Ceaseless Creativity for a Sustainable World

SATO HOLDINGS CORPORATION

FY2017 1H
Financial Results
(Six Months Ended September 30, 2017)

Securities Code: 6287

November 6, 2017

Summary of FY2017 1H

- **Auto-ID Solutions Business (Core Business)**

  ➡ **Made sufficient progress toward record-high full-year OI**

  Japan : Proceeded substantially above forecast and previous year levels through initiatives to boost profitability.

  Overseas : Entered a recovery phase following a reversal of declining OI trend, thanks to progress in “back to basics” initiatives.
  FX impact, personnel hiring and production capacity ramp-up at Okil and European Base Business led to a YoY OI decline.

- **Materials Business** ➡ R&D progressed in line with plan

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- SATO Group has changed its reporting segments this fiscal year from geographical-based segments to business-based ones comprised of our core Auto-Identification Solutions business, and Materials business that includes eco-materials and Inline Digital Printing technology developed by DataLase located in UK. The classification reflects the different growth phases that the two segments are in.
- Consolidated OI of JPY 6 billion is targeted for FY 2017, with a record-high of JPY 7.7 billion for the Auto-ID Solutions business and a loss of JPY 1.7 billion for the Materials business due to R&D expenses and goodwill amortization. The Auto-ID Solutions business made sufficient progress toward this target.
- It is our impression that the initiatives we have been driving these several years are starting to click. The Japan business in particular, which experienced sluggish performances over the last few years, has increased its focus on fostering solutions capabilities under the new organization from FY 2016, led by our COO Ryutaro Kotaki.
- Overseas business entered a recovery phase in Q1 following its long-term slump, after which it showed significant improvement in Q2. Some issues to overcome in our European base business and at Okil became evident, details of which are discussed later.

Sales and OI by Business Segment

(Millions of JPY)

			FY2017 (Apr-Sep)	FY2016 (Apr-Sep)	YoY	excl. FX impact
Auto-ID Solutions Business		**Total Sales**	**54,663**	**51,034**	**107.1%**	**104.3%**
		Operating Income	**3,307**	**2,682**	**123.3%**	**118.1%**
	Japan	Total Sales	34,058	32,076	106.2%	106.2%
		Operating Income	2,208	1,570	140.6%	135.1%
	Overseas	Total Sales	20,604	18,957	108.7%	101.1%
		Operating Income	1,099	1,112	98.9 %	94.1 %
Materials Business		**Total Sales**	**160**	**48**	**327.7%**	**327.7%**
		Operating Income	**-745**	**-104**	**--**	**--**
Consolidated (incl. eliminations)		**Total Sales**	**54,823**	**51,083**	**107.3%**	**104.5%**
		Operating Income	**2,556**	**2,652**	**96.4%**	**91.1%**

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- In the Auto-ID Solutions business, sales and OI increased by 7.1% and 23.3% YoY respectively.
- In particular, OI in the Japan business increased by 40% YoY, proceeding well above the forecast, while the overseas business as a whole performed steadily despite the OI slowdowns in the European base business and at Okil.

Consolidated Results (Apr-Sep)

(Millions of JPY)	FY2017	FY2016	Change	YoY
Net Sales	54,823	51,083	+3,740	107.3%
Operating Income	2,556	2,652	-96	96.4%
Operating Income %	4.7%	5.2%	-0.5pt	--
Ordinary Income	2,369	2,379	-9	99.6%
Profit attributable to owners of parent	2,413	1,507	+906	160.1%
Effective Tax Rate*1	43.4%	34.9%	+8.5pt	
EBITDA*2	5,318	5,161	+157	103.1%

Average exchange rates for Apr-Sep FY17: JPY 111.04/USD, JPY 126.31/EUR
Apr-Sep FY16: JPY 105.19/USD, JPY 118.03/EUR

*1 Effective Tax Rate: Rose substantially due to additional goodwill impairment at Argox and losses incurred by some group companies including DataLase

*2 EBITDA = Operating Income + Depreciation + Amortization
・Depreciation for FY17: JPY 2,097 million FY16: JPY 1,926 million
・Amortization for FY17: JPY 664 million (incl. 305 mil. for DataLase) FY16: JPY 581 million

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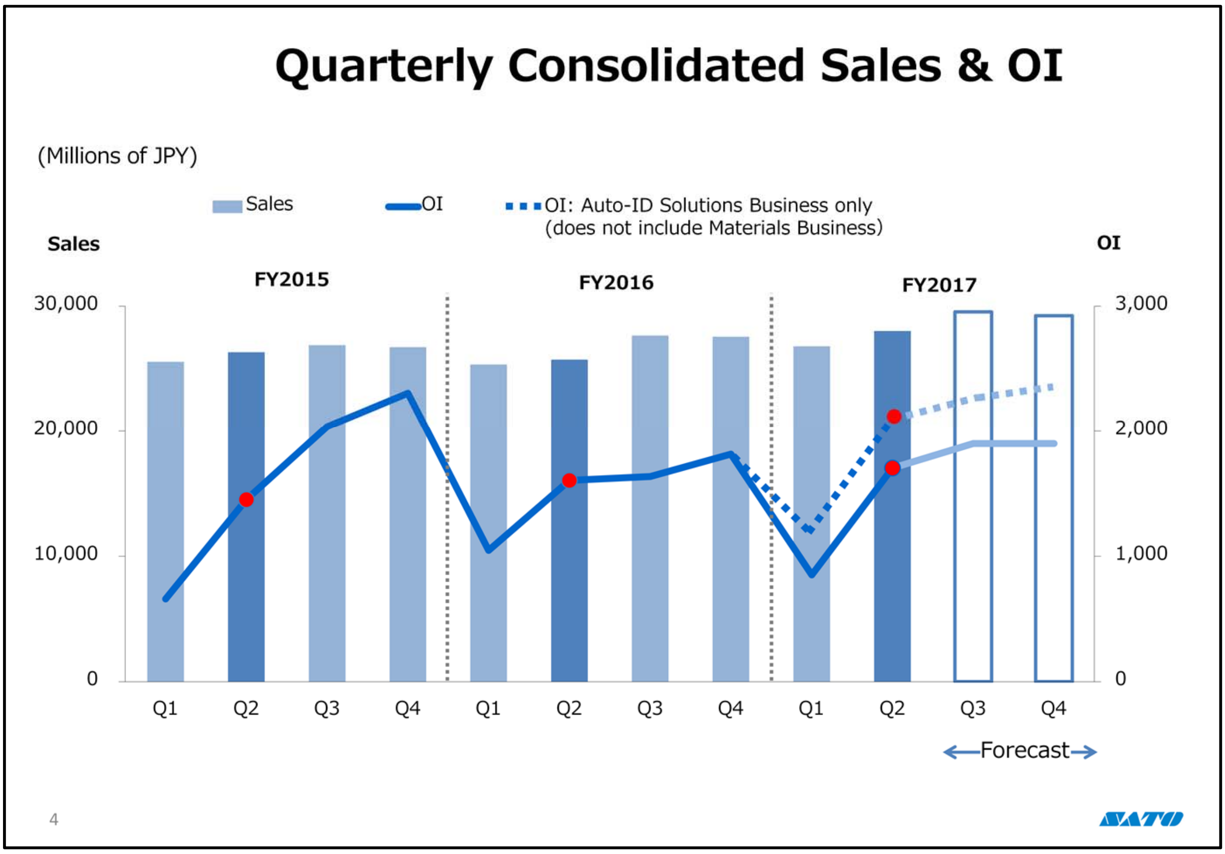
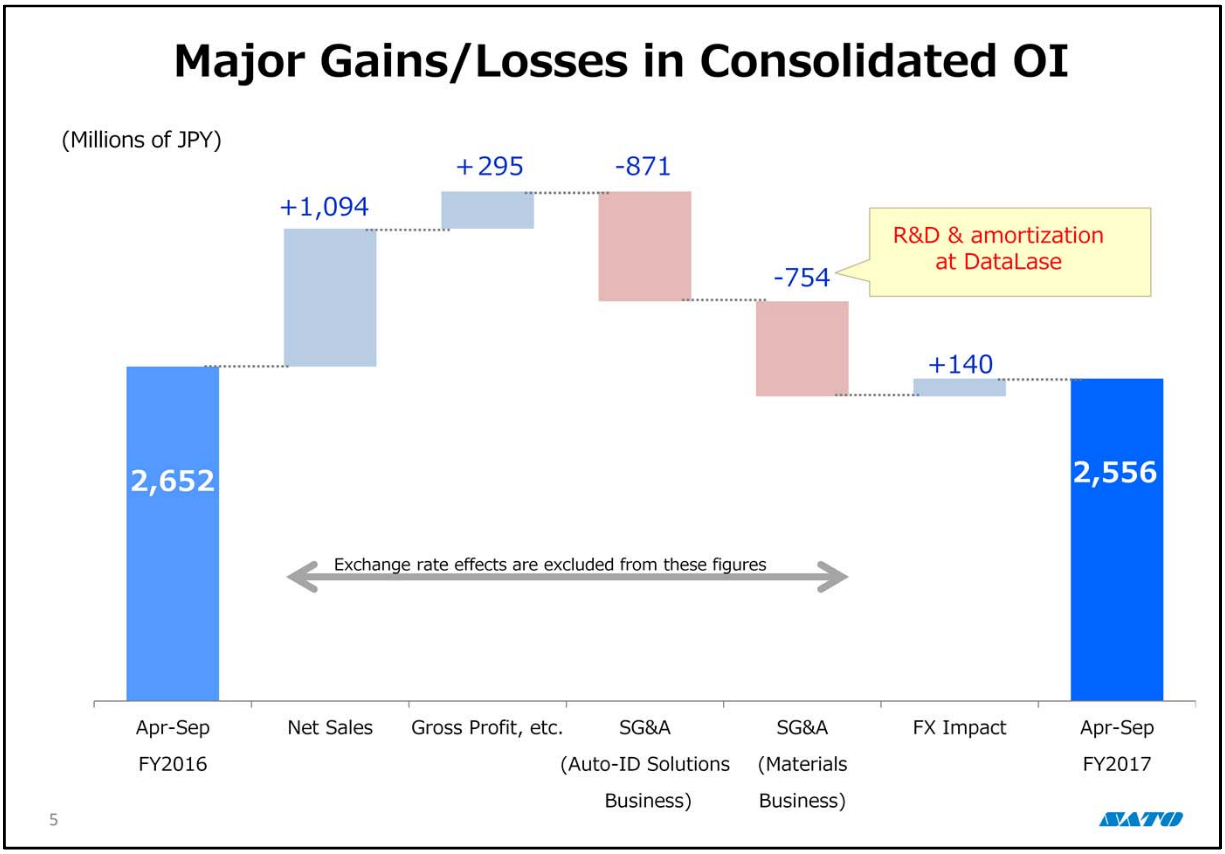
- Profit attributable to owners of parent increased substantially due to a booking gain on the sale of our former headquarters building.
- Other figures were largely in line with our initial forecasts.



