



Ceaseless Creativity for a Sustainable World

May 9, 2018

SATO HOLDINGS CORPORATION

FY2017

Financial Results

(Fiscal Year Ended March 31, 2018)

Securities Code: 6287

Agenda

- I. FY2017 Consolidated Financial Results
 - II. New Medium-term Management Plan
 - III. FY2018 Consolidated Financial Targets
- Appendix

I. FY2017 Consolidated Financial Results

Summary of FY2017

Consolidated sales and OI increased YoY, while OI ratio fell due to OI losses at some overseas subsidiaries.

Auto-ID Solutions business ► Achieved record-high full-year OI

Japan : Successfully established a sustainable revenue base.

Overseas: Increased sales and OI to maintain a recovery momentum despite some soft spots.

Materials business ► Partial delays in R&D resulted in less costs than planned.

- Consolidated sales and OI for FY2017 increased YoY, despite some loss-making overseas subsidiaries.
- I am especially proud of the Auto-ID Solutions business achieving record-high full-year OI.
- The Japan business has successfully established a sustainable revenue base, rather than “one-off good performance,” through various initiatives that took place over the last two years.
- The Overseas business, especially the base business, maintained a recovery momentum despite some sluggish subsidiaries.
- The Materials business showed partial delays in R&D resulting in less costs than planned.

Sales and OI by Business Segment

		FY2017	FY2016	YoY	excl. FX impact
Auto-ID Solutions business	Total Sales	113,068	106,210	106.5%	104.5%
	Operating Income	7,697	6,221	123.7%	121.4%
Japan	Total Sales	70,482	67,283	104.8%	104.8%
	Operating Income	5,831	4,571	127.5%	126.7%
Overseas	Total Sales	42,585	38,926	109.4%	104.0%
	Operating Income	1,865	1,650	113.1%	106.7%
Materials business	Total Sales	315	92	342.6%	342.6%
	Operating Income	-1,426	-240	--	--
Consolidated (incl. eliminations)	Total Sales	113,383	106,302	106.7%	104.7%
	Operating Income	6,249	6,104	102.4%	100.1%

- By business segment, the Auto-ID Solutions business as a whole showed YoY increases in sales and OI.
- Recording OI of about JPY 7.7 billion, up around 24% YoY in the Auto-ID Solutions business, was a significant footprint.
- Consolidated OI exceeded the target of JPY 6.2 billion, revised upward on February 9th, 2018 from JPY 6.0 billion.

(Millions of JPY)

Consolidated Results

	FY2017	FY2016	Change	YoY
	Net Sales	113,383	106,302	+7,081
Operating Income	6,249	6,104	+144	102.4%
Operating Income %	5.5%	5.7%	-0.2pt	--
Ordinary Income	5,888	5,426	+462	108.5%
Profit attributable to owners of parent	4,074	3,221	+853	126.5%
Effective Tax Rate*1	39.5%	39.9%	-0.5pt	
EBITDA*2	11,814	11,296	+518	104.6%

Average exchange rates for FY17: JPY 110.85/USD, JPY 129.65/EUR
FY16: JPY 108.34/USD, JPY 118.74/EUR

*1 Effective Tax Rate: Remained high 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 FY17: JPY 4,307 million

· Amortization for FY17: JPY 1,258 million (incl. 625 mil. for DataLase)

FY16: JPY 3,996 million

FY16: JPY 1,195 million

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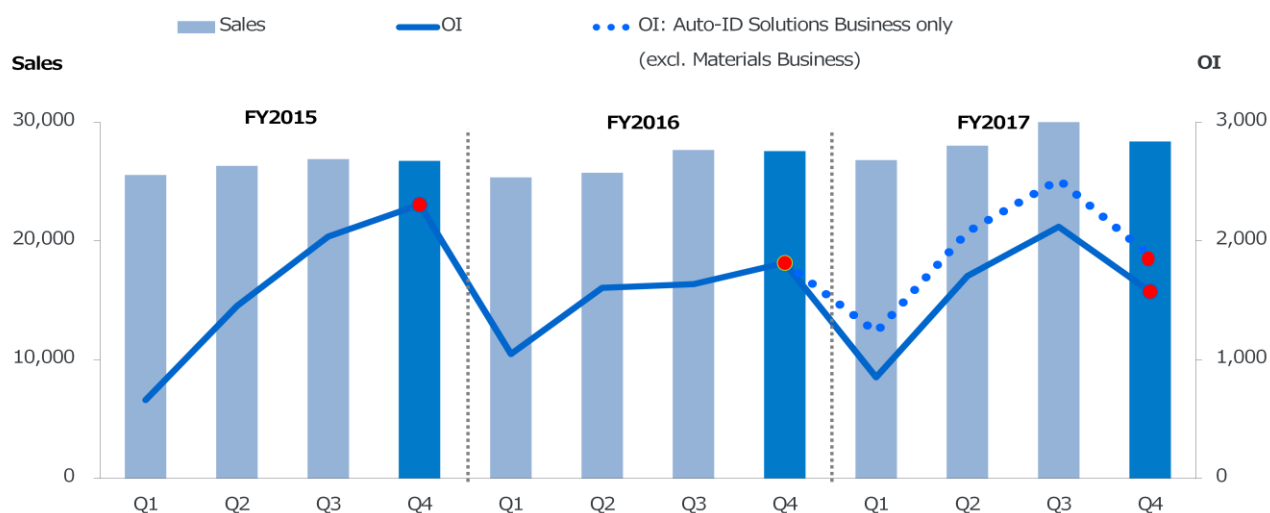
- Ordinary income was just about in line with the upward-revised target of JPY 5.9 billion.
- On the other hand, profit attributable to owners of parent missed the target of JPY 4.5 billion, details of which are discussed on the next slide.

Extraordinary Income and Losses

		Major factors
Extraordinary income	2,835	
Gain on sales of non-current assets	2,835	Former head office building, Malaysia factory
Extraordinary losses	2,229	
Restructuring loss	929	SATO Global Solutions (SGS), Specialase
Impairment loss	656	Argox, SGS
Provision for loss on guarantees	350	RFID-related business partner
Loss on sales of non-current assets	171	Dormitory for Japan employees
Loss on retirement of non-current assets	122	Overseas manufacturing facility

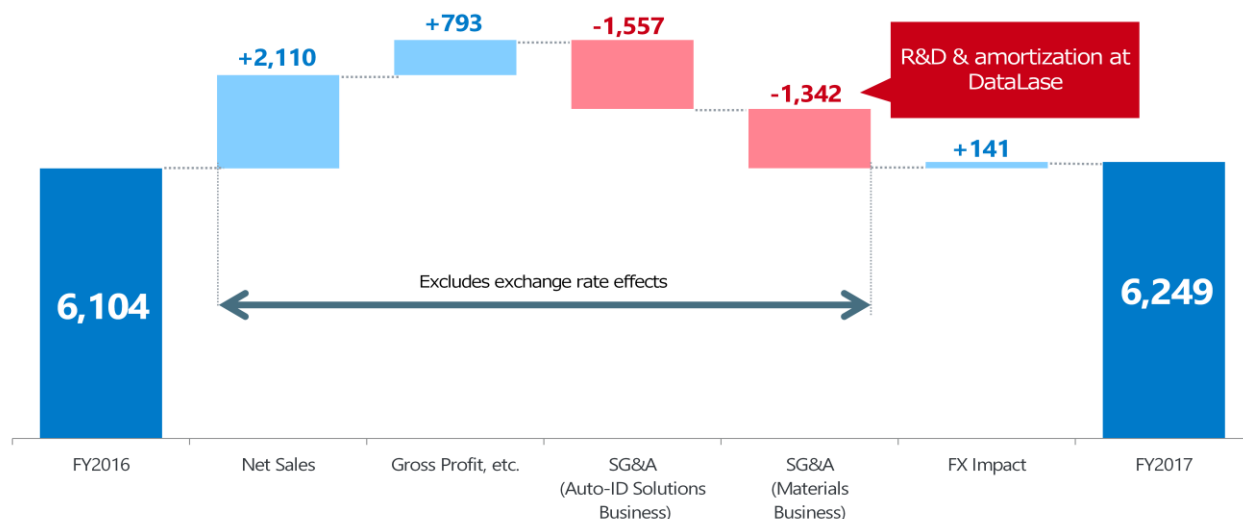
- Full-year extraordinary income and losses were about JPY 600 million net positive.
- However, they were about JPY 1.0 billion net negative in Q4.
- Factors causing these results are as listed on the slide. Restructuring loss and impairment loss from SATO Global Solutions (SGS) particularly had significant effects.
- SGS is a software developer established in Florida, USA in 2015 with the purpose of expanding solutions business globally.
- Its development of retail IoT solutions delayed two years from the initial plan, resulting in huge OI losses over the last three years.
- We decided to close the company to optimize the cost structure, allowing us to increase opportunities for commercialization of the high value-added solutions.
- These are the factors behind us missing the target of profit attributable to owners of parent.

Quarterly Consolidated Sales & OI



- An unusual QoQ OI decline in Q4 FY2017 was caused mainly by decrease in sales.
- This was largely due to an excellent performance in Q3 and sluggish consumables sales in Q4 due mainly to bad weather.
- Other expenses such as performance-based bonus and retirement of overseas inventories added to the negative impact on Q4 OI.

Major Gains/Losses in Consolidated OI



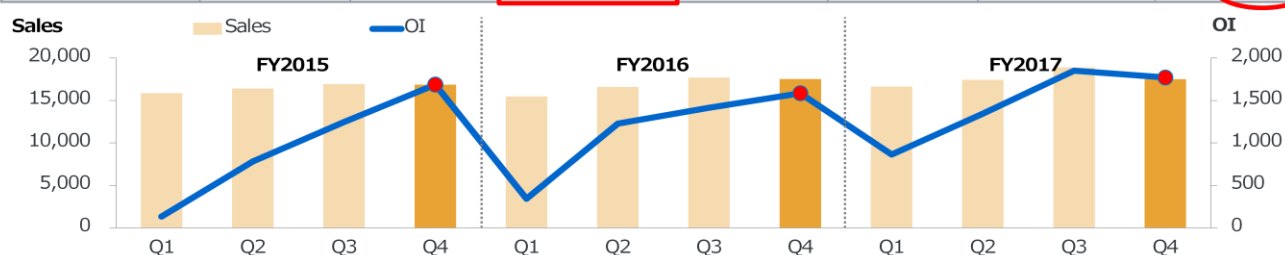
- Majority of increased costs in the Auto-ID Solutions business, such as HR and IT related costs, were intentionally spent to execute strategies.
- Almost all of the SG&A increase in the Materials business stemmed from an increase in R&D expenses and goodwill amortization at DataLase.

Auto-ID Solutions Business (Japan)

Positive trends in all verticals led to increases in sales and OI.

OI ratio improved by 1.5 percentage points YoY due mainly to favorable performance in mechatronics sales.

