

Consolidated Financial Report
for the First Three Months of Fiscal Year Ending March 2023

<Under Japanese GAAP>

August 5, 2022

SATO HOLDINGS CORPORATION

Company code: 6287
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 Shares traded on: TSE Prime
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 Scheduled submission date for quarterly securities report: August 10, 2022
 Commencement date of dividend payments: -
 Supplementary explanatory materials for quarterly results: Available
 Holding of meeting to explain quarterly results: Yes

1. Consolidated operating results for the first three months of the fiscal year ending March 31, 2023 (from April 1, 2022 to June 30, 2022)

(1) Consolidated financial results (cumulative)

(Percentage figures show year-on-year change)

Three months ended	Net sales		Operating income		Ordinary income	
	(Millions of yen)	%	(Millions of yen)	%	(Millions of yen)	%
June 30, 2022	33,686	11.6	824	(51.7)	2,049	24.6
June 30, 2021	30,177	27.6	1,706	342.3	1,644	166.0

(Note) Comprehensive income: Three months ended June 30, 2022: ¥8,162 million (349.1%)
 Three months ended June 30, 2021: ¥1,817 million (90.9%)

Three months ended	Net income attributable to owners of parent		Basic earnings per share	Diluted earnings per share
	(Millions of yen)	%	(Yen)	(Yen)
June 30, 2022	1,195	10.1	35.66	35.65
June 30, 2021	1,085	409.8	32.32	32.31

(2) Consolidated financial position

	Total assets	Net assets	Equity ratio	Net assets per share
As of	(Millions of yen)	(Millions of yen)	(%)	(Yen)
June 30, 2022	129,479	71,031	52.6	2,039.09
March 31, 2022	120,005	64,508	52.6	1,874.97

(Note) Total equity: As of June 30, 2022: ¥68,154 million
As of March 31, 2022: ¥63,135 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, 2022	–	35.00	–	35.00	70.00
March 31, 2023	–				
March 31, 2023 (Forecast)		36.00	–	36.00	72.00

(Note) Revision to recently announced dividend forecast: None

3. Consolidated forecasts for the fiscal year ending March 31, 2023 (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

(Note) Revision to recently announced consolidated forecast: None

*** Notes**

- (1) Changes in subsidiaries during the first three 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: None
 - 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 June 30, 2022:	34,921,242 shares
As of March 31, 2022:	34,921,242 shares
 - 2) Number of treasury shares at the end of term:

As of June 30, 2022:	1,497,172 shares
As of March 31, 2022:	1,248,376 shares
 - 3) Average number of shares during the term (cumulative from the beginning of the fiscal year to the end of the first three months):

Three months ended June 30, 2022:	33,531,635 shares
Three months ended June 30, 2021:	33,598,351 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 Three Months

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

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 of individual worksites and supply chains. We will continue to concentrate resources on this tagging-based business to offer advanced solutions that cover entire supply chains (through capturing and collecting the status and other trackable data of people and things in motion) and help the world run smoothly so as to achieve “Tagging for Sustainability” and contribute toward a better and more sustainable world in the long term. To achieve this, we pursue our growth strategies, focusing on three important pillars: (1) enhance region/market strategies, for us to expand business in the supply chains of our target countries, markets and industries, (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 three months of this fiscal year, we accurately captured and addressed robust market needs for operational visibility and saving labor/manpower to increase sales for both our domestic and overseas businesses amid the long-lasting pandemic, geopolitical risks, economic recession concerns and other uncertainties about inflation and the weakening yen. Operating income decreased on the other hand as the move to adjust our pricing model to cover persistently high operating costs (caused by the price surge for printer parts/label materials and supply chain disruptions) will take some time to present a positive effect on profitability. Lastly, ordinary income and net income attributable to owners of parent increased, mainly due to foreign exchange gains arising from fluctuations in currency exchange rates.

As a result, the SATO Group posted net sales of ¥33,686 million (up 11.6% compared with the same period of the previous fiscal year), operating income of ¥824 million (down 51.7%), ordinary income of ¥2,049 million (up 24.6%), and net income attributable to owners of parent of ¥1,195 million (up 10.1%).

