

Consolidated Financial Report
for the First Three Months of the March 2020 Term
<Under Japanese GAAP>

August 2, 2019

SATO HOLDINGS CORPORATION

Company code number: 6287
(URL <http://www.sato.co.jp>)
Shares traded on: TSE1
Executive position of legal representative: Ryutaro Kotaki, President and CEO
Please address all communications to: Yoichi Abe, Vice President and Chief Financial Officer (CFO)
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Scheduled submission date for quarterly securities report: August 9, 2019
Date of commencement of dividend payments: -
Supplementary explanatory materials for quarterly results: Available
Holding of meeting to explain quarterly results: None

(Millions of yen, with fractional amounts discarded)

1. Consolidated operating results for the first three months of the fiscal year ending March 31, 2020 (from April 1, 2019 to June 30, 2019)

(1) Consolidated financial results (cumulative)

(Percentage figures show year-on-year change.)

Three months ended	Net sales		Operating income		Ordinary income	
	(Millions of yen)	%	(Millions of yen)	%	(Millions of yen)	%
June 30, 2019	28,463	1.2	1,514	2.7	1,338	(4.6)
June 30, 2018	28,118	4.9	1,473	73.1	1,403	94.5

(Note) Comprehensive income: Three months ended June 30, 2019: ¥(381) million (-%)
Three months ended June 30, 2018: ¥(223) million (-%)

Three months ended	Net income attributable to owners of parent		Basic earnings per share	Diluted earnings per share
	(Millions of yen)	%	(Yen)	(Yen)
June 30, 2019	842	7.8	25.09	25.07
June 30, 2018	781	131.2	23.29	23.26

(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, 2019	107,716	55,282	50.1	1,606.71
March 31, 2019	107,574	56,668	51.5	1,649.86

(N.B.) Total equity:

As of June 30, 2019: ¥53,932 million

As of March 31, 2019: ¥55,375 million

2. Dividends

	Annual dividend per share				
	First quarter	Second quarter	Third quarter	Year-end	Total
	(Yen)	(Yen)	(Yen)	(Yen)	(Yen)
March 31, 2019	–	35.00	–	35.00	70.00
March 31, 2020	–				
March 31, 2020 (Forecast)		36.00	–	37.00	73.00

(Note) Revisions of projected dividends most recently announced: None

3. Consolidated forecasts for the fiscal year ending March 31, 2020 (from April 1, 2019 to March 31, 2020)

(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)	%	
Six months	58,700	3.9	3,500	4.7	3,400	6.6	2,000	4.2	59.59
Annual	120,000	3.3	8,500	10.7	8,300	8.9	5,000	32.5	148.97

(Note) Revisions of consolidated forecasts most recently announced: None

*** Notes**

- (1) Changes in significant subsidiaries during the first three months (changes in specified subsidiaries resulting in the change in scope of consolidation): None
- (2) Application of special accounting for preparing the quarterly consolidated financial statements: None
- (3) Changes in accounting policies, changes in accounting estimates, and restatement of prior period financial statements after error corrections
- 1) Changes in accounting policies due to revisions to accounting standards: 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

For details, please refer to the section “(4) Changes in accounting policies” of “2. Consolidated Financial Statements and Significant Notes Thereto” on page 11 of attached materials.

(4) Number of issued shares (common shares)

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

As of June 30, 2019: 34,921,242 shares

As of March 31, 2019: 34,921,242 shares

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

As of June 30, 2019: 1,354,317 shares

As of March 31, 2019: 1,357,708 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, 2019: 33,564,594 shares

Three months ended June 30, 2018: 33,539,368 shares

*** Quarterly financial reports are not subject to quarterly reviews conducted by certified public accountants or audit firms.**

*** Explanation about the proper use of consolidated forecasts and other notes**

Forward-looking statements, including the consolidated forecasts stated in these materials, are based on information currently available to the Company and certain assumptions deemed reasonable. Consequently, any statements herein do not constitute assurances regarding actual results by the Company. Results may differ materially from the consolidated forecasts due to various factors. Please refer to page 4 of the attached materials for the suppositions that form the assumptions for consolidated forecasts and cautions concerning the use thereof.

Attached Materials

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

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

The SATO Group has formulated a new three-year Medium-term Management Plan (FY 2019–21) geared toward the business vision of becoming the leader and most trusted company in the auto-ID solutions industry, exceeding customer expectations in an ever-changing world. Launched this fiscal year, this plan aims to concentrate more resources on the auto-ID solutions business than ever before and maximize our strengths to realize stronger sustainable growth and stable profits. To this end, the Group will strive to focus on the high growth potential overseas to define clear country/industry-specific strategies and develop our auto-ID solutions business globally with the knowledge and knowhow gained from the business in Japan.