	FY2017			FY2016			YoY
	1H	2H	Full Year	1H	2H	Full Year	
Mechatronics Sales	12,920	14,644	27,564	11,524	13,608	25,132	109.7%
Consumables Sales	21,138	21,779	42,917	20,552	21,598	42,150	101.8%
Total Sales	34,058	36,423	70,482	32,076	35,206	67,283	104.8%
Gross Profit	16,455	17,440	33,896	14,729	16,205	30,934	109.6%
Gross Profit %	48.3%	47.9%	48.1%	45.9%	46.0%	46.0%	+2.1pt
Operating Income	2,208	3,623	5,831	1,570	3,001	4,571	127.5%
Operating Income %	6.5%	9.9%	8.3%	4.9%	8.5%	6.8%	+1.5pt



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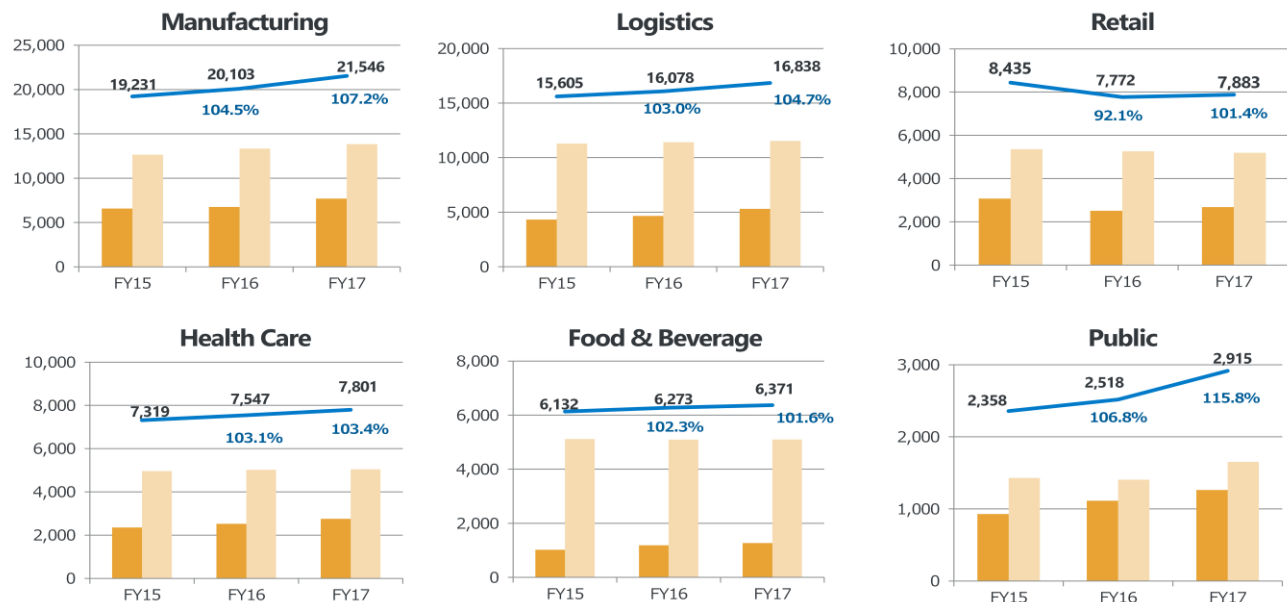
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- The Japan business saw an increase in sales and a significant growth in OI on back of positive trends in all verticals. Our internal initiatives worked well, even considering that the external environment worked in our favor.
- OI ratio improved by 1.5 percentage points YoY due mainly to success in executing our strategy of expanding sales in mechatronics, printers in particular, that we have been focused on over the last two years.

Auto-ID Solutions Business (Japan): Sales by Vertical

■ : Mechatronics ■ : Consumables — : Total (% indicating YoY change)



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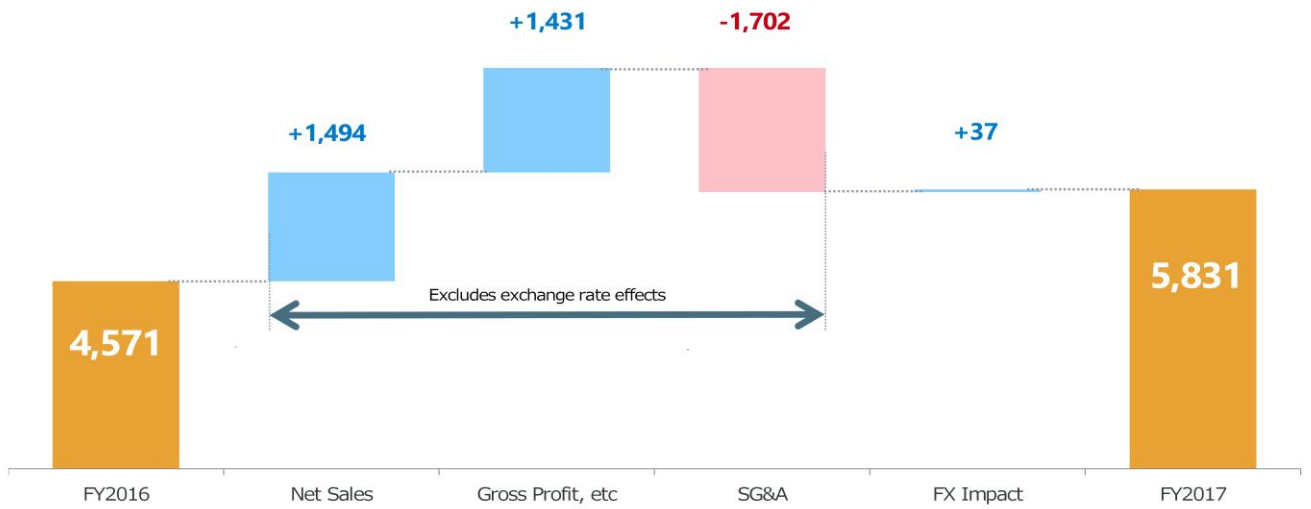
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- Demand for automation and efficiency has been growing, owing to labor shortage that customers in all verticals are facing.
- Manufacturing, Logistics, Health Care and the Public sectors made significant progress in FY2017.
- The retail sector showed steady progress reflecting our efforts from FY2016 to promote RFID and to penetrate e-commerce markets.

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

(Millions of JPY)



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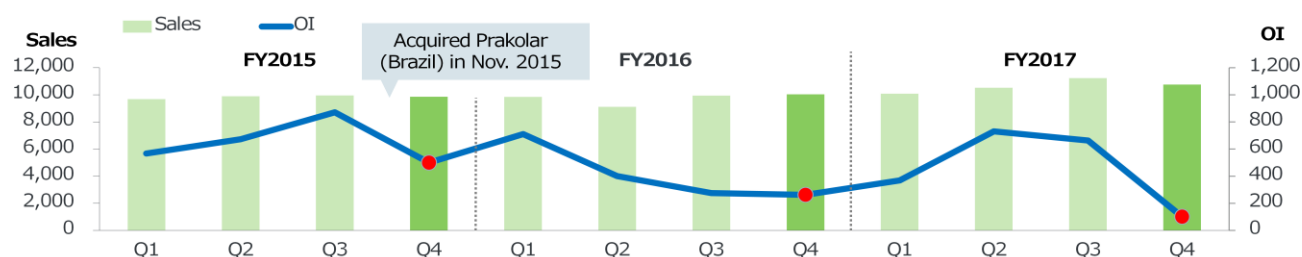


- Sales increase in mechatronics that have relatively high profitability contributed to the gain in gross profit.
- SG&A increase includes incremental variable costs linked to increased sales in addition to the HR and IT related expenditures mentioned earlier.

Auto-ID Solutions Business (Overseas)

Although some challenges remain, strong performance in Base business made up for the struggling Primary Labels business, resulting in YoY increases overall in sales and OI.

	FY2017			FY2016			YoY	
	1H	2H	Full Year	1H	2H	Full Year		excl. FX impact
Total Sales	20,604	21,980	42,585	18,957	19,969	38,926	109.4%	104.0%
Gross Profit	7,797	8,056	15,853	7,310	7,414	14,724	107.7%	--
Gross Profit %	37.8%	36.7%	37.2%	38.6%	37.1%	37.8%	-0.6pt	--
Operating Income	1,099	766	1,865	1,112	538	1,650	113.1%	106.7%
Operating Income %	5.3%	3.5%	4.4%	5.9%	2.7%	4.2%	+0.1pt	--



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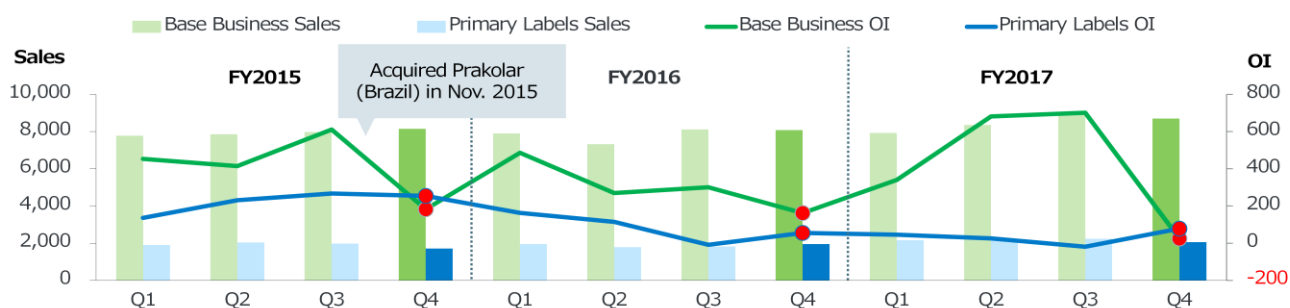


- Sales and OI increased YoY despite some soft spots.
- OI in Q4 of this fiscal year declined significantly due mainly to increases in R&D costs at SGS.
- R&D costs for retail IoT solutions at SGS were booked as accounts payable in Japan with the assumption to provide them globally. However, in Q4, we decided to reverse the costs to SGS following its liquidation. This transaction had no impact on a consolidated basis.

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 fall in YoY OI due to negative FX impact and investment costs for ramping up production capabilities to expand business.

		FY2017			FY2016			YoY	
		1H	2H	Full Year	1H	2H	Full Year		excl. FX impact
Base Business	Total Sales	16,281	17,683	33,964	15,217	16,193	31,411	108.1%	103.3%
	Operating Income	1,022	726	1,749	756	464	1,221	143.3%	134.9%
Primary Labels	Total Sales	4,323	4,297	8,620	3,739	3,776	7,515	114.7%	107.0%
	Operating Income	72	58	131	279	45	325	40.3%	39.7%
Eliminations	Operating Income	4	-19	-15	76	27	103	--	--



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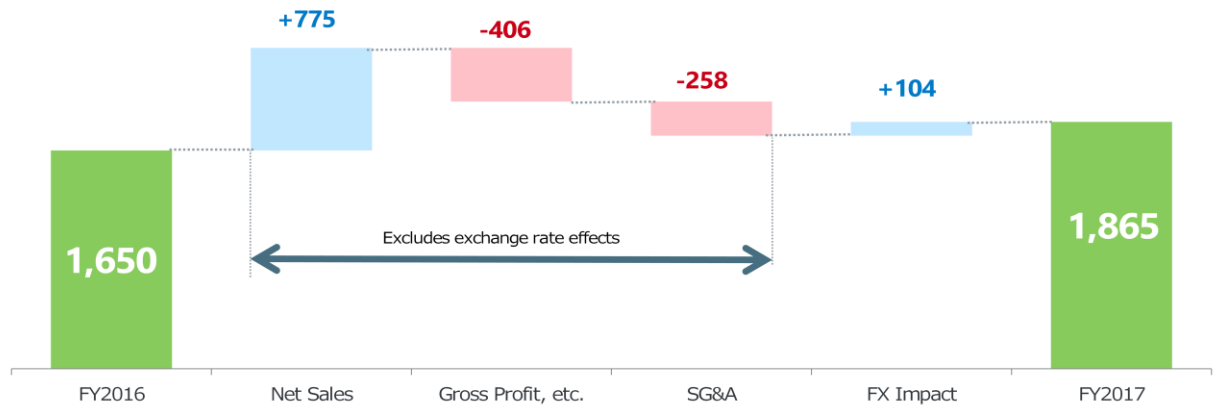
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- This slide explains the breakdown of the Overseas Auto-ID Solutions business. In Base business, the Americas and APAC saw YoY increases in sales and OI, while Europe increased sales but fell behind in OI.
- In the Primary Labels business, sales grew but OI declined sharply due mainly to negative FX impact and up-front investment to expand business at Okil.

