



# Integrated Report 2019



SATO HOLDINGS CORPORATION  
www.satoworldwide.com



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### Editorial concept

This report is the record of the tangible and intangible aspects of the SATO Group's medium- to long-term value-creation story through its core business of auto-ID solutions.

## SATO Values

Corporate motto

あくなき創造

Akunaki sozo — Ceaseless Creativity

Mission

Our mission is to create new value for our customers through products and services of superior quality, and to contribute towards a better and more sustainable world.

Vision

We aim to be the leader and most trusted company in the auto-ID solutions industry worldwide, exceeding customer expectations in an ever-changing world.

Credo

- We inspire changes, new ideas, and the courage of promoting customer-centric innovation in the spirit of Ceaseless Creativity.
- We seek to be true professionals by constantly striving to exceed the expectations of our customers.
- We see things as they are, and do the right thing right away.
- We show respect for all individuals, extend trust to each other, and work together as one cohesive team.
- We enable a vibrant and open-minded workplace, eliminating the formalities that cause "Big Company Disease."
- We share the returns from our business with our four stakeholders: shareholders, employees, society and the company.

## Instilling corporate values in employees

### Spreading SATO Values (our corporate philosophy)

We are undertaking activities to impart our Credo to SATO Group employees around the world for them to put its principles into daily practice. We believe these efforts help us drive "Change and Action" that we need in business, deliver our Vision, and take us closer to fulfilling our Mission to "contribute towards a better and more sustainable world."

Over 50 promotional leaders chosen from group companies worldwide serve as "ambassadors" to spread the spirit to their local colleagues through various activities.

One of the biggest such activities is the SATO Values Workshop held at countries/regions where our group companies operate. Local leaders work off of the training program that we develop every year to facilitate workshops in their local language. Workshop materials are translated into 15 languages, while the SATO Values pocket leaflets we distribute for employees to carry around with their employee ID cards are printed in English on one side and local language on the other.

Scenes from a SATO Values Workshop



### Credo Awards World Cup

We hold an annual event in which we recognize individual employee behavior over the past year that lived up to our Credo.

Each group company collects entries from its employees for nomination to the global competition, in which group company heads and values promotion leaders vote to shortlist the finalists.

Finalists are invited to the annual SATO Group Summit,

where they would present their episodes on the Credo Awards World Cup stage, to receive votes for the Best of the Best.

We are seeing more employees enter the contest every year, with more entries involving highly Credo-compliant actions than ever. After the World Cup, finalists return to their workplaces brimming with confidence, motivation and growth, bringing renewed energy to their teams.

Credo Awards World Cup



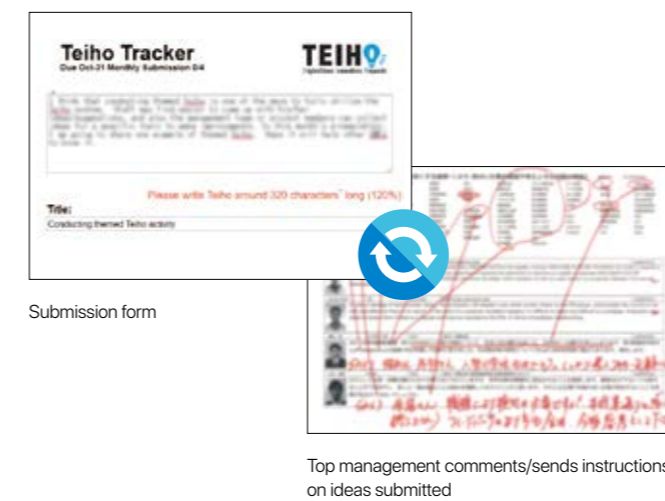
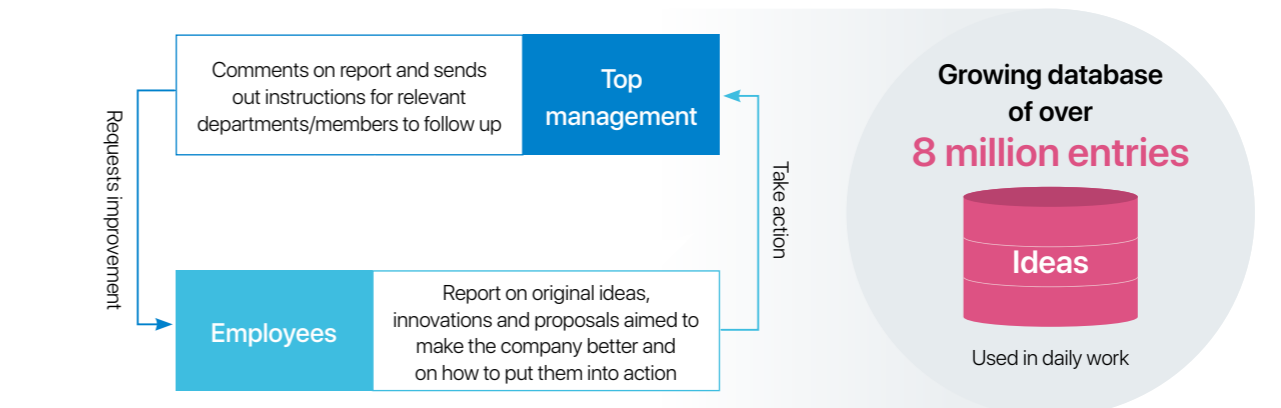
## Teiho

### Where change always began for over 40 years



Founder Yo Sato started the Teiho reporting system in 1976 from the belief that management alone cannot run the company and keep it growing; every employee should pitch in for the company to contribute to the global society. Teiho is a system for employees to submit original ideas, innovations and proposals aimed to make the company

better and on how to put them into action, drawing from customer feedback or market information they obtain from their field of operations. These Teiho reports that are submitted daily to top management serve as our driving force for making important business decisions and changes.



Submission form

Top management comments/sends instructions on ideas submitted



For more about Teiho, see:

<http://www.sato-worldwide.com/sato-group/teiho-system.aspx>

### Our means of participatory management



# Our journey of tackling changes and challenges

The SATO Group had always wanted to “do something” to make work easier for workers at factories, warehouses and stores, which led to the creation of its bamboo processors, hand labelers and barcode printers. Today, it focuses more on solutions while continuing the business of creating,

manufacturing and selling products. As SATO turns 80 next year, its business will keep evolving over time, but the founding spirit to support people working at the very site of operations will always remain an integral part of its culture.

# Our challenge continues into the future

1940

## SATO founded

Started manufacturing and sales of bamboo processors.



1964

## Started production of labels

Began hand labeler labels production in-house to ensure stable printing and application quality. Since then its production capabilities have evolved to cater to diverse needs (e.g., heat-resistant labels for steel, environmentally friendly options).



1990s

## Established DCS & Labeling for solving customers' problems on site

SATO shifted its focus to selling solutions to help customers in diverse industries collect various data on their operations for subsequent processing in their core IT systems. It named the business model DCS (Data Collection Systems) & Labeling.



Past

Present

Global solutions provider

Future

Sustainable world

1962

## Invented the world's first hand labeler

Helped retail stores cut down on the time and the trouble of applying price tags. This was the inception of tagging — SATO's important business domain and foundation.



1981

## Developed the world's first thermal transfer barcode printer

Met the growing needs for accuracy and labor savings as use of point of sale (POS) systems spread in supermarkets. SATO went on to develop various printers that would serve not just retail but a wide range of industries including logistics, manufacturing and health care.



2010s

## Enhanced the business model to DCS & Labeling +One to solve problems faced by business leaders

In 2000s, enterprises started to face common pain points such as productivity and labor shortages. To better address these problems and create value for our customers, SATO started partnering with other companies to combine various auto ID technologies, laying foundation for our solutions business today.



2014-15

- Launched IoT-ready CLNX series printers
- Started offering SOS (SATO Online Services), an IoT-enabled maintenance system

2017

- Fully started in-house production of original RFID consumables
- Launched IDP (Inline Digital Printing) business

## Evolving the business to meet changing needs



## What SATO aims to be

The world today turns to IoT and AI to seek ways to solve societal challenges arising from more diverse supply chains, greater demand for safety, and mounting demographic concerns. By using this as an opportunity to expand our business worldwide on “selling the solution” to support information tagging for a wide range of markets and industries, we aim to grow ourselves into a global solutions provider that contributes to a better and more sustainable world.

Sustainable world

### FY 2019–21 SATO Group Medium-term Objectives & Strategies

#### Growth strategy

Concentrate resources on our auto-ID solutions business (DCS & Labeling +One), and establish sustainable growth and stable profits

- Grow and evolve the auto-ID solutions business
- Strengthen and expand business through global alliances
- Develop B2B2C business to create new consumer value (Commercialize IDP solutions and new RFID technologies)

✓ Selling the solution, not the product (koto-uri)

Global solutions provider

#### The world around us

##### Societal challenges



More diverse supply chains



Greater demand for safety



Shift in demographics



Climate change

##### Technological innovations

IoT

AI

5G

Sensors

Robotics

> Opportunities

Genbaryoku

See Page 64.

Health care

Retail

Manufacturing

Tag information to things & people



Food & beverage

Public

Logistics

Auto-ID solutions business  
Creating “unbeatable offerings”

(best-in-class solutions, products, services, devices)

#### FY 2025 targets (consolidated)

Sales: ¥200 billion

Operating income: ¥24 billion



A global solutions provider that contributes towards a better and more sustainable world

Sustainability

— Value creation for customer & SATO —

Corporate governance

— Focus on overseas subsidiaries —

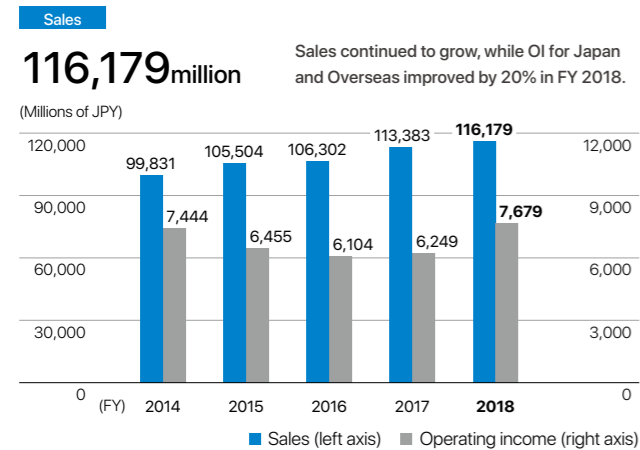
# SATO by the numbers

## Performance highlights

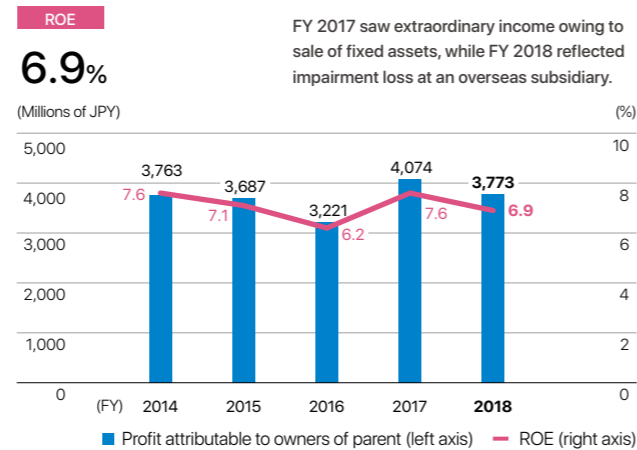
The SATO Group closed FY 2018 with sales at ¥116.2 billion (up 2.5% year on year), operating income at ¥7.7 billion (up 22.9%) and profit attributable to owners of parent at ¥3.8 billion (down 7.4%). Both our Japan and Overseas businesses raised their sales and OI performances from last year, pushing respective figures to record their highest ever in our core auto-ID solutions segment and on a consolidated basis.

### Financial

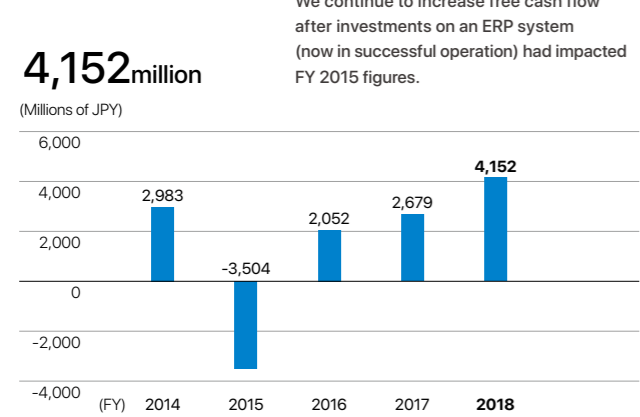
#### Sales & operating income



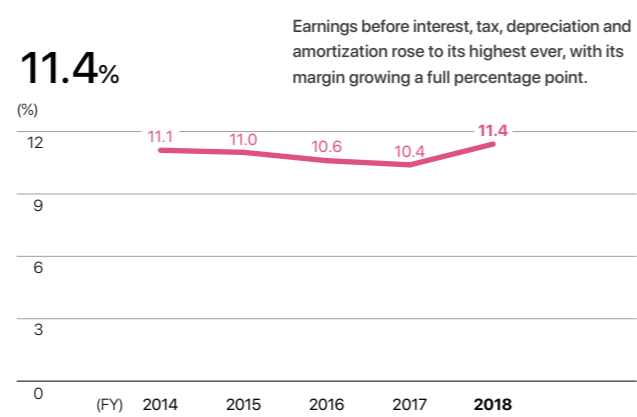
#### Profit attributable to owners of parent & ROE



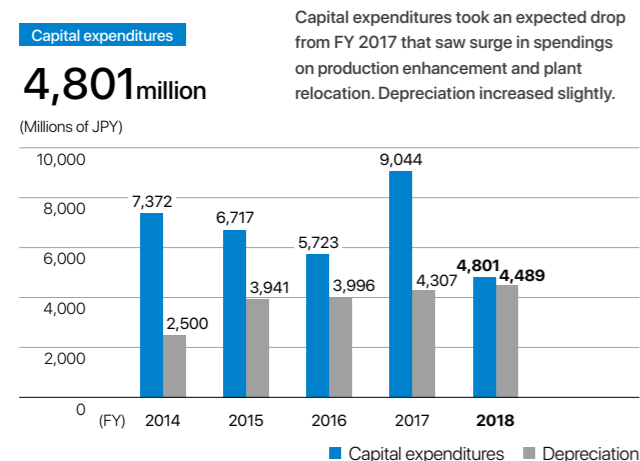
#### Free cash flow



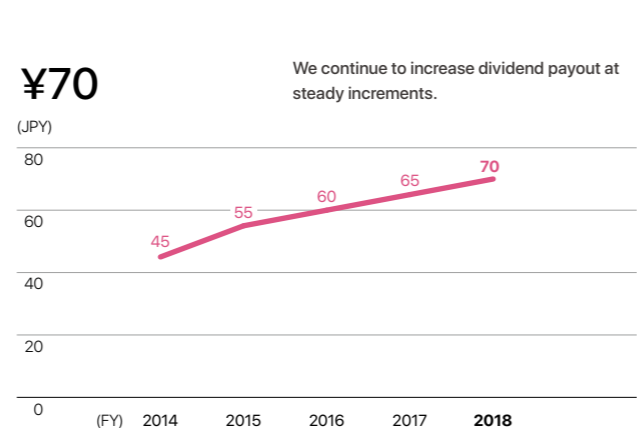
#### EBITDA margin



#### Capital expenditures & depreciation



#### Dividends per share



Market share for variable information labels

**No. 1**  
worldwide

\* SATO estimate

Market share for barcode label printers

**No. 2**  
worldwide

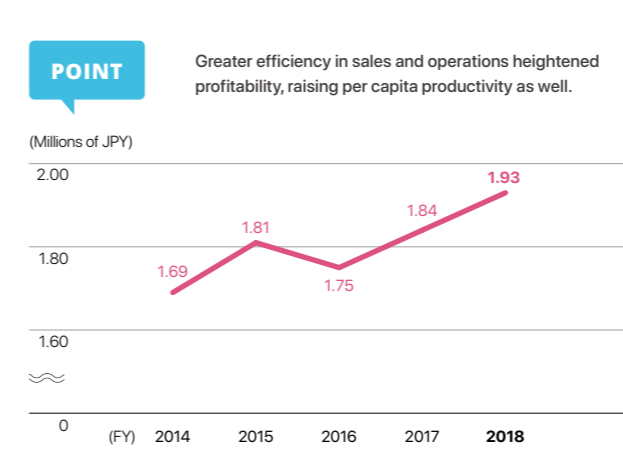
\* Source: Chunichisha. "Whole Picture of the Printer Market Report 2019."

In business for

**80 years**  
(as at FY 2020)

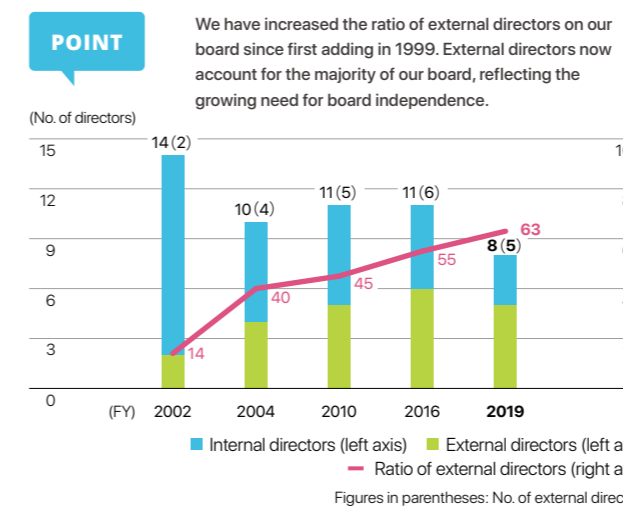
### Non-financial

#### Per capita productivity

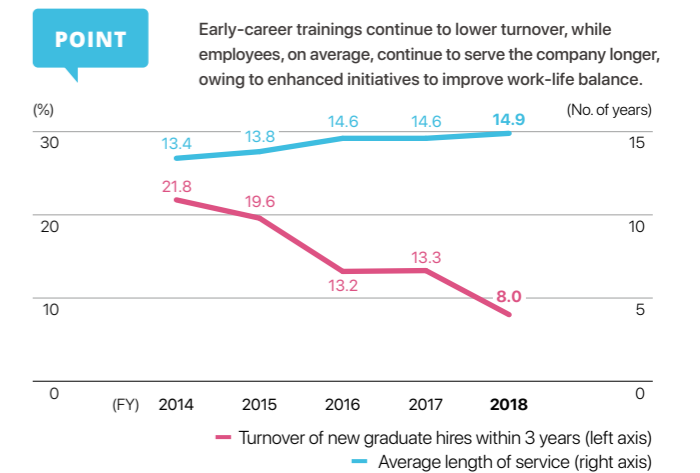


Per capita productivity = Operating income plus goodwill amortization and ERP system depreciation per working employee

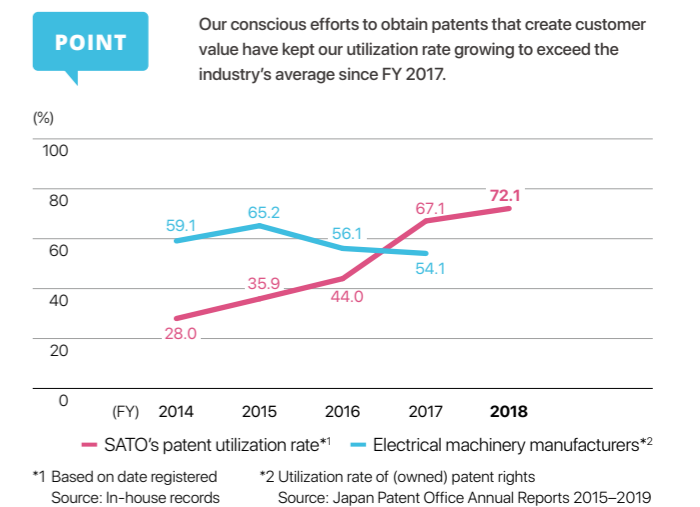
#### Board size & ratio of external directors



#### Turnover of new graduate hires within 3 years & average length of service (Japan only)



#### Patent utilization rate (Japan)



\*1 Based on date registered  
Source: In-house records

\*2 Utilization rate of (owned) patent rights  
Source: Japan Patent Office Annual Reports 2015-2019

## The 2019 Intellectual Property Achievement Awards

Since its early days, SATO has always understood the importance of patents, with which it has protected numerous aspects of its proprietary technologies. Conscious efforts to obtain patents that lead to customer value have improved our implementation rate by 30 percent over four years, and won us the Commissioner of the Japan Patent Office Award from the Japan Patent Office (Japan Ministry of Economy, Trade and Industry) in FY 2019 as a recognition of our contributions toward effective utilization and development of the nation's IP rights system.





We aim to step up growth to become a global solutions provider that contributes towards a better and more sustainable world

Ryutaro Kotaki  
President and CEO

Management policy

Perfect the basics, collaborate,  
take new challenges

Growth strategy

Concentrate resources on our auto-ID solutions business (DCS & Labeling +One), and establish sustainable growth and stable profits

1. Grow and evolve the auto-ID solutions business
2. Strengthen and expand business through global alliances
3. Develop B2B2C business to create new consumer value (Commercialize IDP solutions and new RFID technologies)

Highest-ever sales and OI accelerates our commitment to "sell the solution"

We recorded highest-ever consolidated figures for FY 2018 at sales of ¥116.2 billion and operating income of ¥7.7 billion.

The strong performance proves that our strategic efforts in Japan since FY 2016 to "sell the solution, not the product" (koto-uri) for each industry are succeeding. This method of offering ideal combinations of printers and matching products with real, measurable benefits for sites of operation is a business that brings high value-add to our customers while bolstering our own profitability as well.

