Ceaseless Creativity for a Sustainable World

SATO HOLDINGS CORPORATION

FY2016
Financial Results
(Fiscal Year Ended March 31, 2017)

Securities Code: 6287

May 11, 2017

Agenda

I. FY2016 Consolidated Financial Results

II. New Medium-term Management Plan

III. FY2017 Consolidated Financial Forecasts

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I. FY2016 Consolidated Financial Results

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FY2016 Summary

Sales increased marginally; OI declined

- Sales: +1%, OI: -5% (YoY, in JPY terms)
- Japan: Sales and OI increased, consolidating a favorable trend
  Non-operating loss of approx. JPY 400 million was booked mainly as a provision for loan losses
- Overseas: Sales +12%, OI -30%
  (YoY, in local currency terms)

- Sales increased 1% YoY, while OI declined 5% YoY, falling below forecast.
- The Japan business saw a recovery trend, especially in 2H backed by a solid performance in the base business.
- A one-off provision for loan losses of approx. JPY 400 million was booked as non-operating loss.
- The overseas business increased sales by 12% in local currency terms, while OI slumped by 30%, details of which will be outlined later.

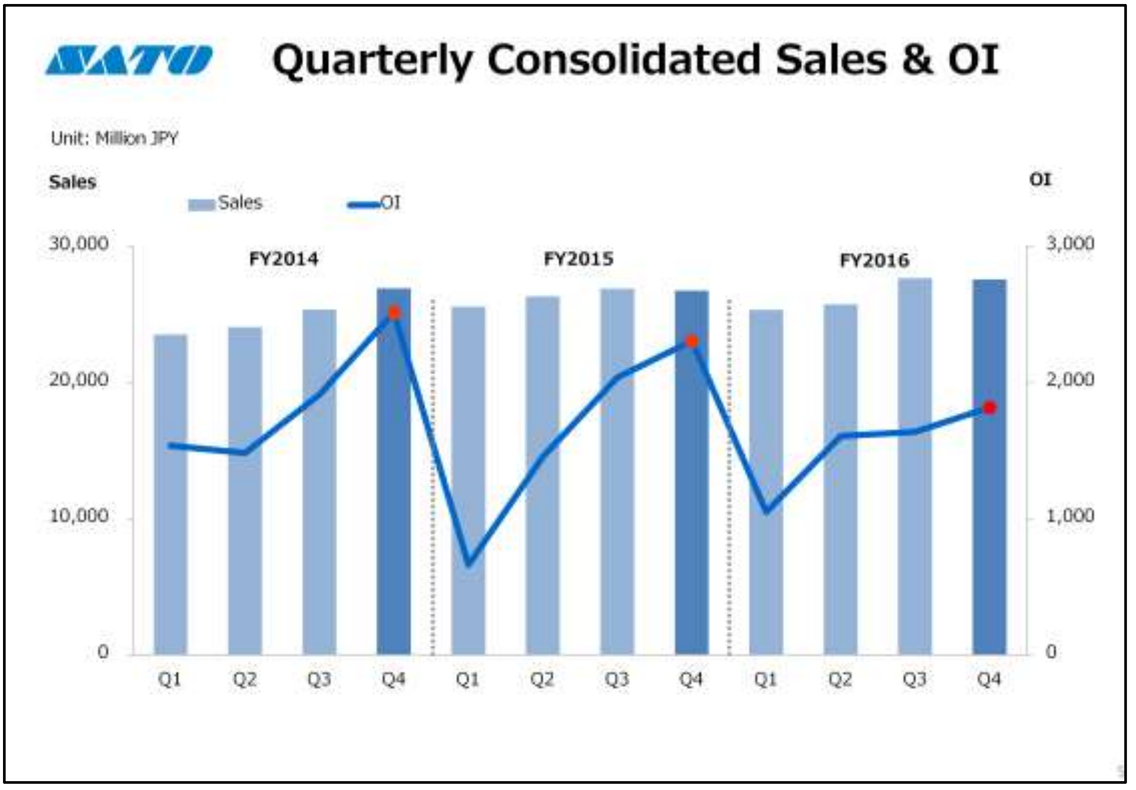
FY2016 Consolidated Results

Unit: Million JPY	FY2016	FY2015	Change	YoY
Net Sales	106,302	105,504	797	100.8%
Operating Income	6,104	6,455	-350	94.6%
Operating Income %	5.7%	6.1%	-0.4pt	--
Ordinary Income	5,426	6,116	-693	88.7%
Profit attributable to owners of parent	3,221	3,687	-466	87.3%
Effective Tax Rate	39.9%	36.3%	3.7pt	
EBITDA*	11,296	11,573	-277	97.6%

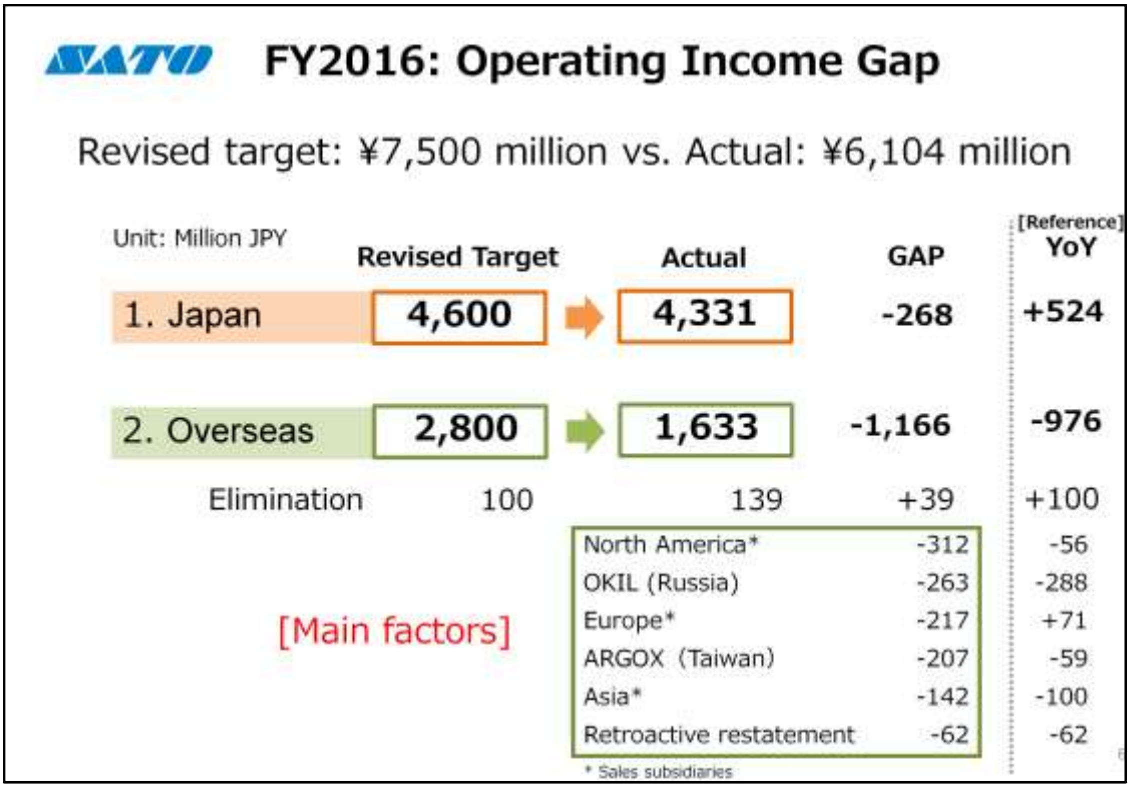
Average exchange rates for FY16: JPY 108.34/USD, JPY 118.74/EUR
FY15: JPY 120.14/USD, JPY 132.59/EUR

