

Consolidated Financial Report for the March 2022 Term

<Under Japanese GAAP>

May 10, 2022

SATO HOLDINGS CORPORATION

Company code: 6287
 Website: www.sato-global.com
 Shares traded on: TSE Prime
 Executive position of legal representative: Ryutaro Kotaki, Representative Director,
 President and CEO
 Please address all communications to: Fusaaki Matsumoto, Executive Officer,
 CFO and CCO
 Phone: +81-3-6628-2423

Date of Ordinary General Meeting of Shareholders: June 17, 2022
 Date of commencement of dividend payments: June 20, 2022
 Scheduled submission date for annual securities report: June 20, 2022
 Supplementary explanatory materials for financial results: Available
 Holding of meeting to explain financial results (for analysts and institutional investors): Yes

1. Consolidated operating results for fiscal 2021 (from April 1, 2021 to March 31, 2022)

(1) Consolidated financial results

(Percentage figures show year-on-year change)

Fiscal year ended	Net sales		Operating income		Ordinary income		Net income attributable to owners of parent	
	(Millions of yen)	%	(Millions of yen)	%	(Millions of yen)	%	(Millions of yen)	%
March 31, 2022	124,783	14.4	6,404	9.5	6,057	9.7	3,794	(70.7)
March 31, 2021	109,052	(6.3)	5,847	(21.6)	5,521	(16.0)	12,959	-

(Note) Comprehensive income: Fiscal year ended March 31, 2022: ¥7,342 million (-43.4%)
 Fiscal year ended March 31, 2021: ¥12,962 million (-%)

Fiscal year ended	Basic earnings per share	Diluted earnings per share	Return on equity ratio	Ratio of ordinary income to total asset	Ratio of operating income to net sales
	(Yen)	(Yen)	(%)	(%)	(%)
March 31, 2022	112.74	112.70	6.3	5.3	5.1
March 31, 2021	385.86	385.72	24.4	5.2	5.4

(2) Consolidated financial position

	Total assets	Net assets	Equity ratio	Net assets per share
As of	(Millions of yen)	(Millions of yen)	(%)	(Yen)
March 31, 2022	120,005	64,508	52.6	1,874.97
March 31, 2021	109,312	59,462	53.3	1,735.04

(Note) Total equity: As of March 31, 2022: ¥63,135 million
As of March 31, 2021: ¥58,274 million

(3) Consolidated cash flows statement

	Net cash provided by (used in) operating activities	Net cash provided by (used in) investing activities	Net cash provided by (used in) financing activities	Cash and cash equivalents at end of period
Fiscal year ended	(Millions of yen)	(Millions of yen)	(Millions of yen)	(Millions of yen)
March 31, 2022	3,302	(3,738)	(3,987)	19,140
March 31, 2021	5,806	(102)	(7,131)	22,580

2. Dividends

	Annual dividend per share					Total dividends paid (total)	Dividend payout ratio (consolidated)	Dividend to net assets (consolidated)
	First quarter	Second quarter	Third quarter	Year-end	Total			
Fiscal year ended/ending	(Yen)	(Yen)	(Yen)	(Yen)	(Yen)	(Millions of yen)	(%)	(%)
March 31, 2021	-	35.00	-	35.00	70.00	2,363	18.1	4.4
March 31, 2022	-	35.00	-	35.00	70.00	2,365	62.1	3.9
March 31, 2023 (Forecast)	-	36.00	-	36.00	72.00		71.3	

3. Consolidated forecasts for fiscal 2022 (from April 1, 2022 to March 31, 2023)

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

	Net sales		Operating income		Ordinary income		Net income attributable to owners of parent		Basic earnings per share
	(Millions of yen)	%	(Millions of yen)	%	(Millions of yen)	%	(Millions of yen)	%	
Six months	57,800	(4.1)	3,000	7.9	2,900	7.6	1,900	2.8	56.43
Full year	119,000	(4.6)	8,000	24.9	7,800	28.8	3,400	(10.4)	100.97

*** Notes**

(1) Changes in subsidiaries during the term (changes resulting in the change in scope of consolidation): None

(2) 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

(3) Number of issued shares (common shares)

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

As of March 31, 2022: 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 March 31, 2022: 1,248,376 shares

As of March 31, 2021: 1,334,350 shares

3) Average number of shares during the term:

Fiscal year ended March 31, 2022: 33,654,401 shares

Fiscal year ended March 31, 2021: 33,586,515 shares

*** Financial reports are not subject to audit 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 page 5 of the attached material for assumptions behind the consolidated forecasts and cautions concerning the use thereof.

