

Consolidated Financial Report
for the First Six Months of Fiscal Year Ending March 2023

<Under Japanese GAAP>

November 9, 2022

SATO HOLDINGS CORPORATION

Company code: 6287
 Website: www.sato-global.com
 Shares traded on: TSE Prime
 Executive position of legal representative: Ryutaro Kotaki, Representative Director,
 President and CEO
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 Scheduled submission date for quarterly securities report: November 11, 2022
 Commencement date of dividend payments: December 12, 2022
 Supplementary explanatory materials for quarterly results: Available
 Holding of meeting to explain quarterly results (for analysts and institutional investors): Yes

1. Consolidated operating results for the first six months of the fiscal year ending March 31, 2023 (from April 1, 2022 to September 30, 2022)

(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, 2022	70,463	16.9	3,776	35.8	4,968	84.3
September 30, 2021	60,261	20.8	2,779	89.0	2,695	118.8

(Note) Comprehensive income: Six months ended September 30, 2022: ¥10,010 million (293.7%)
 Six months ended September 30, 2021: ¥2,542 million (-20.8%)

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, 2022	3,229	74.7	96.70	96.66
September 30, 2021	1,848	(43.1)	54.97	54.94

(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, 2022	129,225	72,339	53.8	2,097.81
March 31, 2022	120,005	64,508	52.6	1,874.97

(Note) Total equity: As of September 30, 2022: ¥69,525 million
As of March 31, 2022: ¥63,135 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, 2022	–	35.00	–	35.00	70.00
March 31, 2023	–	36.00			
March 31, 2023 (Forecast)			–	36.00	72.00

(Note) Revision to recently announced dividend forecast: None

3. Consolidated forecasts for the fiscal year ending March 31, 2023 (from April 1, 2022 to March 31, 2023)

(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
Full year	142,000	13.8	8,500	32.7	9,700	60.1	4,400	16.0	131.76

(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 materials and financial results briefing materials uploaded on corporate website.

*** Notes**

- (1) Changes in subsidiaries during the first six 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 September 30, 2022:	34,921,242 shares
As of March 31, 2022:	34,921,242 shares
 - 2) Number of treasury shares at the end of term:

As of September 30, 2022:	1,779,305 shares
As of March 31, 2022:	1,248,376 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):

Six months ended September 30, 2022:	33,394,038 shares
Six months ended September 30, 2021:	33,635,978 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 5) 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 Six Months

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

The SATO Group runs its business based on management principles, growth strategies and business targets set out in its most recent three-year Medium-term Management Plan (FY 2021–2023), with the vision to be “the customer’s most trusted partner for mutual growth, and always essential in an ever-changing world.”

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 of individual worksites and supply chains. We will continue to concentrate resources on this tagging-based business to offer advanced solutions that cover entire supply chains (through capturing and collecting the status and other trackable data of people and things in motion) and help the world run smoothly so as to achieve “Tagging for Sustainability” and contribute toward a better and more sustainable world in the long term. To achieve this, we pursue our growth strategies, focusing on three important pillars: (1) enhance region/market strategies, for us to expand business in the supply chains of our target countries, markets and industries, (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 six months of this fiscal year, we accurately captured and addressed robust market needs for operational visibility and saving labor/manpower and started to realize benefits from product price revisions that were implemented earlier. This made it possible for us to increase sales and operating income year on year for both our domestic and overseas businesses amid dragging pandemic issues, geopolitical risks, economic recession concerns and uncertainties about inflation and the weakening yen. Ordinary income and net income attributable to owners of parent also increased, mainly due to foreign exchange gains arising from fluctuations in currency exchange rates.

As a result, the SATO Group posted net sales of ¥70,463 million (up 16.9% compared with the same period of the previous fiscal year), operating income of ¥3,776 million (up 35.8%), ordinary income of ¥4,968 million (up 84.3%), and net income attributable to owners of parent of ¥3,229 million (up 74.7%).

Performance by segment is as follows.

<Auto-ID solutions (Japan)>

Both sales and segment profit for Japan increased. In terms of product category, consumables sales continued their recovery momentum across different markets and industries but mechatronics sales fell year on year and are taking more time than expected to recover.

As for sales by market, some strong-performing manufacturing industries and the health care sector continued driving growth while the public and food sectors also contributed to revenue especially in the second quarter, mainly reflecting demand for consumables products.