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

(Millions of JPY)



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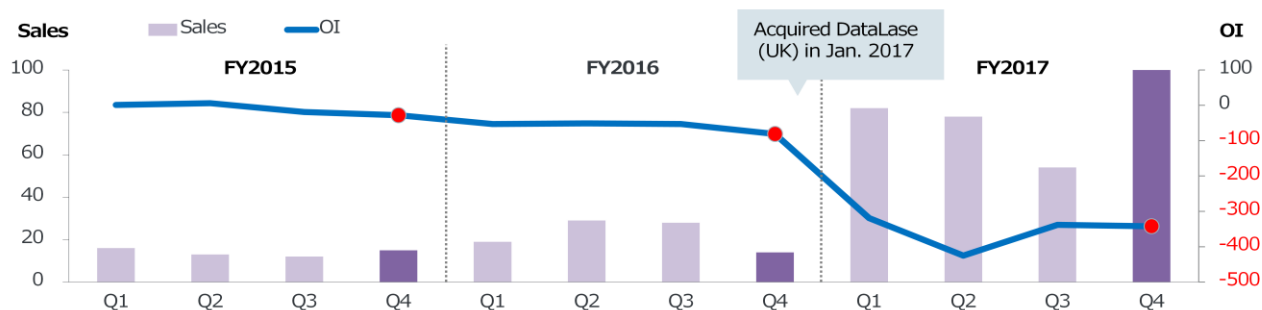


- Around 90% of gross profit decline resulted from investment costs to expand business at Okil. We aim to make this investment bear fruits from this fiscal year onward.

Materials Business

Partial delays in R&D at DataLase (consolidated FY2017) resulted in less costs than planned.

	FY2017			FY2016			YoY
	1H	2H	Full Year	1H	2H	Full Year	
Total Sales	160	155	315	48	43	92	342.6%
Gross Profit	120	113	234	7	71	78	298.3%
Gross Profit %	75.5%	73.3%	74.4%	15.1%	165.4%	85.5%	-11.1pt
Operating Income	-745	-681	-1,426	-104	-135	-240	--
Operating Income %	--	--	--	--	--	--	--



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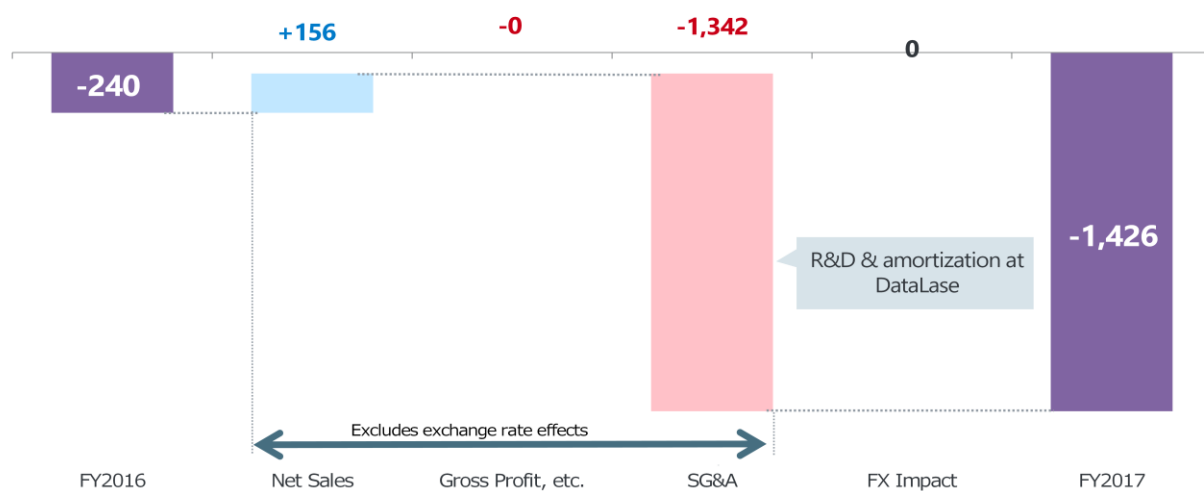
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- Partial delays in R&D at DataLase, consolidated in FY2017, resulted in less costs than planned.

Materials Business (Major Gains/Losses in OI)

(Millions of JPY)



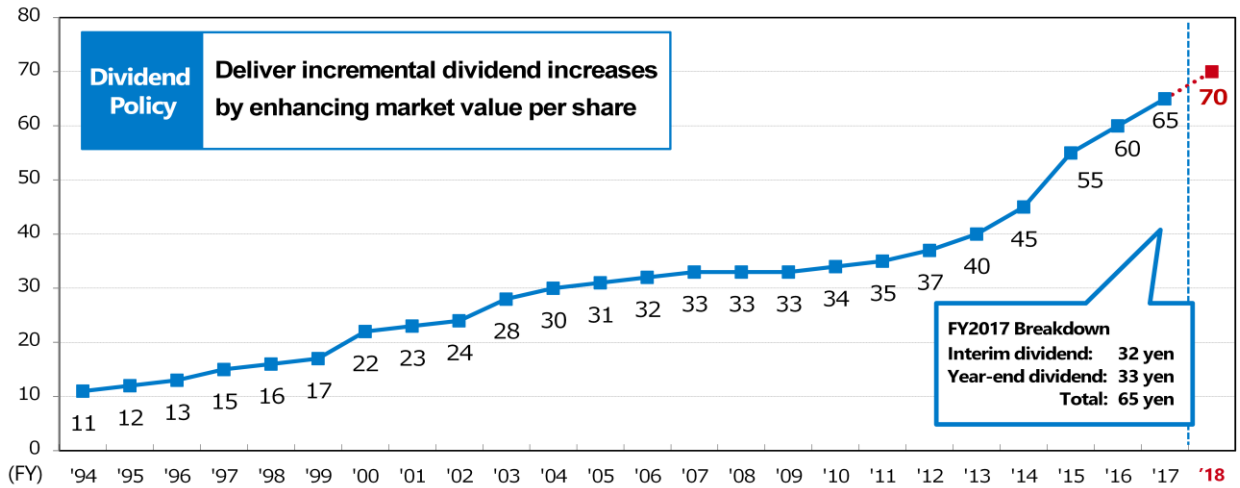
- Comments made on the previous slide apply here as well.

Dividends

- Total dividends for FY2017: JPY 65 (5-yen increase YoY)
- Total dividends planned for FY2018: JPY 70 (5-yen increase YoY)

	FY2016	FY2017	FY2018 (Forecast)
EPS	¥96.1	¥121.5	¥122.3
ROE	6.2%	7.6%	7.4%
(Ref.) Payout ratio	62%	53%	57%

(JPY per share)



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- There is no change in the dividend policy where we focus more on stable increases rather than any particular payout ratio.
- The proposed full-year dividend for FY2017 is JPY 65 per share, and we plan to pay JPY 70 per share in FY2018.

II. New Medium-term Management Plan

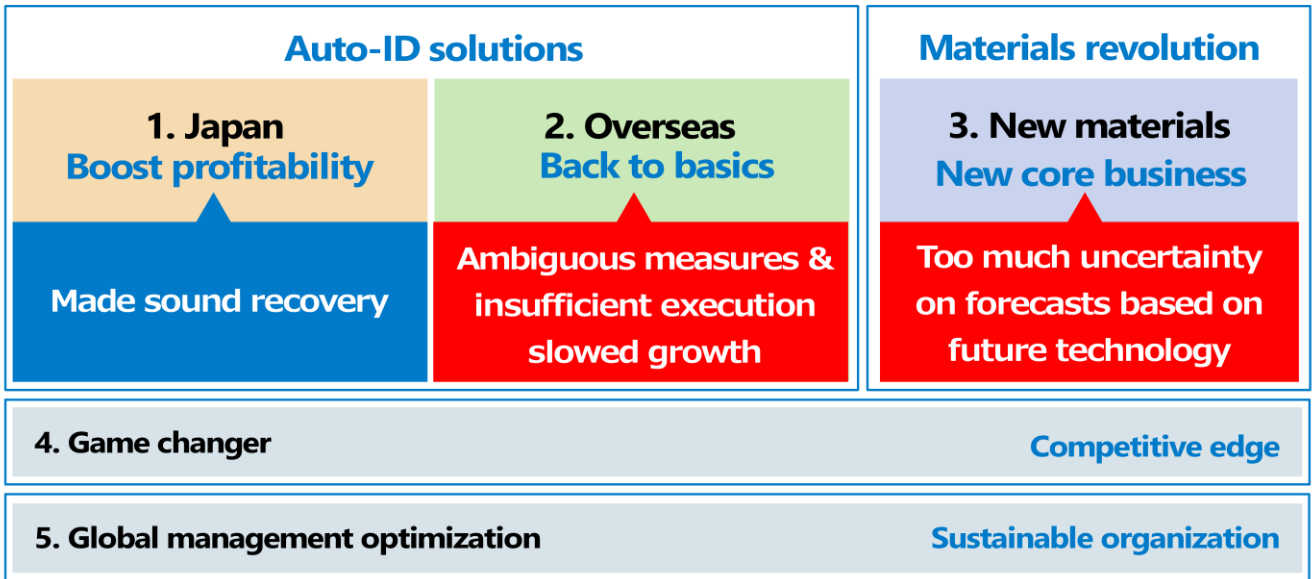
- I will now explain our new medium-term management plan that span three years from FY2018 to FY2020.

Understanding the New Medium-term Management Plan



- This is the order in which I will explain.

Review of the Previous Medium-term Management Plan



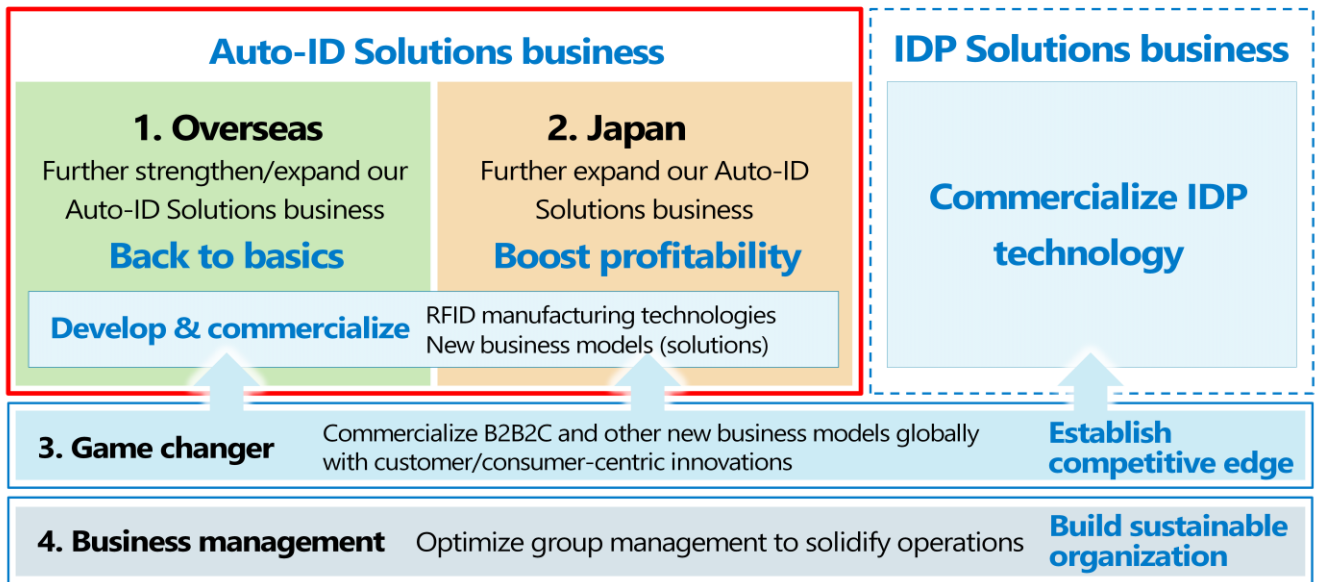
- This slide shows the structure and our review of the previous medium-term management plan.
- The Japan business made a sound recovery and established a sustainable profit base.
- As for the overseas business, we must admit that ambiguous measures and insufficient execution led to slow growth.
- The new materials business carried too much uncertainty in its plan as the forecasts were based on commercialization of two of three yet-to-be-developed technologies, which will be discussed later.

Management Policy

**Concentrate resources on
the Auto-ID solutions business and
establish sustainable growth and stable profits**

- Based on these findings, we have refreshed the medium-term plan. The new one is designed to build a profit base and achieve sustainable growth by concentrating resources on the Auto-ID solutions business.
- Our intention to strengthen the Auto-ID solutions business is not new, but I would like to clarify the difference between the old and new plans.