* EBITDA = Operating Income + Depreciation + Amortization
·Depreciation for FY16: JPY 3,996 million FY15: JPY 3,941 million
·Amortization for FY16: JPY 1,195 million (incl. 745m for ARGOX, 226m for PRAKOLAR), FY15: JPY 1,177 million (incl. 815 m for ARGOX)

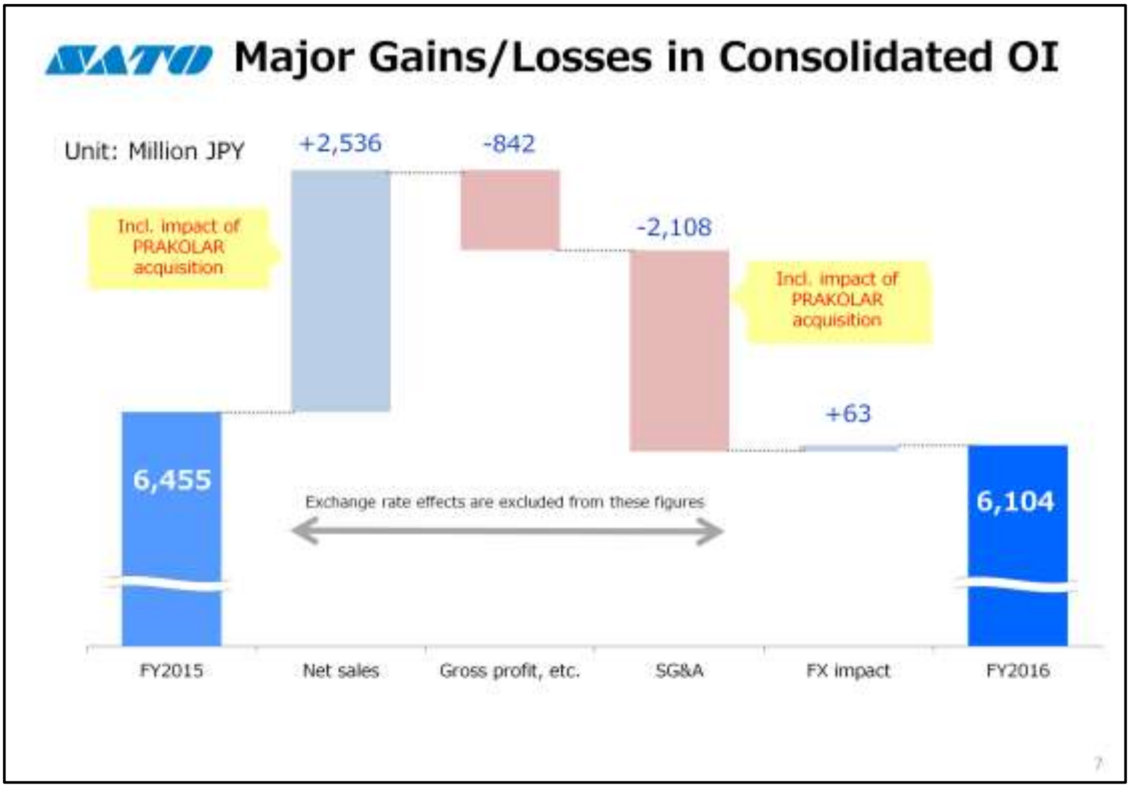
- FY2016 consolidated results are as shown in this slide, details of which will be discussed later.



- A typical seasonality in sales and OI is that they would increase in Q4 then fall steeply in Q1. Measures to rectify this trend are being implemented by our COO Ryutaro Kotaki and myself.
- In FY2016, overseas business was sluggish particularly in Q4. Growth in consolidated OI was limited against that in sales.



- OI in the Japan business grew YoY yet fell short of target.
- This shortfall was largely caused by expenses that include acquisition fees for DataLase, which are not directly linked with the Japan business. If we exclude these indirect expenses, our performance was roughly in line with the target.
- OI in the overseas business slumped YoY and also fell far below target.
- Main factors came from US sales subsidiaries, OKIL (the Russian primary label company), European sales subsidiaries, ARGOX (the Taiwanese entry- level printer manufacturer), Asian sales subsidiaries and retroactive restatement.
- Retroactive restatement was booked as a result of delayed local financial audits in Indonesia and Germany, due primarily to additional retirement benefit expenses.



- Analysis of YoY gains and losses will be discussed in later sections per segment.

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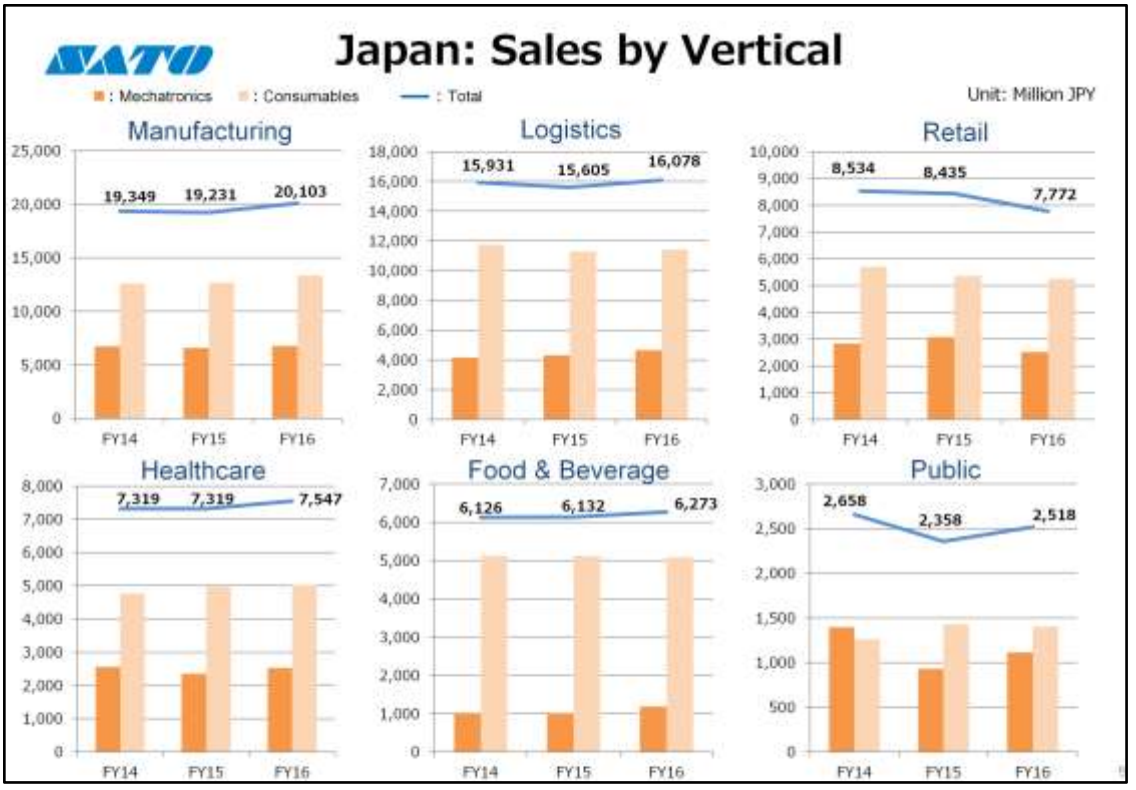
Japan

