

Consolidated Financial Report
for the First Three Months of Fiscal Year Ending March 2024

<Under Japanese GAAP>

August 8, 2023

SATO HOLDINGS CORPORATION

Company code: 6287
 Website: www.sato-global.com
 Shares traded on: TSE Prime
 Executive position of legal representative: Hiroyuki Konuma, Representative Director,
 President and Group CEO
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 CFO and CCO
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 Scheduled submission date for quarterly securities report: August 10, 2023
 Commencement date of dividend payments: -
 Supplementary explanatory materials for quarterly results: Available
 Holding of meeting to explain quarterly results (for analysts and institutional investors): Yes

1. Consolidated operating results for the first three months of fiscal year 2023 (from April 1, 2023 to June 30, 2023)

(1) Consolidated financial results (cumulative)

(Percentage figures show year-on-year change)

Three months ended	Net sales		Operating income		Ordinary income	
	Millions of yen	%	Millions of yen	%	Millions of yen	%
June 30, 2023	33,989	0.9	2,160	161.9	2,071	1.1
June 30, 2022	33,686	11.6	824	(51.7)	2,049	24.6

(Note) Comprehensive income: Three months ended June 30, 2023: ¥3,018 million (-63.0%)
 Three months ended June 30, 2022: ¥8,162 million (349.1%)

Three months ended	Net income attributable to owners of parent		Basic earnings per share	Diluted earnings per share
	Millions of yen	%	Yen	Yen
June 30, 2023	1,304	9.1	40.28	40.27
June 30, 2022	1,195	10.1	35.66	35.65

(2) Consolidated financial position

	Total assets	Net assets	Equity ratio	Net assets per share
As of	Millions of yen	Millions of yen	%	Yen
June 30, 2023	125,170	69,565	53.7	2,074.53
March 31, 2023	122,858	67,694	53.3	2,020.83

(Note) Total equity: As of June 30, 2023: ¥67,215 million
As of March 31, 2023: ¥65,452 million

2. Dividends

	Annual dividend per share				
	First quarter	Second quarter	Third quarter	Year-end	Total
	Yen	Yen	Yen	Yen	Yen
Fiscal year 2022	–	36.00	–	36.00	72.00
Fiscal year 2023	–				
Fiscal year 2023 (Forecast)		36.00	–	36.00	72.00

(Note) Revision to recently announced dividend forecast: None

3. Consolidated forecasts for fiscal year 2023 (from April 1, 2023 to March 31, 2024)

(Percentage figures show year-on-year change)

	Net sales		Operating income		Ordinary income		Net income attributable to owners of parent		Basic earnings per share
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%	Yen
Six months	68,000	(3.5)	3,300	(12.6)	3,200	(35.6)	2,000	(38.1)	61.75
Full year	140,000	(2.0)	8,000	(9.5)	7,800	(14.0)	5,000	19.5	154.37

(Note) Revision to recently announced consolidated forecast: None

*** Notes**

- (1) Changes in subsidiaries during the first three months (changes resulting in the change in scope of consolidation): None
- (2) Application of special accounting procedures for preparing the quarterly consolidated financial statements: None
- (3) Changes in accounting policies and estimates, and restatement of prior-period financial statements after error corrections
 - 1) Changes in accounting policies due to revisions to accounting standards: None
 - 2) Changes in accounting policies due to other reasons: None
 - 3) Changes in accounting estimates: None
 - 4) Restatement of prior-period financial statements after error corrections: None
- (4) Number of issued shares (common shares)
 - 1) Number of issued shares at the end of term (including treasury shares):

As of June 30, 2023:	34,921,242 shares
As of March 31, 2023:	34,921,242 shares
 - 2) Number of treasury shares at the end of term:

As of June 30, 2023:	2,520,802 shares
As of March 31, 2023:	2,532,252 shares
 - 3) Average number of shares during the term (cumulative from the beginning of the fiscal year to the end of the first three months):

Three months ended June 30, 2023:	32,390,610 shares
Three months ended June 30, 2022:	33,531,635 shares

*** Quarterly financial reports are not subject to quarterly reviews conducted by certified public accountants or audit firms.**

*** Explanation about the proper use of consolidated forecasts and other notes**

Forward-looking statements, including the consolidated forecasts stated in these materials, are based on information currently available to the Company and certain assumptions deemed reasonable. Any statements herein do not assure particular results by the Company. Results may differ from the consolidated forecasts due to various factors. Please refer to section 1-(3) "Explanation of consolidated forecasts and other projections" (page 5) of the attached materials for assumptions behind the consolidated forecasts and other information.

