



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
- Appendix



# I. FY2016 Consolidated Financial Results



# 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)



# FY2016 Consolidated Results

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

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

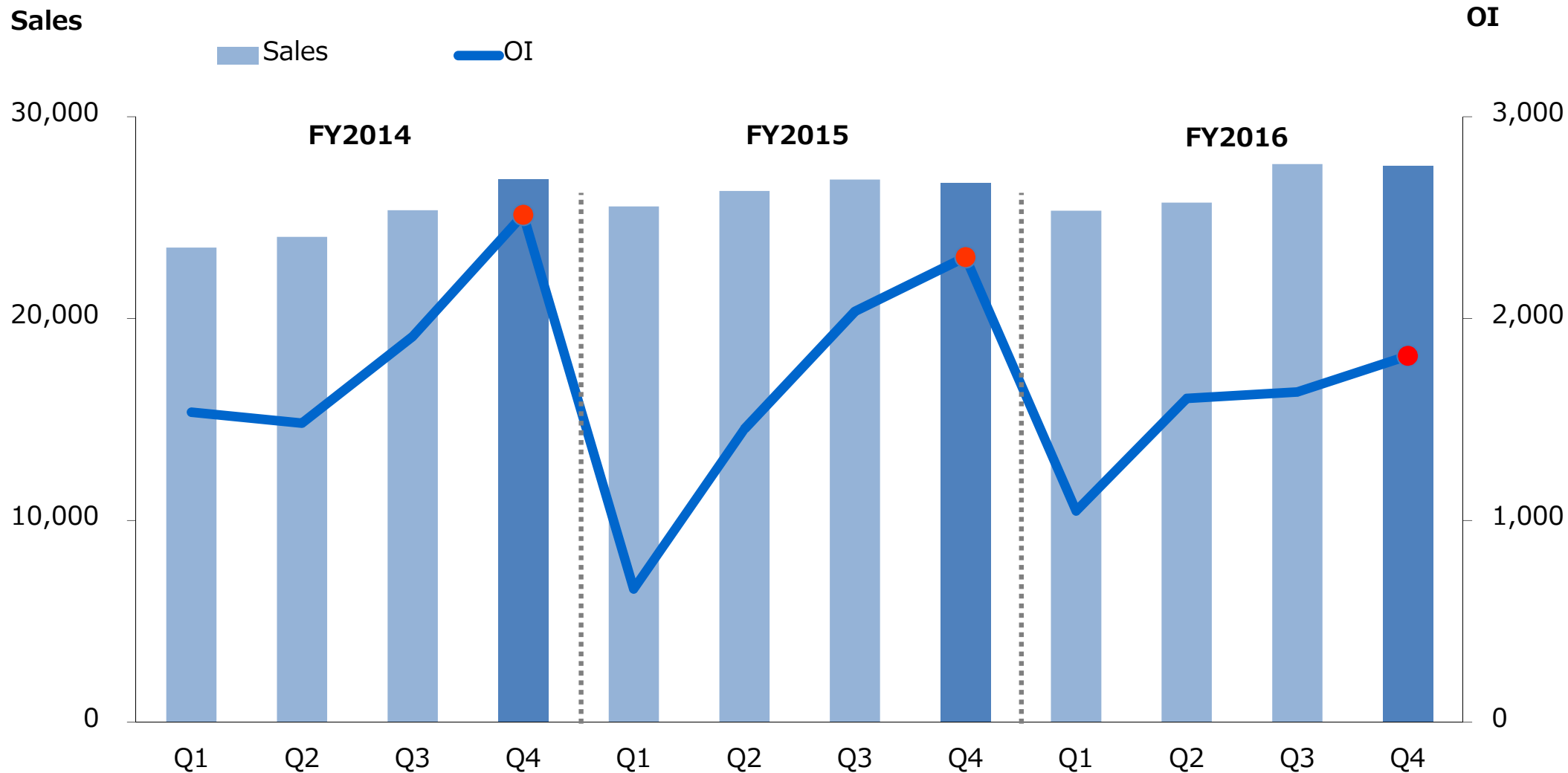
FY15: JPY 3,941 million

· Amortization for FY16: JPY 1,195 million (incl. 745m for ARGOX, 226m for PRAKOLAR), FY15: JPY 1,177 million (incl. 815 m for ARGOX)



# Quarterly Consolidated Sales & OI

Unit: Million JPY





# FY2016: Operating Income Gap

Revised target: ¥7,500 million vs. Actual: ¥6,104 million

Unit: Million JPY	Revised Target	Actual	GAP	[Reference] YoY
1. Japan	4,600	4,331	-268	+524
2. Overseas	2,800	1,633	-1,166	-976
Elimination	100	139	+39	+100
		North America*	-312	-56
		OKIL (Russia)	-263	-288
		Europe*	-217	+71
		ARGOX (Taiwan)	-207	-59
		Asia*	-142	-100
		Retroactive restatement	-62	-62

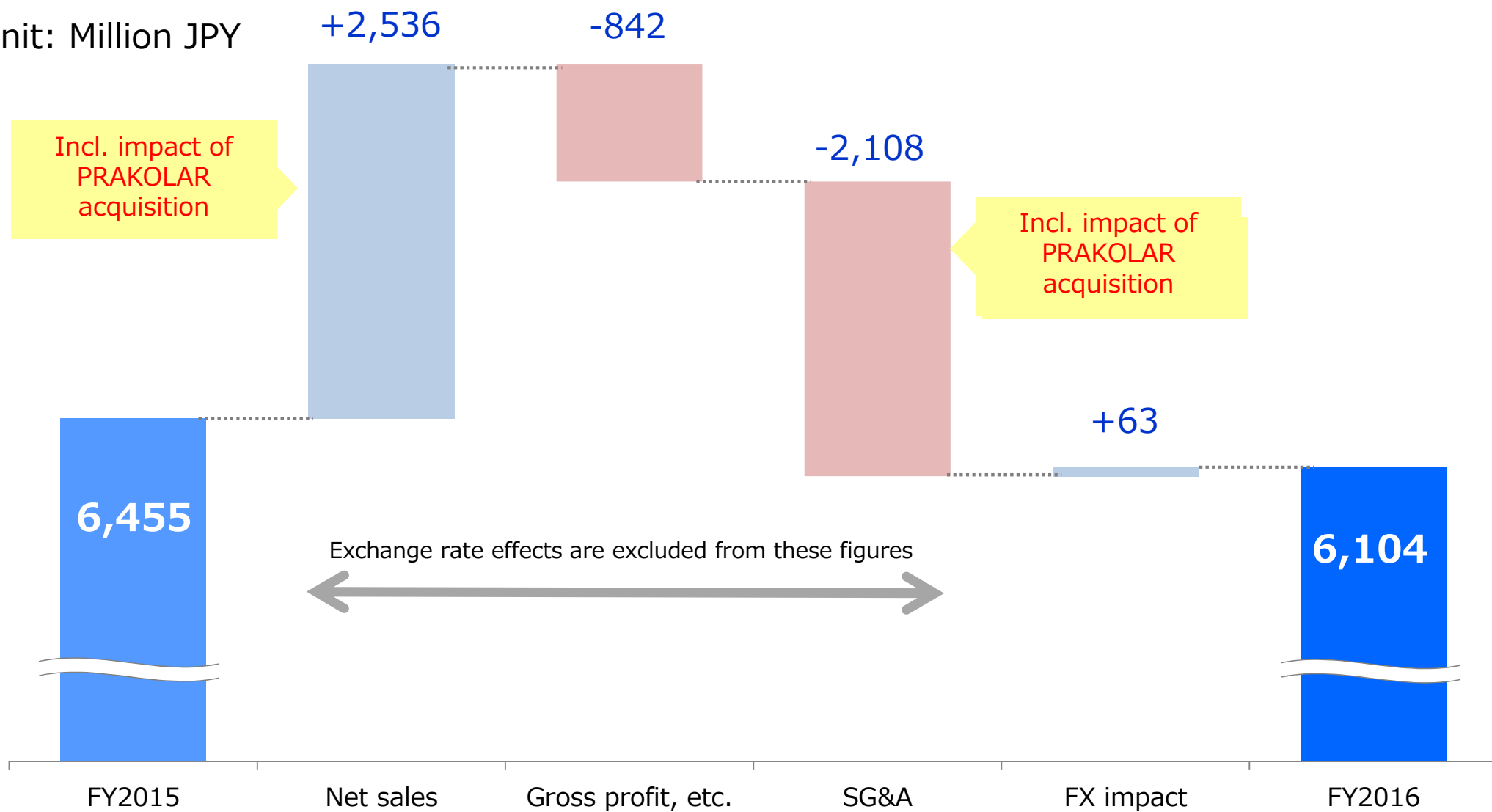
[Main factors]

