Consolidated Financial Report
for the First Three Months of Fiscal Year Ending March 2022
<Under Japanese GAAP>

August 6, 2021

SATO HOLDINGS CORPORATION

Company code:	6287
Website:	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 11, 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 three months of the fiscal year ending March 31, 2022 (from April 1, 2021 to June 30, 2021)

(1) Consolidated financial results (cumulative)

(Percentage figures show year-on-year change)

	Net sales		Operating income		Ordinary income	
Three months ended	(Millions of yen)	%	(Millions of yen)	%	(Millions of yen)	%
June 30, 2021	30,177	27.6	1,706	342.3	1,644	166.0
June 30, 2020	23,651	(16.9)	385	(74.5)	618	(53.8)

(Note) Comprehensive income: Three months ended June 30, 2021: ¥1,817 million (90.9%)
Three months ended June 30, 2020: ¥952 million (-%)

	Net income attributable to owners of parent		Basic earnings per share	Diluted earnings per share
Three months ended	(Millions of yen)	%	(Yen)	(Yen)
June 30, 2021	1,085	409.8	32.32	32.31
June 30, 2020	213	(74.7)	6.34	6.34

(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, 2021	111,411	60,074	52.8	1,748.57
March 31, 2021	109,312	59,462	53.3	1,735.04

(Note) Total equity:
As of June 30, 2021: ¥58,790 million　　As of March 31, 2021: ¥58,274 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, 2021	–	35.00	–	35.00	70.00
March 31, 2022	–				
March 31, 2022 (Forecast)		35.00	–	35.00	70.00

(Note) Revision to recently announced dividend forecast: None

3. Consolidated forecasts for the fiscal year ending March 31, 2022 (from April 1, 2021 to March 31, 2022)

(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)	%	(Yen)
Six months	56,700	13.7	2,400	63.2	2,300	86.7	1,500	(53.8)	44.66
Full year	117,000	7.3	6,400	9.4	6,200	12.3	4,000	(69.1)	119.09

(Note) Revision to recently announced consolidated forecast: None

*** Notes**

(1) Changes in subsidiaries during the first three 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: Yes
2) Changes in accounting policies due to other reasons: None
3) Changes in accounting estimates: None
4) Restatement of prior-period financial statements after error corrections: None

(4) Number of issued shares (common shares)

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

As of June 30, 2021:	34,921,242 shares
As of March 31, 2021:	34,921,242 shares

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

As of June 30, 2021:	1,299,223 shares
As of March 31, 2021:	1,334,350 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, 2021:	33,598,351 shares
Three months ended June 30, 2020:	33,585,061 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 section 1-(3) "Explanation of consolidated forecasts and other projections" (page 4) of the attached materials for assumptions behind the consolidated forecasts and other information.

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 pursues management principles, growth strategies and business targets under its three-year Medium-term Management Plan (FY 2021–2023), taking into account recent business circumstances, surrounding changes and company performance in the current fiscal year.

We will develop our auto-ID solutions business globally through tagging — the process of physically attaching information to people and things — for customers operating in diverse markets and industries, so that on-site information can be collected in real time, converted into meaningful data they need, and fed to their core IT systems to produce analyses and insights that aid optimization. We will continue to concentrate resources on this tagging-based business, steering it in the direction of “Tagging for Sustainability” over the long term to contribute toward a better and more sustainable world. To achieve this, we will speed up the execution of growth strategies focusing on three important pillars: (1) enhance region/market strategies, for us to expand business in supply chains of our target markets, (2) drive technological innovation, to advance our tagging technologies and to support (1), and (3) integrate ESG into our corporate model, as the underlying foundation for the first two pillars.

In the first three months of this fiscal year, sales and operating income increased year on year as our domestic and overseas businesses saw recovery in demand from existing customers while we continued efforts to build up pipeline deals and offer more new solutions for customers in markets/industries that remain resilient during the COVID-19 pandemic.

As a result, the SATO Group posted net sales of ¥30,177 million (up 27.6% compared with the same period of the previous fiscal year), operating income of ¥1,706 million (up 342.3%), ordinary income of ¥1,644 million (up 166.0%), and net income attributable to owners of parent of ¥1,085 million (up 409.8%).

Performance by segment is as follows.

On September 15, 2020, we transferred all our shares in U.K.-based DataLase Ltd., the company responsible for our IDP business, to DataLase Holdings Limited. With our withdrawal from the said business, the IDP segment has been removed so that our business segments comprise Auto-ID solutions (Japan) and Auto-ID solutions (Overseas), effective from this quarter.

