Consolidated Financial Report
for the First Nine Months of the March 2019 Term
<Under Japanese GAAP>

February 8, 2019

SATO HOLDINGS CORPORATION

Company code number:	6287 (URL http://www.sato.co.jp)
Shares traded on:	TSE1
Executive position of legal representative:	Ryutaro Kotaki, President and CEO
Please address all communications to:	Yoichi Abe, Vice President and Chief Financial Officer (CFO) Phone: 03-5745-3414
Scheduled submission date for quarterly securities report:	February 14, 2019
Date of commencement of dividend payments:	-
Supplementary explanatory materials for quarterly results:	Available
Holding of meeting to explain quarterly results:	None

(Millions of yen, with fractional amounts discarded)

1. Consolidated operating results for the first nine months of the fiscal year ending March 31, 2019 (from April 1, 2018 to December 31, 2018)

(1) Consolidated financial results (cumulative)

(Percentage figures show year-on-year change.)

	Net sales		Operating income		Ordinary income	
Nine months ended	(Millions of yen)	%	(Millions of yen)	%	(Millions of yen)	%
December 31, 2018	86,761	2.1	5,444	16.4	5,104	16.5
December 31, 2017	85,016	8.0	4,675	9.0	4,381	1.6

(Note) Comprehensive income: Nine months ended December 31, 2018: ¥1,261 million (-74.1%)
Nine months ended December 31, 2017: ¥4,873 million (35.9%)

	Net income attributable to owners of parent		Basic earnings per share	Diluted earnings per share
Nine months ended	(Millions of yen)	%	(Yen)	(Yen)
December 31, 2018	3,078	(13.7)	91.74	91.66
December 31, 2017	3,565	30.8	106.36	106.22

(2) Consolidated financial position

	Total assets	Net assets	Equity ratio	Net assets per share
As of	(Millions of yen)	(Millions of yen)	%	(Yen)
December 31, 2018	104,908	55,252	51.5	1,610.72
March 31, 2018	106,447	56,225	51.5	1,634.69

(N.B.) Total equity:

As of December 31, 2018: ¥54,061 million As of March 31, 2018: ¥54,805 million

2. Dividends

	Annual dividend per share				
	First quarter	Second quarter	Third quarter	Year-end	Total
	(Yen)	(Yen)	(Yen)	(Yen)	(Yen)
March 31, 2018	–	32.00	–	33.00	65.00
March 31, 2019	–	35.00	–		
March 31, 2019 (Forecast)				35.00	70.00

(Note) Revisions of projected dividends most recently announced: None

3. Consolidated forecasts for the fiscal year ending March 31, 2019 (from April 1, 2018 to March 31, 2019)

(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)
Annual	117,000	3.2	7,600	21.6	7,400	25.7	4,300	5.5	128.15

(Note) Revisions of consolidated forecasts most recently announced: None

* Notes

(1) Changes in significant subsidiaries during the first nine months (changes in specified subsidiaries resulting in the change in scope of consolidation): None

(2) Application of special accounting for preparing the quarterly consolidated financial statements: None

(3) Changes in accounting policies, changes in accounting 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 December 31, 2018:	34,921,242 shares
As of March 31, 2018:	34,921,242 shares

2) Number of treasury shares at the end of term:

As of December 31, 2018:	1,357,701 shares
As of March 31, 2018:	1,394,994 shares

3) Average number of shares during the term (cumulative from the beginning of the fiscal year to the end of the first nine months):

Nine months ended December 31, 2018:	33,555,570 shares
Nine months ended December 31, 2017:	33,526,912 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. Consequently, any statements herein do not constitute assurances regarding actual results by the Company. Results may differ materially from the consolidated forecasts due to various factors. Please refer to page 4 of the attached materials for the suppositions that form the assumptions for consolidated forecasts and cautions concerning the use thereof.

