

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

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%

Consolidated Results (Apr-Sep)

(Millions of JPY)	FY2017	FY2016	Change	YoY
	Net Sales	54,823	51,083	+3,740
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

· Amortization for FY17: JPY 664 million (incl. 305 mil. for DataLase)

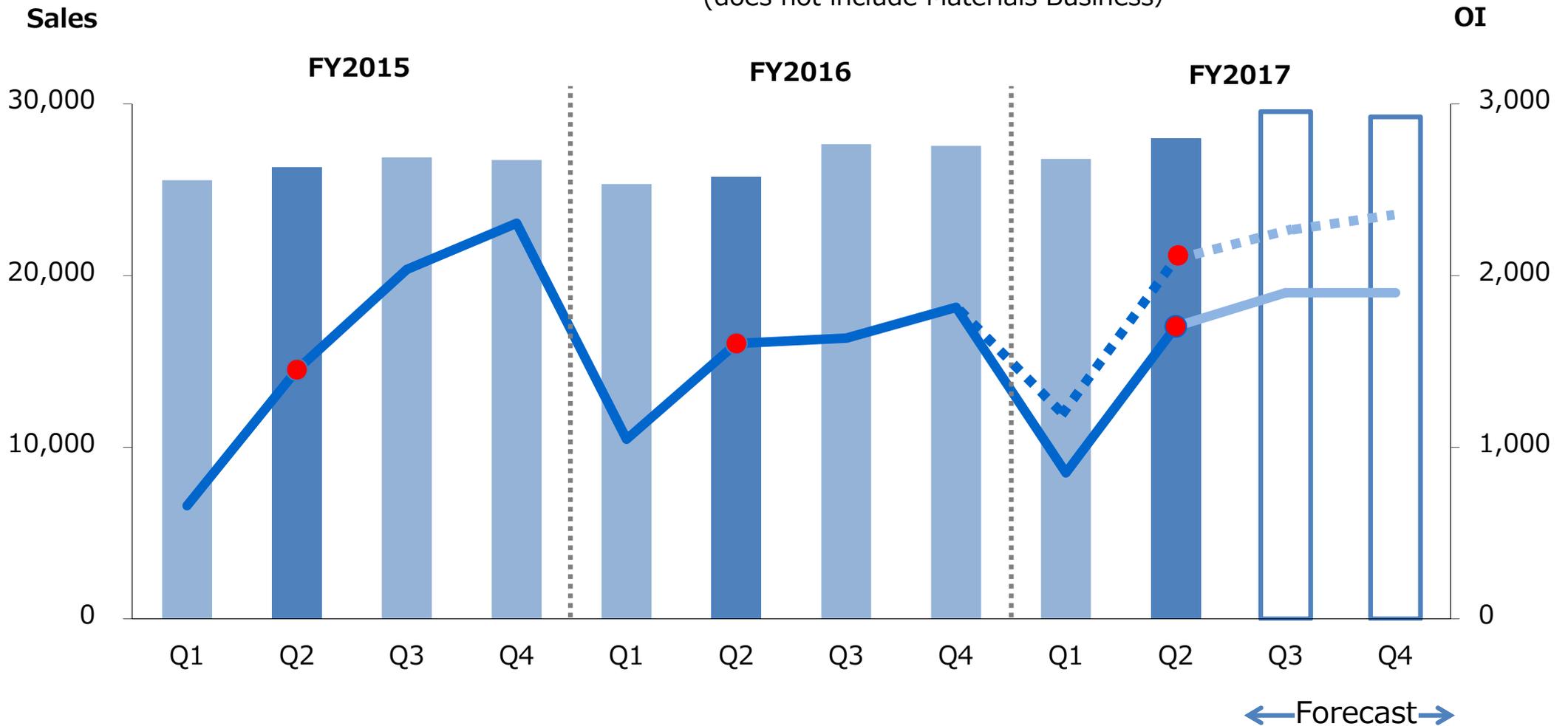
FY16: JPY 1,926 million

FY16: JPY 581 million

Quarterly Consolidated Sales & OI

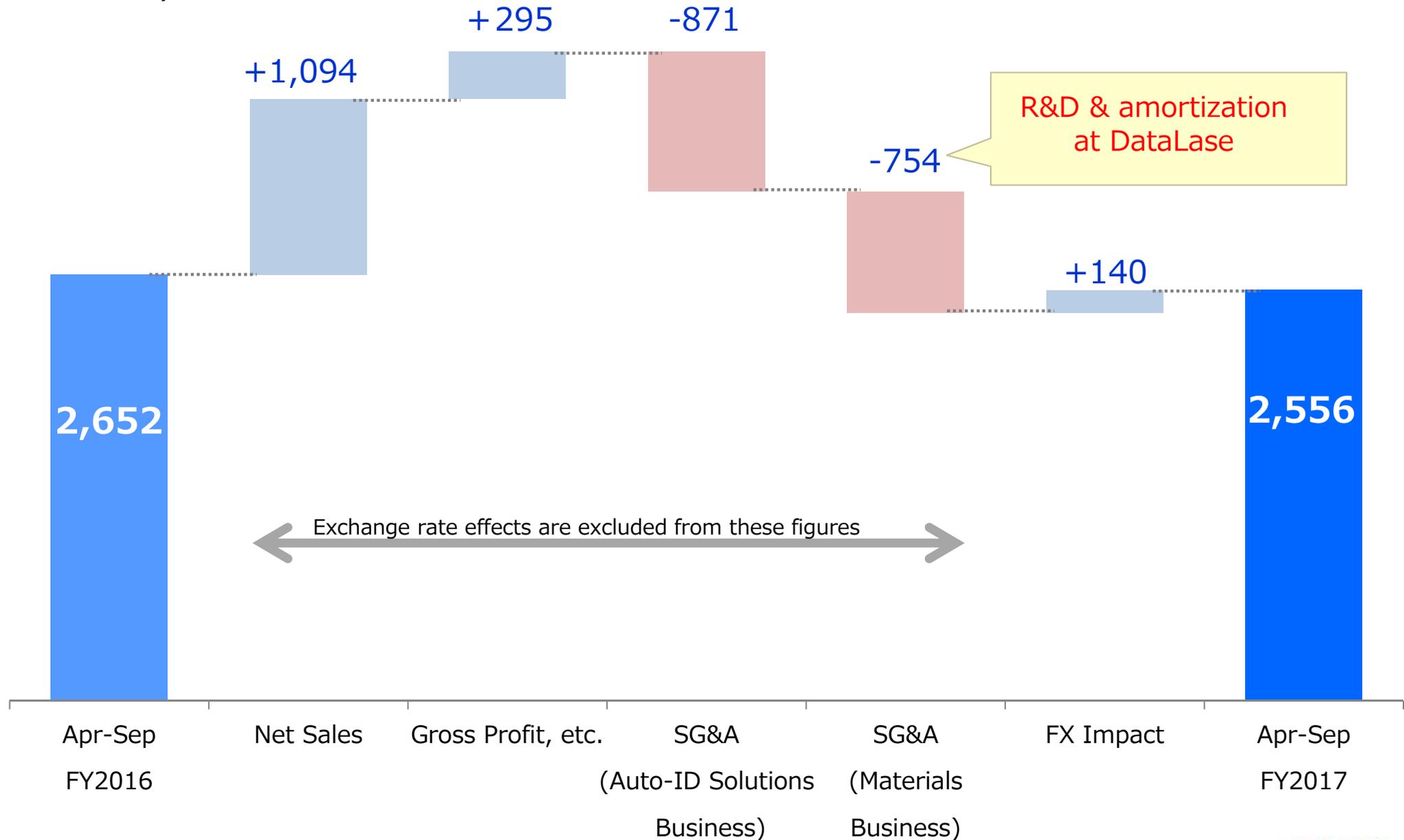
(Millions of JPY)

