

SATO HOLDINGS CORPORATION

FY2017 Q3
Financial Results
(Nine Months Ended December 31, 2017)

Securities Code: 6287

February 9, 2018

Summary of FY2017 Q3

➤ 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 widespread initiatives to boost profitability.

Overseas : Maintained recovery momentum in most parts of the Base Business, thanks to progress in “back to basics” initiatives. FX impact and production facility ramp-up at Okil led to a continued YoY decline in OI.

➤ Materials Business ➡ R&D progressed largely as planned.

Sales and OI by Business Segment

(Millions of JPY)

		FY2017 (Apr-Dec)	FY2016 (Apr-Dec)	YoY	excl. FX impact
Auto-ID Solutions Business	Total Sales	84,801	78,662	107.8%	105.0%
	Operating Income	5,823	4,373	133.2%	129.2%
Japan	Total Sales	52,971	49,765	106.4%	106.4%
	Operating Income	4,059	2,985	136.0%	133.6%
Overseas	Total Sales	31,829	28,896	110.1%	102.6%
	Operating Income	1,763	1,387	127.1%	119.8%
Materials Business	Total Sales	215	77	278.9%	278.9%
	Operating Income	-1,083	-158	--	--
Consolidated (incl. eliminations)	Total Sales	85,016	78,739	108.0%	105.2%
	Operating Income	4,675	4,288	109.0%	105.0%

Consolidated Results (Apr-Dec)

(Millions of JPY)	FY2017	FY2016	Change	YoY
	Net Sales	85,016	78,739	+6,276
Operating Income	4,675	4,288	+386	109.0%
Operating Income %	5.5%	5.4%	+0.1pt	--
Ordinary Income	4,381	4,313	+68	101.6%
Profit attributable to owners of parent	3,565	2,725	+840	130.8%
Effective Tax Rate* ¹	43.1%	35.8%	+7.3pt	
EBITDA * ²	8,821	8,105	+715	108.8%

Average exchange rates for Apr-Dec FY17: JPY 111.68/USD, JPY 128.55/EUR
Apr-Dec FY16: JPY 106.59/USD, JPY 117.97/EUR

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

*2 EBITDA = Operating Income + Depreciation + Amortization

· Depreciation for Apr-Dec FY17: JPY 3,178 million

· Amortization for Apr-Dec FY17: JPY 967 million (incl. 465 mil. for DataLase)

Apr-Dec FY16: JPY 2,934 million

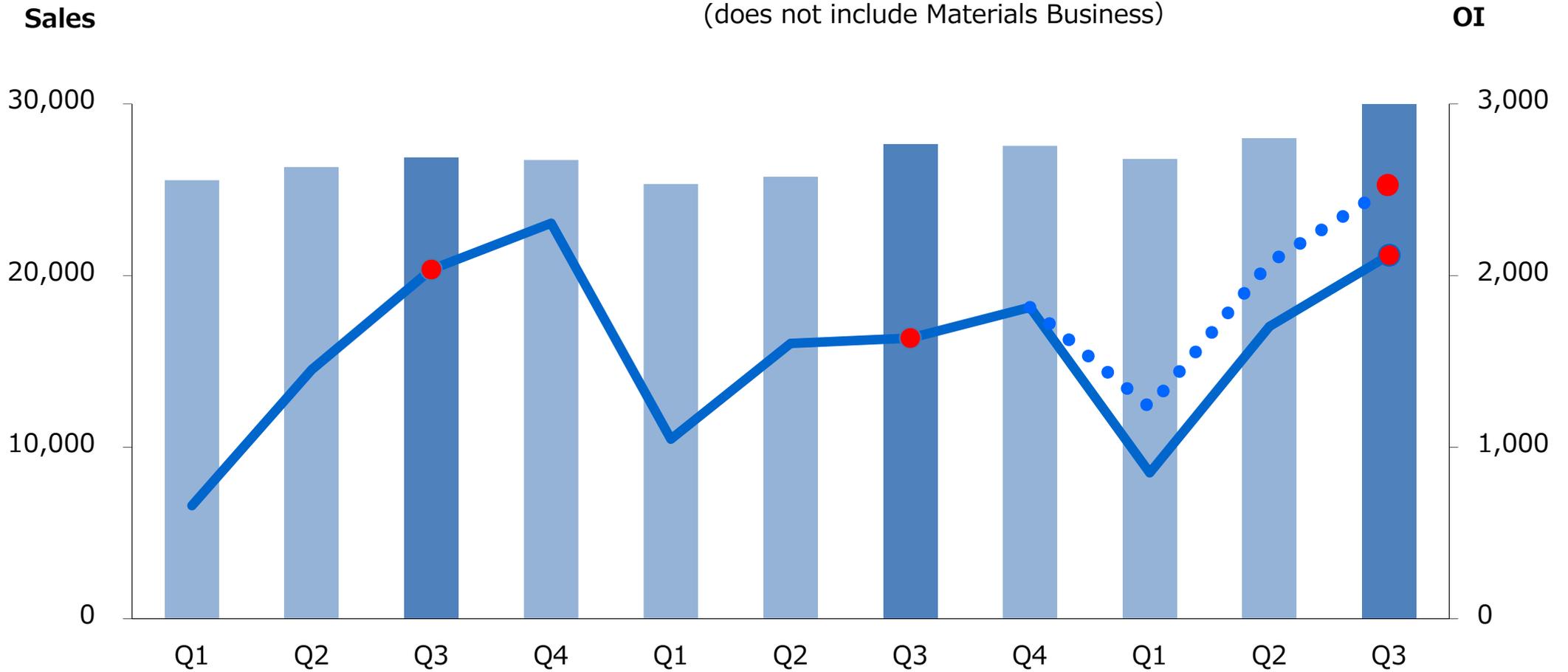
Apr-Dec FY16: JPY 881 million



Quarterly Consolidated Sales & OI

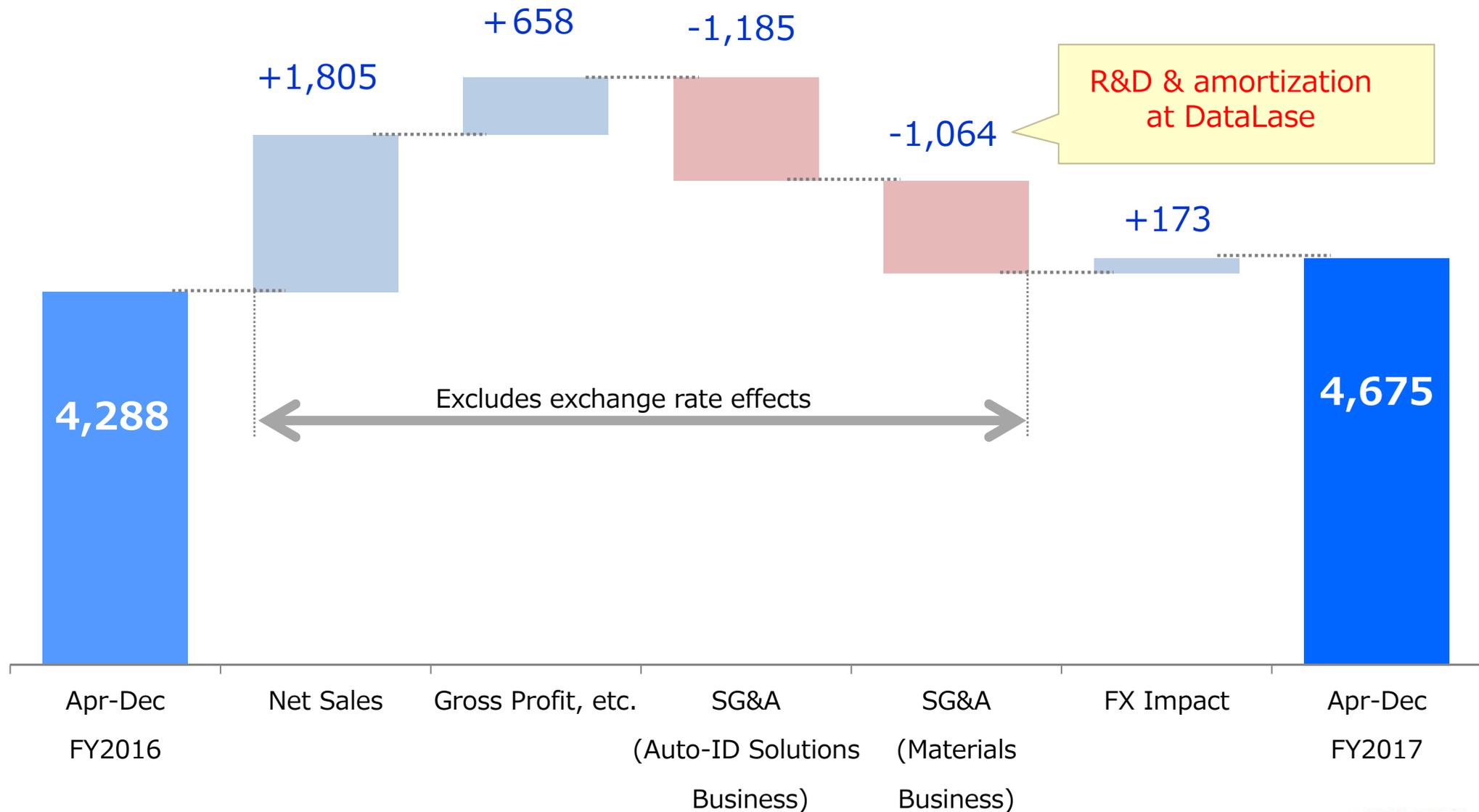
(Millions of JPY)