Continued efforts in executing the necessary business strategies have paid off in the first three months to produce increased revenues and profits for our auto-ID solutions business. Meanwhile, we also continue to make upfront R&D investments for our IDP business to grow it strategically into one of our future business pillars.

As a result, the SATO Group posted net sales of ¥28,463 million (up 1.2% from the same period of the previous fiscal year), operating income of ¥1,514 million (up 2.7%), ordinary income of ¥1,338 million (down 4.6%), and net income attributable to owners of parent of ¥842 million (up 7.8%).

By segment, the SATO Group reported the following.

<Auto-ID solutions business (Japan)>

In Japan, we have tailored and implemented strategies for each market/industry to strengthen the *koto-uri* approach so that our sales frontlines work to promote not just printers or consumables but combinations of such products in the form of optimized solutions for solving customers' problems with proven effects. This approach helped boost business deals for solutions, driving a marked growth in mechatronics sales (mainly printers and software) in particular. We were therefore able to increase sales and profits for our auto-ID solutions business in Japan even as consumables sales decreased slightly, due in part to the impact of production adjustments in certain manufacturing industries. Operating income also increased due to a better product mix and progress in ongoing cost reductions, and gross profit margin and operating income ratio both improved as well.

While labor shortages are creating prominent needs for increasing productivity, tracking work, and automating worksites particularly in the manufacturing and logistics sectors, there are also rising needs to comply with new labeling standards in the food and health care sectors. Going forward, we aim to strengthen our ability to propose solutions for the increasingly sophisticated challenges of our customers to grow this business stably.

Under these circumstances, net sales increased 2.4% to ¥17,495 million, and operating

income increased 7.7% to ¥1,318 million, compared with the same period of the previous fiscal year.

<Auto-ID solutions business (Overseas)>

Overseas, there was a year-on-year increase in both local-currency sales and profits although the former translated into a decrease on the yen basis owing to adverse foreign currency effects.

(1) For our companies specializing in primary labels, sales increased while profits decreased overall, largely attributed to Russia's Okil-Holding that was recording more sales from its progress in developing new sales pipelines but less profits due to rising costs, foreign currency impact, and other factors.

(2) For our base business, we are moving away from selling products to selling solutions, particularly solutions that can improve on-site operations for customers in different countries, markets, and industries. Business in the Americas, Europe, Asia and Oceania regions continued to go strong to increase overall sales on the local currency basis, while overall operating income also increased as earnings growth at some subsidiaries in the Americas and Europe was able to offset the decline in Asia caused by the slowdown in business with China. Under these circumstances, net sales decreased 0.4% to ¥10,867 million (increase of 4.4%, excluding foreign currency effects) and operating income increased 1.2% to ¥560 million, compared with the same period of the previous fiscal year.

<IDP business>

For the IDP business centering on the Inline Digital Printing (IDP) technology that we own after fully acquiring UK-based DataLase in January 2017, we are continuing to make upfront R&D investments for the technology.

As SATO seeks to develop B2B2C solutions business, we see huge potential in the IDP business that is capable of driving engagement between retail stores/brand owners and general consumers. We are currently conducting consumer trials, with plans to make the final decision on commercialization roll-out in FY 2019 and achieve operating profitability from FY 2020 onwards.

Under these circumstances, net sales decreased 20.0% to ¥100 million (decrease of 16.3%, excluding foreign currency effects), and an operating loss of ¥394 million was incurred, compared with that of ¥303 million for the same period of the previous fiscal year.

(2) Explanation of financial position

Total assets at the end of the first quarter were ¥107,716 million, an increase of ¥142 million compared with the end of the previous fiscal year. This was primarily the result of increases in cash and deposits and property, plant and equipment.

Net assets were ¥55,282 million, a ¥1,386 million decrease 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.

Cash flows

At the end of the first quarter, cash and cash equivalents (referred to below as “cash”) stood at ¥17,079 million, an increase of ¥648 million compared with the end of the previous fiscal year.

Cash flows from operating activities

Net cash provided by operating activities amounted to ¥857 million, a decrease of 47.8% compared with the same period of the previous fiscal year.

This resulted primarily from cash inflows including ¥1,237 million of income before income taxes, ¥1,240 million for depreciation and a ¥1,155 million decrease in trade receivables, and cash outflows including a ¥322 million increase in inventories, a ¥534 million decrease in trade payables and ¥1,832 million of income taxes paid.