\* Sales subsidiaries



# Major Gains/Losses in Consolidated OI

Unit: Million JPY



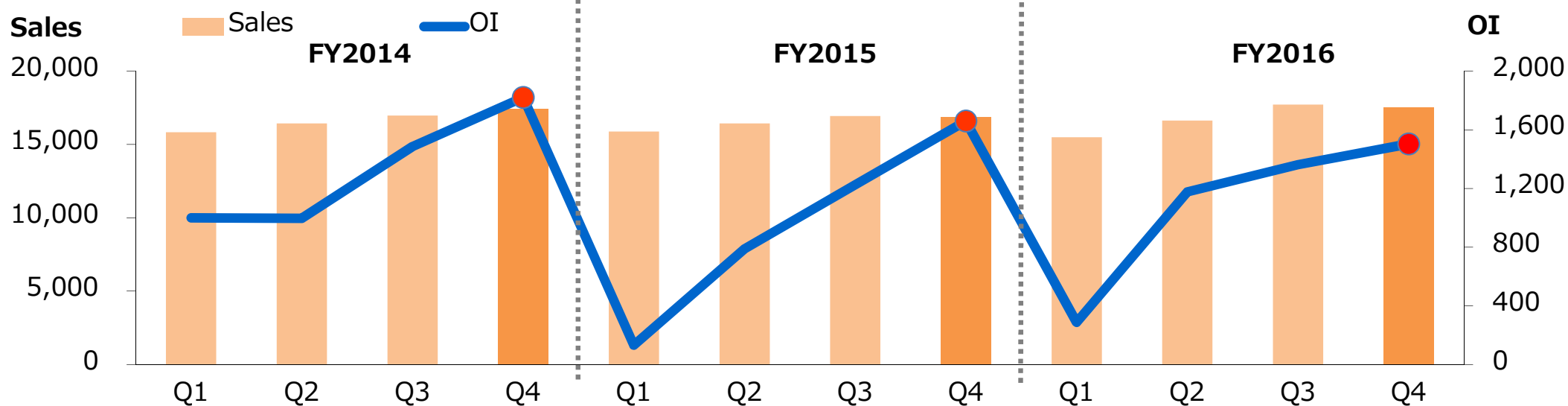




# Japan

- 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%
<b>Total Sales</b>	<b>32,125</b>	<b>35,249</b>	<b>67,375</b>	<b>32,309</b>	<b>33,815</b>	<b>66,124</b>	<b>101.9%</b>
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
<b>Operating Income</b>	<b>1,465</b>	<b>2,866</b>	<b>4,331</b>	<b>921</b>	<b>2,885</b>	<b>3,806</b>	<b>113.8%</b>
Operating Income %	4.6%	8.1%	6.4%	2.9%	8.5%	5.8%	+0.7pt



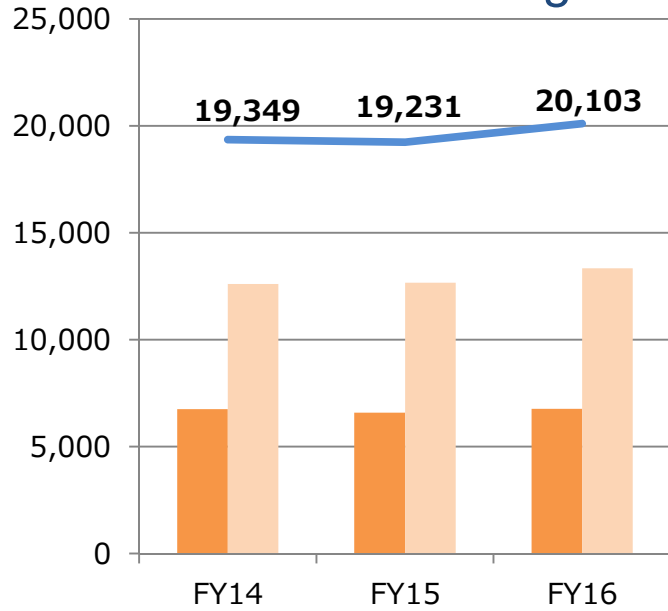


# Japan: Sales by Vertical

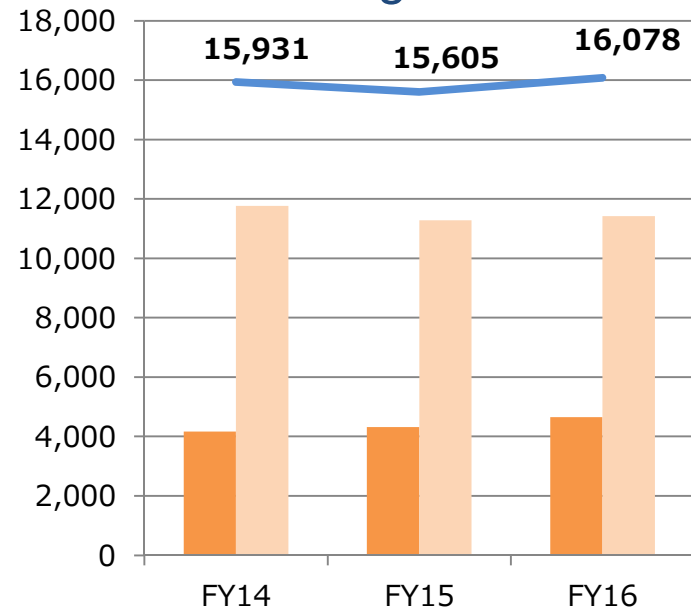
■ : Mechatronics   ■ : Consumables   — : Total