Changes in the New Medium-term Management Plan



- This slide shows the structure of and changes made in the new medium-term management plan regarding the four strategies of (1) Overseas, (2) Japan, (3) Game changer & (4) Business management. The following are the three major status changes from the previous plan.
 - The first is making the overseas business our top priority. Convinced that the overseas business will be the growth driver in the mid- to long-term run, I took the initiative to reverse the order with the Japan business.
 - The second concerns Strategy 3, Game changer, that will focus on the development of new competitive technologies and solutions before pursuing their commercialization. Development and commercialization of RFID manufacturing technology and solutions is one example. Simply developing something doesn't mean anything, so we emphasize "commercialization".

- And thirdly, the business segment that was called New Materials in the previous plan has been renamed IDP Solutions, to reflect our focus on the development and commercialization of IDP technology. Since not all IDP technologies are fully developed as stated before, the process of development and commercialization will be managed carefully. The dotted line around IDP Solutions business indicates the fact that the technologies are not fully developed as of now.

(Millions of JPY)

Management Objectives

	FY2017	FY2018	FY2019	FY2020	Gap (FY20 vs FY17)	FY2025
Net Sales	113,383	120,000	126,000	135,000	6.0%*1	Net Sales JPY 200,000 million
Overseas %	37.8%	39.9%	41.6%	43.6%	+5.8pt	Operating Income JPY 24,000 million
OI %	5.5%	6.1%	7.4%	9.5%	+4.0pt	
EBITDA %	10.4%	10.8%	12.0%	13.3%	+2.9pt	Operating Income % 12%
ROE	7.6%	7.4%	9.5%	12.0%	+4.4pt	
Per capita productivity*2	1.84	1.90	2.10	2.50	10.7%*1	

*1 CAGR

*2 Per capita productivity = (Operating income + Goodwill amortization + IT system depreciation) / No. of employees

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- Here are the management objectives taking into account the aforementioned changes. The new plan runs for three years with our sights on FY2025 as well.
- We aim to increase sales and profits with particular focus on the overseas business. Particular attention will also be paid to per capita productivity.


Targets by Segment

(Millions of JPY)

	FY2017	FY2018 (target)	FY2019 (target)	FY2020 (target)
1. Auto-ID Solutions business (Overseas)				
Sales	42,585	47,500	51,500	55,700
Operating Income	1,865	3,100	4,000	5,100
2. Auto-ID Solutions business (Japan)				
Sales	70,482	72,000	73,500	76,000
Operating Income	5,831	6,100	6,300	7,700
3. IDP Solutions business*¹				
Sales	315	500	1,000	3,300
Operating Income	-1,426	-1,900	-1,000	0
Consolidated				
Sales	113,383	120,000	126,000	135,000
Operating Income	6,249 ²	7,300	9,300	12,800
Operating Income %	5.5%	6.1%	7.4%	9.5%

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*1 Known formerly as the "Materials Business" 

*2 Include eliminations

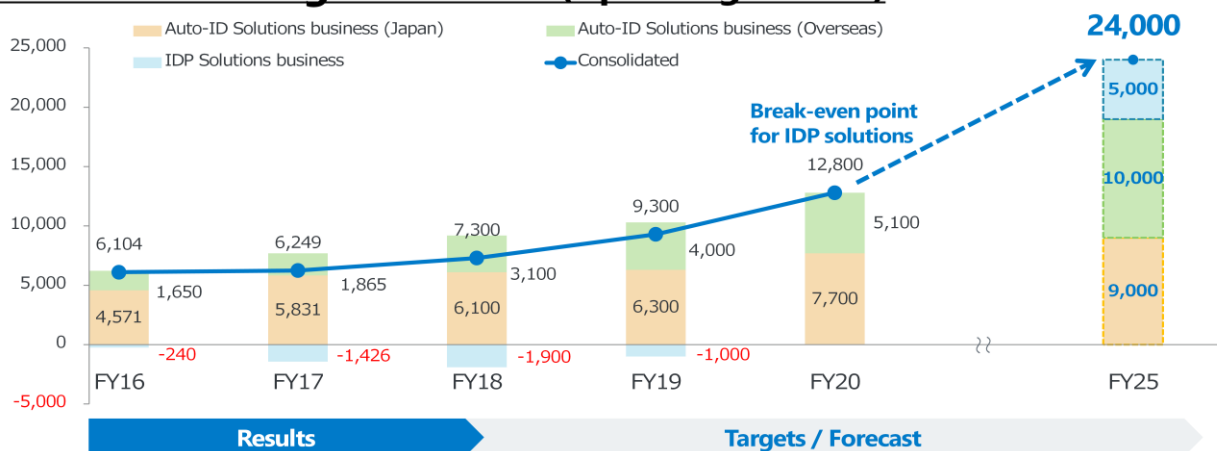
- Two points of note regarding the targets by segment are as follows:
 - The first is to grow the overseas business faster than ever. Considering the growth potential that we will discuss later, we plan to build a groundwork over the next three years on which we could achieve annual growth of 20 to 30% over the mid- to long-term run, believing 10 to 20% would not be good enough.
 - The second is to break even in operating income for the IDP Solutions business by FY2020. Details of the strategies will be explained later.

What to Expect in Consolidated Operating Income

- Pursue sustainable OI growth by concentrating resources on the Auto-ID solutions business and by firmly monetizing abundant business opportunities
- Plan OI for the IDP solutions business based on technologies that can be commercialized

Medium-term Management Plan (Operating Income)

(Millions of JPY)



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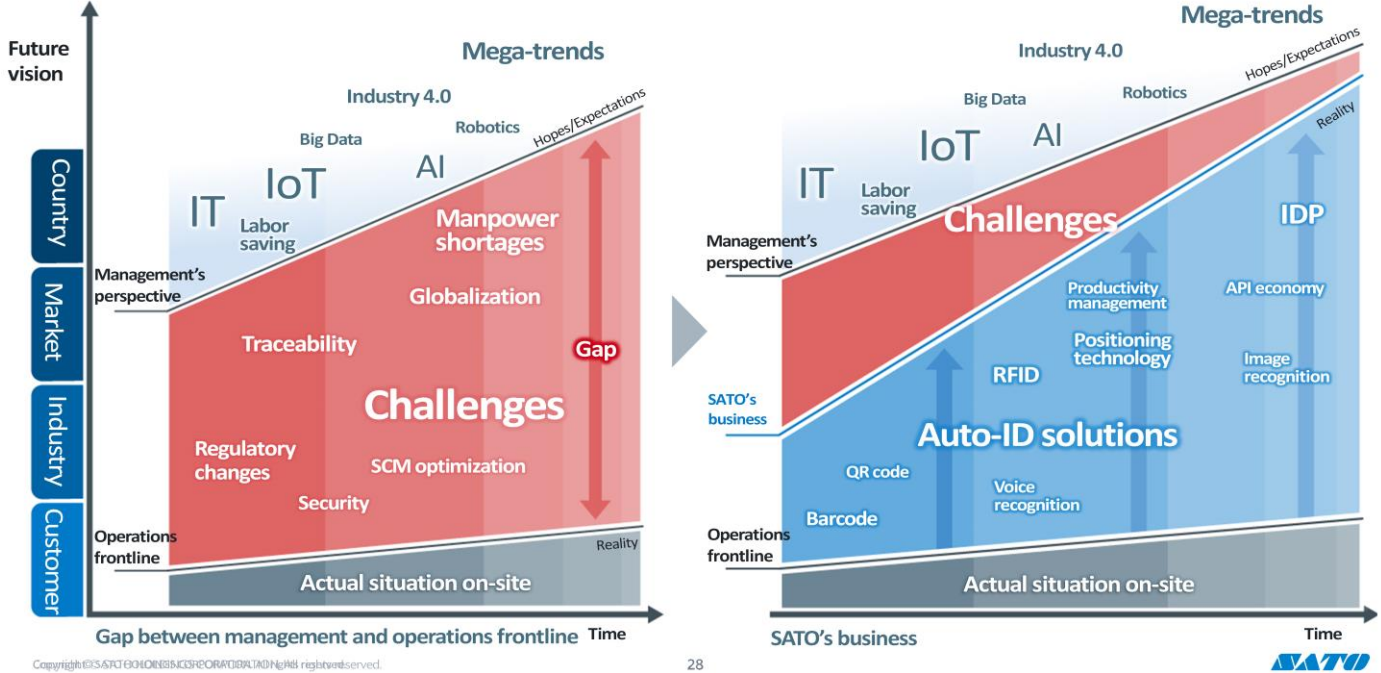
- This chart illustrates operating income targets by segment as listed on the previous slide.
- Overseas operating income is forecast to exceed that of the Japan business by FY2025.

Growth Strategies

1. Grow and evolve the Auto-ID Solutions business
2. Create and expand business through global alliances
3. Commercialize IDP technology-based solutions

- We have three growth strategies. The first two provide the background to our management policy of concentrating resources on the Auto-ID Solutions business.

1-(1) Potential to Solving Challenges with Auto-ID Solutions



- This section explains the first growth strategy of growing and evolving the Auto-ID Solutions business.
- The top part of the image on the left shows the global mega-trends such as IoT and AI. Our customers — i.e., their management — are striving to ride these trends to take their businesses to new heights. On the other hand, their frontlines of operation face various challenges such as manpower shortage. This results in a wide gap between management’s perspective and reality faced at the operational frontlines.
- SATO’s competitive Auto-ID solutions can help solve these challenges and fill the gap.
- Despite common belief that the Japan market cannot hope for any noticeable growth, we have already seen examples of challenges being solved with innovative Auto-ID solutions. As I will explain later, the Auto-ID solutions market overseas is expected to grow even further.
- It’s important for us to know that the Auto-ID solutions we provide must also change themselves.

- For the overseas business, it is imperative not to take a bird's eye view but to identify management and frontline challenges by country, market and customer to continue creating actual solutions. The new medium-term plan aims to put the necessary structure in place.

1-(2) Grow and evolve the Auto-ID Solutions business



MonotaRO Co., Ltd.

- Major online store of industrial supplies
- Number of products: **15 mil** as of Mar 2018
- Sales **more than doubled** (2.5x) and OI **tripled** in the last 5 years

Warehouse challenges

- Productivity varies among workers
- Stock-outs & opportunity losses
- Longer picking routes

Improve warehouse productivity with route navigation

Unique algorithm maps out & navigates the shortest picking route

New workers can pick as productively as experienced workers



Overall onsite productivity improved by approx 20%

Potential e-commerce markets



Apparel



Household goods



Food



Electric appliances

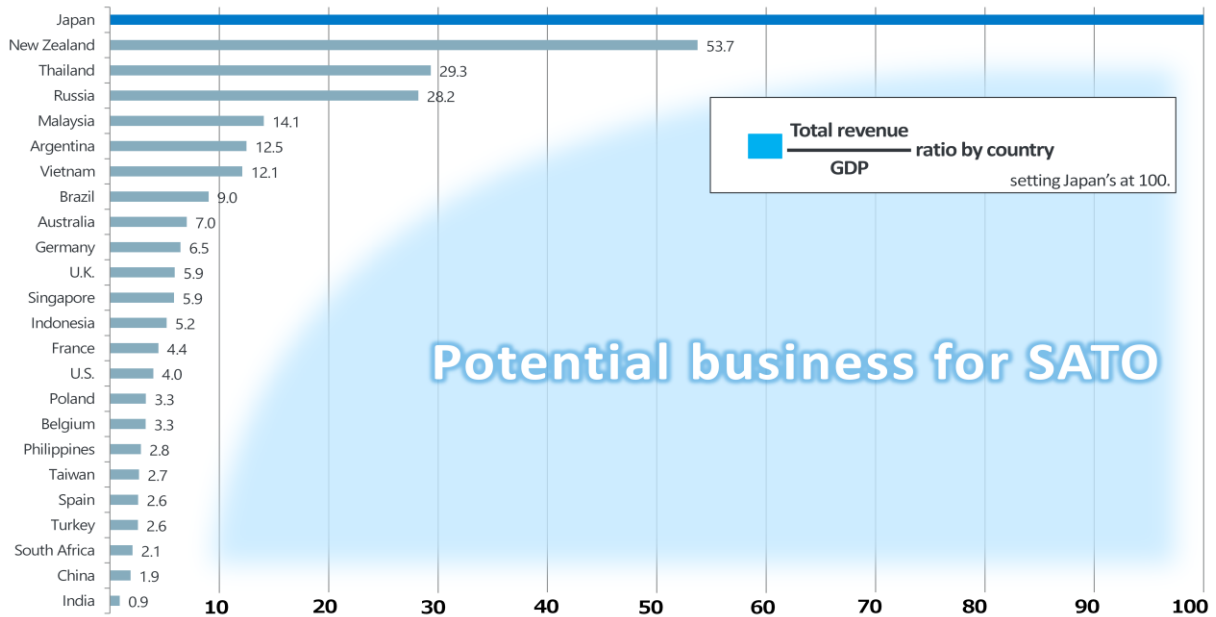
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- Let me give you an example of a solution suggested for a warehouse of MonotaRO Co., a major online store of industrial supplies.
- A challenge in their warehouse was that picking productivity varied among workers depending on their experience. The Auto-ID solution that SATO provided for their problem was route navigation. This solution combines 3D mapping technology with a routing algorithm to map goods on a virtual warehouse and guide the shortest picking route to workers.
- The solution enabled new workers to pick as productively as experienced ones, which led to an overall onsite productivity improvement of approximately 20%.
- Similar challenges are reported at other online stores in industries such as apparel and daily goods. Currently, there are over 200 orders in the pipeline including those in the industries discussed here.

