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

February 8, 2022

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: February 14, 2022
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, 2022 (from April 1, 2021 to December 31, 2021)

(1) Consolidated financial results (cumulative)

(Percentage figures show year-on-year change)

	Net sales		Operating income		Ordinary income	
Nine months ended	Millions of yen	%	Millions of yen	%	Millions of yen	%
December 31, 2021	92,388	16.5	4,743	25.6	4,610	32.9
December 31, 2020	79,271	(9.7)	3,777	(33.1)	3,469	(35.3)

(Note) Comprehensive income: Nine months ended December 31, 2021: ¥4,533 million (-62.4%)
Nine months ended December 31, 2020: ¥12,056 million (245.5%)

	Net income attributable to owners of parent		Basic earnings per share	Diluted earnings per share
Nine months ended	Millions of yen	%	Yen	Yen
December 31, 2021	2,952	(74.6)	87.74	87.71
December 31, 2020	11,604	179.1	345.50	345.37

(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, 2021	115,422	61,733	52.3	1,791.67
March 31, 2021	109,312	59,462	53.3	1,735.04

(Note) Total equity:

As of December 31, 2021: ¥60,331 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: None

*** 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: 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, 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 December 31, 2021:	1,248,265 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 nine months):

Nine months ended December 31, 2021:	33,648,356 shares
Nine months ended December 31, 2020:	33,586,387 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 4) 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 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 nine 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. In the third quarter alone, however, operating income declined against a strong sales showing due to surges in raw material costs (primarily impacting Japan) and costs associated with supply chain disruptions.

As a result, the SATO Group posted net sales of ¥92,388 million (up 16.5% compared with the same period of the previous fiscal year), operating income of ¥4,743 million (up 25.6%), ordinary income of ¥4,610 million (up 32.9%), and net income attributable to owners of parent of ¥2,952 million (down 74.6%, mainly because extraordinary income was recorded last fiscal year from the sale of a real estate property formerly used as our headquarters building).

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 of Auto-ID solutions (Japan) and Auto-ID solutions (Overseas), effective from the first quarter of this fiscal year.

<Auto-ID solutions (Japan)>

Sales increased with almost all markets recovering as expected. In terms of performance by product category, sales of consumables bounced back faster than mechatronics products, coming close to pre-pandemic levels recorded in the same nine-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. For the manufacturing sector, which makes up the largest share of our domestic sales, only a few industries such as electronic components are doing well while others continue to hold back on investment and discretionary spending. Manufacturing sales is expected, therefore, to take longer to recover although the sector continues to contribute to our Japan business and has rebounded the most from a year ago.

Operating income, on the other hand, declined year on year. This is because of rising costs for mechatronics parts and shipping, and because we stepped up R&D expenses and other growth investments under the Medium-term Management Plan.

Under these circumstances, net sales increased 6.5% to ¥53,315 million, and operating income decreased 16.2% to ¥1,690 million, compared with the same period of the previous fiscal year.

<Auto-ID solutions (Overseas)>
Sales and operating income both reached record highs in the nine-month period, as our businesses outside Japan did well to absorb cost surges for raw materials and parts that go into making our consumables and mechatronics products.

For our base business, sales and operating income through nine months increased across all regions, thanks to growing demand from existing customers in the Americas and Europe, particularly in retail (one of our focal markets) and the strong performance of the manufacturing sector (also our focal market) in Asia and Oceania, particularly in automotive, electrical equipment and electronic component manufacturing. While we faced some constraints on printer delivery in the previous quarter, printer sales rose significantly this quarter, and despite the aforementioned cost surges, quarterly sales and operating income were also higher compared with last year.

Our companies specializing in primary labels again reported increases for 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 continued from the previous quarter.

Under these circumstances, net sales increased 34.5% to ¥39,072 million (increase of 27.0%, excluding foreign currency effects), and operating income increased 64.9% to ¥2,975 million, compared with the same period of the previous fiscal year.

(2) Explanation of financial position

Total assets at the end of the third quarter were ¥115,422 million, an increase of ¥6,109 million from the end of the previous fiscal year. This was primarily due to increase in inventories.

Net assets were ¥61,733 million, a ¥2,271 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 third quarter, cash and cash equivalents stood at ¥19,200 million, a decrease of ¥3,379 million from the end of the previous fiscal year.

Cash flows from operating activities

Cash flow from operating activities was positive at ¥2,365 million.

This resulted primarily from cash inflows including ¥4,522 million of income before income taxes, ¥3,166 million depreciation and amortization, and a ¥2,594 million increase in trade payables, and cash outflows including a ¥4,756 million increase in inventories, ¥1,468 million income taxes paid, and a ¥1,462 million increase in trade receivables and contract assets.