Cash flows from investing activities

Net cash used in investing activities amounted to ¥857 million, a decrease of 39.5%, compared with the same period of the previous fiscal year.

This resulted primarily from cash outflows including ¥772 million for purchase of property, plant and equipment, and ¥90 million for purchase of intangible assets.

Cash flows from financing activities

Net cash provided by financing activities amounted to ¥830 million.

This resulted primarily from cash outflows including ¥1,152 million of dividends paid and cash inflows including a ¥2,171 million increase in short-term borrowings. The increase in short-term borrowings is attributable to a short-term loan that was taken out one-off with a maturity date in July to fund large payments for withholding taxes and property tax in early July.

(3) Explanation of consolidated forecasts and other projections

Regarding the consolidated forecasts for the fiscal year ending March 31, 2020, no changes have been made to the forecasts that were announced on May 10, 2019.

2. Consolidated Financial Statements and Significant Notes Thereto

(1) Consolidated balance sheets

Unit: Millions of yen

	March 31, 2019	June 30, 2019
Assets		
Current assets		
Cash and deposits	16,800	17,341
Notes and accounts receivable - trade	25,522	24,274
Securities	37	139
Merchandise and finished goods	9,421	9,448
Work in process	531	494
Raw materials and supplies	3,501	3,611
Other	3,705	4,812
Allowance for doubtful accounts	(153)	(140)
Total current assets	59,367	59,981
Non-current assets		
Property, plant and equipment		
Land	6,135	6,072
Machinery, equipment and vehicles	11,852	12,060
Other, net	12,732	13,419
Total property, plant and equipment	30,720	31,551
Intangible assets		
Goodwill	8,059	7,528
Other	3,874	3,594
Total intangible assets	11,933	11,123
Investments and other assets	5,552	5,059
Total non-current assets	48,206	47,734
Total assets	107,574	107,716
Liabilities		
Current liabilities		
Notes and accounts payable - trade	7,304	7,320
Short-term borrowings	4,209	6,298
Electronically recorded obligations - operating	11,650	11,271
Accounts payable - other	2,835	2,486
Income taxes payable	2,059	547
Provisions	986	987
Other	7,857	8,693
Total current liabilities	36,904	37,605
Non-current liabilities		
Long-term borrowings	7,572	7,552
Retirement benefit liability	1,843	1,778
Other	4,583	5,497
Total non-current liabilities	14,000	14,828
Total liabilities	50,905	52,434

Unit: Millions of yen

	March 31, 2019	June 30, 2019
Net assets		
Shareholders' equity		
Share capital	8,468	8,468
Capital surplus	7,737	7,739
Retained earnings	42,624	42,284
Treasury shares	(2,584)	(2,579)
Total shareholders' equity	56,245	55,913
Accumulated other comprehensive income		
Foreign currency translation adjustment	(700)	(1,842)
Remeasurements of defined benefit plans	(169)	(139)
Total accumulated other comprehensive income	(870)	(1,981)
Share acquisition rights	57	48
Non-controlling interests	1,235	1,301
Total net assets	56,668	55,282
Total liabilities and net assets	107,574	107,716

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

Unit: Millions of yen

	Three months ended June 30, 2018	Three months ended June 30, 2019
Net sales	28,118	28,463
Cost of sales	15,785	16,165
Gross profit	12,332	12,298
Selling, general and administrative expenses	10,858	10,784
Operating income	1,473	1,514
Non-operating income		
Interest income	22	26
Dividend income	5	13
Share of profit of entities accounted for using equity method	1	–
Other	66	39
Total non-operating income	96	79
Non-operating expenses		
Interest expenses	32	45
Foreign exchange losses	88	57
Compensation expenses	4	101
Sales discounts	17	18
Other	22	31
Total non-operating expenses	166	254
Ordinary income	1,403	1,338
Extraordinary income		
Gain on sales of non-current assets	0	6
Total extraordinary income	0	6
Extraordinary losses		
Loss on retirement of non-current assets	1	2
Loss on sales of non-current assets	0	105
Total extraordinary losses	1	108
Income before income taxes	1,402	1,237
Income taxes - current	484	294
Income taxes - deferred	132	98
Total income taxes	617	393
Net income	785	844
Net income (loss) attributable to non-controlling interests	4	2
Net income attributable to owners of parent	781	842

(Consolidated statements of comprehensive income)

