

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

February 7, 2020

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
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Scheduled submission date for quarterly securities report: February 14, 2020
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 nine months of the fiscal year ending March 31, 2020 (from April 1, 2019 to December 31, 2019)

(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, 2019	87,803	1.2	5,645	3.7	5,362	5.1
December 31, 2018	86,761	2.1	5,444	16.4	5,104	16.5

(Note) Comprehensive income: Nine months ended December 31, 2019: ¥3,489 million (176.5%)
Nine months ended December 31, 2018: ¥1,261 million (-74.1%)

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, 2019	4,157	35.0	123.84	123.76
December 31, 2018	3,078	(13.7)	91.74	91.66

(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, 2019	109,588	57,966	51.6	1,684.26
March 31, 2019	107,574	56,668	51.5	1,649.86

(N.B.) Total equity:

As of December 31, 2019: ¥56,556 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	–	36.00	–		
March 31, 2020 (Forecast)				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)	%	(Yen)
Annual	118,000	1.6	7,800	1.6	7,400	(2.9)	5,000	32.5	148.95

(Note) Revisions of consolidated forecasts most recently announced: Yes

*** Notes**

- (1) Changes in significant subsidiaries during the first nine 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
- (4) Number of issued shares (common shares)
 - 1) Number of issued shares at the end of term (including treasury shares):

As of December 31, 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 December 31, 2019:	1,341,880 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 nine months):

Nine months ended December 31, 2019:	33,568,407 shares
Nine months ended December 31, 2018:	33,555,570 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 5 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 Nine 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 nine months to produce increased revenues and profits for our auto-ID solutions business. Meanwhile, we also continue to make upfront R&D investments to grow our IDP business strategically.

As a result, the SATO Group posted net sales of ¥87,803 million (up 1.2% from the same period of the previous fiscal year), operating income of ¥5,645 million (up 3.7%), ordinary income of ¥5,362 million (up 5.1%), and net income attributable to owners of parent of ¥4,157 million (up 35.0%). In this first nine months, the Group also recorded extraordinary income of ¥821 million from the sale of non-current assets.

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 results. This approach helped boost business deals for solutions, driving a marked growth in mechatronics sales (mainly printers and software) in particular. The ongoing US–China trade tensions, together with Japan's recent sales tax hike and spate of natural disasters, have taken a hit on domestic consumption to affect food and some manufacturing industries, causing our consumables sales to decrease year on year. Operating income, on the other hand, increased thanks to a better product mix and progress in ongoing cost reductions.

In Japan, labor shortages across almost all industries are creating prominent needs for raising on-site productivity, visibility, regulatory compliance, and automation, leading to an uptick in the number of sales leads for our auto-ID solutions business. Going forward, we aim to strengthen our ability to propose solutions for the increasingly sophisticated challenges of our customers to grow business stably.

Under these circumstances, net sales increased 2.6% to ¥54,782 million, and operating

income increased 1.9% to ¥4,782 million, compared with the same period of the previous fiscal year.

<Auto-ID solutions business (Overseas)>

Overseas, both local-currency sales and operating income increased year on year although the former translated into a decrease on the yen basis due to adverse foreign currency effects.

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 perform steadily 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 and Oceania caused by the slowdown in China-related business.

For our companies specializing in primary labels, sales increased while operating income decreased overall, largely attributed to Russia's Okil-Holding that recorded more revenue from its efforts in boosting new orders but less profits due to rising raw material costs and foreign currency impact, among other factors.

Under these circumstances, net sales decreased 0.9% to ¥32,725 million (increase of 4.5%, excluding foreign currency effects), and operating income increased 1.8% to ¥1,928 million, compared with the same period of the previous fiscal year.

<IDP business>

For our business centering on the Inline Digital Printing (IDP) technology that we own after fully acquiring UK-based DataLase in January 2017, R&D costs have been recorded in the form of upfront investments for the technology.

As SATO seeks to develop B2B2C solutions business, we see 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 rollout in FY 2019 and achieve operating profitability from FY 2020 onwards.

Under these circumstances, net sales decreased 14.9% to ¥294 million (decrease of 9.9%, excluding foreign currency effects), and an operating loss of ¥1,055 million was incurred, compared with that of ¥1,013 million for the same period of the previous fiscal year.

(2) Explanation of financial position

Total assets at the end of the third quarter were ¥109,588 million, an increase of ¥2,014 million compared with the end of the previous fiscal year. This was primarily the result of an increase in property, plant and equipment.

Net assets were ¥57,966 million, a ¥1,297 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 and decrease in foreign currency translation adjustment.

Cash flows

At the end of the third quarter, cash and cash equivalents stood at ¥18,550 million, an increase of ¥2,120 million compared with the end of the previous fiscal year.

