Consolidated Financial Report
for the First Three Months of the March 2019 Term
<Under Japanese GAAP>

August 3, 2018

SATO HOLDINGS CORPORATION

Company code number:	6287 (URL http://www.sato.co.jp)
Shares traded on:	TSE1
Executive position of legal representative:	Ryutaro Kotaki, President and CEO
Please address all communications to:	Yoichi Abe, Vice President and Chief Financial Officer (CFO) Phone: 03-5745-3414

Scheduled submission date for quarterly securities report:	August 10, 2018
Date of commencement of dividend payments:	-
Supplementary explanatory materials for quarterly results:	Available
Holding of meeting to explain quarterly results:	None

(Millions of yen, with fractional amounts discarded)

1. Consolidated operating results for the first three months of the fiscal year ending March 31, 2019 (from April 1, 2018 to June 30, 2018)

(1) Consolidated financial results (cumulative)

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

	Net sales		Operating income		Ordinary income	
Three months ended	(Millions of yen)	%	(Millions of yen)	%	(Millions of yen)	%
June 30, 2018	28,118	4.9	1,473	73.1	1,403	94.5
June 30, 2017	26,799	5.8	851	(18.7)	721	(15.1)

(Note) Comprehensive income: Three months ended June 30, 2018: ¥(223) million (-%)
Three months ended June 30, 2017: ¥363 million (-%)

	Net income attributable to owners of parent		Basic earnings per share	Diluted earnings per share
Three months ended	(Millions of yen)	%	(Yen)	(Yen)
June 30, 2018	781	131.2	23.29	23.26
June 30, 2017	337	(25.5)	10.08	10.07

(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, 2018	103,846	54,899	51.6	1,597.29
March 31, 2018	106,447	56,225	51.5	1,634.69

(N.B.) Total equity:

As of June 30, 2018: ¥53,586 million As of March 31, 2018: ¥54,805 million

2. Dividends

	Annual dividend per share				
	First quarter	Second quarter	Third quarter	Year-end	Total
	(Yen)	(Yen)	(Yen)	(Yen)	(Yen)
March 31, 2018	–	32.00	–	33.00	65.00
March 31, 2019	–				
March 31, 2019 (Forecast)		35.00	–	35.00	70.00

(Note) Revisions of projected dividends most recently announced: None

3. Consolidated forecasts for the fiscal year ending March 31, 2019 (from April 1, 2018 to March 31, 2019)

(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)
Six months	58,000	5.8	2,800	9.5	2,700	13.9	1,500	(37.8)	44.72
Annual	120,000	5.8	7,300	16.8	7,100	20.6	4,100	0.6	122.24

(Note) Revisions of consolidated forecasts most recently announced: None

*** Notes**

(1) Changes in significant subsidiaries during the first three months (changes in specified subsidiaries resulting in the change in scope of consolidation): None

(2) Application of special accounting for preparing the quarterly consolidated financial statements: None

(3) Changes in accounting policies, changes in accounting estimates, and restatement of prior period financial statements after error corrections

1) Changes in accounting policies due to revisions to accounting standards: 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, 2018:	34,921,242 shares
As of March 31, 2018:	34,921,242 shares

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

As of June 30, 2018:	1,372,942 shares
As of March 31, 2018:	1,394,994 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, 2018:	33,539,368 shares
Three months ended June 30, 2017:	33,527,097 shares

*** Quarterly financial reports are not subject to quarterly reviews conducted by certified public accountants or audit firms.**

*** Explanation about the proper use of consolidated forecasts and other notes**

Forward-looking statements, including the consolidated forecasts stated in these materials, are based on information currently available to the Company and certain assumptions deemed reasonable. Consequently, any statements herein do not constitute assurances regarding actual results by the Company. Results may differ materially from the consolidated forecasts due to various factors. Please refer to page 4 of the attached materials for the suppositions that form the assumptions for consolidated forecasts and cautions concerning the use thereof.

Attached Materials

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1. Qualitative Information Regarding Settlement of Accounts for the First Three Months

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

The SATO Group has formulated a new three-year Medium-term Management Plan (FY2018-FY2020) geared toward the business vision of becoming the leader and most trusted company in the auto-identification solutions industry worldwide, exceeding customer expectations in an ever-changing world. This plan aims to concentrate more resources on the auto-identification solutions business than ever before to realize stronger sustainable growth and stable profits. The Group will particularly focus on the greater potential overseas to develop its auto-identification solutions business globally with the knowledge and knowhow gained from its business in Japan.

