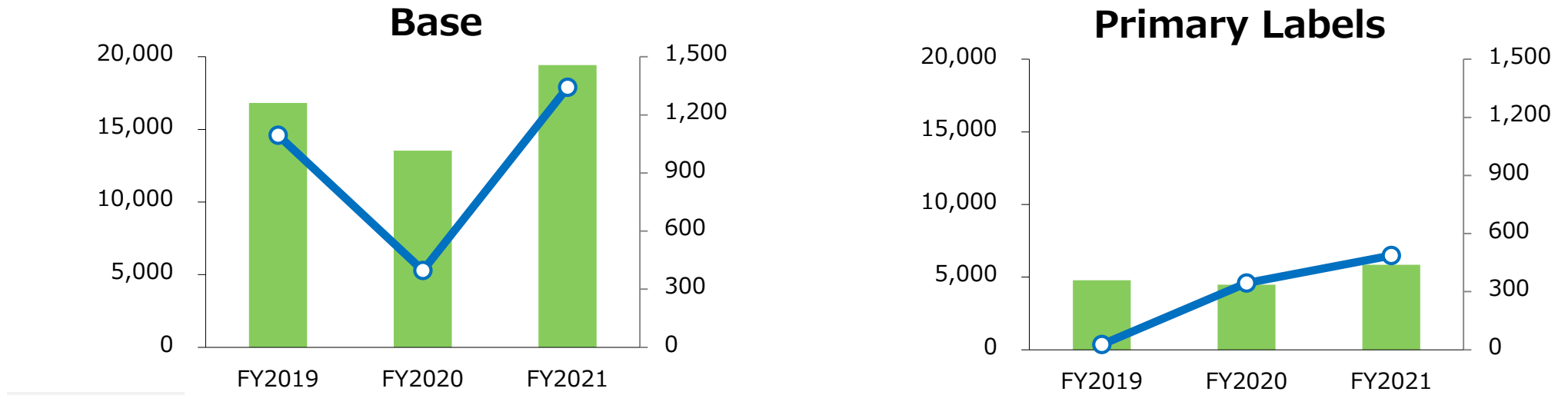
Sales and OI Trends by Business Segment and Region

By Business Segment

Sales

OI

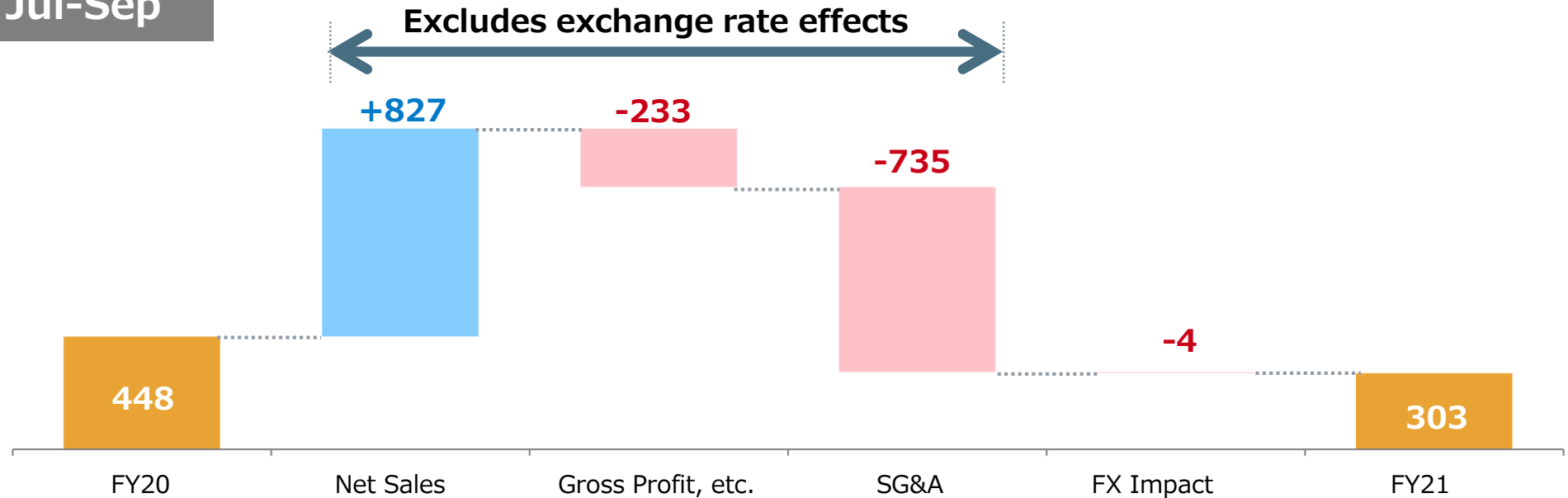
(Millions of JPY, Sales (left axis), OI (right axis))