Cash flows from operating activities

Net cash provided by operating activities amounted to ¥8,004 million, an increase of 21.9% compared with the same period of the previous fiscal year.

This resulted primarily from cash inflows including ¥5,993 million of income before income taxes, a ¥678 million increase in trade payables and ¥3,794 million for depreciation, and cash outflows including a ¥642 million increase in inventories and ¥2,915 million of income taxes paid.

Cash flows from investing activities

Net cash used in investing activities amounted to ¥1,866 million, a decrease of 43.7%, compared with the same period of the previous fiscal year.

This resulted primarily from expenditures of ¥2,316 million for the purchase of property, plant and equipment and ¥675 million for the purchase of intangible assets, notwithstanding ¥1,151 million proceeds from sales of property, plant and equipment and intangible assets.

Cash flows from financing activities

Net cash used in financing activities amounted to ¥3,936 million, an increase of 17.7%, compared with the same period of the previous fiscal year.

This resulted primarily from cash outflows including ¥970 million for repayments of long-term borrowings and ¥2,388 million of dividends paid.

(3) Explanation of consolidated forecasts and other projections

As US–China trade tensions slow down China-related business to impact some manufacturing industries in Japan, we are seeing a prolonged slump in demand for consumables products that is taking longer than expected to recover. Consumer spending is also sluggish after Japan’s recent sales tax hike and spate of natural disasters. In light of these prevailing circumstances, we have revised downward our full-year forecasts announced on November 1, 2019 as follows.

Consolidated forecasts for the fiscal year ending March 31, 2020

Net sales	¥118,000 million	(previous forecast ¥120,000 million)
Operating income	¥7,800 million	(previous forecast ¥8,500 million)
Ordinary income	¥7,400 million	(previous forecast ¥8,100 million)
Net income attributable to owners of parent	¥5,000 million	(previous forecast ¥5,900 million)

The foreign exchange rates assumed in the above forecast are US\$1 = ¥108 and €1 = ¥120.

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 materially from the consolidated forecasts due to various factors.

2. Consolidated Financial Statements and Significant Notes Thereto

(1) Consolidated balance sheets

Unit: Millions of yen

	March 31, 2019	December 31, 2019
Assets		
Current assets		
Cash and deposits	16,800	18,938
Notes and accounts receivable - trade	25,522	25,445
Securities	37	36
Merchandise and finished goods	9,421	9,717
Work in process	531	465
Raw materials and supplies	3,501	3,822
Other	3,705	4,148
Allowance for doubtful accounts	(153)	(167)
Total current assets	59,367	62,406
Non-current assets		
Property, plant and equipment		
Machinery, equipment and vehicles, net	11,852	11,715
Land	6,135	6,093
Other, net	12,732	14,277
Total property, plant and equipment	30,720	32,086
Intangible assets		
Goodwill	8,059	7,340
Other	3,874	3,169
Total intangible assets	11,933	10,510
Investments and other assets	5,552	4,585
Total non-current assets	48,206	47,181
Total assets	107,574	109,588
Liabilities		
Current liabilities		
Notes and accounts payable - trade	7,304	7,937
Electronically recorded obligations - operating	11,650	11,689
Short-term borrowings	4,209	4,088
Accounts payable - other	2,835	2,825
Income taxes payable	2,059	812
Provisions	986	1,032
Other	7,857	9,207
Total current liabilities	36,904	37,593
Non-current liabilities		
Long-term borrowings	7,572	6,853
Retirement benefit liability	1,843	1,768
Other	4,583	5,405
Total non-current liabilities	14,000	14,027
Total liabilities	50,905	51,621

Unit: Millions of yen

	March 31, 2019	December 31, 2019
Net assets		
Shareholders' equity		
Share capital	8,468	8,468
Capital surplus	7,737	7,750
Retained earnings	42,624	44,384
Treasury shares	(2,584)	(2,552)
Total shareholders' equity	56,245	58,051
Accumulated other comprehensive income		
Foreign currency translation adjustment	(700)	(1,382)
Remeasurements of defined benefit plans	(169)	(112)
Total accumulated other comprehensive income	(870)	(1,494)
Share acquisition rights	57	39
Non-controlling interests	1,235	1,370
Total net assets	56,668	57,966
Total liabilities and net assets	107,574	109,588