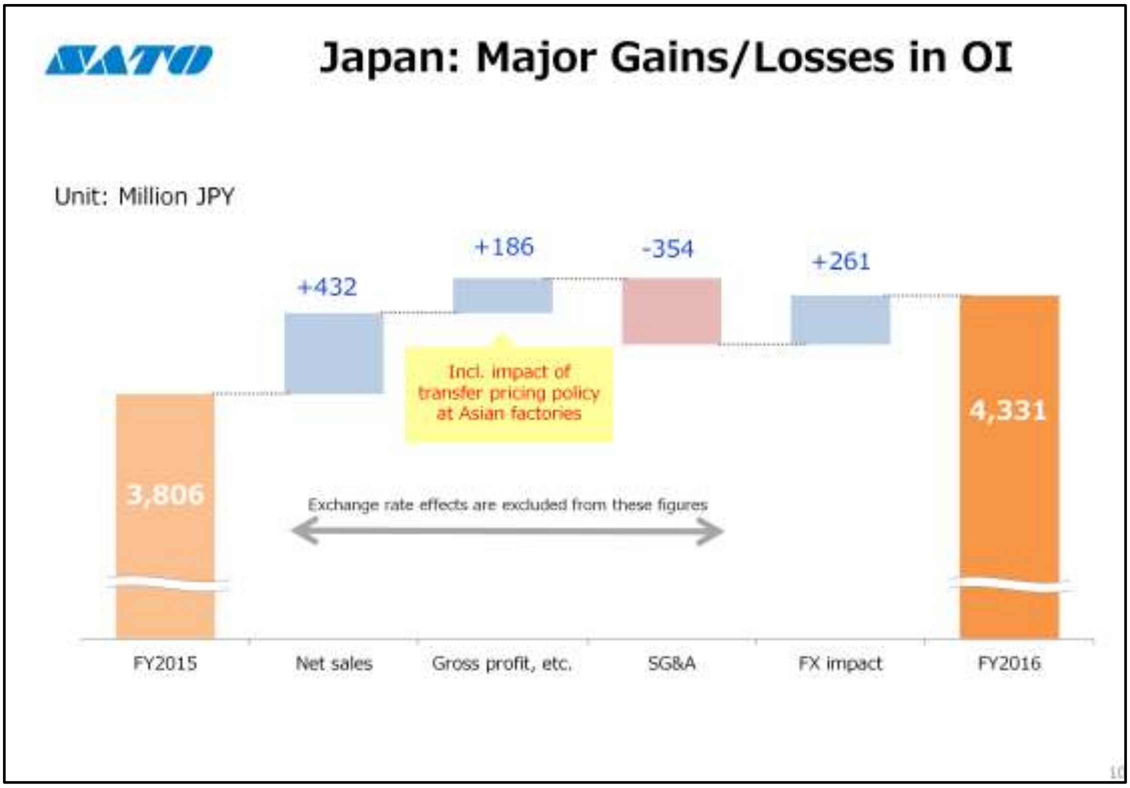
- Sales increased YoY in all verticals except the retail sector.
- Sales growth of industrial printers including strategic models and cost reduction in consumables led to improvement in GP margin.

Unit: Million JPY	FY2016			FY2015			YoY
	1H	2H	Full Year	1H	2H	Full Year	
Mechatronics Sales	11,524	13,612	25,136	11,838	12,825	24,664	101.9%
Consumables Sales	20,601	21,637	42,238	20,470	20,989	41,460	101.9%
Total Sales	**32,125**	**35,249**	**67,375**	**32,309**	**33,815**	**66,124**	**101.9%**
Gross Profit	14,731	16,211	30,943	14,275	15,789	30,064	102.9%
Gross Profit %	45.9%	46.0%	45.9%	44.2%	46.7%	45.5%	+0.5pt
Operating Income	**1,465**	**2,866**	**4,331**	**921**	**2,885**	**3,806**	**113.8%**
Operating Income %	4.6%	8.1%	6.4%	2.9%	8.5%	5.8%	+0.7pt

- Sales in Japan increased 2% YoY.
- Consumables sales grew 2% YoY, turning around a declining trend that continued for the last few years owing to sluggish economic growth.
- GP increased YoY with improvement in margins resulting in a healthy 14% growth in OI.
- Measures are being taken in FY2017 to avoid repeating a shortfall in Q1.



- Positive trends were seen both in mechatronics and consumables sales, except in the retail sector.
- The growing e-commerce business is classified mainly in logistics and partly in FA to maintain continuity.
- While the sluggish trend in retail stores continues, SATO aims to turn it around by utilizing RFID.
- To maintain favorable trends in other verticals, our businesses will focus on solutions.



- OI in Japan recovered to JPY 4.3 billion in FY 2016 from JPY 3.8 billion the previous year, but failed to return to record highs.
- Growth in sales and GP primarily absorbed increases in SG&A expenses, which include incremental depreciation cost on our core IT system.

