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

November 10, 2021

SATO HOLDINGS CORPORATION

Company code: 6287
Website: www.sato-global.com
Shares traded on: TSE1
Executive position of legal representative: Ryutaro Kotaki, Representative Director, President and CEO
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Scheduled submission date for quarterly securities report: November 12, 2021
Commencement date of dividend payments: December 13, 2021
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, 2022 (from April 1, 2021 to September 30, 2021)

(1) Consolidated financial results (cumulative)

(Percentage figures show year-on-year change)

	Net sales		Operating income		Ordinary income	
Six months ended	Millions of yen	%	Millions of yen	%	Millions of yen	%
September 30, 2021	60,261	20.8	2,779	89.0	2,695	118.8
September 30, 2020	49,872	(13.8)	1,470	(58.5)	1,231	(61.9)

(Note) Comprehensive income: Six months ended September 30, 2021: ¥2,542 million (-20.8%)
Six months ended September 30, 2020: ¥3,211 million (390.8%)

	Net income attributable to owners of parent		Basic earnings per share	Diluted earnings per share
Six months ended	Millions of yen	%	Yen	Yen
September 30, 2021	1,848	(43.1)	54.97	54.94
September 30, 2020	3,249	12.8	96.77	96.73

(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, 2021	111,994	60,925	53.2	1,769.72
March 31, 2021	109,312	59,462	53.3	1,735.04

(Note) Total equity:

As of September 30, 2021: ¥59,591 million As of March 31, 2021: ¥58,274 million

2. Dividends

	Annual dividend per share				
	First quarter	Second quarter	Third quarter	Year-end	Total
Fiscal year ended/ending	Yen	Yen	Yen	Yen	Yen
March 31, 2021	–	35.00	–	35.00	70.00
March 31, 2022	–	35.00			
March 31, 2022 (Forecast)			–	35.00	70.00

(Note) Revision to recently announced dividend forecast: None

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

(Percentage figures show year-on-year change)

	Net sales		Operating income		Ordinary income		Net income attributable to owners of parent		Basic earnings per share
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%	Yen
Full year	122,000	11.9	6,400	9.4	6,200	12.3	4,000	(69.1)	119.09

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

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

As of September 30, 2021:	1,248,137 shares
As of March 31, 2021:	1,334,350 shares

3) Average number of shares during the term (cumulative from the beginning of the fiscal year to the end of the first six months):

Six months ended September 30, 2021:	33,635,978 shares
Six months ended September 30, 2020:	33,586,065 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 pursues management principles, growth strategies and business targets under its three-year Medium-term Management Plan (FY 2021–2023), taking into account recent business circumstances, surrounding changes and company performance in the current fiscal year.

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

In the first six months of this fiscal year, sales and operating income increased year on year as demand from existing customers continued on the recovery trend for our domestic and overseas businesses amid our efforts to build up pipeline deals and offer more new industry-specific solutions with a focus on markets/industries that remain resilient during the COVID-19 pandemic.

As a result, the SATO Group posted net sales of ¥60,261 million (up 20.8% compared with the same period of the previous fiscal year), operating income of ¥2,779 million (up 89.0%), ordinary income of ¥2,695 million (up 118.8%), and net income attributable to owners of parent of ¥1,848 million (down 43.1%).

Performance by segment is as follows.

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

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

As for sales by market, our performance in retail, logistics and the public sector has recovered to match or exceed pre-pandemic levels. Sales from the manufacturing sector, however, is expected to take longer to rebound as only a few industries including electronic components are doing well while others continue to hold back on investment and discretionary spending. The manufacturing sector accounts for the largest share of our domestic sales.

Operating income ratio, on the other hand, decreased by 0.1 percentage point year on year. This is due to growth investments we made under the Medium-term Management Plan, resumption of normal operating expenses, and higher shipping costs for mechatronics products. Our strategy to further expand sales with pandemic-resilient industries also led to a temporary change in product mix whereby more deals for mechatronics products were closed but at slightly lower gross profit margin.