<Auto-ID solutions (Japan)>
Both sales and operating income increased with almost all markets recovering as expected. Sales for consumables bounced back faster than mechatronics products, coming close to pre-pandemic levels recorded in the same three-month period two years ago. Sales of mechatronics products also increased year on year, but its recovery is taking more time than expected.

As for sales by market, our performance in retail, logistics and health care is going strong. Sales from the manufacturing sector, however, is expected to take longer before returning to pre-pandemic levels as only electronic component manufacturing and some manufacturing industries perform well while others continue to hold back on investment and discretionary spending. The manufacturing sector accounts for the largest share of our domestic sales.

Although our SG&A expenses increased from the prior-year period by a certain extent (due to growth investments under the Medium-term Management Plan, resumption of normal operating expense spending, etc.), we were able to increase our gross profit margin from improving product mix to raise the operating income ratio by 0.9 percentage point year on year.

Under these circumstances, net sales increased 9.6% to ¥17,248 million, and operating income increased 46.7% to ¥585 million, compared with the same period of the previous fiscal year.

<Auto-ID solutions (Overseas)>
Sales and operating income both reached record highs on a quarterly basis, with the operating income ratio improving significantly to 9.1% from 1.0% in the same period a year ago.

Our base business in the Americas and Europe increased sales significantly, backed by recovery of demand for consumables products (particularly in the retail market) and efforts at selling printers for new solutions. There was also a surge in demand due to one-time factors such as our distributors ordering more printers to build inventories because of supply uncertainty. In Asia and Oceania, sales and operating income increased as well, with our business going strong in the manufacturing sector (one of our focal markets), particularly in electrical equipment and electronic component manufacturing.

Our companies specializing in primary labels increased both sales and operating income amid increase in new label orders and continued steady demand from industries that provide essentials for everyday living such as food, beverages and sanitary supplies.

Under these circumstances, net sales increased 64.8% to ¥12,929 million (increase of 57.6%, excluding foreign currency effects), and operating income increased 1412.6% to ¥1,175 million, compared with the same period of the previous fiscal year.

(2) Explanation of financial position

Total assets at the end of the first quarter were ¥111,411 million, an increase of ¥2,098 million from the end of the previous fiscal year. This was primarily due to increase in inventories.

Net assets were ¥60,074 million, a ¥612 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.

Cash flows

At the end of the first quarter, cash and cash equivalents stood at ¥21,039 million, a decrease of ¥1,541 million from the end of the previous fiscal year.

Cash flows from operating activities

Cash flow from operating activities was positive at ¥865 million.

This resulted primarily from cash inflows including ¥1,596 million of income before income taxes and a ¥1,321 million increase in trade payables, and cash outflows including a ¥2,024 million increase in inventories.

Cash flows from investing activities

Cash flow from investment activities was negative at ¥1,008 million.

This resulted primarily from expenditures of ¥622 million and ¥427 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 ¥1,495 million.

This resulted primarily from cash outflows including ¥1,163 million dividends paid and ¥379 million repayment of lease obligations.

(3) Explanation of consolidated forecasts and other projections

No changes have been made to the consolidated forecasts for the fiscal year ending March 31, 2022, which were announced on May 11, 2021.

2. Consolidated Financial Statements and Significant Notes Thereto

(1) Consolidated balance sheets

Unit: Millions of yen

	As of March 31, 2021	As of June 30, 2021
Assets		
Current assets		
Cash and deposits	32,998	31,470
Notes and accounts receivable - trade	24,878	–
Notes and accounts receivable - trade, and contract assets	–	24,646
Securities	39	39
Merchandise and finished goods	8,722	9,114
Work in process	394	501
Raw materials and supplies	3,956	5,634
Other	3,889	5,333
Allowance for doubtful accounts	(236)	(239)
Total current assets	74,641	76,502
Non-current assets		
Property, plant and equipment		
Machinery, equipment and vehicles, net	10,562	10,642
Land	3,600	3,680
Other, net	13,143	13,184
Total property, plant and equipment	27,306	27,507
Intangible assets		
Goodwill	600	588
Other	2,756	2,675
Total intangible assets	3,356	3,263
Investments and other assets	4,007	4,138
Total non-current assets	34,671	34,909
Total assets	109,312	111,411
Liabilities		
Current liabilities		
Notes and accounts payable - trade	7,569	8,004
Short-term borrowings	3,588	3,680
Electronically recorded obligations - operating	10,171	11,092
Accounts payable - other	3,080	2,652
Income taxes payable	1,096	599
Provisions	1,285	372
Other	10,195	11,959
Total current liabilities	36,988	38,362
Non-current liabilities		
Long-term borrowings	6,515	6,501
Retirement benefit liability	1,193	1,185
Other	5,153	5,287
Total non-current liabilities	12,862	12,974
Total liabilities	49,850	51,336