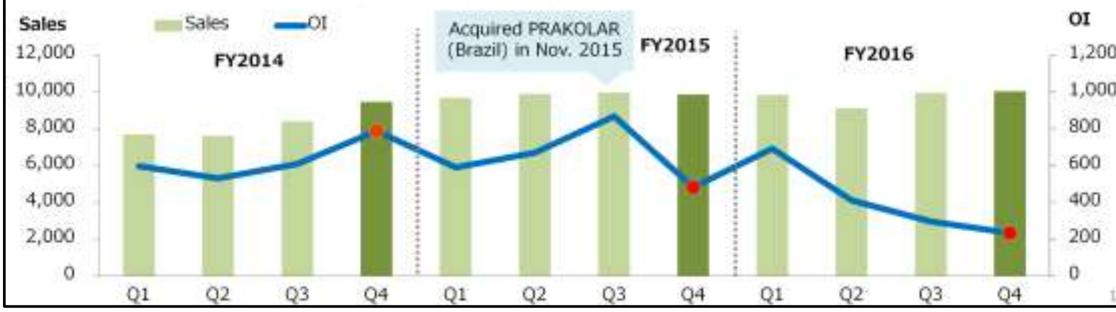
Overseas

Sales	111.5 %
OI	70.2 %
excl. FX impact	

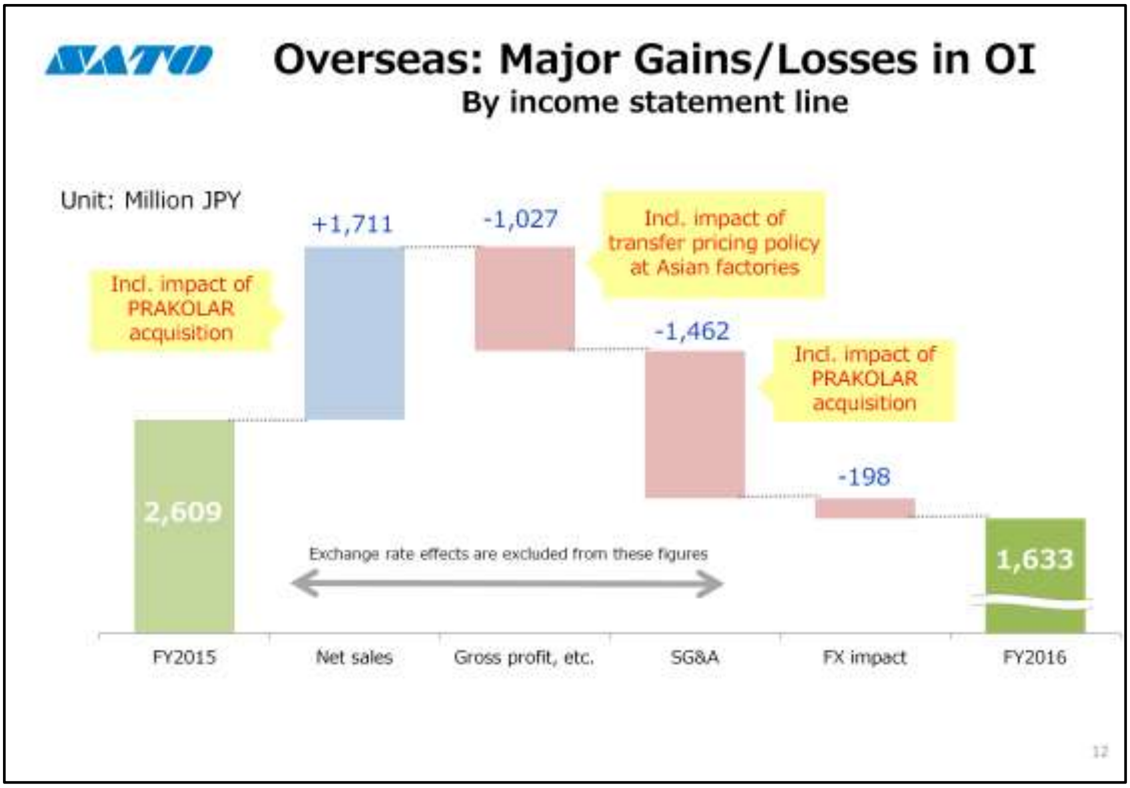
➢ **OI decline factors include delays in major deals at ACHERNAR, profit adjustments at Asian factories in accordance with the transfer pricing policy, FX impact and inventory disposal at OKIL, and increase in R&D expenses at SATO Global Solutions.**

Unit: Million JPY	FY2016 1H	FY2016 2H	FY2016 Full Year	FY2015 1H	FY2015 2H	FY2015 Full Year	YoY
Total Sales	**18,957**	**19,969**	**38,926**	**19,571**	**19,808**	**39,379**	**98.8%**
Gross Profit	7,305	7,397	14,703	8,017	7,877	15,895	92.5%
Gross Profit %	38.5%	37.0%	37.8%	41.0%	39.8%	40.4%	-2.6pt
Operating Income	**1,103**	**529**	**1,633**	**1,259**	**1,350**	**2,609**	**62.6%**
Operating Income %	5.8%	2.7%	4.2%	6.4%	6.8%	6.6%	-2.4pt

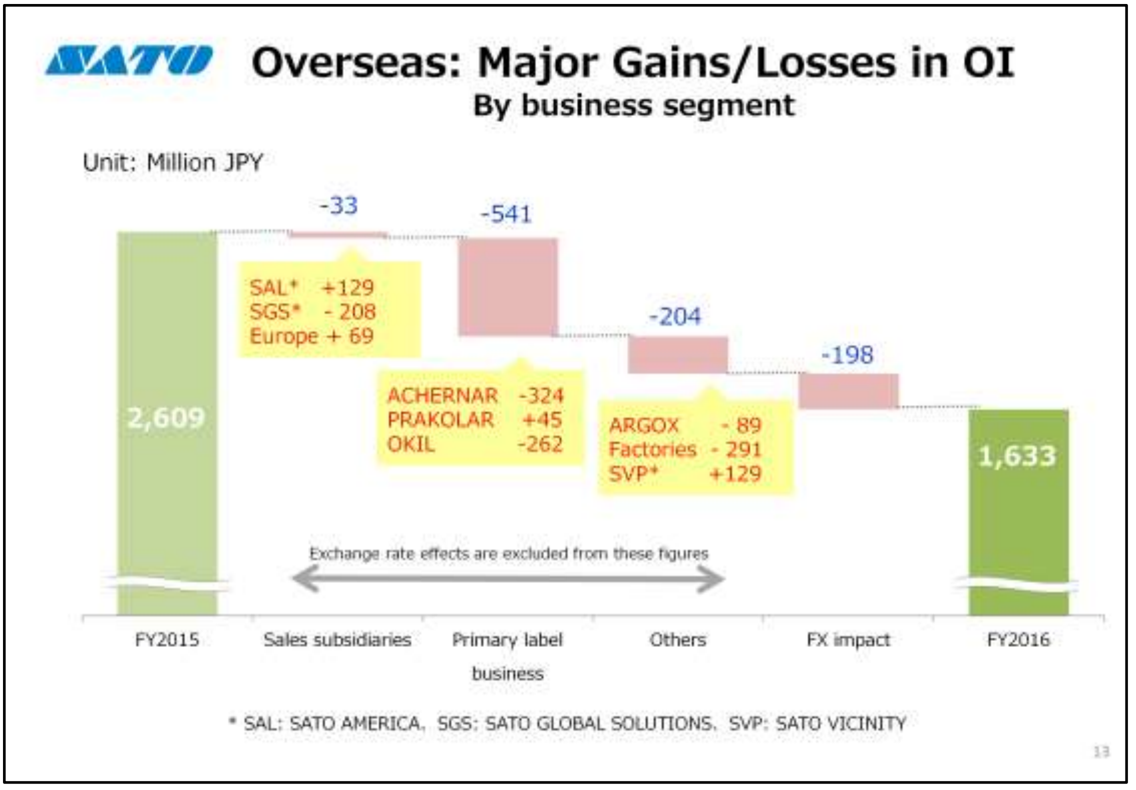
* Excl. PRAKOLAR FY16 Sales: JPY 37,522 million, OI: JPY 1,555 million
FY15 Sales: JPY 39,031 million, OI: JPY 2,584 million



- Overseas sales increased 12% YoY while OI declined 30% YoY in local currency terms.
- Major factors of the decline were;
  - ➢ ACHERNAR, the Argentine primary label company, saw orders virtually stop from its biggest customer that was affected by the nation's economic slowdown.
  - ➢ OI at factories in Malaysia and Vietnam declined, reflecting change in transaction prices due to the Head Office complying with the transfer pricing policy. The policy will continue to be applied in a consistent and transparent manner.
  - ➢ Sales, ordinary income and net profit at OKIL in Russia grew in local currency terms, while currency fluctuations led to an OI decline. At OKIL, sales are denominated in euros and costs in rubles. Although the ruble appreciation against the euro had a negative impact on OI, the business saw healthy growth.
  - ➢ SATO Global Solutions (SGS) in the US required more time and investment than initially expected on the development of VISION digital solutions. However, the beta version was launched in April of FY2017. SGS is focusing on developing API (Application Programming Interface) and multilingual capability in preparation for its full-scale rollout in 2H.



