

Consolidated Financial Report for the March 2020 Term

<Under Japanese GAAP>

May 15, 2020

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

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Date of Ordinary General Meeting of Shareholders: June 19, 2020

Date of commencement of dividend payments: June 22, 2020

Scheduled submission date for annual securities report: June 22, 2020

Supplementary explanatory materials for financial results: Available

Holding of meeting to explain financial results (for analysts and institutional investors): Yes

(Millions of yen, with fractional amounts discarded)

1. Consolidated operating results for the fiscal year ended March 31, 2020 (from April 1, 2019 to March 31, 2020)

(1) Consolidated financial results

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

Fiscal year ended	Net sales		Operating income		Ordinary income		Net income attributable to owners of parent	
	(Millions of yen)	%	(Millions of yen)	%	(Millions of yen)	%	(Millions of yen)	%
March 31, 2020	116,372	0.2	7,461	(2.8)	6,571	(13.7)	(1,882)	—
March 31, 2019	116,179	2.5	7,679	22.9	7,618	29.4	3,773	(7.4)

(Note) Comprehensive income: Fiscal year ended March 31, 2020: ¥(5,641) million (–%)
Fiscal year ended March 31, 2019: ¥2,677 million (–29.0%)

Fiscal year ended	Basic earnings per share	Diluted earnings per share	Return on equity ratio	Ratio of ordinary income to total asset	Ratio of operating income to net sales
	(Yen)	(Yen)	(%)	(%)	(%)
March 31, 2020	(56.06)	—	(3.6)	6.2	6.4
March 31, 2019	112.46	112.36	6.9	7.1	6.6

(N.B.) Equity in earnings or losses of affiliates: Fiscal year ended March 31, 2020: ¥– million
Fiscal year ended March 31, 2019: ¥1 million

(Note) Diluted earnings per share for the fiscal year ended March 31, 2020 is not provided because the Company recorded a basic loss per share.

(2) Consolidated financial position

	Total assets	Net assets	Equity ratio	Net assets per share
As of	(Millions of yen)	(Millions of yen)	%	(Yen)
March 31, 2020	103,147	48,823	46.3	1,423.30
March 31, 2019	107,574	56,668	51.5	1,649.86

(N.B.) Total equity:

As of March 31, 2020: ¥47,793 million

As of March 31, 2019: ¥55,375 million

(3) Consolidated cash flows statement

	Net cash provided by (used in) operating activities	Net cash provided by (used in) investing activities	Net cash provided by (used in) financing activities	Cash and cash equivalents at end of period
Fiscal year ended	(Millions of yen)	(Millions of yen)	(Millions of yen)	(Millions of yen)
March 31, 2020	11,259	(2,449)	(1,311)	23,379
March 31, 2019	9,365	(5,212)	(3,534)	16,430

2. Dividends

	Annual dividend per share					Total dividends paid (total)	Dividend payout ratio (consolidated)	Dividend to net assets (consolidated)
	First quarter	Second quarter	Third quarter	Year-end	Total			
	(Yen)	(Yen)	(Yen)	(Yen)	(Yen)	(Millions of yen)	%	%
March 31, 2019	–	35.00	–	35.00	70.00	2,363	62.2	4.2
March 31, 2020	–	36.00	–	34.00	70.00	2,363	–	4.5
March 31, 2021 (Forecast)	–	–	–	–	–		–	

(Note) Interim and year-end dividends projected for the fiscal year ending March 31, 2021 are currently being reviewed, and will be announced as soon as practically possible.

3. Consolidated forecasts for the fiscal year ending March 31, 2021 (from April 1, 2020 to March 31, 2021)

As impacts from the ongoing coronavirus outbreak remain highly uncertain worldwide, it is difficult to establish credible forecasts of future business performance at present. Efforts will be made to announce the Company's financial guidance for the said fiscal period once it can be finalized.