- On a quarterly basis, OI in Auto-ID Solutions business shown by the dotted line progressed well for 1H, and aims to hit a full-year record high by maintaining the current momentum in 2H.

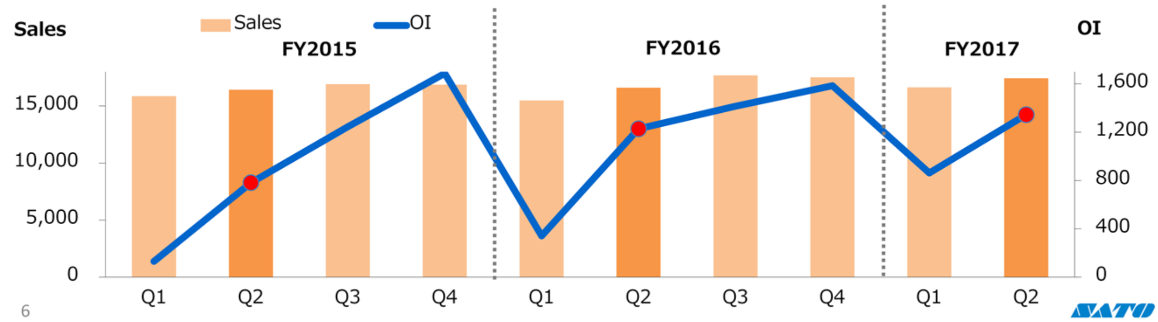


- Analysis of YoY gains and losses will be discussed in later sections by segment.
- Almost all of the SG&A losses of JPY 754 million in the Materials business stemmed from increases in R&D expenses and goodwill amortization at DataLase.
- There were no extraordinary nor one-off factors.

Auto-ID Solutions Business (Japan)

- Proceeded well above forecast on back of positive trends in all verticals. Quarterly sales and OI saw back-to-back increases YoY.
- OI ratio improved by 1.6 percentage points YoY due mainly to better product mix in mechatronics.

(Millions of JPY)	FY2017 (Apr-Sep)	FY2016 (Apr-Sep)	Change	YoY
Mechatronics Sales	12,920	11,524	+1,396	112.1%
Consumables Sales	21,138	20,552	+585	102.9%
Total Sales	**34,058**	**32,076**	**+1,981**	**106.2%**
Gross Profit	16,455	14,729	+1,726	111.7%
Gross Profit %	48.3%	45.9%	+2.4pt	--
Operating Income	**2,208**	**1,570**	**+638**	**140.6%**
Operating Income %	6.5%	4.9%	+1.6pt	--



