

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

November 10, 2020

SATO HOLDINGS CORPORATION

Company code number: 6287
(<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: November 13, 2020
Date of commencement of dividend payments: December 14, 2020
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, 2021 (from April 1, 2020 to September 30, 2020)

(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, 2020	49,872	(13.8)	1,470	(58.5)	1,231	(61.9)
September 30, 2019	57,875	2.5	3,542	5.9	3,237	1.4

(Note) Comprehensive income: Six months ended September 30, 2020: ¥3,211 million (390.8%)
Six months ended September 30, 2019: ¥654 million (-56.6%)

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, 2020	3,249	12.8	96.77	96.73
September 30, 2019	2,880	50.0	85.82	85.76

(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, 2020	99,497	50,893	50.1	1,485.55
March 31, 2020	103,147	48,823	46.3	1,423.30

(Note) Total equity:

As of September 30, 2020: ¥49,895 million

As of March 31, 2020: ¥47,793 million

2. Dividends

	Annual dividend per share				
	First quarter	Second quarter	Third quarter	Year-end	Total
Fiscal year ended/ending	(Yen)	(Yen)	(Yen)	(Yen)	(Yen)
March 31, 2020	—	36.00	—	34.00	70.00
March 31, 2021	—	35.00			
March 31, 2021 (Forecast)			—	35.00	70.00

(Note) Revision to recently announced dividend forecast: Yes

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

(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)	%	
Full year	102,500	(11.9)	3,600	(51.7)	3,300	(49.8)	9,400	—	279.88

(Note) Revision to recently announced consolidated forecast: 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: 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 September 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 September 30, 2020: 1,334,190 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 six months):

As of September 30, 2020: 33,586,065 shares

As of September 30, 2019: 33,565,748 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

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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 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 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 six months of this fiscal year, 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. For our IDP business in which we have been making upfront investments, we completed a management buyout (MBO) to transfer all our shares in DataLase Ltd., the U.K.-based company we had previously acquired for the business, as detailed in the news release “Notice Concerning Transfer of a Consolidated Subsidiary (Transfer of Shares)” issued on September 15, 2020. This was reflected in our second quarter results, in the form of loss on sale of business (under extraordinary losses) and income taxes - deferred (related to impairment loss on DataLase shares that was recorded in the previous term).

As a result, the SATO Group posted net sales of ¥49,872 million (down 13.8% compared with the same period of the previous fiscal year), operating income of ¥1,470 million (down 58.5%), ordinary income of ¥1,231 million (down 61.9%), and net income attributable to owners of parent of ¥3,249 million (up 12.8%).

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 restricted our business activities significantly to cause delays and slowdowns in deals closing. While economic activities gradually recovered in the second quarter with supermarkets and sectors of goods/services related to e-commerce holding up well to drive our business, recovery was particularly slow in the manufacturing industry, which accounts for the largest share of our domestic sales. Our revenues across all industries decreased, with the exception of the public sector where we managed to win some large projects.

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

hygiene/sanitation compliance. We will work to propose solutions that match these urgent priorities and support those business sectors that coronavirus concerns worked as tailwinds to keep our sales pipelines growing steadily.

Under these circumstances, net sales decreased 12.1% to ¥31,722 million, and operating income decreased 72.5% to ¥847 million, compared with the same period of the previous fiscal year.

<Auto-ID solutions business (Overseas)>

Outside Japan, we continued to record lower year-on-year sales and operating income at the end of the first six months, even as economies hit by the coronavirus outbreak slowly restarted their activities in the second quarter.

For companies conducting our base business in the Americas and Europe, revenues recovered as existing orders resumed and new orders were secured for the retail industry, their key sales driver. Profits also increased in both regions over the second quarter due to reductions in SG&A expenses. While our business performance in China has returned to previous year's levels, revenues and profits in Asia and Oceania declined overall as manufacturing activities primarily at automotive plants continue to stagnate particularly in Southeast Asia.

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

Under these circumstances, net sales decreased 16.6% to ¥18,013 million (decrease of 10.9%, excluding foreign currency effects), and operating income decreased 34.1% to ¥761 million, compared with the same period of the previous fiscal year.

<IDP business>

In our business centering on the Inline Digital Printing (IDP) technology that we owned after fully acquiring DataLase Ltd. in January 2017, we have been making upfront investments to develop multicolor technology and putting in efforts to expand sales. However, considering the prolonged delay in our plans for commercialization due to technical issues that remain, we have proceeded, as aforementioned, to transfer all our DataLase shares in September 2020. We will now concentrate resources on our core auto-ID solutions business to establish sustainable growth and stable profits.

Under these circumstances, net sales decreased 30.1% to ¥136 million (decrease of 29.5%, excluding foreign currency effects), and an operating loss of ¥148 million was incurred, compared with that of ¥737 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 ¥99,497 million, a decrease of ¥3,649 million compared with the end of the previous fiscal year. This was primarily the result of a decrease in trade receivables.