Attached Materials

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1. Overview of Financial Performance and Others

(1) Overview of financial performance during fiscal 2021

The SATO Group runs its business based on management principles, growth strategies and business targets set out in its most recent three-year Medium-term Management Plan (FY 2021–2023), with the vision to “be the customer’s most trusted partner for mutual growth, and always essential in an ever-changing world.”

We will develop our auto-ID solutions business globally through tagging — the process of physically attaching information to people and things — for customers operating in diverse markets and industries, so that on-site information can be collected in real time, converted into meaningful data they need, and fed to their core IT systems to produce analyses and insights that aid optimization. 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 fiscal year under review, we achieved consolidated net sales and operating income that were both higher than expected and previous year’s levels, with consolidated net sales hitting an all-time peak. Although we were affected by sudden price surges for raw materials used in our printers/labels and cost increases due to supply chain disruptions, we continued to see recovering demand from existing customers for our domestic and overseas businesses and made efforts to build up pipeline deals through offering 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 ¥124,783 million (up 14.4% from the previous fiscal year), operating income of ¥6,404 million (up 9.5%), ordinary income of ¥6,057 million (up 9.7%), and net income attributable to owners of parent of ¥3,794 million (down 70.7%, 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 Auto-ID solutions (Japan) and Auto-ID solutions (Overseas), effective from this fiscal year.

<Auto-ID solutions (Japan)>

In Japan, sales of consumables products bounced back faster than mechatronics products, exceeding pre-pandemic levels recorded two years ago. Mechatronics sales also increased year on year, but its recovery is taking more time than expected.

Our sales in three sectors — manufacturing, health care and logistics — increased year on year, making it possible for us to achieve overall sales growth. Strong-performing industries such as electronic component manufacturing were our key sales drivers in manufacturing while large-scale deals and the rebound of hospital-related projects contributed to our health care sales. There was also robust demand associated with e-commerce and shortage of logistics workers.

Operating income, on the other hand, declined year on year. This is because of rising raw material costs (for mechatronics and consumables products) and freight charges, and because we stepped up R&D expenses and other growth investments under the Medium-term Management Plan.

Under these circumstances, net sales increased 5.4% to ¥72,287 million, and operating income decreased 26.4% to ¥2,372 million, compared with the previous fiscal year.

<Auto-ID solutions (Overseas)>

Outside Japan, sales and operating income both exceeded our expectations to reach record highs as we accurately captured and addressed market needs and made price adjustments primarily for our consumables products amid cost surges for product parts and raw materials.

For our base business, sales and operating income increased across all regions, driven by demand from focal markets — such as retail sector in the Americas, supermarket and food service sectors in Europe, and manufacturing sector (including automotive, electrical equipment and electronic component manufacturing) in Asia and Oceania — which we captured and met successfully. It also helped that we were able to resolve constraints in printer delivery and switch to higher price settings for consumables products in the second half of the fiscal year.

Our companies specializing in primary labels also reported increases for both sales and operating income through growing their existing businesses based on continued steady demand from industries that provide essentials for everyday living such as food, beverages and sanitary supplies.

Under these circumstances, net sales increased 30.1% to ¥52,496 million (increase of 23.4%, excluding foreign currency effects), and operating income increased 48.2% to ¥3,978 million, compared with the previous fiscal year.

(2) Overview of financial position at the end of fiscal 2021

a. Assets, liabilities and net assets

At the end of the fiscal year under review, the balance of current assets was ¥81,950 million, an increase of ¥7,309 million (from ¥74,641 million recorded at the end of the previous fiscal year). This was primarily the result of increases of ¥2,718 million in merchandise and finished goods and ¥4,456 million in raw materials and supplies. The balance of non-current assets was ¥38,054 million, an increase of ¥3,383 million (from ¥34,671 million at the end of the previous fiscal year). This was primarily due to increases of ¥3,084 million in property, plant and equipment, and ¥399 million in investments and other assets, as well as a decrease of ¥100 million in intangible assets.