Under these circumstances, net sales increased 10.3% to ¥34,977 million, and operating income increased 4.8% to ¥888 million, compared with the same period of the previous fiscal year.

<Auto-ID solutions (Overseas)>
First-half sales and operating income both reached record highs, with the operating income ratio improving by 3.2 percentage points from the same period a year ago to 7.4%.

For our base business in the Americas and Europe, consumables sales rose significantly, backed by the growing demand of existing customers, particularly from retail, one of our focal markets. In Asia and Oceania, sales and operating income increased in each region, with our business going strong in the manufacturing sector (also our focal market), particularly in automotive, electrical equipment and electronic component manufacturing. While second-quarter sales and operating income both increased year on year, the rise in the latter was only marginal as our base business faced constraints on printer supply (mainly due to shortage of product components) and surging raw material costs for consumables.

Our companies specializing in primary labels increased both sales and operating income amid continued steady demand from industries that provide essentials for everyday living such as food, beverages and sanitary supplies. On a quarterly basis, however, operating income declined year on year owing primarily to the impact of higher raw material costs.

Under these circumstances, net sales increased 40.4% to ¥25,284 million (increase of 34.1%, excluding foreign currency effects), and operating income increased 146.2% to ¥1,873 million, compared with the same period of the previous fiscal year.

(2) Explanation of financial position

Total assets at the end of the second quarter were ¥111,994 million, an increase of ¥2,681 million from the end of the previous fiscal year. This was primarily due to increase in inventories.

Net assets were ¥60,925 million, a ¥1,463 million increase from the end of the previous fiscal year, mainly due to the recording of net income attributable to owners of parent and increase in foreign currency translation adjustment, notwithstanding the payment of dividends.

Cash flows

At the end of the second quarter, cash and cash equivalents stood at ¥21,249 million, a decrease of ¥1,330 million from the end of the previous fiscal year.

Cash flows from operating activities

Cash flow from operating activities was positive at ¥2,426 million.

This resulted primarily from cash inflows including ¥2,619 million of income before income taxes, ¥2,076 million depreciation and amortization, and a ¥1,675 million increase in trade payables, and cash outflows including a ¥3,091 million increase in inventories and ¥843 million income taxes paid.

Cash flows from investing activities

Cash flow from investment activities was negative at ¥1,792 million.

This resulted primarily from expenditures of ¥1,300 million and ¥581 million respectively for the purchase of property, plant and equipment and intangible assets.

Cash flows from financing activities

Cash flow from financing activities was negative at ¥1,982 million.

This resulted primarily from cash outflows including ¥1,181 million dividends paid and ¥687 million repayment of lease obligations.

(3) Explanation of consolidated forecasts and other projections

Considering the Group's operating results for the first six months and current business environment, we have revised our consolidated forecasts for the full fiscal year as follows.

This involves raising our net sales guidance in view of the strong demand in Japan and overseas that is expected to continue from the first half of the year into the second half. We have kept our profit expectations unchanged, however, considering global rising trends in manufacturing and shipping costs caused by higher prices of product components/raw materials (such as semiconductors and base paper) and capacity-constrained supply chains.

Consolidated forecasts for the fiscal year ending March 31, 2022

Net sales	¥122,000 million	(previous forecast ¥117,000 million)
Operating income	¥6,400 million	(no change)
Ordinary income	¥6,200 million	(no change)
Net income attributable to owners of parent	¥4,000 million	(no change)

The foreign exchange rates assumed in the above forecasts are US$1 = ¥110 and €1 = ¥131.