Unit: Million JPY

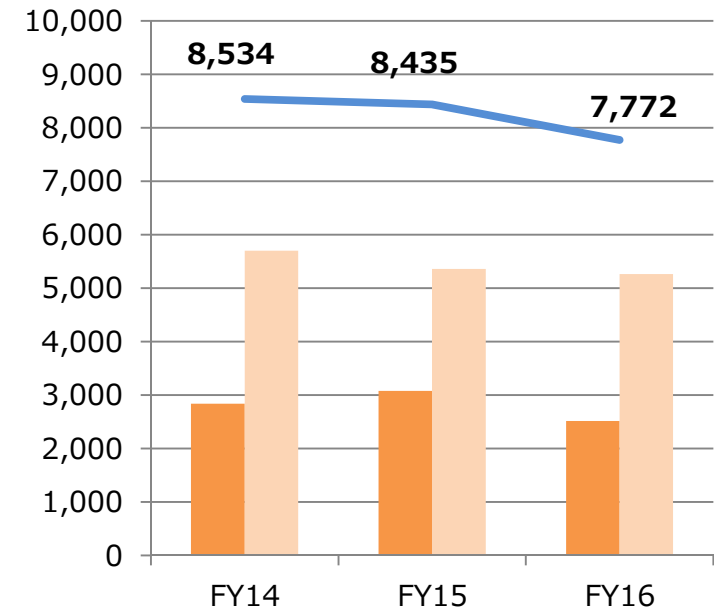
## Manufacturing



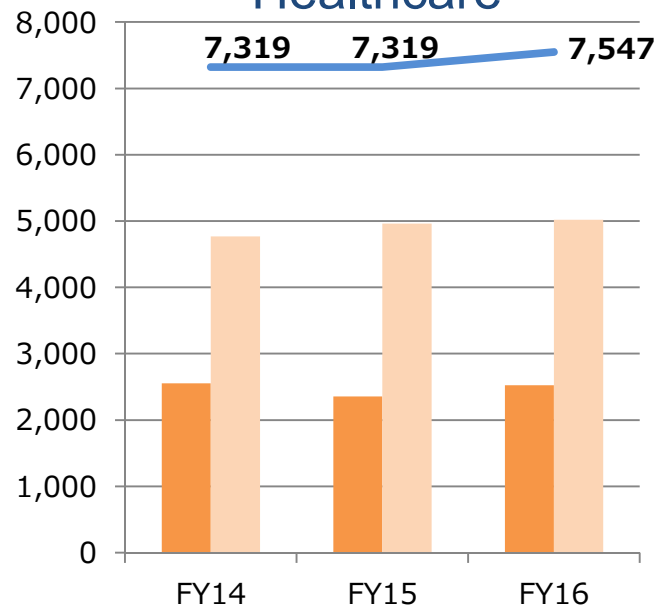
## Logistics



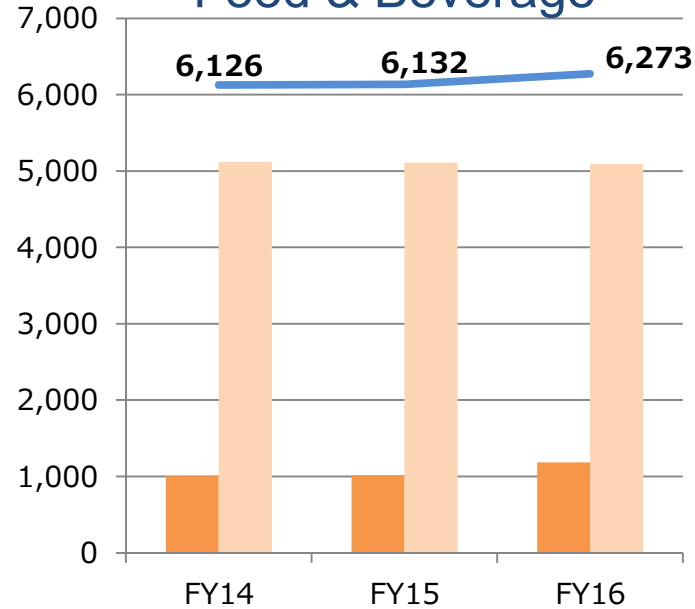
## Retail



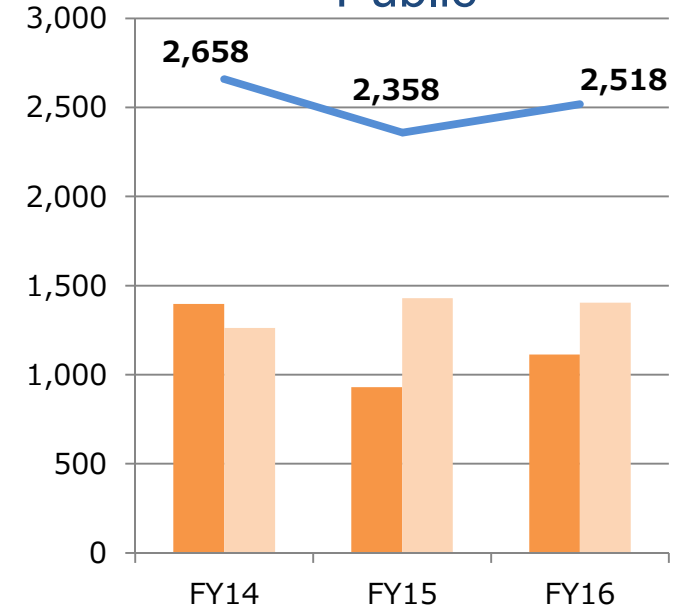
## Healthcare



## Food & Beverage



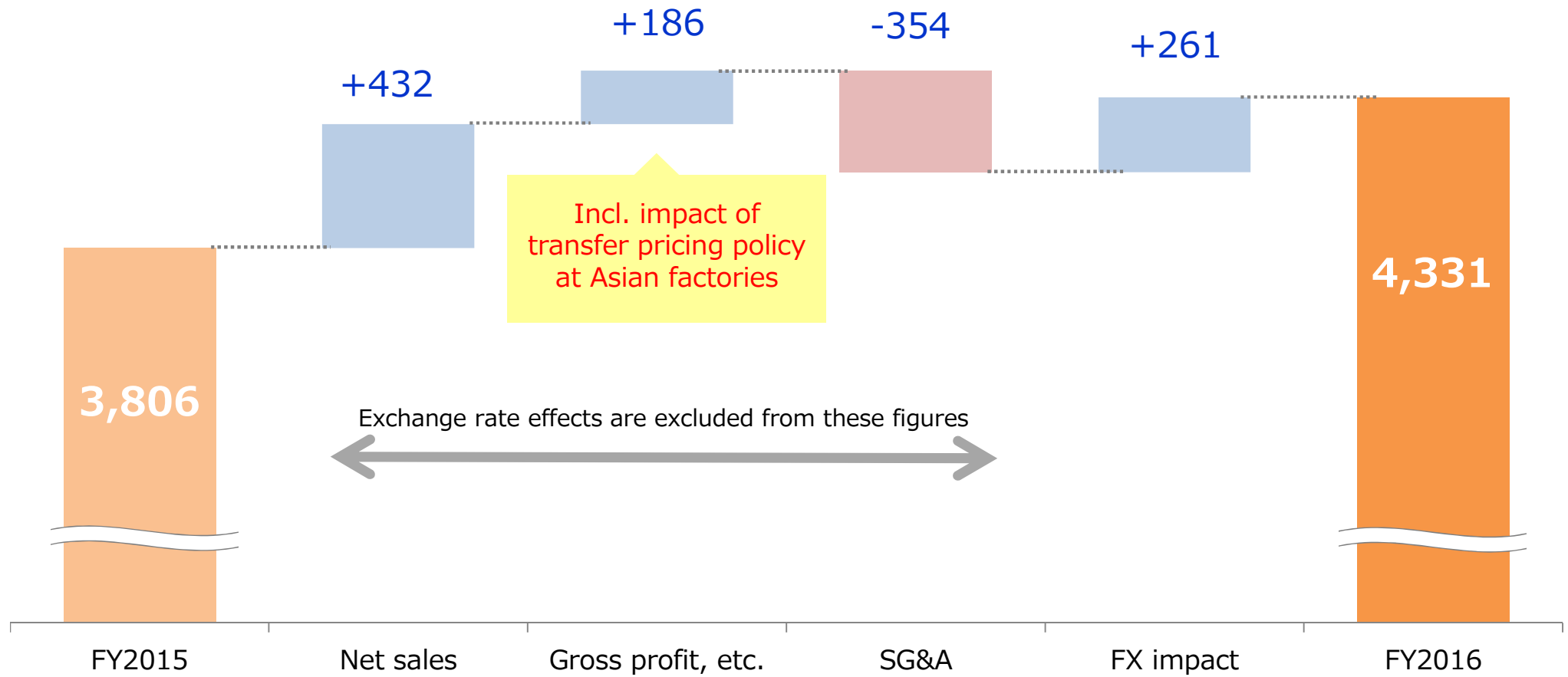
## Public





# Japan: Major Gains/Losses in OI

Unit: Million JPY





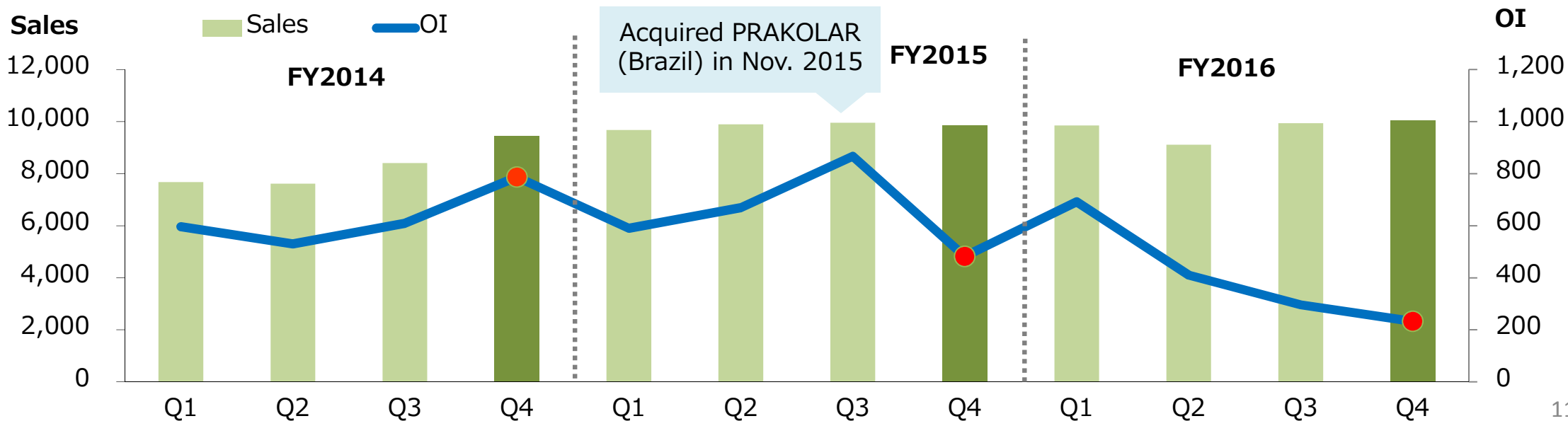
# Overseas

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			FY2015			YoY
	1H	2H	Full Year	1H	2H	Full Year	
<b>Total Sales</b>	<b>18,957</b>	<b>19,969</b>	<b>38,926</b>	<b>19,571</b>	<b>19,808</b>	<b>39,379</b>	<b>98.8%</b>
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
<b>Operating Income</b>	<b>1,103</b>	<b>529</b>	<b>1,633</b>	<b>1,259</b>	<b>1,350</b>	<b>2,609</b>	<b>62.6%</b>
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