The balance of current liabilities was ¥42,071 million, an increase of ¥5,083 million (from ¥36,988 million at the end of the previous fiscal year), primarily due to increases of ¥1,503 million in notes and accounts payable - trade, ¥1,284 million in unearned revenue, and ¥1,625 million in accounts payable - other. The balance of non-current liabilities was ¥13,426 million, an increase of ¥563 million (from ¥12,862 million at the end of the previous fiscal year). This was mainly due to an increase of ¥516 million in lease obligations.

The balance of net assets at the end of the fiscal year under review was ¥64,508 million, an increase of ¥5,045 million (from ¥59,462 million at the end of the previous fiscal year), primarily due to increases of ¥1,281 million in retained earnings and ¥3,037 million in foreign currency translation adjustment (under “Accumulated other comprehensive income”).

(3) Overview of cash flows during fiscal 2021

At the end of the fiscal year under review, cash and cash equivalents stood at ¥19,140 million, a decrease of ¥3,439 million from the end of the previous fiscal year.

Major cash flow-related factors for the year are outlined below.

Cash flows from operating activities

Cash flow from operating activities was positive at ¥3,302 million.

This resulted primarily from cash inflows including ¥5,963 million of income before income taxes, ¥4,220 million depreciation and amortization, and a ¥2,557 million increase in trade payables, and cash outflows including a ¥6,288 million increase in inventories, and a ¥1,633 million increase in trade receivables and contract assets, and ¥1,505 million income taxes paid.

Cash flows from investing activities

Cash flow from investment activities was negative at ¥3,738 million.

This resulted primarily from expenditures of ¥2,550 million and ¥1,203 million respectively for the purchase of property, plant and equipment and intangible assets, notwithstanding ¥150 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 ¥3,987 million.

This resulted primarily from cash outflows including ¥2,362 million dividends paid and ¥1,345 million repayments of lease obligations.

Trend in cash flow indices

Fiscal year ended	March 31, 2019	March 31, 2020	March 31, 2021	March 31, 2022
Equity ratio (%)	51.5	46.3	53.3	52.6
Equity ratio based on market value (%)	81.0	69.1	88.6	48.2
Ratio of cash flow to interest-bearing debt (%)	170.4	163.6	265.7	479.0
Interest-coverage ratio (times)	66.5	60.0	26.4	15.2

(Notes)

The equity ratio is equal to shareholders' equity divided by total assets.

The equity ratio based on market value is equal to total stock market capitalization divided by total assets.

The ratio of cash flow to interest-bearing debt is equal to interest-bearing debts divided by operating cash flow.

The interest-coverage ratio is equal to operating cash flow divided by interest payments.

- * All the above indicators are calculated on a consolidated basis.
- * Total stock market capitalization is calculated by multiplying the closing share price on the final trading day of the fiscal year by the number of issued shares (excluding treasury shares) as of the corresponding fiscal year-end.
- * Operating cash flow equals total net cash flows provided by operating activities as stated in the consolidated statements of cash flows. Interest-bearing debts include all debts on which interest is paid, as stated in the consolidated balance sheets. Interest payments are equal to interest paid as stated in the consolidated statements of cash flows.

(4) Forecasts

As aforementioned, the SATO Group pursues its corporate vision and runs its business based on its most recent three-year Medium-term Management Plan (FY 2021-2023). (Details can be found in the financial results briefing materials for FY 2021 uploaded at the Company's website.)

Regarding our Russia-related business, we are following the Russia-Ukraine situation closely and reviewing a full range of strategic options to adapt our approach for SATO companies in Russia (Okil-Holding, JSC and Okil-SATO X-Pack Co., Ltd) as appropriate in coordination with sanctions and other measures adopted by the international community. In deciding our consolidated forecasts for the new fiscal year (which is also the second year of the Medium-term Management Plan), we have, therefore, excluded the projected earnings of these companies.