■ Sales
 — OI
 - - - OI: Auto-ID Solutions Business only
 (does not include Materials Business)



Major Gains/Losses in Consolidated OI

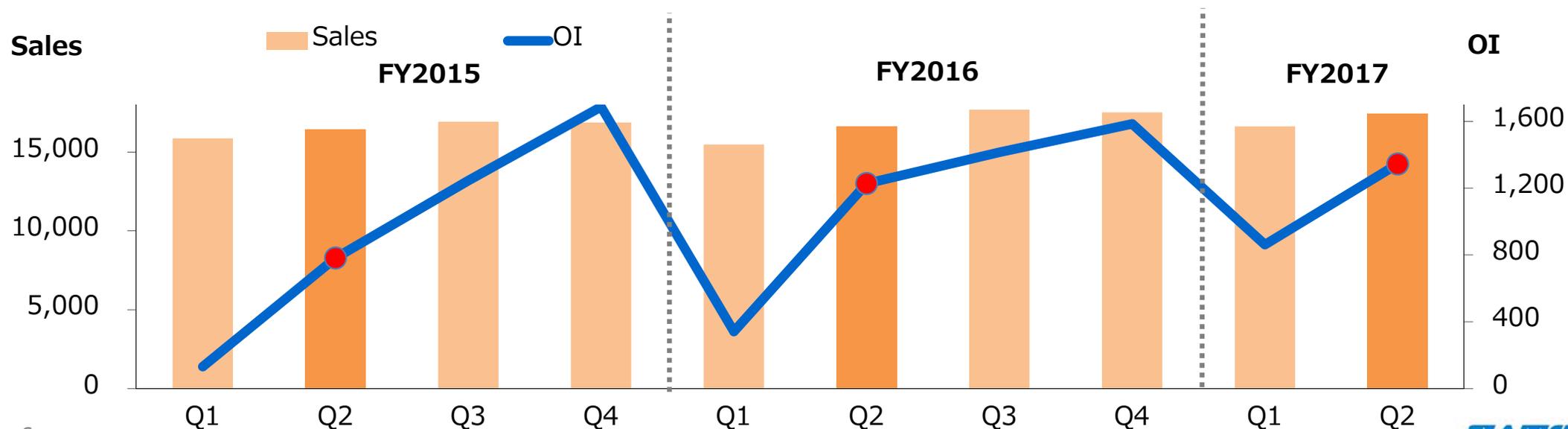
(Millions of JPY)



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	--

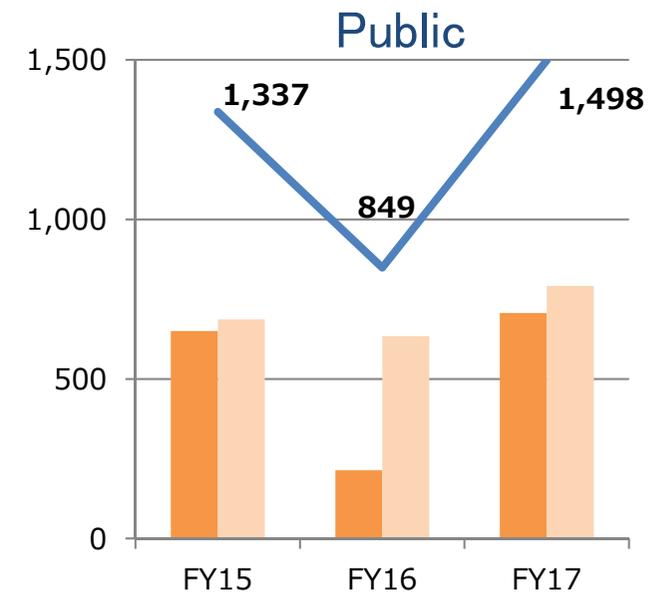
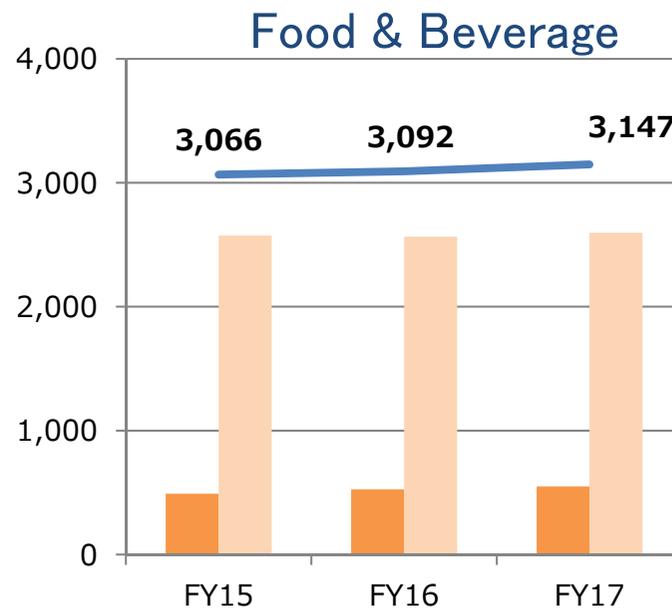
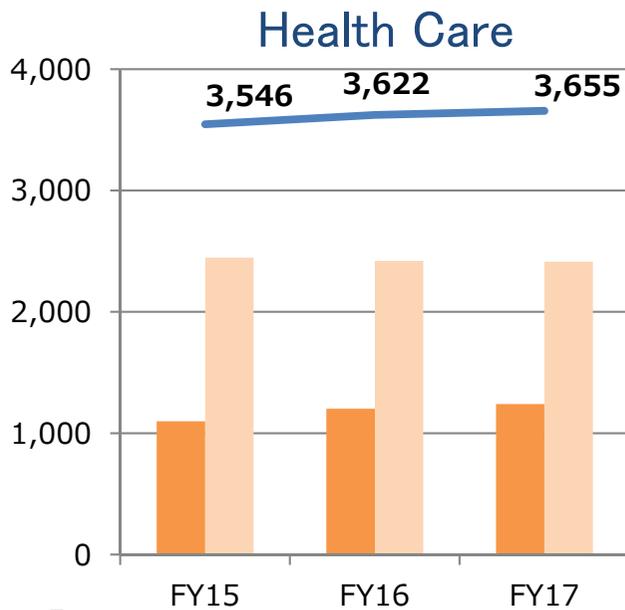
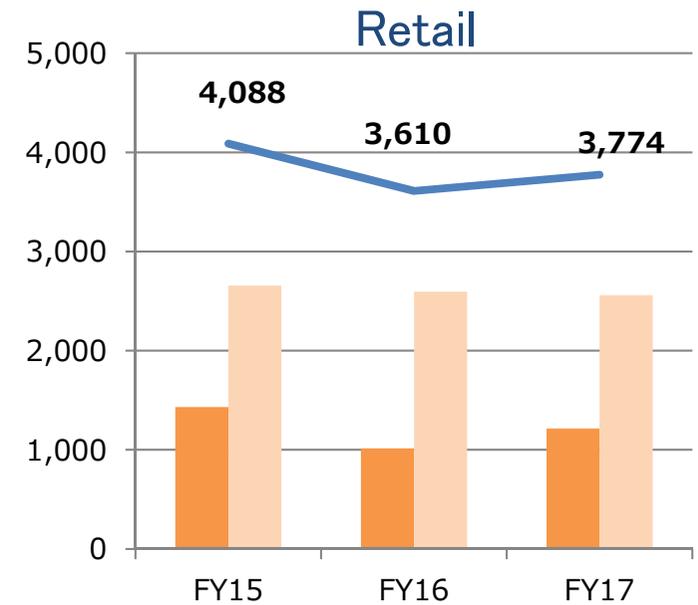
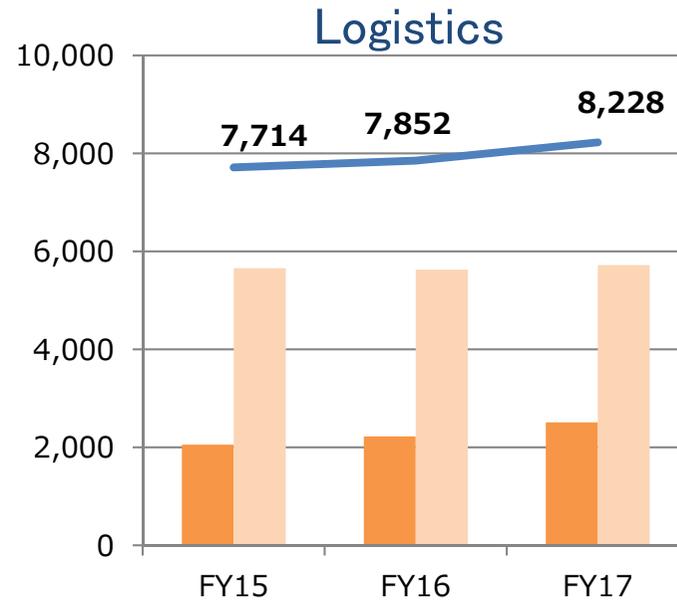
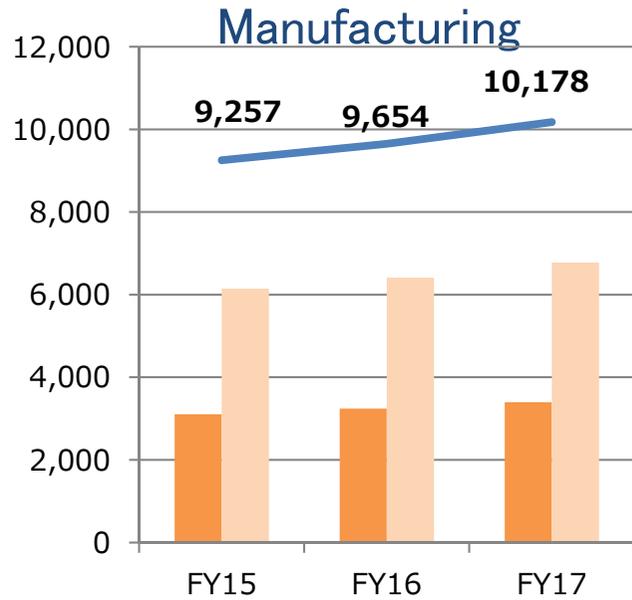