*** Notes**

- (1) Changes in significant subsidiaries during the term (changes in specified subsidiaries resulting in the change in scope of consolidation): None

- (2) 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

- (3) Number of issued shares (common shares)
 - 1) Number of issued shares at the end of term (including treasury shares):

As of March 31, 2020:	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 March 31, 2020:	1,341,974 shares
As of March 31, 2019:	1,357,708 shares
 - 3) Average number of shares during the term:

Fiscal year ended March 31, 2020:	33,571,122 shares
Fiscal year ended March 31, 2019:	33,557,534 shares

*** Financial reports are not subject to audit 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 6 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. Overview of Financial Performance and Others

(1) Overview of financial performance during the fiscal year ended March 31, 2020

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 worldwide, exceeding customer expectations in an ever-changing world. Launched in the fiscal year under review, 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 this fiscal year. We succeeded in expanding new use cases for customers in each market and building up deals for our auto-ID solutions business, but saw flat sales and lower operating income year on year, however, due to impacts of US–China trade tensions and the novel coronavirus outbreak. Meanwhile for our IDP business which we are investing in strategically, we have advanced from R&D to customer evaluation stage but need to delay this fiscal’s plans to decide on commercialization rollout. This led to the booking of approximately ¥6,300 million impairment loss on non-current assets (including goodwill) under extraordinary losses in the fourth quarter. As a result of the above, the SATO Group posted net sales of ¥116,372 million (up 0.2% from the previous fiscal year), operating income of ¥7,461 million (down 2.8%), ordinary income of ¥6,571 million (down 13.7%), and net loss attributable to owners of parent of ¥1,882 million (compared with net income of ¥3,773 million for the previous fiscal).

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 and others in the form of optimized solutions for solving customers’ problems with proven results. This approach helped boost business deals for solutions, driving a marked increase in mechatronics sales (mainly printers and software) in particular for the first nine months. Consumables sales, on the other hand, decreased year on year as US–China trade tensions, together with Japan’s sales tax hike and spate of natural disasters, took a hit on domestic consumption to affect the manufacturing industry among others. When the coronavirus outbreak struck in the fourth quarter, manufacturing activities were paralyzed and the closing of business deals delayed. Levels of mechatronics/consumables orders stagnated, pushing down both revenues and profits for our

domestic business to record a subdued growth in sales with reduced operating income over the full year.

Amid such business conditions, labor shortages across almost all industries including manufacturing and logistics are creating heightened needs for on-site productivity, visibility, and automation. We aim to strengthen our ability to propose solutions for the changing and increasingly sophisticated challenges of different customers to grow business stably in the future.

Under these circumstances, net sales increased 1.3% to ¥73,360 million, and operating income decreased 7.2% to ¥6,479 million, compared with the previous fiscal year.

<Auto-ID solutions business (Overseas)>

Overseas, both local-currency sales and operating income increased year on year, although the former translated into a decrease 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. Results were beginning to show until the coronavirus hit business in the Americas, Europe, Asia and Oceania regions, resulting in sales decline and limiting growth to very small figures in local currency terms. Operating income increased only slightly, with earnings gain at some subsidiaries in the Americas and Europe helping to offset decline in Asia and Oceania caused by the slowdown in China-related business and the coronavirus outbreak.

For our companies specializing in primary labels, sales increased while operating income decreased overall, largely attributed to Russia's Okil-Holding that recorded more revenue from its progress in developing new sales potentials but less profits due to rising raw material costs and foreign currency impact, among other factors.

Under these circumstances, net sales decreased 1.5% to ¥42,648 million (increase of 3.5%, excluding foreign currency effects) and operating income increased 1.7% to ¥2,277 million, compared with 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, R&D costs have been 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. Currently, we have advanced from technology development to customer evaluation stage, and continued consumer trials for commercialization. However, with customer feedback on new technical issues, we need to delay this fiscal's plans to decide on commercialization rollout, which resulted in the booking of impairment loss (under extraordinary losses) as mentioned above.