Consolidated forecasts for the fiscal year ending March 31, 2023

Net sales	¥119,000 million	(decrease by 4.6% year on year)
Operating income	¥8,000 million	(increase by 24.9% year on year)
Ordinary income	¥7,800 million	(increase by 28.8% year on year)
Net income attributable to owners of parent	¥3,400 million	(decrease by 10.4% year on year)

The foreign exchange rates assumed in the above forecasts are US\$1 = ¥120 and €1 = ¥135.

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. Our Basic Stance regarding Selection of Accounting Standards

The SATO Group chooses to use Japanese GAAP for accounting because Japanese accounting standards are now of high quality and internationally competitive as a result of convergence with international accounting standards and have been accepted to be equivalent to International Financial Reporting Standards (IFRSs) in Europe.

With regard to future adoption of IFRSs, the Group will give due consideration to domestic and international circumstances and take action accordingly.

3. Consolidated Financial Statements and Significant Notes Thereto

(1) Consolidated balance sheets

Unit: Millions of yen

	As of March 31, 2021	As of March 31, 2022
Assets		
Current assets		
Cash and deposits	32,998	29,813
Notes and accounts receivable - trade	24,878	–
Notes and accounts receivable - trade, and contract assets	–	26,688
Securities	39	41
Merchandise and finished goods	8,722	11,441
Work in process	394	564
Raw materials and supplies	3,956	8,413
Accounts receivable - other	1,784	2,177
Other	2,104	3,045
Allowance for doubtful accounts	(236)	(234)
Total current assets	74,641	81,950
Non-current assets		
Property, plant and equipment		
Buildings and structures	18,189	19,760
Accumulated depreciation	(7,301)	(7,295)
Buildings and structures, net	10,887	12,465
Machinery, equipment and vehicles	27,860	29,715
Accumulated depreciation	(17,297)	(18,473)
Machinery, equipment and vehicles, net	10,562	11,241
Tools, furniture and fixtures	6,681	7,300
Accumulated depreciation	(4,834)	(5,274)
Tools, furniture and fixtures, net	1,846	2,026
Land	3,600	3,764
Construction in progress	409	892
Total property, plant and equipment	27,306	30,390
Intangible assets		
Goodwill	600	416
Software	1,750	1,833
Other	1,006	1,006
Total intangible assets	3,356	3,256
Investments and other assets		
Investment securities	1,192	1,479
Long-term loans receivable	1	0
Guarantee deposits	1,632	1,471
Deferred tax assets	1,011	1,087
Net defined benefit asset	–	45
Other	183	334
Allowance for doubtful accounts	(12)	(12)
Total investments and other assets	4,007	4,407
Total non-current assets	34,671	38,054
Total assets	109,312	120,005

	As of March 31, 2021	As of March 31, 2022
Liabilities		
Current liabilities		
Notes and accounts payable - trade	7,569	9,073
Electronically recorded obligations - operating	10,171	11,571
Short-term borrowings	3,588	3,573
Lease obligations	1,204	1,147
Unearned revenue	5,536	6,820
Accounts payable - other	3,080	4,705
Income taxes payable	1,096	872
Provision for bonuses	340	536
Provision for product warranties	944	43
Other	3,453	3,724
Total current liabilities	36,988	42,071
Non-current liabilities		
Long-term borrowings	6,515	6,454
Lease obligations	4,040	4,557
Retirement benefit liability	1,193	1,227
Provision for share-based remuneration for directors (and other officers)	277	57
Other	836	1,128
Total non-current liabilities	12,862	13,426
Total liabilities	49,850	55,497
Net assets		
Shareholders' equity		
Share capital	8,468	8,468
Capital surplus	7,740	7,765
Retained earnings	48,974	50,256
Treasury shares	(2,537)	(2,345)
Total shareholders' equity	62,646	64,144
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	-	164
Foreign currency translation adjustment	(2,359)	678
Remeasurements of defined benefit plans	(2,012)	(1,851)
Total accumulated other comprehensive income	(4,372)	(1,008)
Share acquisition rights	28	28
Non-controlling interests	1,159	1,343
Total net assets	59,462	64,508
Total liabilities and net assets	109,312	120,005