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



Major Gains/Losses in Consolidated OI

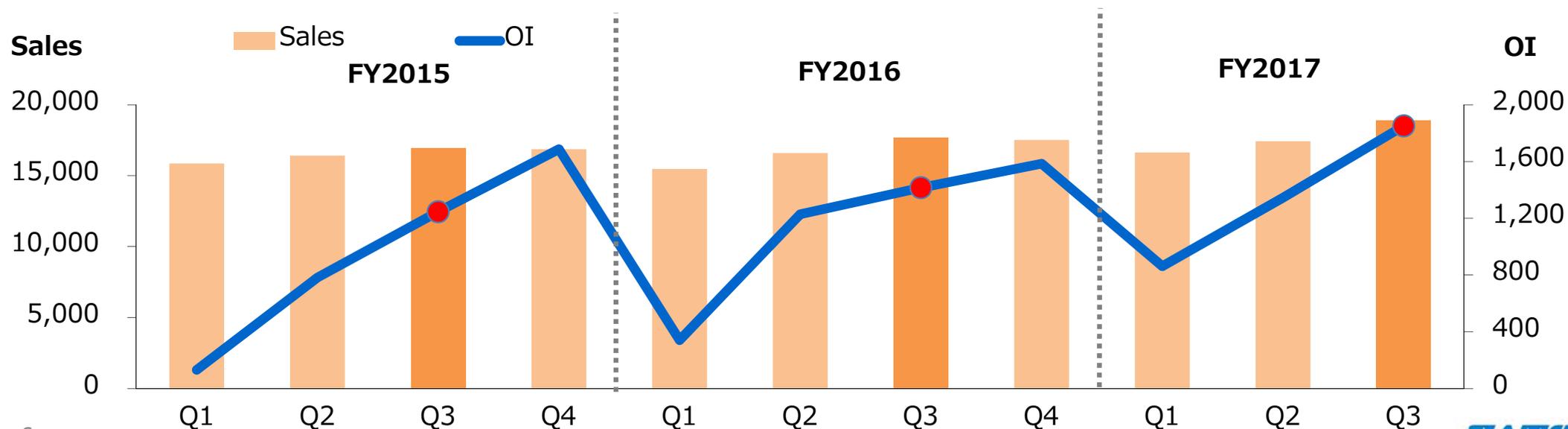
(Millions of JPY)



Auto-ID Solutions Business (Japan)

- Proceeded above forecast on back of positive trends in all verticals. Quarterly sales and OI maintained YoY increases.
- OI ratio improved by 1.7 percentage points YoY due mainly to favorable performance in mechatronics.

(Millions of JPY)	FY2017 (Apr-Dec)	FY2016 (Apr-Dec)	Change	
				YoY
Mechatronics Sales	20,121	17,796	+2,325	113.1%
Consumables Sales	32,849	31,969	+880	102.8%
Total Sales	52,971	49,765	+3,205	106.4%
Gross Profit	25,395	22,713	+2,681	111.8%
Gross Profit %	47.9%	45.6%	+2.3pt	--
Operating Income	4,059	2,985	+1,073	136.0%
Operating Income %	7.7%	6.0%	+1.7pt	--



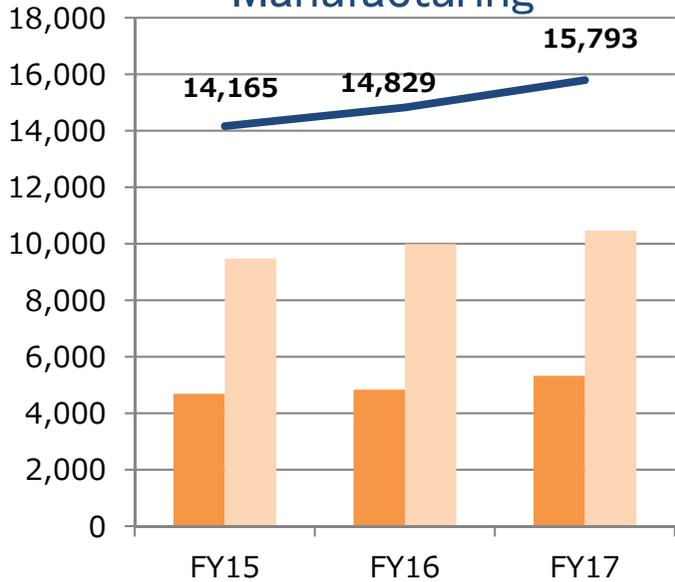
Auto-ID Solutions Business (Japan):

Sales by Vertical (Apr-Dec)

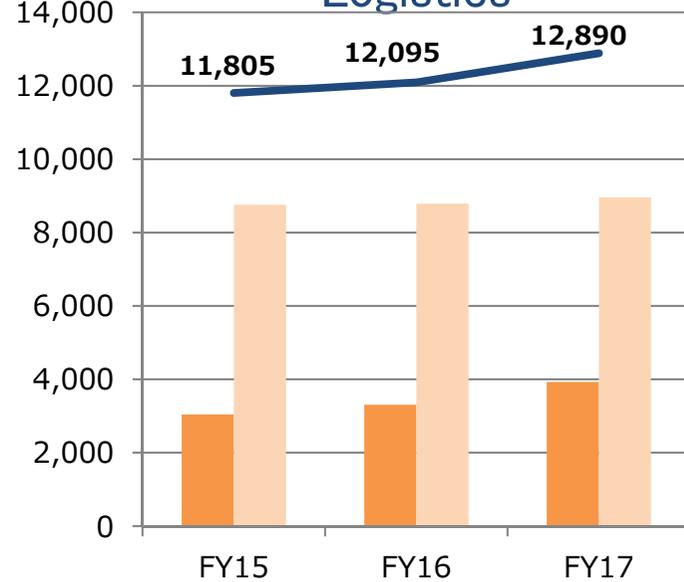
(Millions of JPY)