Under these circumstances, net sales decreased 15.0% to ¥363 million (decrease of 10.6%,

excluding foreign currency effects), and an operating loss of ¥1,317 million was incurred, compared with that of ¥1,421 million for the previous fiscal year.

(2) Overview of financial position at the end of fiscal year, March 31, 2020

a. Assets, liabilities and net assets

At the end of the fiscal year under review, the balance of current assets was ¥66,195 million, an increase of ¥6,827 million (from ¥59,367 million recorded at the end of the previous fiscal year). This was primarily the result of an increase of ¥6,960 million in cash and deposits. The balance of non-current assets was ¥36,952 million, a decrease of ¥11,254 million (from ¥48,206 million at the end of the previous fiscal year). This was primarily the result of decreases of ¥1,783 million in property, plant and equipment, ¥8,244 million in intangible assets and ¥1,225 million in investments and other assets.

The balance of current liabilities was ¥41,492 million, an increase of ¥4,587 million (from ¥36,904 million at the end of the previous fiscal year). This was primarily the result of increases of ¥3,160 million in short-term borrowings and ¥421 million in lease obligations. The balance of non-current liabilities was ¥12,832 million, a decrease of ¥1,168 million (from ¥14,000 million at the end of the previous fiscal year). This was mainly due to a decrease of ¥1,681 million in long-term borrowings, notwithstanding an increase of ¥562 million in lease obligations.

The balance of net assets at the end of the fiscal year under review was ¥48,823 million, a decrease of ¥7,845 million (from ¥56,668 million at the end of the previous fiscal year). This was primarily due to decreases of ¥4,279 million in retained earnings and ¥3,294 million in foreign currency translation adjustment.

(3) Overview of cash flows during the fiscal year ended March 31, 2020

At the end of the fiscal year under review, cash and cash equivalents stood at ¥23,379 million, an increase of ¥6,947 million compared with the end of the previous fiscal year.

The major cash flow-related factors for the fiscal year ended March 31, 2020 are outlined below.

Cash flows from operating activities

Net cash provided by operating activities amounted to ¥11,259 million.

This resulted primarily from cash inflows including ¥636 million of income before income taxes, ¥5,043 million for depreciation, ¥871 million for amortization of goodwill, ¥6,397 million for impairment loss and a ¥1,006 million decrease in trade receivables, and cash outflows including ¥2,872 million of income taxes paid.

Cash flows from investing activities

Net cash used in investing activities amounted to ¥2,449 million.

This resulted primarily from expenditures of ¥2,858 million for purchase of property, plant and equipment and ¥1,045 million for purchase of intangible assets, notwithstanding ¥1,456 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 ¥1,311 million.

This resulted primarily from cash outflows including ¥977 million for repayments of long-term borrowings, ¥2,393 million of dividends paid and ¥621 million for repayments of lease obligations, and cash inflows including a ¥2,683 million increase in short-term borrowings.

Trend in cash flow indices

Fiscal year ended	March 31, 2017	March 31, 2018	March 31, 2019	March 31, 2020
Equity ratio (%)	50.8	51.5	51.5	46.3
Equity ratio based on market value (%)	76.3	106.0	81.0	69.1
Ratio of cash flow to interest-bearing debt (%)	157.9	271.6	170.4	163.6
Interest-coverage ratio (times)	83.5	43.6	66.5	60.0

(Notes)

The equity ratio is equal to shareholders' equity divided by total assets.

The equity ratio based on market value is equal to total stock market capitalization divided by total assets.

The ratio of cash flow to interest-bearing debt is equal to interest-bearing debts divided by operating cash flow.

The interest-coverage ratio is equal to operating cash flow divided by interest payments.

- * All of the above indicators are calculated on a consolidated basis.
- * Total stock market capitalization is calculated by multiplying the closing share price on the final trading day of the fiscal year by the number of issued shares (excluding treasury shares) as of the corresponding fiscal year-end.
- * Operating cash flow equals total net cash flows provided by operating activities as stated in the consolidated statements of cash flows. Interest-bearing debts include all debts on which interest is paid, as stated in the consolidated balance sheets. Interest payments are equal to interest paid as stated in the consolidated statements of cash flows.