Cash flows from investing activities

Cash flow from investing activities was negative at ¥2,634 million.

This resulted primarily from expenditures of ¥1,933 million and ¥881 million respectively for the purchase of property, plant and equipment and intangible assets, notwithstanding ¥149 million proceeds from sale of property, plant and equipment and intangible assets.

Cash flows from financing activities

Cash flow from financing activities was negative at ¥3,452 million.

This resulted primarily from cash outflows including ¥2,356 million dividends paid and ¥1,065 million repayment of lease obligations.

(3) Explanation of consolidated forecasts and other projections

Regarding the consolidated forecasts for the fiscal year ending March 31, 2022, no changes have been made to the forecasts that were announced on November 10, 2021.

2. Consolidated Financial Statements and Significant Notes Thereto

(1) Consolidated balance sheets

Unit: Millions of yen

	As of March 31, 2021	As of December 31, 2021
Assets		
Current assets		
Cash and deposits	32,998	29,649
Notes and accounts receivable - trade	24,878	–
Notes and accounts receivable - trade, and contract assets	–	26,682
Securities	39	39
Merchandise and finished goods	8,722	10,374
Work in process	394	546
Raw materials and supplies	3,956	7,379
Other	3,889	4,498
Allowance for doubtful accounts	(236)	(246)
Total current assets	74,641	78,923
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	10,887	11,712
Machinery, equipment and vehicles, net	10,562	10,919
Land	3,600	3,607
Other, net	2,256	2,895
Total property, plant and equipment	27,306	29,133
Intangible assets		
Goodwill	600	460
Other	2,756	2,809
Total intangible assets	3,356	3,270
Investments and other assets	4,007	4,094
Total non-current assets	34,671	36,498
Total assets	109,312	115,422
Liabilities		
Current liabilities		
Notes and accounts payable - trade	7,569	9,367
Electronically recorded obligations - operating	10,171	11,349
Short-term borrowings	3,588	3,667
Accounts payable - other	3,080	3,402
Income taxes payable	1,096	405
Provisions	1,285	498
Other	10,195	11,553
Total current liabilities	36,988	40,243
Non-current liabilities		
Long-term borrowings	6,515	6,471
Retirement benefit liability	1,193	1,189
Other	5,153	5,783
Total non-current liabilities	12,862	13,444
Total liabilities	49,850	53,688

Unit: Millions of yen

	As of March 31, 2021	As of December 31, 2021
Net assets		
Shareholders’ equity		
Share capital	8,468	8,468
Capital surplus	7,740	7,765
Retained earnings	48,974	49,414
Treasury shares	(2,537)	(2,345)
Total shareholders’ equity	62,646	63,303
Accumulated other comprehensive income		
Foreign currency translation adjustment	(2,359)	(1,139)
Remeasurements of defined benefit plans	(2,012)	(1,832)
Total accumulated other comprehensive income	(4,372)	(2,972)
Share acquisition rights	28	28
Non-controlling interests	1,159	1,373
Total net assets	59,462	61,733
Total liabilities and net assets	109,312	115,422

(2) Consolidated statements of (comprehensive) income

Consolidated statements of income

Unit: Millions of yen

	Nine months ended December 31, 2020	Nine months ended December 31, 2021
Net sales	79,271	92,388
Cost of sales	45,954	55,070
Gross profit	33,316	37,317
Selling, general and administrative expenses	29,538	32,574
Operating income	3,777	4,743
Non-operating income		
Interest income	53	58
Dividend income	0	27
Reversal of allowance for doubtful accounts	89	–
Other	126	104
Total non-operating income	269	190
Non-operating expenses		
Interest expenses	167	122
Foreign exchange losses	230	92
Sales discounts	43	–
Compensation expenses	2	54
Other	133	54
Total non-operating expenses	577	323
Ordinary income	3,469	4,610
Extraordinary income		
Gain on sale of non-current assets	10,448	46
Total extraordinary income	10,448	46
Extraordinary losses		
Loss on retirement of non-current assets	21	11
Loss on sale of non-current assets	12	17
Impairment losses	400	10
Loss on sale of businesses	756	–
Loss on business restructuring	–	93
Total extraordinary losses	1,191	133
Income before income taxes	12,726	4,522
Income taxes - current	770	1,346
Income taxes - deferred	283	96
Total income taxes	1,054	1,443
Net income	11,672	3,079
Net income attributable to non-controlling interests	68	126
Net income attributable to owners of parent	11,604	2,952