Auto-ID Solutions Business (Japan):

Sales by Vertical (Apr-Sep)

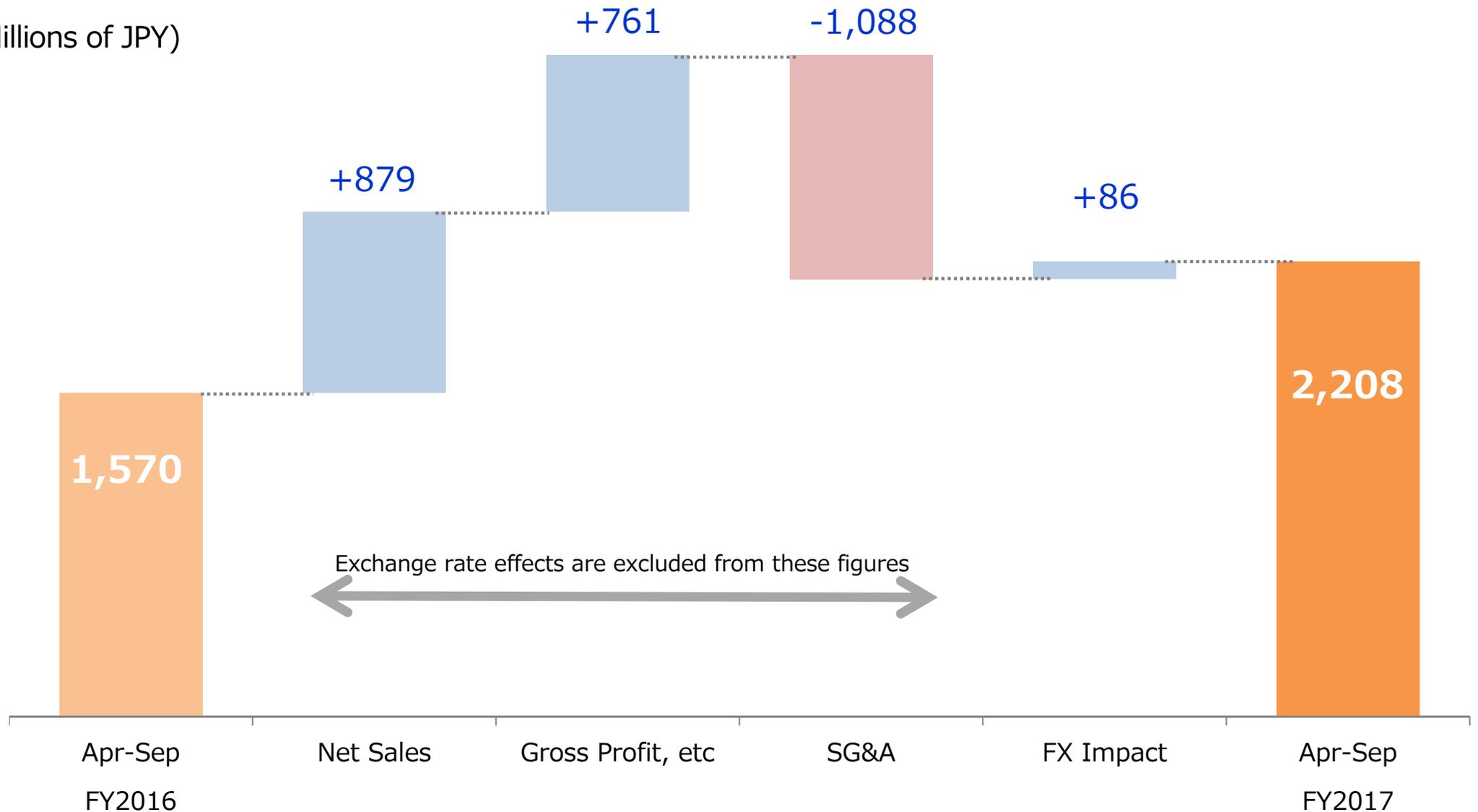
(Millions of JPY)

■ : Mechatronics ■ : Consumables
— : Total



Major Gains/Losses in OI (Auto-ID Solutions Business - Japan)