Outside Japan, sales have largely grown in our base business of printers and consumables, but time taken in the Americas and Europe to shift their strategies had caused us to miss our initial targets. We also admit that we're still not generating synergies we initially intended with our global subsidiaries acquired through M&As. Our global companies would obviously start realizing their potential once they have built their business around solutions, so I will be pushing this shift to koto-uri as a core strategy to develop our global sector into a major pillar of the group's business.

R&D for our IDP business that we aim to commercialize as a new technology in FY 2019 is largely going as planned and we have started consumer trials. We're excited about the enormous possibility this B2B2C business offers retailers and brands for greater engagement with consumers.

FY 2018 performance (Sales and OI figures are compound annual growth rates)

Consolidated\*

Against FY 2016

Sales	+4.5%
Operating income	+12.2%
Operating margin	5.7% → 6.6%

Overseas

Against FY 2016

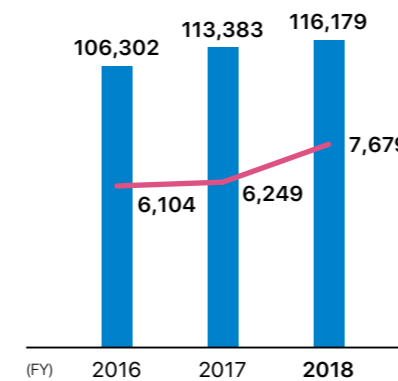
Sales	+5.5%
Operating income	+16.5%
Operating margin	4.2% → 5.2%

Japan

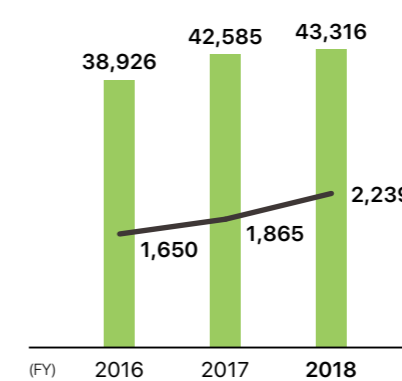
Against FY 2016

Sales	+3.8%
Operating income	+23.6%
Operating margin	6.8% → 9.6%

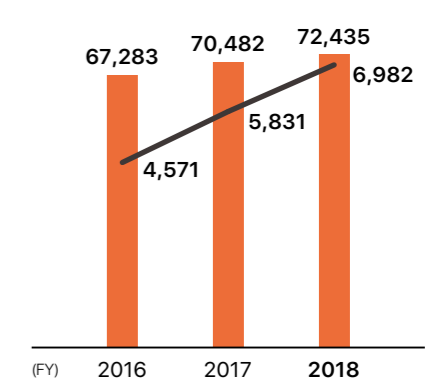
(Millions of JPY)



(Millions of JPY)



(Millions of JPY)



\* Includes the IDP business



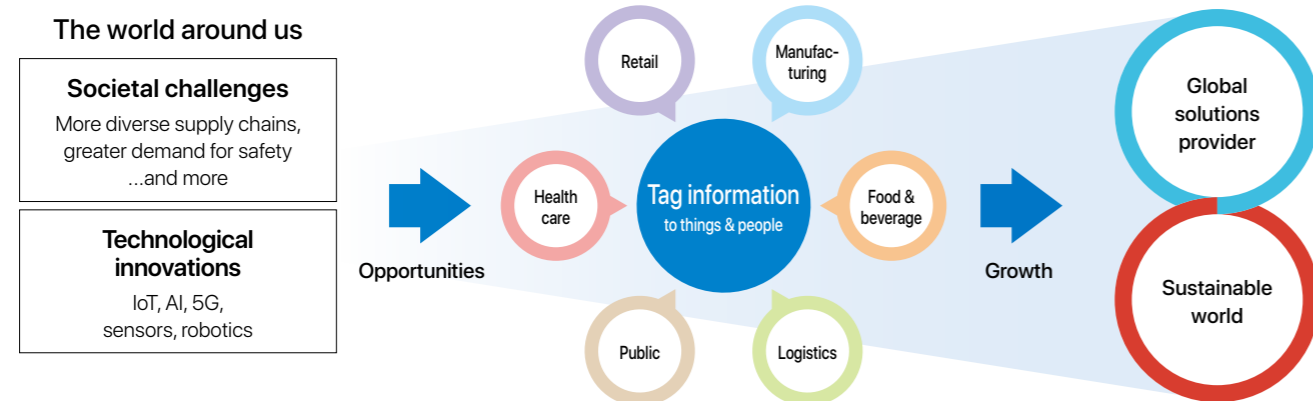
Riding the winds of change  
to be where we hope to be

**What we aim to be**

The world today turns to IoT and AI to seek ways to solve societal challenges arising from more diverse supply chains, greater demand for safety, and mounting demographic concerns. This trend is an enormous opportunity for us to grow our business that provides auto-ID solutions to a wide range of fields including retail, manufacturing, food & beverage, logistics and health care. It's with this tailwind and our strategic positioning in "tagging\* on site" that we would expand our business worldwide on "selling the solution" to become a global solutions provider that contributes to a better and more sustainable world while also priding ourselves as a quality manufacturer.

\* 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.

**Our aim**  
A global solutions provider that contributes towards a better and more sustainable world



See Pages 7-8.

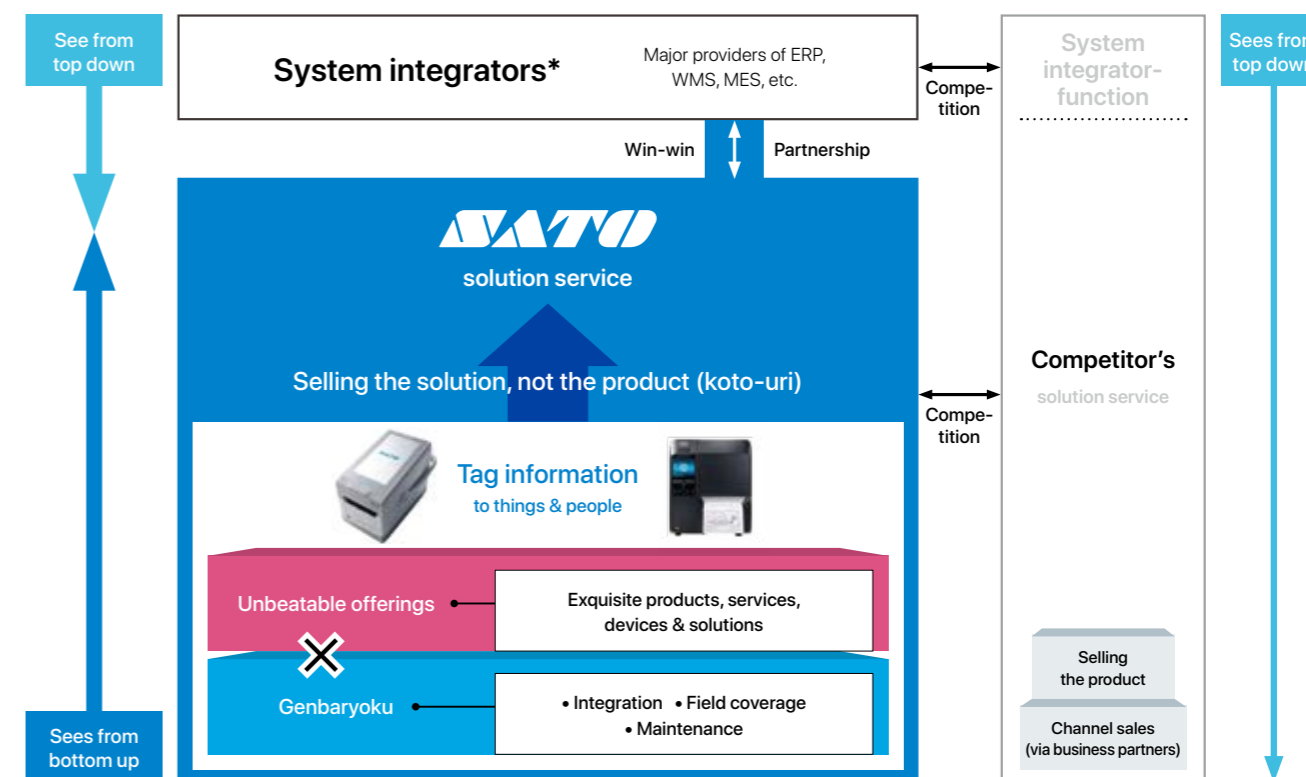
**Competitive advantage**

We offer the best auto-ID solutions for fields of operation in a variety of industries, working off of our know-how in tagging information to things and people. Our strength in this business is none other than what we call genbaryoku. It consists of three elements: (1) The ability to integrate printers, consumables, technologies and services into optimal solutions based on our experience hearing out customers' pain points directly at their site of operations; (2) The ability to cover a wide span of markets, industries and applications with our solutions, powered by our accumulated knowledge of customer fields; (3) The ability to offer maintenance services conscientiously after installation to establish deep, lasting relationships with customers.

This genbaryoku — literally "on-site competency" — together with our R&D prowess to create unbeatable products and services shapes our solutions business, which, with our collaborative partnerships with system integrators, prove to be the ultimate differentiator and our competitive advantage.

**Differentiation**

**SATO as a "customer-centric" solutions provider**



\* Companies that provide comprehensive services on consulting, designing, developing and implementing IT systems and selecting hardware that comprises them.



## Business is built on talent

Business can expand only with good talent, which is why we have been working to foster talent who can put our Credo into action. We instill our corporate values in employees worldwide with the help of promotional leaders selected from group companies around the world. It's this groundwork that allows us to focus on our strategy to become a global provider of solutions that perfectly match operational issues of our customers and push koto-uri forward.

This focus on koto-uri specifically starts from reinforcing our service support teams that have actual contact with the customers. Sales teams would then be able to collaborate with them to access information on customers and their needs to derive more appealing solutions. And project leaders versed in a particular industry would further the collaboration by sharing with global employees the latest case examples of new needs and solutions that have developed from market trends and law revisions.

Positions for such talents needed outside Japan will be filled by hiring mid-career professionals with proven track records, as well as by sending specialists with industry expertise to countries in need to transfer the know-how. We will also be hiring more engineers and staff at the local level.

## Governance, the foundation for growth

Effective June 2019, we have downsized our board of directors from 11 members to eight. This change allows us to make decisions faster, while the higher proportion of external directors brings more objective insight into decisions and ensures more transparent governance.

As we believe that external directors are key to heightening effectiveness of the board, we are making efforts to enhance the support we provide them. An example is holding pre-working sessions prior to board meetings for executive officers and business segment leaders to update external directors on current business standings and answer their questions in advance. We also have a Business Risk Committee reporting directly to the board to discuss strategically important matters such as new investments and M&As, and to submit advice to the board so that external directors can make management decisions quickly and appropriately together with their board counterparts.

## Greater engagement

I feel that I have yet to fully convey the true essence of SATO's unique business model to our stakeholders. The value we provide our customers — e.g., better productivity — is largely universal, so our business is highly resilient to risks stemming from surrounding changes. In fact, there's a global variety of opportunities out there for us because our auto-ID solutions business is capable of adapting to megatrends around us to address the deeper, intricate needs of different markets, industries and applications. We have seized these opportunities in Japan to develop a diverse portfolio of profitable solutions; it's now time for us to do the same beyond Japan, to expand our portfolio and heighten our business resilience even further.

## More stakeholder dialogue, more engagement



To have our stakeholders better understand these and other unique strengths of SATO, I will seek to create more opportunities for dialogue and engagement with you going forward.

In closing, I must also add that, after formulating our basic policy on actions for sustainability last fiscal, we went on to identify material issues in our business management which may impact our value propositions to customers or environmental conservation. We have started applying such materiality priorities this fiscal, while aligning our sustainability efforts with the ten principles of the United Nations Global Compact.

Lastly, on dividend. Total dividend per share for FY 2018 was ¥70, up ¥5 from the previous fiscal. As we anticipate investment in our growth-potent global business this fiscal, we plan to keep the dividend increase modest for FY 2019 at ¥3 for a total ¥73 per share for the entire fiscal.

On behalf of the entire group, I ask for your unchanging support as SATO continues its quest for global, sustainable growth through its auto-ID solutions business.

Ryutaro Kotaki  
President and CEO

# Sustainability framework

The SATO Group's Mission is to "contribute towards a better and more sustainable world," which is why sustainability is inseparable from our business. In line with SDGs (Sustainable Development Goals) and other global agendas of growing interest and through materiality assessment, we have taken actions on our basic policy for sustainability, which was set forth in 2018 to clarify sustainability principles that matter most to our business and stakeholders.

## Basic policy for sustainability

1	<b>Create value</b>	Sustainability goes hand in hand with customer value creation and corporate value enhancement, which we consider the fundamentals of company management.
2	<b>Keep to our business</b>	We achieve sustainability through our business.
3	<b>Make it duplicable</b>	Our sustainability initiatives shall be duplicable over time or across the Group.
4	<b>Align with the actual situation</b>	The actual situation of our business operations shall reflect our ideas for sustainability.
5	<b>Enhance disclosure</b>	We shall disclose sustainability-related information to fulfill our accountability to stakeholders.

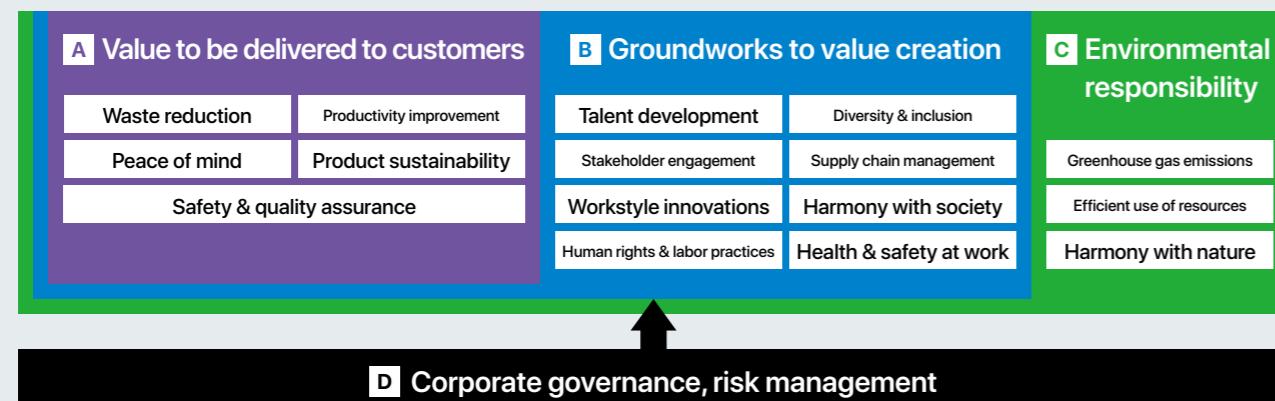
## Our concept of materiality

We identify our materiality agendas by their relevance to three areas: A. Value to be delivered to customers, as associated to our core business of auto-ID solutions, B. Groundworks to value creation, e.g., talent development

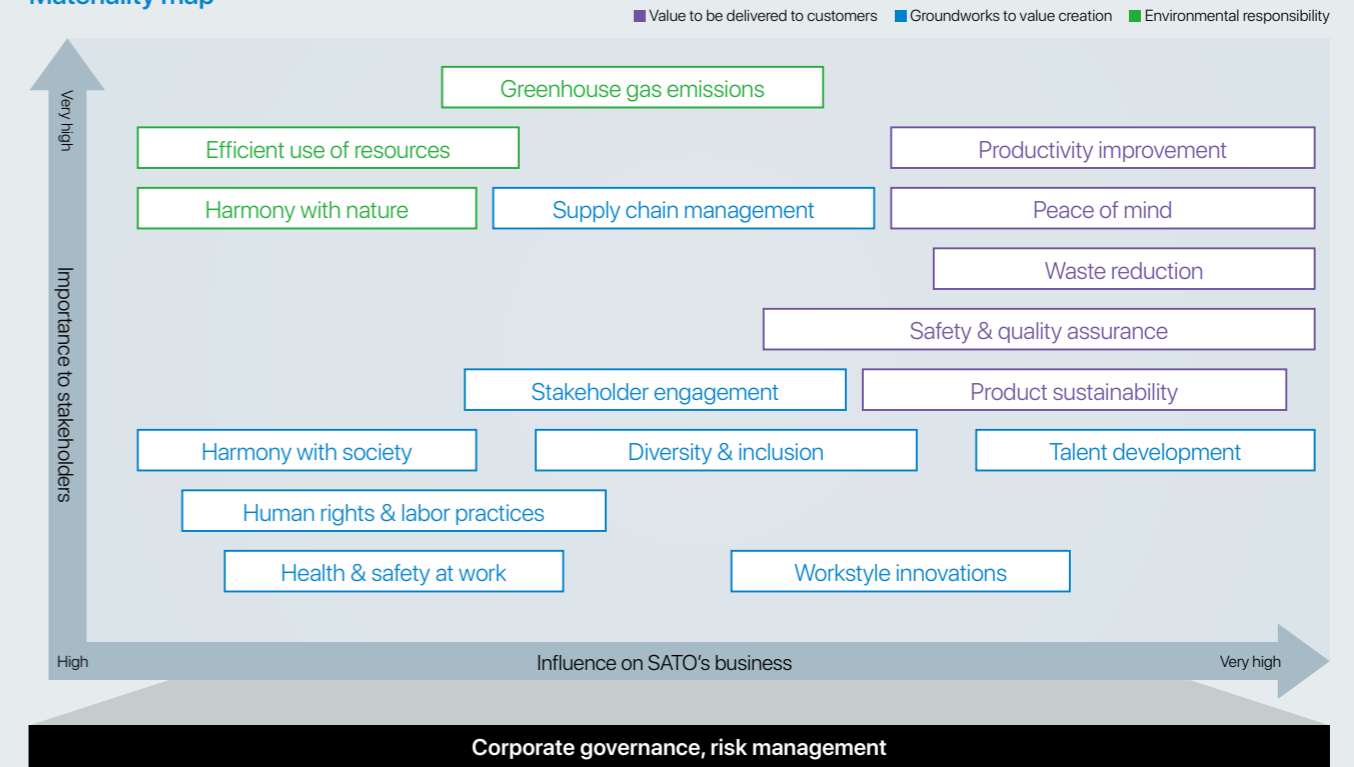
and supply chain management, and C. Environmental responsibility. These areas stand on the basis of corporate governance and risk management.

## Materiality overview

- A** What we aim to offer through our core business to help customers cope with societal challenges
- B** What we undertake internally/externally to enable the continuous creation of customer value
- C** What we do to protect the global environment where we live and do business
- D** Underlying foundation



## Materiality map



## Our process to identifying materiality

We started by forming a sustainability committee involving departments that manage the environmental, social and governance aspects of our business, as well as departments that are involved in investor relations, public relations or other forms of engagement with our stakeholders. This committee took charge of holding multiple discussions and workshops attended by the management team and members from our sales, R&D, production, product planning, and human

resource development functions. After studying principles of the United Nations Global Compact, international guidelines, and a plethora of case studies, we were able to identify important issues that could affect our stakeholders and business to plot them into a materiality map. Going forward, we will work to review these material topics continuously by reaching out to a wide spectrum of stakeholders.



One of our sustainability workshops

UN GLOBAL COMPACT  
COMMUNICATION ON PROGRESS

This is our **Communication on Progress** in implementing the principles of the **United Nations Global Compact** and supporting broader UN goals.

We welcome feedback on its contents.

## Delivering customer value

Value to be delivered to customers is a key priority in our material agendas that is closely linked to our core business of customer-centric auto-ID solutions. Our lineup of sustainable products and services can offer customers benefits that include minimizing environmental impact, saving labor and

Relevant SDGs



resources, and enjoying reassurance and continuous quality improvements.



### Product sustainability

Taking action to combat climate change and its impacts is an important agenda for not just SATO but our customers as well. We support customers in reducing their ecological footprint through product and material sustainability,

notably in how we provide labels without release liners or use paper materials from FSC® (Forest Stewardship Council) certified forests.



**NONSEPA®**  
Linerless labels



Linerless label



Label with liner

Linerless means less paper used at point of production and less CO<sub>2</sub> emission at point of disposal, since no liner waste is left behind for incineration.

#### Awarded the Carbon Footprint of Products (CFP) certification

NONSEPA® is the first product in the Japanese label industry to earn CFP certification. CFP is a program to display the carbon footprint of products (measured by greenhouse emissions generated during their life cycle and expressed in mass-based CO<sub>2</sub> equivalents) on their packaging so as to raise environmental awareness and further reduce emissions.



### Waste reduction, productivity improvement and peace of mind

Our auto-ID solutions allow customers to collect data and automate their operations to visualize inventory and reduce waste. In addition to streamlining business processes and

optimizing supply chains, they also aim to improve the quality of food & beverage and health care operations to offer peace of mind to our customers and the consumers they serve.



### Safety and quality assurance

At SATO, safety and quality are matters to consider at the product/service planning stage as well as in the later phases of the supply chain (such as production, distribution, retail and maintenance). For example, when we include 'ease of maintenance' in our product idea at the planning stage, we essentially lighten the workload of maintenance staff and reduce unnecessary stoppages on site, improving the services we provide to our customers post-sales.

In addition, we pay attention to preventative maintenance and quick recovery from errors, as shown by SOS (SATO Online Services), our cloud-based printer fleet remote

maintenance support service. As SOS offers at-a-glance visibility of all connected printers and their status of operation/use, customers can use the service to manage their assets with similar ease.

We also monitor the performance of our products and services once they are launched, to investigate root causes and make prompt improvements when problems occur to enhance their safety and quality. We will also incorporate customer feedback by acting on requests and other data collected through surveys.

# Groundworks to value creation

Relevant SDGs



Our actions in-house in the areas of talent development, diversity/inclusion and health and productivity management, as well as outside the company in supply chain management and stakeholder engagement form the foundation on which we can continue to create value for our customers. We play our part in responsible procurement, working together with suppliers to

manage and optimize the supply chain. Regular, ongoing dialogues with stakeholders and their opinions allow us to keep improving our management operations and enhance value of the company.

