

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

<Under Japanese GAAP>

February 10, 2023

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: February 14, 2023
 Commencement date of dividend payments: -
 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 nine months of the fiscal year ending March 31, 2023 (from April 1, 2022 to December 31, 2022)

(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, 2022	108,334	17.3	7,081	49.3	7,676	66.5
December 31, 2021	92,388	16.5	4,743	25.6	4,610	32.9

(Note) Comprehensive income: Nine months ended December 31, 2022: ¥6,629 million (46.2%)
 Nine months ended December 31, 2021: ¥4,533 million (-62.4%)

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, 2022	5,116	73.3	154.04	153.98
December 31, 2021	2,952	(74.6)	87.74	87.71

(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, 2022	123,028	66,972	52.7	1,979.73
March 31, 2022	120,005	64,508	52.6	1,874.97

(Note) Total equity: As of December 31, 2022: ¥64,781 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	143,000	14.6	9,500	48.3	10,100	66.7	4,600	21.2	138.48

(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.

*** 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, 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 December 31, 2022:	2,199,098 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 nine months):

Nine months ended December 31, 2022:	33,216,688 shares
Nine months ended December 31, 2021:	33,648,356 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 Nine 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 nine 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 introduced earlier. As a result, our sales and operating income for both domestic and overseas businesses increased year on year to reach record highs on a consolidated basis, 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 year on year, mainly due to foreign exchange gains arising from fluctuations in currency exchange rates.

As a result, the SATO Group posted net sales of ¥108,334 million (up 17.3% compared with the same period of the previous fiscal year), operating income of ¥7,081 million (up 49.3%), ordinary income of ¥7,676 million (up 66.5%), and net income attributable to owners of parent of ¥5,116 million (up 73.3%).

Performance by segment is as follows.

<Auto-ID solutions (Japan)>

Net sales and segment profit increased year on year, with the former marking the highest on record for three quarters in any year. In terms of product category, consumables sales grew steadily, owing to favorable demand dynamics and price revisions that we have been implementing. Mechatronics sales grew too, driven by demand for RFID and automation solutions, which our customers increasingly seek in response to labor shortages, digital transformation and other market trends.

As for sales by market, manufacturing sales increased but at a slower speed as demand from the sector starts to plateau in the third quarter. On the other hand, health care and food sectors achieved strong year-on-year sales increases, mainly due to robust demand from medical device companies as well as heightened demand for consumables products from food service operators in recovery and for mechatronics products from food and beverage businesses and food manufacturers that are turning to automation.

Under these circumstances, net sales increased 2.8% to ¥54,829 million, and segment profit increased 20.8% to ¥2,042 million, compared with the same period of the previous fiscal year.

<Auto-ID solutions (Overseas)>

Outside Japan, we achieved highest ever nine-month net sales and segment profit as we successfully captured robust market needs and closed more deals despite signs of sluggish demand caused by economic slowdown.

For our base business, sales and profit increased from our efforts at continuing price revisions and steadily addressing demand with a focus on strong-performing markets such as retail in the Americas and food service in Europe. Asia and Oceania contributed to overall growth too, thanks to our subsidiaries in Vietnam and other Southeast Asian countries that drove sales and regional factories that improved profitability as the surge in printer manufacturing costs peaked out.

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 36.9% to ¥53,504 million (increase of 12.7%, excluding foreign currency effects), and segment profit increased 90.5% to ¥5,666 million, compared with the same period of the previous fiscal year.

(2) Explanation of financial position

At the end of the third quarter, the balance of current assets increased by ¥981 million to ¥82,932 million (from ¥81,950 million recorded at the end of the previous fiscal year). This was primarily the result of increases of ¥3,348 million in raw materials and supplies, ¥2,484 million in merchandise and finished goods, ¥1,666 million in notes and accounts receivable - trade, and contract assets and ¥1,826 million in advance payments (included in other current assets), as well as a decrease of ¥8,344 million in cash and deposits. The balance of non-current assets increased by ¥2,041 million to ¥40,096 million (from ¥38,054 million at the end of the previous fiscal year). This was primarily due to increases of ¥1,337 million in buildings and structures (included in property, plant and equipment) and ¥744 million in construction in progress (included in other intangible assets).

The balance of current liabilities increased by ¥3,366 million to ¥45,437 million (from ¥42,071 million recorded at the end of the previous fiscal year), primarily due to an increase of ¥3,289 million in short-term borrowings. The balance of non-current liabilities decreased by ¥2,808 million to ¥10,617 million (from ¥13,426 million at the end of the previous fiscal year). This was mainly due to a decrease of ¥2,806 million in long-term borrowings.

At the end of the third quarter, the balance of net assets increased by ¥2,464 million to ¥66,972 million (from ¥64,508 million at the end of the previous fiscal year), primarily due to an increase of ¥2,736 million in retained earnings resulting from the recording of net income attributable to owners of parent.