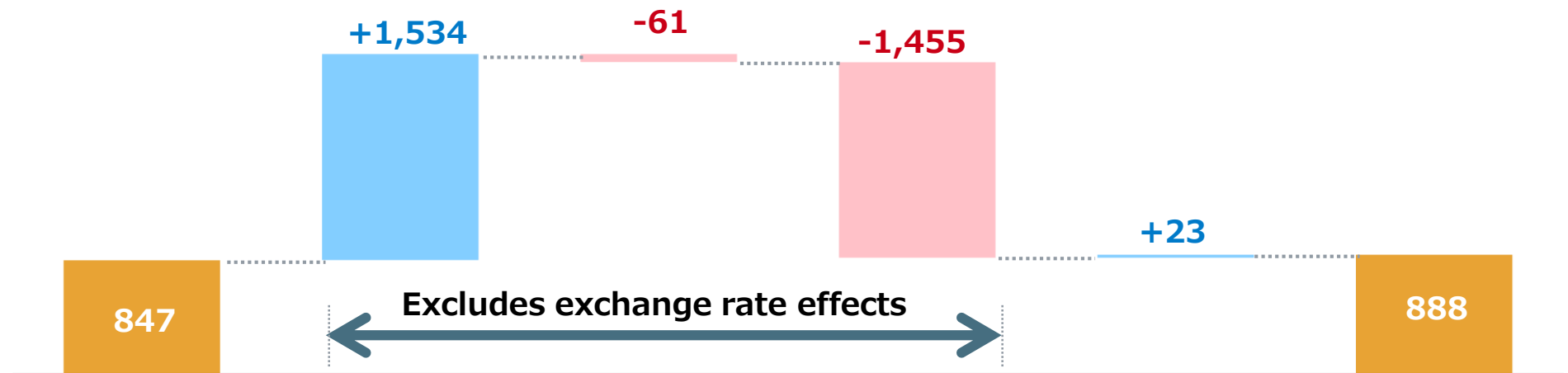
Major Gains/Losses in OI

(Millions of JPY)