(4) Forecasts

As the coronavirus outbreak continues to spread globally, it is difficult to establish credible forecasts of future business performance amid uncertainties over when economic activities will resume in Japan and other countries around the world. Efforts will be made to announce our financial guidance for the fiscal year ending March 31, 2021 once it can be finalized.

2. Our Basic Stance regarding Selection of Accounting Standards

The SATO Group chooses to use Japanese GAAP for accounting because Japanese accounting standards are now of high quality and internationally competitive as a result of convergence with international accounting standards and have been accepted to be equivalent to International Financial Reporting Standards (IFRSs) in Europe.

With regard to future adoption of IFRSs, the Group will give due consideration to domestic and international circumstances and take action accordingly.

3. Consolidated Financial Statements and Significant Notes Thereto

(1) Consolidated balance sheets

Unit: Millions of yen

	March 31, 2019	March 31, 2020
Assets		
Current assets		
Cash and deposits	16,800	23,761
Notes and accounts receivable - trade	25,522	23,766
Securities	37	35
Merchandise and finished goods	9,421	8,997
Work in process	531	394
Raw materials and supplies	3,501	3,662
Accounts receivable - other	1,834	3,759
Other	1,870	2,002
Allowance for doubtful accounts	(153)	(185)
Total current assets	59,367	66,195
Non-current assets		
Property, plant and equipment		
Buildings and structures	16,437	17,169
Accumulated depreciation	(6,264)	(6,740)
Buildings and structures, net	10,172	10,429
Machinery, equipment and vehicles	28,363	26,147
Accumulated depreciation	(16,510)	(15,868)
Machinery, equipment and vehicles, net	11,852	10,279
Tools, furniture and fixtures	6,149	6,137
Accumulated depreciation	(4,750)	(4,800)
Tools, furniture and fixtures, net	1,398	1,311
Land	6,135	5,863
Construction in progress	1,160	1,027
Total property, plant and equipment	30,720	28,936
Intangible assets		
Goodwill	8,059	829
Software	2,769	1,903
Other	1,104	955
Total intangible assets	11,933	3,688
Investments and other assets		
Investment securities	1,607	1,188
Long-term loans receivable	21	11
Guarantee deposits	1,700	1,696
Deferred tax assets	1,865	1,311
Other	692	440
Allowance for doubtful accounts	(335)	(321)
Total investments and other assets	5,552	4,326
Total non-current assets	48,206	36,952
Total assets	107,574	103,147

Unit: Millions of yen

	March 31, 2019	March 31, 2020
Liabilities		
Current liabilities		
Notes and accounts payable - trade	7,304	6,720
Electronically recorded obligations - operating	11,650	11,375
Short-term borrowings	4,209	7,370
Lease obligations	758	1,180
Accounts payable - other	2,835	2,566
Income taxes payable	2,059	830
Provision for bonuses	340	257
Provision for product warranties	646	840
Provision for loss on guarantees	341	–
Other	6,756	10,351
Total current liabilities	36,904	41,492
Non-current liabilities		
Long-term borrowings	7,572	5,891
Lease obligations	3,345	3,907
Retirement benefit liability	1,843	1,800
Provision for share-based remuneration for directors (and other officers)	191	226
Other	1,047	1,006
Total non-current liabilities	14,000	12,832
Total liabilities	50,905	54,324
Net assets		
Shareholders' equity		
Share capital	8,468	8,468
Capital surplus	7,737	7,738
Retained earnings	42,624	38,345
Treasury shares	(2,584)	(2,552)
Total shareholders' equity	56,245	51,999
Accumulated other comprehensive income		
Foreign currency translation adjustment	(700)	(3,995)
Remeasurements of defined benefit plans	(169)	(211)
Total accumulated other comprehensive income	(870)	(4,206)
Share acquisition rights	57	39
Non-controlling interests	1,235	990
Total net assets	56,668	48,823
Total liabilities and net assets	107,574	103,147