Under these circumstances, net sales increased 1.7% to ¥35,585 million, and segment profit increased 5.0% to ¥933 million, compared with the same period of the previous fiscal year.

<Auto-ID solutions (Overseas)>

Sales and segment profit outside of Japan increased as we not only successfully captured robust market needs and absorbed cost surges for consumables materials and mechatronics parts, but also reduced unfulfilled printer orders and benefited from price revisions.

For our base business, we increased sales and profit across all regions from steadily addressing demand with a focus on strong-performing markets such as retail in the Americas and food service and retail in Europe. Our Southeast Asian subsidiaries and Taiwan's Argox also performed strongly to drive growth in Asia and Oceania.

Our companies specializing in primary labels also increased sales and profit due to continued strong demand from essential industries (that provide daily commodities such as food, beverages and sanitary supplies) and progress made with price revisions.

Under these circumstances, net sales increased 37.9% to ¥34,878 million (increase of 14.0%, excluding foreign currency effects), and segment profit increased 61.7% to ¥3,029 million, compared with the same period of the previous fiscal year.

(2) Explanation of financial position

At the end of the second quarter, the balance of current assets increased by ¥3,747 million to ¥85,698 million (from ¥81,950 million recorded at the end of the previous fiscal year). This was primarily the result of increases of ¥3,385 million in raw materials and supplies, ¥3,016 million in merchandise and finished goods and ¥3,237 million in advance payments (included in other current assets), as well as a decrease of ¥6,017 million in cash and deposits. The balance of non-current assets increased by ¥5,472 million to ¥43,527 million (from ¥38,054 million at the end of the previous fiscal year). This was primarily due to increases of ¥2,666 million in machinery, equipment and vehicles, and ¥2,121 million in buildings and structures, both included in property, plant and equipment.

The balance of current liabilities increased by ¥3,533 million to ¥45,604 million (from ¥42,071 million recorded at the end of the previous fiscal year), primarily due to an increase of ¥3,565 million in short-term borrowings. The balance of non-current liabilities decreased by ¥2,144 million to ¥11,281 million (from ¥13,426 million at the end of the previous fiscal year). This was mainly due to a decrease of ¥3,002 million in long-term borrowings.

At the end of the second quarter, the balance of net assets increased by ¥7,830 million to ¥72,339 million (from ¥64,508 million recorded at the end of the previous fiscal year), primarily due to increases of ¥2,046 million in retained earnings and ¥5,535 million in foreign currency translation adjustment (classified under accumulated other comprehensive income).

Cash flows

At the end of the second quarter, cash and cash equivalents stood at ¥20,079 million, an increase of ¥938 million from the end of the previous fiscal year.

Cash flows from operating activities

Cash flow from operating activities was positive at ¥835 million.

This resulted primarily from cash inflows including ¥4,961 million of income before income taxes, ¥2,459 million of depreciation and amortization and a ¥1,526 million decrease in trade receivables and contract assets, and cash outflows including a ¥3,902 million increase in inventories, a ¥2,604 million decrease in trade payables and ¥1,449 million of foreign exchange gains.

Cash flows from investing activities

Cash flow from investing activities was positive at ¥2,978 million.

This was primarily due to proceeds of ¥7,000 million from withdrawal of time deposits, notwithstanding expenditures of ¥3,414 million for the purchase of property, plant and equipment.

Cash flows from financing activities

Cash flow from financing activities was negative at ¥3,742 million.

This resulted primarily from cash outflows including ¥1,180 million dividends paid, a ¥1,506 million decrease in money held in trust for purchase of treasury shares, and ¥967 million purchase of treasury shares.

(3) Explanation of consolidated forecasts and other projections

For our consolidated forecasts that were announced on May 10, 2022, we had excluded the projected earnings of SATO companies in Russia (Okil-Holding and Okil-SATO X-Pack) in view of the Russia–Ukraine situation. We have been following developments closely and reviewing a full range of strategic options to adapt our approach for our Russian business as appropriate in coordination with sanctions and other measures adopted by the international community.

While we work to make more progress with our reviews, we have revised our consolidated forecasts for the full fiscal year as follows to include our Russian business for now.