- Analysis on gains and losses in OI will be discussed by business segment on the following slide, since it gives a clearer idea than the analysis here by income statement line.



- Overseas OI slumped from JPY 2.6 billion in FY2015 to JPY 1.6 billion in FY2016.
- The main factor of the fall came from sluggish performances in the primary label business, in particular at ACHERNAR and OKIL.
- FX had a negative impact of JPY 200 million overseas. Consolidated FX impact was positive because the positive impact on procurement in Japan exceeded the negative impact in the overseas business.
- While OI across the overseas business declined, base business grew steadily as evidenced by the sales expansion of our strategic printer, CLNX.

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Dividends

◆ Total dividends planned for FY2016: JPY 60 (5-yen increase YoY)
◆ Total dividends planned for FY2017: JPY 65 (5-yen increase YoY)

	FY2015	FY2016	FY2017 (Forecast)
EPS	¥110	¥96	¥107
ROE	7.1%	6.2%	6.7%
(Ref.) Payout ratio	50%	62%	61%

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- Dividends for FY2016 and FY2017 are forecasted to increase by 5 yen.

II. New Medium-term Management Plan

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- In the new medium-term management plan for FY2017-2021, the key is in how we allocate management resources.

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Vision

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

As digital advances and automation affect the world around us, we continually seek new ways to stay ahead of the game. Integrating Auto-ID technology with revolutionary materials, we bridge the last inch of the last mile for our customers with solutions that ensure accuracy and sustainability, save labor and resources, offer reassurance and build emotional connections.

- The core principles of our vision remain unchanged. The main objective is that we aim not to be the biggest player but to be the most trusted company in our business domain, the Auto-ID solutions industry.
- On-site productivity improvement is in high demand as digital transformation and automation advance rapidly. In Japan, on-site productivity improvement without additional hiring is particularly required due to labor shortage.
- By utilizing Auto-ID solutions, SATO bridges the last inch of the last mile for our customers to improve productivity by offering value propositions of accuracy and sustainability, labor and resource savings, peace of mind and personalization.
- In this new vision, a new value proposition, personalization, has been added, which is to be offered through Inline Digital Printing (IDP) by DataLase and through ECONANO, which reduces CO2 emission during incineration. DataLase was recently made a wholly-owned subsidiary, while the ECONANO business was launched 5 years ago.
- SATO will endeavor to strengthen its industry position by creating synergy between Auto-ID solutions and eco-materials.

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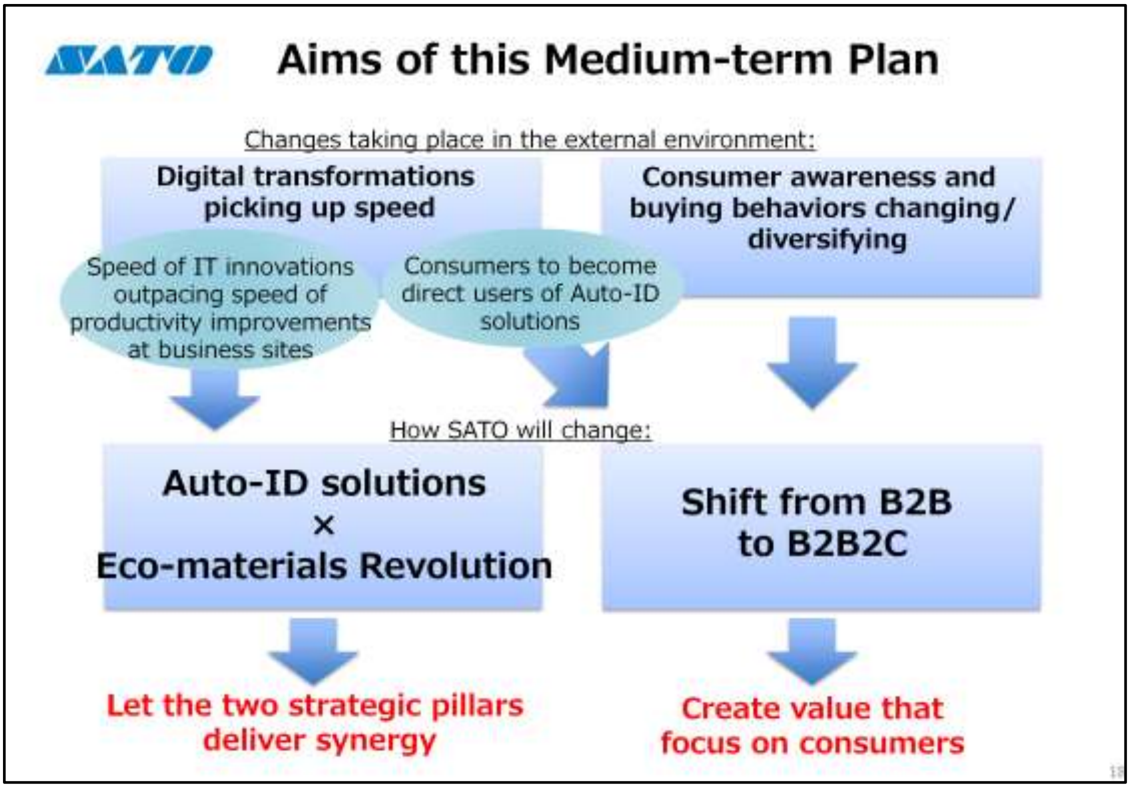
Management Objectives

Increase earning power in Auto-ID solutions and achieve operating profitability (FY2019) in the New Materials business, to establish sustainable growth and profit at the group level.

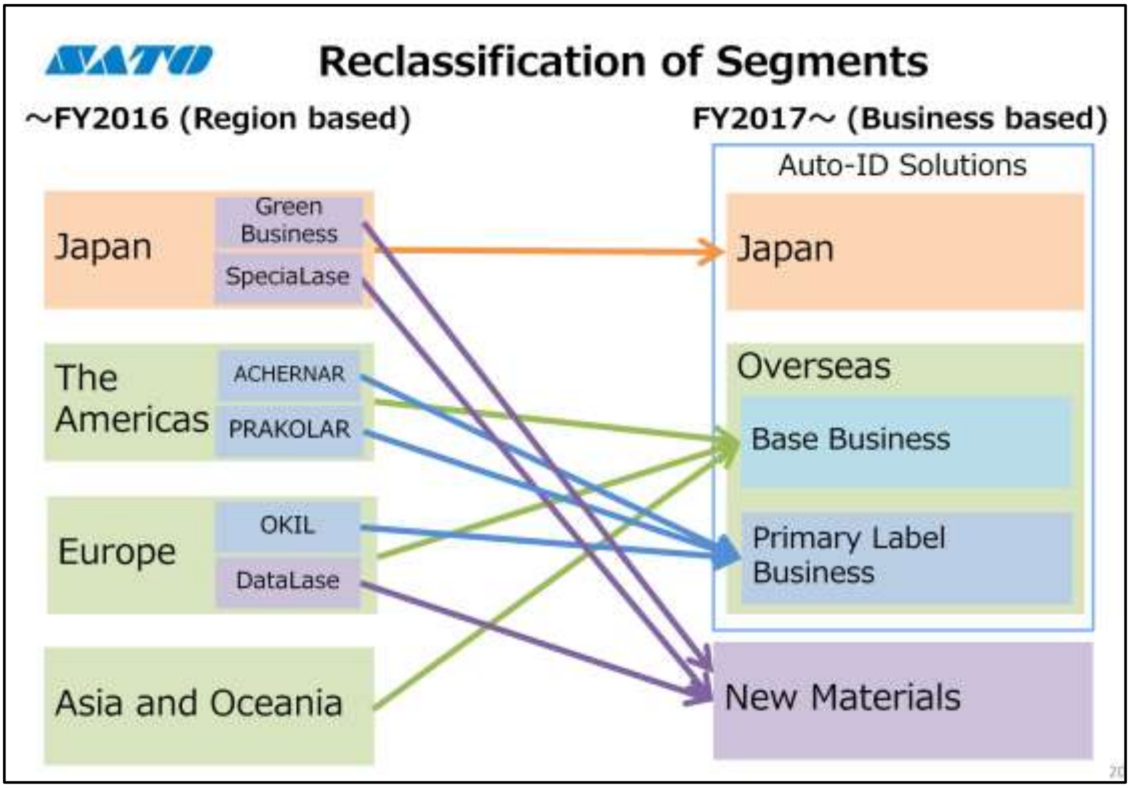
	FY2016	FY2021
■ Net sales (Unit: Million JPY)	106,302	160,000
■ Overseas sales ratio	36.6%	50%
■ OI margin	5.7%	12%
■ EBITDA margin	10.6%	15%
■ ROE	6.2%	16%