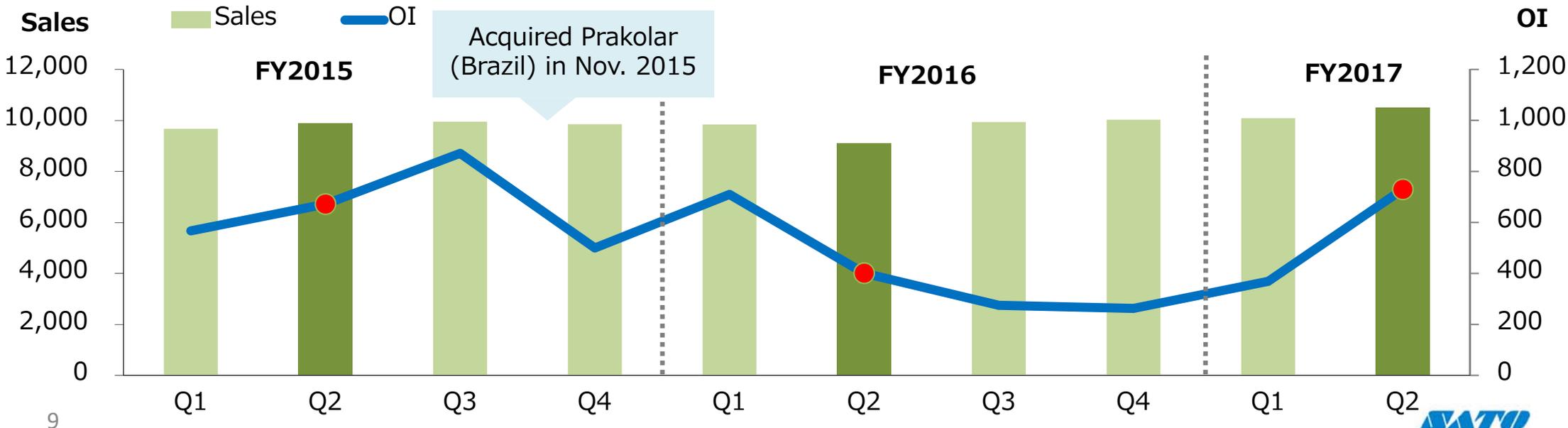
(Millions of JPY)



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	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	--	--

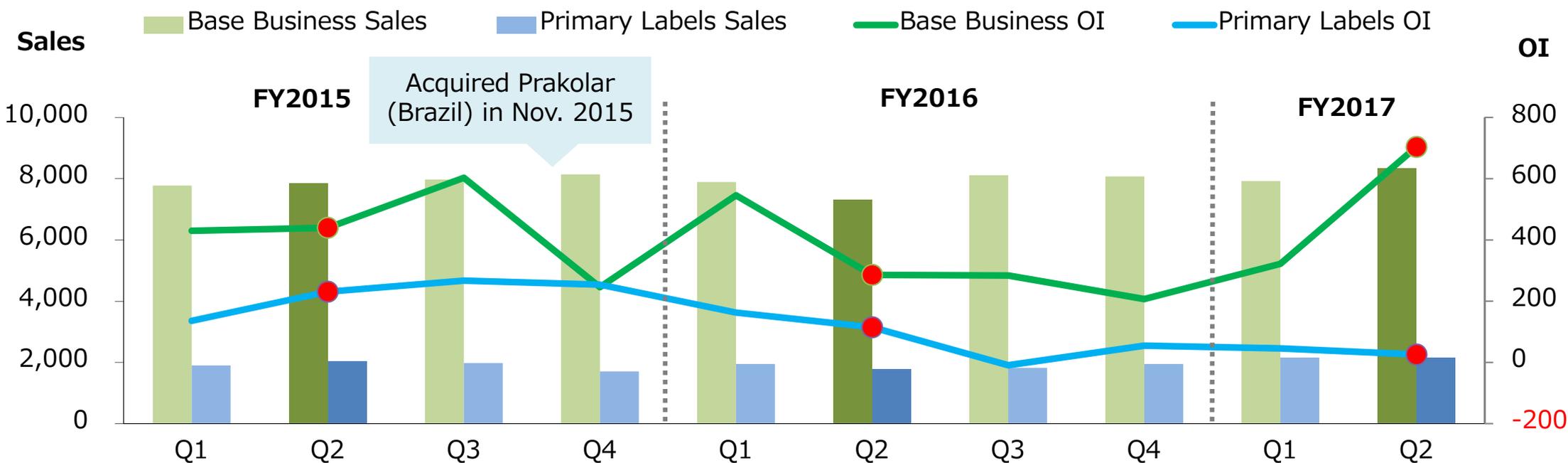


Auto-ID Solutions Business (Overseas Breakdown)

- **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	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%



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
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.
- 11 ➤ 2H OI is expected to increase YoY through execution of above-mentioned initiatives. 

Primary Labels (Okil)

(Millions of RUB)	FY2017 (Apr-Sep)	FY2016 (Apr-Sep)	Change		Excl. EUR/RUB impact	
				YoY	FY2017 (Apr-Sep)	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

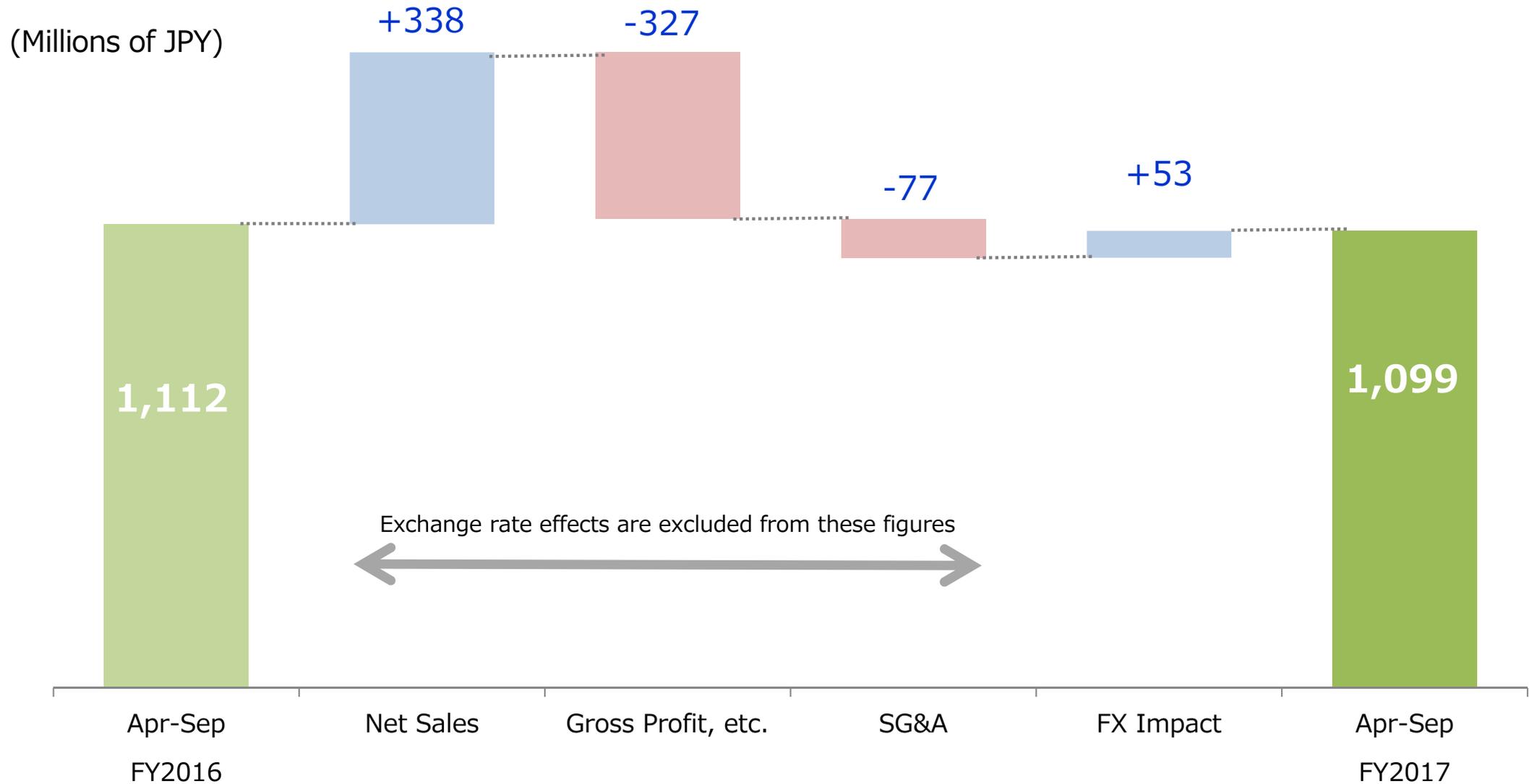
■ 1H analysis

- 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.