1-(3) Auto-ID Solutions Business (Overseas): Opportunities (1)



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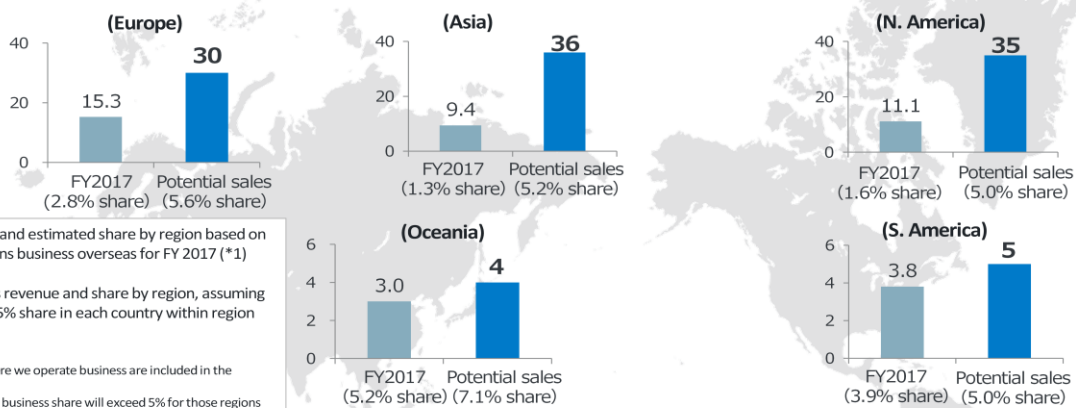
<In-house estimates based on World Economic Outlook Database October 2017>
<http://www.imf.org/external/ns/cs.aspx?id=28>



- This slide illustrates how much potential we have in our overseas business by country.
- Based on our own calculation, the figures indicate the ratio of total revenue to GDP for each country we have presence in, setting Japan's ratio at 100.
- We consider the light blue area on the right to show the opportunities we potentially have in our overseas business.

1-(4) Auto-ID Solutions Business (Overseas): Opportunities (2)

(Billions of JPY)



* Business revenue and estimated share by region based on our Auto-ID solutions business overseas for FY 2017 (*1)

* Potential business revenue and share by region, assuming we secure at least 5% share in each country within region (*2)

*1 Only countries where we operate business are included in the respective regions

*2 Note that potential business share will exceed 5% for those regions with countries where our current share exceeds 5%

FY2017 overseas sales
JPY 42.6 billion
 (2% market share)



Overseas potential
Approx. JPY 110 billion
 (5%+ market share)

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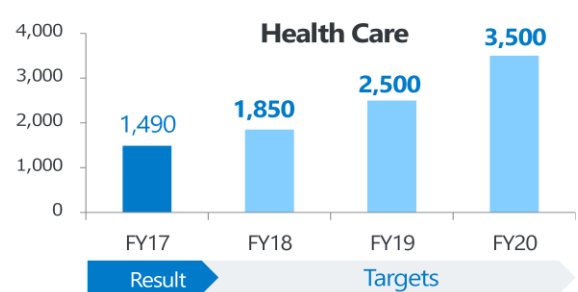
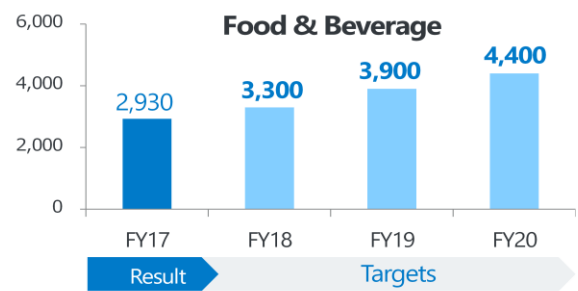
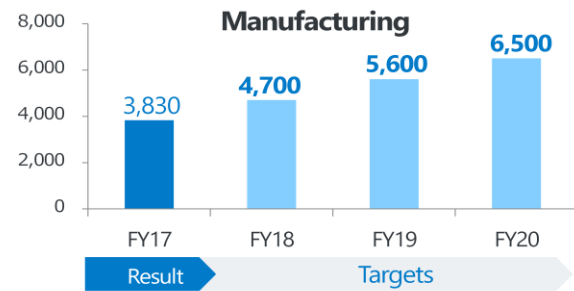
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- Here is another look at our overseas opportunities to put the previous slide into perspective.
- It took 30 years for us to expand our market share in Japan to approximately 40%. Considering the circumstances, we are targeting mid- to long-term market share of 5% and sales of JPY 110 billion, which equates to 2.5 times the sales in FY17.
- There is particular potential in Asia and North America where we need to focus on.
- We aim to meet these targets by firmly aligning our strategies with investment plans.

1-(5) Auto-ID Solutions Business (Overseas): Sales Targets by Vertical

(Millions of JPY)



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- Manufacturing, food & beverage, retail and health care are the four markets that our overseas operations will target in common. The selection is based on global trends and areas where SATO can best exert its expertise.
- As there are obvious differences between customers in different countries, our group companies in each country will target markets depending on their respective priorities.

2 Create and expand business through global alliances



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*Application Programming Interface
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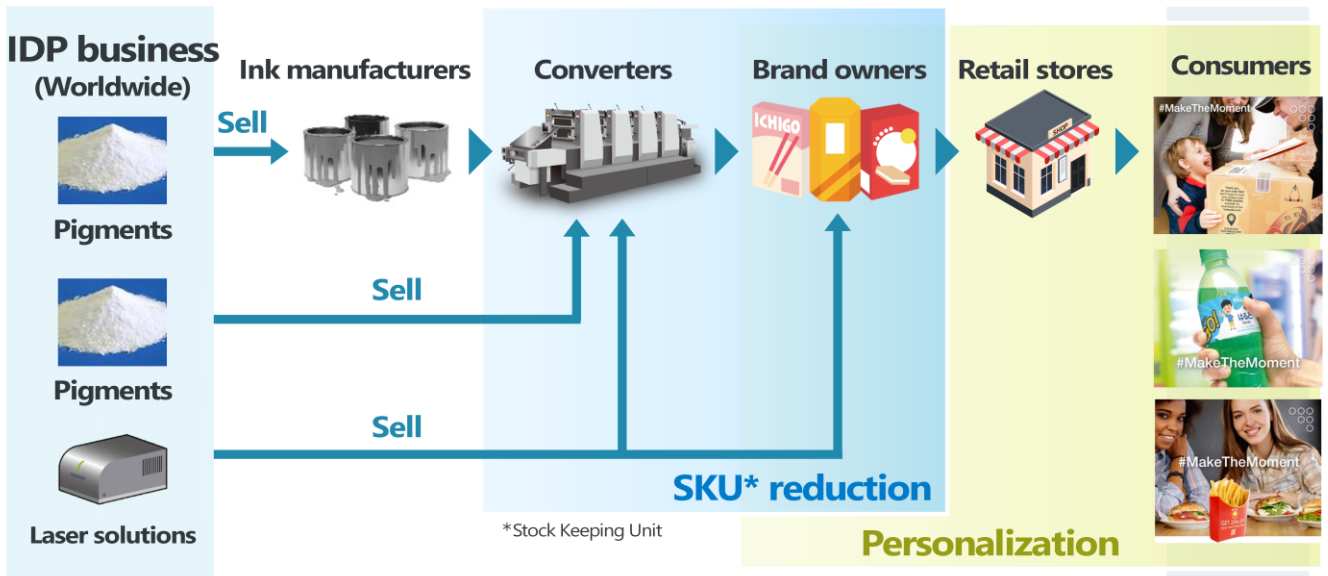
- I will move on to talk about the second growth strategy of creating and expanding business through global alliances.
- There are five ways of doing it. The first is to develop and sell by ourselves Auto-ID solutions with competitiveness and high customer value discussed earlier. The second way is to ask our partners who understand the value of our solutions to sell them on our behalf so that we can speed up and expand sales. The third is to enhance customer value by selling combinations of SATO's and partners' solutions. As an example, we will be providing combinations of warehouse labor management solutions from JDA, a global leading provider of supply chain solutions, and those of SATO we looked at earlier to customers of one another. SATO's Visual Warehouse solution will digitize position information of workers, forklifts and goods at customers' warehouses so that it can be visualized and analyzed. JDA's labor management system will then utilize the information to help enhance warehouse productivity.
- In these ways, we can create many useful solutions in a short

timeframe for more customers to take advantage of. And from there, we would capture new needs and reflect them into the next new solution, to keep a positive cycle going.

- To introduce a few partners, we are already tying up with JBCC, who has numerous workflow development businesses in Japan and Asia; Manhattan Associates, a solutions provider and global leader in the field of warehouse management system, and JDA, mentioned earlier.

