

Consolidated Financial Report
for the First Nine Months of Fiscal Year Ending March 2021 Term
<Under Japanese GAAP>

February 9, 2021

SATO HOLDINGS CORPORATION

Company code: 6287
 Website: <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: February 12, 2021
 Commencement date of dividend payments: -
 Supplementary explanatory materials for quarterly results: Available
 Holding of meeting to explain quarterly results: Yes

1. Consolidated operating results for the first nine months of the fiscal year ending March 31, 2021 (from April 1, 2020 to December 31, 2020)

(1) Consolidated financial results (cumulative)

(Percentage figures show year-on-year change)

Nine months ended	Net sales		Operating income		Ordinary income	
	(Millions of yen)	%	(Millions of yen)	%	(Millions of yen)	%
December 31, 2020	79,271	(9.7)	3,777	(33.1)	3,469	(35.3)
December 31, 2019	87,803	1.2	5,645	3.7	5,362	5.1

(Note) Comprehensive income: Nine months ended December 31, 2020: ¥12,056 million (245.5%)
 Nine months ended December 31, 2019: ¥3,489 million (176.5%)

Nine months ended	Net income attributable to owners of parent		Basic earnings per share	Diluted earnings per share
	(Millions of yen)	%	(Yen)	(Yen)
December 31, 2020	11,604	179.1	345.50	345.37
December 31, 2019	4,157	35.0	123.84	123.76

(2) Consolidated financial position

	Total assets	Net assets	Equity ratio	Net assets per share
As of	(Millions of yen)	(Millions of yen)	%	(Yen)
December 31, 2020	107,519	58,556	53.4	1,710.57
March 31, 2020	103,147	48,823	46.3	1,423.30

(Note) Total equity:

As of December 31, 2020: ¥57,452 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: None

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	106,000	(8.9)	5,100	(31.6)	4,700	(28.5)	10,400	–	309.65

(Note) Revision to recently announced consolidated forecast: Yes

For details, please refer to section 1-(3) “Explanation of consolidated forecasts and other projections” (page 5) of the attached material.

*** Notes**

- (1) Changes in subsidiaries during the first nine months (changes resulting in the change in scope of consolidation): None
- (2) Application of special accounting procedures for preparing the quarterly consolidated financial statements: None
- (3) Changes in accounting policies and estimates, and restatement of prior-period financial statements after error corrections
 - 1) Changes in accounting policies due to revisions to accounting standards: None
 - 2) Changes in accounting policies due to other reasons: None
 - 3) Changes in accounting estimates: None
 - 4) Restatement of prior-period financial statements after error corrections: None
- (4) Number of issued shares (common shares)
 - 1) Number of issued shares at the end of term (including treasury shares):

As of December 31, 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 December 31, 2020:	1,334,229 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 nine months):

Nine months ended December 31, 2020:	33,586,387 shares
Nine months ended December 31, 2019:	33,568,407 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. Any statements herein do not assure particular results by the Company. Results may differ from the consolidated forecasts due to various factors. Please refer to page 5 of the attached material for assumptions behind the consolidated forecasts and cautions concerning the use thereof.

Attached Materials

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

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

The SATO Group runs its business based on management principles and growth strategies set out in its most recent Medium-term Management Plan formulated last fiscal year, with the vision to be “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 our 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.

While we enhanced our offerings for customers in each market/industry and sought progress in pipeline deals with our auto-ID solutions business over the first nine months of this fiscal year, we saw sales and operating income fall short in year-on-year figures due to the global economic stagnation caused by the coronavirus pandemic. We also transferred all our shares in U.K.-based DataLase Ltd., the company core to our IDP business that we had been investing in, to DataLase Holdings Limited. Further, we recorded extraordinary income in the third quarter with the sale of a non-current asset that was our former headquarters building.

As a result, the SATO Group posted net sales of ¥79,271 million (down 9.7% compared with the same period of the previous fiscal year), operating income of ¥3,777 million (down 33.1%), ordinary income of ¥3,469 million (down 35.3%), and net income attributable to owners of parent of ¥11,604 million (up 179.1%).

Performance by segment is as follows.

<Auto-ID solutions (Japan)>

Both sales and operating income declined year on year as the coronavirus pandemic restricted our business activities significantly to cause business talks to be postponed or delayed closing. Recovery began in the third quarter mainly in consumables as customers resumed production, and, in terms of market, our sales in retail topped figures from last fiscal year and drove the business, owing to successful sales in supermarkets and other strongly performing industries.