Continued efforts in executing the necessary business strategies have paid off in the first three months to produce increased revenues and profits for our auto-identification solutions business, which is going strong in both Japan and overseas. Meanwhile, for our IDP business, R&D costs were recorded in line with plans to invest strategically in the technology as one of our future business pillars.

As a result, the SATO Group recorded an increase in net sales, up 4.9% from the same period of the previous fiscal year to ¥28,118 million, and an increase in operating income, up 73.1% to ¥1,473 million. Ordinary income increased by 94.5% to ¥1,403 million, and net income attributable to owners of parent increased by 131.2% to ¥781 million.

By segment, the SATO Group reported the following.

The Group has renamed its “Materials Business” reporting segment to “IDP Business” from the fiscal year under review as the business would now focus on the development and commercialization of the IDP technology in anticipation of its strong future demand, based on the aforementioned new Medium-term Management Plan. The definition of the segment remains unchanged.

<Auto-Identification Solutions Business (Japan)>

In Japan, the auto-identification solutions business posted growth in mechatronics sales (primarily printers) with a year-on-year increase in consumables sales, thanks to favorable conditions in the external environment and efforts of our sales frontlines in accurately addressing the pain points of customers. As a result, revenue rose year on year for all sectors, with the exception of the public sector which had benefitted from the closing of large-scale deals in the previous year. Our gross profit margin also improved from increased awareness to “sell the solution” and continued cost reductions.

While labor shortages are creating prominent needs for increasing productivity, tracking work, and automating worksites particularly in the manufacturing and logistics sectors, there are also rising needs to comply with new labeling standards in the food and healthcare sectors.

Going forward, we aim to strengthen our ability to propose solutions for increasingly sophisticated challenges at different customer sites to grow this business stably.
Under these circumstances, net sales increased 2.7% to ¥17,081 million, and operating income increased 41.9% to ¥1,224 million, compared to the same period of the previous fiscal year.

<Auto-Identification Solutions Business (Overseas)>
Overseas, the auto-identification solutions business posted higher sales and profits amid moderate recovery in the global economy as a whole. For our companies specializing in primary labels, Russia's Okil-Holding, JSC was able to grow revenue and improve profitability on the back of positive foreign currency effects to contribute toward an overall increase in both sales and profits even as companies in South America generated lower sales and profits under the significant impact of economic stagnation.
Meanwhile, for other overseas companies engaging in our base business, sales and profits increased overall on account of the steady top-line growth in the Americas, Europe, and the Asia and Oceania regions as they made general progress in switching to "Sell the solution, not the product" to improve customers' field operations with solutions involving our strategic CLNX printer series.
Under these circumstances, net sales rose 8.2% to ¥10,910 million (an increase of 10.4%, however, excluding foreign currency effects) and operating income rose 49.8% to ¥553 million, compared to the same period of the previous fiscal year.

<IDP Business>
For the IDP business centering on Inline Digital Printing (IDP), a technology invented and patented by the U.K.'s DataLase Ltd., which we fully acquired in January 2017, an increase in sales was recorded for the already commercialized base business.
As the IDP technology is still in the development phase, R&D costs were also recorded in the form of up-front investment as initially planned. This technology is key to the success of the IDP business for which strong future demand is anticipated, and we are targeting to achieve commercialization and operating profitability in FY 2020.
Under these circumstances, net sales rose 53.2% to ¥125 million (an increase of 47.3%, however, excluding foreign currency effects), and an operating loss of ¥303 million was incurred, compared with an operating loss of ¥319 million for the same period of the previous fiscal year.

(2) Explanation of financial position

Total assets at the end of the first quarter were ¥103,846 million, a decrease of ¥2,601 million compared to the end of the previous fiscal year. This was primarily the result of decreases in cash and deposits, notes and accounts receivable - trade, and intangible assets.

Net assets were ¥54,899 million, a ¥1,326 million decrease from the end of the previous fiscal year, mainly due to the payment of cash dividends, notwithstanding the recording of net income attributable to owners of parent.

Cash flows

At the end of the first quarter, cash and cash equivalents (referred to below as “cash”) stood at ¥14,090 million, a decrease of ¥1,935 million compared to the end of the previous fiscal year.

Cash flows from operating activities

Net cash provided by operating activities amounted to ¥1,642 million, an increase of 317.3% compared to the same period of the previous fiscal year.