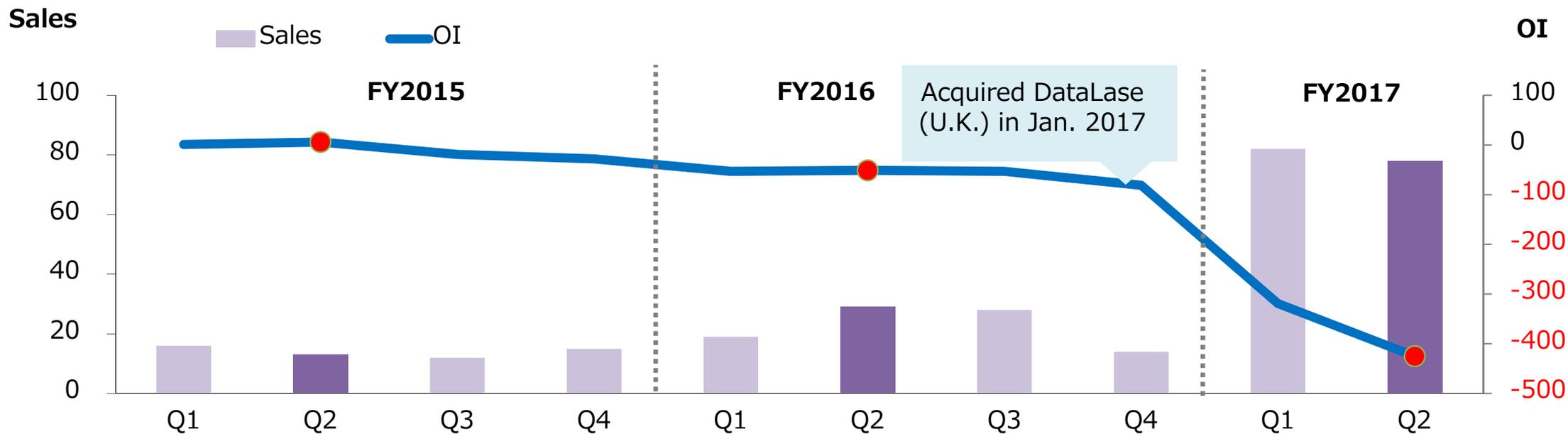
Major Gains/Losses in OI (Auto-ID Solutions Business - Overseas)



Materials Business

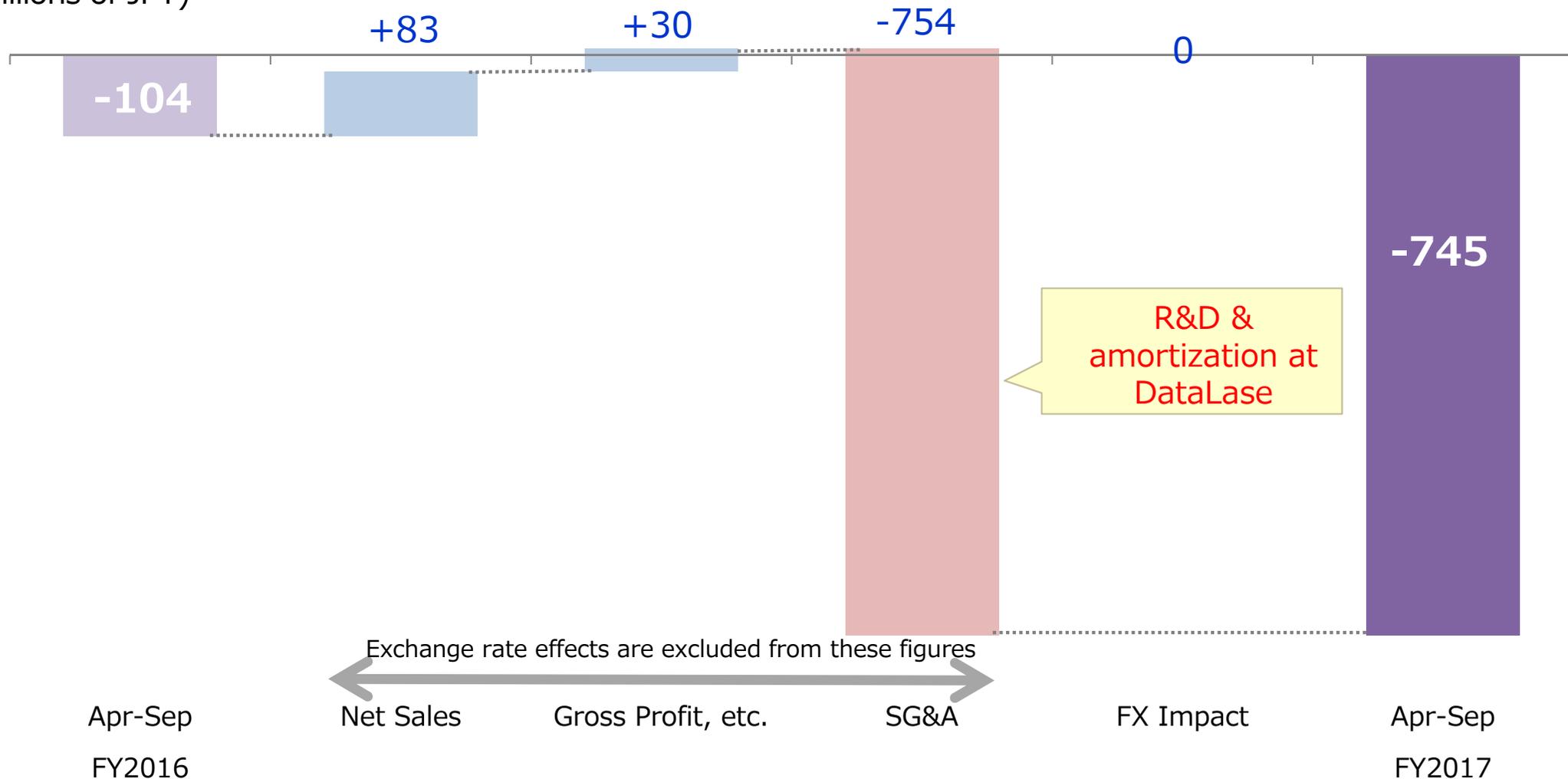
- DataLase conducted R&D largely in line with plan.

(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 %	--	--	--	--



Major Gains/Losses in OI (Materials Business)

(Millions of JPY)



FY2017 Consolidated Forecasts

					Full Year	
	1H		2H		Forecast	YoY
(Millions of JPY)	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

EBITDA*	11,296				11,400	100.9%
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* Figures in parentheses are forecasts announced as of May 9, 2017.