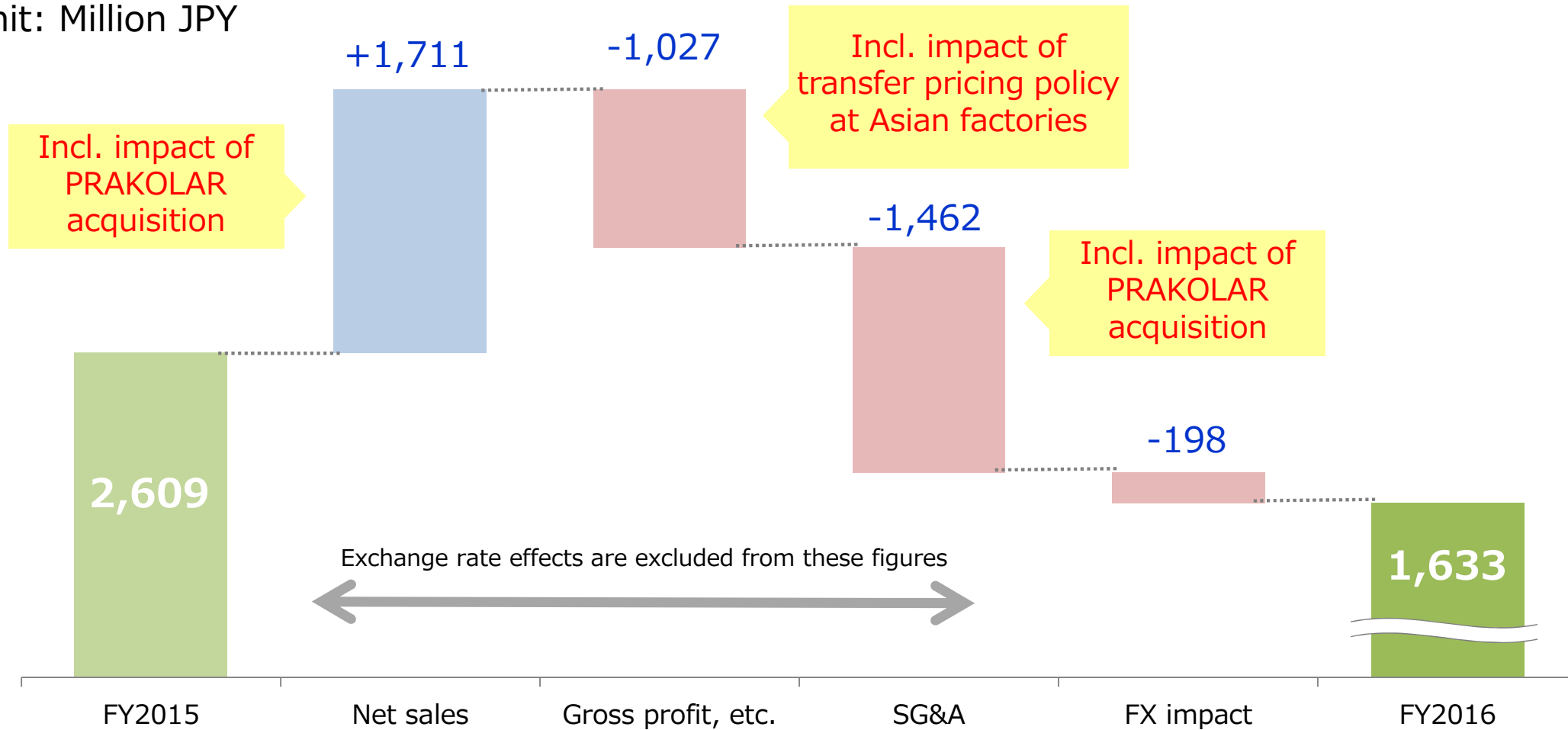




# Overseas: Major Gains/Losses in OI

## By income statement line

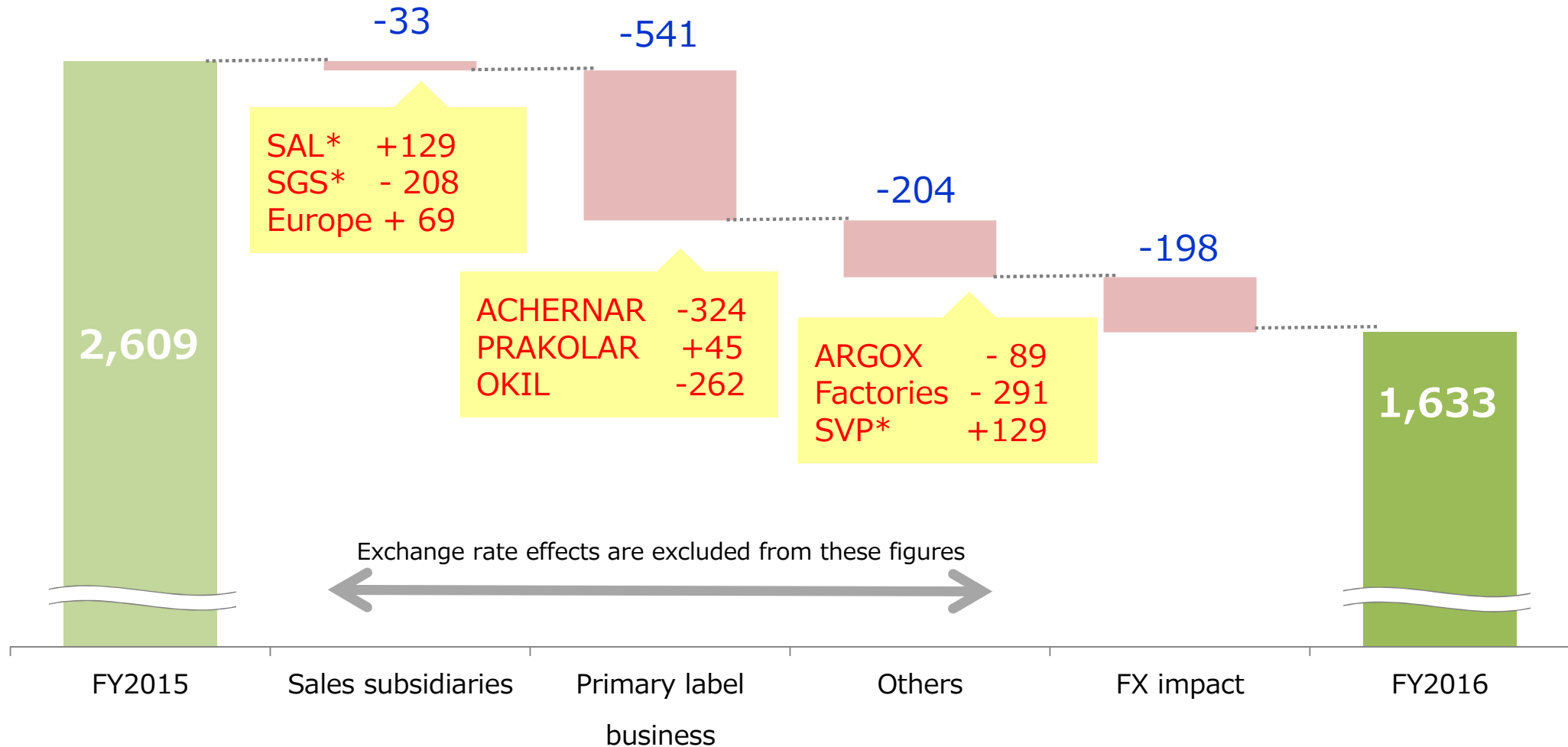
Unit: Million JPY





# Overseas: Major Gains/Losses in OI By business segment

Unit: Million JPY



\* SAL: SATO AMERICA, SGS: SATO GLOBAL SOLUTIONS, SVP: SATO VICINITY

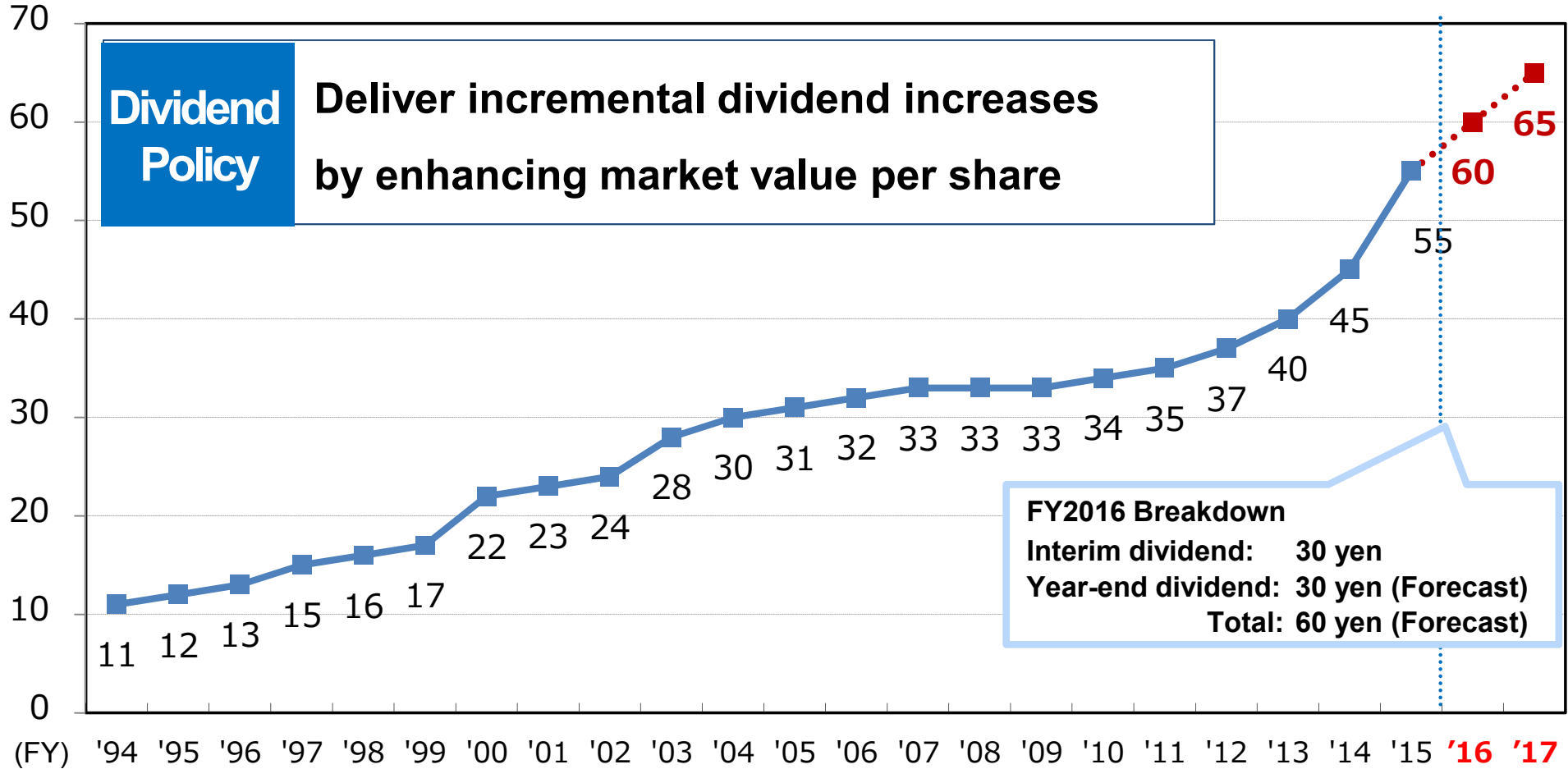


# Dividends

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

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

(JPY per share)



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



## II. New Medium-term Management Plan





# 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.



# 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.

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



# Aims of this Medium-term Plan

Changes taking place in the external environment:

**Digital transformations  
picking up speed**

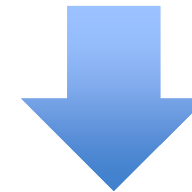
Speed of IT innovations  
outpacing speed of  
productivity improvements  
at business sites



Consumers to become  
direct users of Auto-ID  
solutions



**Consumer awareness and  
buying behaviors changing/  
diversifying**



How SATO will change:

**Auto-ID solutions  
×  
Eco-materials Revolution**



**Let the two strategic pillars  
deliver synergy**

**Shift from B2B  
to B2B2C**



**Create value that  
focus on consumers**

# The Two Strategic Pillars and Five Strategies

## Auto-ID solutions

### 1. Japan

Strengthen solutions  
business with DCS &  
Labeling\* + ONE

➔ **Boost profitability**

### 2. Overseas

Return to basics, and  
focus on DCS &  
Labeling\* and end user-  
centric businesses

➔ **Back to basics**

## Eco-materials Revolution

### 3. New materials

Convert our unique Eco-  
materials Revolution into  
business that generates  
new customer value and  
synergies with Auto-ID  
solutions

➔ **New core business**

**4. Game changer:** Pursue game-changing, customer-centric  
innovations and convert them into new businesses ➔ **Competitive edge**

**5. Global management optimization:** Realize operational  
excellence to optimize group management ➔ **Sustainable organization**

