

Consolidated Financial Report
for the First Six Months of the March 2020 Term
<Under Japanese GAAP>

November 1, 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: +81-3-5745-3414
Scheduled submission date for quarterly securities report: November 8, 2019
Date of commencement of dividend payments: December 12, 2019
Supplementary explanatory materials for quarterly results: Available
Holding of meeting to explain quarterly results (for analysts and institutional investors): Yes

(Millions of yen, with fractional amounts discarded)

1. Consolidated operating results for the first six months of the fiscal year ending March 31, 2020 (from April 1, 2019 to September 30, 2019)

(1) Consolidated financial results (cumulative)

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

Six months ended	Net sales		Operating income		Ordinary income	
	(Millions of yen)	%	(Millions of yen)	%	(Millions of yen)	%
September 30, 2019	57,875	2.5	3,542	5.9	3,237	1.4
September 30, 2018	56,489	3.0	3,343	30.8	3,190	34.7

(Note) Comprehensive income: Six months ended September 30, 2019: ¥654 million (-56.6%)
Six months ended September 30, 2018: ¥1,509 million (-55.3%)

Six months ended	Net income attributable to owners of parent		Basic earnings per share	Diluted earnings per share
	(Millions of yen)	%	(Yen)	(Yen)
September 30, 2019	2,880	50.0	85.82	85.76
September 30, 2018	1,919	(20.4)	57.22	57.17

(2) Consolidated financial position

	Total assets	Net assets	Equity ratio	Net assets per share
As of	(Millions of yen)	(Millions of yen)	%	(Yen)
September 30, 2019	105,488	56,318	52.1	1,638.25
March 31, 2019	107,574	56,668	51.5	1,649.86

(N.B.) Total equity:

As of September 30, 2019: ¥54,990 million

As of March 31, 2019: ¥55,375 million

2. Dividends

	Annual dividend per share				
	First quarter	Second quarter	Third quarter	Year-end	Total
	(Yen)	(Yen)	(Yen)	(Yen)	(Yen)
March 31, 2019	–	35.00	–	35.00	70.00
March 31, 2020	–	36.00			
March 31, 2020 (Forecast)			–	37.00	73.00

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

3. Consolidated forecasts for the fiscal year ending March 31, 2020 (from April 1, 2019 to March 31, 2020)

(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)	%	
Annual	120,000	3.3	8,500	10.7	8,100	6.3	5,900	56.3	175.77

(Note) Revisions of consolidated forecasts most recently announced: Yes

For details, please refer to the section “(3) Explanation of consolidated forecasts and other projections” of “1. Qualitative Information Regarding Settlement of Accounts for the First Six Months” on page 5 of the attached materials.

*** Notes**

(1) Changes in significant subsidiaries during the first six 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: Yes

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 September 30, 2019: 34,921,242 shares

As of March 31, 2019: 34,921,242 shares

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

As of September 30, 2019: 1,354,370 shares

As of March 31, 2019: 1,357,708 shares

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

Six months ended September 30, 2019: 33,565,748 shares

Six months ended September 30, 2018: 33,551,558 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 5 of the attached materials for the suppositions that form the assumptions for consolidated forecasts and cautions concerning the use thereof.

Attached Materials

Index

1. Qualitative Information Regarding Settlement of Accounts for the First Six Months	2
(1) Explanation of financial results (percentage changes, year-on-year).....	2
(2) Explanation of financial position.....	4
(3) Explanation of consolidated forecasts and other projections	5
2. Consolidated Financial Statements and Significant Notes Thereto	6
(1) Consolidated balance sheets	6
(2) Consolidated statements of (comprehensive) income	8
(Consolidated statements of income)	8
(Consolidated statements of comprehensive income)	9
(3) Consolidated statements of cash flows.....	10
(4) Notes to consolidated financial statements	11
(Notes related to going-concern assumption).....	11
(Notes in the event of material changes in amount of shareholders' equity)	11
(Additional information)	11
(Changes in accounting policies).....	12
(Segment information).....	13

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

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

The SATO Group has formulated a new three-year Medium-term Management Plan (FY 2019–21) geared toward the business vision of becoming the leader and most trusted company in the auto-ID solutions industry, exceeding customer expectations in an ever-changing world. Launched this fiscal year, this plan aims to concentrate more resources on the auto-ID solutions business than ever before and maximize our strengths to realize stronger sustainable growth and stable profits. To this end, the Group will strive to focus on the high growth potential overseas to define clear country/industry-specific strategies and develop our auto-ID solutions business globally with the knowledge and knowhow gained from the business in Japan.

Continued efforts in executing the necessary business strategies have paid off in the first six months to produce increased revenues and profits for our auto-ID solutions business. Meanwhile, we also continue to make upfront R&D investments to grow our IDP business strategically.