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

Unit: Millions of yen

	Nine months ended December 31, 2018	Nine months ended December 31, 2019
Net sales	86,761	87,803
Cost of sales	49,031	49,833
Gross profit	37,730	37,970
Selling, general and administrative expenses	32,286	32,324
Operating income	5,444	5,645
Non-operating income		
Interest income	91	84
Dividend income	26	14
Reversal of allowance for doubtful accounts	57	3
Share of profit of entities accounted for using equity method	2	–
Other	183	122
Total non-operating income	361	223
Non-operating expenses		
Interest expenses	109	145
Foreign exchange losses	397	121
Sales discounts	56	54
Compensation expenses	5	99
Other	132	86
Total non-operating expenses	702	507
Ordinary income	5,104	5,362
Extraordinary income		
Gain on sales of non-current assets	5	821
Total extraordinary income	5	821
Extraordinary losses		
Loss on retirement of non-current assets	27	37
Loss on sales of non-current assets	0	105
Loss on sales of investment securities	–	47
Total extraordinary losses	27	190
Income before income taxes	5,081	5,993
Income taxes - current	1,803	1,430
Income taxes - deferred	216	370
Total income taxes	2,019	1,800
Net income	3,062	4,192
Net income (loss) attributable to non-controlling interests	(16)	35
Net income attributable to owners of parent	3,078	4,157

(Consolidated statements of comprehensive income)

Unit: Millions of yen

	Nine months ended December 31, 2018	Nine months ended December 31, 2019
Net income	3,062	4,192
Other comprehensive income		
Valuation difference on available-for-sale securities	(1)	–
Foreign currency translation adjustment	(1,975)	(759)
Remeasurements of defined benefit plans, net of tax	179	56
Share of other comprehensive income of entities accounted for using equity method	(2)	–
Total other comprehensive income	(1,800)	(702)
Comprehensive income	1,261	3,489
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	1,448	3,532
Comprehensive income attributable to non-controlling interests	(186)	(42)

(3) Consolidated statements of cash flows

Unit: Millions of yen

	Nine months ended December 31, 2018	Nine months ended December 31, 2019
Cash flows from operating activities		
Income before income taxes	5,081	5,993
Depreciation	3,335	3,794
Amortization of goodwill	848	656
Loss (gain) on sales of investment securities	–	47
Loss (gain) on sales of non-current assets	(5)	(715)
Loss on retirement of non-current assets	27	37
Increase (decrease) in provisions	33	(89)
Increase (decrease) in allowance for doubtful accounts	(90)	16
Increase (decrease) in retirement benefit liability	(45)	(19)
Interest and dividend income	(117)	(98)
Interest expenses	109	145
Foreign exchange losses (gains)	367	(61)
Decrease (increase) in trade receivables	(420)	72
Decrease (increase) in inventories	(2,069)	(642)
Increase (decrease) in trade payables	1,278	678
Increase (decrease) in accounts payable - other	(241)	147
Other, net	269	943
Subtotal	8,363	10,904
Interest and dividends received	117	98
Interest paid	(109)	(145)
Income taxes paid	(1,900)	(2,915)
Payments for business restructuring	(146)	(2)
Payments for performance of guarantee obligation	–	(338)
Income taxes refund	242	403
Net cash provided by (used in) operating activities	6,566	8,004
Cash flows from investing activities		
Proceeds from withdrawal of time deposits	33	–
Purchase of property, plant and equipment	(3,029)	(2,316)
Purchase of intangible assets	(399)	(675)
Proceeds from sales of property, plant and equipment and intangible assets	55	1,151
Other, net	25	(25)
Net cash provided by (used in) investing activities	(3,314)	(1,866)
Cash flows from financing activities		
Net increase (decrease) in short-term borrowings	(103)	143
Proceeds from long-term borrowings	229	–
Repayments of long-term borrowings	(611)	(970)
Repayments of lease obligations	(572)	(718)
Dividends paid	(2,286)	(2,388)
Other, net	(0)	(2)
Net cash provided by (used in) financing activities	(3,345)	(3,936)
Effect of exchange rate change on cash and cash equivalents	(229)	(157)
Net increase (decrease) in cash and cash equivalents	(322)	2,043
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	15,703	18,550

(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 third quarter, upward adjustments have been made to items of property, plant and equipment (¥413 million under “Machinery, equipment and vehicles” and ¥903 million under “Other, net”), intangible assets (¥171 million under “Other”), current liabilities (¥436 million under “Other”), and non-current liabilities (¥910 million under “Other”). The impact of this change on the consolidated statements of income for the first nine months was minimal.

(Segment information)

I. Nine months ended December 31, 2018 (from April 1, 2018 to December 31, 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	53,397	33,017	346	86,761
Intersegment sales and transfer	5,326	16,719	48	22,095
Total	58,724	49,737	395	108,856
Segment profit (loss)	4,691	1,894	(1,013)	5,572

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

Unit: Millions of yen

Profit	Amount
Reportable segments total	5,572
Intersegment eliminations	0
Adjustment of inventories	(128)
Operating income on the consolidated statements of income	5,444

3. Matters related to changes in reportable segments

Not Applicable

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

Not Applicable

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

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

Unit: Millions of yen

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

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

Unit: Millions of yen

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

3. Matters related to changes in reportable segments

Not Applicable

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

Not Applicable