(2) Consolidated statements of (comprehensive) income

Consolidated statements of income

Unit: Millions of yen

	Fiscal year ended March 31, 2021	Fiscal year ended March 31, 2022
Net sales	109,052	124,783
Cost of sales	63,316	74,385
Gross profit	45,735	50,398
Selling, general and administrative expenses	39,888	43,994
Operating income	5,847	6,404
Non-operating income		
Interest income	75	79
Dividend income	17	60
Purchase discounts	19	18
Rental income	11	11
Reversal of allowance for doubtful accounts	89	–
Other	179	234
Total non-operating income	393	404
Non-operating expenses		
Interest expenses	220	217
Sales discounts	61	–
Foreign exchange losses	227	341
Other	210	192
Total non-operating expenses	719	751
Ordinary income	5,521	6,057
Extraordinary income		
Gain on sale of non-current assets	10,454	49
Total extraordinary income	10,454	49
Extraordinary losses		
Loss on sale of non-current assets	40	18
Loss on retirement of non-current assets	24	13
Impairment losses	448	11
Loss on business restructuring	249	99
Loss on sale of businesses	756	–
Other	–	0
Total extraordinary losses	1,519	143
Income before income taxes	14,457	5,963
Income taxes - current	1,403	1,958
Income taxes - deferred	(10)	47
Total income taxes	1,392	2,006
Net income	13,064	3,956
Net income attributable to non-controlling interests	104	162
Net income attributable to owners of parent	12,959	3,794

Consolidated statements of comprehensive income

Unit: Millions of yen

	Fiscal year ended March 31, 2021	Fiscal year ended March 31, 2022
Net income	13,064	3,956
Other comprehensive income		
Valuation difference on available-for-sale securities	–	164
Foreign currency translation adjustment	1,699	3,059
Remeasurements of defined benefit plans, net of tax	(1,801)	160
Total other comprehensive income	(101)	3,385
Comprehensive income	12,962	7,342
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	12,793	7,157
Comprehensive income attributable to non-controlling interests	168	184

(3) Consolidated statements of changes in equity

Fiscal year ended March 31, 2021

Unit: Millions of yen

	Shareholders' equity				
	Share capital	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance at beginning of period	8,468	7,738	38,345	(2,552)	51,999
Changes during period					
Dividends of surplus			(2,330)		(2,330)
Net income attributable to owners of parent			12,959		12,959
Purchase of treasury shares				(0)	(0)
Disposal of treasury shares		2		15	17
Net changes in items other than shareholders' equity					
Total changes during period	–	2	10,629	15	10,647
Balance at end of period	8,468	7,740	48,974	(2,537)	62,646

	Accumulated other comprehensive income			Share acquisition rights	Non-controlling interests	Total net assets
	Foreign currency translation adjustment	Remeasurements of defined benefit plans	Total accumulated other comprehensive income			
Balance at beginning of period	(3,995)	(211)	(4,206)	39	990	48,823
Changes during period						
Dividends of surplus						(2,330)
Net income attributable to owners of parent						12,959
Purchase of treasury shares						(0)
Disposal of treasury shares						17
Net changes in items other than shareholders' equity	1,635	(1,801)	(165)	(10)	168	(7)
Total changes during period	1,635	(1,801)	(165)	(10)	168	10,639
Balance at end of period	(2,359)	(2,012)	(4,372)	28	1,159	59,462

Fiscal year ended March 31, 2022

Unit: Millions of yen

	Shareholders' equity				
	Share capital	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance at beginning of period	8,468	7,740	48,974	(2,537)	62,646
Cumulative effects of changes in accounting policies			(149)		(149)
Restated balance	8,468	7,740	48,825	(2,537)	62,497
Changes during period					
Dividends of surplus			(2,364)		(2,364)
Net income attributable to owners of parent			3,794		3,794
Purchase of treasury shares				(1)	(1)
Disposal of treasury shares		25		193	219
Net changes in items other than shareholders' equity					
Total changes during period	–	25	1,431	191	1,647
Balance at end of period	8,468	7,765	50,256	(2,345)	64,144