- Management objectives of the new plan are as shown.
- The first strategic pillar is to empower earnings in Auto-ID solutions.
- OI losses are expected in the New Materials business, the second pillar, in FY2017 and FY2018, due mainly to R&D expenses as an upfront investment. The business, which was launched in FY2016, aims to turn profitable after goodwill amortization in FY2019.
- Objective targets remain largely unchanged, but the final year of the plan has been pushed back a year to FY2021. The change reflects the time horizon of the full-scale rollout of IDP multi-color printing expected in FY2020, the year of the Tokyo Olympic Games.
- Multi-color printing brings us many more opportunities that current monochrome printing technology cannot deliver. Significant revenue contributions are expected at that stage.



- Acceleration of digital transformation is taking place as one of the changes in the external environment.
  - We are seeing IT platforms transform rapidly from mainframe computers to client-servers, to the cloud, and now to SNS, IoT and AI. Yet on-site productivity improvements have lagged behind in this wave of IT innovations, causing issues such as long working hours, shortage of labor and low productivity.
  - At the same time, consumers have become direct users of Auto-ID solutions, as most of them carry their own smart devices such as smartphones which can read barcodes, QR codes, NFC and potentially other future Auto-ID technologies.
- Another external change is seen in the transition and diversification of the consumer mindset and purchasing behaviors.
- These trends mentioned above lead SATO to change:
  - Set our two strategic pillars in Auto-ID solutions and Eco-materials Revolution, creating synergy between the two.
  - Provide value propositions that target consumers, despite SATO still identifying itself as a B2B company.

- The goal of the Japan business is to "boost profitability" by enhancing the solutions business. This implies that SATO would focus not on expanding business volumes or market share but rather on pursuing higher profitability by fulfilling customers' requirements and maximizing value propositions.
- In the overseas business where our business model is yet to fully penetrate, the goal is to go "back to basics," to transplant the fundamental models of the Japan business.
- The New Materials business has been launched with the goal to be the new "core business" and generate significant revenues from and after FY2020.



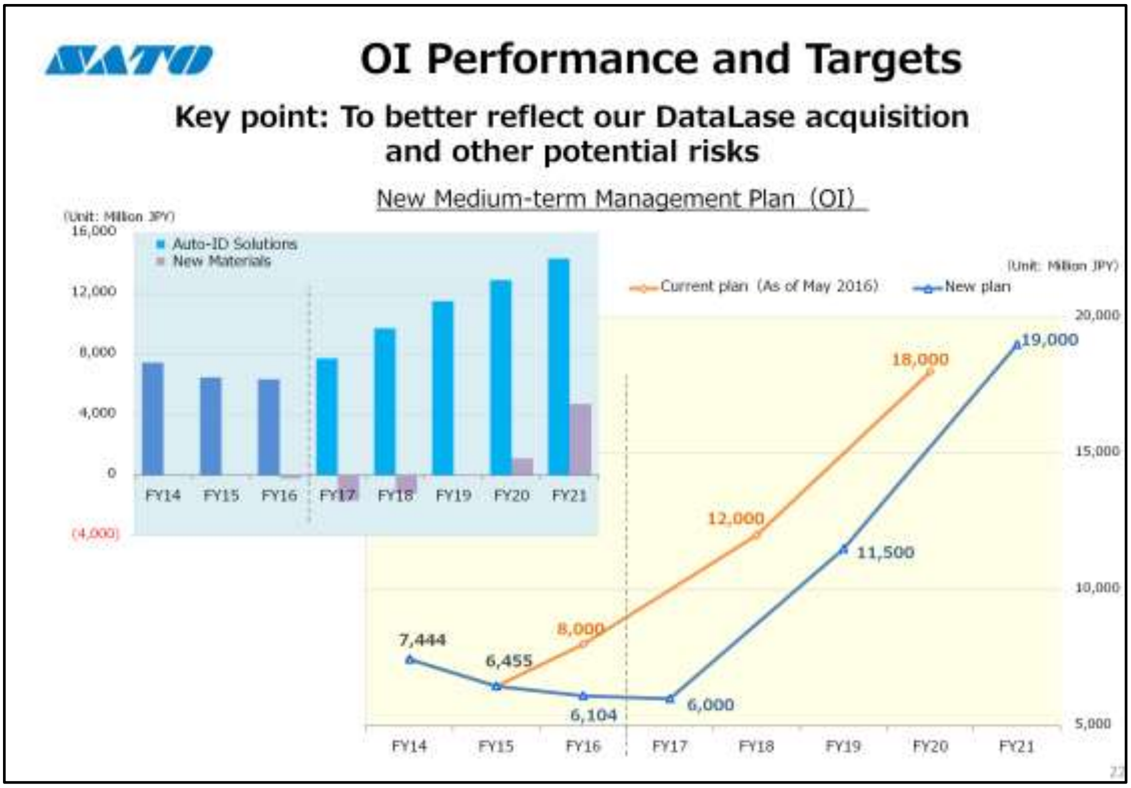
- Reclassification of segments takes place in FY2017. For the time being, financial data based on both the old and new classifications will be disclosed to provide continuity.