Consolidated statements of comprehensive income

Unit: Millions of yen

	Nine months ended December 31, 2020	Nine months ended December 31, 2021
Net income	11,672	3,079
Other comprehensive income		
Foreign currency translation adjustment	311	1,274
Remeasurements of defined benefit plans, net of tax	73	180
Total other comprehensive income	384	1,454
Comprehensive income	12,056	4,533
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	11,971	4,352
Comprehensive income attributable to non-controlling interests	84	180

(3) Consolidated statements of cash flows

Unit: Millions of yen

	Nine months ended December 31, 2020	Nine months ended December 31, 2021
Cash flows from operating activities		
Income before income taxes	12,726	4,522
Depreciation and amortization	3,084	3,166
Amortization of goodwill	168	176
Impairment losses	400	10
Loss (gain) on sale of businesses	756	–
Loss (gain) on sale of non-current assets	(10,435)	(28)
Loss on retirement of non-current assets	21	11
Loss on business restructuring	–	93
Increase (decrease) in provision for bonuses	47	107
Increase (decrease) in allowance for doubtful accounts	(291)	5
Increase (decrease) in retirement benefit liability	98	172
Interest and dividend income	(53)	(85)
Interest expenses	167	122
Foreign exchange losses (gains)	298	(61)
Decrease (increase) in trade receivables	254	–
Decrease (increase) in trade receivables and contract assets	–	(1,462)
Decrease (increase) in inventories	236	(4,756)
Increase (decrease) in trade payables	(1,375)	2,594
Increase (decrease) in accounts payable - other	170	226
Other, net	124	(641)
Subtotal	6,399	4,175
Interest and dividends received	53	85
Interest paid	(167)	(122)
Income taxes paid	(3,122)	(1,468)
Payments for business restructuring	(11)	(304)
Income taxes refund	1,982	–
Net cash provided by (used in) operating activities	5,133	2,365
Cash flows from investing activities		
Purchase of property, plant and equipment	(3,005)	(1,933)
Purchase of intangible assets	(520)	(881)
Proceeds from sale of property, plant and equipment and intangible assets	14,353	149
Payments for sale of shares of subsidiaries resulting in change in scope of consolidation	(169)	–
Other, net	(55)	30
Net cash provided by (used in) investing activities	10,603	(2,634)
Cash flows from financing activities		
Net increase (decrease) in short-term borrowings	(2,657)	(13)
Repayments of long-term borrowings	(20)	(15)
Repayments of lease obligations	(888)	(1,065)
Dividends paid	(2,316)	(2,356)
Other, net	(0)	(1)
Net cash provided by (used in) financing activities	(5,883)	(3,452)
Effect of exchange rate change on cash and cash equivalents	169	341
Net increase (decrease) in cash and cash equivalents	10,023	(3,379)
Cash and cash equivalents at beginning of period	23,379	22,580
Cash and cash equivalents at end of period	33,402	19,200

(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 ¥852 million while provisions decreased by ¥902 million and other/residual current liabilities increased by ¥1,714 million.

Any impact on profit and loss for the first nine 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. Nine months ended December 31, 2020 (from April 1, 2020 to December 31, 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	50,075	29,059	136	79,271
Intersegment sales and transfer	3,480	4,444	0	7,925
Total	53,555	33,504	136	87,196
Segment profit (loss)	2,018	1,804	(148)	3,674

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

Unit: Millions of yen

Profit	Amount
Reportable segments total	3,674
Intersegment eliminations	0
Adjustment of inventories	103
Operating income on the consolidated statements of income	3,777

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 (Japan) segment, the carrying amount of business assets that are planned to be retired has been reduced to their recoverable amount as they are losing profitability to a level incapable of yielding sufficient return on investment, with such reduction amount recorded as impairment loss.

   Accordingly, impairment loss of ¥41 million was recorded in the nine months ended December 31, 2020.

   In the Auto-ID solutions (Overseas) segment, the carrying amount of business assets that are planned to be sold has been reduced to their recoverable amount as they are losing profitability to a level capable of yielding sufficient return on investment, with such reduction amount recorded as impairment loss.

Accordingly, impairment loss of ¥359 million was recorded in the nine months ended December 31, 2020.

II. Nine months ended December 31, 2021 (from April 1, 2021 to 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

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

Significant impairment loss on non-current assets

In the Auto-ID solutions (Overseas) segment, the carrying amount of business assets has been reduced to their recoverable amount as they are losing profitability to a level capable of yielding sufficient return on investment, with such reduction amount recorded as impairment loss.

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