Attached Materials

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

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

The SATO Group has formulated a new three-year Medium-term Management Plan (FY2018-FY2020) geared toward the business vision of becoming the leader and most trusted company in the auto-ID solutions industry worldwide, exceeding customer expectations in an ever-changing world. This plan aims to concentrate more resources on the auto-ID solutions business than ever before to realize stronger sustainable growth and stable profits. The Group will particularly focus on the greater potential overseas to develop its auto-ID solutions business globally with the knowledge and knowhow gained from its business in Japan.

Continued efforts in executing the necessary business strategies have paid off in the first nine months to produce increased revenues and profits for our auto-ID solutions business, which maintained strong performance both in Japan and overseas. Meanwhile, for our IDP business, R&D costs were recorded in line with plans to invest strategically in the technology as one of our future business pillars.

As a result, the SATO Group recorded an increase in net sales, up 2.1% from the same period of the previous fiscal year to ¥86,761 million, and an increase in operating income, up 16.4% to ¥5,444 million. Ordinary income increased by 16.5% to ¥5,104 million, and net income attributable to owners of parent decreased by 13.7% to ¥3,078 million. In the same period of the previous fiscal year, the Group had recorded extraordinary income of ¥2,759 million from the sale of non-current assets.

By segment, the SATO Group reported the following.

The Group has renamed its “Materials business” reporting segment “IDP business” from the fiscal year under review as the business would now focus on the development and commercialization of the IDP technology in anticipation of its strong future demand, based on the aforementioned new Medium-term Management Plan. The definition of the segment remains unchanged.

<Auto-ID solutions business (Japan)>

The steadfast efforts of our sales frontlines at enhancing customers’ satisfaction and contributing toward their profitability have worked in favor of our auto-ID solutions business in Japan. Sales of mechatronics (primarily printers) and accompanying consumables remained strong to realize year-on-year increases, despite a slowdown in the existing growth trend as the country coped with natural disasters and uncertainties about future economic developments due in part to ongoing US–China trade tensions. Verticals driving overall sales growth include the manufacturing sector, where there is strong demand for capital investments in automation and operational visibility, and the retail sector, where our solutions targeted at the growing e-commerce landscape and other surrounding changes have proved

successful. Our gross profit margin also improved from increased awareness to “sell the solution” and continued cost reductions.
While labor shortages are creating prominent needs for increasing productivity, tracking work, and automating worksites across all trades, there are also rising needs to comply with new labeling standards in the food and healthcare sectors. Going forward, we aim to strengthen our ability to propose solutions for the increasingly sophisticated challenges of our customers to grow this business stably.
Under these circumstances, net sales increased 0.8% to ¥53,397 million, and operating income increased 15.6% to ¥4,691 million, compared with the same period of the previous fiscal year.

<Auto-ID solutions business (Overseas)>
Overseas, the auto-ID solutions business maintained an overall recovery trend to post higher sales and profits. For our companies specializing in primary labels, an overall increase in both sales and profits was possible as Okil-Holding in Russia was able to grow revenue and improve profitability on the back of positive foreign currency effects to compensate for the weak performance of companies in South America that have been significantly impacted by economic stagnation and local currency depreciation.
For other overseas companies engaging in our base business, the sales approach of proposing solutions based on our strategic CLNX printer series to improve customers’ field operations is gaining ground. While business in the Americas saw declining sales and profits due to the absence of large-scale deals that were recorded for North America in the same period last fiscal year and the economic slump affecting South America, our Europe, Asia and Oceania regions achieved steady top-line growth to increase both sales and profits.
Under these circumstances, net sales increased 3.7% to ¥33,017 million (increase of 8.6%, excluding foreign currency effects) and operating income increased 7.4% to ¥1,894 million, compared with the same period of the previous fiscal year.