Targets by Segment

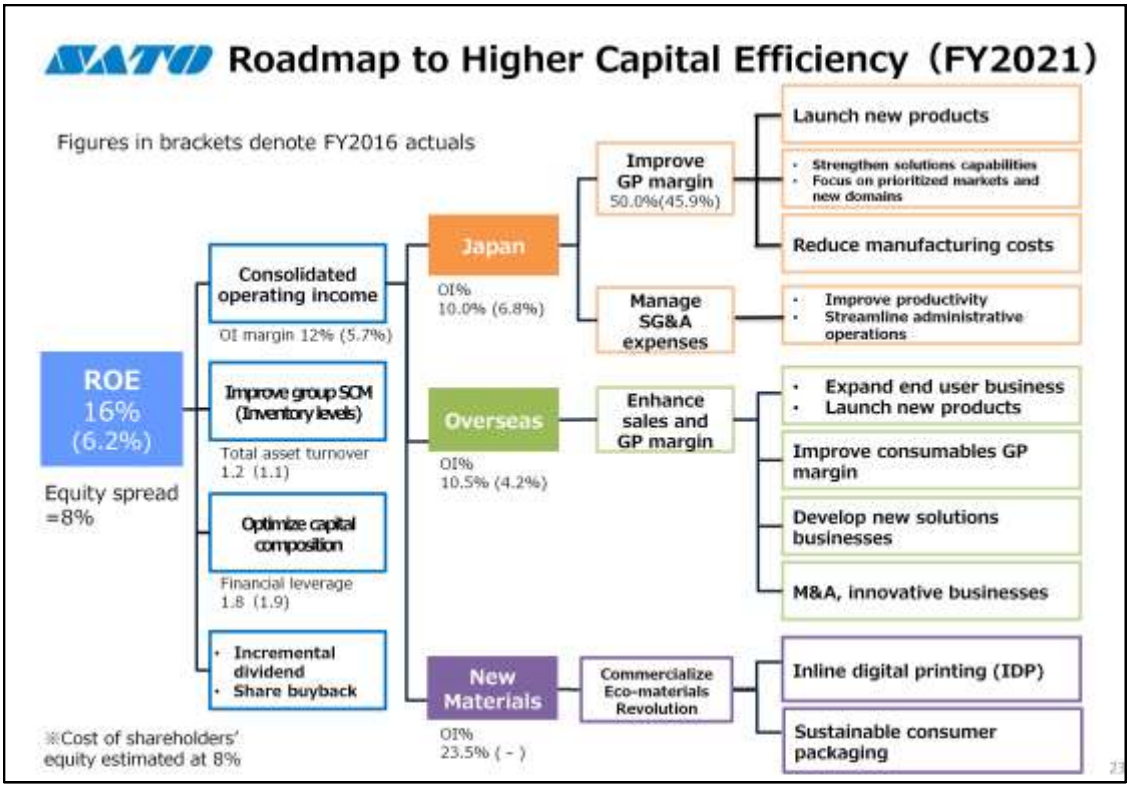
Units: Million JPY	FY2016	FY2017 (Forecast)	FY2019 (Target)	FY2021 (Target)
1. Japan				
Sales	67,283	69,000	72,500	75,000
OI	4,571	4,700	6,100	7,500
2. Overseas				
Sales	38,926	44,000	53,500	65,000
OI	1,633	3,000	5,400	6,800
3. New Materials				
Sales	92	500	4,000	20,000
OI	-240	-1,700	0	4,700
Consolidated				
Sales	106,302	113,500	130,000	160,000
OI	6,104*	6,000	11,500	19,000
OI%	5.7%	5.3%	8.8%	12%

* Including elimination of JPY 139 million

- Based on the new classification, the New Materials business booked an OI loss of JPY 240 million in FY2016, most of which was included in the Japan segment under the old classification. Excluding this loss, the underlying OI in Japan was JPY 4.6 billion.
- In FY2017, almost all of the one-off overseas expenses in FY2016 are expected to be contained.
- In FY2017, OI in the Auto-ID solutions business (Japan and overseas) is expected to hit a record high of JPY 7.7 billion.
- In FY2017, the New Materials segment is forecasted to book an OI loss of JPY 1.7 billion due to goodwill amortization and R&D expenses.



- As shown in the bar chart on the top left, New Materials is expected to turn profitable in FY2019, and contribute to consolidated OI from FY2020.
- In FY2021, New Materials is expected to contribute JPY 4.7 billion of the JPY 19 billion consolidated OI.



- Action plans on the right generated from the 3 business segments form the 5 strategies in our new plan.
- The cost of shareholders' equity had previously been estimated at 7% based on our high exposure in developed countries. It has been revised to 8% in the new plan, considering our increased exposure in developing counties and the inclusion of DataLase.

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III. FY2017 Consolidated Financial Forecasts

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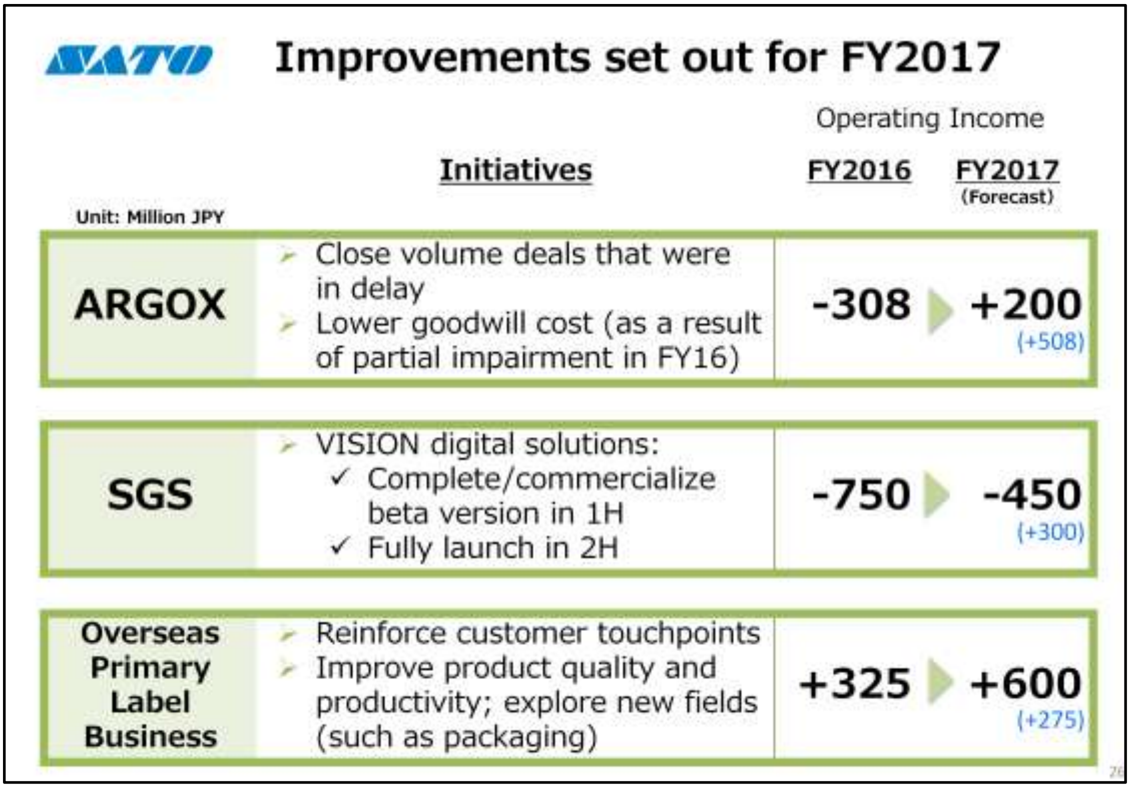
FY2017 Consolidated Forecasts

Unit: Million JPY	FY2017 (Forecast)	FY2016	Change	YoY
Net Sales	113,500	106,302	+7,197	106.8%
Operating Income	6,000	6,104	-104	98.3%
Ordinary Income	5,900	5,426	+473	108.7%
Profit attributable to owners of parent	3,600	3,221	+378	111.8%
EBITDA*	11,600	11,296	+303	102.7%

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

* EBITDA = Operating Income + Depreciation + Amortization

- We forecast sales for FY2017 to hit a record high.
- Due to up-front investments and goodwill amortization in New Materials, we forecast YoY OI to decline for the first time.