Performance by segment is as follows.

<Auto-ID solutions (Japan)>

In Japan, net sales were flat year on year as sales of consumables products increased thanks to a sustained recovery trend in demand across different markets and industries but sales of mechatronics products decreased due to the closing of less contracts for printer solutions and absence of large-scale deals that were recorded in the previous year.

While some strong-performing manufacturing industries and the health care market drove

sales and aided profits, our operating income was affected by rising costs for printer parts and label materials. And with our growth investments made under the Medium-term Management Plan and additional operating expenses spent on shipping, we recorded operating loss this quarter.

Under these circumstances, net sales increased 0.2% year on year to ¥17,291 million, and an operating loss of ¥8 million was incurred (as opposed to operating income of ¥585 million in the same period of the previous fiscal year).

<Auto-ID solutions (Overseas)>

For our base business overseas, sales increased across all regions while operating income increased only in Europe and not in the other regions. In the Americas, we benefited from steady label demand particularly in the retail sector but were affected by rising label material prices and personnel expenses. In Europe, we saw a strong showing from the supermarket and food service sectors and succeeded in reducing unfilled printer orders thanks to the easing of supply constraints such as component shortages. In Asia and Oceania, our sales subsidiaries in Thailand and some countries grew revenue amid lockdowns in China and its neighboring countries while our production subsidiaries faced cost pressures from higher printer part prices.

For our companies specializing in primary labels, sales increased on account of continued strong demand from industries that provide essentials for everyday living such as food, beverages and sanitary supplies, but operating income was flat year on year primarily due to elevated raw material costs for labels.

Under these circumstances, net sales increased 26.8% to ¥16,394 million (increase of 7.9%, excluding foreign currency effects), and operating income decreased 21.8% to ¥919 million, compared with the same period of the previous fiscal year.

(2) Explanation of financial position

At the end of the first quarter, the balance of current assets was ¥85,526 million, an increase of ¥3,575 million (from ¥81,950 million recorded at the end of the previous fiscal year). This was primarily the result of increases of ¥1,577 million in merchandise and finished goods and ¥2,306 million in raw materials and supplies. The balance of non-current assets was ¥43,953 million, an increase of ¥5,898 million (from ¥38,054 million at the end of the previous fiscal year). This was primarily due to increases of ¥3,129 million in machinery, equipment and vehicles, and ¥2,184 million in buildings and structures, both included in property, plant and equipment.

The balance of current liabilities was ¥47,353 million, an increase of ¥5,281 million (from ¥42,071 million recorded at the end of the previous fiscal year). This was primarily the result of increases of ¥3,630 million in short-term borrowings and ¥1,259 million in electronically recorded obligations - operating. The balance of non-current liabilities was ¥11,095 million, a decrease of ¥2,331 million (from ¥13,426 million at the end of the previous fiscal year), mainly due to a decrease of ¥2,921 million in long-term borrowings.

At the end of the first quarter, the balance of net assets was ¥71,031 million, an increase of ¥6,523 million (from ¥64,508 million recorded at the end of the previous fiscal year), primarily due to an increase of ¥5,669 million in foreign currency translation adjustment included in accumulated other comprehensive income.

Cash flows

At the end of the first quarter, cash and cash equivalents stood at ¥19,975 million, an increase of ¥834 million from the end of the previous fiscal year.

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

Cash flows from operating activities

Cash flow from operating activities was negative at ¥122 million.

This resulted primarily from cash inflows including ¥2,047 million of income before income taxes and a ¥2,948 million decrease in trade receivables and contract assets, and cash outflows including a ¥2,006 million decrease in trade payables, a ¥1,559 million increase in inventories, and ¥1,223 million of foreign exchange gains.

Cash flows from investing activities

Cash flow from investing activities was positive at ¥1,671 million.

This was primarily due to proceeds of ¥3,000 and ¥91 million respectively from withdrawal of time deposits and sale of property, plant and equipment and intangible assets, notwithstanding expenditures of ¥1,198 million and ¥252 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 ¥1,473 million.