As a result, the SATO Group posted net sales of ¥57,875 million (up 2.5% from the same period of the previous fiscal year), operating income of ¥3,542 million (up 5.9%), ordinary income of ¥3,237 million (up 1.4%), and net income attributable to owners of parent of ¥2,880 million (up 50.0%). In this first six months, the Group also recorded extraordinary income of ¥821 million from the sale of non-current assets.

By segment, the SATO Group reported the following.

<Auto-ID solutions business (Japan)>

In Japan, we have tailored and implemented strategies for each market/industry to strengthen the *koto-uri* approach so that our sales frontlines work to promote not just printers or consumables but combinations of such products in the form of optimized solutions for solving customers' problems with proven results. This approach helped boost business deals for solutions, driving a marked growth in mechatronics sales (mainly printers and software) in particular. Consumables sales, on the other hand, recovered from the decline in the first quarter to match levels recorded for the same six-month period of the last fiscal, thanks to positive effects from the consumption tax hike and thriving e-commerce market in Japan, even as the impact of production adjustments continue to be felt in some manufacturing industries. Besides sales, operating income for our domestic auto-ID solutions business also increased due to a better product mix and progress in ongoing cost reductions, with both gross profit margin and operating income ratio improving as well.

While labor shortages are creating prominent needs to increase on-site productivity, visibility and automation particularly in the manufacturing and logistics sectors, there are also rising needs to comply with new labeling standards in the food and health care 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 4.1% to ¥36,073 million, and operating income increased 8.9% to ¥3,083 million, compared with the same period of the previous fiscal year.

<Auto-ID solutions business (Overseas)>

Overseas, both local-currency sales and profits increased although year-on-year results show flat sales and lower profits on the yen basis due to adverse foreign currency effects.

For our base business, we are moving away from selling products to selling solutions, particularly solutions that can improve on-site operations for customers in different countries, markets, and industries. Business in the Americas, Europe, Asia and Oceania regions continued to perform steadily to increase overall sales on the local currency basis, while overall operating income also increased as earnings growth at some subsidiaries in the Americas and Europe was able to offset the decline in Asia and Oceania caused by the slowdown in China-related business.

For our companies specializing in primary labels, sales increased while profits decreased overall, largely attributed to Russia's Okil-Holding that was recording more sales from its progress in developing new business but less profits due to rising costs, foreign currency impact, and other factors.

Under these circumstances, net sales was ¥21,607 million, largely unchanged from the same period of the previous fiscal year (increase of 5.5%, excluding foreign currency effects), and operating income decreased 5.3% to ¥1,155 million, compared with the same period of the previous fiscal year.

<IDP business>

For our business centering on the Inline Digital Printing (IDP) technology that we own after fully acquiring UK-based DataLase in January 2017, R&D costs were recorded in the form of upfront investments for the technology.

As SATO seeks to develop B2B2C solutions business, we see potential in the IDP business that is capable of driving engagement between retail stores/brand owners and general consumers. We are currently conducting consumer trials, with plans to make the final decision on commercialization rollout in FY 2019 and achieve operating profitability from FY2020 onwards.

Under these circumstances, net sales decreased 15.5% to ¥194 million (decrease of 9.7%, excluding foreign currency effects), and an operating loss of ¥737 million was incurred, compared with that of ¥676 million for the same period of the previous fiscal year.

(2) Explanation of financial position

Total assets at the end of the second quarter were ¥105,488 million, a decrease of ¥2,085 million compared with the end of the previous fiscal year. This was primarily the result of a decrease in intangible assets.

Net assets were ¥56,318 million, a ¥350 million decrease from the end of the previous fiscal year, mainly due to the payment of dividends and decrease in foreign currency translation adjustment, notwithstanding the recording of net income attributable to owners of parent.

Cash flows

At the end of the second quarter, cash and cash equivalents (referred to below as “cash”) stood at ¥18,528 million, an increase of ¥2,097 million compared with the end of the previous fiscal year.

Cash flows from operating activities

Net cash provided by operating activities amounted to ¥4,849 million, an increase of 9.8% compared with the same period of the previous fiscal year.

This resulted primarily from cash inflows including ¥3,947 million of income before income taxes, ¥2,509 million for depreciation and a ¥1,617 million decrease in trade receivables, and cash outflows including a ¥740 million decrease in trade payables, a ¥697 million decrease in accounts payable - other and ¥1,787 million of income taxes paid.

Cash flows from investing activities

Net cash used in investing activities amounted to ¥835 million, a decrease of 66.0%, compared with the same period of the previous fiscal year.