Unit: Millions of yen

	Three months ended June 30, 2018	Three months ended June 30, 2019
Net income	785	844
Other comprehensive income		
Valuation difference on available-for-sale securities	(0)	–
Foreign currency translation adjustment	(1,036)	(1,256)
Remeasurements of defined benefit plans, net of tax	29	30
Share of other comprehensive income of entities accounted for using equity method	(2)	–
Total other comprehensive income	(1,009)	(1,225)
Comprehensive income	(223)	(381)
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	(158)	(269)
Comprehensive income attributable to non-controlling interests	(65)	(112)

(3) Consolidated statements of cash flows

Unit: Millions of yen

	Three months ended June 30, 2018	Three months ended June 30, 2019
Cash flows from operating activities		
Income before income taxes	1,402	1,237
Depreciation	1,105	1,240
Amortization of goodwill	287	224
Loss (gain) on sales of non-current assets	(0)	99
Loss on retirement of non-current assets	1	2
Increase (decrease) in provisions	(4)	(36)
Increase (decrease) in allowance for doubtful accounts	(12)	(16)
Increase (decrease) in retirement benefit liability	(18)	(43)
Interest and dividend income	(28)	(40)
Interest expenses	32	45
Foreign exchange losses (gains)	174	(10)
Decrease (increase) in trade receivables	1,013	1,155
Decrease (increase) in inventories	(532)	(322)
Increase (decrease) in trade payables	126	(534)
Increase (decrease) in accounts payable - other	(367)	(272)
Other, net	(476)	(13)
Subtotal	2,703	2,715
Interest and dividends received	28	40
Interest paid	(32)	(45)
Income taxes paid	(945)	(1,832)
Payments for business restructuring	(110)	(21)
Net cash provided by (used in) operating activities	1,642	857
Cash flows from investing activities		
Proceeds from withdrawal of time deposits	33	–
Purchase of property, plant and equipment	(1,250)	(772)
Proceeds from sales of property, plant and equipment and intangible assets	22	21
Purchase of intangible assets	(166)	(90)
Other, net	(56)	(16)
Net cash provided by (used in) investing activities	(1,417)	(857)
Cash flows from financing activities		
Net increase (decrease) in short-term borrowings	(876)	2,171
Proceeds from long-term borrowings	228	–
Repayments of long-term borrowings	(69)	(7)
Repayments of lease obligations	(221)	(180)
Dividends paid	(1,086)	(1,152)
Other, net	0	(0)
Net cash provided by (used in) financing activities	(2,025)	830
Effect of exchange rate change on cash and cash equivalents	(135)	(257)
Net increase (decrease) in cash and cash equivalents	(1,935)	572
Cash and cash equivalents at beginning of period	16,026	16,430
Increase in cash and cash equivalents resulting from inclusion of subsidiaries in consolidation	–	76
Cash and cash equivalents at end of period	14,090	17,079

(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)

Not Applicable

(Changes in accounting policies)

(Adoption of IFRS 16 “Leases”)

The Group’s subsidiaries using IFRS have adopted the new leases standard IFRS 16, effective from the first quarter. This requires lessees to recognize assets and liabilities for, in principle, all leases on the balance sheet. Out of the two recognized IFRS 16 transition approaches, the Group uses the modified retrospective approach whereby the cumulative effect of initially applying the new leases standard is recognized as an adjustment to equity at the date of initial application.

As of the end of the first quarter, upward adjustments have been made to items of property, plant and equipment (¥225 million under “Machinery, equipment and vehicles” and ¥664 million under “Other, net”), intangible assets (¥3 million under “Other”), and non-current liabilities (¥892 million under “Other”). The impact of this change on the consolidated statements of income for the first three months was minimal.

(Segment information)

I. Three months ended June 30, 2018 (from April 1, 2018 to June 30, 2018)

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

Unit: Millions of yen

	Auto-ID solutions business (Japan)	Auto-ID solutions business (Overseas)	IDP business	Total
Net sales				
External customer sales	17,081	10,910	125	28,118
Intersegment sales and transfer	2,007	1,866	16	3,890
Total	19,089	12,776	142	32,008
Segment profit (loss)	1,224	553	(303)	1,473

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	1,473
Intersegment eliminations	0
Adjustment of inventories	(0)
Operating income on the consolidated statements of income	1,473

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, 2019 (from April 1, 2019 to June 30, 2019)

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

Unit: Millions of yen

	Auto-ID solutions business (Japan)	Auto-ID solutions business (Overseas)	IDP business	Total
Net sales				
External customer sales	17,495	10,867	100	28,463
Intersegment sales and transfer	1,329	5,567	-	6,896
Total	18,824	16,434	100	35,359
Segment profit (loss)	1,318	560	(394)	1,484

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	1,484
Intersegment eliminations	0
Adjustment of inventories	29
Operating income on the consolidated statements of income	1,514

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