

Consolidated Financial Report  
for the First Three Months of the March 2021 Term  
<Under Japanese GAAP>

August 7, 2020

**SATO HOLDINGS CORPORATION**

Company code number: 6287  
(URL <https://www.sato-global.com/>)  
Shares traded on: TSE1  
Executive position of legal representative: Ryutaro Kotaki, Representative Director,  
President and CEO  
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Scheduled submission date for quarterly securities report: August 12, 2020  
Date of commencement of dividend payments: -  
Supplementary explanatory materials for quarterly results: Available  
Holding of meeting to explain quarterly results: Yes

(Millions of yen, with fractional amounts discarded)

**1. Consolidated operating results for the first three months of the fiscal year ending March 31, 2021 (from April 1, 2020 to June 30, 2020)**

(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, 2020	23,651	(16.9)	385	(74.5)	618	(53.8)
June 30, 2019	28,463	1.2	1,514	2.7	1,338	(4.6)

(Note) Comprehensive income: Three months ended June 30, 2020: ¥952 million (-%)  
Three months ended June 30, 2019: ¥(381) million (-%)

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, 2020	213	(74.7)	6.34	6.34
June 30, 2019	842	7.8	25.09	25.07

## (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, 2020	99,866	48,634	47.5	1,412.23
March 31, 2020	103,147	48,823	46.3	1,423.30

(N.B.) Total equity:

As of June 30, 2020: ¥47,432 million

As of March 31, 2020: ¥47,793 million

## 2. Dividends

	Annual dividend per share				
	First quarter	Second quarter	Third quarter	Year-end	Total
	(Yen)	(Yen)	(Yen)	(Yen)	(Yen)
March 31, 2020	–	36.00	–	34.00	70.00
March 31, 2021	–				
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 first three 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 June 30, 2020:	34,921,242 shares
As of March 31, 2020:	34,921,242 shares
  - 2) Number of treasury shares at the end of term:

As of June 30, 2020:	1,334,180 shares
As of March 31, 2020:	1,341,974 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, 2020:	33,585,061 shares
Three months ended June 30, 2019:	33,564,594 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 Three Months

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

The SATO Group runs its business based on management principles and growth strategies from its most recent Medium-term Management Plan formulated last fiscal year, with the vision of being “the leader and most trusted company in the auto-ID solutions industry worldwide, exceeding customer expectations in an ever-changing world.” We will continue to concentrate resources on the auto-ID solutions business and maximize our strengths to realize stronger sustainable growth and stable profits. By understanding different on-site issues to offer our customers optimized solutions that combine the best products and services (*koto-uri*) and strengthening collaboration with our business partners in each market/industry, we hope to become a customer-centric global solutions provider and grow our core business sustainably.

Over the first three months of this fiscal, we continued expanding new use cases for customers in each market/industry and building up pipeline deals for our auto-ID solutions business, but saw lower sales and operating income year on year, however, due to global economic stagnation caused by the coronavirus outbreak. With the coronavirus pandemic putting restrictions on R&D activities, we have also held off decisions on commercialization rollout for our IDP business which we are investing in strategically.

As a result, the SATO Group posted net sales of ¥23,651 million (down 16.9% from the same period of the previous fiscal year), operating income of ¥385 million (down 74.5%), ordinary income of ¥618 million (down 53.8%), and net income attributable to owners of parent of ¥213 million (down 74.7%).

By segment, the SATO Group reported the following.

#### <Auto-ID solutions business (Japan)>

In Japan, both sales and operating income have declined year on year as the coronavirus pandemic slows down the economy and restricts our business activities significantly to cause delays in deals closing. Although our revenues from the retail industry increased marginally owing to elevated demand at supermarkets and selected retailers, revenues shrunk for other industries, especially for manufacturing where operations were disrupted or stalled. The manufacturing industry accounts for the largest share of our domestic sales.

Amid such market conditions, our customers are becoming more conscious of pain points at their business sites and more needy of solutions to automate work processes and ensure cleaning/sanitation compliance. We will work to propose solutions that match these changing priorities and keep our sales pipelines growing steadily.

Under these circumstances, net sales decreased 10.1% to ¥15,730 million, and operating income decreased 69.7% to ¥399 million, compared with the same period of the previous fiscal year.

<Auto-ID solutions business (Overseas)>

Outside Japan, both sales and operating income have also declined due to the coronavirus pandemic's effects on economic activities.

For our base business, revenues and profits fell not only in the Americas and Europe where the retail industry — their key sales driver — was hit by store closures, but also in Asia and Oceania where impacts of manufacturing disruption in the Southeast Asia region were felt particularly.

For our companies specializing in primary labels, sales increased in local currency terms and operating income surpassed the last fiscal, thanks to robust needs coming from customers that provide food, beverages, sanitary supplies, and other necessities as part of essential services and infrastructure.