■ : Mechatronics
 ■ : Consumables
— : Total

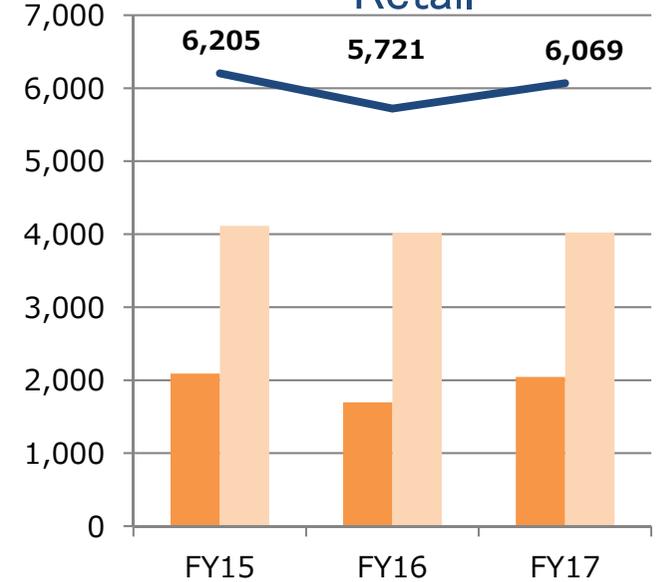
Manufacturing



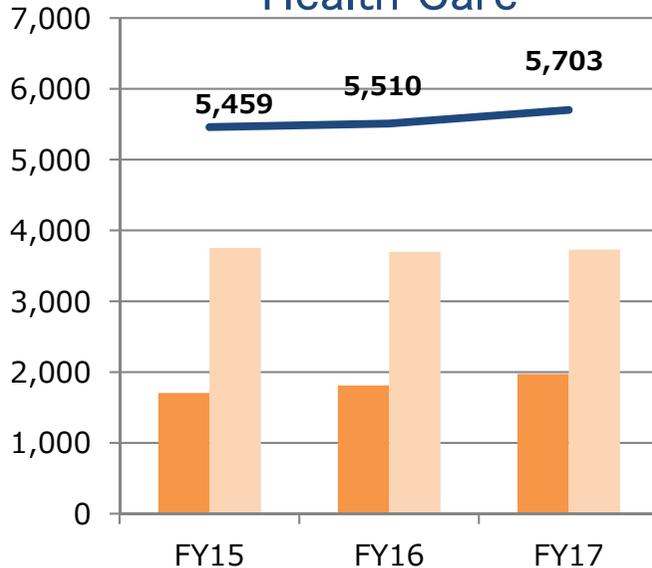
Logistics



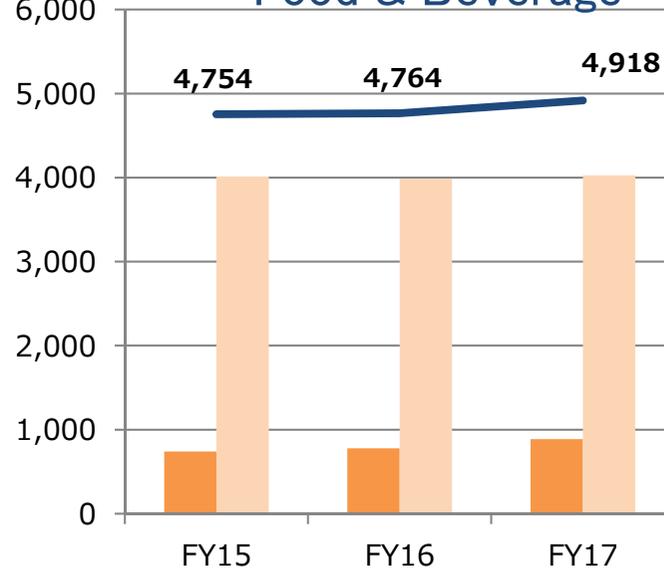
Retail



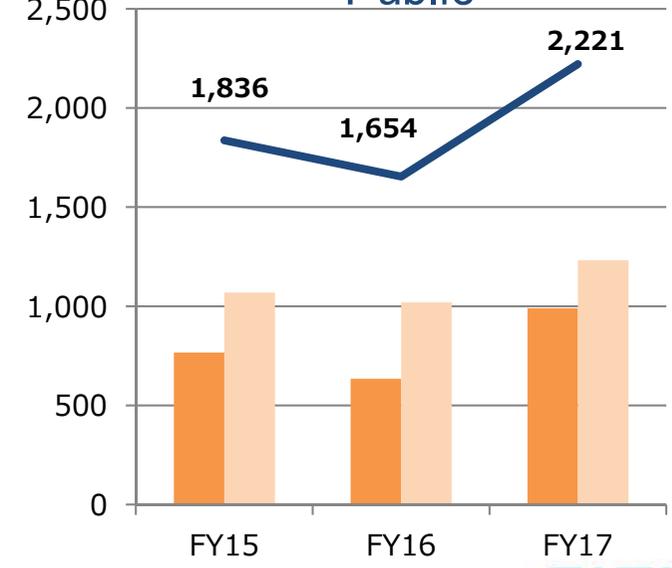
Health Care



Food & Beverage

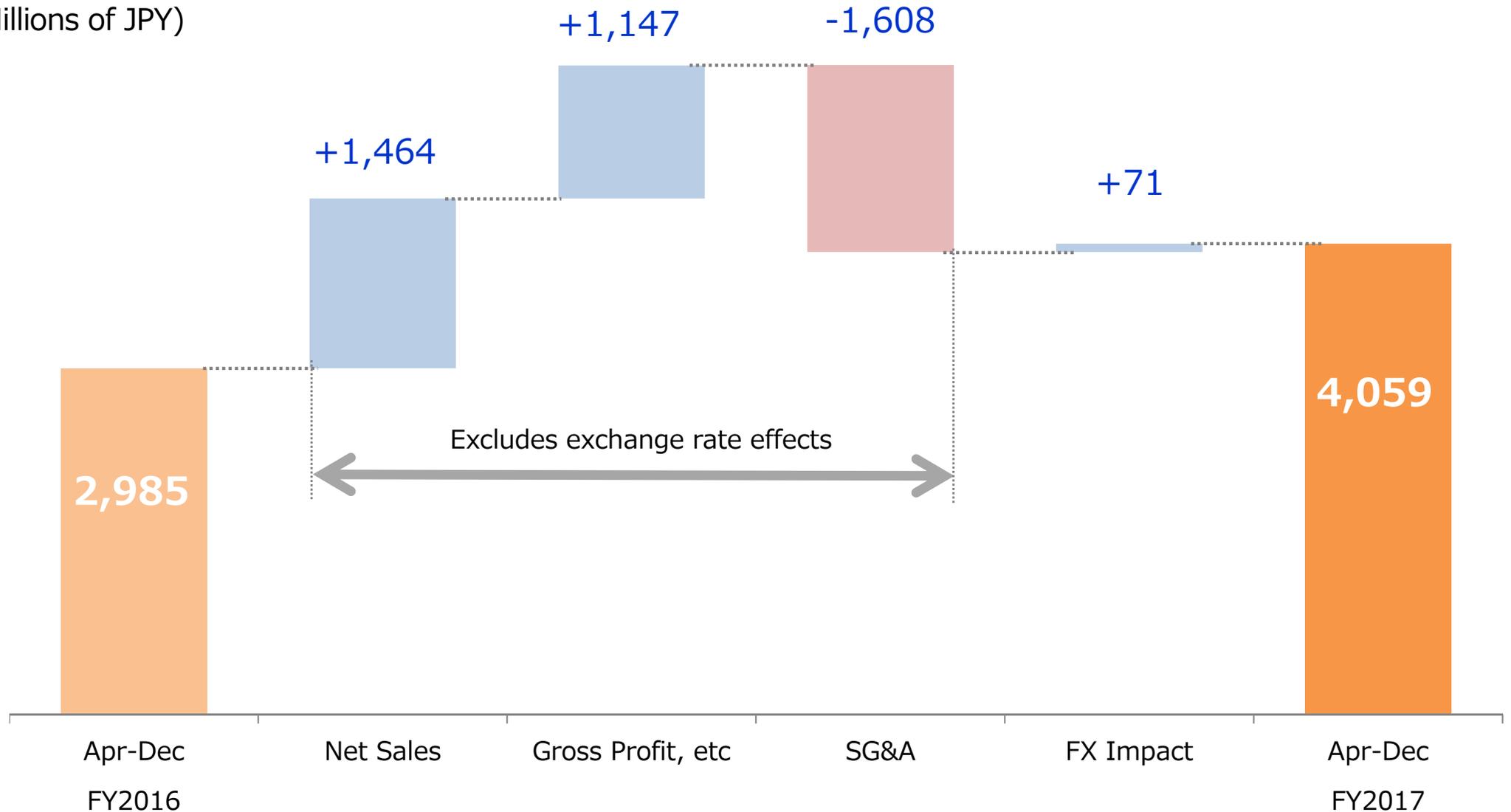


Public



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

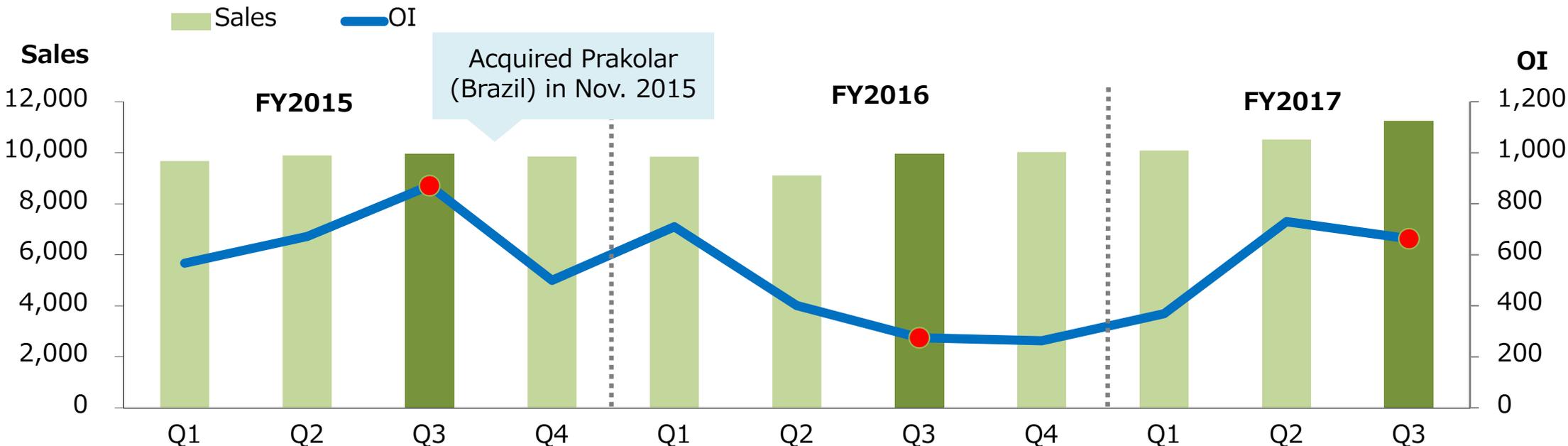
(Millions of JPY)



Auto-ID Solutions Business (Overseas)

- Strong performance in Base Business made up for the struggling Primary Labels Business, resulting in YoY increases overall in sales and OI.

(Millions of JPY)	FY2017 (Apr-Dec)	FY2016 (Apr-Dec)	Change	Change	
				YoY	excl. FX impact
Total Sales	31,829	28,896	+2,932	110.1%	102.6%
Gross Profit	11,917	10,924	+993	109.1%	--
Gross Profit %	37.4%	37.8%	-0.4pt	--	--
Operating Income	1,763	1,387	+376	127.1%	119.8%
Operating Income %	5.5%	4.8%	+0.7pt	--	--

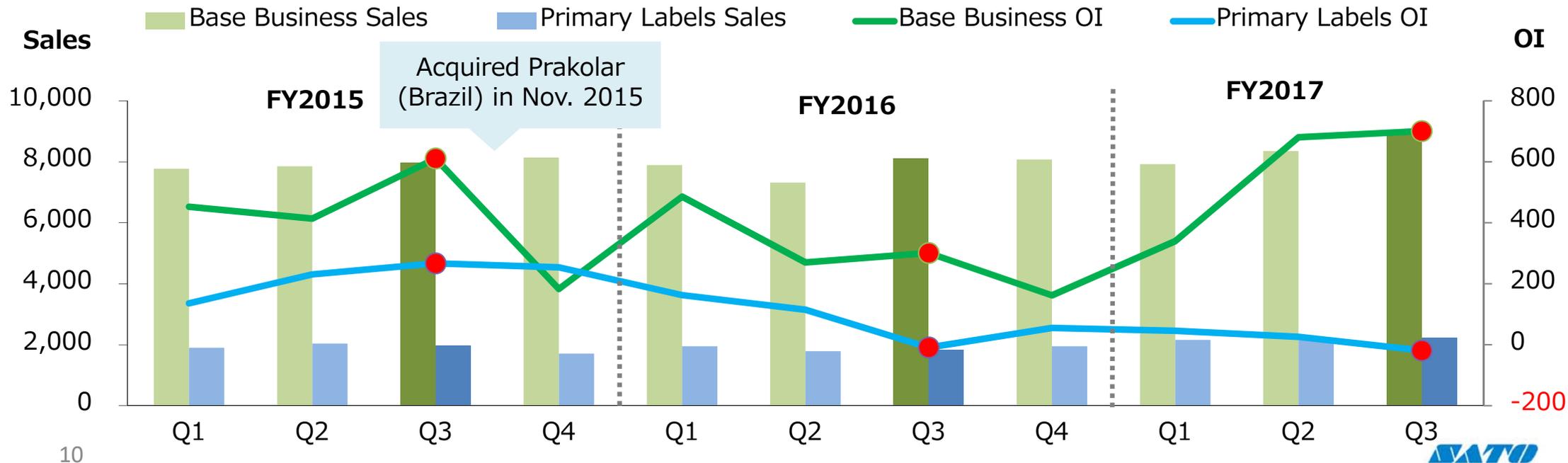


Auto-ID Solutions Business (Overseas Breakdown)

- **Base Business:** The Americas and APAC saw YoY increases in sales and OI, while Europe increased sales but fell behind in OI.
- **Primary Labels Business:** Okil saw a continuous fall in YoY OI due to negative FX impact and to investment costs for ramping up production capabilities to expand business.