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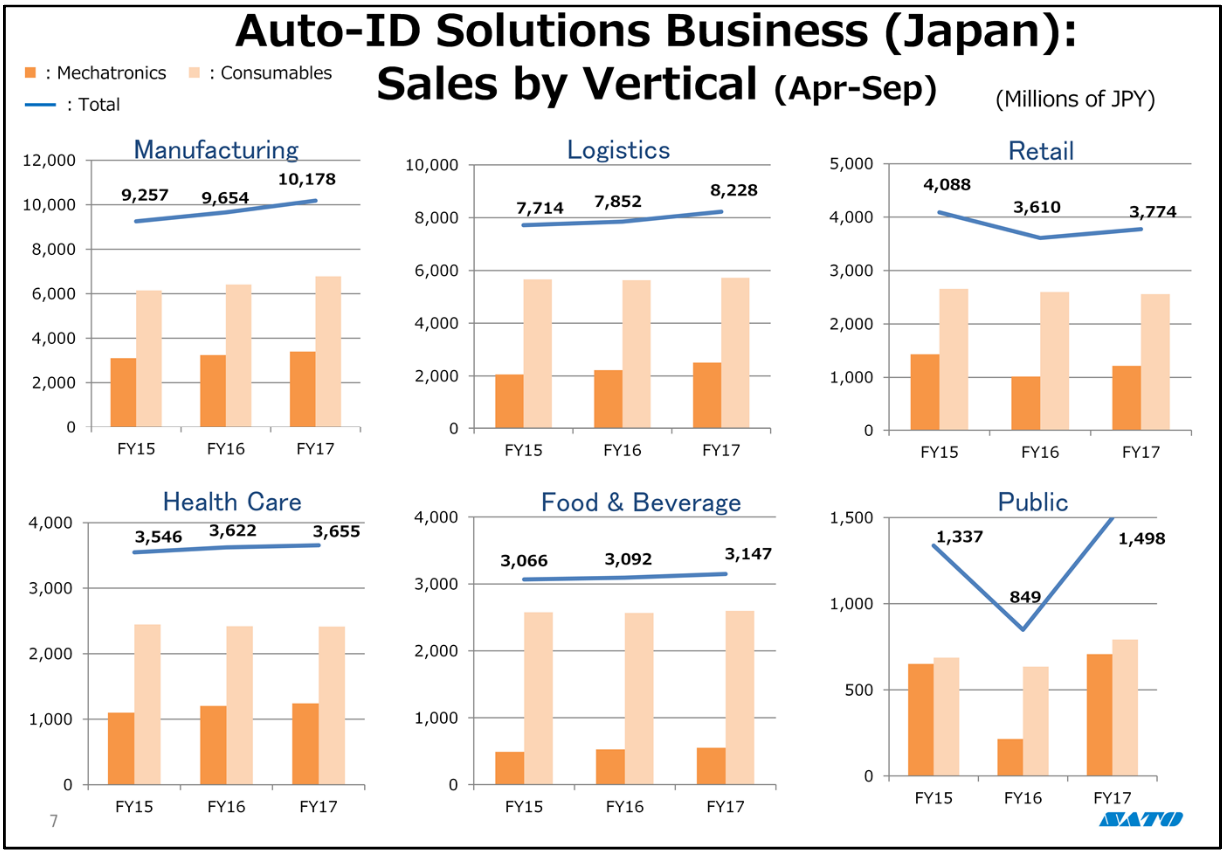
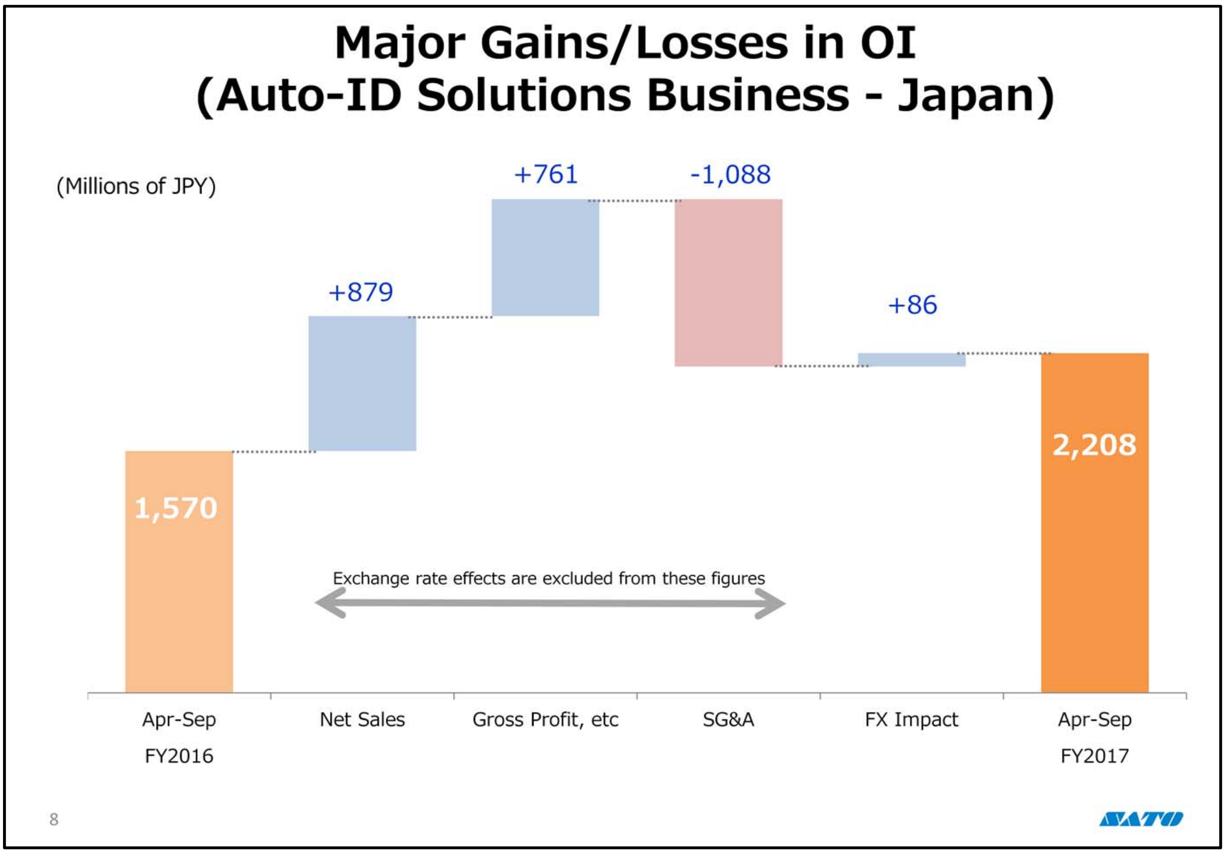
- Sales of mechatronics including printers, readers, software and maintenance services in Japan grew by 12.1% YoY.
- Sales of printers, our core product line within mechatronics, grew approx. 30% YoY resulting in improvement of GP margin.
- Sales of consumables, turning around a declining trend that continued over the past few years, grew 2.9% YoY and exceeded our target of 2%.
- GP margin and OI ratio improved by 2.4 and 1.6 percentage points YoY respectively due mainly to the increase in lucrative mechatronics proportion within total sales.



- The Retail sector grew YoY following the halt of its sluggish trend that lasted over a few years. This owes not to a one-off increase but to a steady contribution from RFID business in the apparel industry.
- Sales in Manufacturing, Logistics, Health Care, and Food & Beverage sectors increased for two consecutive years.
- Sales in the Public sector reflect inconsistent delivery dates set by a large-lot customer. The full-year figure is expected to grow for the second consecutive year.
- Our internal initiatives, such as our solution-based sales approach and steady success in capturing replacement demand, are working well with the external business circumstances that are favorable owing to an active flow of goods.

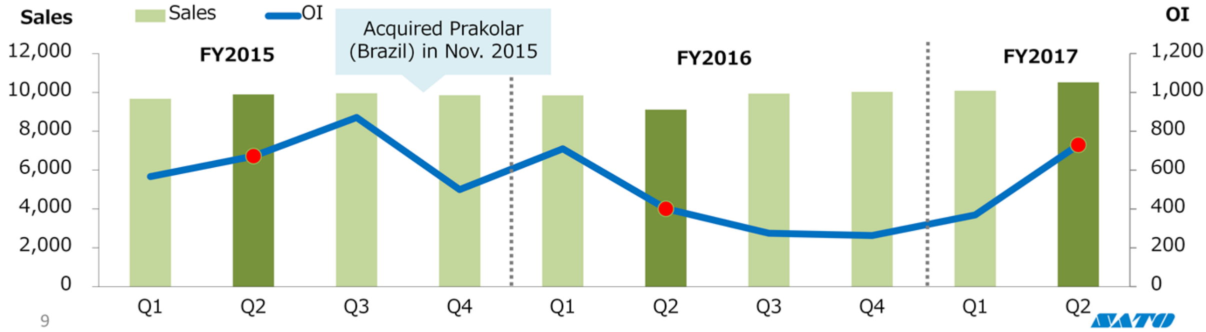


- Depreciation of the yen made a positive contribution of JPY 86 million.
- Other items proceeded in line with the forecast.

Auto-ID Solutions Business (Overseas)

- Recovery trend in OI continued on a quarterly basis.
- Q2 OI increased by 82% YoY.