## The SATO Group

### Declaration of Diversity

SATO Group is committed to providing a working environment where all employees regardless of race, ethnicity, gender, nationality, culture, religion, educational background, disability or age are able to fully engage in open dialogue and active participation while recognizing and respecting each other's unique attributes.

We believe this helps us create a diverse corporate culture that inspires the generation of new ideas. In line with our corporate spirit of Ceaseless Creativity, we will continue to refine our diversity activities in daily work as the core of our business strategy.

Our goal is to foster and promote diversity by giving every individual employee the opportunity to grow and excel professionally. This approach is key to delivering the best possible solutions to meet the diverse needs of our global customers. Diversity opens the door to productivity, competitiveness and sustainable growth.



## Talent development, diversity and inclusion

We foster talents who demonstrate our core strengths of genbaryoku and corporate values. In 2019, we defined competencies required for each manager level that was immediately incorporated into our new 360 degree appraisal process. Corporate values are another requisite we try to instill around the world through workshops.

We also build and maintain a working environment that encourages individuals to respect one another and be

self-starters. The resulting corporate culture, which breeds innovative ideas much in line with the company motto "Ceaseless Creativity," embodies the notion of diversity and inclusion. Being one of the pioneers in Japan to raise our mandatory retirement age, we were recognized at the second Enjoy Aging Award in 2018 (organized by a local consortium for future society creation) for our efforts in fighting age discrimination.

## Health and productivity management

To ensure good health and well-being of SATO employees at their workplaces, SATO Group promotes health and productivity management, with a chief wellness officer put in place. SATO encourages employees with metabolic syndrome to exercise regularly, and conducts surveys to measure employee satisfaction. Our efforts have won us Health and Productivity Stock recognition in 2017 and White 500 designation for three consecutive years from 2017 to 2019. SATO also started flexible working hours and telecommuting, along with a new key performance indicator of per capita operating income that measures productivity. This year, SATO announced new behavioral guidelines it

calls "The 3G actions for well-being": 1) Greet with a smile, 2) maintain Good condition (physically and mentally), and 3) do a Great job (with high productivity).

### Recognitions



Health and Productivity Management 500 (White 500)



Diversity Management Selection 100

### HR roadmap

Aim	To make SATO full of talents who practice genbaryoku and its underlying SATO Values to create and deliver customer value that add to the growth of our business.				
	Completed	FY 2019	FY 2020	FY 2021 or later	
Worldwide	Conduct SATO Values workshops (Europe, North and South Americas, Asia, Oceania)	Instill SATO Values			
	Formulate concept for talent management based on global grading	Strengthen talent management and governance			
		Install a global grading system			
	Install a globally standardized KPI management system (for heads of subsidiaries outside Japan)	Define competencies (for heads of subsidiaries outside Japan)		Conduct 360 degree feedback (for heads of subsidiaries outside Japan)	
		Establish compensation setting process (for heads of subsidiaries outside Japan)		Prepare to start a globally standardized compensation scheme (for heads of subsidiaries outside Japan)	
	Revise expatriate rules and processes	Prepare to start talent management		Prepare to start globally standardized manager trainings	
		Stipulate new expatriate rules		Prepare to start succession plan	
	Pilot program to train overseas employees at Japan headquarters	Implement new expatriate process and management		Draw up plan for a global mobility policy	
		Invest in koto-uri talents, starting with Asia		Train local employees for a global career	
		Implement English proficiency program for local employees		Draw up plan for global benefit management	
Japan	Design new HR system for managers	Install new HR system for managers	Implement training programs for grade-specific competencies and for managers under new HR system		
	Establish competency framework	Install competency framework	Implement 360 degree feedback based on grade-specific competencies		
		Devise strategy to motivate mature employees			Prepare to start succession plan
	Define workstyle guidelines by department	Enhance talent and career development programs			Prepare to start globally standardized manager trainings
		Prepare to start talent management			
	Introduce talent management tool	Apply Big Data analytics to talent management			
		Verify effectiveness of workstyle innovation	Run results-oriented work practices	Prepare to start new workstyle for reorganized headquarter structure	
	Seek interested candidates for overseas job	Run diversity and inclusion initiatives (e.g., focal measures for long-serving and female employees; committee for increased job satisfaction)			
		Promote the use of English	Develop koto-uri talents outside Japan, especially in Asia		
		Implement English proficiency programs based on department-specific goals			

## Stakeholder engagement

We maintain active dialogue with investors and other stakeholders, receiving valuable suggestions on how we could improve our management. Each year, we hold two financial results briefings for institutional investors and analysts, over 200 individual meetings with them, and briefing sessions and small meetings on a wide range of topics to facilitate direct conversations between stakeholders and our CEO, investor relations officers, business unit heads and external directors. These opportunities help us optimize company valuation and lower capital cost.

### SATO added to the SNAM Sustainability Index

We have been named to the SNAM Sustainability Index set by Sompo Japan Nipponkoa Asset Management Co., Ltd. (SNAM). The index is used for SNAM Sustainable Investment Fund, which is a socially responsible investment product for pension trusts and institutional investors that invest in a broad range of companies (approx. 300) rated highly for their environment, social and governance (ESG) practices.



### Briefing sessions and small meetings



Earnings briefing



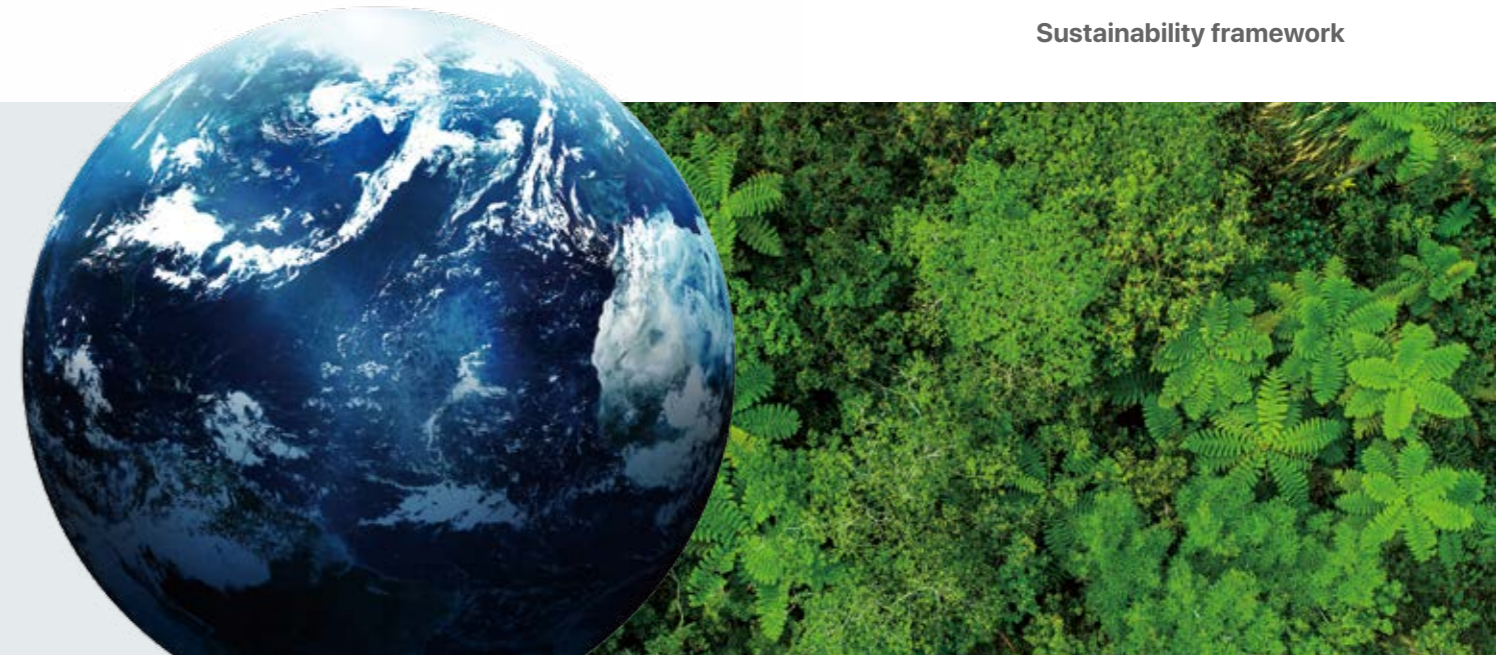
Briefing for individual investors

# Being environmentally responsible

Relevant SDGs



We recognize environmental protection as a priority common to humankind, as well as an essential factor to sustaining our business. Our environmental policy guides us towards reducing environmental impact, providing greener products and services, and running our business in harmony with the environment.



## Greenhouse gas emissions

Reducing CO<sub>2</sub> emissions is essential to tackling global warming and making our society sustainable. We understand that we are responsible for the environment, and work to monitor the carbon footprint of our business and promote tangible initiatives to stop global warming.

Referring to the medium-term target specified for Japan in the Paris Agreement\*, we have set the following goals in reducing environmental impact of our business activities.

\* International agreement to combat climate change, adopted at COP21 on December 12, 2015.

### Medium- to long-term targets and progress

Action items	Target contributions	Key indicators		FY 2018 results	FY 2019 targets	FY 2020 targets	FY 2030 targets
		Japan	Overseas				
Reduce environmental impact of our business activities	Reduce Scope 1 & Scope 2 CO <sub>2</sub> emissions	CO <sub>2</sub> emitted, compared with FY 2013 (t-CO <sub>2</sub> )	Down 8.0%	Cut by 10%	Cut by 15%	Cut by 26%	
	Reduce Scope 1 & Scope 2 CO <sub>2</sub> emissions (Key production plants)	CO <sub>2</sub> emitted, compared with FY 2015 (t-CO <sub>2</sub> )	Up 15.6%	Cut by 6%	Cut by 10%	Cut by 26%	

In 2018, SATO joined Japan Climate Leaders' Partnership (JCLP) as a supporting member to promote renewable energy. JCLP is a group of Japanese companies sharing the common understanding that the industrial sector

should take actions to realize a sustainable, decarbonized society, with a sense of urgency.

Through our participation in this partnership, we are now looking at installing power generators for self consumption.

## Efficient use of resources

In order to realize a sustainable society, we must transform from a linear to a circular economy, in which resources are processed properly and circulated. As a manufacturer, we make it our responsibility to put in efforts for a circular economy.

Whenever a customer switches to a new printer, we collect the old printer at no cost to disassemble it and recover the components or metals (iron, copper, brass, stainless steel, aluminum, rubber, PCB, wires, waste plastics, etc.) for reuse through recyclers. This has become

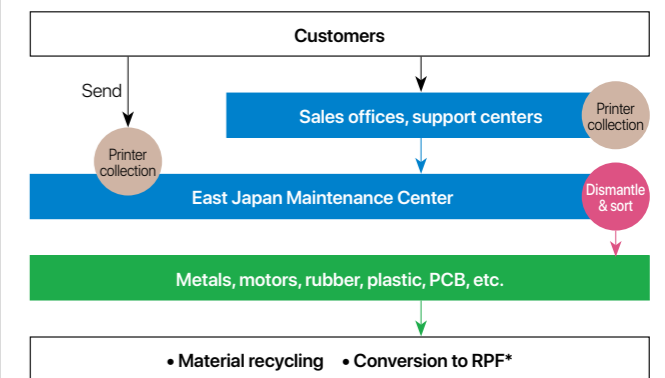
our standard operation since 2007. In FY 2018, we recycled 38 percent more printers than we did the previous year. To further increase recycle rates, we have started taking actions since July 2019 to set up a customer support framework for printer collection and streamline in-house processes via the CRM system.



Recycling room

Parts sorted by material

### Collecting and recycling printers



\* Refuse Paper & Plastic Fuel (solid fuel produced from waste).

## Harmony with nature

One of our core businesses is consumables, which uses wood pulp to produce its main product line of labels. This is why we work to protect nature at a global scale in order to conserve biodiversity and restore the environment.

Since March 2014, SATO has been participating in the Forest of Companies project that the Tokyo Development Foundation for Agriculture, Forestry and Fisheries promotes as part of its Pollenless Forestation\* campaign. We sponsor pockets of forest land in the Tokyo cities of Ome (since 2014) and Akiruno (since 2019), naming these sites "Forests of Ceaseless Creativity" and managing them in our action to protect the forest ecosystem and its water sources. SATO was certified a contributor to the Tokyo

forestation program in October 2016.

We will continue to develop eco-friendly businesses and take part in forestation programs to enhance environmental awareness in our employees.

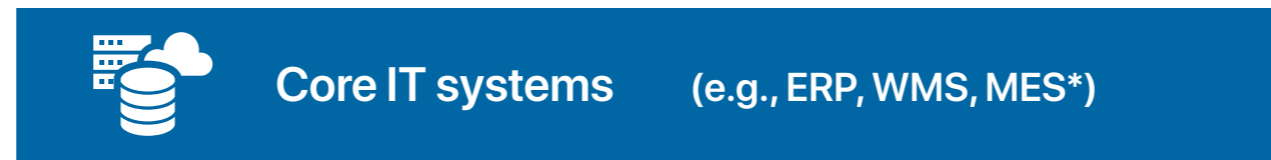


\* Campaign to replace cedar and cypress plantations to a new variety of these trees that release less pollen (1/100 of the existing variety). It aims to reduce airborne pollen that causes allergic reactions, while regenerating forests, stabilizing wood supply and revitalizing the forestry industry.

**Our business model**

**Auto-ID solutions business**

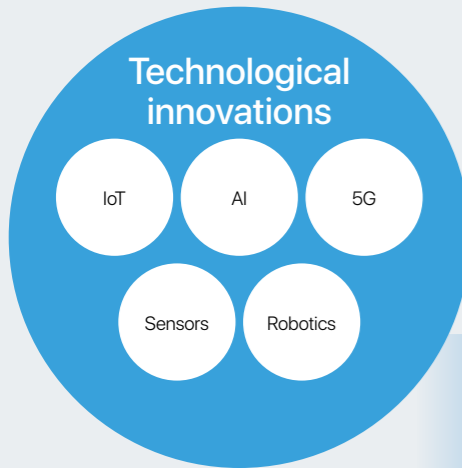
**DCS & Labeling +One**



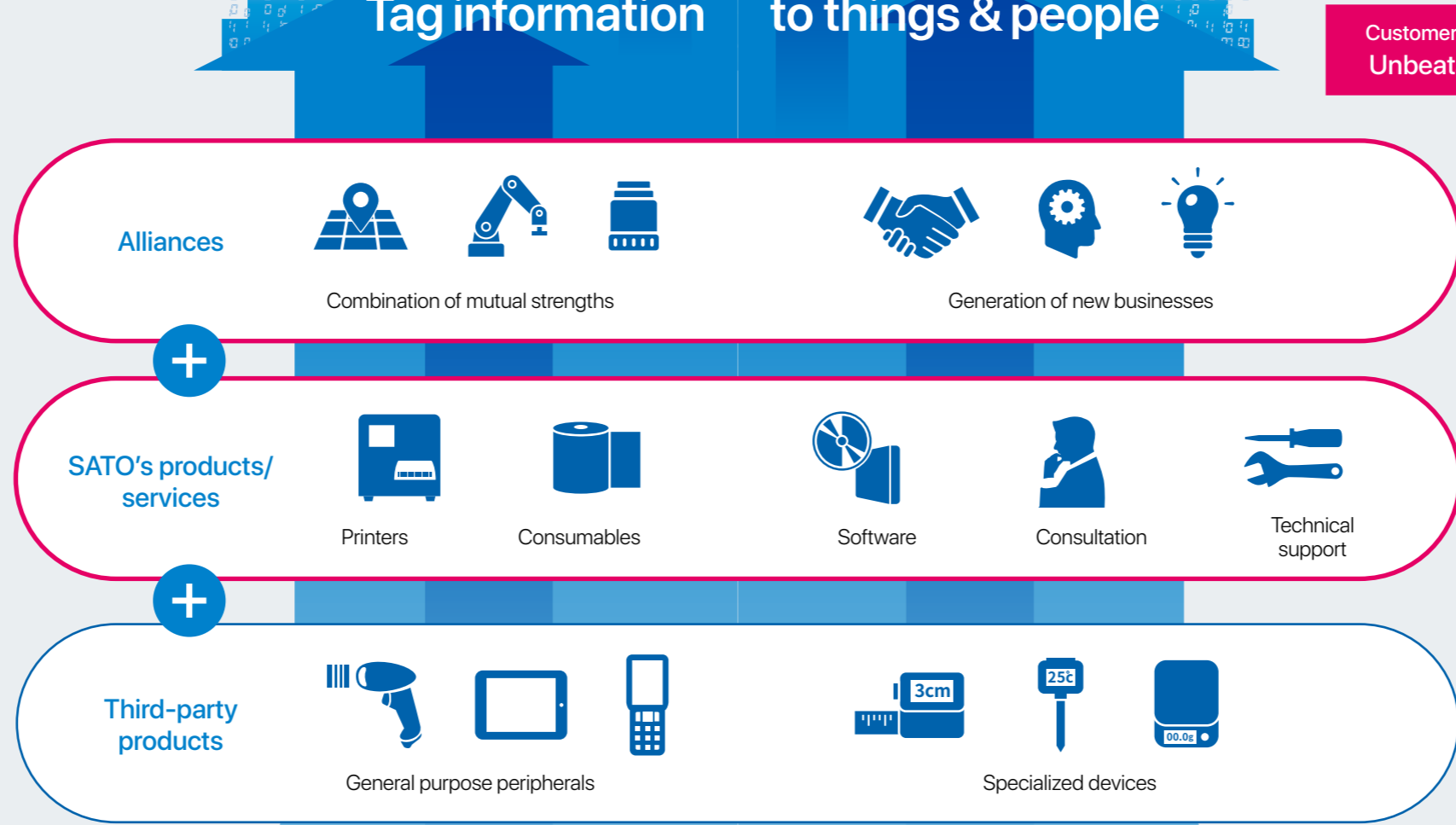
DCS & Labeling +One is SATO's business model of delivering unbeatable offerings we develop in-house or through external alliances together with third-party products in the form of solutions, to tag identifier information to things and people so that core IT systems can process the data. Technological innovations and universal challenges faced by our customers are our driving force to building a lineup of solutions that can work for different industries. At the heart of this all is the genbaryoku of our employees who visit each customer site to understand the operation and its challenges before coming up with a solution. We will continue to solve challenges of the times with DCS & Labeling +One.

**Tag information to things & people**

**The world around us**



**Markets, industries, applications**



**Customer-centric solutions  
Unbeatable offerings**

**Our value creation**

- Ensure accuracy
- Save labor
- Save resources
- Offer reassurance
- Achieve sustainability
- Build emotional connections

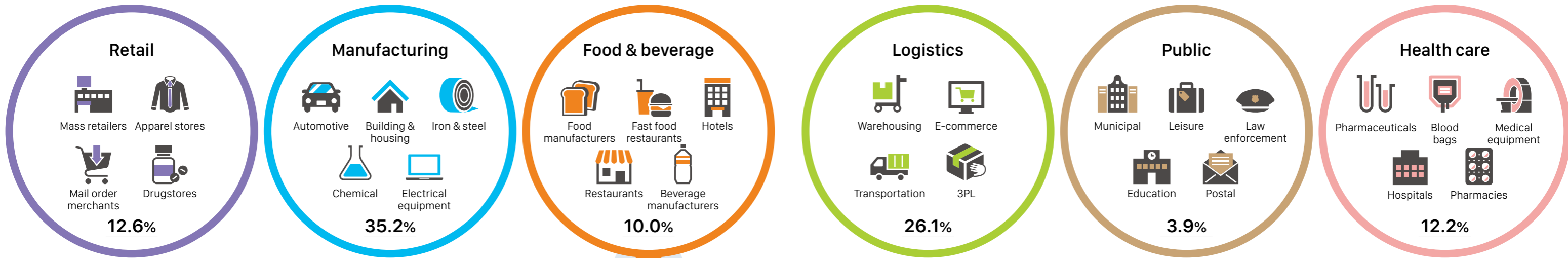
**Genbaryoku**

- Integration
- Field coverage
- Maintenance

## Our wide coverage of markets, industries and applications

At SATO, we consider each market a global collective of different industries. For example, the food & beverage market can be broken down into production, foodservice and many other industries. Each market features a set of challenges which vary from industry to industry, and we work to address them with optimized solutions that we build based on the industry-specific knowledge and expertise we have accumulated over the years.

## Wide coverage across market segment, industry and solution application



\* Underlined figures denote respective share in SATO sales, Japan (FY 2018)

### Examples of solutions for food manufacturers

Our solutions can be used to automate operations and improve data efficiency in all processes ranging from incoming inspection to inventory management.