Cash flows

At the end of the third quarter, cash and cash equivalents stood at ¥20,783 million, an increase of ¥1,643 million from the end of the previous fiscal year.

Cash flows from operating activities

Cash flow from operating activities was positive at ¥2,126 million.

This resulted primarily from cash inflows including ¥7,588 million of income before income taxes, ¥3,672 million of depreciation and amortization and a ¥503 million increase in accrued consumption taxes, and cash outflows including increases of ¥5,305 million in inventories and ¥1,255 million in trade receivables and contract assets, a ¥1,207 million decrease in trade payables and ¥1,676 million of income taxes paid.

Cash flows from investing activities

Cash flow from investing activities was positive at ¥4,578 million.

This was primarily due to proceeds of ¥10,000 million from withdrawal of time deposits, notwithstanding expenditures of ¥4,181 million for the purchase of property, plant and equipment and ¥1,206 million for the purchase of intangible assets.

Cash flows from financing activities

Cash flow from financing activities was negative at ¥5,237 million.

This resulted primarily from cash outflows including ¥2,370 million dividends paid, ¥1,788 million purchase of treasury shares and ¥918 million repayment of lease obligations.

(3) Explanation of consolidated forecasts and other projections

Considering our operating results for the first nine months, we have revised upward our full-year forecasts announced on November 9, 2022 as follows.

Consolidated forecasts for the fiscal year ending March 31, 2023

Net sales	¥143,000 million	(previous forecast ¥142,000 million)
Operating income	¥9,500 million	(previous forecast ¥8,500 million)
Ordinary income	¥10,100 million	(previous forecast ¥ 9,700 million)
Net income attributable to owners of parent	¥4,600 million	(previous forecast ¥4,400 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 December 31, 2022
Assets		
Current assets		
Cash and deposits	29,813	21,468
Notes and accounts receivable - trade, and contract assets	26,688	28,355
Securities	41	42
Merchandise and finished goods	11,441	13,925
Work in process	564	588
Raw materials and supplies	8,413	11,761
Accounts receivable - other	2,177	1,934
Other	3,045	5,076
Allowance for doubtful accounts	(234)	(220)
Total current assets	81,950	82,932
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	12,465	13,802
Machinery, equipment and vehicles, net	11,241	11,639
Land	3,764	3,744
Other, net	2,919	2,700
Total property, plant and equipment	30,390	31,886
Intangible assets		
Goodwill	416	254
Other	2,840	3,474
Total intangible assets	3,256	3,728
Investments and other assets	4,407	4,480
Total non-current assets	38,054	40,096
Total assets	120,005	123,028
Liabilities		
Current liabilities		
Notes and accounts payable - trade	9,073	7,891
Electronically recorded obligations - operating	11,571	12,308
Short-term borrowings	3,573	6,863
Contract liabilities	6,820	7,088
Accounts payable - other	4,705	3,578
Income taxes payable	872	784
Provisions	1,276	1,384
Other	4,177	5,538
Total current liabilities	42,071	45,437
Non-current liabilities		
Long-term borrowings	6,454	3,648
Retirement benefit liability	1,227	1,189
Other	5,743	5,779
Total non-current liabilities	13,426	10,617
Total liabilities	55,497	56,055

Unit: Millions of yen

	As of March 31, 2022	As of December 31, 2022
Net assets		
Shareholders' equity		
Share capital	8,468	8,468
Capital surplus	7,765	7,764
Retained earnings	50,256	52,993
Treasury shares	(2,345)	(4,130)
Total shareholders' equity	64,144	65,096
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	164	(559)
Foreign currency translation adjustment	678	1,957
Remeasurements of defined benefit plans	(1,851)	(1,712)
Total accumulated other comprehensive income	(1,008)	(315)
Share acquisition rights	28	28
Non-controlling interests	1,343	2,163
Total net assets	64,508	66,972
Total liabilities and net assets	120,005	123,028

(2) Consolidated statements of (comprehensive) income

Consolidated statements of income

Unit: Millions of yen

	Nine months ended December 31, 2021	Nine months ended December 31, 2022
Net sales	92,388	108,334
Cost of sales	55,070	65,283
Gross profit	37,317	43,051
Selling, general and administrative expenses	32,574	35,970
Operating income	4,743	7,081
Non-operating income		
Interest income	58	146
Dividend income	27	43
Foreign exchange gains	–	475
Other	104	180
Total non-operating income	190	845
Non-operating expenses		
Interest expenses	122	172
Foreign exchange losses	92	–
Compensation expenses	54	4
Other	54	72
Total non-operating expenses	323	250
Ordinary income	4,610	7,676
Extraordinary income		
Gain on sale of non-current assets	46	16
Gain on sale of shares of subsidiaries and associates	–	20
Other	–	0
Total extraordinary income	46	37
Extraordinary losses		
Loss on retirement of non-current assets	11	43
Loss on sale of non-current assets	17	13
Retirement benefit expenses	–	66
Impairment losses	10	–
Loss on business restructuring	93	1
Total extraordinary losses	133	125
Income before income taxes	4,522	7,588
Income taxes - current	1,346	1,765
Income taxes - deferred	96	26
Total income taxes	1,443	1,791
Net income	3,079	5,796
Net income attributable to non-controlling interests	126	680
Net income attributable to owners of parent	2,952	5,116