Exchange rates assumed in FY17 forecast: JPY 110/USD, JPY 120/EUR

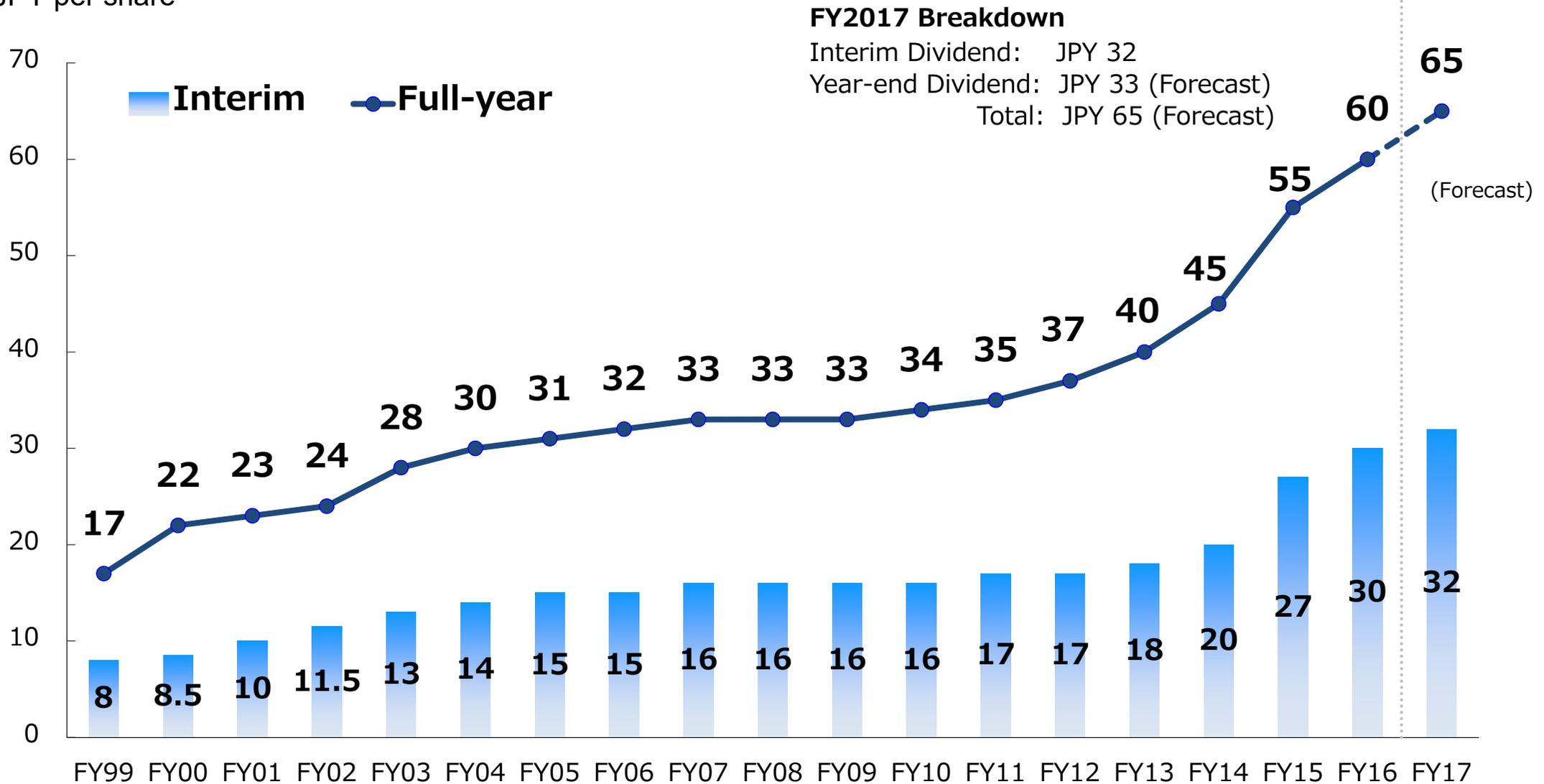
Average exchange rates for Apr-Sep FY17: JPY 111.04/USD, JPY 126.31/EUR

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

Dividends

➤ Interim dividend payment of 32 yen is scheduled as planned.

JPY per share



Presenting Value for Our Customer's Customer (Focus on B2B2C)

- A shipping label printing system was developed in collaboration with Japan Post to serve sellers on auction and resale shopping sites.
- Encouraging responses promise wider deployment.



Consumer Value

- Automates process of filling out shipping labels
- Keeps personal information secure with the use of QR codes
- Encourages more use of resale sites

1



2



3



4



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

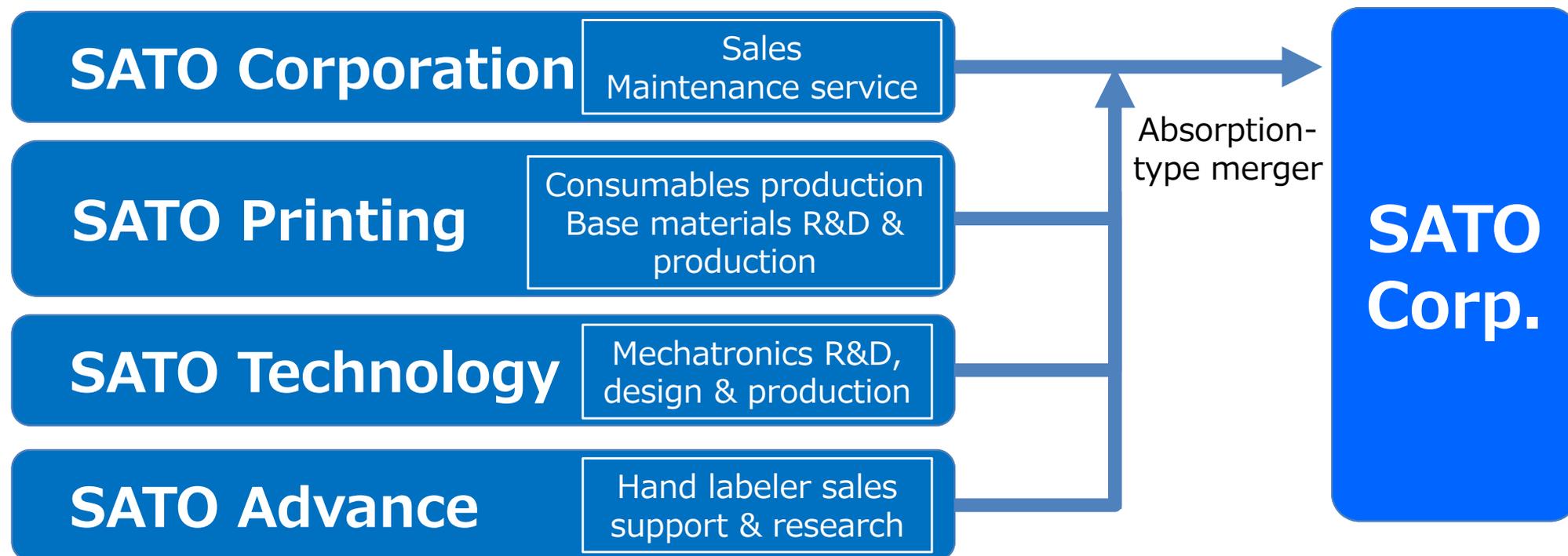
- Minimal downtime = Competitive advantage
- Higher productivity of CEs through predictive maintenance

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



Merger of Domestic Subsidiaries (From April, 2018)

- Bolster the value chain of the Japan Business
⇒ Creating true customer value



- ✓ **Workstyle innovations : Maximize productivity**
- ✓ **Mechatronics/Consumables : Share production know-how within unified organization**
- ✓ **R&D/Production/Sales : Create solutions as a single unit**

Appendix

(FY2017 1H results based on FY2016 classification)