Unit: Millions of yen

	As of March 31, 2021	As of June 30, 2021
Net assets		
Shareholders’ equity		
Share capital	8,468	8,468
Capital surplus	7,740	7,749
Retained earnings	48,974	48,731
Treasury shares	(2,537)	(2,455)
Total shareholders’ equity	62,646	62,493
Accumulated other comprehensive income		
Foreign currency translation adjustment	(2,359)	(1,787)
Remeasurements of defined benefit plans	(2,012)	(1,915)
Total accumulated other comprehensive income	(4,372)	(3,703)
Share acquisition rights	28	28
Non-controlling interests	1,159	1,255
Total net assets	59,462	60,074
Total liabilities and net assets	109,312	111,411

(2) Consolidated statements of (comprehensive) income

Consolidated statements of income

Unit: Millions of yen

	Three months ended June 30, 2020	Three months ended June 30, 2021
Net sales	23,651	30,177
Cost of sales	13,773	17,633
Gross profit	9,877	12,544
Selling, general and administrative expenses	9,491	10,838
Operating income	385	1,706
Non-operating income		
Interest income	19	19
Dividend income	–	9
Foreign exchange gains	187	–
Reversal of allowance for doubtful accounts	89	–
Other	37	21
Total non-operating income	333	50
Non-operating expenses		
Interest expenses	44	40
Foreign exchange losses	–	24
Compensation expenses	0	9
Sales discounts	11	–
Other	44	37
Total non-operating expenses	101	112
Ordinary income	618	1,644
Extraordinary income		
Gain on sale of non-current assets	0	3
Total extraordinary income	0	3
Extraordinary losses		
Loss on retirement of non-current assets	0	1
Loss on sales of non-current assets	0	3
Loss on business restructuring	–	47
Total extraordinary losses	0	51
Income before income taxes	618	1,596
Income taxes - current	192	436
Income taxes - deferred	135	19
Total income taxes	327	455
Net income	290	1,140
Net income attributable to non-controlling interests	77	54
Net income attributable to owners of parent	213	1,085

Consolidated statements of comprehensive income

Unit: Millions of yen

	Three months ended June 30, 2020	Three months ended June 30, 2021
Net income	290	1,140
Other comprehensive income		
Foreign currency translation adjustment	647	579
Remeasurements of defined benefit plans, net of tax	13	97
Total other comprehensive income	661	677
Comprehensive income	952	1,817
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	769	1,755
Comprehensive income attributable to non-controlling interests	182	62

(3) Consolidated statements of cash flows

Unit: Millions of yen

	Three months ended June 30, 2020	Three months ended June 30, 2021
Cash flows from operating activities		
Income before income taxes	618	1,596
Depreciation and amortization	1,064	1,033
Amortization of goodwill	57	58
Loss (gain) on sales of non-current assets	(0)	(0)
Loss on retirement of non-current assets	0	1
Loss on business restructuring	–	47
Increase (decrease) in provisions	(23)	(13)
Increase (decrease) in allowance for doubtful accounts	(307)	0
Increase (decrease) in retirement benefit liability	9	59
Interest and dividend income	(19)	(28)
Interest expenses	44	40
Foreign exchange losses (gains)	(198)	(172)
Decrease (increase) in trade receivables	3,757	478
Decrease (increase) in inventories	(862)	(2,024)
Increase (decrease) in trade payables	(1,309)	1,321
Increase (decrease) in accounts payable - other	(549)	(77)
Other, net	(529)	(427)
Subtotal	1,750	1,893
Interest and dividends received	19	28
Interest paid	(44)	(40)
Income taxes paid	(2,932)	(760)
Payments for business restructuring	(2)	(255)
Net cash provided by (used in) operating activities	(1,209)	865
Cash flows from investing activities		
Purchase of property, plant and equipment	(393)	(622)
Proceeds from sales of property, plant and equipment and intangible assets	5	11
Purchase of intangible assets	(181)	(427)
Other, net	(48)	29
Net cash provided by (used in) investing activities	(618)	(1,008)
Cash flows from financing activities		
Net increase (decrease) in short-term borrowings	(19)	56
Repayments of long-term borrowings	(6)	(7)
Repayments of lease obligations	(296)	(379)
Dividends paid	(1,125)	(1,163)
Other, net	0	(0)
Net cash provided by (used in) financing activities	(1,447)	(1,495)
Effect of exchange rate change on cash and cash equivalents	80	97
Net increase (decrease) in cash and cash equivalents	(3,195)	(1,541)
Cash and cash equivalents at beginning of period	23,379	22,580
Cash and cash equivalents at end of period	20,183	21,039

(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 Company 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 Company 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 (ASBJ) on March 31, 2020.