(Millions of JPY)	FY2017 (Apr-Sep)	FY2016 (Apr-Sep)	Change	YoY	excl. FX impact
Total Sales	**20,604**	**18,957**	**+1,647**	**108.7%**	**101.1%**
Gross Profit	7,797	7,310	+487	106.7%	--
Gross Profit %	37.8%	38.6%	-0.7pt	--	--
Operating Income	**1,099**	**1,112**	**-12**	**98.9%**	**94.1%**
Operating Income %	5.3%	5.9%	-0.5pt	--	--



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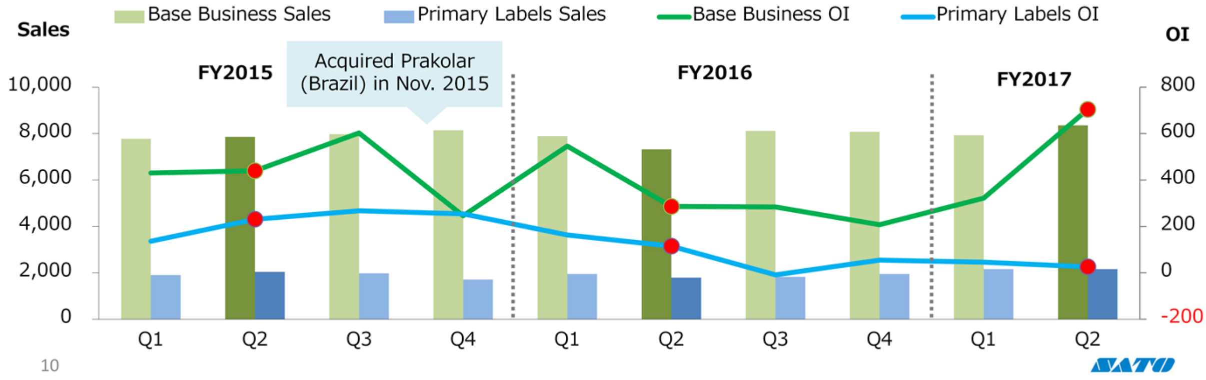
- Sales in the Overseas business were almost flat YoY in local currency terms.
- OI in 1H decreased YoY. However its sluggish trend halted in 2H of FY 2016, followed by a mild recovery in Q1 and a significant improvement in Q2 of FY 2017.
- OI in Q2 increased by 82% YoY even though problems remained in the European base business and at Okil.
- We are aiming for record-high full-year sales and OI in the Overseas business through overcoming challenges including the above-mentioned problems.

Auto-ID Solutions Business (Overseas Breakdown)

- **Base Business : Sharp YoY OI decline in Europe caused by increases in businesses with low profitability and in HR related costs was offset by contributions from solid performances in other regions.**
- **Primary Label Business : Prakolar performed well. Okil saw its OI fall substantially due to negative FX impact and to increased costs for ramping up production capabilities to meet growing demand.**

(Millions of JPY)		FY2017 (Apr-Sep)	FY2016 (Apr-Sep)	Change	YoY	excl. FX impact
Base Business	Total Sales	16,281	15,217	+1,063	107.0%	101.1%
	Operating Income	1,026	832	+194	123.3%	117.1%
Primary Labels	Total Sales	4,323	3,739	+584	115.6%	101.2%
	Operating Income	72	279	-206	26.1%	25.3%



- This slide explains the Overseas Auto-ID Solutions business broken down into two categories.
- Base business was solid.
- Primary labels showed an YoY increase in sales of JPY 580 million and a decrease in OI of JPY 200 million.
- The OI decline consisted of a JPY 300 million decrease at Okil in Russia, a JPY 100 million increase at Prakolar in Brazil and a flat OI at Achernar in Argentina.

Base Business (Sales Subsidiaries in Europe)

(Thousands of EUR)

	FY2017 (Apr-Sep)	FY2016 (Apr-Sep)	Change	YoY
Total Sales	**31,258**	**28,586**	**+2,671**	**109.3%**
Gross Profit	12,115	11,954	+161	101.3%
Gross Profit %	38.8%	41.8%	-3.1pt	--
SG&A Expenses	**11,535**	**10,398**	**+1,136**	**110.9%**
Operating Income	**580**	**1,556**	**-975**	**37.3%**
Operating Income %	1.9%	5.4%	-3.6pt	--

■1H analysis

- **Around 10 hirings in sales did not result in immediate contribution to profits.**
- **GP margin declined YoY due to increases in large-lot orders of low profitability.**
- **In UK, GBP depreciation dragged GP margin down YoY via increased costs in base paper imported from continental Europe.**

■2H initiatives and forecasts

- **Provide added values via CLNX printers and incrementally let product prices in UK cover for the increase in base paper prices.**
- **Strengthen head-office monitoring of management, via Overseas Business Management Dept. launched in September.**
- **2H OI is expected to increase YoY through execution of above-mentioned initiatives.**

- This slides explains the factors behind the slumps in the European base business. Numbers in the table are denominated in euros in order to exclude FX impact.
- Sales grew 9.3% YoY while GP margin decreased by 3.1 percentage points. On top of that, SG&A costs significantly increased YoY.
- Major factors behind the sluggish performance in profitability were;
    1. New hires in sales since Q4 of FY 2016 have not made a full-scale contribution to improve profitability while increasing the cost such as welfare expenses and cars for sales activities.
    2. Some low-profiting large-lot orders resulted only in increases in sales.
    3. Procurement costs for base paper imported from continental Europe surged due to GBP depreciation.
- With regard to the 3rd point, we intend to gradually benefit from the price hike negotiations currently in progress. In addition, we will focus on unique value-added proposals by revitalizing features of CLNX printers including AEP (Application Enabled Printing) and SOS (SATO Online Services).
- Overseas Business Management Dept. launched in September will provide intensive monitoring to some specific subsidiaries with poor financial performances and support them to improve management controls in financial and HR-related aspects.
- 2H OI is expected to increase YoY through execution of the above-mentioned initiatives.

Primary Labels (Okil)

Excl. EUR/RUB impact

(Millions of RUB)	FY2017 (Apr-Sep)	FY2016 (Apr-Sep)	Change	YoY	FY2017 (Apr-Sep) Excl. EUR/RUB impact	Change%
Total Sales	**1,570**	**1,616**	**-46**	**97.1%**	**1,693**	**104.8%**
Gross Profit	293	471	-178	62.2%	376	79.9%
Gross Profit %	18.7%	29.2%	-10.5pt	--	22.3%	-6.9pt
SG&A Expenses	**326**	**321**	**+4**	**101.4%**	**326**	**101.4%**
Amortization	27	27	±0	--	27	--
Excl. amortization	298	294	+4	101.6%	298	101.6%
Operating Income	**-33**	**149**	**-182**	**--**	**50**	**33.6%**
Operating Income %	--	9.3%	--	--	3.0%	-6.3pt

■ 1H analysis

- **Sales denominated in euros increased 5% YoY, reflecting healthy business.**
- **Weaker euro against the ruble eroded GP. Profitability was dragged down due mainly to increased costs in new hirings and depreciation of equipment aiming to enhance production capabilities.**
- **Turned profitable in Q2 thanks to less FX impact.**

■ 2H initiatives and forecasts

- **Increase capacity utilization through expansion in existing business as well as new areas where our core competence can penetrate.**
- **Maintain positive OI in 2H through execution of above-mentioned initiatives assuming prevailing FX rates.**