<IDP business>
For the IDP business centering on the Inline Digital Printing (IDP) technology that we own after fully acquiring UK-based DataLase in January 2017, an increase in sales was recorded for the already commercialized base business.
As the IDP technology is still in the development phase, R&D costs were also recorded in the form of up-front investment as initially planned. This technology is key to the success of the IDP business for which strong future demand is anticipated, and we are targeting to achieve commercialization and operating profitability in FY 2020.
Under these circumstances, net sales increased 61.1% to ¥346 million (increase of 60.5%, excluding foreign currency effects), and an operating loss of ¥1,013 million was incurred, compared with that of ¥1,083 million for the same period of the previous fiscal year.

(2) Explanation of financial position

Total assets at the end of the third quarter were ¥104,908 million, a decrease of ¥1,539 million compared with the end of the previous fiscal year. This was primarily the result of a decrease in intangible assets.

Net assets were ¥55,252 million, a ¥972 million decrease from the end of the previous fiscal year, mainly due to the decrease in foreign currency translation adjustment and the payment of cash dividends, notwithstanding the recording of net income attributable to owners of parent.

Cash flows

At the end of the third quarter, cash and cash equivalents (referred to below as "cash") stood at ¥15,703 million, a decrease of ¥322 million compared with the end of the previous fiscal year.

Cash flows from operating activities

Net cash provided by operating activities amounted to ¥6,566 million, an increase of 192.2% compared with the same period of the previous fiscal year.

This resulted primarily from cash inflows including ¥5,081 million of income before income taxes, a ¥1,278 million increase in notes and accounts payable - trade and ¥3,335 million for depreciation, and cash outflows including a ¥2,069 million increase in inventories and ¥1,900 million of income taxes paid.

Cash flows from investing activities

Net cash used in investing activities amounted to ¥3,314 million, an increase of 124.5%, compared with the same period of the previous fiscal year.

This resulted primarily from cash outflows including ¥3,029 million for purchase of property, plant and equipment, and ¥399 million for purchase of intangible assets.

Cash flows from financing activities

Net cash used in financing activities was ¥3,345 million, a decrease of 7.6% compared with the same period of the previous fiscal year.

This resulted primarily from cash outflows including ¥611 million of repayments of long-term loans payable and ¥2,286 million of cash dividends paid.

(3) Explanation of consolidated forecasts and other projections

Regarding the consolidated forecasts for the fiscal year ending March 31, 2019, no changes have been made to the forecasts that were announced on November 2, 2018.

2. Consolidated Financial Statements and Significant Notes Thereto

(1) Consolidated balance sheets

Unit: Millions of yen

	March 31, 2018	December 31, 2018
Assets		
Current assets		
Cash and deposits	16,250	15,961
Notes and accounts receivable - trade	24,737	24,729
Securities	211	151
Merchandise and finished goods	7,761	9,345
Work in process	484	447
Raw materials and supplies	3,120	3,392
Other	3,834	3,877
Allowance for doubtful accounts	(208)	(154)
Total current assets	56,193	57,751
Non-current assets		
Property, plant and equipment		
Machinery, equipment and vehicles, net	11,494	11,270
Land	6,484	6,105
Other, net	13,419	13,646
Total property, plant and equipment	31,398	31,023
Intangible assets		
Goodwill	9,504	8,045
Other	4,932	4,018
Total intangible assets	14,436	12,063
Investments and other assets	4,418	4,069
Total non-current assets	50,254	47,156
Total assets	106,447	104,908
Liabilities		
Current liabilities		
Notes and accounts payable - trade	7,085	7,183
Electronically recorded obligations - operating	11,226	12,106
Short-term loans payable	3,286	4,078
Accounts payable - other	3,038	2,583
Income taxes payable	1,121	1,101
Provision	643	822
Other	7,646	7,697
Total current liabilities	34,048	35,573
Non-current liabilities		
Long-term loans payable	8,891	7,593
Net defined benefit liability	2,181	1,903
Other	5,100	4,585
Total non-current liabilities	16,173	14,082
Total liabilities	50,221	49,655