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, 2021	As of September 30, 2021
Assets		
Current assets		
Cash and deposits	32,998	31,680
Notes and accounts receivable - trade	24,878	–
Notes and accounts receivable - trade, and contract assets	–	24,483
Securities	39	39
Merchandise and finished goods	8,722	9,146
Work in process	394	521
Raw materials and supplies	3,956	6,672
Other	3,889	4,447
Allowance for doubtful accounts	(236)	(272)
Total current assets	74,641	76,719
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	10,887	11,243
Machinery, equipment and vehicles, net	10,562	10,478
Land	3,600	3,666
Other, net	2,256	2,698
Total property, plant and equipment	27,306	28,086
Intangible assets		
Goodwill	600	514
Other	2,756	2,584
Total intangible assets	3,356	3,098
Investments and other assets	4,007	4,089
Total non-current assets	34,671	35,275
Total assets	109,312	111,994
Liabilities		
Current liabilities		
Notes and accounts payable - trade	7,569	8,347
Electronically recorded obligations - operating	10,171	10,912
Short-term borrowings	3,588	3,502
Accounts payable - other	3,080	2,856
Income taxes payable	1,096	649
Provisions	1,285	467
Other	10,195	11,366
Total current liabilities	36,988	38,103
Non-current liabilities		
Long-term borrowings	6,515	6,474
Retirement benefit liability	1,193	1,184
Other	5,153	5,306
Total non-current liabilities	12,862	12,965
Total liabilities	49,850	51,068

Unit: Millions of yen

	As of March 31, 2021	As of September 30, 2021
Net assets		
Shareholders’ equity		
Share capital	8,468	8,468
Capital surplus	7,740	7,765
Retained earnings	48,974	49,493
Treasury shares	(2,537)	(2,345)
Total shareholders’ equity	62,646	63,382
Accumulated other comprehensive income		
Foreign currency translation adjustment	(2,359)	(1,959)
Remeasurements of defined benefit plans	(2,012)	(1,830)
Total accumulated other comprehensive income	(4,372)	(3,790)
Share acquisition rights	28	28
Non-controlling interests	1,159	1,304
Total net assets	59,462	60,925
Total liabilities and net assets	109,312	111,994

(2) Consolidated statements of (comprehensive) income

Consolidated statements of income

Unit: Millions of yen

	Six months ended September 30, 2020	Six months ended September 30, 2021
Net sales	49,872	60,261
Cost of sales	29,017	35,707
Gross profit	20,855	24,554
Selling, general and administrative expenses	19,384	21,774
Operating income	1,470	2,779
Non-operating income		
Interest income	37	37
Dividend income	–	20
Reversal of allowance for doubtful accounts	89	–
Other	82	63
Total non-operating income	209	121
Non-operating expenses		
Interest expenses	123	80
Foreign exchange losses	231	41
Sales discounts	24	–
Compensation expenses	2	45
Other	66	37
Total non-operating expenses	447	205
Ordinary income	1,231	2,695
Extraordinary income		
Gain on sale of non-current assets	1	15
Total extraordinary income	1	15
Extraordinary losses		
Loss on retirement of non-current assets	1	11
Loss on sale of non-current assets	9	10
Loss on sale of businesses	756	–
Loss on business restructuring	–	69
Total extraordinary losses	768	91
Income before income taxes	465	2,619
Income taxes - current	346	648
Income taxes - deferred	(3,138)	25
Total income taxes	(2,792)	673
Net income	3,258	1,945
Net income attributable to non-controlling interests	8	96
Net income attributable to owners of parent	3,249	1,848

Consolidated statements of comprehensive income

Unit: Millions of yen

	Six months ended September 30, 2020	Six months ended September 30, 2021
Net income	3,258	1,945
Other comprehensive income		
Foreign currency translation adjustment	(72)	415
Remeasurements of defined benefit plans, net of tax	26	181
Total other comprehensive income	(46)	597
Comprehensive income	3,211	2,542
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	3,232	2,430
Comprehensive income attributable to non-controlling interests	(20)	111