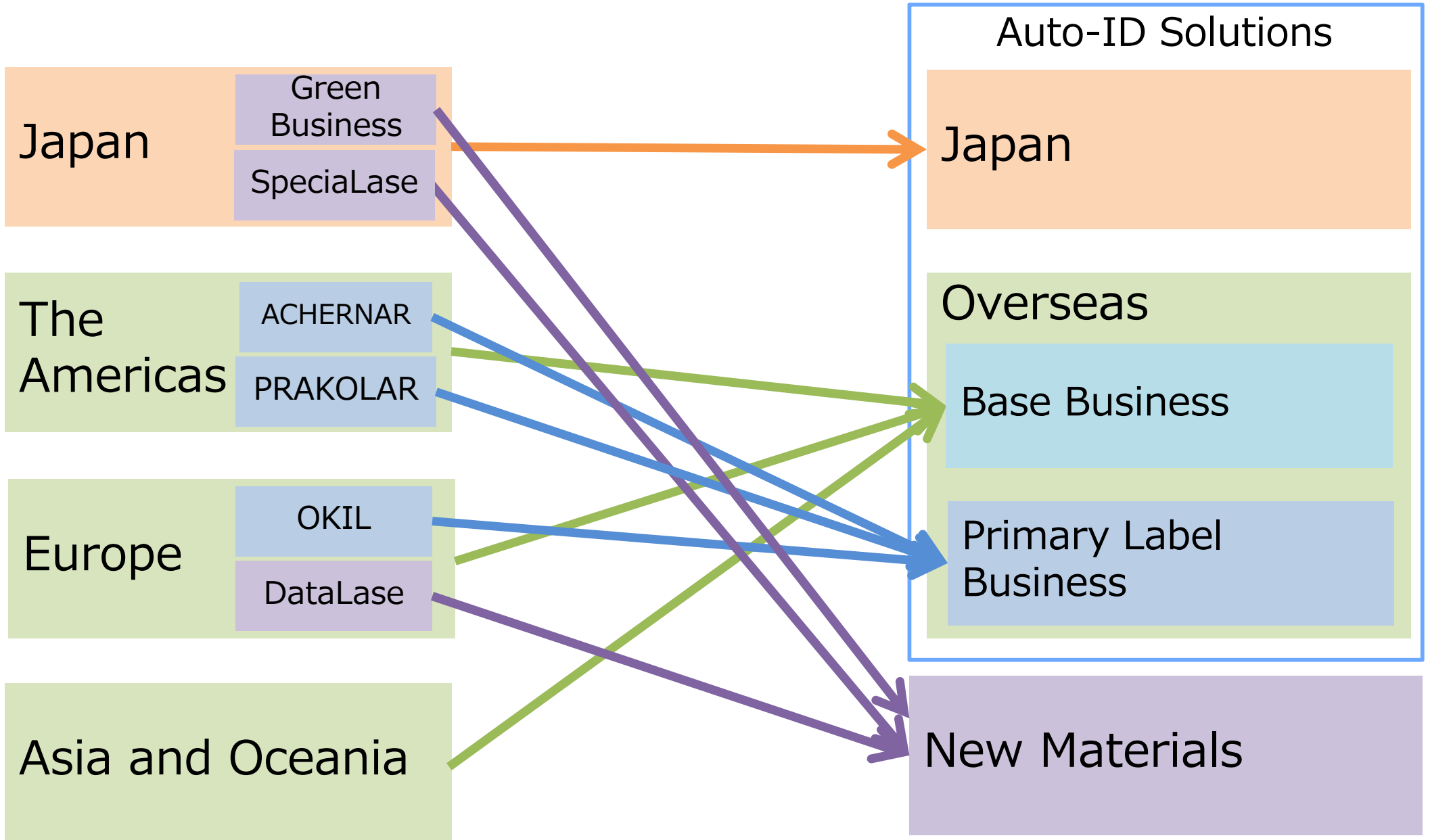
\* DCS & Labeling: Data Collection Systems and Labeling



# Reclassification of Segments

~FY2016 (Region based)

FY2017~ (Business based)





# Targets by Segment

Units: Million JPY

	<b>FY2016</b>	<b>FY2017</b> (Forecast)	<b>FY2019</b> (Target)	<b>FY2021</b> (Target)
<b>1. Japan</b>				
Sales	67,283	69,000	72,500	75,000
OI	4,571	4,700	6,100	7,500
<b>2. Overseas</b>				
Sales	38,926	44,000	53,500	65,000
OI	1,633	3,000	5,400	6,800
<b>3. New Materials</b>				
Sales	92	500	4,000	20,000
OI	-240	-1,700	0	4,700
<b>Consolidated</b>				
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