	Accumulated other comprehensive income				Share acquisition rights	Non-controlling interests	Total net assets
	Foreign currency translation adjustment	Remeasurements of defined benefit plans	Valuation difference on available-for-sale securities	Total accumulated other comprehensive income			
Balance at beginning of period	(2,359)	(2,012)	–	(4,372)	28	1,159	59,462
Cumulative effects of changes in accounting policies							(149)
Restated balance	(2,359)	(2,012)	–	(4,372)	28	1,159	59,313
Changes during period							
Dividends of surplus							(2,364)
Net income attributable to owners of parent							3,794
Purchase of treasury shares							(1)
Disposal of treasury shares							219
Net changes in items other than shareholders' equity	3,037	160	164	3,363		184	3,548
Total changes during period	3,037	160	164	3,363	–	184	5,195
Balance at end of period	678	(1,851)	164	(1,008)	28	1,343	64,508

(4) Consolidated statements of cash flows

Unit: Millions of yen

	Fiscal year ended March 31, 2021	Fiscal year ended March 31, 2022
Cash flows from operating activities		
Income before income taxes	14,457	5,963
Depreciation and amortization	4,092	4,220
Amortization of goodwill	223	236
Impairment losses	448	11
Loss (gain) on sale of businesses	756	–
Loss on business restructuring	249	99
Loss (gain) on sale of non-current assets	(10,414)	(30)
Loss on retirement of non-current assets	24	13
Increase (decrease) in allowance for doubtful accounts	(269)	(12)
Increase (decrease) in provision for bonuses	63	164
Increase (decrease) in retirement benefit liability	(2,219)	262
Interest and dividend income	(93)	(140)
Interest expenses	220	217
Foreign exchange losses (gains)	461	332
Decrease (increase) in trade receivables	(598)	–
Decrease (increase) in trade receivables and contract assets	–	(1,633)
Decrease (increase) in inventories	183	(6,288)
Increase (decrease) in accrued consumption taxes	(64)	(812)
Decrease (increase) in accounts receivable - other	74	(371)
Increase (decrease) in trade payables	(867)	2,557
Increase (decrease) in accounts payable - other	221	580
Other, net	544	(172)
Subtotal	7,495	5,197
Interest and dividends received	93	140
Interest paid	(220)	(217)
Payments for business restructuring	(51)	(312)
Income taxes paid	(3,492)	(1,505)
Income taxes refund	1,982	–
Net cash provided by (used in) operating activities	5,806	3,302

Unit: Millions of yen

	Fiscal year ended March 31, 2021	Fiscal year ended March 31, 2022
Cash flows from investing activities		
Purchase of property, plant and equipment	(3,516)	(2,550)
Purchase of intangible assets	(805)	(1,203)
Proceeds from sale of property, plant and equipment and intangible assets	14,369	150
Payments into time deposits	(10,000)	(623)
Proceeds from withdrawal of time deposits	–	422
Payments for sale of shares of subsidiaries resulting in change in scope of consolidation	(169)	–
Other, net	18	65
Net cash provided by (used in) investing activities	(102)	(3,738)
Cash flows from financing activities		
Net increase (decrease) in short-term borrowings	(3,522)	(262)
Repayments of long-term borrowings	(27)	(15)
Repayments of lease obligations	(1,251)	(1,345)
Dividends paid	(2,329)	(2,362)
Other, net	(0)	(1)
Net cash provided by (used in) financing activities	(7,131)	(3,987)
Effect of exchange rate change on cash and cash equivalents	629	983
Net increase (decrease) in cash and cash equivalents	(798)	(3,439)
Cash and cash equivalents at beginning of period	23,379	22,580
Cash and cash equivalents at end of period	22,580	19,140

(5) Notes to consolidated financial statements

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 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 beginning of this fiscal year.

With the above adjustment, the opening balance of retained earnings decreased by ¥149 million. As of the end of this fiscal year, raw materials and supplies increased by ¥855 million, provision for product warranties decreased by ¥902 million, unearned revenue increased by ¥781 million, and other/residual current liabilities increased by ¥855 million.

Any impact on profit and loss for this fiscal year 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 beginning of this fiscal year. 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 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 consolidated financial statements.

Changes in classification of items

Consolidated statements of cash flows

The “Increase (decrease) in accrued consumption taxes” item which was previously included in “Other, net” within cash flows from operating activities is considered to be material in amount and presented in a separate line starting this fiscal year.