This resulted primarily from cash outflows including ¥1,162 million dividends paid and ¥437 million purchase of treasury shares.

(3) Explanation of consolidated forecasts and other projections

No changes have been made to the consolidated forecasts for the fiscal year ending March 31, 2023, which were announced on May 10, 2022.

2. Consolidated Financial Statements and Significant Notes Thereto

(1) Consolidated balance sheets

Unit: Millions of yen

	As of March 31, 2022	As of June 30, 2022
Assets		
Current assets		
Cash and deposits	29,813	27,699
Notes and accounts receivable - trade, and contract assets	26,688	25,401
Securities	41	43
Merchandise and finished goods	11,441	13,018
Work in process	564	685
Raw materials and supplies	8,413	10,719
Accounts receivable - other	2,177	1,794
Other	3,045	6,434
Allowance for doubtful accounts	(234)	(269)
Total current assets	81,950	85,526
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	12,465	14,649
Machinery, equipment and vehicles, net	11,241	14,371
Land	3,764	3,909
Other, net	2,919	2,925
Total property, plant and equipment	30,390	35,856
Intangible assets		
Goodwill	416	540
Other	2,840	3,088
Total intangible assets	3,256	3,629
Investments and other assets	4,407	4,467
Total non-current assets	38,054	43,953
Total assets	120,005	129,479
Liabilities		
Current liabilities		
Notes and accounts payable - trade	9,073	8,205
Electronically recorded obligations - operating	11,571	12,831
Short-term borrowings	3,573	7,204
Contract liabilities	6,820	7,447
Accounts payable - other	4,705	4,106
Income taxes payable	872	402
Provisions	1,276	1,304
Other	4,177	5,852
Total current liabilities	42,071	47,353
Non-current liabilities		
Long-term borrowings	6,454	3,533
Retirement benefit liability	1,227	1,215
Other	5,743	6,347
Total non-current liabilities	13,426	11,095
Total liabilities	55,497	58,448

Unit: Millions of yen

	As of March 31, 2022	As of June 30, 2022
Net assets		
Shareholders' equity		
Share capital	8,468	8,468
Capital surplus	7,765	7,765
Retained earnings	50,256	50,269
Treasury shares	(2,345)	(2,802)
Total shareholders' equity	64,144	63,701
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	164	(32)
Foreign currency translation adjustment	678	6,347
Remeasurements of defined benefit plans	(1,851)	(1,861)
Total accumulated other comprehensive income	(1,008)	4,453
Share acquisition rights	28	28
Non-controlling interests	1,343	2,848
Total net assets	64,508	71,031
Total liabilities and net assets	120,005	129,479

(2) Consolidated statements of (comprehensive) income

Consolidated statements of income

Unit: Millions of yen

	Three months ended June 30, 2021	Three months ended June 30, 2022
Net sales	30,177	33,686
Cost of sales	17,633	21,062
Gross profit	12,544	12,623
Selling, general and administrative expenses	10,838	11,798
Operating income	1,706	824
Non-operating income		
Interest income	19	30
Dividend income	9	41
Foreign exchange gains	–	1,162
Other	21	66
Total non-operating income	50	1,300
Non-operating expenses		
Interest expenses	40	51
Foreign exchange losses	24	–
Compensation expenses	9	0
Other	37	24
Total non-operating expenses	112	76
Ordinary income	1,644	2,049
Extraordinary income		
Gain on sale of non-current assets	3	12
Total extraordinary income	3	12
Extraordinary losses		
Loss on retirement of non-current assets	1	0
Loss on sale of non-current assets	3	11
Loss on business restructuring	47	0
Other	–	2
Total extraordinary losses	51	14
Income before income taxes	1,596	2,047
Income taxes - current	436	496
Income taxes - deferred	19	23
Total income taxes	455	520
Net income	1,140	1,527
Net income attributable to non-controlling interests	54	331
Net income attributable to owners of parent	1,085	1,195