Net assets were ¥50,893 million, a ¥2,070 million increase from the end of the previous fiscal year, mainly due to the recording of net income attributable to owners of parent, notwithstanding the payment of dividends and decrease in foreign currency translation adjustment.

Cash flows

At the end of the second quarter, cash and cash equivalents stood at ¥21,835 million, a decrease of ¥1,543 million compared with the end of the previous fiscal year.

Cash flows from operating activities

Net cash provided by operating activities amounted to ¥1,757 million.

This resulted primarily from cash inflows including ¥465 million of income before income taxes, ¥2,066 million for depreciation and ¥1,982 million of income taxes refund, and cash outflows including ¥2,965 million of income taxes paid.

Cash flows from investing activities

Net cash used in investment activities amounted to ¥1,566 million.

This resulted primarily from expenditures of ¥1,023 million and ¥343 million respectively for the purchase of property, plant and equipment and intangible assets, and payments of ¥169 million for the sales of shares of subsidiaries resulting in change in scope of consolidation.

Cash flows from financing activities

Net cash used in financing activities amounted to ¥1,751 million.

This resulted primarily from cash outflows including ¥527 million for repayments of lease obligations and ¥1,145 million of dividends paid.

(3) Explanation of consolidated forecasts and other projections

Considering the Group's operating results for the first six months and current business environment, we have put together our consolidated forecasts for the full fiscal year as follows. This announcement was held off previously as uncertainties over the impact of the coronavirus pandemic had made it difficult for us to establish credible forecasts of future business performance.

Consolidated forecasts for the fiscal year ending March 31, 2021

Net sales	¥102,500 million	(down 11.9% year on year)
Operating income	¥3,600 million	(down 51.7% year on year)
Ordinary income	¥3,300 million	(down 49.8% year on year)
Net income attributable to owners of parent	¥9,400 million	(vs. net loss of ¥1,882 million in previous fiscal)

The foreign exchange rates assumed in the above forecasts are US\$1 = ¥106 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, 2020	September 30, 2020
Assets		
Current assets		
Cash and deposits	23,761	22,225
Notes and accounts receivable - trade	23,766	20,727
Securities	35	37
Merchandise and finished goods	8,997	9,051
Work in process	394	426
Raw materials and supplies	3,662	3,535
Other	5,762	3,642
Allowance for doubtful accounts	(185)	(199)
Total current assets	66,195	59,444
Non-current assets		
Property, plant and equipment		
Machinery, equipment and vehicles	10,279	9,793
Land	5,863	5,987
Other, net	12,793	13,483
Total property, plant and equipment	28,936	29,265
Intangible assets		
Goodwill	829	671
Other	2,859	2,673
Total intangible assets	3,688	3,344
Investments and other assets	4,326	7,443
Total non-current assets	36,952	40,053
Total assets	103,147	99,497
Liabilities		
Current liabilities		
Notes and accounts payable - trade	6,720	5,566
Electronically recorded obligations - operating	11,375	9,848
Short-term borrowings	7,370	7,455
Accounts payable - other	2,566	2,077
Income taxes payable	830	550
Provisions	1,097	1,155
Other	11,532	9,336
Total current liabilities	41,492	35,989
Non-current liabilities		
Long-term borrowings	5,891	5,878
Retirement benefit liability	1,800	1,804
Other	5,139	4,931
Total non-current liabilities	12,832	12,614
Total liabilities	54,324	48,603

Unit: Millions of yen

	March 31, 2020	September 30, 2020
Net assets		
Shareholders' equity		
Share capital	8,468	8,468
Capital surplus	7,738	7,740
Retained earnings	38,345	40,447
Treasury shares	(2,552)	(2,537)
Total shareholders' equity	51,999	54,119
Accumulated other comprehensive income		
Foreign currency translation adjustment	(3,995)	(4,039)
Remeasurements of defined benefit plans	(211)	(185)
Total accumulated other comprehensive income	(4,206)	(4,224)
Share acquisition rights	39	28
Non-controlling interests	990	969
Total net assets	48,823	50,893
Total liabilities and net assets	103,147	99,497