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

Unit: Millions of yen

	Fiscal year ended March 31, 2019	Fiscal year ended March 31, 2020
Net sales	116,179	116,372
Cost of sales	65,502	66,193
Gross profit	50,676	50,179
Selling, general and administrative expenses	42,997	42,718
Operating income	7,679	7,461
Non-operating income		
Interest income	118	107
Dividend income	25	14
Purchase discounts	35	25
Rental income	7	9
Reversal of allowance for doubtful accounts	57	3
Gain on valuation of securities	73	–
Share of profit of entities accounted for using equity method	1	–
Other	248	165
Total non-operating income	569	324
Non-operating expenses		
Interest expenses	140	187
Sales discounts	77	67
Foreign exchange losses	275	722
Other	136	235
Total non-operating expenses	629	1,213
Ordinary income	7,618	6,571
Extraordinary income		
Gain on sales of non-current assets	11	824
Total extraordinary income	11	824
Extraordinary losses		
Loss on sales of non-current assets	0	113
Loss on retirement of non-current assets	32	144
Impairment loss	1,024	6,397
Loss on sales of investment securities	–	46
Loss on valuation of investment securities	–	58
Total extraordinary losses	1,057	6,760
Income before income taxes	6,573	636
Income taxes - current	2,971	2,076
Income taxes - deferred	(182)	536
Total income taxes	2,788	2,612
Net income (loss)	3,784	(1,976)
Net income (loss) attributable to non-controlling interests	10	(94)
Net income (loss) attributable to owners of parent	3,773	(1,882)

(Consolidated statements of comprehensive income)

Unit: Millions of yen

	Fiscal year ended March 31, 2019	Fiscal year ended March 31, 2020
Net income (loss)	3,784	(1,976)
Other comprehensive income		
Valuation difference on available-for-sale securities	(1)	–
Foreign currency translation adjustment	(1,357)	(3,623)
Remeasurements of defined benefit plans, net of tax	256	(41)
Share of other comprehensive income of entities accounted for using equity method	(4)	–
Total other comprehensive income	(1,106)	(3,665)
Comprehensive income	2,677	(5,641)
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	2,762	(5,218)
Comprehensive income attributable to non-controlling interests	(84)	(423)

(3) Consolidated statements of changes in equity

Fiscal year ended March 31, 2019

Unit: Millions of yen

	Shareholders' equity				
	Share capital	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance at beginning of period	8,468	7,712	41,145	(2,662)	54,664
Changes during period					
Dividends of surplus			(2,295)		(2,295)
Net income (loss) attributable to owners of parent			3,773		3,773
Purchase of treasury shares				(0)	(0)
Disposal of treasury shares		25		78	103
Net changes in items other than shareholders' equity					
Total changes during period	–	25	1,478	77	1,581
Balance at end of period	8,468	7,737	42,624	(2,584)	56,245

	Accumulated other comprehensive income				Share acquisition rights	Non-controlling interests	Total net assets
	Valuation difference on available-for-sale securities	Foreign currency translation adjustment	Remeasurements of defined benefit plans	Total accumulated other comprehensive income			
Balance at beginning of period	1	565	(426)	140	99	1,320	56,225
Changes during period							
Dividends of surplus							(2,295)
Net income (loss) attributable to owners of parent							3,773
Purchase of treasury shares							(0)
Disposal of treasury shares							103
Net changes in items other than shareholders' equity	(1)	(1,266)	256	(1,011)	(42)	(85)	(1,138)
Total changes during period	(1)	(1,266)	256	(1,011)	(42)	(85)	442
Balance at end of period	–	(700)	(169)	(870)	57	1,235	56,668