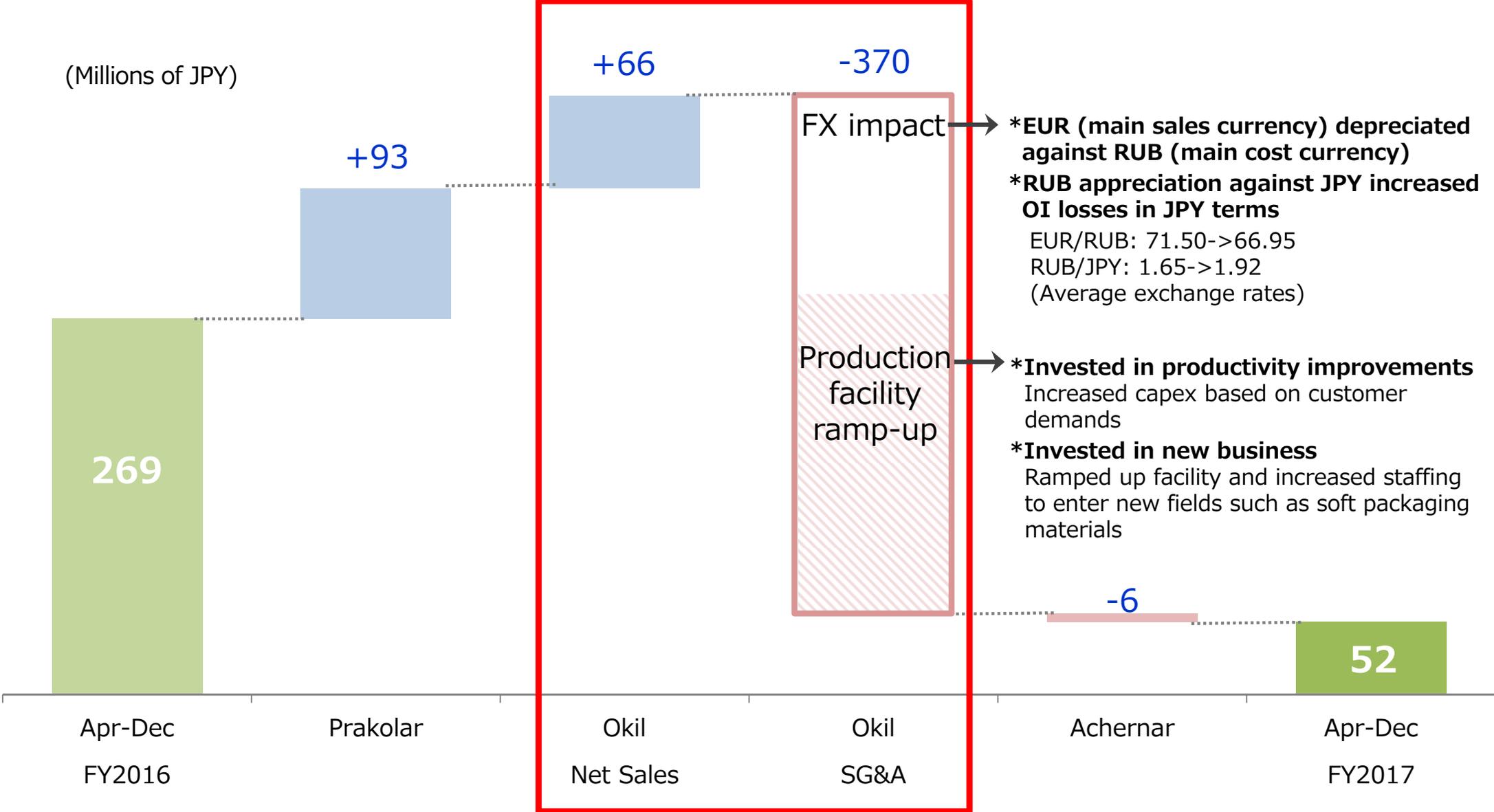
(Millions of JPY)

		FY2017 (Apr-Dec)	FY2016 (Apr-Dec)	Change	YoY	excl. FX impact
Base Business	Total Sales	25,268	23,332	+1,936	108.3%	102.1%
	Operating Income	1,724	1,058	+665	162.9%	153.4%
Primary Labels	Total Sales	6,561	5,564	+996	117.9%	105.0%
	Operating Income	52	269	-216	19.6%	19.0%
Eliminations	Operating Income	-13	58	-72	--	--



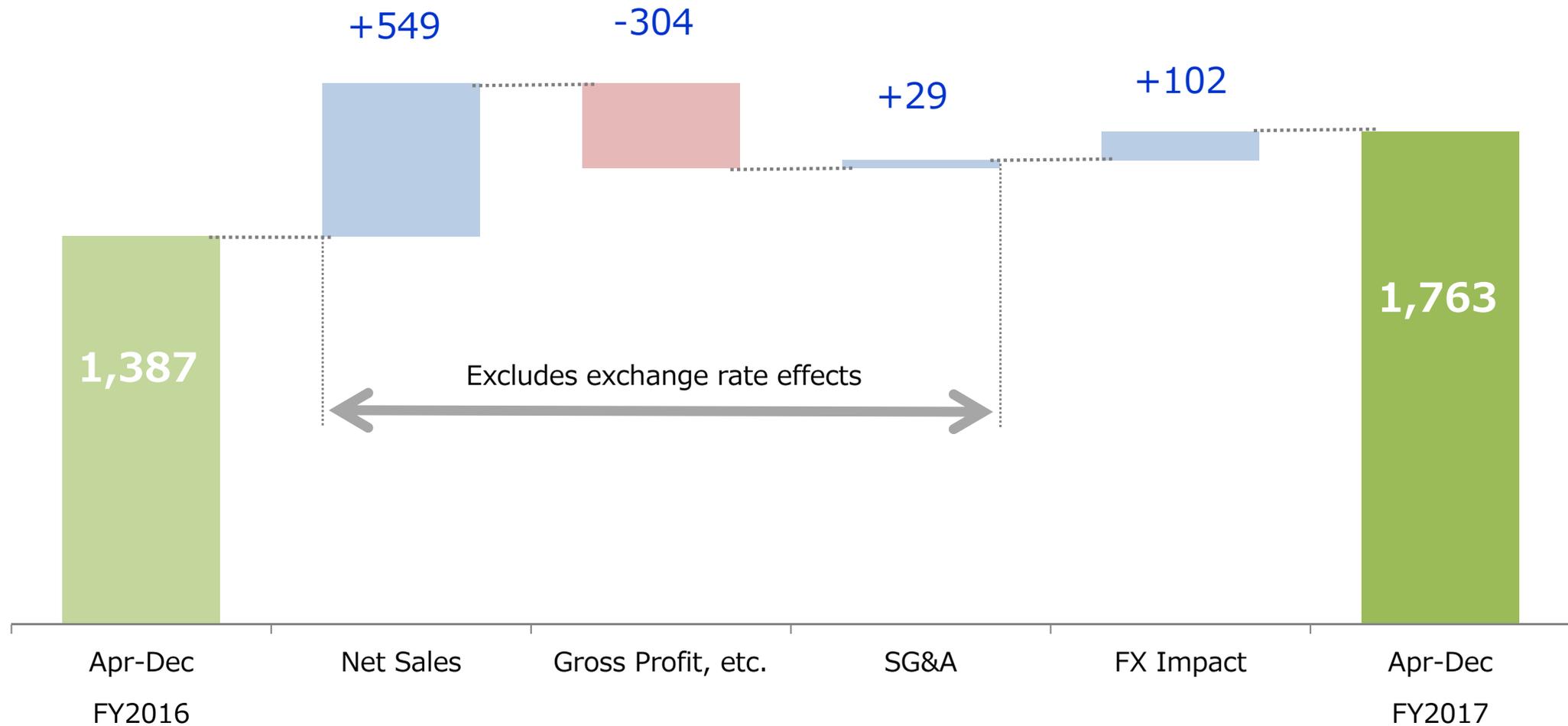
Auto-ID Solutions Business (Overseas - Primary Labels)