Under these circumstances, net sales decreased 27.8% to ¥7,844 million (decrease of 21.6%, excluding foreign currency effects), and operating income decreased 86.1% to ¥77 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, we have continued to record R&D costs for the technology in the form of upfront investments.

While we are working to address new technical issues based on customer feedback as we have advanced to the evaluation stage from technology development, decisions on commercialization rollout have been delayed amid coronavirus lockdowns and other constraints.

Under these circumstances, net sales decreased 24.6% to ¥75 million (decrease of 20.4%, excluding foreign currency effects), and an operating loss of ¥70 million was incurred, compared with that of ¥394 million for the same period of the previous fiscal year.

## **(2) Explanation of financial position**

Total assets at the end of the first quarter were ¥99,866 million, a decrease of ¥3,281 million compared with the end of the previous fiscal year. This was primarily the result of a decrease in cash and deposits.

Net assets were ¥48,634 million, a ¥188 million decrease from the end of the previous fiscal year, mainly due to the payment of dividends, notwithstanding the recording of net income attributable to owners of parent.

### ***Cash flows***

At the end of the first quarter, cash and cash equivalents stood at ¥20,183 million, a decrease of ¥3,195 million compared with the end of the previous fiscal year.

### ***Cash flows from operating activities***

Net cash used in operating activities amounted to ¥1,209 million.

This resulted primarily from cash inflows including ¥618 million of income before income taxes and a ¥3,757 million decrease in trade receivables, and cash outflows including a ¥862 million increase in inventories, a ¥1,309 million decrease in trade payables and ¥2,932 million of income taxes paid.

### ***Cash flows from investing activities***

Net cash used in investing activities amounted to ¥618 million, a decrease of 27.9%, compared with the same period of the previous fiscal year.

This resulted primarily from expenditures of ¥393 million for the purchase of property, plant and equipment and ¥181 million for the purchase of intangible assets.

### ***Cash flows from financing activities***

Net cash used in financing activities amounted to ¥1,447 million.

This resulted primarily from cash outflows including ¥1,125 million of dividends paid and ¥296 million for repayments of lease obligations.

## **(3) Explanation of consolidated forecasts and other projections**

As the coronavirus outbreak continues to spread globally, it is difficult to establish credible forecasts of future business performance given the uncertainties surrounding economic activities 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. Consolidated Financial Statements and Significant Notes Thereto

### (1) Consolidated balance sheets

Unit: Millions of yen

	March 31, 2020	June 30, 2020
<b>Assets</b>		
Current assets		
Cash and deposits	23,761	20,576
Notes and accounts receivable - trade	23,766	20,511
Securities	35	36
Merchandise and finished goods	8,997	9,952
Work in process	394	362
Raw materials and supplies	3,662	3,761
Other	5,762	6,877
Allowance for doubtful accounts	(185)	(187)
<b>Total current assets</b>	<b>66,195</b>	<b>61,889</b>
Non-current assets		
Property, plant and equipment		
Land	5,863	5,991
Machinery, equipment and vehicles	10,279	10,398
Other, net	12,793	13,836
<b>Total property, plant and equipment</b>	<b>28,936</b>	<b>30,226</b>
Intangible assets		
Goodwill	829	797
Other	2,859	2,750
<b>Total intangible assets</b>	<b>3,688</b>	<b>3,548</b>
Investments and other assets	4,326	4,202
<b>Total non-current assets</b>	<b>36,952</b>	<b>37,976</b>
<b>Total assets</b>	<b>103,147</b>	<b>99,866</b>
<b>Liabilities</b>		
Current liabilities		
Notes and accounts payable - trade	6,720	5,873
Short-term borrowings	7,370	7,389
Electronically recorded obligations - operating	11,375	11,158
Accounts payable - other	2,566	2,664
Income taxes payable	830	567
Provisions	1,097	1,081
Other	11,532	9,612
<b>Total current liabilities</b>	<b>41,492</b>	<b>38,347</b>
Non-current liabilities		
Long-term borrowings	5,891	5,884
Retirement benefit liability	1,800	1,795
Other	5,139	5,203
<b>Total non-current liabilities</b>	<b>12,832</b>	<b>12,883</b>
<b>Total liabilities</b>	<b>54,324</b>	<b>51,231</b>

Unit: Millions of yen

	March 31, 2020	June 30, 2020
Net assets		
Shareholders' equity		
Share capital	8,468	8,468
Capital surplus	7,738	7,740
Retained earnings	38,345	37,410
Treasury shares	(2,552)	(2,536)
Total shareholders' equity	51,999	51,082
Accumulated other comprehensive income		
Foreign currency translation adjustment	(3,995)	(3,452)
Remeasurements of defined benefit plans	(211)	(197)
Total accumulated other comprehensive income	(4,206)	(3,649)
Share acquisition rights	39	28
Non-controlling interests	990	1,173
Total net assets	48,823	48,634
Total liabilities and net assets	103,147	99,866