#### Automation

- Enable labeling flexibility to meet different needs
- Improve accuracy and speed in packing and labeling goods for shipment

#### Food labeling

- Support multiple languages in printing/applying labels for imports/exports

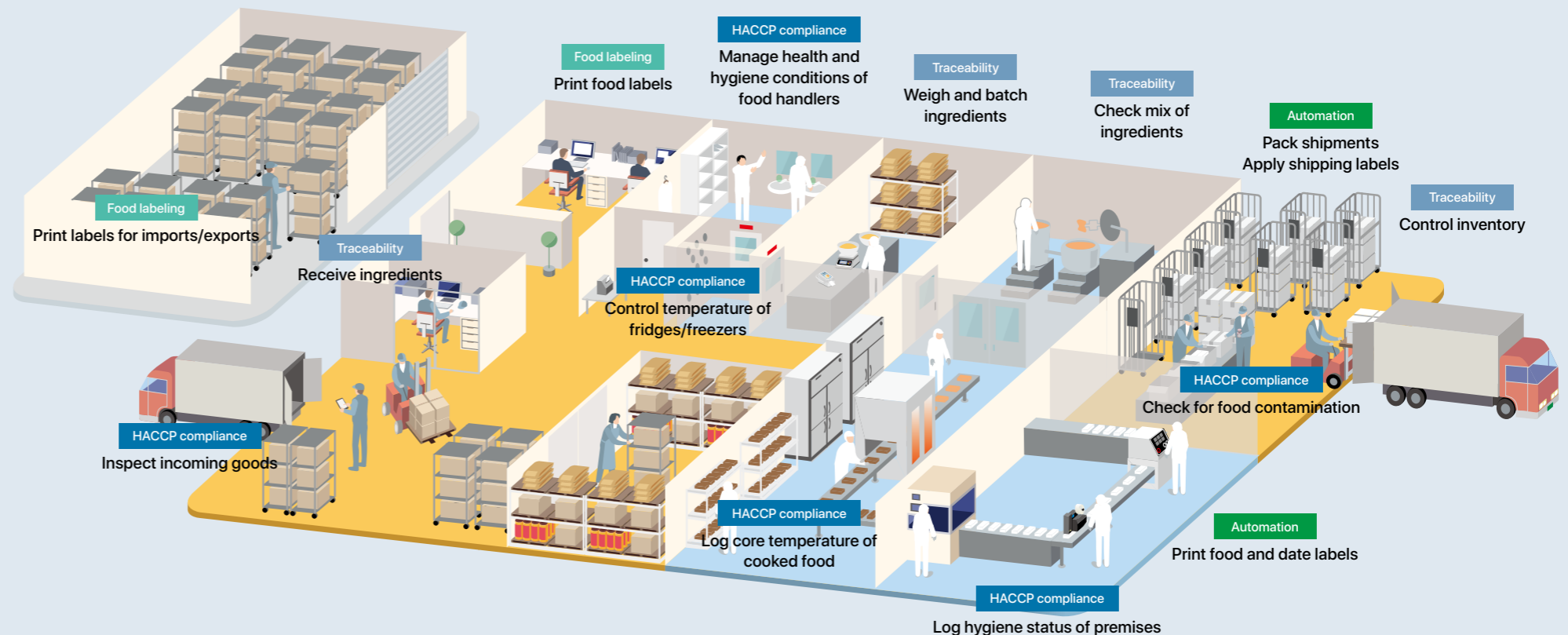
#### HACCP compliance

- Manage data on the cloud
- Support multiple languages
- Perform checks on workflows in a timely manner
- Receive alert notifications
- Connect with critical process instruments

#### Traceability

- Manage receiving, location transfer and inventory operations
- Control production operations including weighing and mixing of ingredients
- Manage shipping operations
- Track and trace shipments

See Page 39.



## Our products and services

**The 'SATO Blue' indicator** An indicator bar that illuminates blue or red to show operational status; now sported on display panels of all SATO printer products as part of our image branding.

# Created from the customer, for the customer

We visit customer sites across different industries, and use what we discover, observe and learn there to invent new products and services. As a manufacturer, we pay attention to the details of our product designs and enforce strict quality control across our R&D, production and inspection processes. As a solutions provider, we make sure our solutions are tested repeatedly on site before delivering them to our customers.



## Minimize downtime to speed business

### Printers

With product technology accumulated over 30-plus years, SATO designs and develops printers to perform universally. They operate easily, print in multiple languages, connect to various interfaces, and minimize downtime for sites of operation when used together with our IoT-based service that monitors printers 24/7 via the cloud.



CL4NX

#### Printer lineup for diverse business scenarios



PW208NX

Mobile printer optimized for delivery, warehousing and other operations that require on-the-go printing



CT4-LX

Compact printer due to be released outside Japan starting January 2020



LR4NX-FA

Auto labeler engineered to fit into existing production lines in different setup orientations for accurate label application



FX3-LX

Touch screen printer with Android OS that can run a variety of apps to support work environments



**Compatible with SOS\*, our cloud-based IoT service that ensures stable operation of printers through preventative maintenance**

\* SATO Online Services

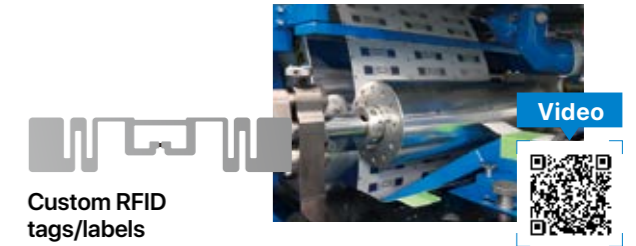
## For every distinct need

### Consumables

We have produced consumables for as long as we have printers, caring about each and every label we provide customers. Our know-how helps us develop new base materials and apply more efficient finishing techniques to come up with products that best meet needs. With demand growing for RFID in recent years, we now perform inlay design, tag/label conversion and quality inspection, all in our very own plant to produce custom RFID consumables better tailored to customers' operating environments.



Heat-resistant labels



Custom RFID tags/labels

Video



#### Location tracking solution for greater warehousing efficiency

## Solve problems on site

### Solution services

Our Visual Warehouse\* solution navigates workers and forklift operators within a logistics warehouse in the shortest possible route using indoor locating technology. The @Form paperless solution controls quality, documentation and traceability in food production with the growing mandate for HACCP compliance. These customer-centric solutions we invent allow businesses to better deal with staffing shortages, productivity limits, food safety concerns, and other challenges in our rapidly changing world.

\* Visual Warehouse is a trademark or a registered trademark of SATO Holdings Corporation in Japan and other countries.

## To support day-to-day operations

### Software

We help customers efficiently print and manage the label/tag data they generate in their daily operations by developing and offering software that can be used to create layouts and centrally maintain print data across multiple locations.



Multi LABELIST V5

Label design software



SATO App Storage

Cloud-based data management application

Video



#### Service to design and print packaging that helps sell the product

## Providing field knowledge and expertise

### Consultation

Our field knowledge and expertise on auto-ID technologies and business processes can prove to be valuable advice for customers. It can improve on-site operations. It can boost sales of a product by renewing its package design based on proper market research and strategies. These are more ways in which we contribute towards a better and more sustainable world than by simply selling the products we produce.



Overseas



# “Selling the solution, not the product” (koto-uri) globally

Outside Japan, we benefitted from the growth in our base business of printers and consumables to record highest-ever revenue and higher year-on-year sales and profits in FY 2018. We will focus on instilling the koto-uri approach thoroughly and invest strategically in priority countries and talent development to further step up growth of our global business.



**Hayato Shindo**  
Executive Officer  
President, SATO International Co., Ltd.

## FY 2018 recap

In the past fiscal, we achieved new record-high in revenue and increased both sales and operating income from a year ago as Asia kept up its strong performance and Europe won deals substantial in size. We did not, however, meet the target figures we planned at the beginning of the term as our China-related businesses slowed down due to USA–China trade tensions and our consumables products suffered from the soaring cost of paper materials. The fact that our overseas group companies are taking longer than expected to fully take up the koto-uri model to capitalize on business opportunities around us also contributed towards this shortfall.

That said, we have definitely made progress with our koto-uri strategy in FY 2018 to initiate more business talks with large corporations at a speed that would have been unthinkable in the past. This was possible because of the systems/infrastructures we put in place that generated new sales leads and fostered greater collaboration among

group companies. We also created various opportunities for employees worldwide to learn about SATO's core competence in genbaryoku and develop their awareness of koto-uri.

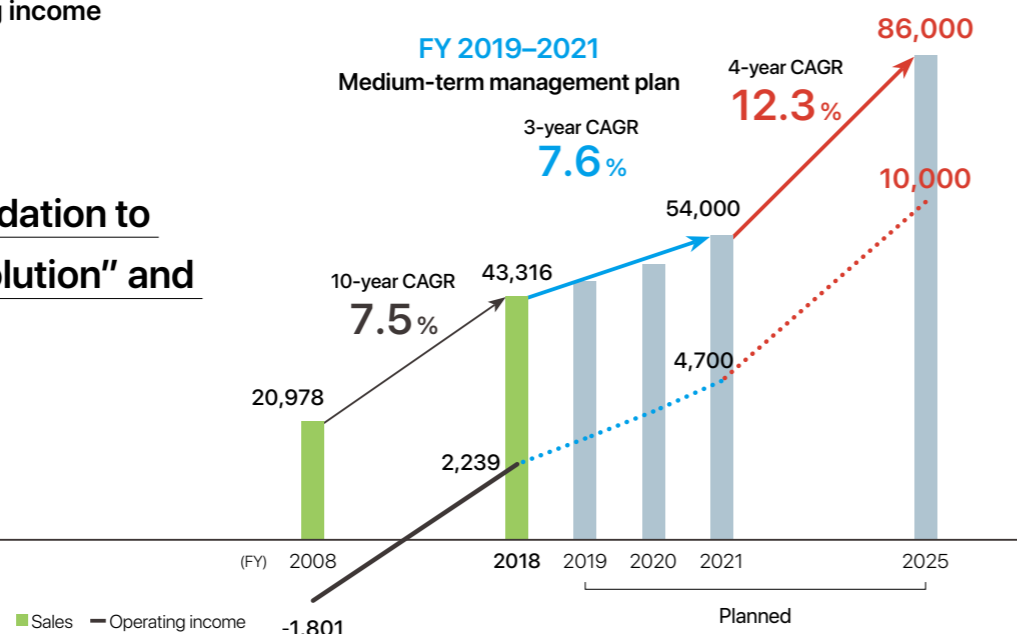
Having large, global corporations as customers would increase our business presence around the world. We will build on the talks developed in the past year to convert them into actual sales in FY 2019 and propel ourselves towards expanding sales and securing the trust of potential alliance partners.

One of the markets we see growth potential in is food. Food safety lapses (e.g., lack of allergen indication on labels) are driving demand for better food labeling as standards become stricter worldwide. This creates favorable environment for us, particularly in Asia and developing economies where improvements in quality of life are accompanied by higher expectations of safety.

## Sales and operating income

(Millions of JPY)

### Build the foundation to “selling the solution” and drive growth



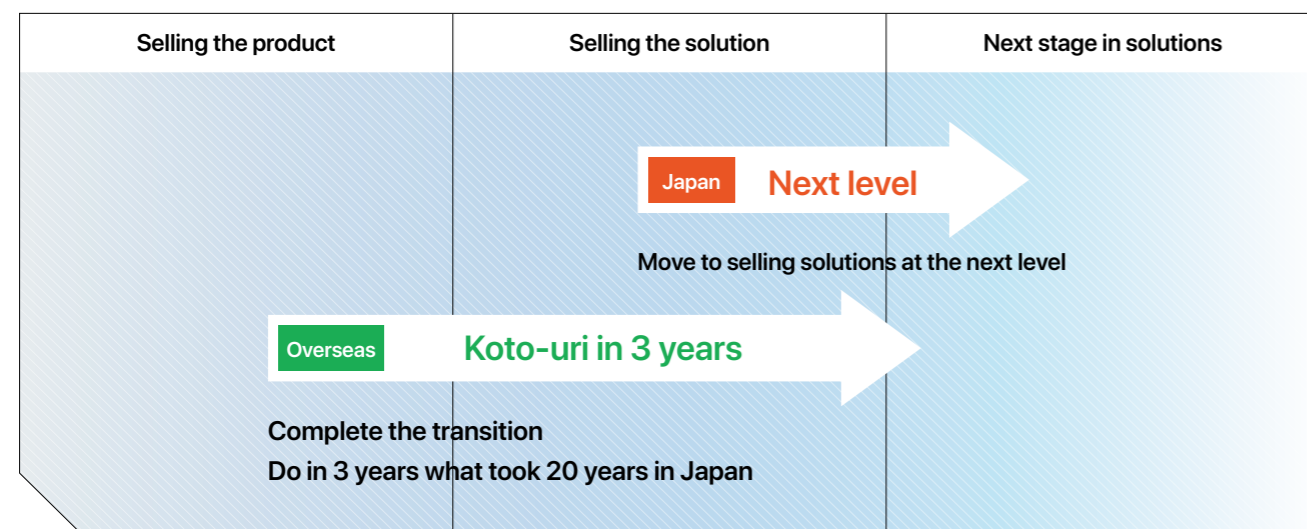
### Identify priority countries and invest strategically

Seeing how the shift from selling the product to selling the solution has proved fruitful for our business in Japan, we are planning to make the same transition outside Japan over the next three years. This will be by no means easy, but we cannot afford to stick to the status quo either, as it would only land us in price wars, make us vulnerable to changes in our business environment and limit our growth. Now that megatrends are creating positive tailwind for our business, we must waste no time in driving our strategy for strengthening koto-uri to sell combinations of products and services to customers based on their specific needs.

For this strategy to succeed, it is important that we target and invest our resources effectively in countries with promising growth prospects. I see tremendous business potential in the emerging nations in Asia with rapidly growing economies. This is because as their GDP increases, their standards of living improve, leading to greater needs for labor saving and food safety, which are closely relevant to our auto-ID solutions business. We will be focusing on India and Vietnam as our top priority countries in Asia, given their strong affinity with the SATO group business. Outside Asia, we have set the US as top priority on account of its enormous market size.

In the case of India and Vietnam, the needs for our solutions center primarily on the manufacturing industry where measures for improving product traceability and production control are gaining traction. India, in particular, has an abundance of IT engineers in the country that allows us to find the best partners to work with in developing software that goes into our solutions. The country is also home to many pharmaceutical companies that manufacture and export generic drugs, pointing to demand for quality product labeling. To capture all these opportunities and scale up our business, we will be looking to invest in building a new consumables production facility, partnering with local companies, and acquiring the necessary professional talents.

The US economy may not be growing as fast as India or Vietnam, but it boasts a titanic market size that keeps the country atop the world's GDP rankings. As headquarters of many global corporate giants are here, we will work to offer more compelling propositions to these decision makers by expanding our local sales function and applying the strengths of our worldwide network that spans 27 countries/regions. We will also be looking out for M&As and new alliances while setting up more places from which to supply consumables.



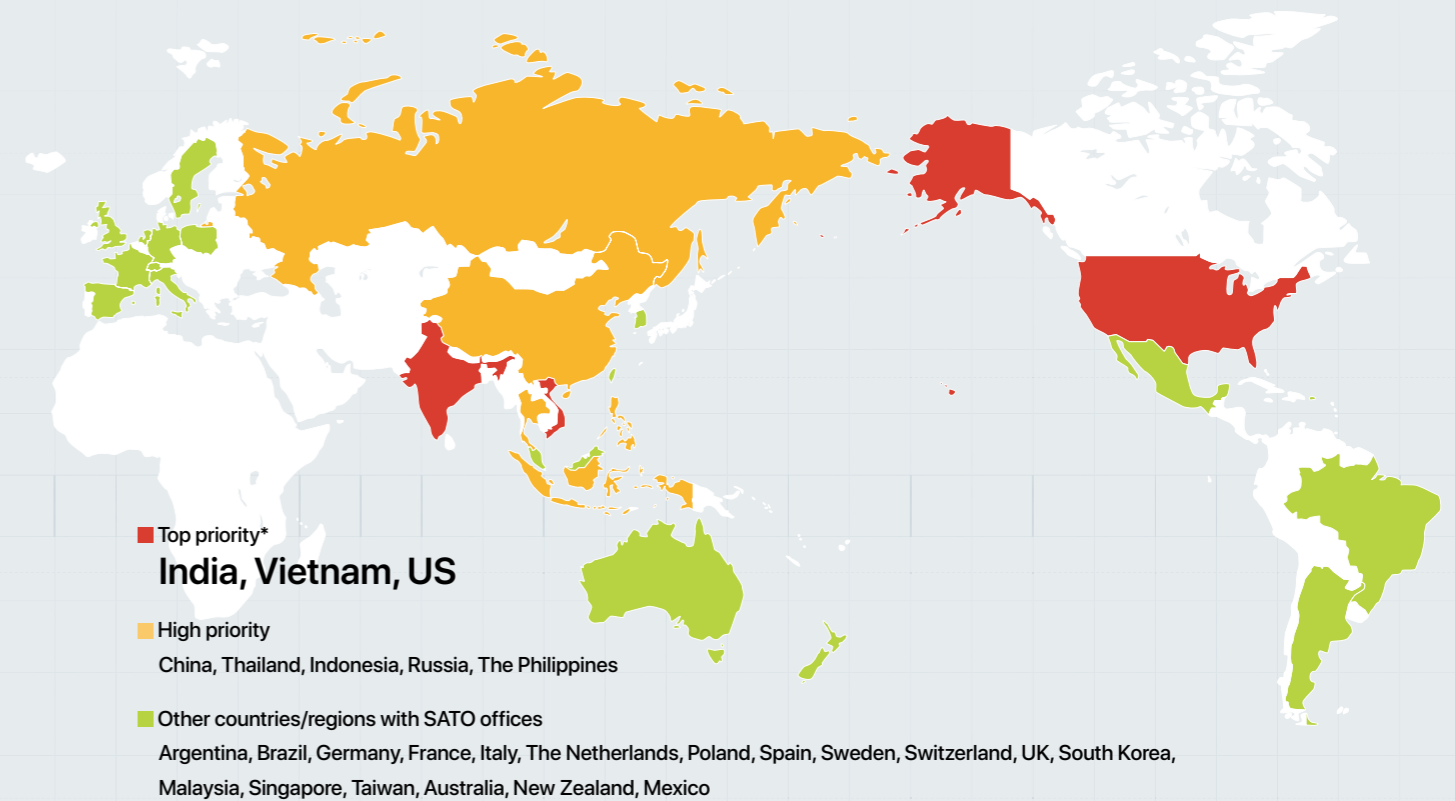
## Target countries, areas, and industries of high potential, and execute strategies and investments with speed

### Key strategies

1. Optimize workforce and operations in focal areas
2. Lay groundworks to supplying products, services and solutions
3. Develop sales collaterals and functions to support koto-uri
4. Strengthen global alliances
5. Establish CRM (customer relationship management) system and other sales infrastructure

← Invest

### Countries/regions we will focus on



\* Determined based on macro data and considerations such as business affinity with SATO and supply chain maturity levels

### Establish infrastructure to support koto-uri

SATO's strengths lie in capturing the intricate needs of business sites through close communication with customers to create exquisite products and services that we propose in the form of unique solutions. A lot of the know-how behind this capability is retained in each salesperson as tacit knowledge that is difficult to transfer to others, which, together with the inadequate understanding of each country/industry, was our biggest obstacle to expanding koto-uri as planned. We established a new global marketing function this year that would better connect the overseas companies with our Japan head office. This function aims to consolidate expertise and experience accumulated in Japan into a sales playbook of successful selling methodologies/stories and sales collaterals sorted by industry and shared with the global group.

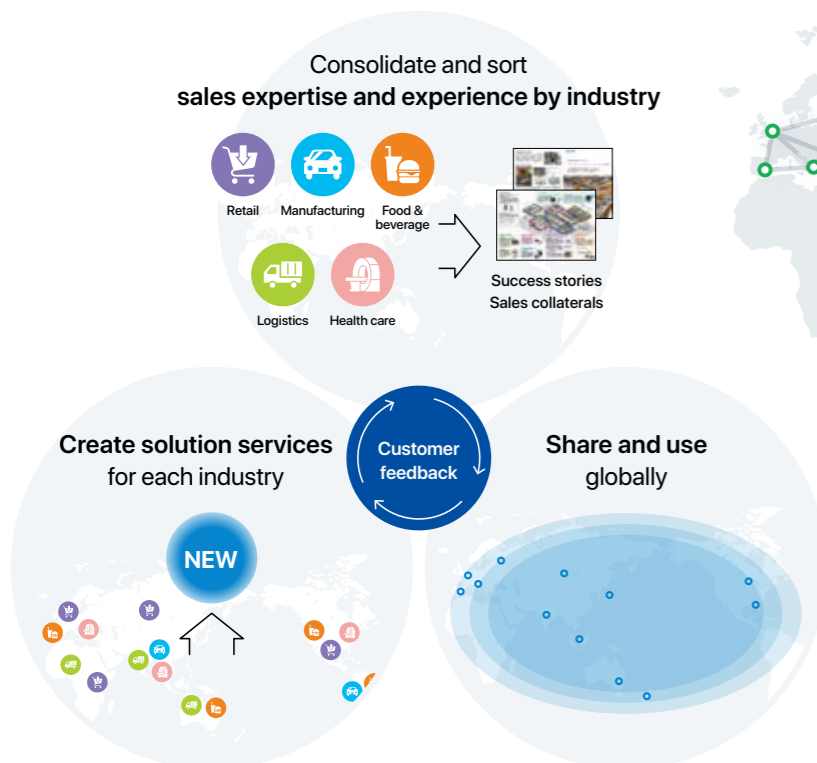
The CRM system that is already driving koto-uri sales in Japan as a shared database for customer details has been installed in the US as well as Europe. We will be introducing the system to Asia in the second half of this fiscal, with plans to get it running at full scale globally from FY 2020. Besides managing interactions with each customer, we plan to use the system to analyze data and gain insights into the strategic actions we can take towards closing deals more successfully.

We are also looking into restructuring our group organization to integrate our Japan and overseas headquarter functions for stronger group-wide collaboration.

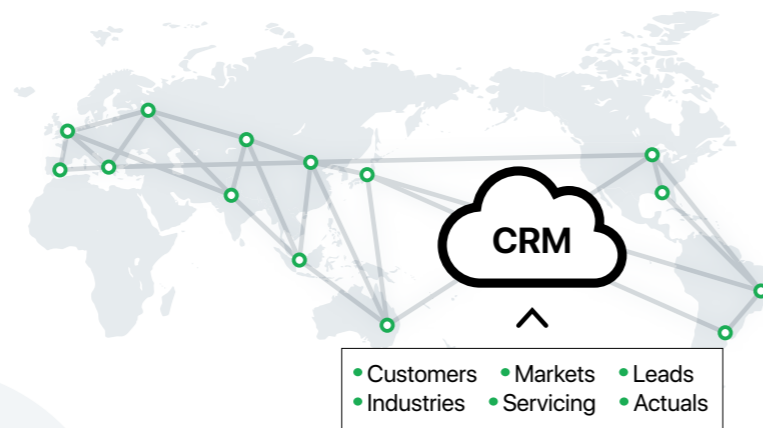


Maximizing our knowledge and know-how for breakthrough growth

#### Build a "winning formula" using sales collaterals



#### Share sales information globally through CRM system



### Go all out to develop global alliances and talents

Global alliances are crucial to growing our Overseas business. While we have been building alliances primarily with companies that complement what we do as a business, we hope to be able to pursue more progressive partnerships in the future to create new values that play to our mutual strengths and field coverage. Genbaryoku is one of SATO's most powerful strengths and the reason why many alliance partners choose to work with us. Going forward, we will focus on uncovering new alliances that would open the doors to business with more global

corporations as well as on forming alliances with companies with strong presence in specific regions to better identify and address needs of customers at the local level.