3-(1) Commercialize IDP technology-based solutions

IDP business model



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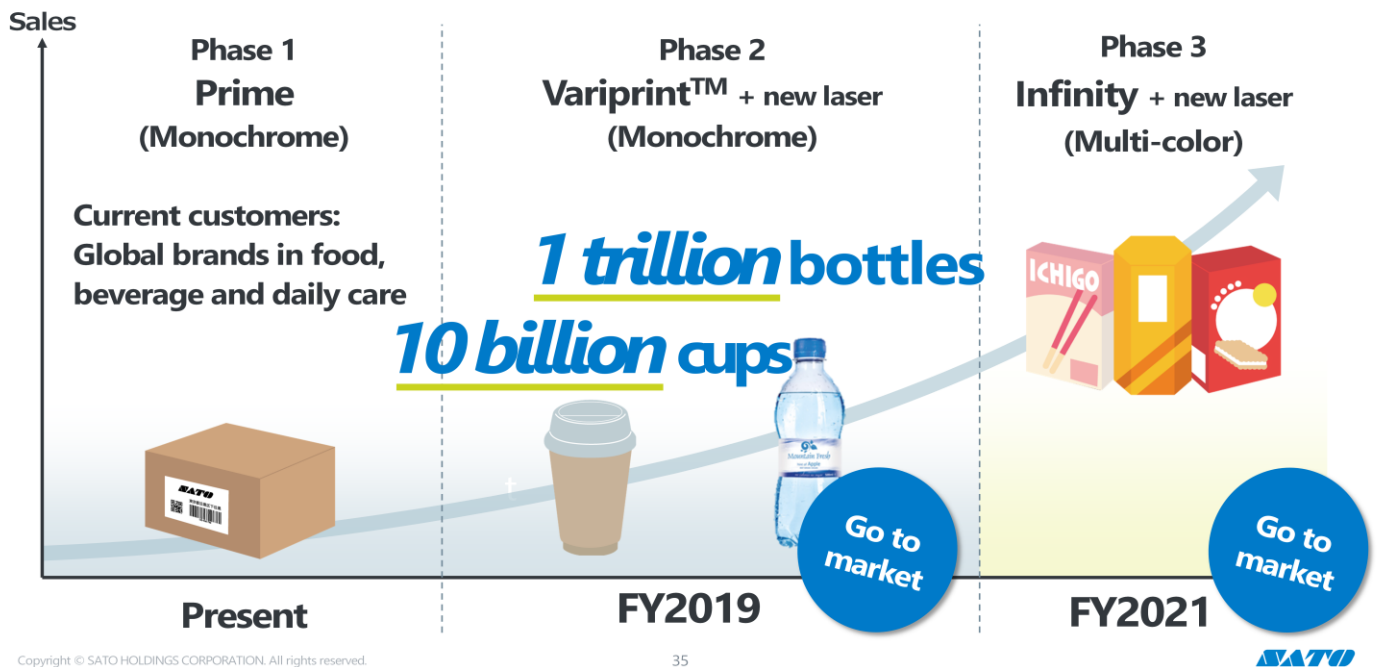
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- Discussed here is the third growth strategy of commercializing IDP technology-based solutions.
- IDP (Inline Digital Printing) is a unique printing technology using special heat-reactive pigments to be mixed with ink and then coated on surfaces of carton boxes and packages before being exposed to laser heat to change color and thus print.
- This slide shows the business model. There are several scenarios. One would be to sell the special pigments to ink manufacturers, and another would be to buy ink from ink manufacturers and mix pigment to it to sell to converters, who would print the carton boxes and packages. There is another way of selling to converters and brand owners solutions that combine the above materials with lasers, including software.
- We intend to spread this IDP business model worldwide.
- Of the various values IDP technology can provide, reduction of SKU would be one that converters and brand owners could especially appreciate. For brand owners and retail stores, it can offer opportunities to enhance sales and profits by promoting

- personalized packages to consumers.
- By seeing from the perspective of consumer value, SATO can provide brand owners and retail stores the new value of enhancing sales and profits. This would be a B2B2C model.

3-(2) Commercialize IDP technology-based solutions



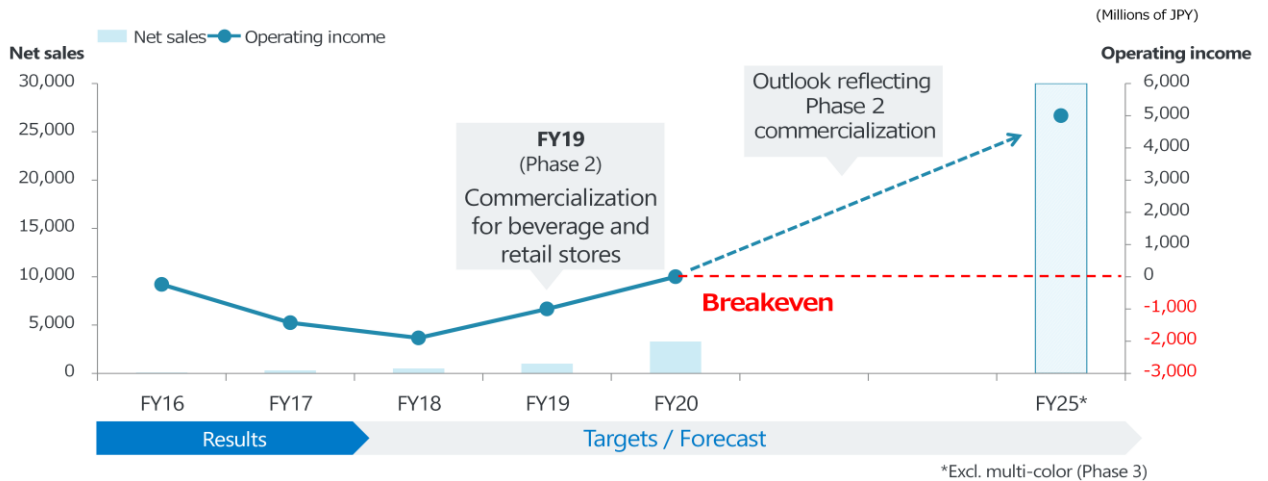
- This slide describes how we would expand the IDP solutions business based on commercialization schedules of various IDP technologies.
- FY2019 — Phase 2 — expects to see commercialization of Variprint™ pigments with dedicated, new lasers. Currently, we are seeing encouraging progress in their development and customer interests.
- Phase 3 plans commercialization of multi-color Infinity pigments with yet another new set of lasers by FY2021.
- We are co-developing the new lasers with various partners.
- We are making progress in the Phase 2 development and commercialization, reflecting requirements from eager converters providing bottles and cups to global brands. To give you a sense of the potential business volume, there are 1 trillion bottles produced annually on a global basis, of which one of the top converters holds a 30% market share that translates to 300 billion bottles. Although it may be unrealistic to assume SATO winning all of that business, we are making

forward-looking investments to capture this huge potential. We intend to manage the project carefully towards commercialization.

3-(3) Commercialize IDP technology-based solutions

Promoting the sales of technologies that can be commercialized has the potential to bring substantial growth

Medium-term management plan (IDP business outlook)



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*Excl. multi-color (Phase 3)



- This is how the commercialization schedule on the previous slide would look like in terms of sales and operating income. Phase 3 is not included in these figures.
- We are targeting breakeven of the IDP business in FY2020. We will work toward converting potential talks with eagerly-interested customers into profits, while deploying this technology to other customers as well.

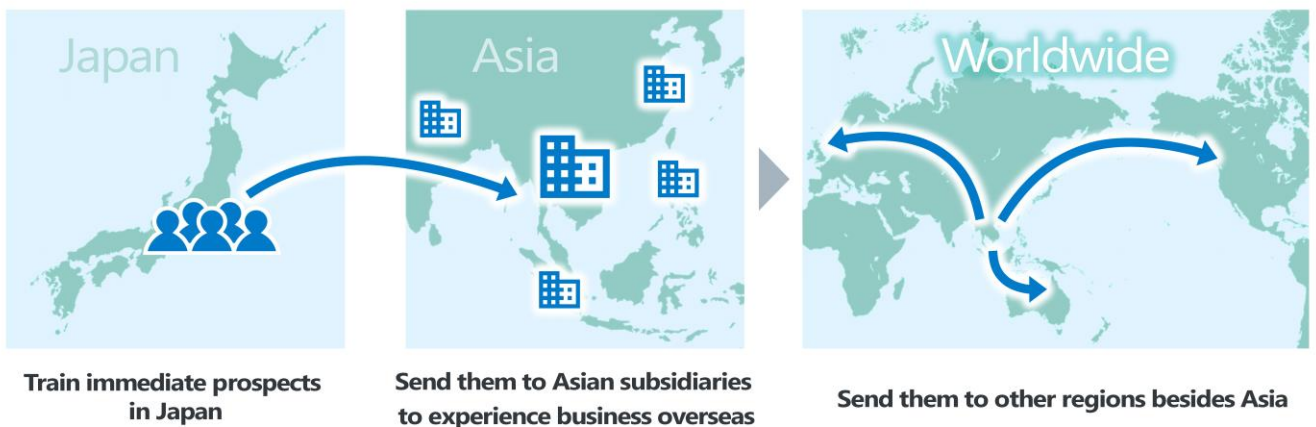
Focus areas for resource allocation

Invest with emphasis on overseas Auto-ID Solutions business

- 1. Invest in personnel who would drive our Auto-ID Solutions business worldwide**
- 2. Develop high-speed RFID manufacturing equipment in-house**
3. Optimize consumables production functions
4. Establish global network for primary labels business outside Japan
- 5. Invest in research & development of strategic printer models**
6. Build global sales infrastructure (CRM)
7. Develop and roll out our solution services in Japan for markets outside Japan
8. Develop IDP technologies and IDP solutions businesses

- These are the focal areas to which to allocate resources.
- Each of the listed investment plans is firmly linked to the strategies in the new medium-term management plan.
- The key mindset that I hope to emphasize here is not in just executing these strategies and investments but in maximizing their effects by relentlessly strengthening the collaboration between our Japan and overseas businesses.
- We have a wealth of success stories in Japan amassed over the years. We plan to transplant these assets of talent, knowhow, tools, systems and operation to our overseas business. This will be driven within Strategy 4, Business management, which provides the basis of the other strategies and investments.
- The following slides will shed light on three particularly characteristic areas of this investment plan.

1. Invest in personnel who would drive our Auto-ID Solutions business worldwide



Example: A domestic department head has been posted to one of our key target countries overseas for about 3 months to study feasibility of setting up a subsidiary to expand our Auto-ID Solutions business

- Firstly, let us take a look at the most important area that relates to all strategies and investments: investing in personnel who would drive our Auto-ID solutions business worldwide.
- We would hire and train personnel to a level where they can provide Auto-ID solutions on their own initiative and be sent overseas. Asia would be the first destination for them to experience overseas business, as it absorbs many operations of our Japanese customers and shares the same business model as in Japan. The successful ones with exceptional performance will then be sent to the Americas and Europe. It will take time but we will ensure that this cycle works.
- There is a small change already taking place, where we have decided to send the head of a business department in Japan with vast experience in the Auto-ID solutions field to a particular country where we are thinking of setting up a new operation. Previously, we would have sent someone within the overseas business department to investigate prospective markets, but we decided this time around to send this head to

conduct feasibility study and find out onsite requirements, size, supply chain and partners of the potential business and to decide on whether or not to set up the operation within a relatively short span of time.

2. Develop high-speed RFID manufacturing equipment in-house

Example: Annual RFID potential in the health care industry*1



*1 Calculated based on 2016 statistics from WHO

*2 Flexible tubes inserted into a body to remove fluid or inject medicine

Implementation example: Mie University Hospital



Improving 3-point verification efficiency with RFID



RFID's capability of reading data without making contact can reduce patient burden and data collection time in comparison to barcodes

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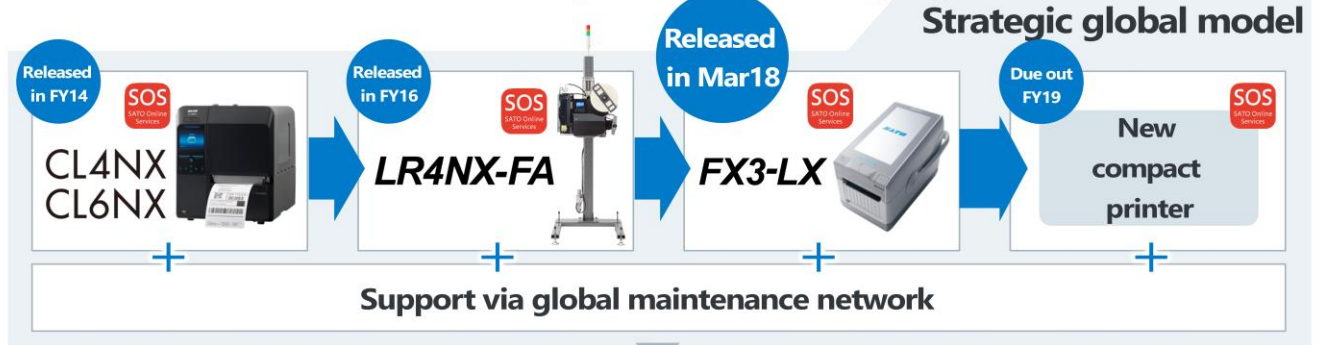
- This slide explains our investment in in-house development of high-speed RFID manufacturing equipment.
- To give you an understanding on why we want to develop RFID manufacturing equipment in-house in addition to selling RFID tags, we have highlighted the potential in the global health care market as an example.
- The potential shown here includes orders we have already won but we intend to monetize more of it with the benefits of in-house development of equipment such as high readability, high quality and the capability of matching antenna designs to customer requirements.
- Current inlays(*) tend to be mass-produced in limited sizes to reduce cost and enhance productivity. In actual operations, the size may not match, for example, the tags and/or labels for small goods. Because we design antennas in-house, SATO can flexibly provide tags and labels with inlays matching customer goods and actual operations. This naturally leads to higher readability.