Fiscal year ended March 31, 2020

Unit: Millions of yen

	Shareholders' equity				
	Share capital	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance at beginning of period	8,468	7,737	42,624	(2,584)	56,245
Changes during period					
Dividends of surplus			(2,397)		(2,397)
Net income (loss) attributable to owners of parent			(1,882)		(1,882)
Purchase of treasury shares				(2)	(2)
Disposal of treasury shares		1		34	35
Net changes in items other than shareholders' equity					
Total changes during period	-	1	(4,279)	32	(4,245)
Balance at end of period	8,468	7,738	38,345	(2,552)	51,999

	Accumulated other comprehensive income				Share acquisition rights	Non-controlling interests	Total net assets
	Valuation difference on available-for-sale securities	Foreign currency translation adjustment	Remeasurements of defined benefit plans	Total accumulated other comprehensive income			
Balance at beginning of period	-	(700)	(169)	(870)	57	1,235	56,668
Changes during period							
Dividends of surplus							(2,397)
Net income (loss) attributable to owners of parent							(1,882)
Purchase of treasury shares							(2)
Disposal of treasury shares							35
Net changes in items other than shareholders' equity		(3,294)	(41)	(3,336)	(18)	(245)	(3,599)
Total changes during period	-	(3,294)	(41)	(3,336)	(18)	(245)	(7,845)
Balance at end of period	-	(3,995)	(211)	(4,206)	39	990	48,823

(4) Consolidated statements of cash flows

Unit: Millions of yen

	Fiscal year ended March 31, 2019	Fiscal year ended March 31, 2020
Cash flows from operating activities		
Income before income taxes	6,573	636
Depreciation	4,489	5,043
Amortization of goodwill	1,081	871
Impairment loss	1,024	6,397
Loss (gain) on sales of investment securities	–	46
Loss (gain) on valuation of investment securities	–	58
Loss (gain) on sales of non-current assets	(11)	(711)
Loss on retirement of non-current assets	32	144
Increase (decrease) in allowance for doubtful accounts	(96)	37
Increase (decrease) in provision for bonuses	109	(71)
Increase (decrease) in retirement benefit liability	13	(85)
Interest and dividend income	(143)	(121)
Interest expenses	140	187
Foreign exchange losses (gains)	317	515
Decrease (increase) in trade receivables	(1,093)	1,006
Decrease (increase) in inventories	(2,254)	(291)
Decrease (increase) in accounts receivable - other	(16)	(55)
Increase (decrease) in trade payables	713	(139)
Increase (decrease) in accounts payable - other	(188)	(96)
Other, net	234	810
Subtotal	10,928	14,183
Interest and dividends received	143	121
Interest paid	(140)	(187)
Payments for business restructuring	(174)	(49)
Payments for performance of guarantee obligation	–	(338)
Income taxes paid	(1,633)	(2,872)
Income taxes refund	242	403
Net cash provided by (used in) operating activities	9,365	11,259

Unit: Millions of yen

	Fiscal year ended March 31, 2019	Fiscal year ended March 31, 2020
Cash flows from investing activities		
Proceeds from withdrawal of time deposits	33	–
Purchase of property, plant and equipment	(3,672)	(2,858)
Purchase of intangible assets	(616)	(1,045)
Proceeds from sales of property, plant and equipment and intangible assets	71	1,456
Payments of leasehold and guarantee deposits	(1,105)	(14)
Other, net	76	11
Net cash provided by (used in) investing activities	(5,212)	(2,449)
Cash flows from financing activities		
Net increase (decrease) in short-term borrowings	(101)	2,683
Proceeds from long-term borrowings	226	–
Repayments of long-term borrowings	(612)	(977)
Repayments of lease obligations	(752)	(621)
Dividends paid	(2,293)	(2,393)
Other, net	(0)	(2)
Net cash provided by (used in) financing activities	(3,534)	(1,311)
Effect of exchange rate change on cash and cash equivalents	(214)	(626)
Net increase (decrease) in cash and cash equivalents	404	6,871
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	16,430	23,379

(5) Notes to consolidated financial statements

(Additional information)

(Response to the Act for Partial Revision of the Income Tax Act, etc. (Act No. 8 of 2020))