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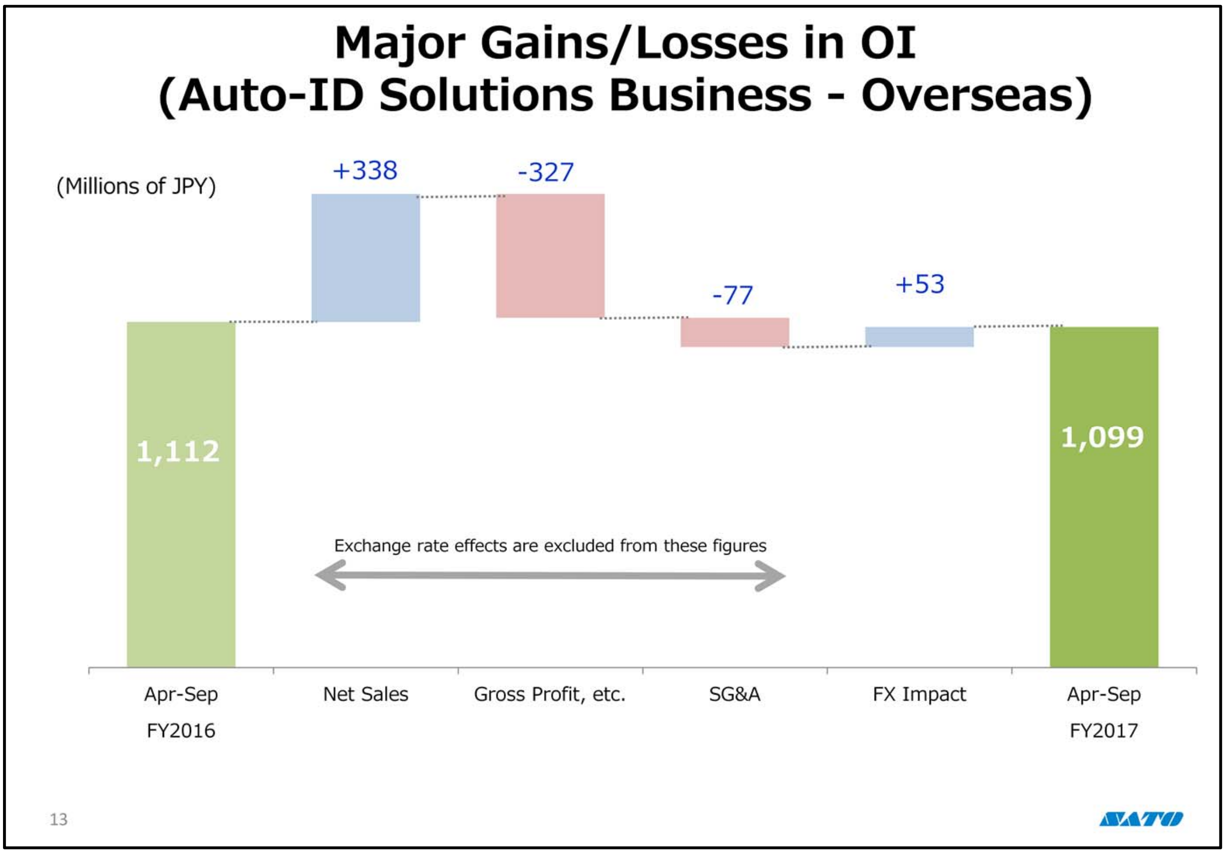
- This slide explains the slowdown at Okil. Numbers in the table are denominated in rubles in order to exclude FX impact.
- Around 80% of sales at Okil are booked in euros because headquarters of its major customers are located in continental Europe while costs are mainly booked in rubles.
- Sales declined as the euro depreciated against the ruble and due to the aforementioned financial structure. Excluding this negative EUR/RUB impact, sales increased by 4.8% YoY but GP decreased by RUB 83 million* (approx. JPY 150 million).
  *The difference between GP of RUB 293 million in 1H of FY 2017 and RUB 376 million in the same period excluding the EUR/RUB impact.
- In addition, labor costs and depreciation costs increased due to initiatives to enhance production capabilities reflecting a surge in demand and promotion of new business.
- Assuming prevailing FX rates, decline in 2H due to FX turbulence is expected to be limited compared to 1H of FY 2017. However, this assumption is subject to change depending on the ruble, which tends to be influenced by oil prices.
- Initiatives including enhancing production capabilities are expected to make positive contributions in 2H.

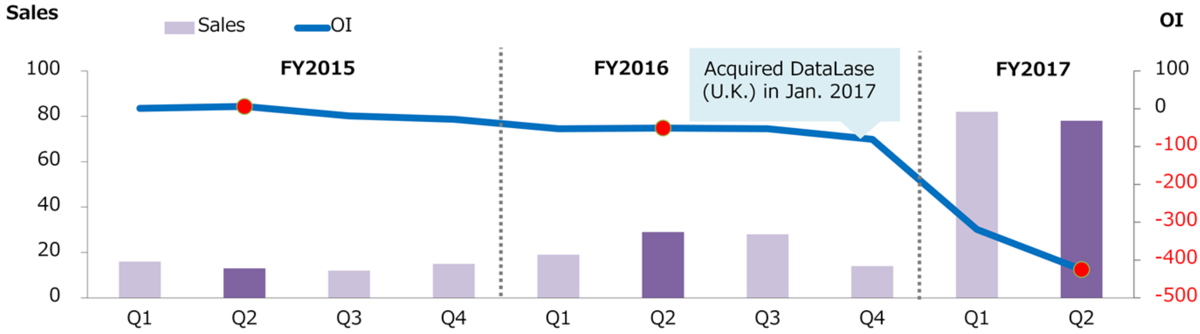


- Approx. 50% of the JPY 327 million decline in gross profit, etc. came from the impact of the weaker euro against the ruble at Okil outlined in the previous slide.

Materials Business

➢ **DataLase conducted R&D largely in line with plan.**

(Millions of JPY)	FY2017 (Apr-Sep)	FY2016 (Apr-Sep)	Change	YoY
Total Sales	**160**	**48**	**+111**	**327.7%**
Gross Profit	120	7	+113	1,643.9%
Gross Profit %	75.5%	15.1%	+60.5pt	--
Operating Income	**-745**	**-104**	**-640**	**--**
Operating Income %	--	--	--	--



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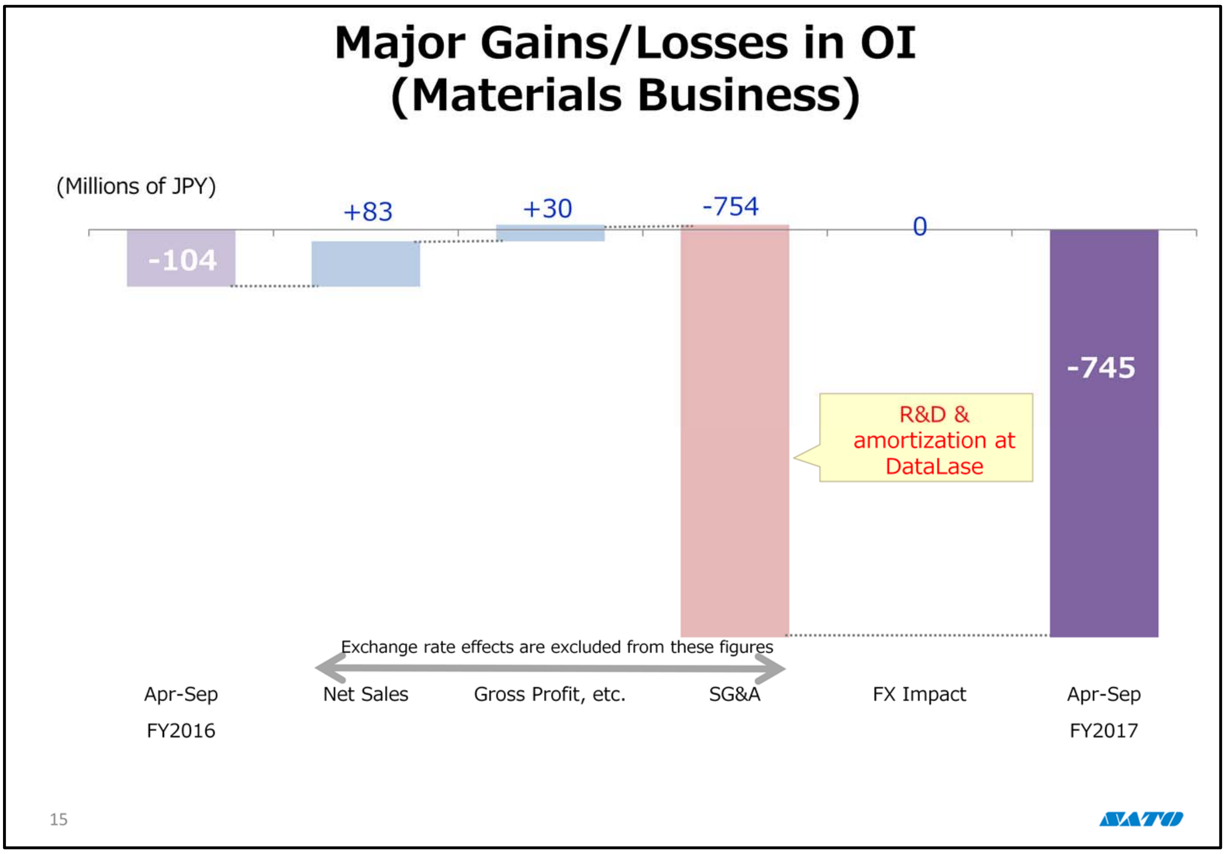
- Sales and OI in the Materials business changed significantly in 1H due to the DataLase consolidation at the beginning of FY 2017.
- The YoY OI decline came from amortization costs of the DataLase acquisition and its R&D costs.
- Otherwise, Sales and OI progressed largely as planned.