This resulted primarily from expenditures of ¥1,589 million for the purchase of property, plant and equipment and ¥368 million for the purchase of intangible assets, notwithstanding ¥1,109 million proceeds from sales of property, plant and equipment and intangible assets.

Cash flows from financing activities

Net cash used in financing activities amounted to ¥1,544 million, a decrease of 17.4%, compared with the same period of the previous fiscal year.

This resulted primarily from cash outflows including ¥368 million for repayments of lease obligations and ¥1,179 million of dividends paid.

(3) Explanation of consolidated forecasts and other projections

Considering the Group's operating results for the first six months, we have revised our consolidated forecasts for the entire fiscal year as follows.

Consolidated forecasts for the fiscal year ending March 31, 2020

Net sales	¥120,000 million	(no change)
Operating income	¥8,500 million	(no change)
Ordinary income	¥8,100 million	(previous forecast ¥8,300 million)
Net income attributable to owners of parent	¥5,900 million	(previous forecast ¥5,000 million)

The foreign exchange rates assumed in the above forecast are US\$1 = ¥108 and €1 = ¥120.

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. Results may differ materially from the consolidated forecasts due to various factors.

2. Consolidated Financial Statements and Significant Notes Thereto

(1) Consolidated balance sheets

Unit: Millions of yen

	March 31, 2019	September 30, 2019
Assets		
Current assets		
Cash and deposits	16,800	18,830
Notes and accounts receivable - trade	25,522	23,591
Securities	37	98
Merchandise and finished goods	9,421	9,114
Work in process	531	491
Raw materials and supplies	3,501	3,529
Other	3,705	3,998
Allowance for doubtful accounts	(153)	(504)
Total current assets	59,367	59,149
Non-current assets		
Property, plant and equipment		
Machinery, equipment and vehicles, net	11,852	11,567
Land	6,135	6,022
Other, net	12,732	13,554
Total property, plant and equipment	30,720	31,144
Intangible assets		
Goodwill	8,059	7,071
Other	3,874	3,366
Total intangible assets	11,933	10,438
Investments and other assets	5,552	4,755
Total non-current assets	48,206	46,338
Total assets	107,574	105,488
Liabilities		
Current liabilities		
Notes and accounts payable - trade	7,304	7,169
Electronically recorded obligations - operating	11,650	10,728
Short-term borrowings	4,209	4,033
Accounts payable - other	2,835	2,152
Income taxes payable	2,059	1,476
Provisions	986	1,059
Other	7,857	8,046
Total current liabilities	36,904	34,665
Non-current liabilities		
Long-term borrowings	7,572	7,509
Retirement benefit liability	1,843	1,733
Other	4,583	5,260
Total non-current liabilities	14,000	14,503
Total liabilities	50,905	49,169

Unit: Millions of yen

	March 31, 2019	September 30, 2019
Net assets		
Shareholders' equity		
Share capital	8,468	8,468
Capital surplus	7,737	7,739
Retained earnings	42,624	44,323
Treasury shares	(2,584)	(2,579)
Total shareholders' equity	56,245	57,952
Accumulated other comprehensive income		
Foreign currency translation adjustment	(700)	(2,844)
Remeasurements of defined benefit plans	(169)	(117)
Total accumulated other comprehensive income	(870)	(2,961)
Share acquisition rights	57	48
Non-controlling interests	1,235	1,278
Total net assets	56,668	56,318
Total liabilities and net assets	107,574	105,488

(2) Consolidated statements of (comprehensive) income
(Consolidated statements of income)

Unit: Millions of yen

	Six months ended September 30, 2018	Six months ended September 30, 2019
Net sales	56,489	57,875
Cost of sales	31,594	32,746
Gross profit	24,894	25,129
Selling, general and administrative expenses	21,550	21,586
Operating income	3,343	3,542
Non-operating income		
Interest income	86	58
Dividend income	16	13
Reversal of allowance for doubtful accounts	57	3
Share of profit of entities accounted for using equity method	1	–
Other	108	84
Total non-operating income	271	158
Non-operating expenses		
Interest expenses	101	110
Foreign exchange losses	198	149
Sales discounts	38	35
Compensation expenses	4	102
Other	81	66
Total non-operating expenses	424	464
Ordinary income	3,190	3,237
Extraordinary income		
Gain on sales of non-current assets	4	821
Total extraordinary income	4	821
Extraordinary losses		
Loss on retirement of non-current assets	27	5
Loss on sales of non-current assets	0	105
Total extraordinary losses	27	111
Income before income taxes	3,167	3,947
Income taxes - current	1,027	836
Income taxes - deferred	218	216
Total income taxes	1,246	1,052
Net income	1,921	2,894
Net income (loss) attributable to non-controlling interests	1	13
Net income attributable to owners of parent	1,919	2,880