Jul-Sep

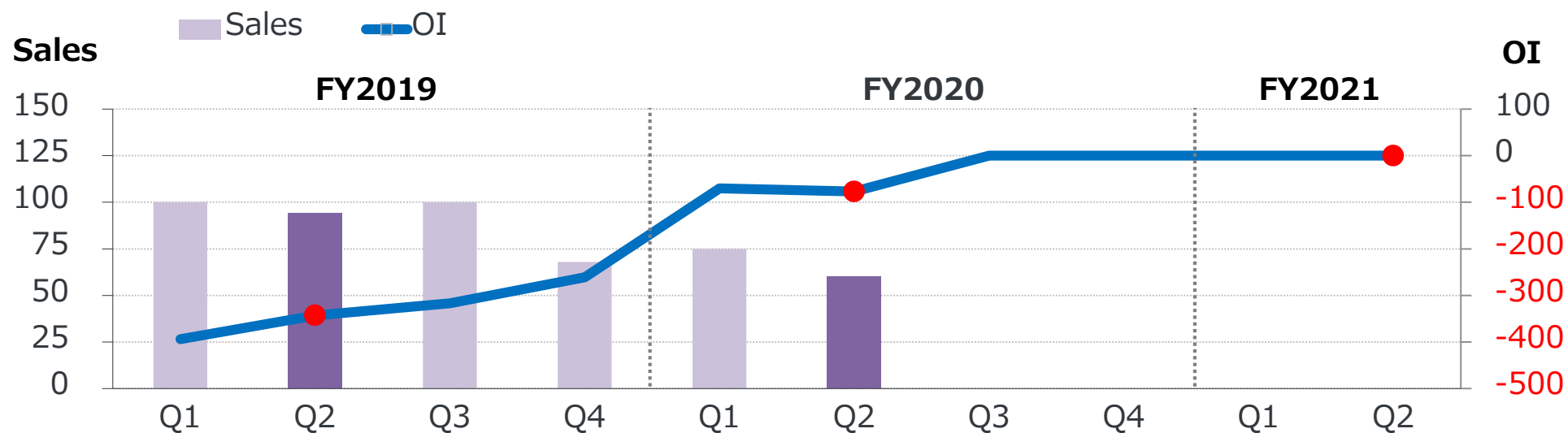


Apr-Sep



Quarterly Sales & OI

(Millions of JPY)



Sales	100	94	100	68	75	60	0	0	0	0
YoY	-20.0%	-10.0%	-13.8%	-15.5%	-24.6%	-35.9%	-	-	-	-
OI	-394	-343	-317	-261	-70	-77	0	0	0	0
YoY	-	-	-	-	-	-	-	-	-	-

SATO terminologies (1/4)

(*) Underlined terms are described under its own heading

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 prices, manufacture dates and expiration dates in the form of barcodes and more.
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 (<u>IDP</u>). SATO Holdings transferred all shares of SATO consolidated subsidiary DataLase Ltd. that conducted the business to DataLase Holdings Limited in September, 2020. IDP is a direct marking technology comprised of a special heat-sensitive pigment that can be applied as a coating to virtually any substrate and exposed to a laser beam to create a color change.
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. This concept, connecting people and things with information, has remained central to SATO's business, ever since our days of pioneering in hand labelers that attached price and other information to products.
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</u> /labeling of information, using accurate, efficient and optimized solutions. In line with increasingly sophisticated user needs, SATO also pursues a policy of open innovation and partnerships to provide value-added "+One" technologies such as image/voice recognition, location tracking and sensors to its legacy business model to better solve customer challenges.

SATO terminologies (2/4)

SATO-unique business concepts/initiatives		Description
8	Tagging for Sustainability	Business model set as the next stage of <u>DCS & Labeling</u> that aims to resolve customers' operational and societal challenges geared toward achieving a sustainable world. Shaped using new technologies and media not limited to labels that innovate our traditional domain of <u>tagging</u> .
9	Genbaryoku	Our core competency of going to customer sites to understand their operations and identify the essence of issues to offer optimized solutions. It is our ability to (1) address a wide range of market, industry and application needs with our expertise in sites of operations, (2) integrate products, services and technologies into solutions, working together with strategic partners, and (3) offer maintenance services and solutions continuously to build trust and establish lasting relationships with customers.
10	Teiho	Teiho is SATO's unique system of reports and proposals in effect since 1976. Employees share new information and ideas they come across on-site every day to top management via the Teiho system. Teiho helps top management gain immediate insight into the internal/external business situation to facilitate quick decision-making and execution of initiatives, while allowing "participation by all" in the management of the company. As Teiho reports are directly addressed to top management, it is also an effective means of compliance monitoring to prevent malpractice and other inappropriate behavior and assist in corporate governance. Some of our global offices have also started Teiho, with more to follow.
Products, services, Technologies		Description
1	Mechatronics	All products that are 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 recurring business.

SATO terminologies (3/4)

Products, services, technologies		Description
3	Auto-ID Solutions	Combination of products such as printers, labels, software and maintenance services using auto-ID technologies to carry out <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.
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.

SATO terminologies (4/4)

Key acquisitions since 2012		Description
1	Argox Information Co., Ltd. (Taiwan)	[2012] Company engaging in the development, production and sales of entry level printers.
2	Achernar S.A. (Argentina)	[2012] Company specializing in primary labels.
3	Magellan Technology Pty Ltd. (Australia)	[2013] Company from which SATO acquired its business including PJM (Phase Jitter Modulation), a highly superior <u>RFID</u> 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.
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 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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