Attached Materials

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1. Qualitative Information Regarding Settlement of Accounts for the First Three Months

(1) Explanation of financial results (percentage changes, year-on-year)

The SATO Group runs its business based on management principles, growth strategies and business targets set out in its most recent three-year Medium-term Management Plan (FY 2021–2023), with the vision to be “the customer’s most trusted partner for mutual growth, and always essential in an ever-changing world.”

We concentrate resources on our auto-ID solutions business, which involves offering solutions centered on tagging — the process of physically attaching information to people and things — for customers operating in diverse markets and industries, so that on-site information can be collected in real time, converted into meaningful data, and fed to their core IT systems to optimize individual worksites, supply chains and even the circular economy. With this data that provides visibility into frontline operations, we help businesses and societies run smoothly so as to achieve “Tagging for Sustainability” and contribute toward a better and more sustainable world in the long term. To grow our business and profit sustainably, we have set three new priority agendas as follows and will coordinate how we work on them while looking into multiple angles to make strategic investments and allocate resources with precision.

(i) Global business strategies: To grow our overseas business by applying our auto-ID solutions horizontally across multiple customers/industries with the same pain points, and to improve the selling and earning capabilities of our Japan business from value chain perspectives.

(ii) Innovation and R&D: To advance our tagging technologies (automation, RFID, sensors, software, etc.) and to establish “Tagging for Sustainability” business by shifting to data-driven business and entering new domains.

(iii) Sustainability management: To create value for society through the value propositions we offer customers and our response to climate change, and to increase our corporate value with strong corporate governance and human capital management.

In the first three months of this fiscal year, our consolidated sales and operating profit reached record highs amid geopolitical risks, economic recession concerns, high inflation, weakening yen and other uncertainties. This was possible because we were able to accurately capture and address robust market needs for traceability, automation and productivity solutions. Our overseas business, which includes primary label companies, also contributed considerably to higher sales and profit.

As a result, the SATO Group posted net sales of ¥33,989 million (up 0.9% compared with the same period of the previous fiscal year), operating income of ¥2,160 million (up 161.9%), ordinary income of ¥2,071 million (up 1.1%), and net income attributable to owners of parent of ¥1,304 million (up 9.1%).

Performance by segment is as follows.

Auto-ID solutions (Japan)

Net sales increased slightly with demand for RFID solutions and price revision effects for consumables products. Profit decreased, however, due to declining printer exports and rising cost of consumables raw materials.

As for sales by market, our sales in manufacturing and retail both decreased year on year, because of slowing mechatronics and consumables demand from semiconductor manufacturing and related industries, and because of the absence of large-scale mechatronics deals from the e-commerce industry that were recorded in the same period last year.

On the other hand, mechatronics and consumables sales increased for logistics and public sectors, with the increase especially significant in the case of the latter. We benefited from rising transaction volume in the logistics sector and closed large-scale deals with customers in the public sector.

Under these circumstances, net sales increased 1.4% year on year to ¥17,536 million, and segment loss of ¥210 million was incurred (compared with segment loss of ¥8 million in the same period of the previous fiscal year).

Auto-ID solutions (Overseas)

Outside Japan, we sold more products and services to achieve the highest ever three-month net sales and segment profit despite challenging business conditions.

For our base business, the Americas and Europe posted flat net sales and higher profit. While resellers adjusted their printer inventories and major customers in retail were less inclined to make new investments, staying on the lookout for recession, we implemented product price revisions and other activities that helped improve gross profitability. Meanwhile, Asia and Oceania reported higher net sales but lower profit. Although our sales subsidiaries in Indonesia and India made a strong showing and sales subsidiaries in China were no longer affected by lockdowns like they were in the same period last year, sales subsidiaries in Taiwan sold less printers due to ongoing inventory adjustments at their resellers.