(Consolidated statements of comprehensive income)

Unit: Millions of yen

	Six months ended September 30, 2018	Six months ended September 30, 2019
Net income	1,921	2,894
Other comprehensive income		
Valuation difference on available-for-sale securities	(1)	–
Foreign currency translation adjustment	(563)	(2,292)
Remeasurements of defined benefit plans, net of tax	153	51
Share of other comprehensive income of entities accounted for using equity method	(0)	–
Total other comprehensive income	(412)	(2,240)
Comprehensive income	1,509	654
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	1,589	789
Comprehensive income attributable to non-controlling interests	(80)	(134)

(3) Consolidated statements of cash flows

Unit: Millions of yen

	Six months ended September 30, 2018	Six months ended September 30, 2019
Cash flows from operating activities		
Income before income taxes	3,167	3,947
Depreciation	2,186	2,509
Amortization of goodwill	566	436
Loss (gain) on sales of non-current assets	(4)	(716)
Loss on retirement of non-current assets	27	5
Increase (decrease) in provisions	82	(19)
Increase (decrease) in allowance for doubtful accounts	(45)	340
Increase (decrease) in retirement benefit liability	4	(61)
Interest and dividend income	(103)	(71)
Interest expenses	101	110
Foreign exchange losses (gains)	96	(11)
Decrease (increase) in trade receivables	797	1,617
Decrease (increase) in inventories	(1,253)	(92)
Increase (decrease) in trade payables	(50)	(740)
Increase (decrease) in accounts payable - other	(162)	(697)
Other, net	(27)	68
Subtotal	5,382	6,624
Interest and dividends received	103	71
Interest paid	(101)	(110)
Income taxes paid	(1,065)	(1,787)
Payments for business restructuring	(146)	(13)
Payments for performance of guarantee obligation	–	(338)
Income taxes refund	242	403
Net cash provided by (used in) operating activities	4,414	4,849
Cash flows from investing activities		
Proceeds from withdrawal of time deposits	33	–
Purchase of property, plant and equipment	(2,228)	(1,589)
Proceeds from sales of property, plant and equipment and intangible assets	18	1,109
Purchase of intangible assets	(299)	(368)
Other, net	22	13
Net cash provided by (used in) investing activities	(2,453)	(835)
Cash flows from financing activities		
Net increase (decrease) in short-term borrowings	(517)	18
Proceeds from long-term borrowings	229	–
Repayments of long-term borrowings	(73)	(13)
Repayments of lease obligations	(394)	(368)
Dividends paid	(1,111)	(1,179)
Other, net	(0)	(0)
Net cash provided by (used in) financing activities	(1,868)	(1,544)
Effect of exchange rate change on cash and cash equivalents	19	(448)
Net increase (decrease) in cash and cash equivalents	111	2,021
Cash and cash equivalents at beginning of period	16,026	16,430
Increase in cash and cash equivalents resulting from inclusion of subsidiaries in consolidation	–	76
Cash and cash equivalents at end of period	16,137	18,528

(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)

Not Applicable

(Changes in accounting policies)

(Adoption of IFRS 16 “Leases”)

The Group’s subsidiaries using IFRS have adopted the new leases standard IFRS 16, effective from the first quarter. This requires lessees to recognize assets and liabilities for, in principle, all leases on the balance sheet. Out of the two recognized IFRS 16 transition approaches, the Group uses the modified retrospective approach whereby the cumulative effect of initially applying the new leases standard is recognized as an adjustment to equity at the date of initial application.

As of the end of the second quarter, upward adjustments have been made to items of property, plant and equipment (¥168 million under “Machinery, equipment and vehicles” and ¥949 million under “Other, net”), intangible assets (¥181 million under “Other”), current liabilities (¥409 million under “Other”), and non-current liabilities (¥754 million under “Other”). The impact of this change on the consolidated statements of income for the first six months was minimal.

(Segment information)

I. Six months ended September 30, 2018 (from April 1, 2018 to September 30, 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	34,661	21,597	230	56,489
Intersegment sales and transfer	3,553	10,496	33	14,083
Total	38,215	32,094	263	70,572
Segment profit (loss)	2,831	1,220	(676)	3,375

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	3,375
Intersegment eliminations	0
Adjustment of inventories	(31)
Operating income on the consolidated statements of income	3,343

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. Six months ended September 30, 2019 (from April 1, 2019 to September 30, 2019)

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	36,073	21,607	194	57,875
Intersegment sales and transfer	2,763	4,173	0	6,936
Total	38,836	25,781	194	64,812
Segment profit (loss)	3,083	1,155	(737)	3,501

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	3,501
Intersegment eliminations	0
Adjustment of inventories	41
Operating income on the consolidated statements of income	3,542

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