- Comments made on the previous slide apply here as well.

FY2017 Consolidated Forecasts

(Millions of JPY)	1H		2H		Full Year	
	Actual	YoY	Forecast	YoY	Forecast	YoY
Net Sales	54,823	107.3%	58,676	106.3%	113,500	106.8%
Operating Income	2,556	96.4%	3,443	99.8%	6,000	98.3%
Ordinary Income	2,369	99.6%	3,430	112.6%	5,800 (5,900)	106.9%
Profit attributable to owners of parent	2,413	160.1%	2,086	121.8%	4,500 (3,600)	139.7%

<Reference>

	FY2016 Full Year	Full Year Forecast	YoY
EBITDA*	11,296	11,400 (11,600)	100.9%

* Figures in parentheses are forecasts announced as of May 9, 2017.

Exchange rates assumed in FY17 forecast: JPY 110/USD, JPY 120/EUR
Average exchange rates for Apr-Sep FY17: JPY 111.04/USD, JPY 126.31/EUR
Average exchange rates for FY16: JPY 108.34/USD, JPY 118.74/EUR

16 * EBITDA = Operating Income + Depreciation + Amortization

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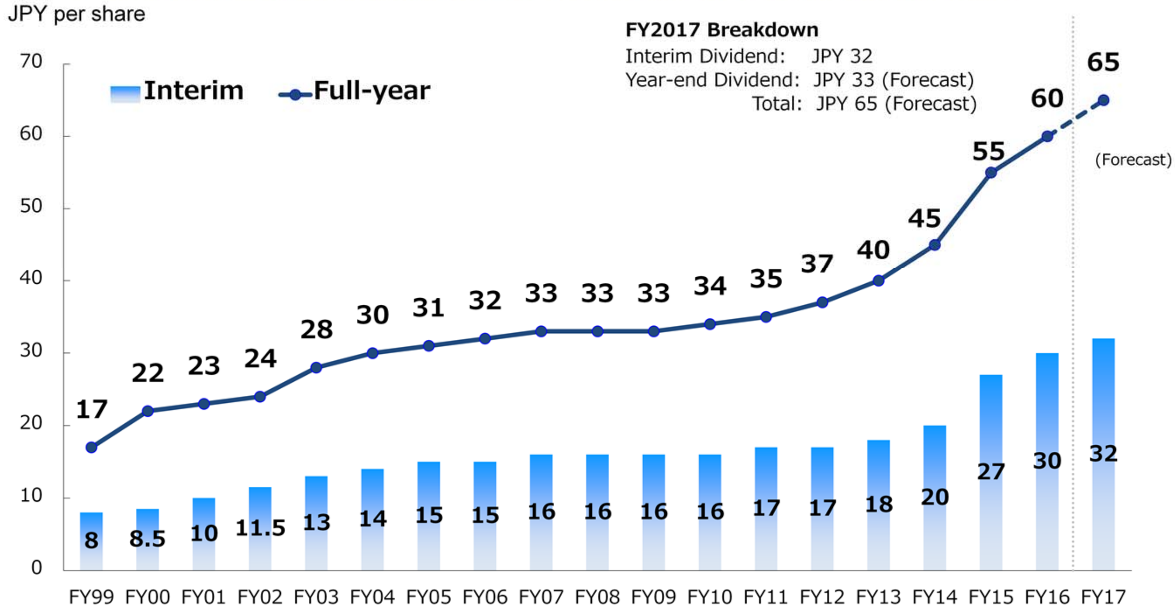
- Some full-year forecasts were revised following the 1H results.
- There are no changes in sales and OI forecasts. Consolidated OI of JPY 6 billion is comprised of a record-high JPY 7.7 billion in Auto-ID Solutions business and operating loss of JPY 1.7 billion in the Materials business.
- Ordinary income has been revised down to JPY 5.8 billion from JPY 5.9 billion reflecting the result in 1H. The 2H forecast set at the beginning of FY 2017 remains unchanged.
- Profit attributable to owners of parent has been revised up to JPY 4.5 billion taking into account the extraordinary income primarily from gains on the sale of our former headquarters building mentioned at the beginning of this presentation, extraordinary losses and taxes.
- The 2H OI forecast of JPY 3.4 billion is set 0.2% lower than last year, but we aim to exceed the figure.
- The revision reflects a conservative outlook on the positive aspects while incorporating negative risks that have become evident based on currently available information.

Dividends

➢ **Interim dividend payment of 32 yen is scheduled as planned.**



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Interim dividend of JPY 32 against the full-year forecast of JPY 65 is scheduled to be paid as planned.

- This slide outlines a key progress in the shift of our focus to B2B2C, one of our key messages in the mid-term management plan starting from FY 2017.
- Our value proposition here is to automate the process of filling out shipping labels taking place in CtoC transactions such as online auctions.
- This printing system was developed in collaboration with Japan Post, solving its customers' complaints that handwriting shipping labels is tedious.
- Around 5,000 relatively large post offices plan to implement this system, about 2,700 of which has already done so in 1H. In addition to post offices, Japan Post aims to deploy the system in convenience stores as well.

Starting SOS (SATO Online Services) Overseas

➢ **Global roll-out started from Asia in 1Q/FY2017**

➢ **Closer ties with overseas customers envisioned through SOS**

■ **SOS Benefits**

For Customers	● A "virtual CE (customer engineer) on-site" for stable operations ● Optimal and visible management of printer assets
For SATO	● Minimal downtime = Competitive advantage ● Higher productivity of CEs through predictive maintenance

Active SOS Printers (Accumulated as of Sep end, 2017)

CLNX Printer Sales
- **Overseas** Approx. **55,000**
- **Japan** Approx. **15,000**