Changes in accounting policies

Application of Accounting Standard for Revenue Recognition, etc.

The Company has applied the Accounting Standard for Revenue Recognition (ASBJ Statement No. 29; March 31, 2020) and related guidelines from the beginning of the first quarter of this fiscal year to recognize expected revenue from the sale of goods or services upon their transfer of control to the customer. This resulted in some key changes as follows.

(1) Revenue recognition related to product and service bundles

In the case of contracts with customers for the sale of goods that include a distinct service performance obligation (service-type warranty), the Company used to recognize the entirety of the expected revenue from the service portion together with the product portion immediately at the time of sale (at which point goods are shipped) and record provisions on the balance sheet for after-sales service expenses. Starting this fiscal year, however, the Company shall recognize such service revenue over the lifetime of the contract and record related contract liabilities as current liabilities (under "Other").

(2) Revenue recognition related to transfer of raw materials, etc. in buy-sell transactions

In buy-sell transactions where the Company sells raw materials, etc. and promises to repurchase them (for example, after they are processed into finished goods), the Company used to derecognize the raw materials, etc. once they are sold. Starting this fiscal year, however, the Company shall retain the raw materials, etc. on its books and not recognize any revenue from their sale.

Based on the transition approach set out in the proviso to paragraph 84 of the Accounting Standard for Revenue Recognition, the Company records the cumulative effect of applying the said accounting standard retrospectively to prior periods as an adjustment to the opening balance of retained earnings as of the first quarter of this fiscal year.

With the above adjustment, the opening balance of retained earnings decreased by ¥149 million. As of the end of this quarter, raw materials and supplies also increased by ¥747 million while provisions decreased by ¥902 million and other/residual current liabilities increased by ¥1,778 million. Any impact on profit and loss for the first three months was minimal.

Following the application of the said accounting standard, the current assets item “Notes and accounts receivable - trade” used for prior periods shall be replaced by “Notes and accounts receivable - trade, and contract assets” in consolidated balance sheets starting this quarter. Comparative figures for the previous fiscal year have not been restated, in accordance with the transition approach set out in paragraph 89-2 of the Accounting Standard for Revenue Recognition.

Application of Accounting Standard for Fair Value Measurement, etc.

The Company has applied the Accounting Standard for Fair Value Measurement (ASBJ Statement No. 30; July 4, 2019) and related guidelines from the beginning of the first quarter of this fiscal year, prospectively in accordance with the transition approach set out in paragraph 19 of the same standard and paragraph 44-2 of the Accounting Standard for Financial Instruments (ASBJ Statement No. 10; July 4, 2019). This has no resulting effect on the quarterly consolidated financial statements.

Segment information

I. 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 (Japan)	Auto-ID solutions (Overseas)	IDP	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

II. Three months ended June 30, 2021 (from April 1, 2021 to June 30, 2021)

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

Unit: Millions of yen

	Auto-ID solutions (Japan)	**Auto-ID solutions (Overseas)**	**Total**
Net sales			
External customer sales	17,248	12,929	30,177
Intersegment sales and transfer	1,570	2,291	3,862
Total	18,819	15,220	34,039
Segment profit (loss)	585	1,175	1,760

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	1,760
Intersegment eliminations	0
Adjustment of inventories	(54)
Operating income on the consolidated statements of income	1,706

3. Matters related to changes in reportable segments

Application of new accounting standard

The Company has applied the Accounting Standard for Revenue Recognition and related guidelines (as described in section 2-(4) “Changes in accounting policies”) from the beginning of this quarter, and changed its method of measuring profit/loss for business segments accordingly.
Any impact on information in this section was minimal.

Change in segment classification

The IDP segment has been removed (as described in section 1-(1) “Explanation of financial results (percentage changes, year-on-year)”) so that the Company’s business segments comprise Auto-ID solutions (Japan) and Auto-ID solutions (Overseas), effective from this quarter.

4. Information on impairment loss of non-current assets, goodwill and negative goodwill, etc. by reportable segment

Not applicable