Consolidated statements of comprehensive income

Unit: Millions of yen

	Nine months ended December 31, 2021	Nine months ended December 31, 2022
Net income	3,079	5,796
Other comprehensive income		
Valuation difference on available-for-sale securities	–	(724)
Foreign currency translation adjustment	1,274	1,418
Remeasurements of defined benefit plans, net of tax	180	138
Total other comprehensive income	1,454	832
Comprehensive income	4,533	6,629
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	4,352	5,810
Comprehensive income attributable to non-controlling interests	180	819

(3) Consolidated statements of cash flows

Unit: Millions of yen

	Nine months ended December 31, 2021	Nine months ended December 31, 2022
Cash flows from operating activities		
Income before income taxes	4,522	7,588
Depreciation and amortization	3,166	3,672
Amortization of goodwill	176	237
Impairment losses	10	–
Loss (gain) on sale of non-current assets	(28)	(3)
Loss on retirement of non-current assets	11	43
Loss on business restructuring	93	1
Increase (decrease) in provision for bonuses	107	5
Increase (decrease) in allowance for doubtful accounts	5	(27)
Increase (decrease) in retirement benefit liability	172	65
Interest and dividend income	(85)	(189)
Loss (gain) on sale of shares of subsidiaries and associates	–	(20)
Interest expenses	122	172
Foreign exchange losses (gains)	(61)	(625)
Decrease (increase) in trade receivables and contract assets	(1,462)	(1,255)
Decrease (increase) in inventories	(4,756)	(5,305)
Increase (decrease) in trade payables	2,594	(1,207)
Increase (decrease) in accrued consumption taxes	(666)	503
Decrease (increase) in accounts receivable - other	(361)	201
Increase (decrease) in accounts payable - other	226	103
Other, net	386	(173)
Subtotal	4,175	3,788
Interest and dividends received	85	189
Interest paid	(122)	(172)
Income taxes paid	(1,468)	(1,676)
Payments for business restructuring	(304)	(1)
Net cash provided by (used in) operating activities	2,365	2,126
Cash flows from investing activities		
Purchase of property, plant and equipment	(1,933)	(4,181)
Purchase of intangible assets	(881)	(1,206)
Proceeds from sale of property, plant and equipment and intangible assets	149	106
Proceeds from withdrawal of time deposits	–	10,000
Proceeds from sale of shares of subsidiaries and associates	–	32
Other, net	30	(172)
Net cash provided by (used in) investing activities	(2,634)	4,578

Unit: Millions of yen

	Nine months ended December 31, 2021	Nine months ended December 31, 2022
Cash flows from financing activities		
Net increase (decrease) in short-term borrowings	(13)	553
Repayments of long-term borrowings	(15)	–
Repayments of lease obligations	(1,065)	(918)
Dividends paid	(2,356)	(2,370)
Purchase of treasury shares	(1)	(1,788)
Increase (decrease) in money held in trust for purchase of treasury shares	–	(718)
Other, net	0	3
Net cash provided by (used in) financing activities	(3,452)	(5,237)
Effect of exchange rate change on cash and cash equivalents	341	175
Net increase (decrease) in cash and cash equivalents	(3,379)	1,643
Cash and cash equivalents at beginning of period	22,580	19,140
Cash and cash equivalents at end of period	19,200	20,783

(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 952,200 of its common shares in the open market at ¥1,787 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 ¥4,130 million at the end of the first nine months.

Additional information

Application of practical solution on 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. Nine months ended December 31, 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	53,315	39,072	92,388
Intersegment sales and transfer	5,021	7,277	12,299
Total	58,337	46,349	104,687
Segment profit (loss)	1,690	2,975	4,665

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	4,665
Intersegment eliminations	0
Adjustment of inventories	78
Operating income on the consolidated statements of income	4,743

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 (Overseas) segment, the carrying amount of business assets that are losing profitability and unlikely to yield sufficient return on investment has been reduced to their recoverable amount, with such reduction amount recorded as impairment loss.

Accordingly, impairment loss of ¥10 million was recorded in the nine months ended December 31, 2021.

II. Nine months ended December 31, 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	54,829	53,504	108,334
Intersegment sales and transfer	8,737	9,945	18,682
Total	63,567	63,449	127,017
Segment profit (loss)	2,042	5,666	7,709

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	7,709
Adjustment of inventories	(627)
Operating income on the consolidated statements of income	7,081

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