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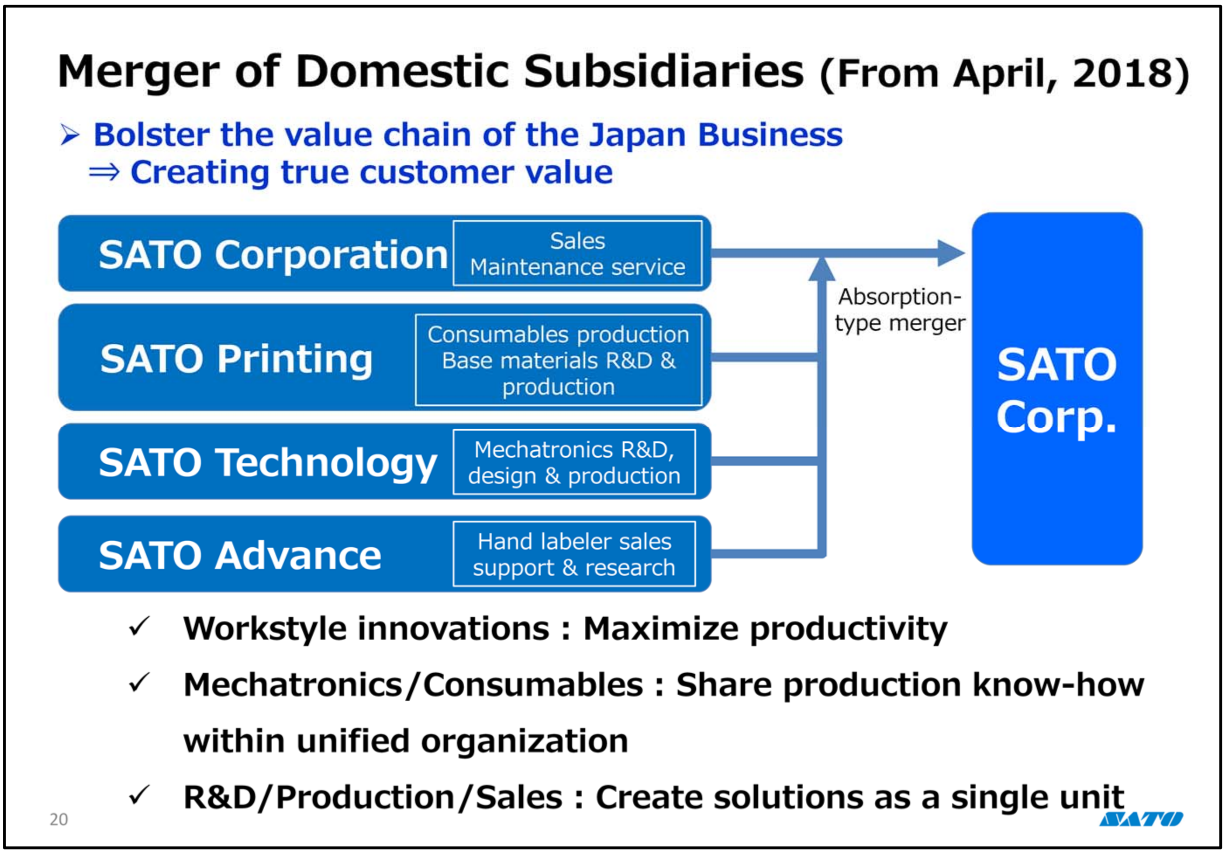
- SOS has been launched overseas. In Japan, 5,000 units of CLNX out of the accumulated 15,000 sold are connected to SOS. CLNX is the major printer line compatible with SOS.
- We aim to increase the connection rate and eventually connect all of our printers to the SOS platform in the future.
- This would enable our customers to minimize downtime of their printers operating on-site without calling our customer engineers (servicing technicians).
- The overseas markets, where customers are located over a greater span of area, can benefit more. There was a case where we dispatched our customer engineers by plane to a customer's factory to fix printer problems that had stopped their shipping operations. By minimizing printer problems through SOS, which monitors customers' printers remotely on a cloud platform, we can reduce their opportunity losses, while increasing the productivity of our customer engineers.
- The global roll-out started in Asia. The CLNX accumulated sales volume overseas has reached approx. 55,000, with 100 units in Asia already connected to SOS. We aim to expand the SOS service to Europe and the Americas.



- 4 Domestic subsidiaries are scheduled to merge on April 1st, 2018.
- SATO Corporation, in charge of sales and maintenance services, will absorb SATO Printing (responsible for consumables production and base materials R&D and production), SATO Technology (responsible for mechatronics R&D, design and production), and SATO Advance (responsible for hand labeler sales support and research).
- The decision to merge was made under the notion that it is more important to cooperate with each other rather than be fragmented in order to create true customer value and bolster the value chain as we shift our focus from product-driven to solution-based business.
- This allows us to maximize our productivity while sharing production know-how within a unified organization. And by synthesizing the value chain, we are able to provide solutions that maximize customer value.

Appendix

(FY2017 1H results based on FY2016 classification)

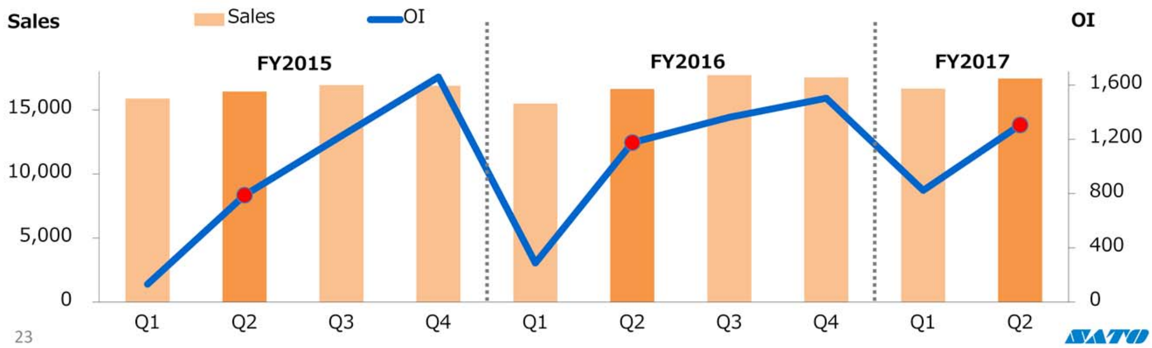
Consolidated Results

(Millions of JPY)

		FY2017 (Apr-Sep)	FY2016 (Apr-Sep)	Change	YoY	excl. FX impact
Japan	**Total Sales**	**34,105**	**32,125**	**+1,980**	**106.2%**	**106.2%**
	Operating Income	**2,130**	**1,465**	**+665**	**145.4%**	**139.5%**
North America	Total Sales	5,276	5,319	-43	99.2%	94.0%
	Operating Income	182	-2	+184	--	--
South America	Total Sales	1,727	1,460	+267	118.3%	113.2%
	Operating Income	170	83	+87	205.7%	191.1%
Europe	Total Sales	7,061	5,977	+1,084	118.1%	107.1%
	Operating Income	-649	424	-1,074	--	--
Asia/ Oceania	Total Sales	6,652	6,199	+452	107.3%	100.4%
	Operating Income	724	598	+126	121.1%	115.9%
Overseas	**Total Sales**	**20,718**	**18,957**	**+1,760**	**109.3%**	**101.7%**
	Operating Income	**427**	**1,103**	**-675**	**38.8%**	**33.9%**
Elimination	Operating Income	-2	+83	-86	--	--
Consolidated	**Total Sales**	**54,823**	**51,083**	**+3,740**	**107.3%**	**104.5%**
	Operating Income	**2,556**	**2,652**	**-96**	**96.4%**	**91.1%**

Japan

(Millions of JPY)	FY2017 (Apr-Sep)	FY2016 (Apr-Sep)	Change	YoY
Mechatronics Sales Consumables Sales	12,920 21,185	11,524 20,601	+1,396 +583	112.1% 102.8%
Total Sales	**34,105**	**32,125**	**+1,980**	**106.2%**
Gross Profit Gross Profit %	16,460 48.3%	14,731 45.9%	+1,729 +2.4pt	111.7% --
Operating Income	**2,130**	**1,465**	**+665**	**145.4%**
Operating Income %	6.2%	4.6%	+1.7pt	--



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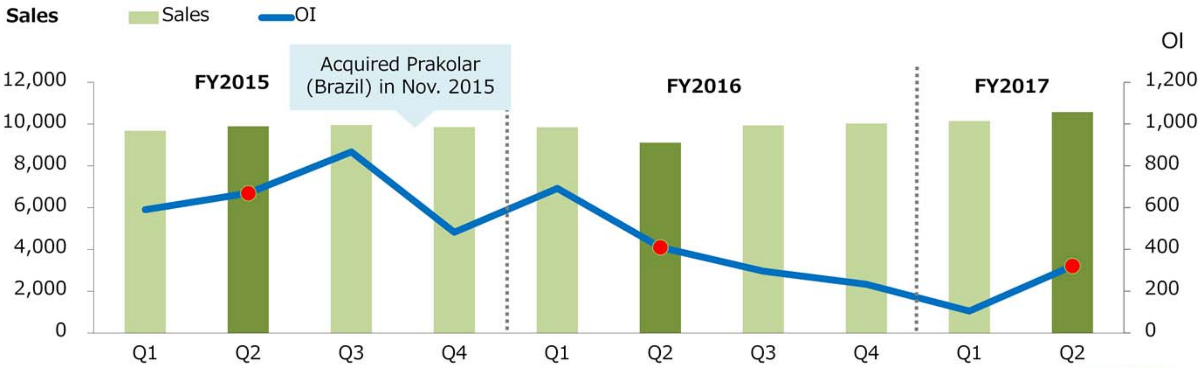
Overseas