Applying this change retrospectively, the ¥479 million reflected in “Other, net” within cash flows from operating activities in the consolidated statements of cash flows for the previous fiscal year has been restated as ¥64 million decrease in accrued consumption taxes and ¥544 million of other, net increase.

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 ASBJ (Accounting Standards Board of Japan) on March 31, 2020.

From the beginning of the new fiscal year, the Company plans to implement accounting treatment and disclosure for corporate and local income taxes and tax effect accounting according to PITF No. 42 (Practical Solution on the Accounting and Disclosure Under the Group Tax Sharing System) issued on August 12, 2021.

Segment information

1. Overview of reportable segments

Reportable segments are constituent units of the Company for which financial information is separately available. These segments have their operating results and allocation of business resources reviewed periodically by the Company's management team.

The SATO Group operates in the auto-ID solutions business, which involves providing one-stop auto-ID solutions for customers' challenges by combining relevant technologies/solutions both inside Japan and overseas to capture data on the movement of people and things at business sites and accurately link such data to IT systems.

This auto-ID solutions business can be further classified as domestic or overseas, as seen from such corresponding strategies set forth in the Company's Medium-term Management Plan.

Accordingly, the Company defines its reportable segments as follows: Auto-ID solutions (Japan) and Auto-ID solutions (Overseas).

Until last fiscal year, the Company also operated the IDP business, making it a reportable segment. Despite working to develop and commercialize IDP multicolor technology in efforts to expand sales, however, technical issues remained, resulting in the postponement of commercialization. This led us to transfer all our shares in DataLase Ltd. (the company responsible for our IDP business) to DataLase Holdings Limited on September 15, 2020, as mentioned earlier. We will now concentrate resources on our core auto-ID solutions business to establish sustainable growth and stable profits.

2. Computation method for net sales, profit or loss, assets, liabilities, and other item amounts by reportable segment

The method of accounting by reportable segment is largely the same as the method of accounting used for the preparation of consolidated financial statements.

The income stated in the reportable segments is a figure based on operating income.

Intersegment income and transfer figures are based on consideration of prevailing market prices.

The Company has applied the Accounting Standard for Revenue Recognition and related guidelines (as described in section 3-(5) "Changes in accounting policies") from the beginning of this fiscal year, and changed its method of measuring profit/loss for business segments accordingly.

Any impact on net sales and profit/loss information by reportable segment was minimal.

3. Information on net sales, profit or loss, assets, liabilities and other item amounts by reportable segment

Fiscal year ended March 31, 2021

Unit: Millions of yen

	Auto-ID solutions (Japan)	Auto-ID solutions (Overseas)	IDP	Total
Net sales				
External customer sales	68,566	40,349	136	109,052
Intersegment sales and transfer	4,938	6,635	-	11,574
Total	73,505	46,985	136	120,626
Segment profit (loss)	3,221	2,684	(148)	5,757
Segment assets	88,658	48,944	47	137,650
Other items				
Depreciation and amortization	2,110	1,951	30	4,092
Increases in property, plant and equipment and intangible assets	4,131	1,773	10	5,916

Fiscal year ended March 31, 2022

Unit: Millions of yen

	Auto-ID solutions (Japan)	Auto-ID solutions (Overseas)	Total
Net sales			
External customer sales	72,287	52,496	124,783
Intersegment sales and transfer	7,289	10,579	17,868
Total	79,576	63,075	142,652
Segment profit (loss)	2,372	3,978	6,350
Segment assets	92,630	58,550	151,181
Other items			
Depreciation and amortization	2,158	2,062	4,220
Increases in property, plant and equipment and intangible assets	3,857	2,800	6,658

4. Differences in net sales and other items between reportable segments total and amount recorded on consolidated financial statements
(Matters related to difference adjustment)

Unit: Millions of yen

Net sales	Fiscal year ended March 31, 2021	Fiscal year ended March 31, 2022
Reportable segments total	120,626	142,652
Intersegment eliminations	(11,574)	(17,868)
Net sales on consolidated statements of income	109,052	124,783