Amid such market conditions, our customers are becoming more conscious of pain points at their business sites and more needy of solutions that automate work processes and meet hygienic/sanitation standards. We are proposing solutions that match these urgent priorities and support those business sectors that are finding the current situation a tailwind, and our sales pipelines are growing.

Under these circumstances, net sales decreased 8.6% to ¥50,075 million, and operating

income decreased 57.8% to ¥2,018 million, compared with the same period of the previous fiscal year.

<Auto-ID solutions (Overseas)>

Despite a sharp improvement in the second quarter, we continued to record lower year-on-year revenue and operating income at the end of the first nine months due to the pandemic impacting economic activities.

Our base business in the Americas and Europe recovered sales in the retail industry, their key sales driver. Recovery in orders from big retail companies and new orders from focal, pandemic-tolerant industries, together with improvements in product mix and cost reduction led to increased year-on-year profits in the second and third quarters. While revenue and profit increased in China due to recovery in manufacturing activities such as electrical and electronic components, they declined for Asia and Oceania overall, as manufacturing activities primarily at automotive plants continued to stagnate in Southeast Asia.

Our companies specializing in primary labels increased sales in local currency terms and operating income significantly from last fiscal year, as they were able to answer to robust needs coming from customers that provide food, beverages, sanitary supplies, pharmaceuticals and other essential services.

Under these circumstances, net sales decreased 11.2% to ¥29,059 million (decrease of 5.0%, excluding foreign currency effects), and operating income decreased 6.4% to ¥1,804 million, compared with the same period of the previous fiscal year.

<IDP>

In our business centering on Inline Digital Printing (IDP) technology that we had owned after fully acquiring DataLase Ltd. in January 2017, we had been making upfront investments to develop multicolor technology and putting in efforts to expand sales. However, with postponement of commercialization inevitable due to technical issues that remain, we have proceeded, as aforementioned, to transfer all of our DataLase shares to DataLase Holdings Limited on September 15, 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 53.8% to ¥136 million (decrease of 53.4%, excluding foreign currency effects), and the business recorded operating loss of ¥148 million compared with that of ¥1,055 million for the same period of the previous fiscal year.

(2) Explanation of financial position

Total assets at the end of the third quarter were ¥107,519 million, an increase of ¥4,371 million from the end of the previous fiscal year. This was primarily due to increase in cash and deposits.

Net assets were ¥58,556 million, a ¥9,733 million increase 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 and increase in foreign currency translation adjustment.

Cash flows

At the end of the third quarter, cash and cash equivalents stood at ¥33,402 million, an increase of ¥10,023 million from the end of the previous fiscal year.

Cash flows from operating activities

Cash flow from operating activities was positive at ¥5,133 million.

This resulted primarily from cash inflows including ¥12,726 million of income before income taxes, ¥1,982 million of income tax refund and ¥3,084 million depreciation, and cash outflows including ¥10,435 million gain on sales of non-current assets and ¥3,122 million in income taxes paid.

Cash flows from investing activities

Cash flow from investment activities was positive at ¥10,603 million.

This resulted primarily from proceeds from sales of property, plant and equipment and intangible assets of ¥14,353 million, notwithstanding expenditures of ¥3,005 million and ¥520 million respectively for the purchase of property, plant and equipment and intangible assets.

Cash flows from financing activities

Cash flow from financing activities was negative at ¥5,883 million.

This resulted primarily from cash outflows including a ¥2,657 million decrease in short-term borrowings, ¥888 million repayment of lease obligations and ¥2,316 million dividends paid.

(3) Explanation of consolidated forecasts and other projections

Economic activities that had stagnated due to the coronavirus outbreak partly resumed in the third quarter, and demand increased more rapidly than we had expected particularly in some sectors of retail in Japan and the U.S. and the manufacturing industry (among others) in China. While circumstances are different with each country/industry, uncertainty would continue through the fourth quarter. Considering the Group's operating results for the first nine months and current business environment, we have revised our consolidated forecasts for the full fiscal year as follows.

Consolidated forecasts for the fiscal year ending March 31, 2021

Net sales	¥106,000 million	(previous forecast ¥102,500 million)
Operating income	¥5,100 million	(previous forecast ¥3,600 million)
Ordinary income	¥4,700 million	(previous forecast ¥3,300 million)
Net income attributable to owners of parent	¥10,400 million	(previous forecast ¥9,400 million)

The foreign exchange rates assumed in the above forecasts are US\$1 = ¥106 and €1 = ¥123.