Major Gains/Losses in OI - Okil



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

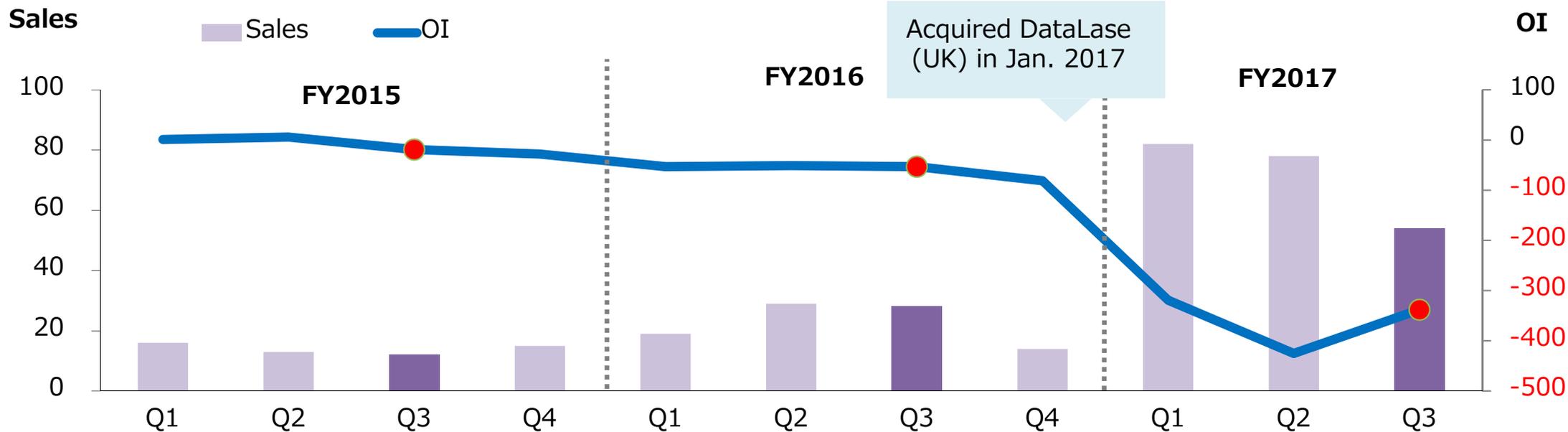
(Millions of JPY)



Materials Business

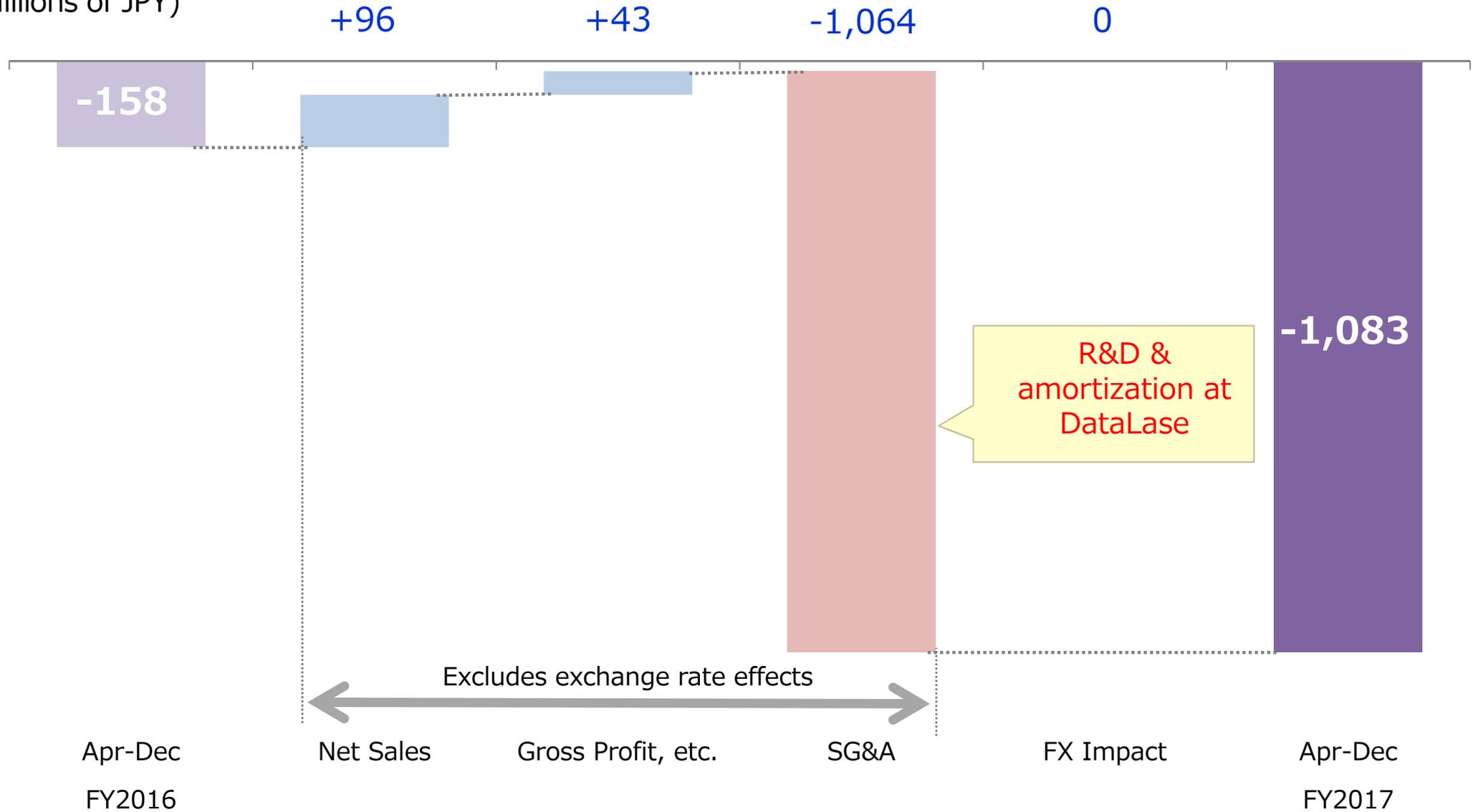
- DataLase conducted R&D largely in line with plan.

(Millions of JPY)	FY2017 (Apr-Dec)	FY2016 (Apr-Dec)	Change	
				YoY
Total Sales	215	77	+138	278.9%
Gross Profit	149	11	+138	1307.4%
Gross Profit %	69.7%	14.9%	+54.8pt	--
Operating Income	-1,083	-158	-925	--
Operating Income %	--	--	--	--



Materials Business (Major Gains/Losses in OI)

(Millions of JPY)



FY2017 Consolidated Forecasts (1/2)

(Millions of JPY)					Full Year	
	Apr-Dec		Jan-Mar			
	Actual	YoY	Forecast	YoY	Forecast*	YoY
Net Sales	85,016	108.0%	28,483	103.3%	113,500	106.8%
Operating Income	4,675	109.0%	1,524	84.0%	6,200 (6,000)	101.6%
Ordinary Income	4,381	101.6%	1,518	136.4%	5,900 (5,800)	108.7%
Profit attributable to owners of parent	3,565	130.8%	934	188.5%	4,500	139.7%

<Reference> FY2016 Full Year

EBITDA	11,296	EBITDA = Operating Income + Depreciation + Amortization	11,600 (11,400)	102.7%
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* Figures in parentheses are forecasts as of November 2, 2017.

Exchange rates assumed in FY17 forecast: JPY 111/USD, JPY 130/EUR

Average exchange rates for Apr-Dec FY17: JPY 111.68/USD, JPY 128.55/EUR

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

FY2017 Consolidated Forecasts (2/2)

■ Factors behind revision of full-year OI forecast

JPY 6,200 million (JPY 6,000 million as of Nov. 2, 2017)

(Auto-ID Solutions Business - Japan)

- Business is performing well.
- As Q4 sales are expected at a level similar to that of the previous fiscal year and this year's plan, Q4 OI is forecast at planned figures.

(Auto-ID Solutions Business - Overseas)

- Base Business continues to recover, yet risks such as order delays remain present.

(Materials Business)

- R&D cost is expected to be slightly less than originally forecast.

Appendix

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|---|---------|
| 1. FY2017 Q3 results based on FY2016 classification | P18-P24 |
| 2. SATO Terminologies | P25-P28 |
| 3. Business Segments | P29 |

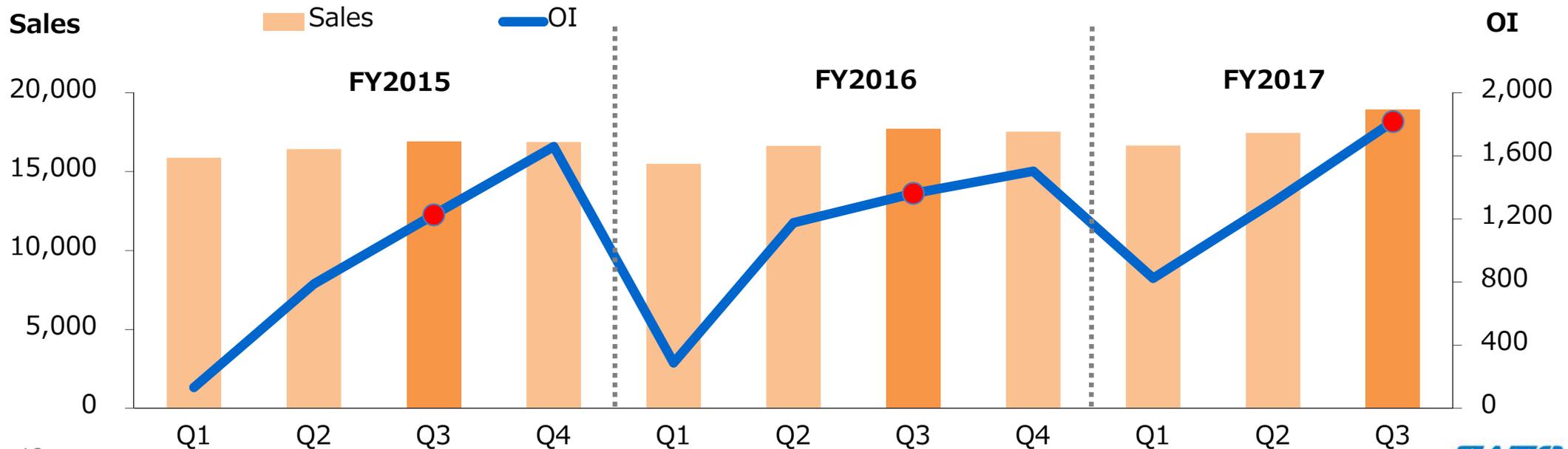
Consolidated Results

(Millions of JPY)