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

Unit: Millions of yen

	Six months ended September 30, 2019	Six months ended September 30, 2020
Net sales	57,875	49,872
Cost of sales	32,746	29,017
Gross profit	25,129	20,855
Selling, general and administrative expenses	21,586	19,384
Operating income	3,542	1,470
Non-operating income		
Interest income	58	37
Dividend income	13	—
Reversal of allowance for doubtful accounts	3	89
Other	84	82
Total non-operating income	158	209
Non-operating expenses		
Interest expenses	110	123
Foreign exchange losses	149	231
Sales discounts	35	24
Compensation expenses	102	2
Other	66	66
Total non-operating expenses	464	447
Ordinary income	3,237	1,231
Extraordinary income		
Gain on sales of non-current assets	821	1
Total extraordinary income	821	1
Extraordinary losses		
Loss on retirement of non-current assets	5	1
Loss on sales of non-current assets	105	9
Loss on sale of businesses	—	756
Total extraordinary losses	111	768
Income before income taxes	3,947	465
Income taxes - current	836	346
Income taxes - deferred	216	(3,138)
Total income taxes	1,052	(2,792)
Net income	2,894	3,258
Net income attributable to non-controlling interests	13	8
Net income attributable to owners of parent	2,880	3,249

(Consolidated statements of comprehensive income)

Unit: Millions of yen

	Six months ended September 30, 2019	Six months ended September 30, 2020
Net income	2,894	3,258
Other comprehensive income		
Foreign currency translation adjustment	(2,292)	(72)
Remeasurements of defined benefit plans, net of tax	51	26
Total other comprehensive income	(2,240)	(46)
Comprehensive income	654	3,211
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	789	3,232
Comprehensive income attributable to non-controlling interests	(134)	(20)

(3) Consolidated statements of cash flows

Unit: Millions of yen

	Six months ended September 30, 2019	Six months ended September 30, 2020
Cash flows from operating activities		
Income before income taxes	3,947	465
Depreciation	2,509	2,066
Amortization of goodwill	436	113
Loss (gain) on sale of businesses	—	756
Loss (gain) on sales of non-current assets	(716)	8
Loss on retirement of non-current assets	5	1
Increase (decrease) in provisions	(19)	51
Increase (decrease) in allowance for doubtful accounts	340	(296)
Increase (decrease) in retirement benefit liability	(61)	36
Interest and dividend income	(71)	(37)
Interest expenses	110	123
Foreign exchange losses (gains)	(11)	335
Decrease (increase) in trade receivables	1,617	3,272
Decrease (increase) in inventories	(92)	(242)
Increase (decrease) in trade payables	(740)	(3,576)
Increase (decrease) in accounts payable - other	(697)	(432)
Other, net	68	187
Subtotal	6,624	2,833
Interest and dividends received	71	37
Interest paid	(110)	(123)
Income taxes paid	(1,787)	(2,965)
Payments for business restructuring	(13)	(5)
Payments for performance of guarantee obligation	(338)	—
Income taxes refund	403	1,982
Net cash provided by (used in) operating activities	4,849	1,757
Cash flows from investing activities		
Purchase of property, plant and equipment	(1,589)	(1,023)
Proceeds from sales of property, plant and equipment and intangible assets	1,109	10
Purchase of intangible assets	(368)	(343)
Payments for sales of shares of subsidiaries resulting in change in scope of consolidation	—	(169)
Other, net	13	(39)
Net cash provided by (used in) investing activities	(835)	(1,566)
Cash flows from financing activities		
Net increase (decrease) in short-term borrowings	18	(64)
Repayments of long-term borrowings	(13)	(13)
Repayments of lease obligations	(368)	(527)
Dividends paid	(1,179)	(1,145)
Other, net	(0)	(0)
Net cash provided by (used in) financing activities	(1,544)	(1,751)
Effect of exchange rate change on cash and cash equivalents	(448)	16
Net increase (decrease) in cash and cash equivalents	2,021	(1,543)
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	18,528	21,835

(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. 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

II. Six months ended September 30, 2020 (from April 1, 2020 to September 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	31,722	18,013	136	49,872
Intersegment sales and transfer	2,180	2,952	0	5,132
Total	33,903	20,965	136	55,005
Segment profit (loss)	847	761	(148)	1,460

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	1,460
Intersegment eliminations	0
Adjustment of inventories	9
Operating income on the consolidated statements of income	1,470

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

(Significant subsequent events)

(Concerning the buyout of defined benefit pension scheme)

The Company passed a resolution at its board of directors meeting held on November 10, 2020 to conduct a buyout of the defined benefit pension scheme of SATO UK Ltd., its consolidated subsidiary. Extraordinary losses of no more than ¥2.5 billion is projected upon execution of the buyout agreement, subject to its terms and conditions.

In the case of a buyout, the plan sponsor (employer) transfers some or all obligations of its pension plans, for example, by paying a premium to an insurance company to let the insurer take on the administrative responsibility of its pensions.

(Concerning the sale of non-current asset being used as head office building)

At the aforementioned board of directors meeting, the Company also passed a resolution to change the selling price of its head office that was previously agreed upon with the buyer in a contract entered into last fiscal year.

With this change, extraordinary income due to be recorded at the closing date of the real estate contract in the third quarter of the current fiscal year (ending March 31, 2021) is projected to decrease by ¥1.2 billion to approximately ¥10.3 billion.