In addition, we will foster and mobilize professional talents outside Japan. We plan to revise the HR system to allow outstanding personnel at any group company to perform on a bigger stage beyond their own country. We will also send employees who are experts at "selling the solution" to conduct trainings in different countries to improve sales skills locally.

### Confidence in our growth potential, even amid external changes

I have been involved in our Overseas business for the past 15 years, and never a time have I felt as confident and hopeful in our future growth as now. A lot of my positivity stems from the team spirit I see in our members who, with a clear picture of their respective missions, are now capable of working seamlessly with colleagues handling the Japan business.

While uncertainties loom increasingly over the world economy and geopolitical risks heighten ahead, any impact from such external changes will be offset across our business, since the solutions we offer are used in diverse markets and industries to solve structural and universal challenges. Even if a recession sets in, we will still see

opportunities from businesses that are bound to resort to cutting cost, saving labor, and improving productivity in order to cope with the economic decline.

Today, customer needs are changing dramatically as digital transformation continues to make advancements and pick up speed. We can ride this trend by driving koto-uri globally to develop a robust business base, and applying our success in Japan towards tailoring solutions that adapt to surrounding changes and best suit a particular country or industry. Now is the time for us to go with the winds of change, and maximize our knowledge and know-how built up over the years so as to achieve breakthrough growth in our Overseas business.

Japan

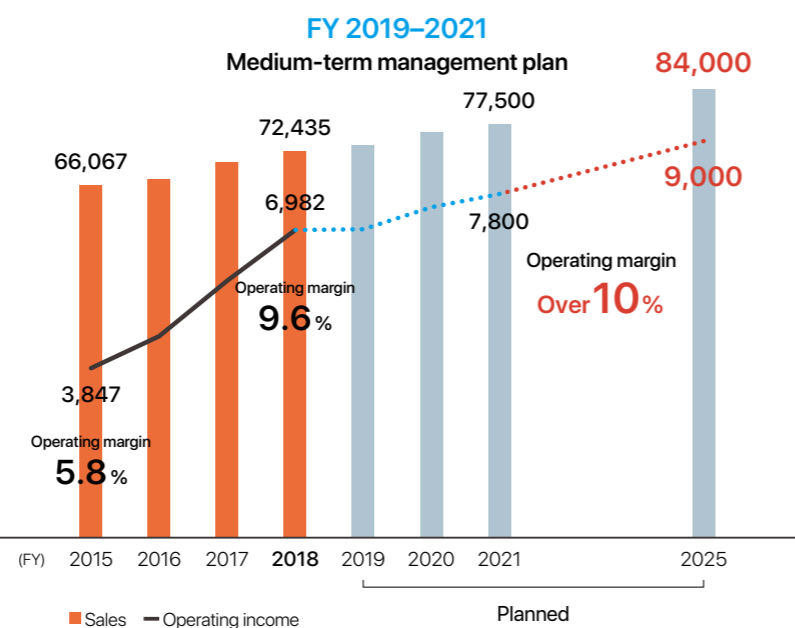
## “Selling the solution” more honed and advanced

With external circumstances working to our favor and effects from launching new, strategic products and putting our CRM system into full use proving positive, we recorded our highest-ever sales and operating income for FY 2018. We will continue to lead the group in “selling the solution,” taking our offerings to the next level by deepening ties with our Area Alliance Partners (AAP) and assigning solution experts throughout each region and industry.

### Sales and operating income

(Millions of JPY)

“Selling the solution” at a higher level to improve profitability



Hiroyuki Konuma

Vice President  
President, SATO Corporation

### FY 2018 recap

After recording highest-ever sales and operating income for FY 2018, our operating income CAGR over the past three years now averages high at 24 percent. Demand for automation and work efficiency solutions to heighten productivity remains strong; the growing public awareness to innovate workstyles has made its way into the minds of corporate managers when they make business decisions, and served as a tailwind for SATO. We have also taken

### Strategy for FY 2019

Sustainable growth of our Japan business requires that we train and appropriately assign solution experts with immediacy. While we have successfully trained industry experts since setting up a divisional system 10 years ago, we need to respond to more complex customer needs than ever and train highly specialized talents with greater speed, which is why we are training our people at consulting firms and business partners. And by allocating these specialized solution experts to the right regions and industries that we target, we will strengthen our regional offices as well.

As our solutions would need to become more segmented to meet the diverse needs of our customers, we will be developing deeper relationships with our Area Alliance Partners (AAP) to expand our local share per region and industry. Partners will be selected based on their customer engagement and competitiveness in the target region or industry, and on their understanding of our auto-ID solutions and business model, which is particularly

advantage of opportunities to replace customer printers, suggesting new use cases based on new printer features to increase sales volume. This rise in sales, together with our efforts to streamline production with a standardized platform, develop easy-maintenance products, and couple services with products to “sell the solution,” has led to better profitability.

We are also starting to see our CRM system play its part as sales infrastructure. As a center of customer information in profile (e.g., when products will need replacement) and from customer touchpoints (e.g., our Support Centers), it helps us run strategic sales operations that are highly geared for success.

a requisite. In order to have our AAPs accurately convey the value that SATO provides customers, we will maintain close communication with them, while hosting events such as workshops to facilitate greater collaboration.

I believe SATO's strength is in its corporate culture that readily embraces changes to adapt to external situations. Such agility in keeping pace with the ever-changing market can only be achieved because we stand firm on our corporate values. In our quest to become a global solutions provider, SATO Values will come to play a crucial role as the universal language for collaboration across our global workforce. And it is on this basis that we will pioneer in the dynamic technological innovations taking place around us to improve customer value, which we offer as the core of our business. We will continue to hone our solutions through the solid customer base we have developed over the years, and lead the group-wide drive to “sell the solution, not the product.”

## Latest in solutions

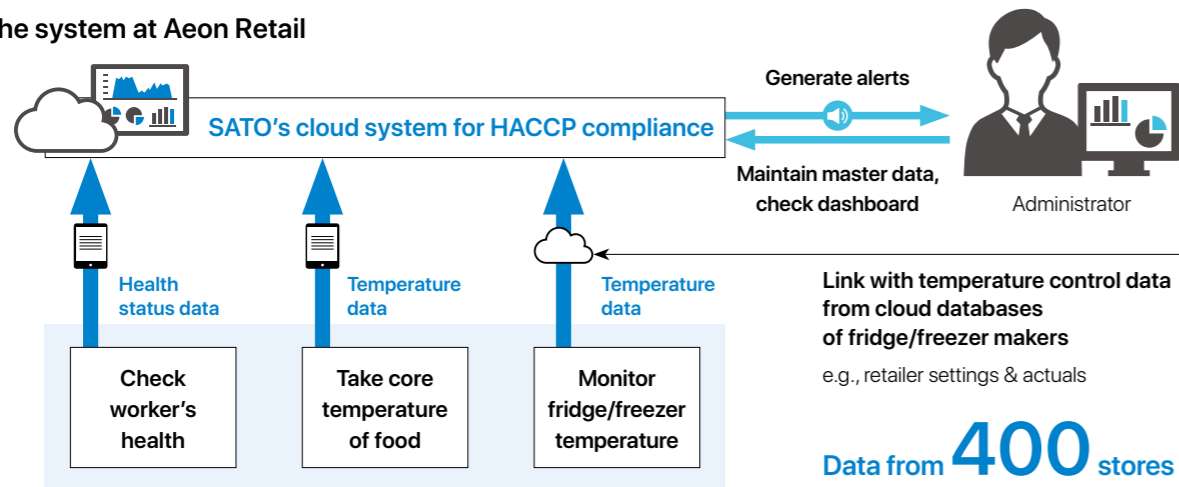
### Food safety

#### using a cloud system to support HACCP compliance

HACCP is an internationally recognized approach for managing food safety that is a matter of growing interest among food business operators in Japan since 2018, when the Food Sanitation Act was revised to make its implementation mandatory. Many food manufacturers and restaurants in the country now face challenges in meeting regulatory requirements to apply HACCP procedures to their operations and set up a means of logging and storing data of the procedures taken.

SATO's cloud system helps businesses comply with HACCP while offering compatibility with multiple operating systems/devices, convenience of centrally managing fridge/freezer temperatures, and expandability for additional installations across their organizations. It can also be linked to existing functions and adapted to different operational rules, fulfilling practical "wants" (e.g., go paperless, collect/use data efficiently) and providing a solution even for businesses already running a HACCP system. We are eyeing to take the system to the global stage to support food safety worldwide.

#### The system at Aeon Retail



#### From the customer

We've always had rules to managing hygiene, as every Aeon store must offer food at the same level of safety and hygiene. With HACCP compliance now mandatory, we needed to keep records consistently and accurately. We used to hand-write our logs, which took more worker-hours the more we tried to raise their accuracy, while the process of reading temperature several times a day from display cases that are formatted differently depending on their manufacturers was a big hassle. That led us to this cloud solution, which uses a tablet PC to record data, syncs automatically with temperature logs of display case manufacturers, and even keeps track of workers' health conditions. Not only has it made record keeping easier and more accurate, it is expected to cut monthly workload at

our megastores by 122 hours. We count on SATO to further support us in our efforts to continue delivering services and products that satisfy our customers.

#### Satoshi Kawamoto

General Manager,  
Store Operations Dept.,  
Aeon Retail Co., Ltd.



## Latest in alliances

### Innovating the pharmaceutical supply chain using RFID

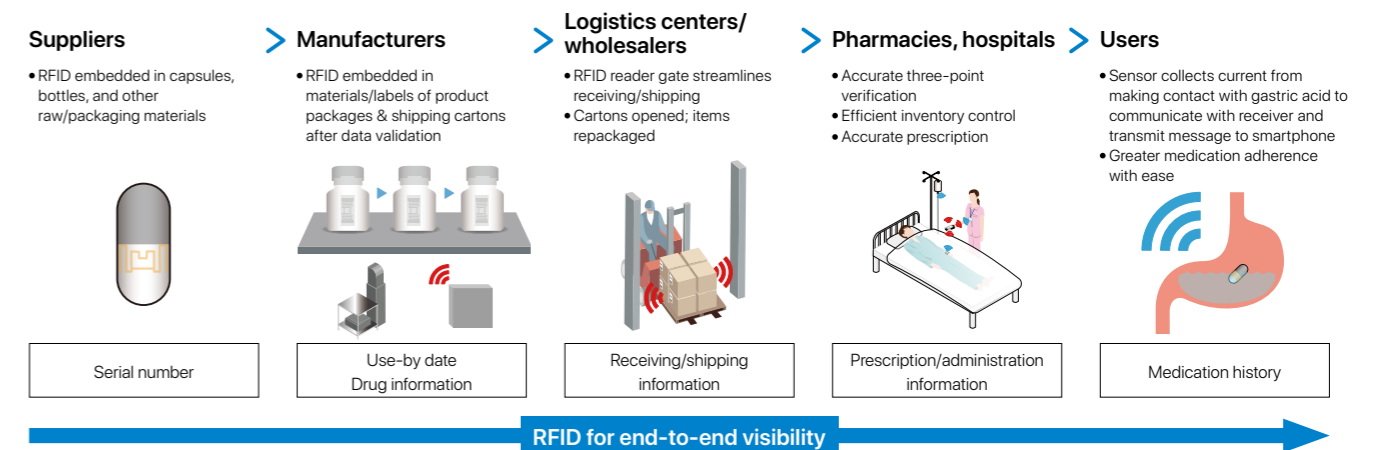
#### Development ongoing with partners

SATO Healthcare Co., Ltd. and four other companies have launched a joint project to apply RFID throughout the entire pharmaceutical supply chain from drug/material manufacturers and logistics providers to hospitals, pharmacies and consumers/patients. This project aims to raise efficiency in inventory control and related work, ensure accurate traceability, and contribute towards delivering safe and reassuring medical services with an eye on the future of telemedicine.

Pharmaceutical work — e.g., inventory control and prescription checks — requires precision even with a shrinking workforce, which is why the industry today has a growing need to save labor. It also needs traceability over the entire supply

chain to counter drug counterfeiting, and infrastructure capable of delivering the right medicine directly to the right user or tracking medication adherence in support of teleconsultation and telepharmacy practices, which the future of an aging population and labor-short medical services would come to need. Member companies of the project are currently working to equip RFID tags not only to medicine bottles and bags to track their use, but also to hard capsules to track their ingestion via electrochemical reaction with gastric acid. This solution named Tag 4 Link was showcased as a concept at each member company's booth at the 21st Interphex Japan exhibition held on July 2019, and we aim to finalize the technology within the year to commercialize it in 2020.

#### Value creation seen at each stage of the supply chain



#### From our alliance partner

Tag 4 Link is a solution that uses RFID to connect information across pharmaceutical supply chain fields involving suppliers/manufacturers, wholesalers/distributors, hospitals/pharmacies and users. It aims to establish an efficient and secure track & trace system to replace serialization that relies on barcodes to assign serial numbers to each and every item.

Bringing this solution to market and mainstream use requires that participating companies form a strong alliance, in which SATO Healthcare plays a particularly vital role with its wealth of experience working with logistics centers and hospitals.

Our company hopes to play its part with pharmaceutical manufacturers, taking our success of having installed our barcode verifier (RSC-1000) to the industry to integrate the

new solution system into production lines with minimal cost and impact on existing equipment.

The alliance will strive to work off of its field expertise to offer customers a quality RFID solution that meets their needs and operations.

#### Makoto Shibasaki

Executive Director,  
Senior Manager of Division 2,  
MicroTechnica Co., Ltd.



# SATO IoE\* solutions

## Shifting to a B2B2C mindset

Businesses in the field of consumer goods are seeing their mass marketing tactics proving less effective on consumers amid the growing demand for personalization. While we are a B2B company, our end users are consumers, and that is why we have launched a project to conceive B2B2C businesses that offer consumer-centric solutions. The next generation of IoT — often dubbed IoE — opens up vast opportunities for our tagging technologies to play their part. One to note is

sensor tags that work without batteries. This tag when attached to a household product (e.g., a bottle of shampoo) can give the manufacturer direct access to market data that only retailers were previously able to collect, allowing production to better meet consumption trends to cut lead times and losses from expired or leftover inventory. We have entered talks with our alliance partners in system integration and communication infrastructure to stage such innovation to the supply chain.

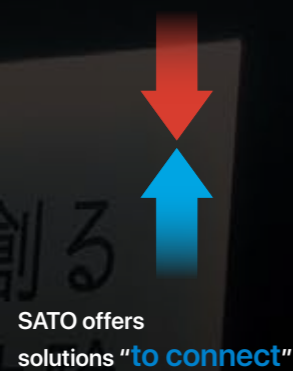
\* Internet of Everything: Coined by Cisco Systems in 2012 as an advanced state of IoT in which all things and people are connected to the internet.

### Example

A battery-free sensor tag attached to a shampoo bottle would transmit data to the cloud to create new value in connection with Big Data and AI.



Typical solution providers offer "connectable" systems



**Background photo**  
 SATO's booth at Retailtech Japan 2019. We gave visitors a hands-on tour on what next-generation RFID can bring in 2021. The tour featured technologies to provide shoppers recommendations from their preferences/behavior data, support real-time stocktaking, and automate checkouts.

# Build a strong business base to optimize group management



**Yoichi Abe**  
Director, Vice President and CFO

## My mission as CFO

SATO is driving its medium-term management plan at the group level, setting its sights on building a revenue base to power sustainable business growth amid globalization. As CFO, I feel I must firmly support our Overseas and IDP businesses, which hold promise of generating substantial growth, but are also subject to greater risk and uncertainty. Group-wide corporate governance, including internal controls and compliance, is also an area that we must strengthen with greater importance than ever. I will work to create a stronger business base comprehensively geared to striking a balance between fiscal management and strategic investment so as to maximize our enterprise value.

My role is largely to provide financial advice to the CEO and other members of the management team in terms of (1) aiding strategic decision making, (2) supporting business activities, and (3) establishing business base and governance framework for global expansion.

(1) When making strategic decisions, the management team needs to factor in ROE and capital costs, which are necessary to ensure stable and continuous profitability. In that regard, my role involves lending support by offering various forms of financial information and advice related to demand forecasting, risk analysis and assessment of potential synergies.

(2) When it comes to business activities, I take steps to ensure that business strategies for achieving the medium-term management plan are thoroughly executed, monitoring such progress appropriately. Whenever necessary, I support and advise SATO group companies individually to help drive our business overall.

For investment projects, careful thought will go into their objectives — be it increasing profitability of existing businesses based on strategies in the medium-term plan, or creating new businesses to contribute to future profitability — before executing them with prudence and speed. To manage risks of these investments, we set up a Business Risk Committee under the board of directors in FY 2018. Headed by myself, this advisory committee engages its professional perspectives in thoroughly analyzing and assessing projects for justification, business plan feasibility, and return on investment (in connection with cost of capital), with considerations to potential risks and mitigation measures. The committee's findings will be used by the board to substantiate discussions and essentially complement decision making for investments. After investments are decided, they will also be monitored with greater care in their implementation.

(3) As our overseas operations grow, we are expanding the SATO Group beyond our existing businesses in labels and solutions. Having a wide range of companies with diverse regional characteristics, legal systems and rules requires that we take a multifaceted approach to manage and operate them in an integrated and effective manner. To such ends, we have selected members from different functions/companies to establish a new Governance Committee this fiscal that reports to me. This committee will use SATO's corporate values as its basis to work on improving management efficiency and maintaining reliability/transparency of group companies outside Japan, while also developing and driving strategies for strengthening such governance. It seeks to provide overseas companies with training/support in business management, get them familiarized with operational rules, put in place systems to visualize their financial and non-financial information, and build up a framework to better monitor them.

## Acting on the medium-term management plan

In SATO Group's FY 2019–2021 medium-term plan, we have renewed our dedication to concentrate resources on our core business in auto-ID solutions and further establish sustainable growth and stable profits. Based on this policy, we will strive to not only develop a stable financial base, but also optimize our group management through various investments (such as developing global talents, optimizing overall production framework and individual production sites, undertaking R&D to create innovations that would serve as future profit drivers on top of our core business, and building infrastructure for business management) so as to achieve operational excellence and ultimately maximize our enterprise value.

Having employees understand and relate to our pursuit for operational excellence is important. We will shift employee mindsets and help the organization live these actions to better position ourselves for improving profitability/efficiency and securing a competitive advantage in our business activities. At the same time, we will take a more systematic approach to ESG issues to sustain our value creation in line with the rising expectations of our stakeholders. We believe these efforts will help us achieve operational excellence to solidify our operations for a more sustainable SATO.

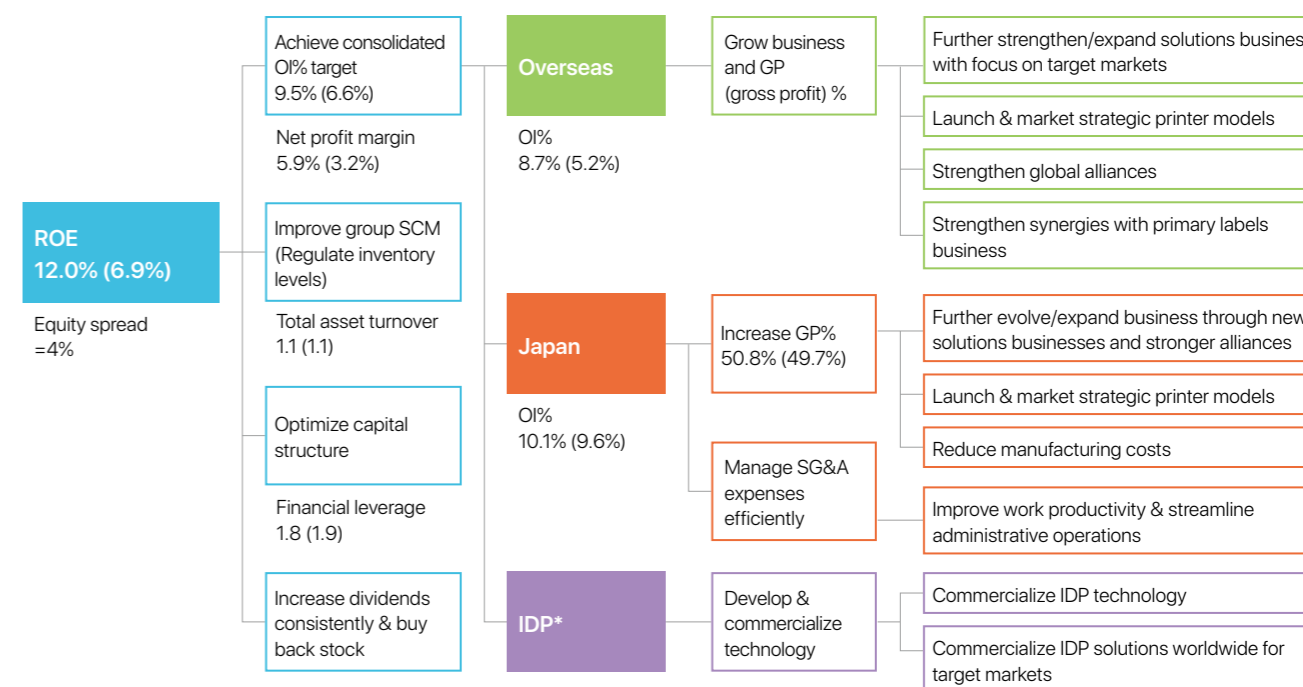
## Improving capital efficiency

We recognize ROE as one of the key benchmarks for capital efficiency, which is why we will make every effort to improve our ROE to reach the 12 percent target we have set for FY 2021.