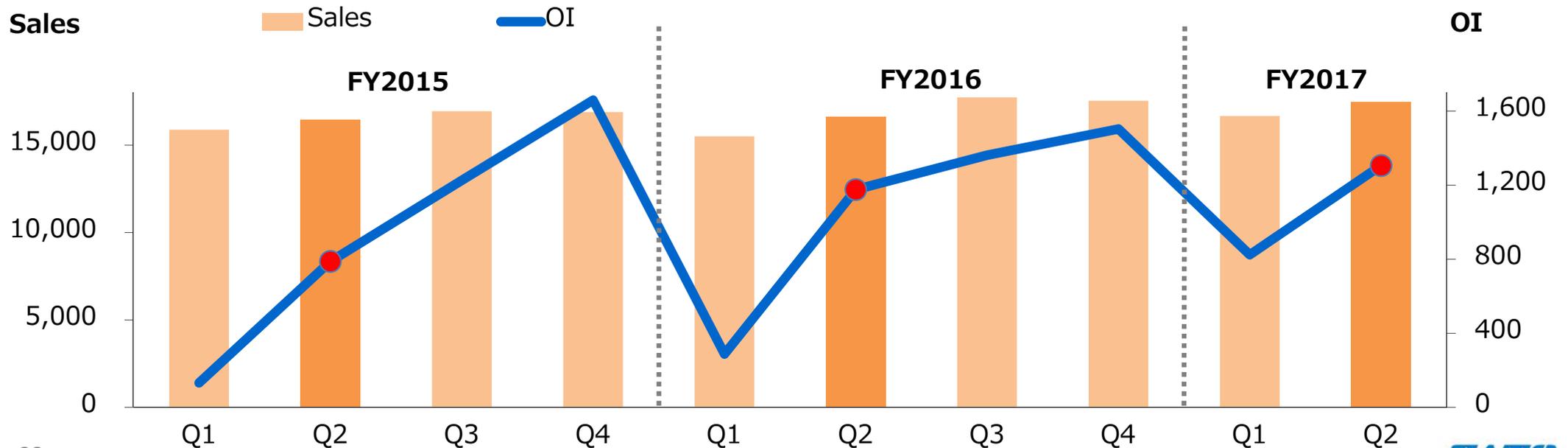
Consolidated Results

(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%

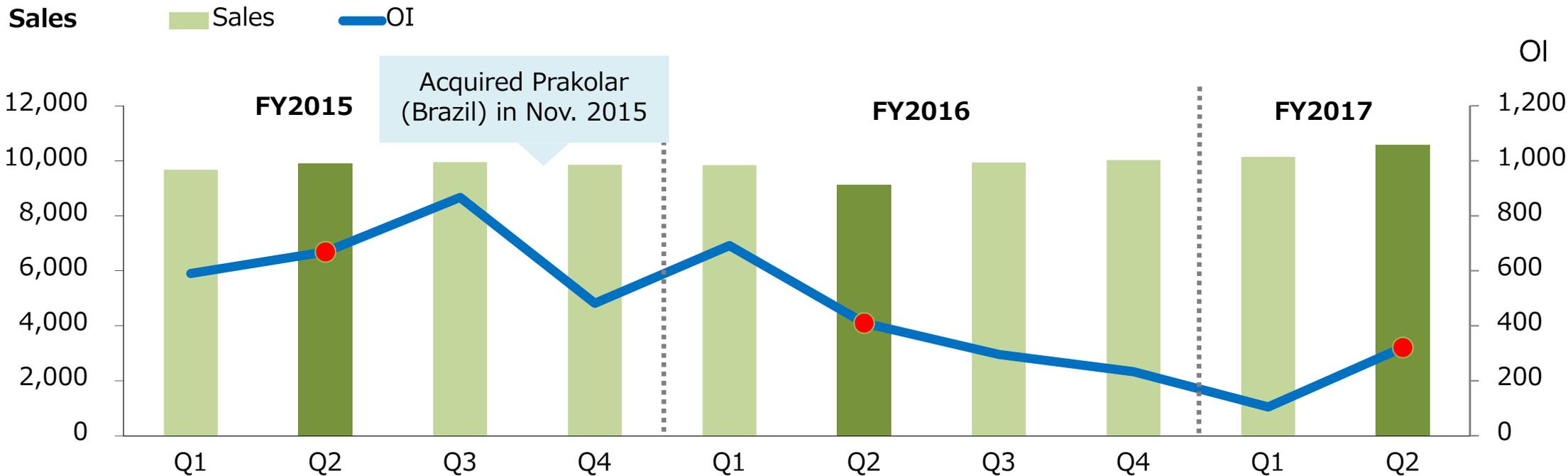
Japan

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



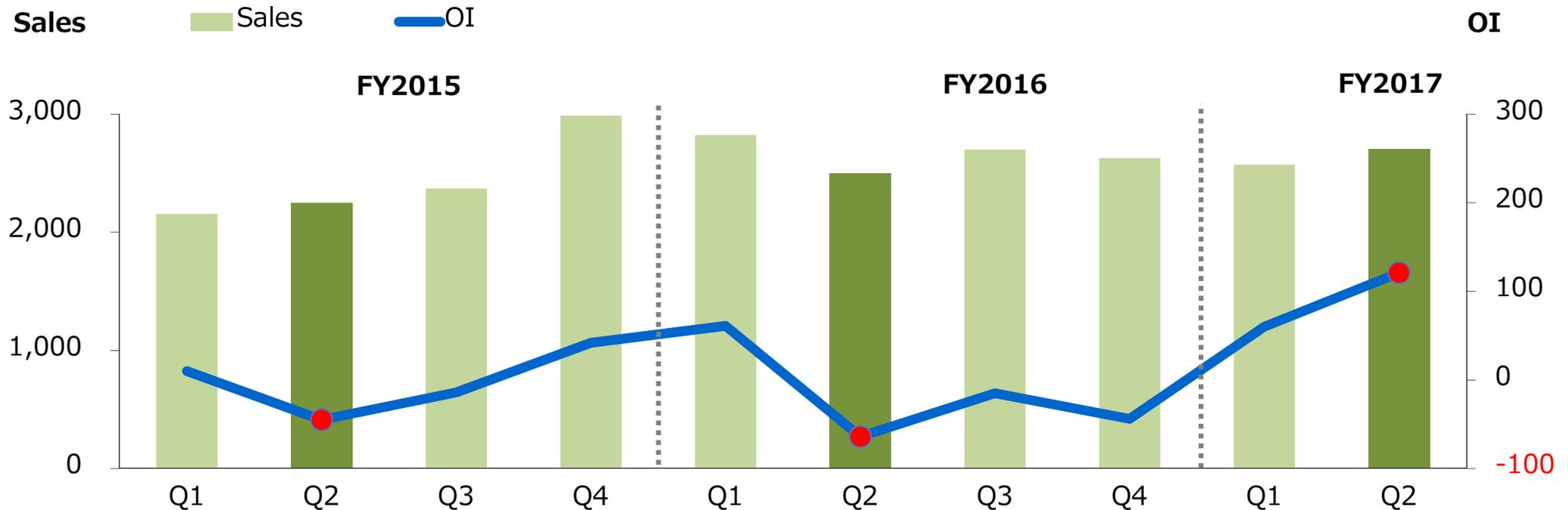
Overseas

(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	7,875	7,305	+569	107.8%	--
Gross Profit %	38.0%	38.5%	-0.5pt	--	--
Operating Income	427	1,103	-675	38.8%	33.9%
Operating Income %	2.1%	5.8%	-3.8pt	--	--