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 from the consolidated forecasts due to various factors.

2. Consolidated Financial Statements and Significant Notes Thereto

(1) Consolidated balance sheets

Unit: Millions of yen

	As of March 31, 2020	As of December 31, 2020
Assets		
Current assets		
Cash and deposits	23,761	33,801
Notes and accounts receivable - trade	23,766	23,899
Securities	35	38
Merchandise and finished goods	8,997	8,621
Work in process	394	374
Raw materials and supplies	3,662	3,604
Other	5,762	3,771
Allowance for doubtful accounts	(185)	(208)
Total current assets	66,195	73,902
Non-current assets		
Property, plant and equipment		
Machinery, equipment and vehicles, net	10,279	10,119
Land	5,863	3,536
Other, net	12,793	12,759
Total property, plant and equipment	28,936	26,415
Intangible assets		
Goodwill	829	649
Other	2,859	2,579
Total intangible assets	3,688	3,229
Investments and other assets	4,326	3,971
Total non-current assets	36,952	33,616
Total assets	103,147	107,519
Liabilities		
Current liabilities		
Notes and accounts payable - trade	6,720	6,919
Electronically recorded obligations - operating	11,375	9,873
Short-term borrowings	7,370	4,322
Accounts payable - other	2,566	3,234
Income taxes payable	830	498
Provisions	1,097	1,177
Other	11,532	9,680
Total current liabilities	41,492	35,706
Non-current liabilities		
Long-term borrowings	5,891	6,524
Retirement benefit liability	1,800	1,807
Other	5,139	4,923
Total non-current liabilities	12,832	13,255
Total liabilities	54,324	48,962

Unit: Millions of yen

	As of March 31, 2020	As of December 31, 2020
Net assets		
Shareholders' equity		
Share capital	8,468	8,468
Capital surplus	7,738	7,740
Retained earnings	38,345	47,619
Treasury shares	(2,552)	(2,537)
Total shareholders' equity	51,999	61,291
Accumulated other comprehensive income		
Foreign currency translation adjustment	(3,995)	(3,700)
Remeasurements of defined benefit plans	(211)	(137)
Total accumulated other comprehensive income	(4,206)	(3,838)
Share acquisition rights	39	28
Non-controlling interests	990	1,075
Total net assets	48,823	58,556
Total liabilities and net assets	103,147	107,519

(2) Consolidated statements of (comprehensive) income

Consolidated statements of income

Unit: Millions of yen

	Nine months ended December 31, 2019	Nine months ended December 31, 2020
Net sales	87,803	79,271
Cost of sales	49,833	45,954
Gross profit	37,970	33,316
Selling, general and administrative expenses	32,324	29,538
Operating income	5,645	3,777
Non-operating income		
Interest income	84	53
Dividend income	14	0
Reversal of allowance for doubtful accounts	3	89
Other	122	126
Total non-operating income	223	269
Non-operating expenses		
Interest expenses	145	167
Foreign exchange losses	121	230
Sales discounts	54	43
Compensation expenses	99	2
Other	86	133
Total non-operating expenses	507	577
Ordinary income	5,362	3,469
Extraordinary income		
Gain on sales of non-current assets	821	10,448
Total extraordinary income	821	10,448
Extraordinary losses		
Loss on retirement of non-current assets	37	21
Loss on sales of non-current assets	105	12
Loss on sales of investment securities	47	–
Impairment loss	–	400
Loss on sale of businesses	–	756
Total extraordinary losses	190	1,191
Income before income taxes	5,993	12,726
Income taxes - current	1,430	770
Income taxes - deferred	370	283
Total income taxes	1,800	1,054
Net income	4,192	11,672
Net income attributable to non-controlling interests	35	68
Net income attributable to owners of parent	4,157	11,604

Consolidated statements of comprehensive income

Unit: Millions of yen

	Nine months ended December 31, 2019	Nine months ended December 31, 2020
Net income	4,192	11,672
Other comprehensive income		
Foreign currency translation adjustment	(759)	311
Remeasurements of defined benefit plans, net of tax	56	73
Total other comprehensive income	(702)	384
Comprehensive income	3,489	12,056
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	3,532	11,971
Comprehensive income attributable to non-controlling interests	(42)	84