(3) Consolidated statements of cash flows

Unit: Millions of yen

	Six months ended September 30, 2020	Six months ended September 30, 2021
Cash flows from operating activities		
Income before income taxes	465	2,619
Depreciation and amortization	2,066	2,076
Amortization of goodwill	113	117
Loss (gain) on sale of businesses	756	–
Loss (gain) on sale of non-current assets	8	(4)
Loss on retirement of non-current assets	1	11
Loss on business restructuring	–	69
Increase (decrease) in provisions	51	85
Increase (decrease) in allowance for doubtful accounts	(296)	35
Increase (decrease) in retirement benefit liability	36	111
Interest and dividend income	(37)	(57)
Interest expenses	123	80
Foreign exchange losses (gains)	335	(49)
Decrease (increase) in trade receivables	3,272	–
Decrease (increase) in trade receivables and contract assets	–	448
Decrease (increase) in inventories	(242)	(3,091)
Increase (decrease) in trade payables	(3,576)	1,675
Increase (decrease) in accounts payable - other	(432)	(226)
Other, net	187	(333)
Subtotal	2,833	3,570
Interest and dividends received	37	57
Interest paid	(123)	(80)
Income taxes paid	(2,965)	(843)
Payments for business restructuring	(5)	(278)
Income taxes refund	1,982	–
Net cash provided by (used in) operating activities	1,757	2,426
Cash flows from investing activities		
Purchase of property, plant and equipment	(1,023)	(1,300)
Proceeds from sale of property, plant and equipment and intangible assets	10	17
Purchase of intangible assets	(343)	(581)
Payments for sale of shares of subsidiaries resulting in change in scope of consolidation	(169)	–
Other, net	(39)	72
Net cash provided by (used in) investing activities	(1,566)	(1,792)
Cash flows from financing activities		
Net increase (decrease) in short-term borrowings	(64)	(97)
Repayments of long-term borrowings	(13)	(15)
Repayments of lease obligations	(527)	(687)
Dividends paid	(1,145)	(1,181)
Other, net	(0)	(1)
Net cash provided by (used in) financing activities	(1,751)	(1,982)
Effect of exchange rate change on cash and cash equivalents	16	18
Net increase (decrease) in cash and cash equivalents	(1,543)	(1,330)
Cash and cash equivalents at beginning of period	23,379	22,580
Cash and cash equivalents at end of period	21,835	21,249

(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

Application of tax effect accounting for transition from the consolidated taxation system to the group tax sharing system

As the Company currently applies the consolidated tax return filing system, it is required to assess the recoverability of deferred tax assets under tax effect accounting on the assumption of shifting to the Japanese group relief system. Until the revised PITF No. 5 and No. 7 (Practical Solution on Tentative Treatment of Tax Effect Accounting Under Consolidated Taxation System, Part 1 & 2) are made available, the Company shall base such assessment on rules prior to tax reform, in accordance with paragraph 3 of PITF No. 39 (Practical Solution on the Treatment of Tax Effect Accounting for the Transition from the Consolidated Taxation System to the Group Tax Sharing System) issued by the Accounting Standards Board of Japan (ASBJ) on March 31, 2020.

Changes in accounting policies

Application of Accounting Standard for Revenue Recognition, etc.

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

(1) Revenue recognition related to product and service bundles

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

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

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

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

With the above adjustment, the opening balance of retained earnings decreased by ¥149 million. As of the end of this quarter, raw materials and supplies also increased by ¥775 million while provisions decreased by ¥902 million and other/residual current liabilities increased by ¥1,721 million. Any impact on profit and loss for the first six months was minimal.

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

Application of Accounting Standard for Fair Value Measurement, etc.

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

Segment information

I. Six months ended September 30, 2020 (from April 1, 2020 to September 30, 2020)

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

Unit: Millions of yen

	Auto-ID solutions (Japan)	Auto-ID solutions (Overseas)	IDP	Total
Net sales				
External customer sales	31,722	18,013	136	49,872
Intersegment sales and transfer	2,180	2,952	0	5,132
Total	33,903	20,965	136	55,005
Segment profit (loss)	847	761	(148)	1,460

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	1,460
Intersegment eliminations	0
Adjustment of inventories	9
Operating income on the consolidated statements of income	1,470

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, 2021 (from April 1, 2021 to 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

Application of new accounting standard

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

Change in segment classification

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

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

Not applicable