Unit: Millions of yen

	March 31, 2018	December 31, 2018
Net assets		
Shareholders' equity		
Capital stock	8,468	8,468
Capital surplus	7,712	7,737
Retained earnings	41,145	41,928
Treasury shares	(2,662)	(2,584)
Total shareholders' equity	54,664	55,550
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	1	–
Foreign currency translation adjustment	565	(1,241)
Remeasurements of defined benefit plans	(426)	(247)
Total accumulated other comprehensive income	140	(1,488)
Share acquisition rights	99	57
Non-controlling interests	1,320	1,134
Total net assets	56,225	55,252
Total liabilities and net assets	106,447	104,908

(2) Consolidated statements of (comprehensive) income

(Consolidated statements of income)

Unit: Millions of yen

	Nine months ended December 31, 2017	Nine months ended December 31, 2018
Net sales	85,016	86,761
Cost of sales	48,626	49,031
Gross profit	36,389	37,730
Selling, general and administrative expenses	31,714	32,286
Operating income	4,675	5,444
Non-operating income		
Interest income	98	91
Dividend income	32	26
Rent income	78	5
Share of profit of entities accounted for using equity method	–	2
Other	157	236
Total non-operating income	366	361
Non-operating expenses		
Interest expenses	101	109
Foreign exchange losses	170	397
Sales discounts	44	56
Provision of allowance for doubtful accounts	89	–
Share of loss of entities accounted for using equity method	3	–
Other	252	138
Total non-operating expenses	661	702
Ordinary income	4,381	5,104
Extraordinary income		
Gain on sales of non-current assets	2,759	5
Total extraordinary income	2,759	5
Extraordinary losses		
Loss on retirement of non-current assets	115	27
Loss on sales of non-current assets	164	0
Impairment loss	499	–
Provision for loss on guarantees	350	–
Total extraordinary losses	1,129	27
Income before income taxes	6,011	5,081
Income taxes - current	3,022	1,803
Income taxes - deferred	(431)	216
Total income taxes	2,591	2,019
Net income	3,420	3,062
Loss attributable to non-controlling interests	(145)	(16)
Net income attributable to owners of parent	3,565	3,078

(Consolidated statements of comprehensive income)

(Millions of yen)

	Nine months ended December 31, 2017	Nine months ended December 31, 2018
Net income	3,420	3,062
Other comprehensive income		
Valuation difference on available-for-sale securities	0	(1)
Foreign currency translation adjustment	1,437	(1,975)
Remeasurements of defined benefit plans, net of tax	14	179
Share of other comprehensive income of entities accounted for using equity method	(0)	(2)
Total other comprehensive income	1,452	(1,800)
Comprehensive income	4,873	1,261
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	5,024	1,448
Comprehensive income attributable to non-controlling interests	(151)	(186)