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

Unit: Millions of yen

	Three months ended June 30, 2019	Three months ended June 30, 2020
Net sales	28,463	23,651
Cost of sales	16,165	13,773
Gross profit	12,298	9,877
Selling, general and administrative expenses	10,784	9,491
Operating income	1,514	385
Non-operating income		
Interest income	26	19
Dividend income	13	–
Foreign exchange gains	–	187
Reversal of allowance for doubtful accounts	–	89
Other	39	37
Total non-operating income	79	333
Non-operating expenses		
Interest expenses	45	44
Foreign exchange losses	57	–
Compensation expenses	101	0
Sales discounts	18	11
Other	31	44
Total non-operating expenses	254	101
Ordinary income	1,338	618
Extraordinary income		
Gain on sales of non-current assets	6	0
Total extraordinary income	6	0
Extraordinary losses		
Loss on retirement of non-current assets	2	0
Loss on sales of non-current assets	105	0
Total extraordinary losses	108	0
Income before income taxes	1,237	618
Income taxes - current	294	192
Income taxes - deferred	98	135
Total income taxes	393	327
Net income	844	290
Net income attributable to non-controlling interests	2	77
Net income attributable to owners of parent	842	213

**(Consolidated statements of comprehensive income)**

Unit: Millions of yen

	Three months ended June 30, 2019	Three months ended June 30, 2020
Net income	844	290
Other comprehensive income		
Foreign currency translation adjustment	(1,256)	647
Remeasurements of defined benefit plans, net of tax	30	13
Total other comprehensive income	(1,225)	661
Comprehensive income	(381)	952
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	(269)	769
Comprehensive income attributable to non-controlling interests	(112)	182

### (3) Consolidated statements of cash flows

Unit: Millions of yen

	Three months ended June 30, 2019	Three months ended June 30, 2020
Cash flows from operating activities		
Income before income taxes	1,237	618
Depreciation	1,240	1,064
Amortization of goodwill	224	57
Loss (gain) on sales of non-current assets	99	(0)
Loss on retirement of non-current assets	2	0
Increase (decrease) in provisions	(36)	(23)
Increase (decrease) in allowance for doubtful accounts	(16)	(307)
Increase (decrease) in retirement benefit liability	(43)	9
Interest and dividend income	(40)	(19)
Interest expenses	45	44
Foreign exchange losses (gains)	(10)	(198)
Decrease (increase) in trade receivables	1,155	3,757
Decrease (increase) in inventories	(322)	(862)
Increase (decrease) in trade payables	(534)	(1,309)
Increase (decrease) in accounts payable - other	(272)	(549)
Other, net	(13)	(529)
Subtotal	2,715	1,750
Interest and dividends received	40	19
Interest paid	(45)	(44)
Income taxes paid	(1,832)	(2,932)
Payments for business restructuring	(21)	(2)
Net cash provided by (used in) operating activities	857	(1,209)
Cash flows from investing activities		
Purchase of property, plant and equipment	(772)	(393)
Proceeds from sales of property, plant and equipment and intangible assets	21	5
Purchase of intangible assets	(90)	(181)
Other, net	(16)	(48)
Net cash provided by (used in) investing activities	(857)	(618)
Cash flows from financing activities		
Net increase (decrease) in short-term borrowings	2,171	(19)
Repayments of long-term borrowings	(7)	(6)
Repayments of lease obligations	(180)	(296)
Dividends paid	(1,152)	(1,125)
Other, net	(0)	0
Net cash provided by (used in) financing activities	830	(1,447)
Effect of exchange rate change on cash and cash equivalents	(257)	80
Net increase (decrease) in cash and cash equivalents	572	(3,195)
Cash and cash equivalents at beginning of period	16,430	23,379
Increase in cash and cash equivalents resulting from inclusion of subsidiaries in consolidation	76	-
Cash and cash equivalents at end of period	17,079	20,183

**(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)**

(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. 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)**

Not Applicable

**(Segment information)**

I. Three months ended June 30, 2019 (from April 1, 2019 to June 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	17,495	10,867	100	28,463
Intersegment sales and transfer	1,329	5,567	–	6,896
Total	18,824	16,434	100	35,359
Segment profit (loss)	1,318	560	(394)	1,484

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	1,484
Intersegment eliminations	0
Adjustment of inventories	29
Operating income on the consolidated statements of income	1,514

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, 2020 (from April 1, 2020 to June 30, 2020)

### 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	15,730	7,844	75	23,651
Intersegment sales and transfer	1,053	1,609	–	2,662
Total	16,784	9,454	75	26,314
Segment profit (loss)	399	77	(70)	406

### 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	406
Intersegment eliminations	0
Adjustment of inventories	(20)
Operating income on the consolidated statements of income	385

### 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