Consolidated forecasts for the fiscal year ending March 31, 2023

Net sales	¥142,000 million	(previous forecast ¥119,000 million)
Operating income	¥8,500 million	(previous forecast ¥8,000 million)
Ordinary income	¥9,700 million	(previous forecast ¥7,800 million)
Net income attributable to owners of parent	¥4,400 million	(previous forecast ¥3,400 million)

The foreign exchange rates assumed in the above forecasts are US\$1 = ¥134 and €1 = ¥138.

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, 2022	As of September 30, 2022
Assets		
Current assets		
Cash and deposits	29,813	23,795
Notes and accounts receivable - trade, and contract assets	26,688	26,768
Securities	41	42
Merchandise and finished goods	11,441	14,457
Work in process	564	757
Raw materials and supplies	8,413	11,798
Accounts receivable - other	2,177	1,770
Other	3,045	6,589
Allowance for doubtful accounts	(234)	(283)
Total current assets	81,950	85,698
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	12,465	14,586
Machinery, equipment and vehicles, net	11,241	13,908
Land	3,764	3,908
Other, net	2,919	2,702
Total property, plant and equipment	30,390	35,105
Intangible assets		
Goodwill	416	426
Other	2,840	3,179
Total intangible assets	3,256	3,606
Investments and other assets	4,407	4,814
Total non-current assets	38,054	43,527
Total assets	120,005	129,225
Liabilities		
Current liabilities		
Notes and accounts payable - trade	9,073	7,682
Electronically recorded obligations - operating	11,571	11,586
Short-term borrowings	3,573	7,139
Contract liabilities	6,820	7,449
Accounts payable - other	4,705	3,834
Income taxes payable	872	879
Provisions	1,276	1,482
Other	4,177	5,549
Total current liabilities	42,071	45,604
Non-current liabilities		
Long-term borrowings	6,454	3,452
Retirement benefit liability	1,227	1,222
Other	5,743	6,606
Total non-current liabilities	13,426	11,281
Total liabilities	55,497	56,886

Unit: Millions of yen

	As of March 31, 2022	As of September 30, 2022
Net assets		
Shareholders' equity		
Share capital	8,468	8,468
Capital surplus	7,765	7,764
Retained earnings	50,256	52,303
Treasury shares	(2,345)	(3,342)
Total shareholders' equity	64,144	65,194
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	164	(186)
Foreign currency translation adjustment	678	6,213
Remeasurements of defined benefit plans	(1,851)	(1,696)
Total accumulated other comprehensive income	(1,008)	4,330
Share acquisition rights	28	28
Non-controlling interests	1,343	2,784
Total net assets	64,508	72,339
Total liabilities and net assets	120,005	129,225

(2) Consolidated statements of (comprehensive) income

Consolidated statements of income

Unit: Millions of yen

	Six months ended September 30, 2021	Six months ended September 30, 2022
Net sales	60,261	70,463
Cost of sales	35,707	42,805
Gross profit	24,554	27,657
Selling, general and administrative expenses	21,774	23,881
Operating income	2,779	3,776
Non-operating income		
Interest income	37	75
Dividend income	20	42
Foreign exchange gains	–	1,093
Other	63	139
Total non-operating income	121	1,350
Non-operating expenses		
Interest expenses	80	105
Foreign exchange losses	41	–
Compensation expenses	45	3
Other	37	50
Total non-operating expenses	205	159
Ordinary income	2,695	4,968
Extraordinary income		
Gain on sale of non-current assets	15	13
Other	–	0
Total extraordinary income	15	13
Extraordinary losses		
Loss on retirement of non-current assets	11	0
Loss on sale of non-current assets	10	12
Loss on business restructuring	69	0
Other	–	6
Total extraordinary losses	91	20
Income before income taxes	2,619	4,961
Income taxes - current	648	997
Income taxes - deferred	25	243
Total income taxes	673	1,241
Net income	1,945	3,720
Net income attributable to non-controlling interests	96	490
Net income attributable to owners of parent	1,848	3,229

Consolidated statements of comprehensive income

Unit: Millions of yen

	Six months ended September 30, 2021	Six months ended September 30, 2022
Net income	1,945	3,720
Other comprehensive income		
Valuation difference on available-for-sale securities	–	(351)
Foreign currency translation adjustment	415	6,485
Remeasurements of defined benefit plans, net of tax	181	155
Total other comprehensive income	597	6,289
Comprehensive income	2,542	10,010
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	2,430	8,568
Comprehensive income attributable to non-controlling interests	111	1,441