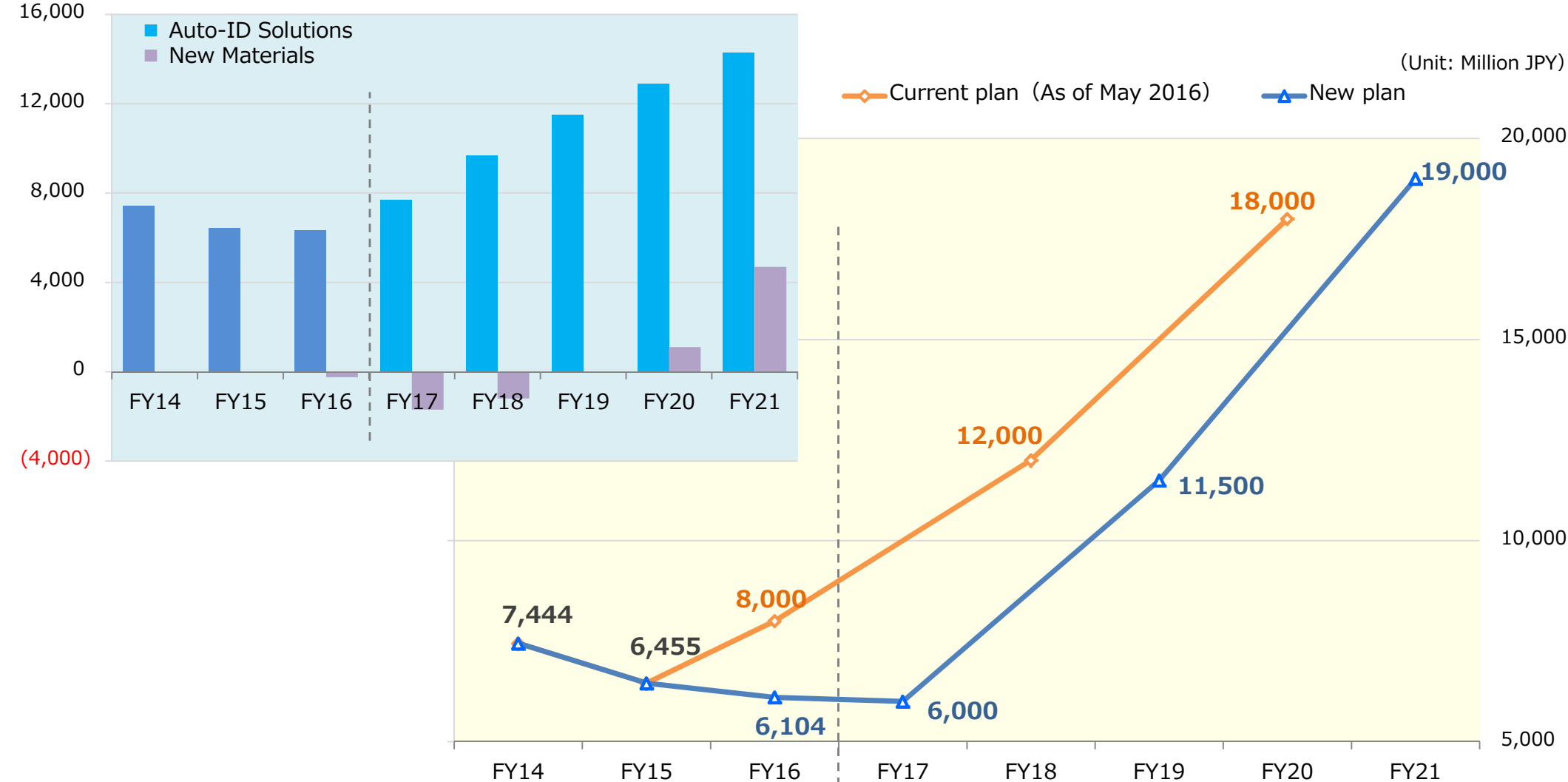


# OI Performance and Targets

**Key point: To better reflect our DataLase acquisition and other potential risks**

## New Medium-term Management Plan (OI)

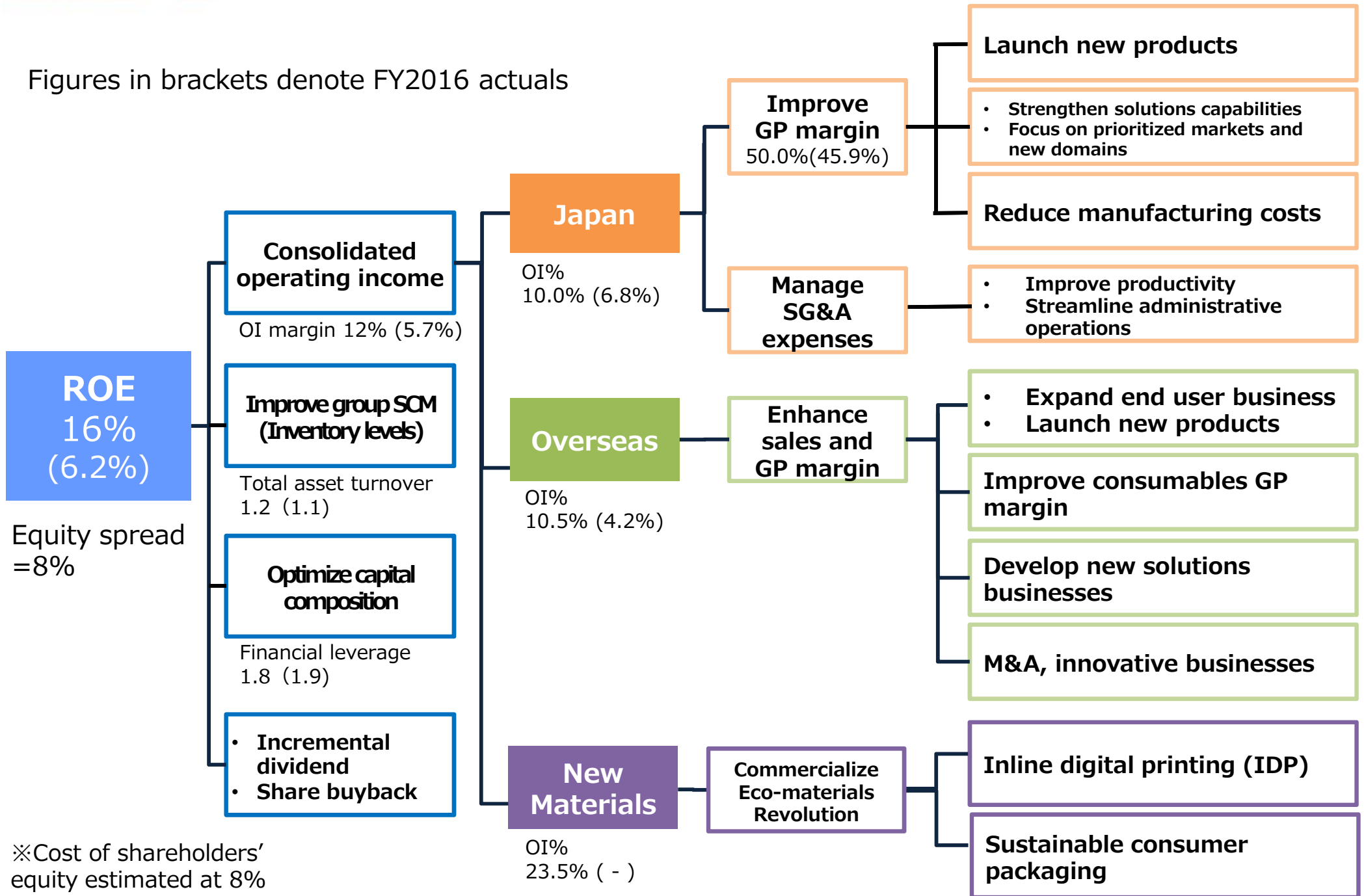
(Unit: Million JPY)





# Roadmap to Higher Capital Efficiency (FY2021)

Figures in brackets denote FY2016 actuals



※Cost of shareholders' equity estimated at 8%





### III. FY2017 Consolidated Financial Forecasts



# FY2017 Consolidated Forecasts

Unit: Million JPY

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

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



# Improvements set out for FY2017

Operating Income

## Initiatives

FY2016

FY2017

(Forecast)

Unit: Million JPY

**ARGOX**

- Close volume deals that were in delay
- Lower goodwill cost (as a result of partial impairment in FY16)

**-308** ▶ **+200**  
(+508)

**SGS**

- VISION digital solutions:
  - ✓ Complete/commercialize beta version in 1H
  - ✓ Fully launch in 2H

**-750** ▶ **-450**  
(+300)

**Overseas  
Primary  
Label  
Business**

- Reinforce customer touchpoints
- Improve product quality and productivity; explore new fields (such as packaging)

**+325** ▶ **+600**  
(+275)



# Sales and OI by Segment

Units: Million JPY

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



# Appendix



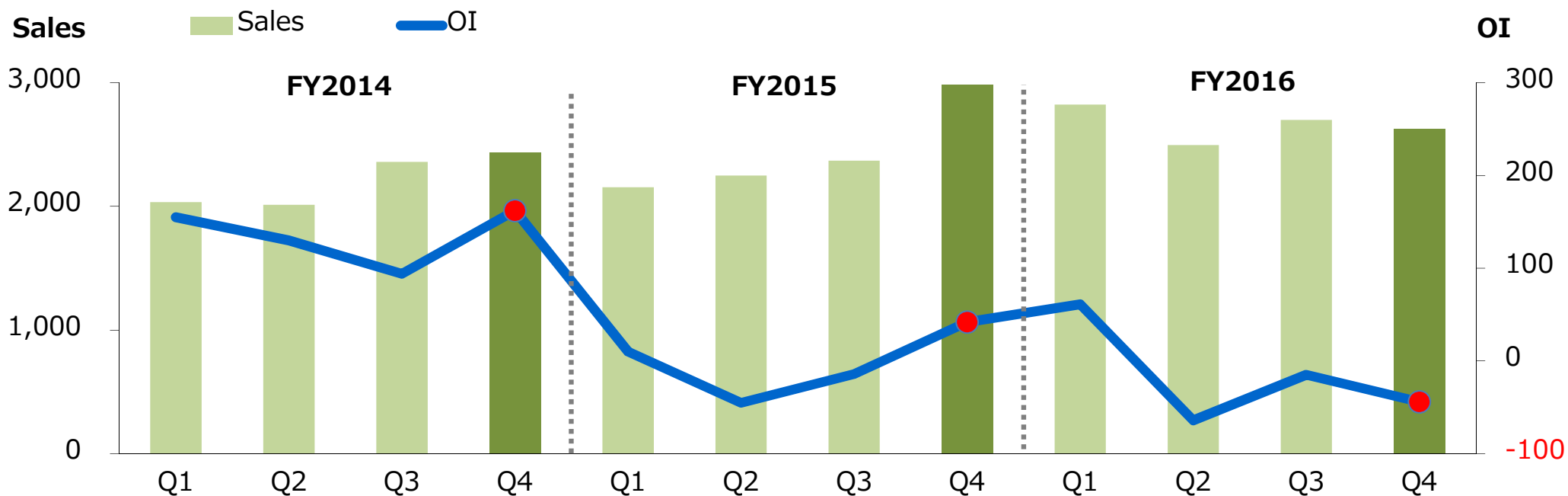
# North America

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	
<b>Total Sales</b>	<b>5,319</b>	<b>5,326</b>	<b>10,646</b>	<b>4,404</b>	<b>5,358</b>	<b>9,762</b>	<b>109.1%</b>
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
<b>Operating Income</b>	<b>-2</b>	<b>-60</b>	<b>-62</b>	<b>-34</b>	<b>28</b>	<b>-5</b>	<b>--</b>
Operating Income %	-0.1%	-1.1%	-0.6%	--	0.5%	-0.1%	-0.5pt