(*An “inlay” is an antenna with an IC chip that can be converted to a tag or a label through a secondary process.

- The low defect rate as a result of the in-house end-to-end production is another important aspect of our competitiveness. By nature, when an RFID tag cannot be read within the supply chain, the recovery work can be quite laborious. Keeping our customers free of such recovery work with high quality tags is one reason why SATO enjoys high recognition.

(Blank)

5. Invest in research & development of strategic printer models



High value-add, high profitability

Expand to various markets



Retail



Manufacturing



Public



Food



Logistics



Health Care

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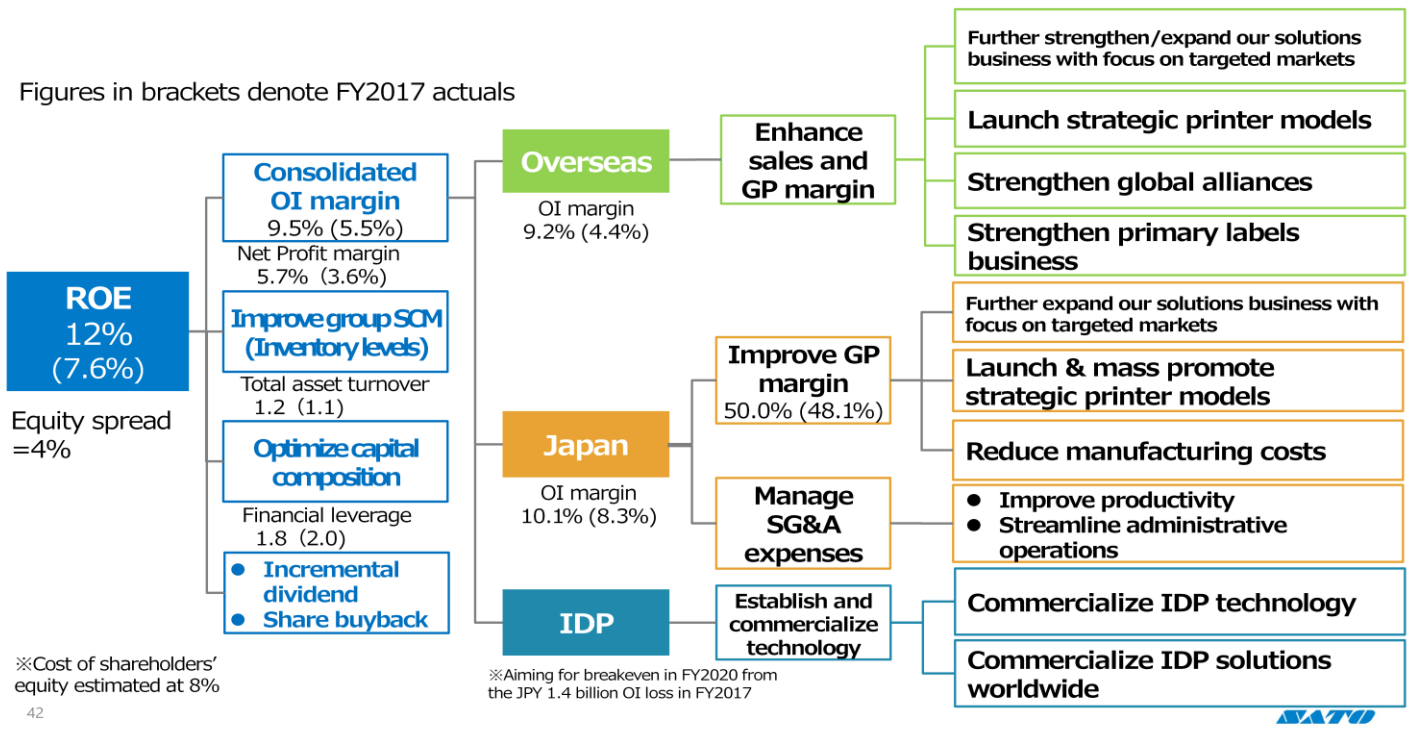


- The last of the three areas we highlight is investment in research and development of strategic printer models.
- The CLNX series, released in FY2014 with its high value-add, maintains a high level of gross profit margin, thanks to positive customer responses to the preventative maintenance value in SOS (SATO Online Services) preinstalled in the printers and our global maintenance network. The series has, in fact, contributed significantly to improve the company's profitability.
- In March 2018, SATO released FX3-LX, another global model offering the same value as the CLNX series. This printer comes with a 7 inch touchscreen and is equipped with an Android OS, capable of providing customers applications suited to their requirements and onsite operations. With various negotiations already under way, we expect FX3-LX to be one of the driving forces going forward. Furthermore, a new compact printer is due out in FY2019. We endeavor to explore market opportunities with these new printer models the same way we had with CLNX and pursue high gross profit margins with high

added value on similar platforms.

Roadmap to Higher Capital Efficiency (FY2020)

Figures in brackets denote FY2017 actuals



- This slide shows our roadmap to higher capital efficiency.
- We will duly conduct the aforementioned strategies and investments toward achieving ROE of 12% in FY2020 as we run PDCA in our actions.

<Reference> Examples of FY17 Initiatives to Boost Capital Efficiency

Launch new products

- Strengthen solutions capabilities
- Focus on targeted markets and new domains

Reduce manufacturing costs

- Improve productivity
- Streamline administrative operations

- Expand end user business
- Launch new products

Improve consumables GP margin

Develop new solutions businesses

M&A, Innovative businesses

Inline digital printing (IDP)

Sustainable consumer packaging

- Released new label printer “FLEQV® FX3-LX”
- Provided a high precision indoor location system in support of Nagoya Univ. Hospital’s Smart Hospital Initiative
- Reduced consumables cost by 2.7% through materials change and capital expenditures for productivity improvement (vs. 2.2% in FY16)
- Improved per capita productivity to JPY 3.3 million from previous FY level of JPY 2.7 million
- Expanded direct sales business within the retail sector (North America)
- Improved consumables GP margin by 2.9 percentage points YoY for the Base business overseas
- Made progress in development of digital retail solution (North America)
- Achieved sales of JPY 8.6 billion in Primary Labels business (vs. JPY 7.5 billion in FY16)
- Showcased packaging solution with high-speed, high-resolution printing of grayscale images at “drinktec” (international trade fair for beverage and liquid food industry), Germany
- Pursued discussions with a food manufacturer to expand products utilizing sustainable packaging



- This slide reviews the previous medium-term plan’s roadmap, showing examples of initiatives that took place in FY2017 to boost capital efficiency.

III. FY2018 Consolidated Financial Targets

- Lastly, I would like to explain our FY2018 consolidated financial targets.

(Millions of JPY)

FY2018 Consolidated Targets

	FY2018 (Targets)	FY2017	Change	YoY
	Net Sales	120,000	113,383	+6,616
Operating Income	7,300	6,249	+1,050	116.8%
Ordinary Income	7,100	5,888	+1,211	120.6%
Profit attributable to owners of parent	4,100	4,074	+25	100.6%
EBITDA*	13,000	11,814	+1,185	110.0%

Exchange rates assumed in FY18 forecast: JPY 110/USD, JPY 130/EUR
Average exchange rates for FY17: JPY 110.85/USD, JPY 129.65/EUR

* EBITDA = Operating Income + Depreciation + Amortization

- We aim to increase sales and OI by 5.8% and 16.8% YoY respectively.

(Millions of JPY)

Sales and OI by Segment

	FY2018 (Targets)	FY2017	Change	YoY
1. Auto-ID Solutions business (Overseas)				
Sales	47,500	42,585	+4,914	111.5%
Operating Income	3,100	1,865	+1,234	166.1%
2. Auto-ID Solutions business (Japan)				
Sales	72,000	70,482	+1,517	102.2%
Operating Income	6,100	5,831	+268	104.6%
3. IDP Solutions business				
Sales	500	315	+184	158.6%
Operating Income	-1,900	-1,426	-473	--
Consolidated				
Sales	120,000	113,383	+6,616	105.8%
Operating Income	7,300	6,249*	+1,050	116.8%
Operating Income %	6.1%	5.5%	+0.6pt	--

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* Include eliminations



- By business segment, OI in the Overseas business expects to increase significantly by 66.1% YoY.
- Operating loss in the IDP Solutions business expects to increase due to incremental R&D costs caused by delays in R&D in FY2017.
- On a consolidated basis, we aim for sales of JPY 120 billion and OI of JPY 7.3 billion.

Major Initiatives for FY2018

	Operating Income	
	FY2017	FY2018
① Auto-ID Solutions business (Overseas)		
<ul style="list-style-type: none"> Gain benefits of investments Reduce costs at SATO Global Solutions 	1,865	3,100 (+1,234)
② Auto-ID Solutions business (Japan)		
<ul style="list-style-type: none"> Keep improving product mix & mechatronics GP margin Do more of "Sell the solution, not the product" 	5,831	6,100 (+268)
③ IDP Solutions business		
<ul style="list-style-type: none"> Commercialize advanced monochrome printing technology Continue development of multi-color printing capability 	▲1,426	▲1,900 (▲473)

- Major initiatives by segment are shown on this slide.
- The most important point is to focus on the Overseas business, ensuring strategies and investments are firmly connected and collaboration between Japan and Overseas operations are strengthened. At the same time, we will optimize our operations in various aspects including organizational structure, talents, tools and systems, and achieve successful results.

Appendix

- | | |
|--|-----------|
| 1. FY2017 Results based on FY2016 Classification | P49 – P55 |
| 2. SATO Terminologies | P56 – P59 |

(Millions of JPY)

Consolidated Results

		FY2017	FY2016	Change	YoY	excl. FX impact
Japan	Total Sales	70,558	67,375	+3,182	104.7%	104.7%
	Operating Income	5,688	4,331	+1,357	131.3%	130.5%
North America	Total Sales	11,006	10,646	+360	103.4%	101.0%
	Operating Income	-57	-62	+4	--	--
South America	Total Sales	3,437	2,933	+503	117.2%	118.6%
	Operating Income	264	146	+118	181.2%	177.9%
Europe	Total Sales	14,567	12,525	+2,042	116.3%	106.6%
	Operating Income	-1,115	584	-1,699	--	--
Asia/Oceania	Total Sales	13,813	12,821	+992	107.7%	102.4%
	Operating Income	1,505	965	+540	156.0%	148.3%
Overseas	Total Sales	42,825	38,926	+3,898	110.0%	104.6%
	Operating Income	597	1,633	-1,036	36.6%	30.2%
Elimination	Operating Income	-36	139	-176	--	--
Total Sales		113,383	106,302	+7,081	106.7%	104.7%
Operating Income		6,249	6,104	+144	102.4%	100.1%

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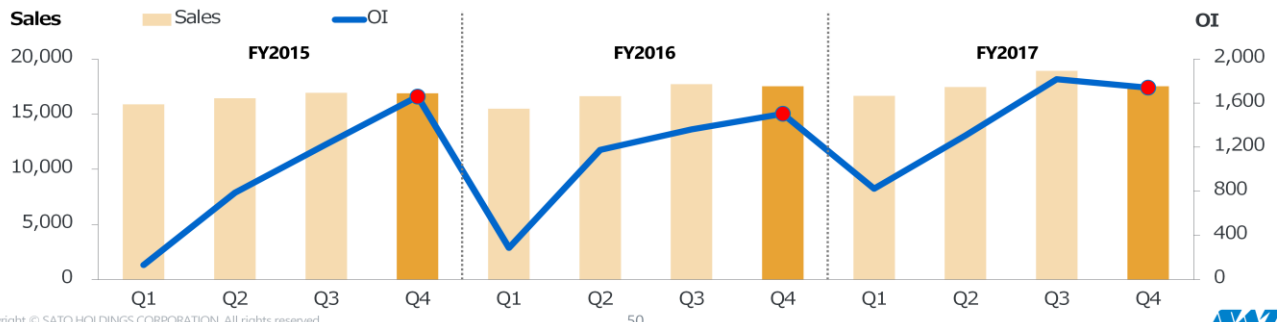
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Japan