(3) Consolidated statements of cash flows

Unit: Millions of yen

	Six months ended September 30, 2021	Six months ended September 30, 2022
Cash flows from operating activities		
Income before income taxes	2,619	4,961
Depreciation and amortization	2,076	2,459
Amortization of goodwill	117	156
Loss (gain) on sale of non-current assets	(4)	(0)
Loss on retirement of non-current assets	11	0
Loss on business restructuring	69	0
Increase (decrease) in provision for bonuses	85	(21)
Increase (decrease) in allowance for doubtful accounts	35	30
Increase (decrease) in retirement benefit liability	111	101
Interest and dividend income	(57)	(118)
Interest expenses	80	105
Foreign exchange losses (gains)	(49)	(1,449)
Decrease (increase) in trade receivables and contract assets	448	1,526
Decrease (increase) in inventories	(3,091)	(3,902)
Increase (decrease) in trade payables	1,675	(2,604)
Increase (decrease) in accounts payable - other	(226)	(3)
Other, net	(333)	338
Subtotal	3,570	1,580
Interest and dividends received	57	118
Interest paid	(80)	(105)
Income taxes paid	(843)	(758)
Payments for business restructuring	(278)	(0)
Net cash provided by (used in) operating activities	2,426	835
Cash flows from investing activities		
Purchase of property, plant and equipment	(1,300)	(3,414)
Purchase of intangible assets	(581)	(603)
Proceeds from sale of property, plant and equipment and intangible assets	17	101
Proceeds from withdrawal of time deposits	–	7,000
Other, net	72	(104)
Net cash provided by (used in) investing activities	(1,792)	2,978
Cash flows from financing activities		
Net increase (decrease) in short-term borrowings	(97)	503
Repayments of long-term borrowings	(15)	–
Repayments of lease obligations	(687)	(591)
Dividends paid	(1,181)	(1,180)
Purchase of treasury shares	(1)	(967)
Increase (decrease) in money held in trust for purchase of treasury shares	–	(1,506)
Other, net	0	0
Net cash provided by (used in) financing activities	(1,982)	(3,742)
Effect of exchange rate change on cash and cash equivalents	18	867
Net increase (decrease) in cash and cash equivalents	(1,330)	938
Cash and cash equivalents at beginning of period	22,580	19,140
Cash and cash equivalents at end of period	21,249	20,079

(4) Notes to consolidated financial statements

Notes in the event of material changes in amount of shareholders' equity

Purchase of treasury shares

The Company has purchased 531,700 of its common shares in the open market at ¥998 million and recorded treasury shares based on the amount paid. This is part of the Company's share repurchase program that was approved by its board of directors (in compliance with Article 156 of the Companies Act of Japan, subject to the rules stipulated in Article 165, Paragraph 3 of the same act) at a board meeting held on May 10, 2022.

As a result, the value of treasury shares increased to ¥3,342 million at the end of the first six months.

Additional information

Application of practical solution on the accounting and disclosure under the group tax sharing system

The Company and its consolidated subsidiaries in Japan have transitioned from the consolidated tax return filing system to the group relief system with effect from the first quarter. Following this change, the Company now implements accounting treatment and disclosure for corporate and local income taxes and tax effect accounting according to the PITF No. 42 (Practical Solution on the Accounting and Disclosure Under the Group Tax Sharing System) issued on August 12, 2021. As set out in paragraph 32 (1) of the same PITF, there shall be no impact from any changes in accounting policies made in line with the application of the practical solution.

Segment information

I. Six months ended September 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	34,977	25,284	60,261
Intersegment sales and transfer	3,002	4,161	7,163
Total	37,979	29,445	67,425
Segment profit (loss)	888	1,873	2,762

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	2,762
Intersegment eliminations	0
Adjustment of inventories	17
Operating income on the consolidated statements of income	2,779

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, 2022

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	35,585	34,878	70,463
Intersegment sales and transfer	5,827	6,661	12,488
Total	41,413	41,539	82,952
Segment profit (loss)	933	3,029	3,962

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	3,962
Intersegment eliminations	0
Adjustment of inventories	(186)
Operating income on the consolidated statements of income	3,776

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