(3) Consolidated statements of cash flows

Unit: Millions of yen

	Nine months ended December 31, 2019	Nine months ended December 31, 2020
Cash flows from operating activities		
Income before income taxes	5,993	12,726
Depreciation	3,794	3,084
Amortization of goodwill	656	168
Impairment loss	–	400
Loss (gain) on sale of businesses	–	756
Loss (gain) on sales of investment securities	47	–
Loss (gain) on sales of non-current assets	(715)	(10,435)
Loss on retirement of non-current assets	37	21
Increase (decrease) in provisions	(89)	47
Increase (decrease) in allowance for doubtful accounts	16	(291)
Increase (decrease) in retirement benefit liability	(19)	98
Interest and dividend income	(98)	(53)
Interest expenses	145	167
Foreign exchange losses (gains)	(61)	298
Decrease (increase) in trade receivables	72	254
Decrease (increase) in inventories	(642)	236
Increase (decrease) in trade payables	678	(1,375)
Increase (decrease) in accounts payable - other	147	170
Other, net	943	124
Subtotal	10,904	6,399
Interest and dividends received	98	53
Interest paid	(145)	(167)
Income taxes paid	(2,915)	(3,122)
Payments for business restructuring	(2)	(11)
Payments for performance of guarantee obligation	(338)	–
Income taxes refund	403	1,982
Net cash provided by (used in) operating activities	8,004	5,133
Cash flows from investing activities		
Purchase of property, plant and equipment	(2,316)	(3,005)
Purchase of intangible assets	(675)	(520)
Proceeds from sales of property, plant and equipment and intangible assets	1,151	14,353
Payments for sales of shares of subsidiaries resulting in change in scope of consolidation	–	(169)
Other, net	(25)	(55)
Net cash provided by (used in) investing activities	(1,866)	10,603
Cash flows from financing activities		
Net increase (decrease) in short-term borrowings	143	(2,657)
Repayments of long-term borrowings	(970)	(20)
Repayments of lease obligations	(718)	(888)
Dividends paid	(2,388)	(2,316)
Other, net	(2)	(0)
Net cash provided by (used in) financing activities	(3,936)	(5,883)
Effect of exchange rate change on cash and cash equivalents	(157)	169
Net increase (decrease) in cash and cash equivalents	2,043	10,023
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	18,550	33,402

(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. Nine months ended December 31, 2019 (from April 1, 2019 to December 31, 2019)

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

	Unit: Millions of yen			
	Auto-ID solutions (Japan)	Auto-ID solutions (Overseas)	IDP	Total
Net sales				
External customer sales	54,782	32,725	294	87,803
Intersegment sales and transfer	4,294	6,226	–	10,520
Total	59,076	38,952	294	98,323
Segment profit (loss)	4,782	1,928	(1,055)	5,654

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

	Unit: Millions of yen
Profit	Amount
Reportable segments total	5,654
Intersegment eliminations	0
Adjustment of inventories	(9)
Operating income on the consolidated statements of income	5,645

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. Nine months ended December 31, 2020 (from April 1, 2020 to December 31, 2020)

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

Unit: Millions of yen				
	Auto-ID solutions (Japan)	Auto-ID solutions (Overseas)	IDP	Total
Net sales				
External customer sales	50,075	29,059	136	79,271
Intersegment sales and transfer	3,480	4,444	0	7,925
Total	53,555	33,504	136	87,196
Segment profit (loss)	2,018	1,804	(148)	3,674

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	3,674
Intersegment eliminations	0
Adjustment of inventories	103
Operating income on the consolidated statements of income	3,777

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

Significant impairment loss on non-current assets

In the Auto-ID solutions (Japan) segment, the carrying amount of business assets that are planned to be retired has been reduced to their recoverable amount as they are losing profitability to a level incapable of yielding sufficient return on investment, with such reduction amount recorded as impairment loss.

Accordingly, impairment loss of ¥41 million was recorded in the nine months ended December 31, 2020.

In the Auto-ID solutions (Overseas) segment, the carrying amount of business assets that are planned to be sold has been reduced to their recoverable amount as they are losing profitability to a level capable of yielding sufficient return on investment, with such reduction amount

recorded as impairment loss.

Accordingly, impairment loss of ¥359 million was recorded in the nine months ended December 31, 2020.

Significant subsequent events

Concerning the buyout of defined benefit pension scheme

On January 7, 2021, the Company conducted a buyout of the defined benefit pension scheme of SATO UK Ltd., its consolidated subsidiary. With this execution of the buyout agreement, the Company projects to record extraordinary loss of approximately ¥1.6 billion.

In a buyout, the plan sponsor (employer) transfers part or all obligations of its pension plans to the insurance company in exchange for paying off the premium, to let the insurer take on the administrative responsibility of the pensions.