Consolidated statements of comprehensive income

Unit: Millions of yen

	Three months ended June 30, 2021	Three months ended June 30, 2022
Net income	1,140	1,527
Other comprehensive income		
Valuation difference on available-for-sale securities	–	(197)
Foreign currency translation adjustment	579	6,842
Remeasurements of defined benefit plans, net of tax	97	(9)
Total other comprehensive income	677	6,635
Comprehensive income	1,817	8,162
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	1,755	6,658
Comprehensive income attributable to non-controlling interests	62	1,504

(3) Consolidated statements of cash flows

Unit: Millions of yen

	Three months ended June 30, 2021	Three months ended June 30, 2022
Cash flows from operating activities		
Income before income taxes	1,596	2,047
Depreciation and amortization	1,033	1,224
Amortization of goodwill	58	76
Loss (gain) on sale of non-current assets	(0)	(0)
Loss on retirement of non-current assets	1	0
Loss on business restructuring	47	0
Increase (decrease) in provisions	(13)	(105)
Increase (decrease) in allowance for doubtful accounts	0	3
Increase (decrease) in retirement benefit liability	59	(56)
Interest and dividend income	(28)	(71)
Interest expenses	40	51
Foreign exchange losses (gains)	(172)	(1,223)
Decrease (increase) in trade receivables	478	–
Decrease (increase) in trade receivables and contract assets	–	2,948
Decrease (increase) in inventories	(2,024)	(1,559)
Increase (decrease) in trade payables	1,321	(2,006)
Increase (decrease) in accounts payable - other	(77)	60
Other, net	(427)	(721)
Subtotal	1,893	668
Interest and dividends received	28	71
Interest paid	(40)	(51)
Income taxes paid	(760)	(810)
Payments for business restructuring	(255)	(0)
Net cash provided by (used in) operating activities	865	(122)
Cash flows from investing activities		
Purchase of property, plant and equipment	(622)	(1,198)
Purchase of intangible assets	(427)	(252)
Proceeds from sale of property, plant and equipment and intangible assets	11	91
Proceeds from withdrawal of time deposits	–	3,000
Other, net	29	31
Net cash provided by (used in) investing activities	(1,008)	1,671
Cash flows from financing activities		
Net increase (decrease) in short-term borrowings	56	415
Repayments of long-term borrowings	(7)	–
Repayments of lease obligations	(379)	(289)
Dividends paid	(1,163)	(1,162)
Purchase of treasury shares	(0)	(437)
Other, net	–	0
Net cash provided by (used in) financing activities	(1,495)	(1,473)
Effect of exchange rate change on cash and cash equivalents	97	759
Net increase (decrease) in cash and cash equivalents	(1,541)	834
Cash and cash equivalents at beginning of period	22,580	19,140
Cash and cash equivalents at end of period	21,039	19,975

(4) Notes to consolidated financial statements

Additional information

Application of practical solution on the accounting and disclosure under the group tax sharing system

The Company and its consolidated subsidiaries in Japan have transitioned from the consolidated tax return filing system to the group relief system with effect from the first quarter. Following this change, the Company now implements accounting treatment and disclosure for corporate and local income taxes and tax effect accounting according to the PITF No. 42 (Practical Solution on the Accounting and Disclosure Under the Group Tax Sharing System) issued on August 12, 2021. As set out in paragraph 32 (1) of the same PITF, there shall be no impact from any changes in accounting policies made in line with the application of the practical solution.

Segment information

I. Three months ended June 30, 2021 (from April 1, 2021 to June 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	17,248	12,929	30,177
Intersegment sales and transfer	1,570	2,291	3,862
Total	18,819	15,220	34,039
Segment profit (loss)	585	1,175	1,760

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	1,760
Intersegment eliminations	0
Adjustment of inventories	(54)
Operating income on the consolidated statements of income	1,706

3. Matters related to changes in reportable segments

Not applicable

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

Not applicable

II. Three months ended June 30, 2022 (from April 1, 2022 to June 30, 2022)

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	17,291	16,394	33,686
Intersegment sales and transfer	2,373	3,023	5,396
Total	19,664	19,418	39,082
Segment profit (loss)	(8)	919	910

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	910
Intersegment eliminations	0
Adjustment of inventories	(86)
Operating income on the consolidated statements of income	824

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