We will continue to use the roadmap we have drafted to let our markets and frontline employees know about our goals

and plans. Meeting the ROE goal of 12 percent to bring our target equity spread to 4 percent (with cost of shareholders' equity estimated at 8 percent) is the level we deem necessary for sustaining growth of our global businesses while remaining financially sound. We will aim to achieve this ratio as soon as

## Roadmap to higher capital efficiency (through to FY 2021)



• Figures in parentheses denote FY 2018 actuals  
• Cost of shareholders' equity estimated at 8%

\*Aiming to break even from current ¥1.4 billion operating loss as early as FY 2020

possible and further improve it over the long term.

Of the four building blocks outlined in our roadmap, we place top priority on increasing consolidated operating income ratio. This would require us to improve profit margin (over revenue) of our auto-ID solutions business in Japan by enriching the problem-solving offerings we put together for customers. In the case of our auto-ID solutions business overseas where immense growth is anticipated considering the number of markets we are yet to tap, we will concentrate business resources on select target countries/markets that match our expectations for both sales growth and profitability.

As total asset turnover ratio is used for calculating ROE, it is important we raise that as well, using business assets

efficiently and managing our balance sheet properly (such as by accelerating accounts receivables and reducing inventory).

While our emphasis is on profit margin and asset turnover, we will also look at using more financial leverage to increase our ROE if so required.

With this roadmap, we hope to create in employees the understanding and awareness that their day-to-day activities are directly linked to how the company generates cash.

Our current medium-term plan maintains the policy to strike a good balance between making investments for sustainable growth and delivering stable, incremental dividends in order for us to remain financially sound.

control financial leverage at no more than 2.0 times (equivalent to equity ratio of at least 50 percent) to ensure we do not rely excessively on borrowings or other outside

sources and maintain balance with dividends and other shareholder returns.

### Managing cash flows and strengthening financial base

We have managed to keep our annual cash flow from operating activities stable at above ¥8 billion on average over the past five years, thanks to a business portfolio of sound profitability and disciplined financial management. This attests to the power of our genbaryoku, which we will keep on harnessing to help us satisfy needs for both business investments and stakeholder returns.

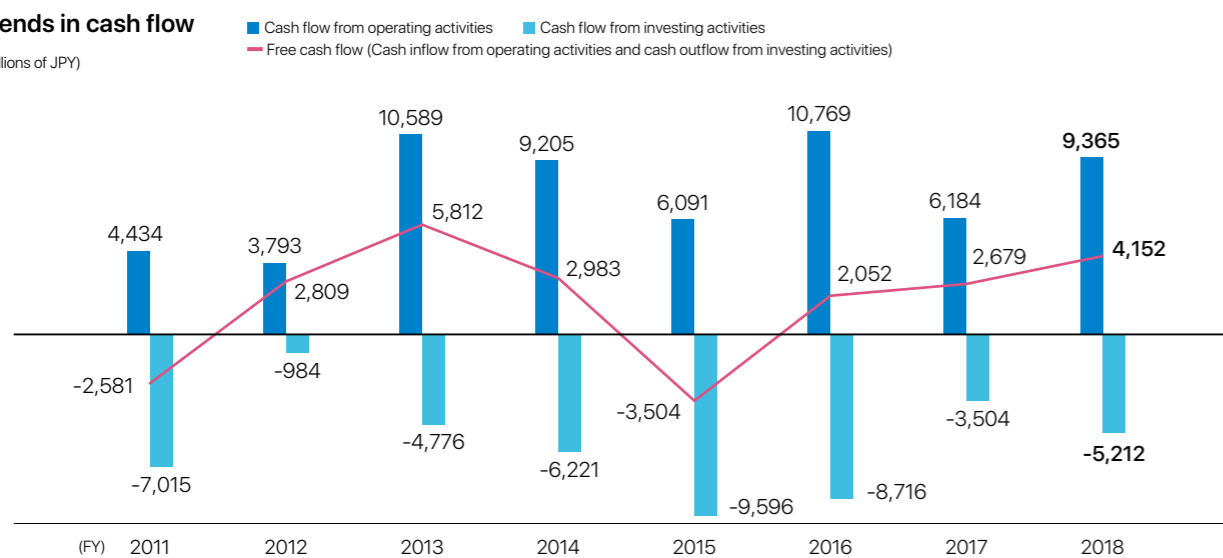
Looking at FY 2018 alone, our cash flow from operating activities stood at ¥9.4 billion, while cash flow from investing

activities amounted to ¥5.2 billion after recording investments for setting up new plants in Japan/overseas and developing new products/solutions, resulting in positive free cash flow of ¥4.2 billion overall.

This is in line with the SATO Group's basic stance on cash flow management, which is to maintain positive free cash flow by making investments within the limits of our cash flow from operating activities while maximizing returns. Overall financial health is also our top priority as we aim to

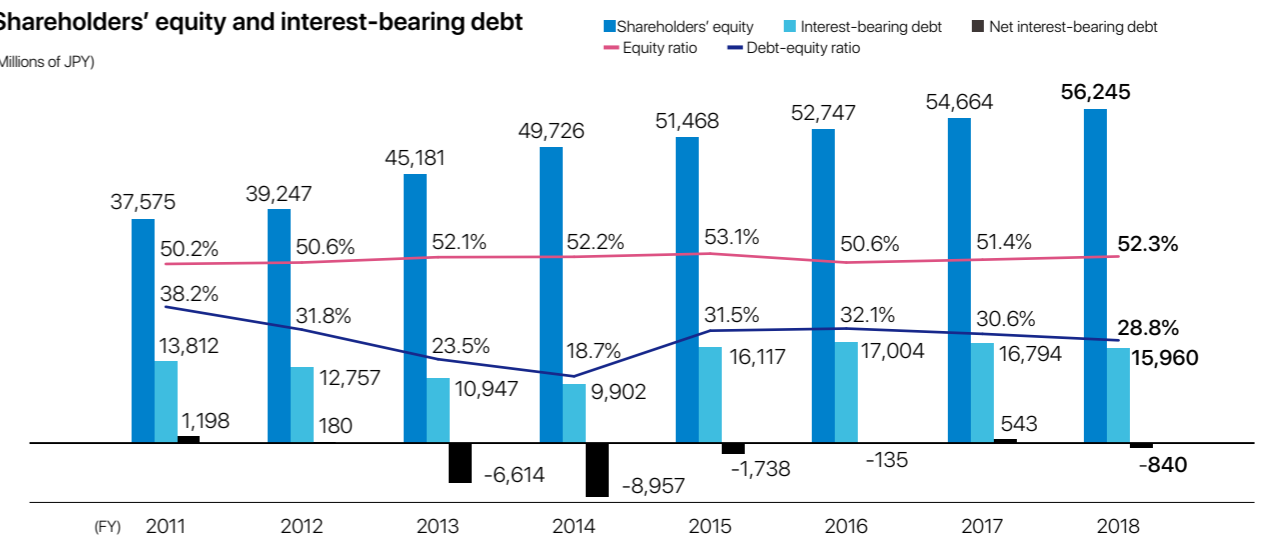
#### Trends in cash flow

(Millions of JPY)



#### Shareholders' equity and interest-bearing debt

(Millions of JPY)



### Basic policy for shareholder return

Our basic policy is to return part of our profits to shareholders in the form of dividends while retaining internal reserves to address financing demand from our base businesses and areas of growth in order to increase our enterprise value and maximize shareholder value. Under this policy, we project to increase annual dividend by ¥3 from the previous year to achieve a payout of ¥73 per share for FY 2019. In determining this amount, we comprehensively consider the importance of

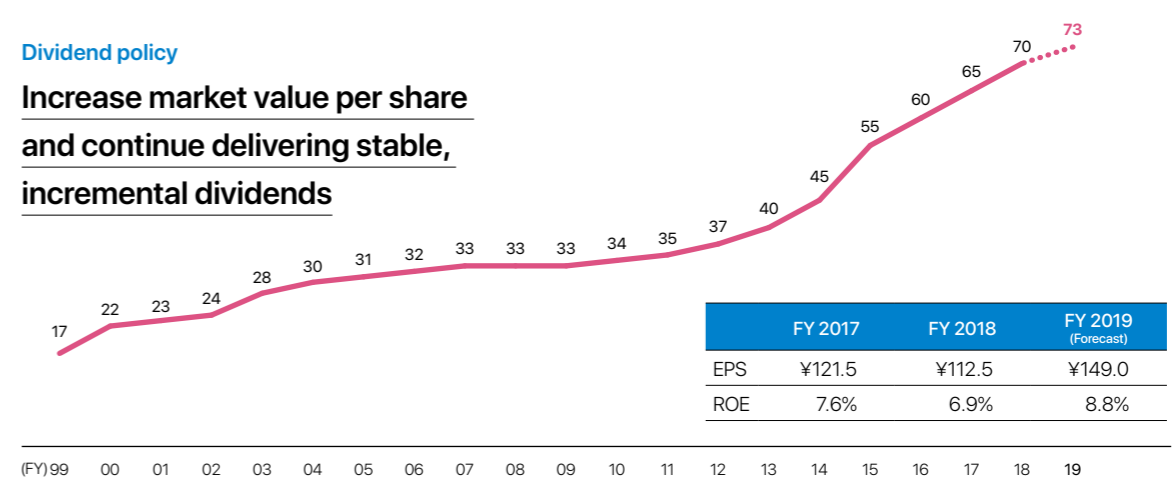
free cash flow together with the signaling effect our dividend performance will have on the market. Regardless of single-year financial results, we plan to increase our dividend in phases that keep up with our profit growth. To sustain our profit growth into the future, we will drive financial management in a way that invests in sustainable growth while delivering stable, dynamic shareholder returns, and pursue higher capital efficiency.

#### Dividends per share

(JPY)

##### Dividend policy

**Increase market value per share and continue delivering stable, incremental dividends**





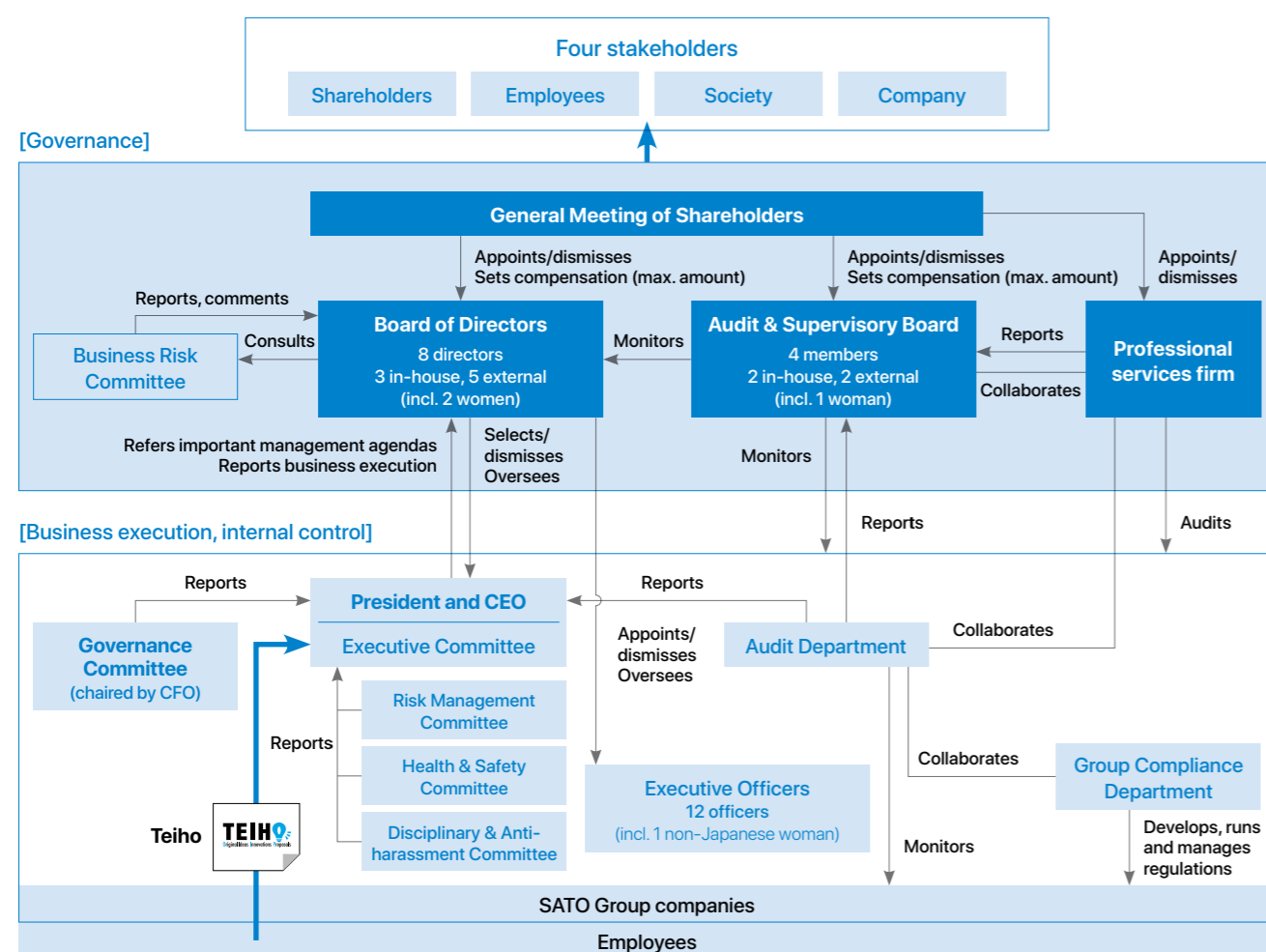
# Corporate governance

## 1. Basic concept

We aim to realize sustainable growth and higher corporate value on a medium- to long-term basis under our vision of becoming "the leader and most trusted company in the auto-ID solutions industry worldwide, exceeding customer expectations in an ever-changing world." We believe that building and continuously strengthening our corporate governance system to support these aims is critical to ensuring the soundness, transparency, and efficiency of our management.

Currently, we are able to manage business operations with efficiency and accuracy in strategic decision-making, thanks to the support of our board of directors, which is constituted in majority of independent external directors to help it exercise strong, transparent oversight of executive officers in their business execution while making important management decisions at the same time. We also make use of our Audit & Supervisory Board, which we will continue enhancing in functionality to achieve effective corporate governance.

## 2. SATO's corporate governance



### 1 Structure and operation of the board of directors

At the point of releasing this report, we have eight directors on our board, complying with the Articles of Incorporation, which limits the number of directors to no more than 12. Out of these eight directors, two are concurrently serving as executive

officers, one as non-executive director, and the remaining five as external directors. With external directors accounting for the majority, the board is able to receive opinions and suggestions from independent perspectives to strengthen its management oversight.

As we believe in board diversity, we ensure that two of our external directors and one of our external Audit & Supervisory Board members are women.

Board of Directors		Audit & Supervisory Board	
	Non-executive directors	Executive directors	Members
Independent/ External	3	—	2
Internal	1	1 (incl. 1 representative director)	2

No personnel, financial, business or other relevant relationships exist between the company and our external officers. These officers also do not have any potential conflict of interests with general shareholders based on the independence criteria which we have adopted from standards specified by the Tokyo Stock Exchange, making them capable of fulfilling their expected responsibilities in oversight and governance, independently of representative directors and other executives.

The board of directors meets once a month in principle, and has met 11 times in FY 2018. Apart from board meetings, two joint meetings were also held last fiscal for non-executive officers to engage in free discussion to identify and sort out medium- to long-term management issues.

At board meetings, matters stipulated by laws/regulations and the Articles of Incorporation as well as important business management matters governed by board regulations are brought up for deliberation/discussion in a systematic and comprehensive manner.

In order to facilitate fair deliberation/discussion, the board does not set hierarchical relationships among directors, and rotates chairmanship among non-executive directors including external directors.

To make board meetings more effective, a pre-working session explaining important meeting agendas, industry-specific sales measures, and other background information is held before each meeting for directors to take part in various discussions and deepen their understanding of business execution. Opinion exchange sessions are also held regularly for external officers.

In addition, a Business Risk Committee has been established to advise the board of directors on business risks while advisory committees for nomination and remuneration have been abolished, as the board is now comprised in majority of external directors and can add more speed/perspectives to such decision-making by discussing related matters directly.

### 2 Audit & Supervisory Board

The company has an Audit & Supervisory Board, which consists of four members (including two external members). Audit & Supervisory Board members attend board of directors meetings to ensure that the conduct of all directors is compliant with laws/regulations and the Articles of Incorporation while also attending other important in-house meetings such as executive management meetings where they audit/supervise different decision-making processes and resolutions reached, expressing their opinions when necessary. Members undertake a wide range of other activities, including verifying the readiness/operation of internal controls, examining the financial reporting system, reviewing various report materials, and checking the independence and audit quality of the company's accounting auditor (auditing firm). In addition, they work with the auditing firm to receive quarterly audit/review reports, exchange opinions and gather information as required to create an environment conducive to proper auditing. They also work and share information with our auditor office to regularly receive internal audit results and internal control evaluations concerning financial reporting.

In FY 2018, 11 meetings were conducted for the Audit & Supervisory Board with its members in full attendance.

At Audit & Supervisory Board meetings, deliberations primarily focus on the Japan headquarters' governance of its overseas subsidiaries or merged/acquired businesses with regard to their startup operations or level of integration with corporate strategies. In these instances, the Audit & Supervisory Board analyzes quantitative and qualitative information that it receives from overseas headquarters and finance and accounting departments, to check for proper handling of issues. If there are areas for improvement, the board requests the company's executives to take actions accordingly while providing feedback to the management team in the form of information sharing and opinion exchanges.

Full-time Audit & Supervisory Board members help the board function effectively by conducting audit activities on subjects with accurate, on-site information and sharing necessary reports with external members on the same board for them to provide opinions for discussion based on their respective professional knowledge and objective perspectives. They contribute to the sound and sustainable development of the company in partnership with our accounting auditor and auditor office.

### 3 Business execution and internal control

#### 1 Executive Committee

The Executive Committee, comprised of executive officers appointed by the CEO, is the highest decision-making authority within the company's business execution function. Every week, the committee holds an executive management meeting where non-executive directors and Audit & Supervisory Board members join as observers.

The committee reviews important matters related to overall business management to either decide on them in a speedy manner or submit them to the board of directors for approval.

#### 2 Internal control framework

We have adopted a framework for internal control based on the basic policy that was approved by the board of directors to help us embed our corporate values into our code of conduct and ensure proper business operations.

For example, the execution of duties by our employees, directors, and subsidiaries is being controlled by corresponding management regulations and responsibility/authorization rules, while being subject to regular audit checks by our auditor office at the same time. With the support of the board of directors, we will continue to review our set of internal controls and test them regularly to add more relevance and efficiency to this framework.

#### 3 Teiho

Introduced in 1976, Teiho is SATO's very own reporting system that lets all employees participate in the running of the company. Through Teiho, new ideas that employees derive from daily work or feedback they gather from interactions with customers can be incorporated quickly into decision-making at the top level. Teiho contributes towards a corporate culture of compliance as it can also be used for reporting misconduct or breaches, and we are making efforts to further complement this by establishing external

### 3. Evaluation of the board's effectiveness

The company conducts yearly surveys to analyze and evaluate the effectiveness of our board of directors to check our corporate governance and take appropriate measures to sustainably improve corporate value.

The following summarizes our evaluation approach and results for FY 2018.

points of contact for the same purpose.

See Page 4.

### 4 Risk management

We also have corporate governance frameworks in place to manage risks as follows.

#### 1 Business risks

There are risks that the company would take in driving business when making investments and loans, acquiring and disposing of stock and fixed assets, entering into business partnerships or important agreements, and selling/buying businesses. The Business Risk Committee, which reports directly to the board of directors, is responsible for analyzing and monitoring business plans proposed by executives for such risks upon the board's request. The committee's input and reports facilitate more thorough deliberations at board meetings to help the board make important management decisions with the objectives of minimizing risks and maximizing returns.

In order to achieve sustainable growth for greater corporate value, a Governance Committee has also been established under the CFO to take necessary measures in reinforcing control and managing risks at our overseas subsidiaries.

#### 2 General risks

There are also risks associated with natural/man-made disasters, work accidents, fraudulent/illegal employee conduct, cybersecurity/legal threats, and other unforeseen circumstances that would significantly harm our business value. The Risk Management Committee is responsible for determining preventive actions to minimize any resulting damage and drawing up crisis countermeasures should such risks occur.

#### 1 Evaluation methodology

At the board meeting in March 2019, we had our board secretariat explain the purpose and details of the FY 2018 evaluation survey before distributing it to 11 directors and four Audit & Supervisory Board members for their completion.



At one of our board meetings

With the survey responses that were collected anonymously, directors and Audit & Supervisory Board members exchanged opinions regarding the evaluation at the pre-working session in April, and went on to finalize the results after reviewing the appropriateness of the evaluation approach/process and discussing the areas for improvement/actions required at the board meeting in May.

#### 2 Survey themes

Designed to identify progress in improving the board's effectiveness, the survey consisted of 11 questions covering the following six topics that are based on the previous year, with reference to the Corporate Governance Code (hereinafter, "CGC").

- Topics evaluated (corresponding CGC principles in parentheses)
  - a. Composition of the board (4.8, 4.11)
  - b. Operations of the board (4.12)
  - c. Roles/responsibilities of the board (4.1, 4.2, 4.3)
  - d. System to support the board (4.8, 4.10, 4.13)
  - e. Relationship with shareholders (5.1)
  - f. Other matters pertaining to overall effectiveness (write-in question)

#### 3 Summary of results and areas for improvement

Directors and Audit & Supervisory Board members generally rated the board highly on its performance in making improvements from the previous year, with results reassuring us that it is adequate in effectiveness. At the same time, the evaluation brought up areas for improvement which we will seek to address as follows with speed and continuity to enhance the board's effectiveness.