(Millions of JPY)

	FY2017	FY2016	Change	YoY
Mechatronics Sales	27,564	25,136	+2,428	109.7%
Consumables Sales	42,993	42,238	+754	101.8%
Total Sales	70,558	67,375	+3,182	104.7%
Gross Profit	33,903	30,943	+2,960	109.6%
Gross Profit %	48.1%	45.9%	+2.1pt	--
Operating Income	5,688	4,331	+1,357	131.3%
Operating Income %	8.1%	6.4%	+1.6pt	--



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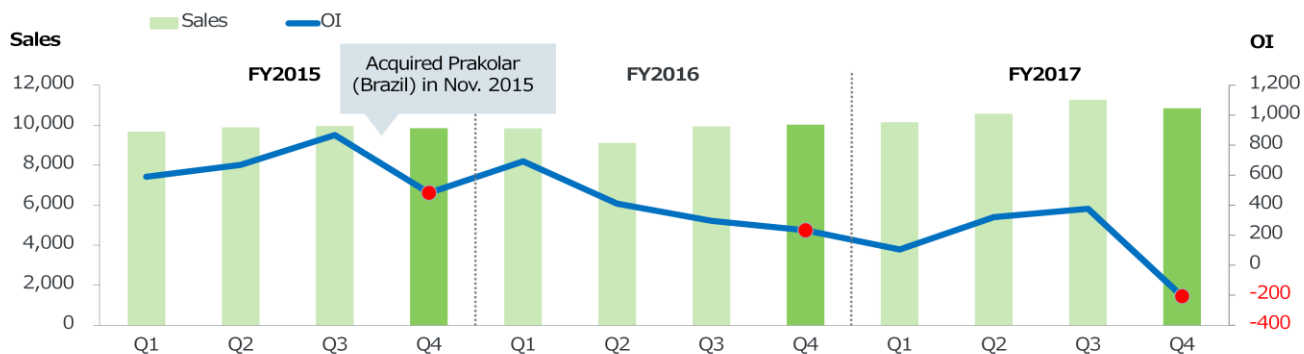
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Overseas

(Millions of JPY)

	FY2017	FY2016	Change	Change	
				YoY	excl. FX impact
Total Sales	42,825	38,926	+3,898	110.0%	104.6%
Gross Profit	16,029	14,703	+1,326	109.0%	--
Gross Profit %	37.4%	37.8%	-0.3pt	--	--
Operating Income	597	1,633	-1,036	36.6%	30.2%
Operating Income %	1.4%	4.2%	-2.8pt	--	--



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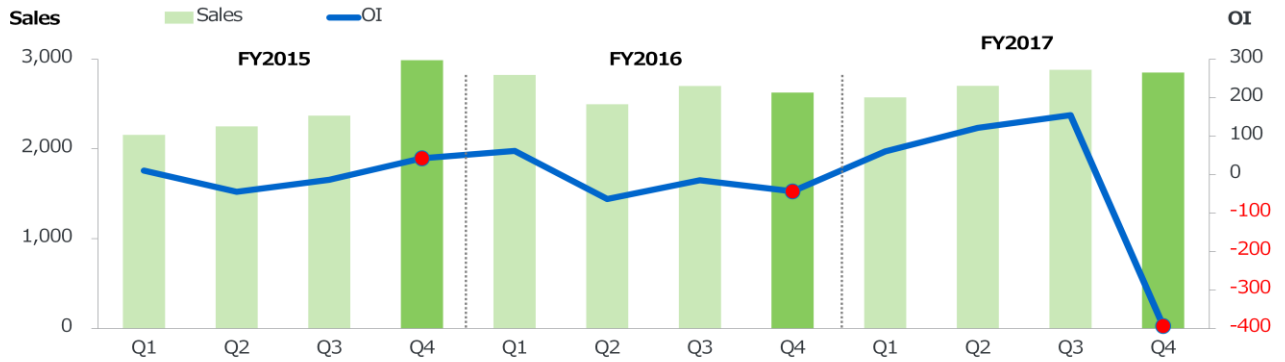
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North America

(Millions of JPY)

	FY2017	FY2016	Change	YoY	
					excl. FX impact
Total Sales	11,006	10,646	+360	103.4%	101.0%
Gross Profit	3,256	2,845	+411	114.4%	--
Gross Profit %	29.6%	26.7%	+2.9pt	--	--
Operating Income	-57	-62	+4	--	--
Operating Income %	--	--	--	--	--



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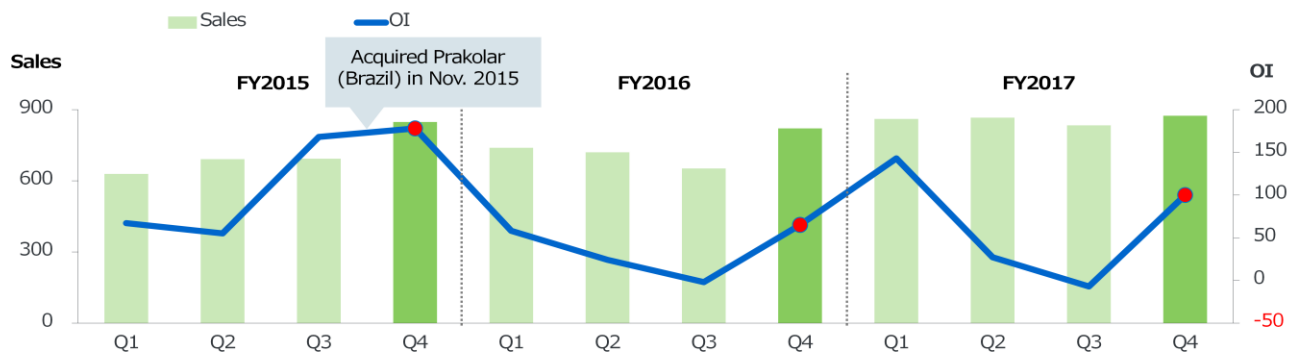
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South America

(Millions of JPY)

	FY2017	FY2016	Change	YoY	
					excl. FX impact
Total Sales	3,437	2,933	+503	117.2%	118.6%
Gross Profit	1,311	1,124	+187	116.7%	--
Gross Profit %	38.2%	38.3%	-0.2pt	--	--
Operating Income	264	146	+118	181.2%	177.9%
Operating Income %	7.7%	5.0%	+2.7pt	--	--



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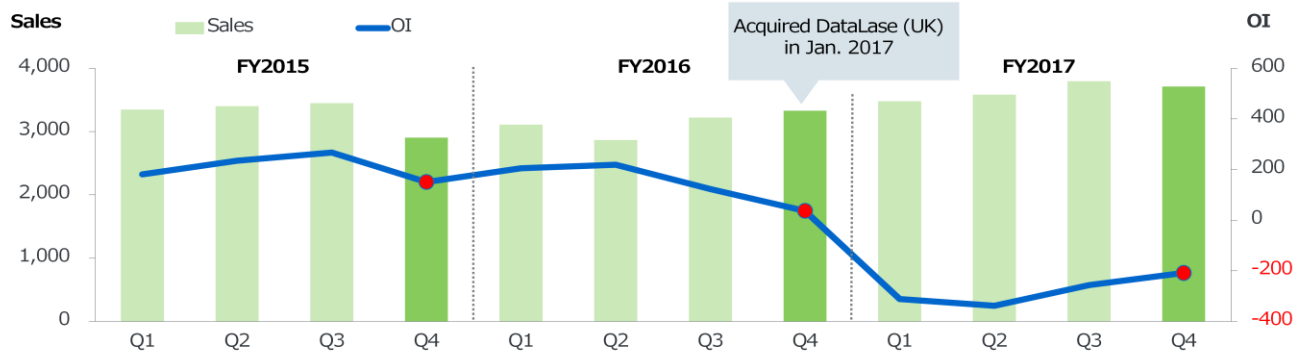


Europe*

(Millions of JPY)

* DataLase consolidated in FY2017

	FY2017	FY2016	Change	YoY	
					excl. FX impact
Total Sales	14,567	12,525	+2,042	116.3%	106.6%
Gross Profit	4,862	4,640	+222	104.8%	--
Gross Profit %	33.4%	37.1%	-3.7pt	--	--
Operating Income	-1,115	584	-1,699	--	--
Operating Income %	--	4.7%	--	--	--



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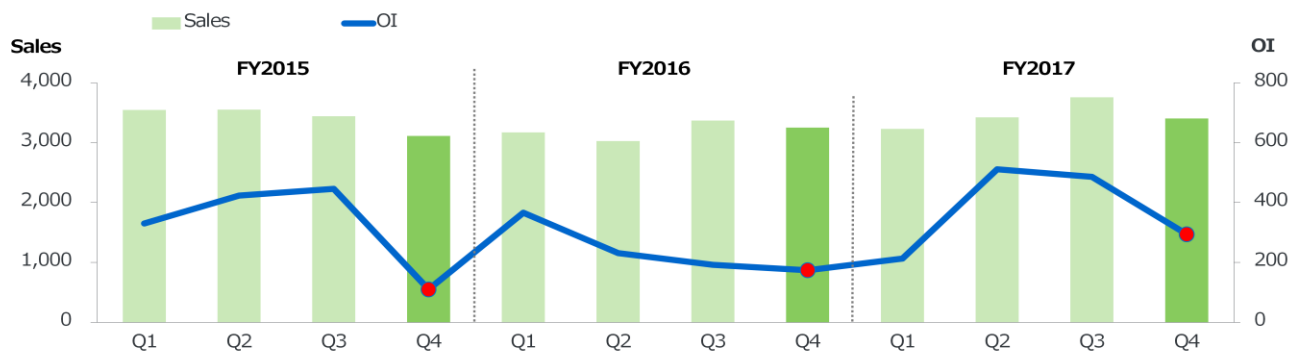
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Asia & Oceania

(Millions of JPY)

	FY2017	FY2016	Change	Change	
				YoY	excl. FX impact
Total Sales	13,813	12,821	+992	107.7%	102.4%
Gross Profit	6,599	6,093	+505	108.3%	--
Gross Profit %	47.8%	47.5%	+0.2pt	--	--
Operating Income	1,505	965	+540	156.0%	148.3%
Operating Income %	10.9%	7.5%	+3.4pt	--	--



SATO Terminologies (1/4)

SATO-unique business concepts/initiatives		Description
1	Auto-ID Solutions 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 mainly in Inline Digital Printing. A reporting segment established new in FY 2017, it was renamed to "IDP Solutions business" in FY2018 to reflect our focus on IDP technology.
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.
Products, Services, Technologies		Description
1	Mechatronics	All products not consumables, including hardware (e.g., barcode printers, automatic labelers, scanners, hand labelers), software and maintenance services. They generate higher gross profit margin than consumables. Mechatronics hardware are manufactured in Malaysia, Vietnam and Taiwan.
2	Consumables	"Consumable" 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, while SATO can 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)	Intelligence (i.e. label/tag printing application installed) inside the printer to enable PC-less printing. AEP-enabled printers also support communication with host databases or IT systems.
7	API (Application Programming Interface)	A set of programming instructions and standards that allows applications to communicate with each other and exchange data, making it easier to create applications across a wide variety of platforms, devices, and programming languages.
8	Variable information labels	Blank or pre-printed labels used to print variable elements such as barcode, product price, manufactured or expiry date on-demand at the customer's site of operations. 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.
9	RFID (Radio Frequency Identification)	A type of Auto-ID technology that uses radio waves to read/write data from/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.
10	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.
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 2021.

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	Achemar 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.



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