Our companies specializing in primary labels increased sales and profit, thanks to strong demand from essential industries (that provide daily commodities such as food, beverages and sanitary supplies) since the previous fiscal year and steady progress with price revisions.

Under these circumstances, net sales increased 0.4% to ¥16,452 million (increase of 3.9%, excluding foreign currency effects), and segment profit increased 136.0% to ¥2,169 million, compared with the same period of the previous fiscal year.

(2) Explanation of financial position

At the end of the first quarter, the balance of current assets increased by ¥808 million to ¥81,946 million (from ¥81,137 million recorded at the end of the previous fiscal year). This was primarily the result of increases of ¥583 million in merchandise and finished goods and ¥508 million in raw materials and supplies. The balance of non-current assets increased by ¥1,502 million to ¥43,224 million (from ¥41,721 million at the end of the previous fiscal year). This was primarily due to increases of ¥338 million in buildings and structures (included in property, plant and equipment), ¥580 million in software in progress and ¥451 million in goodwill (both included in intangible assets).

The balance of current liabilities decreased by ¥2,468 million to ¥42,494 million (from ¥44,963 million at the end of the previous fiscal year). This was primarily due to a decrease of ¥3,099 million in short-term borrowings and an increase of ¥543 million in electronically recorded obligations - operating. The balance of non-current liabilities increased by ¥2,909 million to ¥13,110 million (from ¥10,200 million at the end of the previous fiscal year), mainly due to an increase of ¥2,917 million in long-term borrowings.

At the end of the first quarter, the balance of net assets increased by ¥1,870 million to ¥69,565 million (from ¥67,694 million at the end of the previous fiscal year), primarily due to an increase of ¥1,596 million in accumulated other comprehensive income.

Cash flows

At the end of the first quarter, cash and cash equivalents stood at ¥18,737 million, a decrease of ¥2,014 million from the end of the previous fiscal year.

Cash flows from operating activities

Cash flow from operating activities was positive at ¥1,827 million.

This resulted primarily from cash inflows including ¥2,084 million of income before income taxes and a ¥540 million decrease in trade receivables and contract assets, and cash outflows including ¥1,075 million of income taxes paid.

Cash flows from investing activities

Cash flow from investing activities was negative at ¥2,812 million.

This was primarily due to proceeds of ¥1,188 million from withdrawal of time deposits, and expenditures of ¥1,188 million for payments into time deposits, ¥1,631 million for purchase of property, plant and equipment, ¥671 million for purchase of intangible assets, and ¥566 million for purchase of shares of subsidiaries resulting in change in scope of consolidation.

Cash flows from financing activities

Cash flow from financing activities was negative at ¥1,747 million.

This resulted primarily from cash inflows including ¥2,930 million proceeds from long-term borrowings, and cash outflows including ¥2,947 million repayment of long-term borrowings, a ¥354 million net decrease in short-term borrowings and ¥1,144 million dividends paid.

(3) Explanation of consolidated forecasts and other projections

No changes have been made to the consolidated forecasts for fiscal year 2023, which were announced on May 15, 2023.