		FY2017 (Apr-Dec)	FY2016 (Apr-Dec)	Change	YoY	excl. FX impact
Japan	Total Sales	53,031	49,843	+3,188	106.4%	106.4%
	Operating Income	3,948	2,827	+1,121	139.6%	137.1%
North America	Total Sales	8,156	8,019	+136	101.7%	97.1%
	Operating Income	336	-18	+354	--	--
South America	Total Sales	2,562	2,112	+450	121.3%	117.8%
	Operating Income	163	80	+83	204.5%	193.5%
Europe	Total Sales	10,856	9,196	+1,659	118.0%	106.4%
	Operating Income	-906	547	-1,453	--	--
Asia/Oceania	Total Sales	10,409	9,568	+841	108.8%	101.9%
	Operating Income	1,210	790	+420	153.1%	145.0%
Overseas	Total Sales	31,985	28,896	+3,088	110.7%	103.2%
	Operating Income	804	1,400	-595	57.4%	50.2%
Elimination	Operating Income	-77	61	-138	--	--
Consolidated	Total Sales	85,016	78,739	+6,276	108.0%	105.2%
	Operating Income	4,675	4,288	+386	109.0%	105.0%

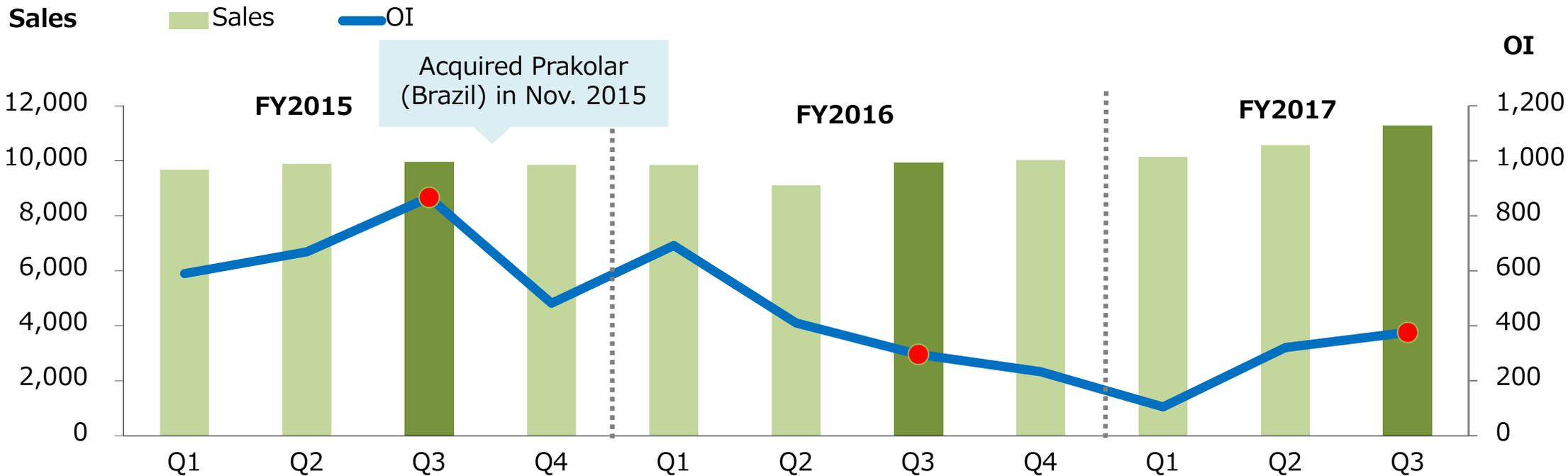
Japan

(Millions of JPY)	FY2017 (Apr-Dec)	FY2016 (Apr-Dec)	Change	
				YoY
Mechatronics Sales	20,121	17,796	+2,325	113.1%
Consumables Sales	32,909	32,046	+862	102.7%
Total Sales	53,031	49,843	+3,188	106.4%
Gross Profit	25,400	22,718	+2,681	111.8%
Gross Profit %	47.9%	45.6%	+2.3pt	--
Operating Income	3,948	2,827	+1,121	139.6%
Operating Income %	7.4%	5.7%	+1.8pt	--



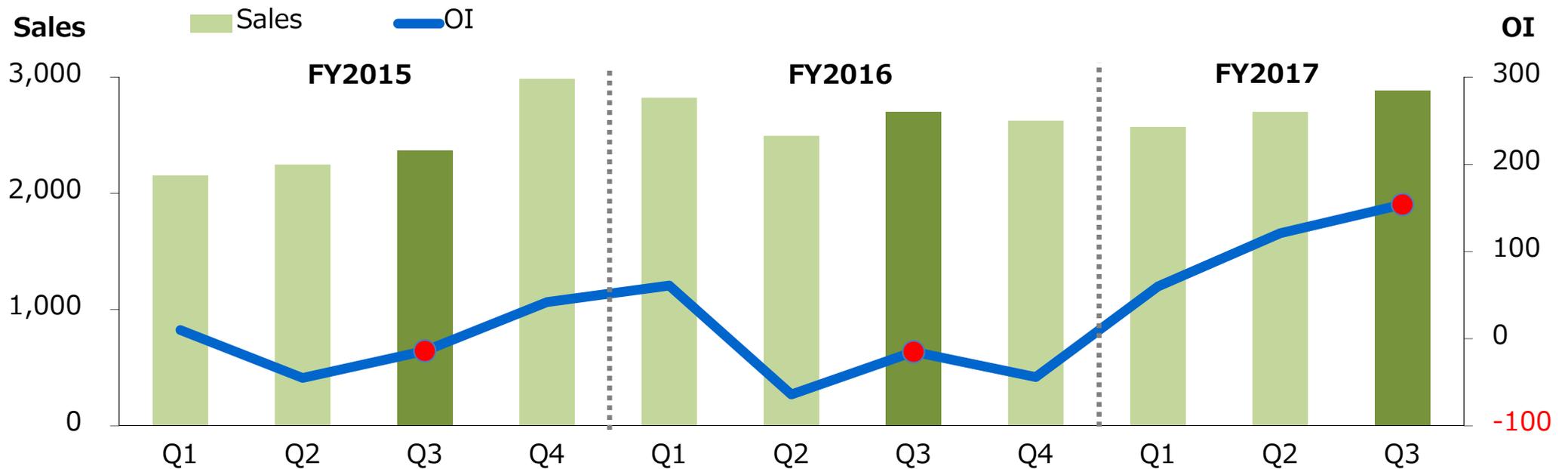
Overseas

(Millions of JPY)	FY2017 (Apr-Dec)	FY2016 (Apr-Dec)	Change	Change	
				YoY	excl. FX impact
Total Sales	31,985	28,896	+3,088	110.7%	103.2%
Gross Profit	12,025	10,935	+1,089	110.0%	--
Gross Profit %	37.6%	37.8%	-0.2pt	--	--
Operating Income	804	1,400	-595	57.4%	50.2%
Operating Income %	2.5%	4.8%	-2.3pt	--	--



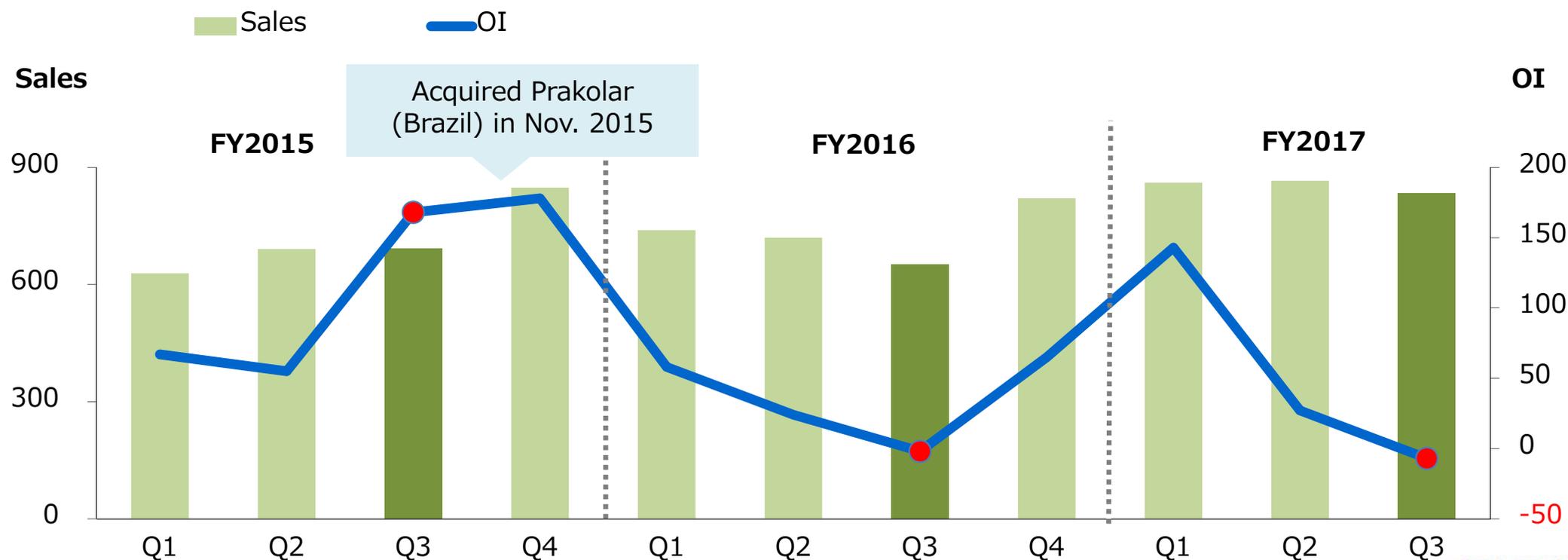
North America

(Millions of JPY)	FY2017 (Apr-Dec)	FY2016 (Apr-Dec)	Change	YoY	
					excl. FX impact
Total Sales	8,156	8,019	+136	101.7%	97.1%
Gross Profit	2,407	2,173	+234	110.8%	--
Gross Profit %	29.5%	27.1%	+2.4pt	--	--
Operating Income	336	-18	+354	--	--
Operating Income %	4.1%	--	--	--	--