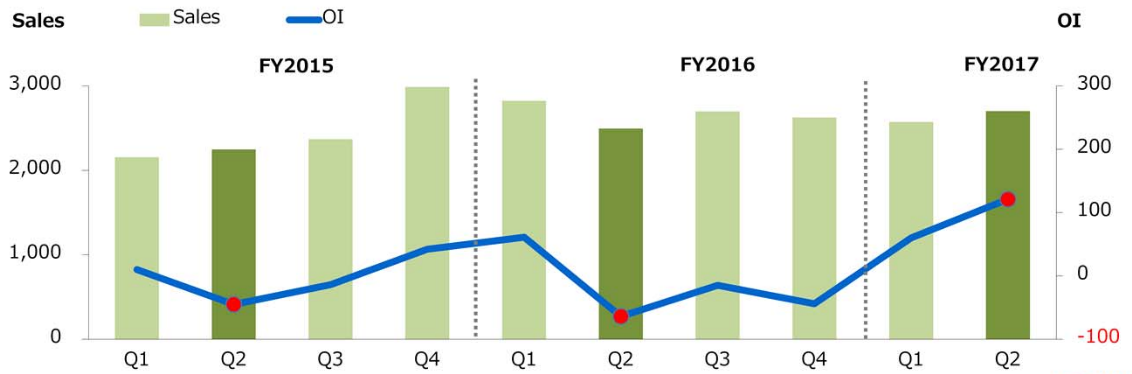
(Millions of JPY)	FY2017 (Apr-Sep)	FY2016 (Apr-Sep)	Change	YoY	excl. FX impact
Total Sales	**20,718**	**18,957**	**+1,760**	**109.3%**	**101.7%**
Gross Profit Gross Profit %	7,875 38.0%	7,305 38.5%	+569 -0.5pt	107.8% --	-- --
Operating Income	**427**	**1,103**	**-675**	**38.8%**	**33.9%**
Operating Income %	2.1%	5.8%	-3.8pt	--	--



North America

(Millions of JPY)

	FY2017 (Apr-Sep)	FY2016 (Apr-Sep)	Change	YoY	excl. FX impact
Total Sales	**5,276**	**5,319**	**-43**	**99.2%**	**94.0%**
Gross Profit Gross Profit %	1,534 29.1%	1,421 26.7%	+113 +2.4pt	108.0% --	-- --
Operating Income	**182**	**-2**	**+184**	**--**	**--**
Operating Income %	3.5%	--	--	--	--



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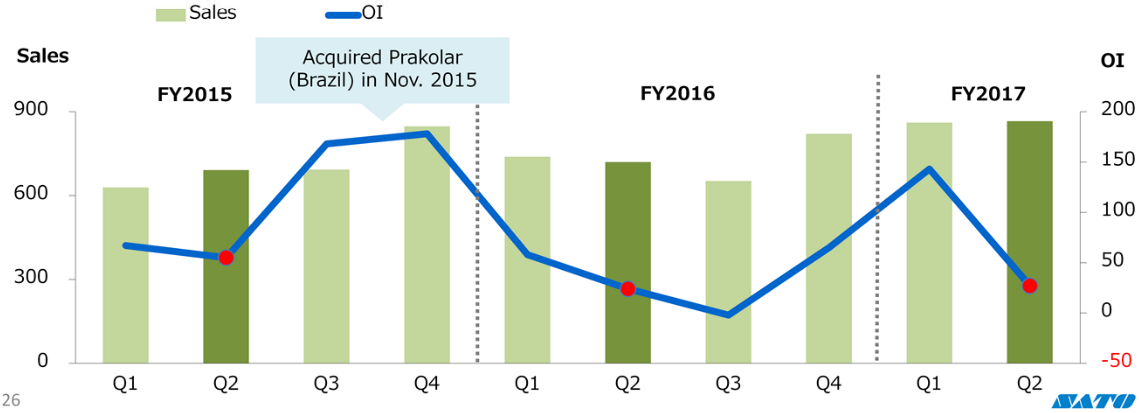
South America

(Millions of JPY)	FY2017 (Apr-Sep)	FY2016 (Apr-Sep)	Change	YoY	excl. FX impact
Total Sales	**1,727**	**1,460**	**+267**	**118.3%**	**113.2%**
Gross Profit Gross Profit %	706 40.9%	562 38.5%	+143 +2.3pt	125.6% --	-- --
Operating Income	**170**	**83**	**+87**	**205.7%**	**191.1%**
Operating Income %	9.9%	5.7%	+4.2pt	--	--



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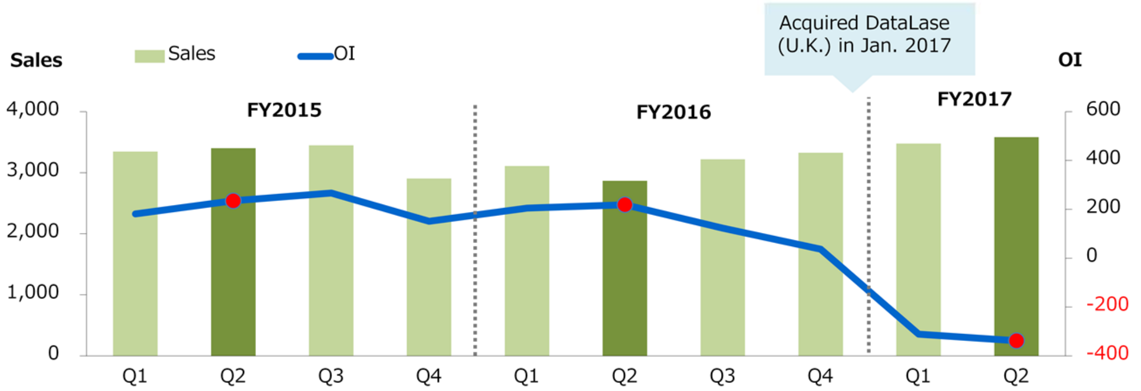
Europe*

*DataLase consolidated at FY2017

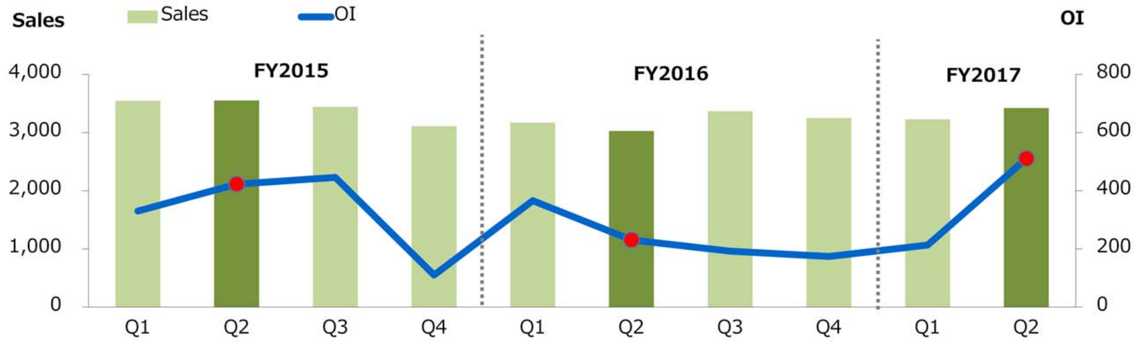
(Millions of JPY)	FY2017 (Apr-Sep)	FY2016 (Apr-Sep)	Change	YoY	excl. FX impact
Total Sales	**7,061**	**5,977**	**+1,084**	**118.1%**	**107.1%**
Gross Profit Gross Profit %	2,328 33.0%	2,293 38.4%	+35 -5.4pt	101.5% --	-- --
Operating Income	**-649**	**424**	**-1,074**	**--**	**--**
Operating Income %	--	7.1%	--	--	--



Asia & Oceania

(Millions of JPY)

	FY2017 (Apr-Sep)	FY2016 (Apr-Sep)	Change	YoY	excl. FX impact
Total Sales	**6,652**	**6,199**	**+452**	**107.3%**	**100.4%**
Gross Profit Gross Profit %	3,305 49.7%	3,028 48.8%	+277 +0.8pt	109.2% --	-- --
Operating Income	**724**	**598**	**+126**	**121.1%**	**115.9%**
Operating Income %	10.9%	9.7%	+1.2pt	--	--



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