As the Group currently applies the consolidated tax return filing system, it is required to assess the recoverability of deferred tax assets under tax effect accounting on the assumption of shifting to the Japanese group relief system, starting from the fiscal year under review. Until the revised PITF No. 5 and No. 7 (Practical Solution on Tentative Treatment of Tax Effect Accounting Under Consolidated Taxation System, Part 1 & 2) are made available, the Group shall base such assessment on rules prior to tax reform, in accordance with PITF No. 39 (Practical Solution on the Treatment of Tax Effect Accounting for the Transition from the Consolidated Taxation System to the Group Tax Sharing System) issued by the Accounting Standards Board of Japan on March 31, 2020.

(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 fiscal year under review, upward adjustments have been made to items of property, plant and equipment (¥341 million under “Machinery, equipment and vehicles,” ¥765 million under “Buildings and structures” and ¥5 million under “Tools, furniture and fixtures”), intangible assets (¥2 million under “Software” and ¥166 million under “Other”), current liabilities (¥402 million under “Lease obligations”), and non-current liabilities (¥736 million under “Lease obligations”). The impact of this change on the consolidated statements of income for the full fiscal year was minimal.

(Segment information)

1. Overview of reportable segments

Reportable segments are constituent units of the Company for which financial information is separately available. These segments have their operating results and allocation of business resources reviewed periodically by the Company’s management team.

The SATO Group operates in the auto-ID solutions business, followed by the IDP business which focuses on the Inline Digital Printing (IDP) technology. The former, being its core business, involves providing one-stop auto-ID solutions for customers’ challenges by combining

relevant technologies/solutions both inside Japan and overseas to capture data on the movement of people and things at business sites and accurately link such data to IT systems.

This auto-ID solutions business can be further classified as domestic or overseas, as seen from such corresponding strategies set forth in our Medium-term Management Plan. As such, the Company's reportable segments have been changed accordingly to now comprise Auto-ID solutions business (Japan), Auto-ID solutions business (Overseas), and IDP business.

2. Computation method for net sales, profit or loss, assets, liabilities, and other item amounts by reportable segment

The method of accounting by reportable segment is largely the same as the method of accounting used for the preparation of consolidated financial statements.

The income stated in the reportable segments is a figure based on operating income.

Intersegment income and transfer figures are based on consideration of prevailing market prices.

3. Information on net sales, profit or loss, assets, liabilities and other item amounts by reportable segment

Fiscal year ended March 31, 2019 (from April 1, 2018 to March 31, 2019)

Unit: Millions of yen

	Auto-ID solutions business (Japan)	Auto-ID solutions business (Overseas)	IDP business	Total
Net sales				
External customer sales	72,435	43,316	427	116,179
Intersegment sales and transfer	6,710	21,732	63	28,507
Total	79,146	65,048	491	144,686
Segment profit (loss)	6,982	2,239	(1,421)	7,800
Segment assets	94,392	46,626	7,934	148,953
Other items				
Depreciation	2,762	1,700	26	4,489
Amount of increases in property, plant and equipment and intangible assets	2,660	1,963	177	4,801

Fiscal year ended March 31, 2020 (from April 1, 2019 to March 31, 2020)

Unit: Millions of yen

	Auto-ID solutions business (Japan)	Auto-ID solutions business (Overseas)	IDP business	Total
Net sales				
External customer sales	73,360	42,648	363	116,372
Intersegment sales and transfer	5,506	8,041	-	13,547
Total	78,867	50,689	363	129,920
Segment profit (loss)	6,479	2,277	(1,317)	7,440
Segment assets	88,260	42,479	858	131,598
Other items				
Depreciation	2,865	2,109	68	5,043
Amount of increases in property, plant and equipment and intangible assets	1,950	3,500	197	5,649

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

Unit: Millions of yen

Net sales	Fiscal year ended March 31, 2019	Fiscal year ended March 31, 2020
Reportable segments total	144,686	129,920
Intersegment eliminations	(28,507)	(13,547)
Net sales on the consolidated statements of income	116,179	116,372