- a. Composition of the board  
The board comprised in majority of external directors is functioning highly effectively in the oversight of senior management. Diversity is important, and we will strive to maintain and strengthen diversity in external directors while continuing to tackle our challenges to including more internationals and women as internal directors.
- b. Operations of the board  
More open and constructive discussions are taking place at our board meetings than before. We aim to take this to the next level by enforcing the thorough

use of templates that help improve the quality of meeting materials. Through the board secretariat, we will also work to better manage progress in preparing meeting agendas to allow sufficient time for board members to read them in advance.

- c. Roles/responsibilities of the board  
A comprehensive list of matters requiring board discussion has been put together to guide and improve the submission of agendas to the board. We will make efforts to submit proposed policies/plans for business strategies in a timely manner to link these board meeting agendas more closely to deliberations at executive management meetings. We will also establish clear decision-making processes for evaluating, appointing/dismissing, and remunerating senior management to maintain effectiveness of board oversight.
- d. System to support the board  
Board members can readily seek clarifications and receive additional information via available channels, and make important management decisions based on analyses and evaluations conducted in advance by the Business Risk Committee. To facilitate information sharing with external directors and Audit & Supervisory Board members, we will continue to conduct pre-working sessions and joint meetings for non-executive officers. We will also conduct regular opinion exchange/discussion sessions for external officers.
- e. Relationship with shareholders  
We have been gathering shareholder feedback every six months via IR activities, and will continue to ensure that we receive even the most specific and critical of feedbacks.
- f. Other matters pertaining to overall effectiveness  
There is room for improvement in how we deliberate/discuss important matters of business execution, particularly those related to our business operations outside Japan. We will get our executives to submit and provide explanation for necessary agendas in a timely manner to enable stronger board oversight.

## 4. Appointment and dismissal of directors and representative directors

The board selects via a transparent process candidates who are able to actively contribute to its managerial decision-making and oversight function with their extensive experience/expertise and excellent character/discernment.

Appointment/selection criteria are as follows.

### 1 Internal directors

Candidates need to be executive officers who possess the following experience, skills and attributes.

- Strategic judgment from a medium- to long-term perspective (ability to get to the essence of matters, think critically, have foresight and decisiveness).
- Leadership qualities to unite the organization and carry through radical changes they would drive (ability to lead collaboration, innovation and talent development towards results).
- High ethical standards and accountability towards the company and society (integrity, acumen, alignment with corporate values, and impartiality).
- Strong sense of independence and awareness of problems (pertaining to market, business, company resources, and self-improvement).
- Sufficient industry experience/knowledge and abundant mental/physical strength (work performance and personal health).

### 2 External directors

Candidates need to meet the following requirements, and be chosen from diverse fields of specialization (such as business management, academia, law, or finance).

The number of external directors must account for majority of the board for proper governance.

- Able to get to the essence of matters and raise issues to management in a rigorous manner.
- Able to place priority on attending the company's board meetings and committing to board duties.

### 3 Appointment/selection process

A list of qualified candidates is prepared and submitted to the board for deliberation.

- Internal directors: The candidate list is prepared with the advice of external officers.
- External directors: The candidate list is prepared based on recommendations made by internal and external officers after discussing them among internal directors.

### 4 Dismissal process

- Executive leaders can be dismissed upon consent by the board if there is objective evidence or other reasons to suggest that they are deviating materially from the appointment/selection criteria.
- Directors will not be nominated for election or reelection at the next general meeting of shareholders if they are deemed to not fully meet the above criteria.

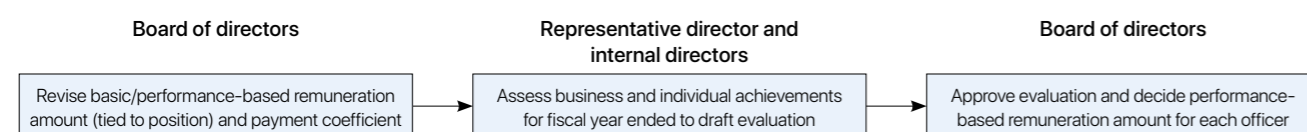
medium- to long-term corporate value and resonates with the values of shareholders and other stakeholders.

- The board shall set out a reasonable, fair and transparent procedure to determining remuneration that the company would comply with.

### 2 Procedure to determining remuneration

To ensure fair and transparent deliberations by the board, the company has set the following procedure to determine remuneration. Compliance with this procedure strengthens the board's function to oversee management.

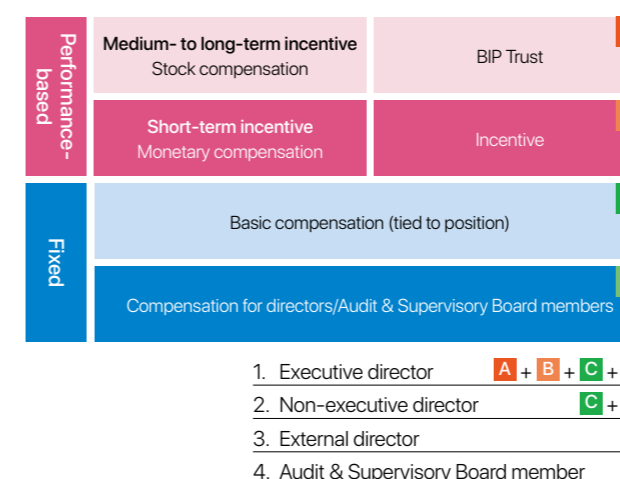
#### Procedure to determining remuneration



### 3 Composition of remuneration

Remuneration for the company's directors consists of basic compensation (fixed monetary sum), performance-based monetary compensation, and performance-based stock compensation. The weighting of each component is decided by considering balance with overall remuneration amount and

#### Remuneration components



position of officer, whereby those in higher positions receive a larger ratio of performance-based compensation.

The two performance-based compensation components aforementioned are dependent on business and individual achievement. Business achievement is measured by the degree of accomplishment of the consolidated operating income target for performance-based monetary and stock compensation because operating income is considered to be a direct product of business activities. Performance-based stock compensation additionally takes into account the degree of accomplishment of the consolidated EBITDA target as an indicator for intrinsic earning power. Apart from business achievement, the company believes that the individual achievement of officers contribute towards the medium- and long-term growth of its business as well, and should therefore also be reflected in the evaluation for determining performance-based compensation.

The above does not apply to independent external officers and non-executive internal officers responsible for management oversight, who shall only receive basic/fixed compensation due to the nature of their roles.

#### Breakdown of remuneration for officers (Figures for external officers indicated in parentheses)

Classification	Total remuneration (millions of yen)		Remuneration amount by component											
			Fixed compensation				Performance-based monetary compensation				Performance-based stock compensation			
			No. of officers		Amount (millions of yen)		No. of officers		Amount (millions of yen)		No. of officers		Amount (millions of yen)	
Director	271	(54)	12	(6)	221	(54)	2	(—)	21	(—)	2	(—)	28	(—)
Audit & Supervisory Board member	48	(9)	4	(2)	48	(9)	—	(—)	—	(—)	—	(—)	—	(—)
Total	319	(63)	16	(8)	269	(63)	2	(—)	21	(—)	2	(—)	28	(—)

\* Amounts indicated in table include remuneration for directors who retired in June 2018.

#### Proportions of performance-based remuneration and their evaluation weighting ratios (%) for officers in FY 2018

Position	Fixed compensation	Performance-based monetary compensation	Performance-based stock compensation	Performance-based compensation subtotal	Evaluation weight	
					Business achievement	Individual achievement
Representative director and President	55.9	19.7	24.4	44.1	100	0
Director and Vice President	70.5	11.5	18.0	29.5	50	50
Non-executive internal director	100	—	—	—	—	—
Internal member of Audit & Supervisory Board	100	—	—	—	—	—
External director/member of Audit & Supervisory Board	100	—	—	—	—	—

## 6. Accounting audit

SATO receives accounting audits from professional services firm PwC Aarata LLC, in compliance with provisions of the Companies Act and Financial Instruments and Exchange Act. There exist no material relationships of interest between the

company and the audit firm or its personnel conducting our accounting audits that need to be reported under the Certified Public Accountants Act.

## Leverage talent to scale greater heights



External director

**Ryoji Itoh**

Project Professor, Graduate School of Media and Governance, Keio University  
Representative Director, Planet Plan Co., Ltd.

### Effectiveness of the board

I find that the board of directors here at SATO allows for free and open discussions among all its members, internal and external, even under mission-critical circumstances. Shortfalls were seen in how agendas were selected for submission to the board, and how the executives worked with the executive committee, both of which the company sought to tackle in 2018 by setting up a Business Risk Committee that reports directly to the board, allowing directors to examine agendas from the executive departments. While the company still needs to keep upgrading the way it assesses risks, I feel it has taken a big step forward by establishing the correct framework.

Matters that have passed board resolution will be subject to progress checks that their supervising departments would undertake and report. This system of following up on business decisions to evaluate their validity keeps heightening effectiveness of the board.

### The need to increase brand awareness

While customers in and outside Japan rate SATO highly on the value its solutions create, the company is still largely unknown to the rest of the world. I believe SATO can heighten its presence as a global brand, and must take on that challenge in order to scale new heights. Greater brand awareness would mean more business opportunities as well as greater pride in employees, which will prove to be a powerful draw for more diverse and competent talents. This strong, global brand value comes from doing more business with global giants and engaging more with societal and environmental challenges of global concern, while disclosing such actions to the public. I'm sure that, with the solid reputation of being a provider of quality value-add solutions, SATO could have more people know of all the great things it does.

### For the future

I see that the company today has well established a firm footing for profits in its native market. As we enter an age where globalization and digitalization bring dramatic and unpredictable changes to the world, sustainable growth may be hard to maintain for a company that, with a history of success, could easily fall for a monocultural way of running business. That's why SATO must break its own mold and innovate itself into becoming a needed presence in the new era. And a key element to this innovation is the chemistry of a diverse workforce. SATO is highly active in hiring talents with a variety of different skills and knowledge. And it now sees more young employees take on their work with open, creative minds, owing largely to its time-fostered corporate culture and a truly acceptive HR strategy. I strongly believe that diversification of talent, combined with the global establishment of the SATO brand, will set the company apart from its competitors. I hope to offer my full support as an external director with diverse perspectives to contribute to the group's growth.

## Manage with greater strategy to aim for sustainable growth



External director

**Chieko Matsuda**

Senior Research Fellow, Japan Association for Chief Financial Officers  
Professor, Graduate School of Management, Tokyo Metropolitan University  
Professor, Faculty of Economics and Business Administration, Tokyo Metropolitan University

### Strengths as seen from outside

SATO has a wonderful motto in "Ceaseless Creativity" that planted in the company a culture of boldly creating innovative services and products without fear of failure. It's a mindset that new employees and subsidiaries to the group are devoting their efforts into passing down and instilling to others.

The corporate culture that values diversity is another aspect I see as the company's strength. In this time and age where businesses are shifting from making uniform, standardized products to delivering diverse ideas and services, the ones who survive are the ones who know that differences create innovation. SATO respects the diverse backgrounds and skills of each and every employee, and seeks to incorporate them into its services and new businesses.

Ever since the new CEO took office, the company has pushed its drive to "sell the solution, not the product" (koto-uri) further to focus on solving customer's issues on-site, and well instilled the new management principle of "Perfect the basics" into its people. I'm looking forward to these initiatives changing employee behavior,

strengthening the organization, and going global to bring the worldwide group together for greater growth.

### Stronger governance

SATO has long established a highly sound and transparent governance system. It has appointed an external director to the board as early as the 1990s and a female external director in 2004 to heighten diversity. With external directors comprising the majority in 2016, it abolished the nomination and remuneration advisory committees in 2018, allowing board members to nominate management team members and determine remunerations. As the board now undertakes adequate, substantive discussions, it has downsized itself as well. Also in 2018, the Business Risk Committee was established to keep up with the increasing complexities of today's business world. Seeking returns in business always involves risks, and it is highly critical that these risks are assessed and monitored at the execution level.

These ceaseless improvements to the governance structure have led to the high effectiveness of the board. The board meeting always finds itself in intense debate as it considers perspectives from numerous angles in reaching a decision.

### Developing managerial talents

In order for SATO to step up its presence globally to the level it has in Japan, it needs to enhance managerial talent. These talents must be not merely people who lead operations but management leaders who have strong strategic acumen and can make bold decisions with outlook on the future of the corporate group and business. The company must seek in-house and outside sources to develop such talents, who would also be required to understand the risks and returns of investments. The high-level synthesis of these qualities results in integrity that business leaders must aim to possess, not to mention the high morals and virtues that must accompany it. It is when the group is reinforced with such talents that I believe SATO will achieve sustainable growth on the global stage as well.

# Management team

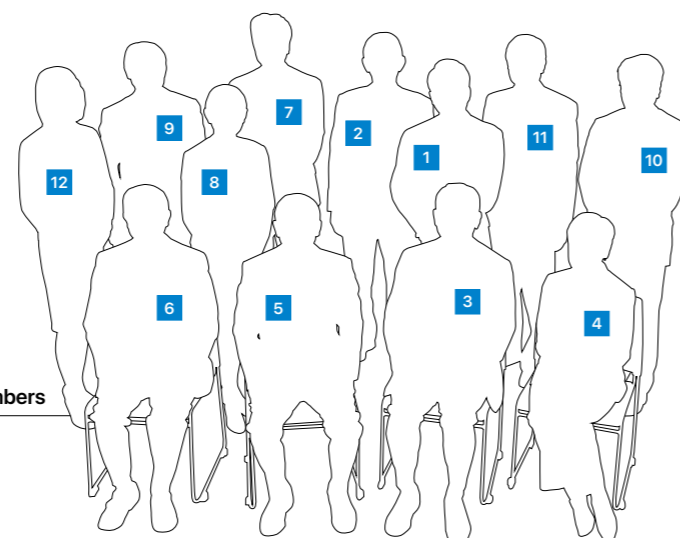


## Directors and Audit & Supervisory Board Members (As of June 21, 2019)

- |   |  |   |
|---|--|---|
| <p><b>1 Ryutaro Kotaki</b><br/>President and CEO</p> <p><b>2 Yoichi Abe</b><br/>Director, Vice President and CFO</p> <p><b>3 Tatsuo Narumi</b><br/>Director</p> <p><b>4 Yuko Tanaka</b> <span>External</span> <span>Independent</span><br/>President and Chief Trustee, Hosei University<br/>Director, Suntory Foundation for Arts<br/>Trustee, Japan University Accreditation Association<br/>Executive Director, The Japan Association of Private Universities and Colleges<br/>Trustee, The Open University of Japan</p> | <p><b>5 Ryoji Itoh</b> <span>External</span> <span>Independent</span><br/>Project Professor, Graduate School of Media and Governance, Keio University<br/>Representative Director, Planet Plan Co., Ltd.<br/>External Director, Miraca Holdings Inc.</p> <p><b>6 Mitsuaki Shimaguchi</b> <span>External</span> <span>Independent</span><br/>Professor Emeritus, Keio University<br/>External Director, Sanrio Company, Ltd.</p> <p><b>7 Hideo Yamada</b> <span>External</span> <span>Independent</span> <span>Attorney</span><br/>President, Yamada &amp; Ozaki Law Office<br/>Chairperson, Akiko Tachibana Memorial Foundation<br/>External Auditor, Taiyo Chemical Industry Co., Ltd.<br/>External Director, Hulic Co., Ltd.<br/>External Director, Mikuni Corporation</p> <p><b>8 Chieko Matsuda</b> <span>External</span> <span>Independent</span><br/>Senior Research Fellow, Japan Association for Chief Financial Officers<br/>Professor, Graduate School of Management, Tokyo Metropolitan University<br/>Professor, Faculty of Economics and Business Administration, Tokyo Metropolitan University<br/>External Director, Hitachi Chemical Company, Ltd.<br/>Independent Director, Foster Electric Company, Limited<br/>External Audit &amp; Supervisory Board Member, Kirin Holdings Company, Limited</p> | <p><b>9 Nobuhiro Yokoi</b><br/>Audit &amp; Supervisory Board Member</p> <p><b>10 Junichi Nagakura</b><br/>Audit &amp; Supervisory Board Member</p> <p><b>11 Takao Yamaguchi</b> <span>External</span> <span>Independent</span> <span>CPA</span> <span>TA</span><br/>President, Yamaguchi C.P.A. Office<br/>External Audit &amp; Supervisory Board Member, Kyorin Holdings, Inc.<br/>Audit &amp; Supervisory Board Member (Independent), Tokyo Tatemono Co., Ltd.<br/>External Audit &amp; Supervisory Board Member, Lion Corporation</p> <p><b>12 Noriko Yao</b> <span>External</span> <span>Independent</span> <span>Attorney</span><br/>Partner, TMI Associates<br/>External Auditor, Japan Overseas Infrastructure Investment Corporation for Transport &amp; Urban Development<br/>External Director, Meiko Network Japan Co., Ltd.</p> |
|---|--|---|
- CPA: Certified Public Accountant  
TA: Taxation Accountant  
Attorney: Attorney at law

## Executive Officers

- |   |  |
|---|--|
| <p><b>Hiroyuki Konuma</b><br/>Vice President<br/>President, SATO Corporation<br/>Head of RFID business</p> <p><b>Yoshinori Sasahara</b><br/>Vice President<br/>Chief Wellness Officer (CWO)<br/>Director and Vice President, SATO Corporation</p> <p><b>Kenji Ushiki</b><br/>Executive Officer<br/>Director; General Manager of R&amp;D, SATO Corporation</p> <p><b>Keisuke Yamada</b><br/>Executive Officer<br/>Chairperson and President, Argox Information Co., Ltd.<br/>Managing Director, SATO Argox India Pvt. Ltd.</p> <p><b>Maria Olcese</b><br/>Executive Officer<br/>Head of South America<br/>General Manager, Achernar S.A.</p> | <p><b>Hironori Onishi</b><br/>Executive Officer<br/>Director; General Manager of Sales, SATO Corporation</p> <p><b>Shigeki Egami</b><br/>Executive Officer<br/>Chief Human Resources Officer (CHRO)<br/>Head of Kitakami Operations</p> <p><b>Noriyasu Yamada</b><br/>Executive Officer<br/>Chief Alliance Officer (CAO)</p> <p><b>Goro Yumiba</b><br/>Executive Officer<br/>Head of North &amp; Central Americas<br/>Chairperson and CEO, SATO America, LLC.</p> <p><b>Hayato Shindo</b><br/>Executive Officer<br/>President, SATO International Co., Ltd.<br/>Head of Southeast Asia</p> |
|---|--|



Directors and Audit & Supervisory Board Members

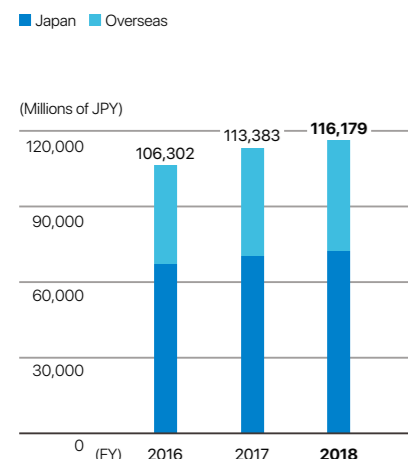
# Financial review for FY 2018

## Financial performance for fiscal year ended March 2019 (FY 2018)

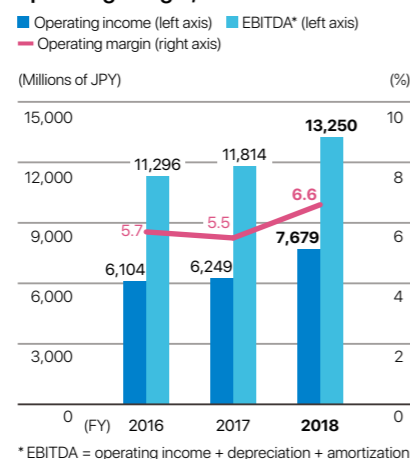
Our group posted sales of ¥116,179 million (up 2.5% from previous year), operating income of ¥7,679 million (up 22.9%), and ordinary income of ¥7,618 million (up 29.4%), achieving

new record highs in each category. Profit attributable to owners of parent, on the other hand, totaled ¥3,773 million (down 7.4%) after reflecting impairment loss from a UK subsidiary.

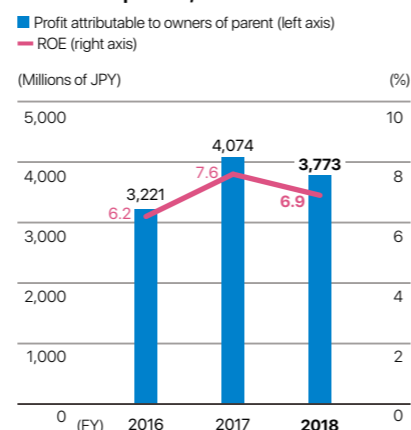
### Sales



### Operating income, operating margin, EBITDA



### Profit attributable to owners of parent, ROE



## By business segment

### Auto-ID solutions (Japan)

Our efforts in recent years to implement industry-specific strategies have paid off to help our sales front lines enhance customer satisfaction and contribute towards their profitability, generating record-high net sales and operating income for our auto-ID solutions business. Besides achieving marked growth in mechatronics sales (primarily printers) and a strong year-on-year gain in accompanying consumables sales, operating income ratio also increased by 1.4 percentage points from the previous year due to better product mix. Our best-performing verticals include the manufacturing sector, where there has been robust demand for capital investments in automation and operational visibility, and the retail sector, where our solutions targeting growth of e-commerce and other changes in the shopping landscape have proved to be successful.

While labor shortages are creating prominent needs to increase productivity, track work, and automate worksites across all trades, there are also rising needs to comply with new labeling standards in the food and health care sectors. Going forward, we aim to strengthen our ability to propose solutions for the increasingly sophisticated challenges of our customers to grow this business stably and increase its earning power.