# South America

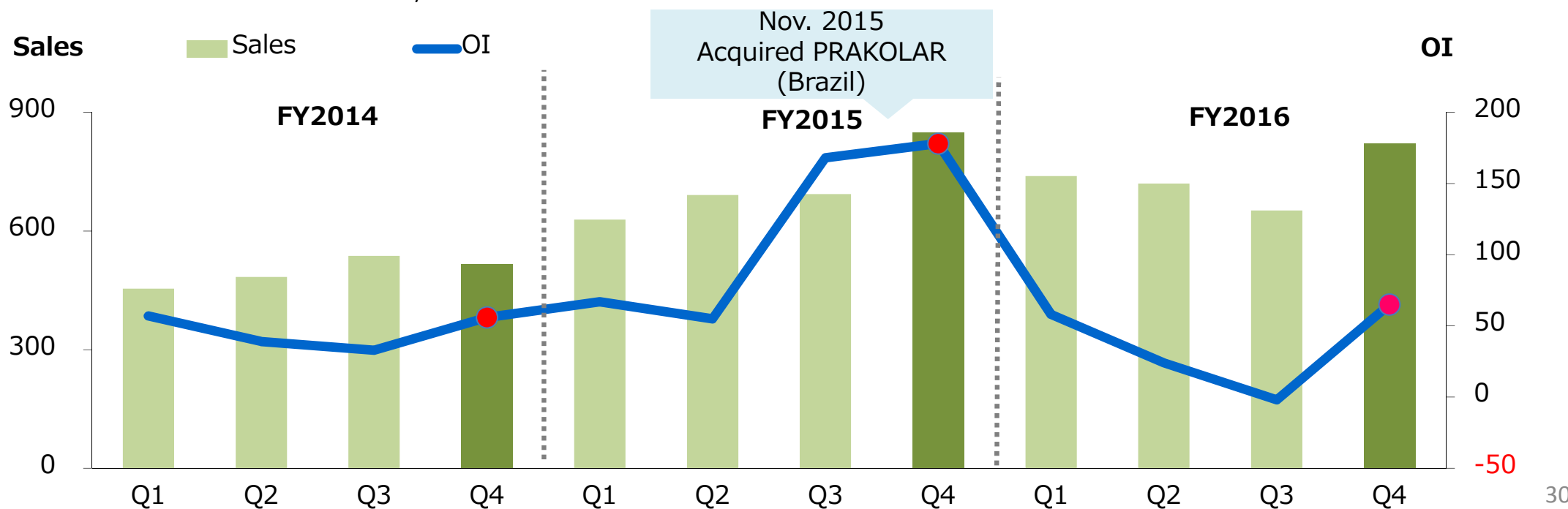
Sales 125.9%  
OI 37.0%  
excl. FX impact

- 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			FY2015			YoY
	1H	2H	Full year	1H	2H	Full year	
<b>Total Sales</b>	<b>1,460</b>	<b>1,473</b>	<b>2,933</b>	<b>1,320</b>	<b>1,542</b>	<b>2,862</b>	<b>102.5%</b>
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
<b>Operating Income</b>	<b>83</b>	<b>62</b>	<b>146</b>	<b>122</b>	<b>346</b>	<b>469</b>	<b>31.1%</b>
Operating Income %	5.7%	4.3%	5.0%	9.3%	22.5%	16.4%	-11.4pt

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

OI: ¥68 million  
OI: ¥445 million





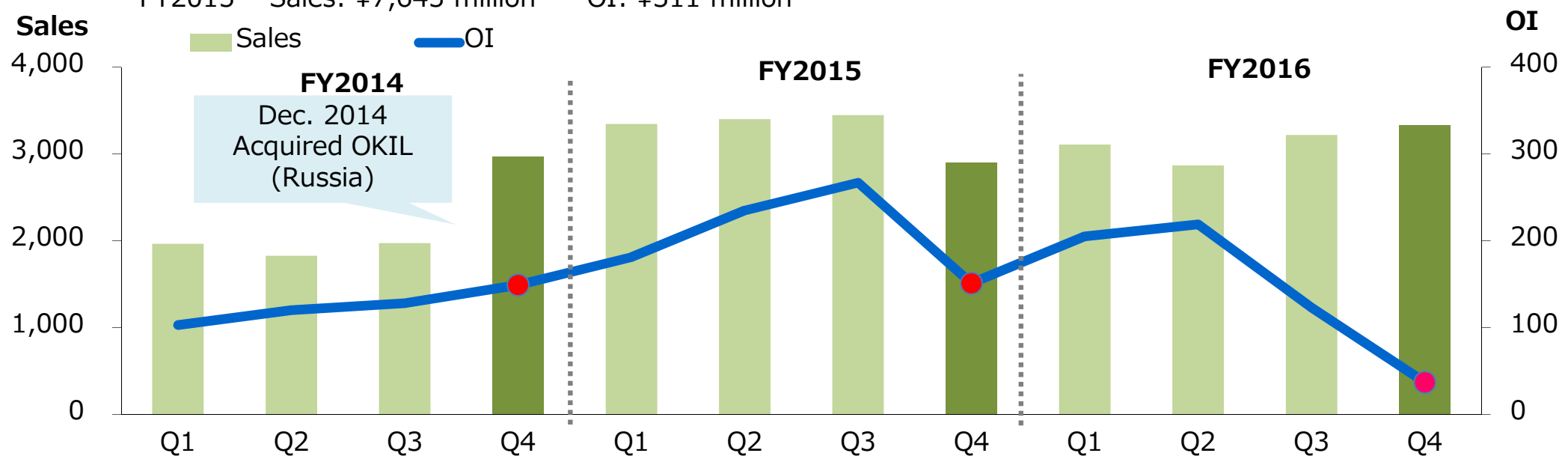
# Europe

- 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			FY2015			YoY
	1H	2H	Full year	1H	2H	Full year	
<b>Total Sales</b>	<b>5,977</b>	<b>6,548</b>	<b>12,525</b>	<b>6,747</b>	<b>6,353</b>	<b>13,101</b>	<b>95.6%</b>
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
<b>Operating Income</b>	<b>424</b>	<b>160</b>	<b>584</b>	<b>417</b>	<b>418</b>	<b>836</b>	<b>69.9%</b>
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





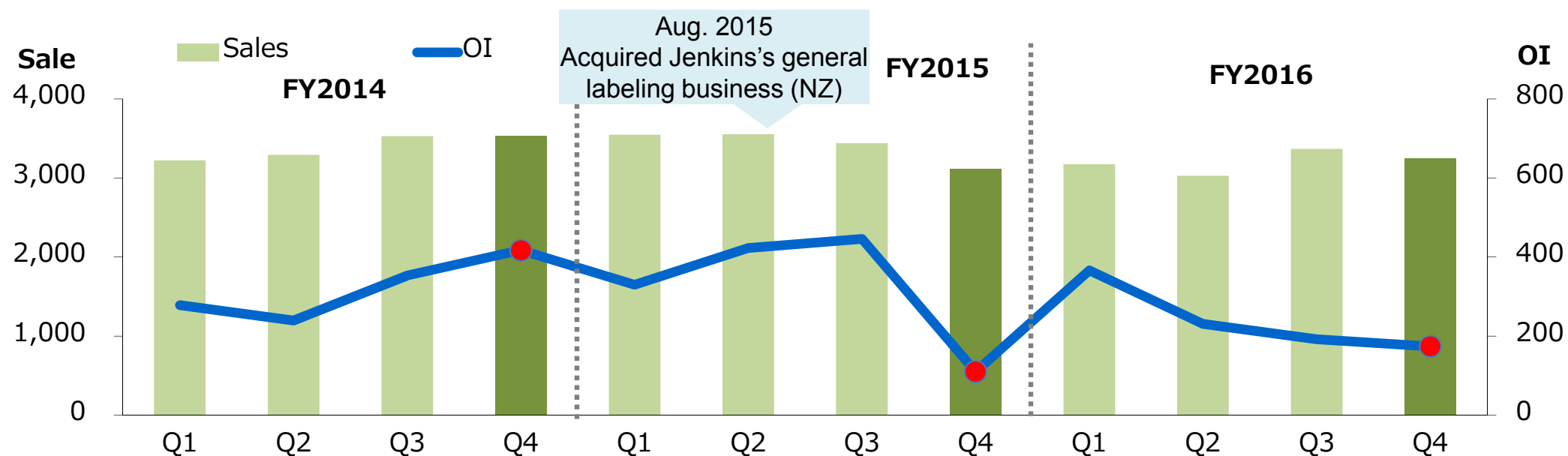


# Asia & Oceania

- 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			FY2015			YoY
	1H	2H	Full year	1H	2H	Full year	
<b>Total Sales</b>	<b>6,199</b>	<b>6,621</b>	<b>12,821</b>	<b>7,098</b>	<b>6,554</b>	<b>13,652</b>	<b>93.9%</b>
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
<b>Operating Income</b>	<b>598</b>	<b>366</b>	<b>965</b>	<b>753</b>	<b>556</b>	<b>1,309</b>	<b>73.7%</b>
Operating Income %	9.7%	5.5%	7.5%	10.6%	8.5%	9.6%	-2.1pt





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