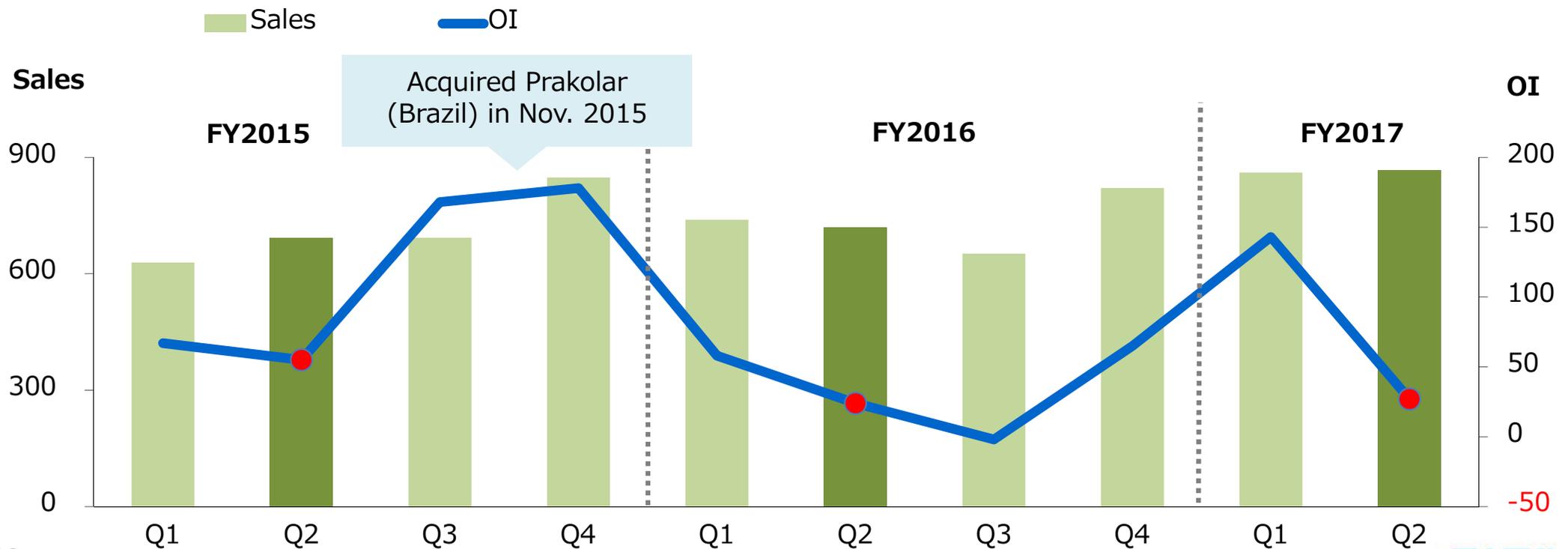
North America

(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	1,534	1,421	+113	108.0%	--
Gross Profit %	29.1%	26.7%	+2.4pt	--	--
Operating Income	182	-2	+184	--	--
Operating Income %	3.5%	--	--	--	--



South America

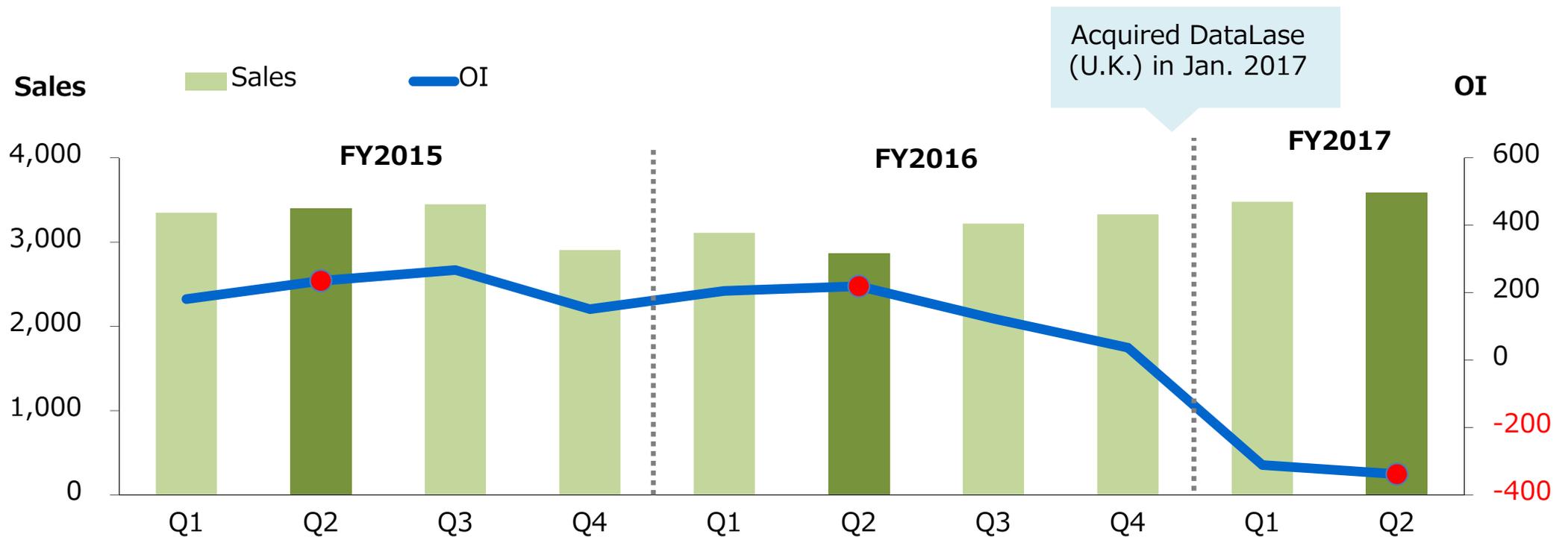
(Millions of JPY)	FY2017 (Apr-Sep)	FY2016 (Apr-Sep)	Change	YoY	
					excl. FX impact
Total Sales	1,727	1,460	+267	118.3%	113.2%
Gross Profit	706	562	+143	125.6%	--
Gross Profit %	40.9%	38.5%	+2.3pt	--	--
Operating Income	170	83	+87	205.7%	191.1%
Operating Income %	9.9%	5.7%	+4.2pt	--	--



Europe*

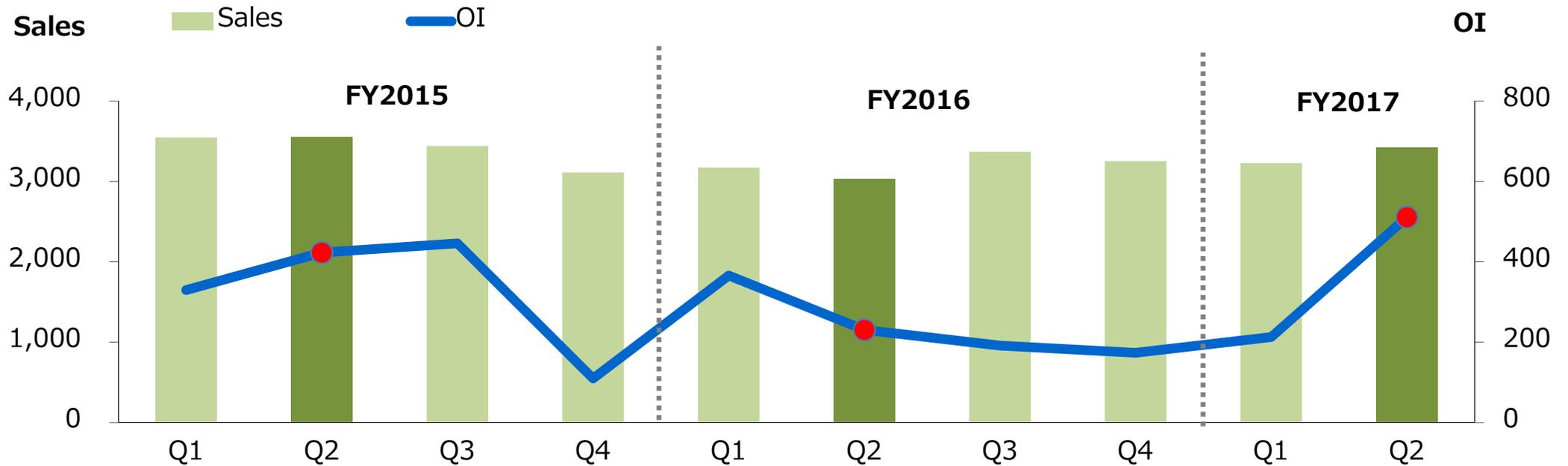
* DataLase consolidated at FY2017

(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	2,328	2,293	+35	101.5%	--
Gross Profit %	33.0%	38.4%	-5.4pt	--	--
Operating Income	-649	424	-1,074	--	--
Operating Income %	--	7.1%	--	--	--



Asia & Oceania

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





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