South America

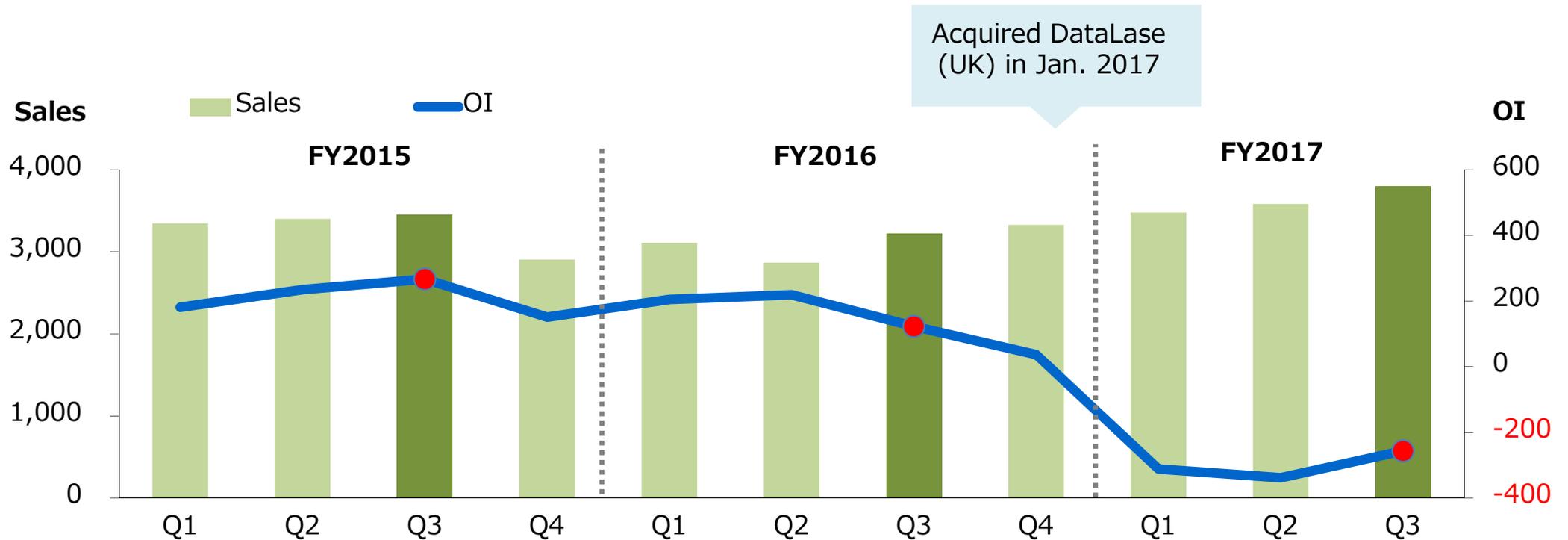
(Millions of JPY)	FY2017 (Apr-Dec)	FY2016 (Apr-Dec)	Change	YoY	
					excl. FX impact
Total Sales	2,562	2,112	+450	121.3%	117.8%
Gross Profit	966	799	+167	120.9%	--
Gross Profit %	37.7%	37.9%	-0.1pt	--	--
Operating Income	163	80	+83	204.5%	193.5%
Operating Income %	6.4%	3.8%	+2.6pt	--	--



Europe*

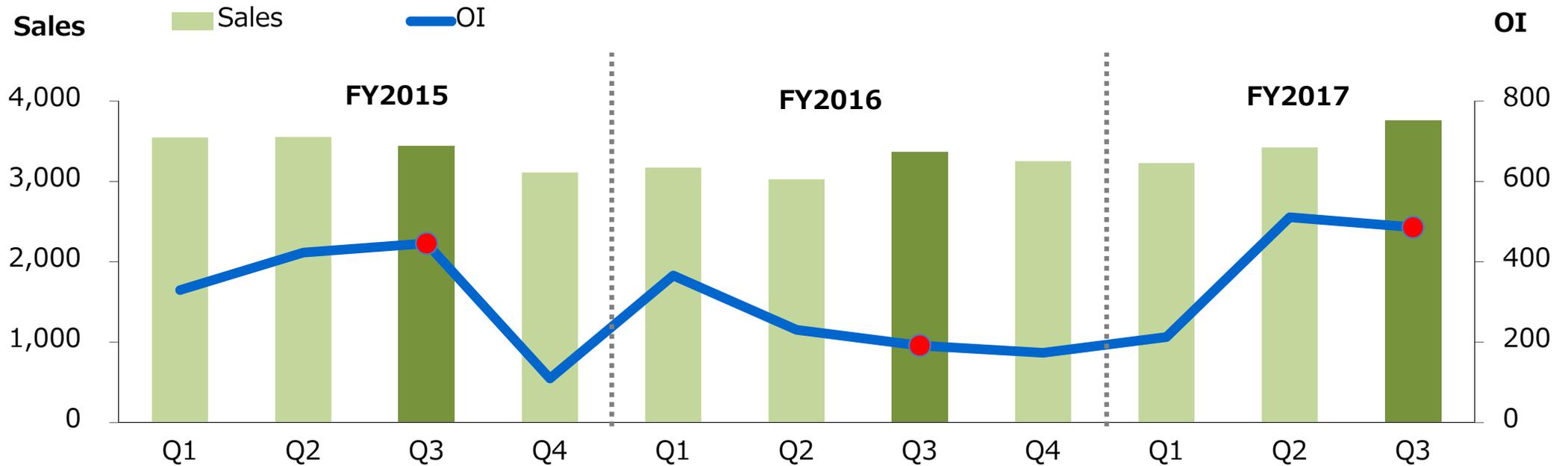
* DataLase consolidated FY2017

(Millions of JPY)	FY2017 (Apr-Dec)	FY2016 (Apr-Dec)	Change	YoY	excl. FX impact
Total Sales	10,856	9,196	+1,659	118.0%	106.4%
Gross Profit	3,577	3,432	+144	104.2%	--
Gross Profit %	32.9%	37.3%	-4.4pt	--	--
Operating Income	-906	547	-1,453	--	--
Operating Income %	--	6.0%	--	--	--



Asia & Oceania

(Millions of JPY)	FY2017 (Apr-Dec)	FY2016 (Apr-Dec)	Change	YoY	excl. FX impact
Total Sales	10,409	9,568	+841	108.8%	101.9%
Gross Profit	5,073	4,530	+543	112.0%	--
Gross Profit %	48.7%	47.3%	+1.4pt	--	--
Operating Income	1,210	790	+420	153.1%	145.0%
Operating Income %	11.6%	8.3%	+3.4pt	--	--



SATO Terminologies (1/4)

SATO-unique business concepts/initiatives		Description
1	Auto-ID Solutions business (Core business)	Our business that carries out DCS & Labeling +One. It is specifically about integrating barcode printers/labels, software and services designed in-house and products from partners to resolve customers' worksite issues. It involves matching data with people and things by tagging them with variable information. It breaks down into Japan and overseas businesses. The latter is made up of Base and Primary Labels businesses.
2	Auto-ID Solutions business overseas: Base business and Primary Labels business	The overseas segment of our Auto-ID Solutions business is made up of Base business (tagging variable information at worksites) and Primary Labels business (handles fixed information, i.e., labels on products such as beverages and everyday goods.)
3	Materials business	Develops, manufactures and sells special materials used in Econano and Inline Digital Printing.
4	Tagging	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 <i>Genbaryoku</i> .
5	The Last Inch	The final leg of last mile challenges crucial to IoT (Internet of Things) where a wide range of items must be tagged with identifiers to be collected as reliable small data. This "last inch" is SATO's business domain and where it connects the virtual and physical to provide customers value by ensuring accuracy and sustainability, saving labor and resources, offering reassurance, and building emotional connections.
6	DCS & Labeling +One (DCS: Data Collection Systems)	SATO's business model based on a) the systematic collection of data on people and things at business sites and b) tagging/labeling of information, using accurate, efficient and optimized solutions that incorporate Auto-ID technology such as barcodes and RFID with barcode printers and labels/labeling services. 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 voice recognition and location tracking to its legacy business model to deliver greater customer value.
7	Matching data with people and things	Connecting people and things at customer sites with information. Ever since our days of pioneering in hand labelers that tagged price information to products, this concept has remained central to SATO's business.
8	Genbaryoku	Our core competency of going to customer sites to understand their operations and identify the essence of issues to offer optimized solutions.