Under these circumstances, net sales increased 2.8% to ¥72,435 million, and operating income increased 19.7% to ¥6,982 million, compared with the previous fiscal year.

### Auto-ID solutions (Overseas)

Actions to engage subsidiaries in understanding and executing country-specific strategies based on the medium-term management plan has led our auto-ID solutions business to achieve growth in sales and profits for a second consecutive year. Companies specializing in primary labels achieved an overall increase in sales and profits, as Okil-Holding in Russia was able to grow revenue and improve profitability on the back of positive foreign currency effects to offset investment cost in Russia (for various types of labels and soft packaging) and weak business performance in South America (where economic stagnation and local currency depreciation persisted).

For other overseas companies conducting our base business, the sales approach of proposing solutions based on our strategic CLNX printer series to improve customers' field operations is gaining ground. While business in the Americas saw declining sales due to lesser orders from large customers in North America compared with the same period last year and the economic slump affecting South America, profits increased, mainly because of reduced software development expenses resulting from the liquidation of a group company. Business in the Europe, Asia and Oceania regions, on the other hand, achieved steady top-line growth to increase both sales and profits.

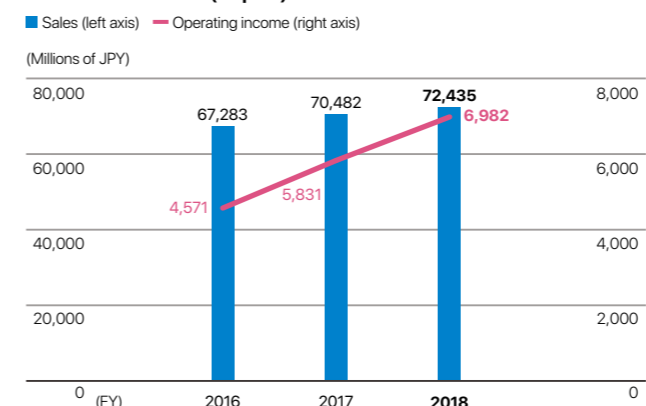
Under these circumstances, net sales increased 1.7% to

¥43,316 million (increase of 7.0%, excluding foreign currency effects) and operating income increased 20.0% to ¥2,239 million, compared with the previous fiscal year.

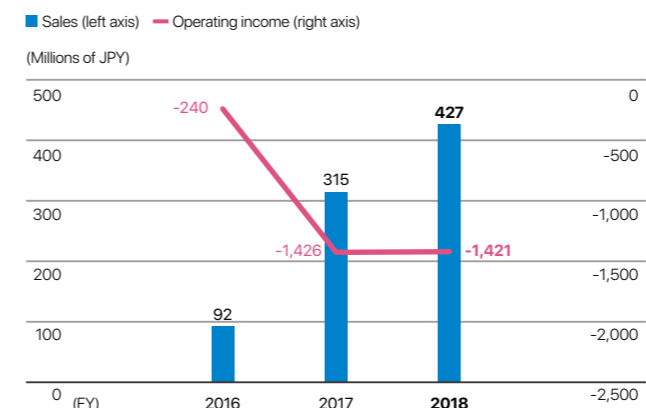
### IDP

In our business centering on Inline Digital Printing (IDP) technology that we own after fully acquiring UK-based DataLase in January 2017, an increase in sales was recorded for its existing base business while upfront investments for R&D progressed largely as planned.

### Auto-ID solutions (Japan)



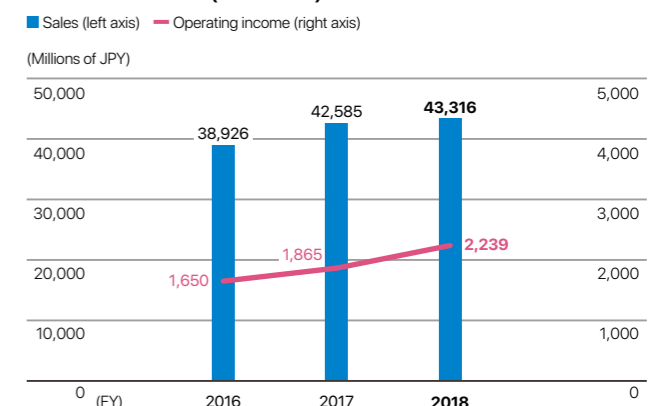
### IDP



Technology that would become key to the anticipated demand for and success of this business is undergoing development, and we are currently conducting trials aimed at commercialization, with plans to make the final decision on commercialization in FY 2019 and achieve operating profitability in FY 2020.

Under these circumstances, net sales increased 35.7% to ¥427 million (increase of 36.7%, excluding foreign currency effects), and an operating loss of ¥1,421 million was incurred, compared with that of ¥1,426 million for the previous fiscal year.

### Auto-ID solutions (Overseas)



## Forecasts for fiscal year ending March 2020 (FY 2019)

We aim to achieve the consolidated targets disclosed on May 10, 2019, of sales at ¥120,000 million (up 3.3% from previous year), operating income at ¥8,500 million (up 10.7%), ordinary income at ¥8,300 million (up 8.9%), and profit attributable to owners of parent at ¥5,000 million (up 32.5%). We also plan to improve ROE to 8.8% (up 1.9 points), from the 6.9% that was recorded last fiscal after reflecting impairment loss.

For our auto-ID solutions business, steady demand for automation and operational efficiency is likely to continue across different industries in Japan. Outside Japan where market potential is high, we expect to boost revenue significantly by making our growth strategies more specific by the individual country/industry and concentrating our business resources on implementing them with greater speed. For the IDP business, we will continue efforts to commercialize the faster and higher-resolution upgrade of the current monochrome IDP technology as planned to officially bring it to market in FY 2020.

# Financial summary

Fiscal years end March 31 the following year

(Millions of JPY)

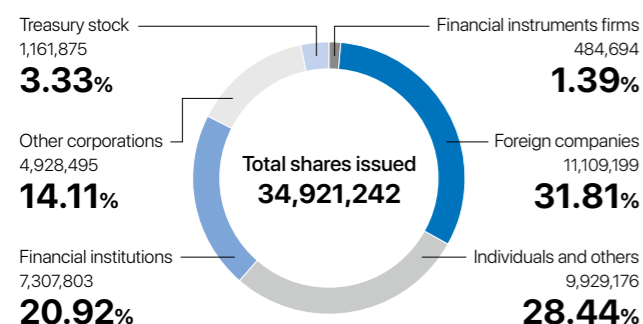
	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018
<b>Business performance</b>											
Sales	78,163	74,917	78,368	80,536	87,256	96,773	99,831	105,504	106,302	113,383	116,179
Overseas sales ratio (%)	26.8	24.2	23.7	23.0	25.6	29.3	33.2	37.3	36.6	37.8	37.6
Gross profit	32,399	31,279	33,018	34,217	36,410	41,180	42,708	44,942	45,022	48,655	50,676
Selling, general and administrative expenses	31,669	28,705	28,791	29,564	30,958	34,421	35,264	38,487	38,917	42,405	42,997
Operating income	730	2,574	4,226	4,652	5,452	6,758	7,444	6,455	6,104	6,249	7,679
EBITDA (Operating income + depreciation + amortization of goodwill)	3,565	5,123	6,417	6,830	8,213	9,871	11,044	11,573	11,296	11,814	13,250
Profit attributable to owners of parent	2,050	781	503	1,953	2,726	4,295	3,763	3,687	3,221	4,074	3,773
<b>Financial position</b>											
Total assets	61,692	64,203	66,134	74,830	77,521	86,737	95,174	96,887	104,280	106,447	107,574
Net assets	35,918	35,985	34,929	36,172	40,205	46,734	53,158	52,155	54,217	56,225	56,668
Research and development	1,922	1,826	1,902	1,859	2,042	2,225	2,292	2,414	2,387	2,994	3,460
Capital expenditures	2,361	2,387	5,084	1,836	3,059	6,106	7,372	6,717	5,723	9,044	4,801
Depreciation and amortization of goodwill	2,835	2,549	2,190	2,177	2,760	3,112	3,599	5,118	5,191	5,565	5,571
<b>Cash flow</b>											
Cash flow from operating activities	4,994	5,860	1,595	4,434	3,793	10,589	9,205	6,091	10,769	6,184	9,365
Cash flow from investing activities	-2,217	-2,093	-4,283	-7,015	-984	-4,776	-6,221	-9,596	-8,716	-3,504	-5,212
Free cash flow (Net cash provided by operating activities less cash used in investing activities)	2,777	3,766	-2,687	-2,581	2,809	5,812	2,983	-3,504	2,052	2,679	4,152
Cash flow from financing activities	-2,476	-826	-3	3,273	-2,839	-1,511	-3,062	3,254	-1,343	-3,458	-3,534
Cash and cash equivalents at end of year	10,814	13,774	10,813	11,377	11,992	16,763	17,145	16,212	16,757	16,026	16,430
<b>Per-share data (JPY)</b>											
EPS (Earnings per share)	67.40	25.95	16.71	64.87	90.56	141.57	113.96	110.07	96.07	121.54	112.46
BPS (Book value per share)	1,189.50	1,191.84	1,156.88	1,201.02	1,330.77	1,454.90	1,579.15	1,525.09	1,579.53	1,634.69	1,649.86
DPS (Dividends per share)	33	33	34	35	37	40	45	55	60	65	70
<b>Financial indicators (%)</b>											
Gross profit margin	41.5	41.8	42.1	42.5	41.7	42.6	42.8	42.6	42.4	42.9	43.6
Operating income ratio	0.9	3.4	5.4	5.8	6.2	7.0	7.5	6.1	5.7	5.5	6.6
EBITDA margin	4.6	6.8	8.2	8.5	9.4	10.2	11.1	11.0	10.6	10.4	11.4
ROA (Return on assets)	0.6	3.6	5.7	5.9	7.1	8.6	8.2	6.4	5.4	5.6	7.1
ROE (Return on equity)	5.7	2.2	1.4	5.5	7.2	9.9	7.6	7.1	6.2	7.6	6.9
Equity ratio	58.1	55.9	52.7	48.3	51.7	53.7	55.6	52.8	50.8	51.5	51.5
Debt-to-equity ratio*	17.1	19.6	24.9	38.2	31.8	23.5	18.7	31.5	32.1	30.6	28.8

\* Includes lease obligations and zero coupon convertible bonds

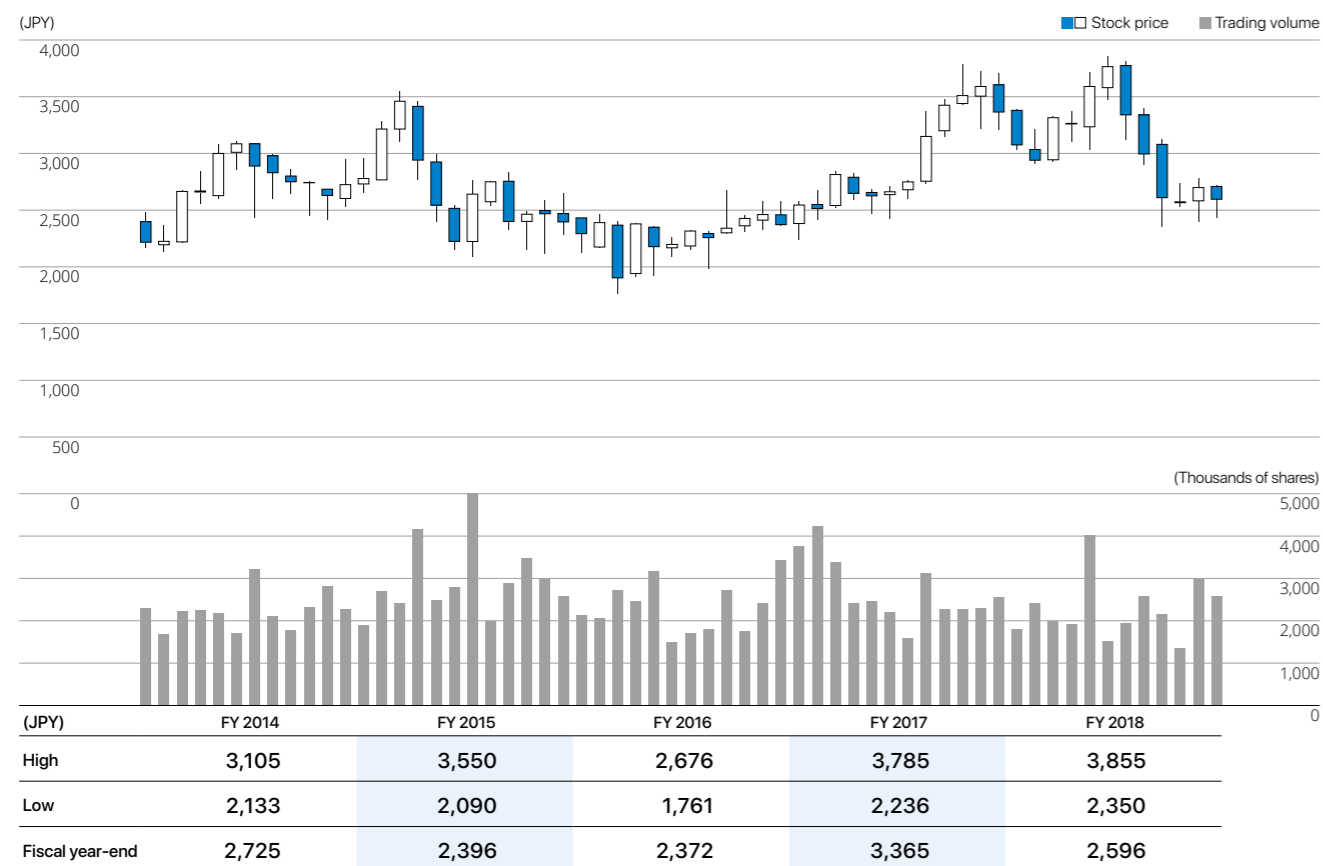
## Stock information (As of March 31, 2019)

General information	
Shares authorized	80,000,000
Shares issued	34,921,242
Shareholders	8,717
Stock listing	First section of the Tokyo Stock Exchange
Securities code	6287
Fiscal year	April 1 to March 31
General meeting of shareholders	June
Shareholder registry administrator	Mitsubishi UFJ Trust and Banking Corporation

### Composition of shareholders



### Stock price and trading volume



Major shareholders		
Name	Shares owned	% of shares outstanding
Sato Yo International Scholarship Foundation	3,786,200	11.21
Japan Trustee Services Bank, Ltd. (trust account)	2,276,600	6.74
Government of Norway	1,468,750	4.35
The Master Trust Bank of Japan, Ltd. (trust account)	1,441,500	4.27
The Bank of New York Mellon 140051	1,171,000	3.46
SATO Employees' Stockholding	1,146,571	3.39
Goldman, Sachs & Co. Reg	1,054,500	3.12
Mieko Yokoi	900,145	2.66
Shizue Sato	897,470	2.65
Arena Co.	854,460	2.53

## Corporate data (As of March 31, 2019)

Corporate data	
Name	SATO HOLDINGS CORPORATION
Location	Knowledge Plaza, 1-7-1 Shimomeguro, Meguro-ku, Tokyo 153-0064, Japan
Established	1940
Incorporated	1951
Representative director	Ryutaro Kotaki, President and CEO
Paid-in capital	¥8.4 billion
Employees	5,307
Consolidated sales	¥116.2 billion



For more IR information, see:  
[www.satoworldwide.com/investor-relations.aspx](http://www.satoworldwide.com/investor-relations.aspx)



## Global network (As of September 1, 2019)

### Global network



### For more information, contact:

Corporate Marketing Office  
 TEL: +81-3-5745-3429 FAX: +81-3-5487-8540  
 e-mail: SH-CM@sato-global.com  
 Website: [www.satoworldwide.com](http://www.satoworldwide.com)

### Disclaimer

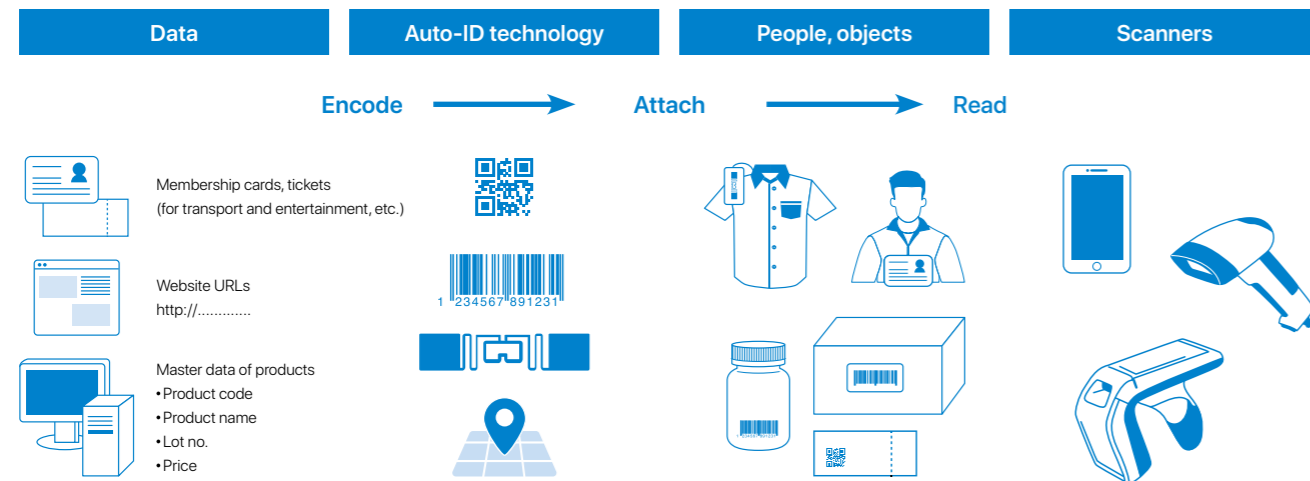
All information in this report, including the financial outlook, future forecast and strategies, is presented from judgments that are based on reasonable predictions made from information available at the time this report was prepared. Please note that actual results and performance may vary due to unforeseeable risks, events or consequences.



# Basics of auto-ID technology

Auto-ID (automatic identification) is the technology we see in barcodes and RFID that allows information to be entered or identified automatically. It is used in retail, logistics,

manufacturing, the service industry, health care and many other sectors of daily life.



## Barcode

An array of parallel, rectangular bars and spaces of varying widths used to represent data in machine-readable form. Popular for their low cost and highly reliable identification, barcodes are now an integral part of social infrastructure.

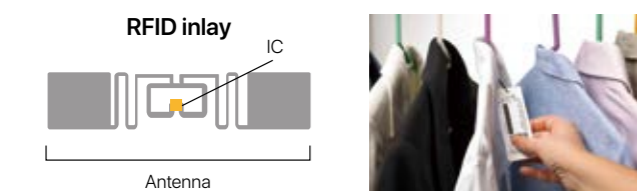
Most, if not all, consumer products on the market in Japan today are marked with barcodes to facilitate retail checkout procedures.



## RFID

Short for Radio Frequency Identification, RFID is a method that uses radio waves for reading and writing data without making contact. Readable even when stained or in harsh environments, RFID tags can be read by batch and over long distances or through intervening objects as long as they are within the range of the reader.

RFID technology has developed rapidly to find its way into various applications such as incoming goods inspection, inventory control and stocktaking.



## Two-dimensional (2D) barcode

A pattern of squares, hexagons, dots, and other shapes used to represent data in machine-readable form. 2D barcodes store data horizontally and vertically so exponentially more data (including text data containing Japanese kana and kanji characters) can be encoded in a much smaller space compared with linear barcodes. This makes them popular for a wide range of applications such as consumer advertising (links to websites), entertainment ticketing, and tracking of electronic parts.



## Locating technologies

Best known by GPS\*1 and IPS\*2 which are capable of locating people or objects outdoors and indoors respectively, locating technologies have significant applications in self-driving vehicles, navigation, security tracking and activity analyses.

IPS, in particular, is a core aspect of SATO's Visual Warehouse solution that measures operational data within logistics warehouses (e.g., distance between/traveled by workers and goods, time spent on jobs) at high precision and in real time to improve productivity.



\*1 Global Positioning System  
\*2 Indoor Positioning System

# SATO terminologies

\* Underlined terms are elaborated under separate entries in the same table

Term	Description*
<b>Auto-ID solutions business</b>	Our business of integrating barcode printers/labels, software and services designed in-house with products/technologies from partners to resolve customers' worksite issues. This business is separated into the Overseas and Japan segments, with the former comprised of the <u>Base business</u> and the <u>Primary Labels business</u> .
<b>Base business</b>	Our business of <u>tagging</u> variable information at customer's site of operations.
<b>DCS &amp; Labeling +One (DCS: Data Collection Systems)</b>	SATO's business model that incorporates auto-ID technology (such as barcodes and RFID) with barcode printers and labels/labeling services to (a) systematically collect data on people and things at business sites and (b) offer <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.
<b>Genbaryoku</b>	Our core competency of going to customer sites to understand their operations and identify the essence of issues to offer optimized solutions.
<b>IDP (Inline Digital Printing)</b>	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. Development for multicolor capability — crucial for enhancing marketing effectiveness — is currently underway with commercialization targeted for FY 2021.
<b>IDP business</b>	Our business for developing, manufacturing and selling special materials used mainly in <u>IDP</u> (Inline Digital Printing). A reporting segment formerly named "Materials business."
<b>Koto-uri (Selling the solution, not the product)</b>	Sales approach of selling not just the product but combinations of products in the form of solutions that include hardware, consumables, maintenance services and software, together with ROI and other value propositions for the customer.
<b>Primary Labels business</b>	Our overseas business of <u>tagging</u> fixed information via product labels and other media. This business operates from four SATO Group companies located in Argentina, Brazil and Russia.
<b>SOS (SATO Online Services)</b>	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.
<b>Tagging</b>	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.
<b>Variable information labels</b>	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.