2. Consolidated Financial Statements and Significant Notes Thereto

(1) Consolidated balance sheets

Unit: Millions of yen

	As of March 31, 2023	As of June 30, 2023
Assets		
Current assets		
Cash and deposits	21,879	19,936
Notes and accounts receivable - trade, and contract assets	27,113	27,155
Securities	44	47
Merchandise and finished goods	13,685	14,268
Work in process	590	704
Raw materials and supplies	12,579	13,087
Accounts receivable - other	1,763	1,807
Other	3,712	5,169
Allowance for doubtful accounts	(230)	(230)
Total current assets	81,137	81,946
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	13,962	14,301
Machinery, equipment and vehicles, net	11,602	11,474
Land	3,776	3,909
Other, net	2,988	3,447
Total property, plant and equipment	32,331	33,132
Intangible assets		
Software	1,780	1,754
Software in progress	1,682	2,262
Goodwill	222	673
Other	687	679
Total intangible assets	4,372	5,369
Investments and other assets	5,017	4,721
Total non-current assets	41,721	43,224
Total assets	122,858	125,170
Liabilities		
Current liabilities		
Notes and accounts payable - trade	7,379	6,557
Electronically recorded obligations - operating	11,981	12,525
Short-term borrowings	6,364	3,265
Contract liabilities	7,322	7,829
Accounts payable - other	4,212	3,679
Income taxes payable	1,082	771
Provisions	1,510	1,477
Other	5,109	6,387
Total current liabilities	44,963	42,494
Non-current liabilities		
Long-term borrowings	3,613	6,531
Lease obligations	4,182	4,146
Retirement benefit liability	1,002	1,018
Other	1,401	1,413
Total non-current liabilities	10,200	13,110
Total liabilities	55,163	55,604

Unit: Millions of yen

	As of March 31, 2023	As of June 30, 2023
Net assets		
Shareholders' equity		
Share capital	8,468	8,468
Capital surplus	7,764	7,763
Retained earnings	52,061	52,203
Treasury shares	(4,842)	(4,817)
Total shareholders' equity	63,451	63,617
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	(408)	(1,001)
Foreign currency translation adjustment	2,272	4,524
Remeasurements of defined benefit plans	136	75
Total accumulated other comprehensive income	2,001	3,597
Share acquisition rights	28	19
Non-controlling interests	2,213	2,330
Total net assets	67,694	69,565
Total liabilities and net assets	122,858	125,170

(2) Consolidated statements of (comprehensive) income

Consolidated statements of income

Unit: Millions of yen

	Three months ended June 30, 2022	Three months ended June 30, 2023
Net sales	33,686	33,989
Cost of sales	21,062	20,315
Gross profit	12,623	13,673
Selling, general and administrative expenses	11,798	11,513
Operating income	824	2,160
Non-operating income		
Interest income	30	118
Dividend income	41	0
Foreign exchange gains	1,162	–
Other	66	40
Total non-operating income	1,300	159
Non-operating expenses		
Interest expenses	51	75
Foreign exchange losses	–	144
Compensation expenses	0	–
Other	24	27
Total non-operating expenses	76	248
Ordinary income	2,049	2,071
Extraordinary income		
Gain on sale of non-current assets	12	16
Total extraordinary income	12	16
Extraordinary losses		
Loss on retirement of non-current assets	0	1
Loss on sale of non-current assets	11	–
Loss on business restructuring	0	0
Retirement benefit expenses	–	2
Other	2	–
Total extraordinary losses	14	4
Income before income taxes	2,047	2,084
Income taxes - current	496	709
Income taxes - deferred	23	(96)
Total income taxes	520	613
Net income	1,527	1,470
Net income attributable to non-controlling interests	331	166
Net income attributable to owners of parent	1,195	1,304

Consolidated statements of comprehensive income

Unit: Millions of yen

	Three months ended June 30, 2022	Three months ended June 30, 2023
Net income	1,527	1,470
Other comprehensive income		
Valuation difference on available-for-sale securities	(197)	(592)
Foreign currency translation adjustment	6,842	2,201
Remeasurements of defined benefit plans, net of tax	(9)	(61)
Total other comprehensive income	6,635	1,547
Comprehensive income	8,162	3,018
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	6,658	2,901
Comprehensive income attributable to non-controlling interests	1,504	117