SATO Terminologies (2/4)

SATO-unique business concepts/initiatives		Description
9	Teiho	Teiho is SATO'S unique system of reports and proposals in effect since 1976. Employees share new information and ideas they come across on-site every day to top management via the Teiho system. Teiho helps top management gain immediate insight into the internal/external business situation to facilitate quick decision-making and execution of initiatives, while allowing "participation by all" in the management of the company. As Teiho involves all employees regardless of rank or years of service, it is also an effective means of compliance monitoring to prevent malpractice and other inappropriate behavior and assist in corporate governance. Some of our global offices have also started Teiho, with more to follow.
10	Materials Revolution	SATO's unique technologies of Econano and Inline Digital Printing (IDP) which drastically boost customer value of Auto-ID solutions at the component/material level.
Products, Services, Technologies		Description
1	Mechatronics	Products such as hardware (e.g., barcode printers, automatic labelers, scanners, hand labelers), software and maintenance services. They generate higher gross profit margin than consumables.
2	Consumables	Products such as printer labels/tags, primary labels (product labels) and ribbons. They generate lower gross profit margin than mechatronics, but incur low SG&A expenses as they are typically sold through repeat business.
3	Auto-ID Solutions	Combination of products such as barcode printers, labels, software and maintenance services using Auto-ID technologies to connect people, things and information to bridge the last inch. To meet ever complex and diverse user needs, SATO also looks beyond its own resources and interests to pursue open partnerships, for example, to enable solutions combining Auto-ID and location technologies to track items by tags and inventory/worker movements in real time for managing manufacturing processes and visualizing productivity on-site.
4	CLNX series	SATO's first universal printer released worldwide in 2014 (2015 for the Japan market). Engineered for zero downtime, the CLNX series is built to be strong, simple to operate and ready for use with SOS (SATO Online Services), the industry's first IoT maintenance platform for printers.
5	SOS (SATO Online Services)	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. SATO can also increase productivity of its service personnel through preventative maintenance and improve responsiveness over widely spread areas outside Japan with limited service teams.

SATO Terminologies (3/4)

Products, Services, Technologies		Description
6	AEP (Application Enabled Printing)	A feature embedded within printers enabling PC-less printing of labels and tags. AEP-enabled printers also support communication with host databases or IT systems.
7	Variable information labels	Labels with a blank or pre-printed format with variable elements such as barcode, product price, manufactured or expiry date. Unlike fixed information labels that are identical and printed at large quantities in a single run, variable information labels offer flexibility to print whenever and wherever needed.
8	RFID (Radio Frequency IDentification)	A type of Auto-ID technology that uses radio waves to read data from or write data to an RFID tag without making contact. RFID offers faster read rates (from reading multiple tags at the same time) and greater read range than traditional barcode technology. Also, unlike barcodes, RFID tags can be read when covered by another object or stained, and are read/write-capable to enable updates to the encoded data. Because of these key benefits, RFID can significantly improve operational efficiency.
9	VISION Retail Platform	An RFID-based IoT solution for the retail industry that delivers a game-changing consumer experience. VISION was developed by SATO Global Solutions (SGS), a US subsidiary established in 2015 to globally drive the Auto-ID solutions integration business that includes development, production and maintenance of hardware and consumables.
10	Econano	A nanotechnology developed in collaboration with Tokyo University of Science that absorbs and reduces CO2 generated during incineration by turning it into solid ash. Econano has applications in a variety of materials and is already used on food and apparel packaging and labels.
11	IDP (Inline Digital Printing)	A revolutionary, direct marking technology comprised of a special color-change 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 labels, minimizes stock keeping units (SKUs) and reduces waste, while also 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. Joint development with Xerox for multi-color capability – crucial for marketing applications – currently underway with target launch in 2020.

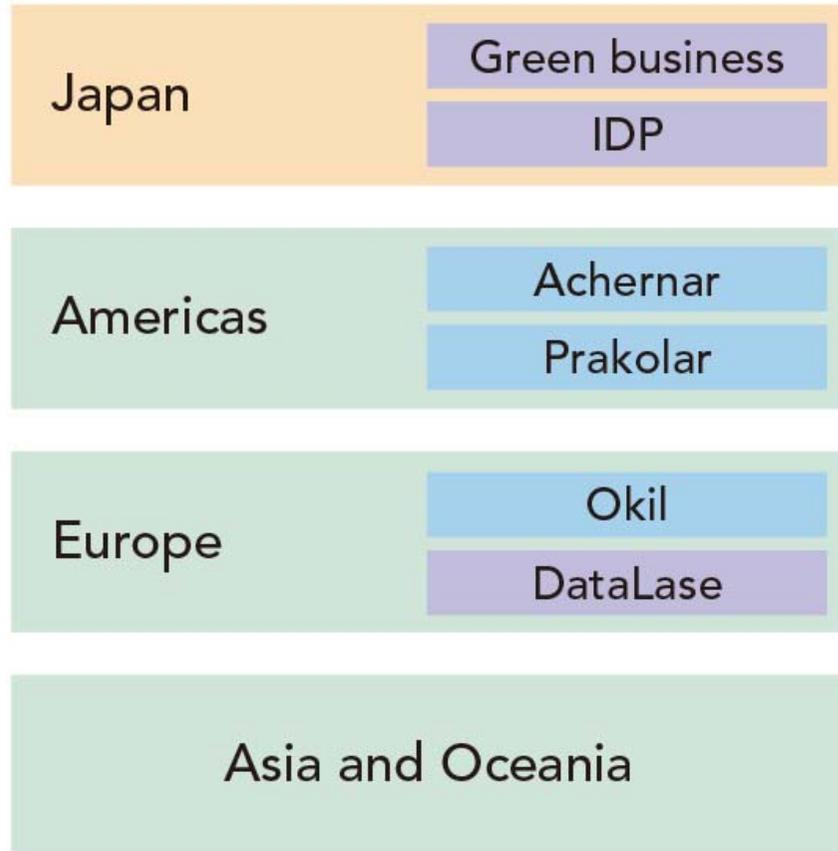
SATO Terminologies (4/4)

Key acquisitions since 2012		Description
1	Argox Information Co., Ltd. (Taiwan)	[2012] Company engaging in the development, production and sales of entry level printers.
2	Achernar S.A. (Argentina)	[2012] Company specializing in primary labels.
3	Magellan Technology Pty Ltd. (Australia)	[2013] Company from which SATO acquired its healthcare business for PJM (Phase Jitter Modulation), a highly unique RFID technology that can quickly and accurately identify large volumes of tagged items stacked or stored in any physical orientation even in the presence of metals and liquids. Now SATO Vicinity Pty Ltd.
4	Okil-Holding, JSC (Russia)	[2014] Primary label company in which SATO acquired 75% ownership stake.
5	Prakolar Rótulos Autoadesivos LTDA. (Brazil)	[2015] Company specializing in primary labels.
6	DataLase Ltd. (UK)	[2017] Company engaging in the development, production and sales of the Inline Digital Printing color-change pigment. Now a SATO consolidated subsidiary.

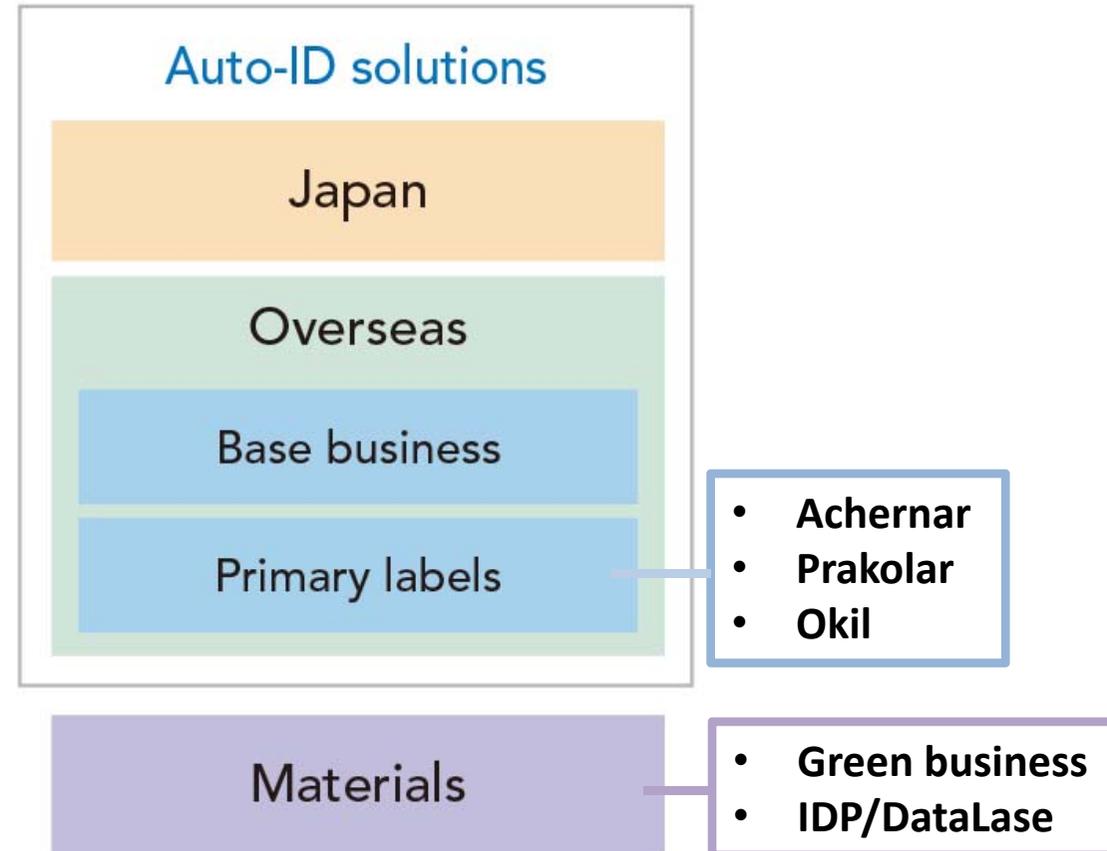


Business Segments

Until FY 2016 (by region)



From FY 2017 onward (by business)





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