- Keisuke Yamada, Vice President of SATO Holdings, has been appointed as the Chairman and President of ARGOX to implement reforms. Although the reforms are taking more time than initially expected, issues that need to be resolved have been clarified and will be dealt with.
- Additionally, JPY 580 million of ARGOX's goodwill has been impaired in FY2016, which leads to lower amortization cost within OI for the remaining two-year period out until FY2018.
- ARGOX is expected to meet the OI forecast for FY2017 through lower amortization costs (approx. JPY 300 million) and volume OEM deals, along with base business expansion (approx. JPY 200 million).
- SGS, upon successfully completing the beta version of VISION digital solution in April, plans to fully roll it out in 2H following developments of API (Application Programming Interface) and multilingual capability (incl. Japanese).
- While the new revenue stream for SGS would be welcome, sales and profits are not expected to see any jump-start, as VISION is a cloud-based subscription model. Significant OI contribution needs to wait until FY2018.
- The three initiatives are collectively forecasted to boost OI in FY2017 by approx. JPY 1.1 billion.

Sales and OI by Segment

Units: Million JPY

	FY2017 (Forecast)	FY2016	Change	YoY
Japan				
Sales	69,000	67,283	1,716	102.6%
Operating Income	4,700	4,571	128	102.8%
Overseas				
Sales	44,000	38,926	5,073	113.0%
Operating Income	3,000	1,633	1,366	183.7%
New Materials				
Sales	500	92	407	543.3%
Operating Income	-1,700	-240	-1,459	-

- In FY2017, we forecast OI in the overseas business to increase by JPY 1.4 billion, about JPY 1.1 billion of which consists of the aforementioned initiatives by ARGOX, SGS and the overseas primary label business, and the rest to be filled by increases in our base business.

Appendix

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North America

Sales 120.9 %
excl. FX impact

- **SAL: Expansion of bulk-order consumables business increases sales significantly but causes GP margin to drop.**
- **SGS: Concentrated management resources to developing the beta version of VISION digital solutions.**

Unit: Million JPY	FY2016			FY2015			YoY
	1H	2H	Full year	1H	2H	Full year	
Total Sales	**5,319**	**5,326**	**10,646**	**4,404**	**5,358**	**9,762**	**109.1%**
Gross Profit	1,421	1,423	2,845	1,353	1,509	2,862	99.4%
Gross Profit %	26.7%	26.7%	26.7%	30.7%	28.2%	29.3%	-2.6pt
Operating Income	**-2**	**-60**	**-62**	**-34**	**28**	**-5**	**--**
Operating Income %	-0.1%	-1.1%	-0.6%	--	0.5%	-0.1%	-0.5pt

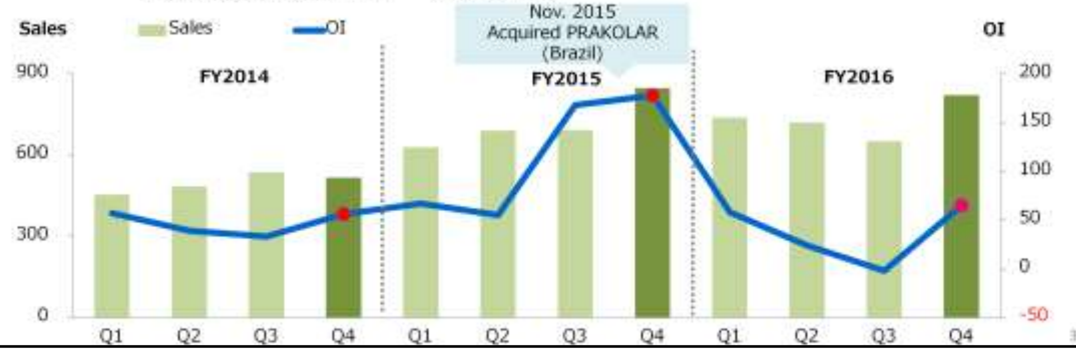
South America

Sales	125.9%
OI	37.0%
excl. FX impact	

- **Sales and OI declined due to delays in major deals at ACHERNAR.**
- **Acquisition of PRAKOLAR in Nov. 2015 contributed to increase in sales.**

Unit: Million JPY	FY2016 1H	FY2016 2H	FY2016 Full year	FY2015 1H	FY2015 2H	FY2015 Full year	YoY
Total Sales	**1,460**	**1,473**	**2,933**	**1,320**	**1,542**	**2,862**	**102.5%**
Gross Profit	562	561	1,124	501	768	1,270	88.5%
Gross Profit %	38.5%	38.1%	38.3%	38.0%	49.9%	44.4%	-6.1pt
Operating Income	**83**	**62**	**146**	**122**	**346**	**469**	**31.1%**
Operating Income %	5.7%	4.3%	5.0%	9.3%	22.5%	16.4%	-11.4pt

Excl. PRAKOLAR FY2016 Sales: ¥1,528 million OI: ¥68 million
FY2015 Sales: ¥2,514 million OI: ¥445 million



Europe

- Sales subsidiaries increased sales and OI in local currencies, successfully absorbing SG&A increases and retroactive restatement.
- OI at OKIL decreased substantially due mainly to FX impact and one-off expenses.

Sales 109.0%
OI 76.9%
excl. FX impact

Unit: Million JPY	FY2016 1H	FY2016 2H	FY2016 Full year	FY2015 1H	FY2015 2H	FY2015 Full year	YoY
Total Sales	**5,977**	**6,548**	**12,525**	**6,747**	**6,353**	**13,101**	**95.6%**
Gross Profit	2,293	2,347	4,640	2,557	2,457	5,014	92.5%
Gross Profit %	38.4%	35.8%	37.1%	37.9%	38.7%	38.3%	-1.2pt
Operating Income	**424**	**160**	**584**	**417**	**418**	**836**	**69.9%**
Operating Income %	7.1%	2.4%	4.7%	6.2%	6.6%	6.4%	-1.7pt

Excl. OKIL FY2016 Sales: ¥7,306 million OI: ¥347 million
FY2015 Sales: ¥7,645 million OI: ¥311 million

Asia & Oceania

- GP margin decreased, due mainly to factories implementing transfer pricing policy and an Indonesian subsidiary underperforming.
- Sales and OI at ARGOX decreased primarily reflecting delays in major OEM deals.

Sales 104.2%
OI 84.4%
excl. FX impact

Unit: Million JPY	FY2016 1H	FY2016 2H	FY2016 Full year	FY2015 1H	FY2015 2H	FY2015 Full year	YoY
Total Sales	**6,199**	**6,621**	**12,821**	**7,098**	**6,554**	**13,652**	**93.9%**
Gross Profit	3,028	3,065	6,093	3,605	3,141	6,746	90.3%
Gross Profit %	48.8%	46.3%	47.5%	50.8%	47.9%	49.4%	-1.9pt
Operating Income	**598**	**366**	**965**	**753**	**556**	**1,309**	**73.7%**
Operating Income %	9.7%	5.5%	7.5%	10.6%	8.5%	9.6%	-2.1pt