Unit: Millions of yen

Profit	Fiscal year ended March 31, 2021	Fiscal year ended March 31, 2022
Reportable segments total	5,757	6,350
Intersegment eliminations	0	0
Adjustment of inventories	89	53
Operating income on consolidated statements of income	5,847	6,404

Unit: Millions of yen

Assets	As of March 31, 2021	As of March 31, 2022
Reportable segments total	137,650	151,181
Intersegment eliminations	(27,905)	(30,797)
Other adjustment	(431)	(378)
Total assets on consolidated balance sheets	109,312	120,005

Unit: Millions of yen

Other items	Reportable segments total		Adjustment		Amount recorded on consolidated financial statements	
	Fiscal year ended March 31, 2021	Fiscal year ended March 31, 2022	Fiscal year ended March 31, 2021	Fiscal year ended March 31, 2022	Fiscal year ended March 31, 2021	Fiscal year ended March 31, 2022
Depreciation and amortization	4,092	4,220	-	-	4,092	4,220
Increases in property, plant and equipment and intangible assets	5,916	6,658	-	-	5,916	6,658

[Pertinent information]

Fiscal year ended March 31, 2021

1. Information by product or service

Omitted because this information is the same as segment information.

2. Information by region

1) Net sales

Unit: Millions of yen

Japan	Americas	Europe	Asia and Oceania	Total
68,576	12,401	15,028	13,045	109,052

2) Property, plant and equipment

Unit: Millions of yen

Japan	Americas	Europe	Asia and Oceania	Total
12,781	2,030	6,657	5,837	27,306

3. Information by major customers

Omitted because there are no external customers (“external customer sales”) that account for 10% or more of the net sales recorded on the consolidated statements of income.

Fiscal year ended March 31, 2022

1. Information by product or service

Omitted because this information is the same as segment information.

2. Information by region

1) Net sales

Unit: Millions of yen

Japan	Americas	Europe	Asia and Oceania	Total
72,287	16,026	20,375	16,094	124,783

2) Property, plant and equipment

Unit: Millions of yen

Japan	Americas	Europe	Asia and Oceania	Total
14,294	2,701	6,901	6,493	30,390

3. Information by major customers

Omitted because there are no external customers (“external customer sales”) that account for 10% or more of the net sales recorded on the consolidated statements of income.

[Information on impairment loss of non-current assets by reportable segment]

Fiscal year ended March 31, 2021

Unit: Millions of yen

	Auto-ID solutions (Japan)	Auto-ID solutions (Overseas)	IDP	Corporate and eliminations	Total
Impairment loss	41	406	-	-	448

Fiscal year ended March 31, 2022

Unit: Millions of yen

	Auto-ID solutions (Japan)	Auto-ID solutions (Overseas)	Corporate and eliminations	Total
Impairment loss	-	11	-	11

[Information on goodwill amortization and remaining goodwill balance by reportable segment]

Fiscal year ended March 31, 2021

Unit: Millions of yen

	Auto-ID solutions (Japan)	Auto-ID solutions (Overseas)	IDP	Corporate and eliminations	Total
Amortization of goodwill	-	223	-	-	223
Balance at end of period	-	600	-	-	600

Fiscal year ended March 31, 2022

Unit: Millions of yen

	Auto-ID solutions (Japan)	Auto-ID solutions (Overseas)	Corporate and eliminations	Total
Amortization of goodwill	-	236	-	236
Balance at end of period	-	416	-	416

[Information on gain on negative goodwill by reportable segment]

Not applicable

Significant subsequent events

Purchase of treasury shares

At the Company's board of directors meeting held on May 10, 2022, the total amount of shares to be purchased and other details were approved as listed below (in compliance with Article 156 of the Companies Act of Japan, subject to the rules stipulated in Article 165, Paragraph 3 of the same act).

(1) Reason for purchase of treasury shares

To enhance the Company's capital allocation strategy in keeping with changes in the business environment

(2) Details

- (i) Class of shares to be purchased: Common shares
- (ii) Total number of shares to be purchased: Up to 2 million shares
(5.9% of total issued shares, excluding treasury shares)
- (iii) Total purchase amount: Up to ¥2,500 million
- (iv) Period: From May 11, 2022 to March 31, 2023
- (v) Method: Open market purchase through the Tokyo Stock Exchange