(3) Consolidated statements of cash flows

Unit: Millions of yen

	Three months ended June 30, 2022	Three months ended June 30, 2023
Cash flows from operating activities		
Income before income taxes	2,047	2,084
Depreciation and amortization	1,224	1,191
Amortization of goodwill	76	37
Loss (gain) on sale of non-current assets	(0)	(16)
Loss on retirement of non-current assets	0	1
Loss on business restructuring	0	0
Increase (decrease) in provision for bonuses	(105)	(164)
Increase (decrease) in allowance for doubtful accounts	3	(8)
Increase (decrease) in retirement benefit liability	(56)	217
Interest and dividend income	(71)	(119)
Interest expenses	51	75
Foreign exchange losses (gains)	(1,223)	(106)
Decrease (increase) in trade receivables and contract assets	2,948	540
Decrease (increase) in inventories	(1,559)	15
Increase (decrease) in trade payables	(2,006)	(116)
Increase (decrease) in accounts payable - other	60	(427)
Other, net	(721)	(345)
Subtotal	668	2,860
Interest and dividends received	71	119
Interest paid	(51)	(75)
Income taxes paid	(810)	(1,075)
Payments for business restructuring	(0)	(0)
Net cash provided by (used in) operating activities	(122)	1,827
Cash flows from investing activities		
Payments into time deposits	–	(1,188)
Proceeds from withdrawal of time deposits	3,000	1,188
Purchase of property, plant and equipment	(1,198)	(1,631)
Purchase of intangible assets	(252)	(671)
Proceeds from sale of property, plant and equipment and intangible assets	91	17
Purchase of shares of subsidiaries resulting in change in scope of consolidation	–	(566)
Other, net	31	39
Net cash provided by (used in) investing activities	1,671	(2,812)
Cash flows from financing activities		
Net increase (decrease) in short-term borrowings	415	(354)
Proceeds from long-term borrowings	–	2,930
Repayments of long-term borrowings	–	(2,947)
Repayments of lease obligations	(289)	(245)
Dividends paid	(1,162)	(1,144)
Purchase of treasury shares	(437)	–
Other, net	0	14
Net cash provided by (used in) financing activities	(1,473)	(1,747)
Effect of exchange rate change on cash and cash equivalents	759	717
Net increase (decrease) in cash and cash equivalents	834	(2,014)
Cash and cash equivalents at beginning of period	19,140	20,751
Cash and cash equivalents at end of period	19,975	18,737

(4) Notes to consolidated financial statements

Notes related to going-concern assumption

Not applicable

Notes in the event of material changes in amount of shareholders' equity

Not applicable

Changes in accounting policies

Not applicable

Segment information

I. Three months ended June 30, 2022

1. Information on net sales and profit or loss by reportable segment

	Unit: Millions of yen		
	Auto-ID solutions (Japan)	Auto-ID solutions (Overseas)	Total
Net sales			
External customer sales	17,291	16,394	33,686
Intersegment sales and transfer	2,373	3,023	5,396
Total	19,664	19,418	39,082
Segment profit (loss)	(8)	919	910

2. Difference between the total amount of profit or loss for reportable segments and the amount recorded on the consolidated statements of income, and a major breakdown of the difference (Matters related to difference adjustment)

	Unit: Millions of yen
Profit	Amount
Reportable segments total	910
Intersegment eliminations	0
Adjustment of inventories	(86)
Operating income on the consolidated statements of income	824

3. Matters related to changes in reportable segments

Not applicable

4. Information on impairment loss of non-current assets, goodwill and negative goodwill, etc. by reportable segment

Not applicable

II. Three months ended June 30, 2023

1. Information on net sales and profit or loss by reportable segment

Unit: Millions of yen			
	Auto-ID solutions (Japan)	Auto-ID solutions (Overseas)	Total
Net sales			
External customer sales	17,536	16,452	33,989
Intersegment sales and transfer	1,221	2,166	3,387
Total	18,757	18,619	37,376
Segment profit (loss)	(210)	2,169	1,959

2. Difference between the total amount of profit or loss for reportable segments and the amount recorded on the consolidated statements of income, and a major breakdown of the difference (Matters related to difference adjustment)

Unit: Millions of yen	
Profit	Amount
Reportable segments total	1,959
Intersegment eliminations	0
Adjustment of inventories	200
Operating income on the consolidated statements of income	2,160

3. Matters related to changes in reportable segments

Not applicable

4. Information on impairment loss of non-current assets, goodwill and negative goodwill, etc. by reportable segment

Not applicable