Unit: Millions of yen

Profit	Fiscal year ended March 31, 2019	Fiscal year ended March 31, 2020
Reportable segments total	7,800	7,440
Intersegment eliminations	0	0
Adjustment of inventories	(121)	20
Operating income on the consolidated statements of income	7,679	7,461

Unit: Millions of yen

Assets	March 31, 2019	March 31, 2020
Reportable segments total	148,953	131,598
Intersegment eliminations	(40,837)	(27,929)
Other adjustment	(542)	(521)
Total assets on the consolidated balance sheets	107,574	103,147

Unit: Millions of yen

Other items	Reportable segments total		Adjustment		Amount recorded on the consolidated financial statements	
	Fiscal year ended March 31, 2019	Fiscal year ended March 31, 2020	Fiscal year ended March 31, 2019	Fiscal year ended March 31, 2020	Fiscal year ended March 31, 2019	Fiscal year ended March 31, 2020
Depreciation	4,489	5,043	-	-	4,489	5,043
Amount of increases in property, plant and equipment and intangible assets	4,801	5,649	-	-	4,801	5,649

[Pertinent information]

Fiscal year ended March 31, 2019 (from April 1, 2018 to March 31, 2019)

1. Information by product or service

Omitted because this information is the same as segment information.

2. Information by region

1) Net sales

Unit: Millions of yen

Japan	Americas	Europe	Asia and Oceania	Total
72,485	13,561	15,881	14,251	116,179

2) Property, plant and equipment

Unit: Millions of yen

Japan	Americas	Europe	Asia and Oceania	Total
14,947	2,137	7,776	5,858	30,720

3. Information by major customers

Omitted because there are no external customers (“external customer sales”) that account for 10% or more of the net sales recorded on the consolidated statements of income.

Fiscal year ended March 31, 2020 (from April 1, 2019 to March 31, 2020)

1. Information by product or service

Omitted because this information is the same as segment information.

2. Information by region

1) Net sales

Unit: Millions of yen

Japan	Americas	Europe	Asia and Oceania	Total
73,378	13,187	16,341	13,466	116,372

2) Property, plant and equipment

Unit: Millions of yen

Japan	Americas	Europe	Asia and Oceania	Total
14,721	1,828	6,688	5,698	28,936

3. Information by major customers

Omitted because there are no external customers (“external customer sales”) that account for 10% or more of the net sales recorded on the consolidated statements of income.

[Information on impairment loss of non-current assets by reportable segment]

Fiscal year ended March 31, 2019 (from April 1, 2018 to March 31, 2019)

Unit: Millions of yen

	Auto-ID solutions business (Japan)	Auto-ID solutions business (Overseas)	IDP business	Corporate and eliminations	Total
Impairment loss	-	1,024	-	-	1,024

Fiscal year ended March 31, 2020 (from April 1, 2019 to March 31, 2020)

Unit: Millions of yen

	Auto-ID solutions business (Japan)	Auto-ID solutions business (Overseas)	IDP business	Corporate and eliminations	Total
Impairment loss	-	138	6,259	-	6,397

[Information on amortization of goodwill and remaining goodwill balance by reportable segment]

Fiscal year ended March 31, 2019 (from April 1, 2018 to March 31, 2019)

Unit: Millions of yen

	Auto-ID solutions business (Japan)	Auto-ID solutions business (Overseas)	IDP business	Corporate and eliminations	Total
Amount of amortization	-	461	620	-	1,081
Balance at end of period	-	1,270	6,789	-	8,059

Fiscal year ended March 31, 2020 (from April 1, 2019 to March 31, 2020)

Unit: Millions of yen

	Auto-ID solutions business (Japan)	Auto-ID solutions business (Overseas)	IDP business	Corporate and eliminations	Total
Amount of amortization	-	283	587	-	871
Balance at end of period	-	829	-	-	829

[Information on gain on negative goodwill by reportable segment]

Not Applicable