(3) Consolidated statements of cash flows

Unit: Millions of yen

	Nine months ended December 31, 2017	Nine months ended December 31, 2018
Cash flows from operating activities		
Income before income taxes	6,011	5,081
Depreciation	3,178	3,335
Amortization of goodwill	967	848
Impairment loss	499	–
Increase (decrease) in provision for loss on guarantees	350	–
Loss (gain) on sales of non-current assets	(2,595)	(5)
Loss on retirement of non-current assets	115	27
Increase (decrease) in provision	(64)	33
Increase (decrease) in allowance for doubtful accounts	137	(90)
Increase (decrease) in net defined benefit liability	68	(45)
Interest and dividend income	(130)	(117)
Interest expenses	101	109
Foreign exchange losses (gains)	(219)	367
Decrease (increase) in notes and accounts receivable - trade	(2,544)	(420)
Decrease (increase) in inventories	(729)	(2,069)
Increase (decrease) in notes and accounts payable - trade	(531)	1,278
Increase (decrease) in accounts payable - other	487	(241)
Other, net	(177)	269
Subtotal	4,923	8,363
Interest and dividend income received	130	117
Interest expenses paid	(99)	(109)
Income taxes paid	(2,708)	(1,900)
Payments for business restructuring	–	(146)
Income taxes refund	0	242
Net cash provided by (used in) operating activities	2,247	6,566
Cash flows from investing activities		
Payments into time deposits	(225)	–
Proceeds from withdrawal of time deposits	427	33
Purchase of property, plant and equipment	(4,463)	(3,029)
Purchase of intangible assets	(984)	(399)
Proceeds from sales of property, plant and equipment and intangible assets	3,854	55
Other, net	(85)	25
Net cash provided by (used in) investing activities	(1,476)	(3,314)
Cash flows from financing activities		
Net increase (decrease) in short-term loans payable	(1,515)	(103)
Proceeds from long-term loans payable	333	229
Repayments of long-term loans payable	(123)	(611)
Repayments of lease obligations	(534)	(572)
Cash dividends paid	(2,083)	(2,286)
Other, net	304	(0)
Net cash provided by (used in) financing activities	(3,619)	(3,345)
Effect of exchange rate change on cash and cash equivalents	446	(229)
Net increase (decrease) in cash and cash equivalents	(2,402)	(322)
Cash and cash equivalents at beginning of period	16,757	16,026
Cash and cash equivalents at end of period	14,354	15,703

(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

(Additional information)

Effective from the start of the fiscal year under review, the Company has applied the "Partial Amendments to Accounting Standard for Tax Effect Accounting" (ASBJ Statement No. 28, February 16, 2018) and relevant guidances to classify deferred tax assets under "Investments and other assets" and deferred tax liabilities under "Non-current liabilities."

(Segment information)

I. Nine months ended December 31, 2017 (from April 1, 2017 to December 31, 2017)

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

Unit: Millions of yen

	Auto-ID solutions business (Japan)	Auto-ID solutions business (Overseas)	IDP business	Total
Net sales				
External customer sales	52,971	31,829	215	85,016
Intersegment sales and transfer	4,616	6,475	50	11,142
Total	57,588	38,304	265	96,158
Segment profit (loss)	4,059	1,763	(1,083)	4,739

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	4,739
Intersegment eliminations	(11)
Adjustment of inventories	(52)
Operating income on the consolidated statements of income	4,675

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

(Significant impairment loss on non-current assets)
In the Auto-ID solutions business (Japan) segment, the carrying amount of business assets and goodwill that are losing profitability to yield sufficient return on investment has been reduced to their recoverable amount, with such reduction amount recorded as impairment loss.

Accordingly, impairment loss of ¥84 million was recorded in the nine months ended December 31, 2017.

In the Auto-ID solutions business (Overseas) segment, the carrying amount of goodwill that is losing profitability to yield sufficient return on investment has been reduced to its recoverable amount, with such reduction amount recorded as impairment loss.

Accordingly, impairment loss of ¥414 million was recorded in the nine months ended December 31, 2017.

II. Nine months ended December 31, 2018 (from April 1, 2018 to December 31, 2018)

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

Unit: Millions of yen

	Auto-ID solutions business (Japan)	Auto-ID solutions business (Overseas)	IDP business	Total
Net sales				
External customer sales	53,397	33,017	346	86,761
Intersegment sales and transfer	5,326	16,719	48	22,095
Total	58,724	49,737	395	108,856
Segment profit (loss)	4,691	1,894	(1,013)	5,572

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	5,572
Intersegment eliminations	0
Adjustment of inventories	(128)
Operating income on the consolidated statements of income	5,444

3. Matters related to changes in reportable segments

The SATO Group has renamed its “Materials business” reporting segment “IDP business” as the business would now focus on the development and commercialization of the IDP technology in anticipation of its strong future demand, based on the new Medium-term Management Plan launched in April 2018. The definition of the segment remains unchanged.

Segment information for the nine months ended December 31, 2017 has been prepared in accordance with the new segment name.

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

Not Applicable