This resulted primarily from cash inflows including ¥1,402 million of income before income taxes, ¥1,105 million for depreciation and a ¥1,013 million decrease in notes and accounts receivable - trade, and cash outflows including a ¥532 million increase in inventories and ¥945 million of income taxes paid.

Cash flows from investing activities

Net cash used in investing activities amounted to ¥1,417 million, an increase of 33.0%, compared to the same period of the previous fiscal year.

This resulted primarily from cash outflows including ¥1,250 million for purchase of property, plant, and equipment, and ¥166 million for purchase of intangible assets.

Cash flows from financing activities

Net cash used in financing activities was ¥2,025 million, an increase of 104.9% compared to the same period of the previous fiscal year.

This resulted primarily from cash outflows including ¥1,086 million of cash dividends paid and an ¥876 million decrease in short-term loans payable.

(3) Explanation of consolidated forecasts and other projections

Regarding the consolidated forecasts for the fiscal year ending March 31, 2019, no changes have been made to the forecasts that were announced on May 8, 2018.

2. Consolidated Financial Statements and Significant Notes Thereto

(1) Consolidated balance sheets

Unit: Millions of yen

	March 31, 2018	June 30, 2018
Assets		
Current assets		
Cash and deposits	16,250	14,294
Notes and accounts receivable - trade	24,737	23,534
Securities	211	202
Merchandise and finished goods	7,761	8,176
Work in process	484	512
Raw materials and supplies	3,120	3,118
Other	3,834	5,065
Allowance for doubtful accounts	(208)	(204)
Total current assets	56,193	54,699
Non-current assets		
Property, plant and equipment		
Land	6,484	6,402
Machinery, equipment and vehicles	11,494	11,145
Other, net	13,419	13,976
Total property, plant and equipment	31,398	31,524
Intangible assets		
Goodwill	9,504	8,855
Other	4,932	4,540
Total intangible assets	14,436	13,395
Investments and other assets	4,418	4,227
Total non-current assets	50,254	49,146
Total assets	106,447	103,846
Liabilities		
Current liabilities		
Notes and accounts payable - trade	7,085	7,104
Short-term loans payable	3,286	2,356
Electronically recorded obligations - operating	11,226	11,209
Accounts payable - other	3,038	2,551
Income taxes payable	1,121	677
Provision	643	684
Other	7,646	8,205
Total current liabilities	34,048	32,788
Non-current liabilities		
Long-term loans payable	8,891	9,031
Net defined benefit liability	2,181	2,124
Other	5,100	5,002
Total non-current liabilities	16,173	16,158
Total liabilities	50,221	48,946

Unit: Millions of yen

	March 31, 2018	June 30, 2018
Net assets		
Shareholders’ equity		
Capital stock	8,468	8,468
Capital surplus	7,712	7,722
Retained earnings	41,145	40,813
Treasury shares	(2,662)	(2,618)
Total shareholders’ equity	54,664	54,385
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	1	1
Foreign currency translation adjustment	565	(404)
Remeasurements of defined benefit plans	(426)	(396)
Total accumulated other comprehensive income	140	(798)
Share acquisition rights	99	57
Non-controlling interests	1,320	1,255
Total net assets	56,225	54,899
Total liabilities and net assets	106,447	103,846

(2) Consolidated statements of (comprehensive) income

(Consolidated statements of income)

Unit: Millions of yen

	Three months ended June 30, 2017	Three months ended June 30, 2018
Net sales	26,799	28,118
Cost of sales	15,439	15,785
Gross profit	11,360	12,332
Selling, general and administrative expenses	10,509	10,858
Operating income	851	1,473
Non-operating income		
Interest income	37	22
Dividend income	24	5
Rent income	39	1
Share of profit of entities accounted for using equity method	–	1
Other	52	64
Total non-operating income	153	96
Non-operating expenses		
Interest expenses	33	32
Foreign exchange losses	62	88
Sales discounts	12	17
Other	174	27
Total non-operating expenses	283	166
Ordinary income	721	1,403
Extraordinary income		
Gain on sales of non-current assets	561	0
Total extraordinary income	561	0
Extraordinary losses		
Loss on retirement of non-current assets	16	1
Loss on sales of non-current assets	36	0
Impairment loss	458	–
Total extraordinary losses	512	1
Income before income taxes	771	1,402
Income taxes - current	538	484
Income taxes - deferred	36	132
Total income taxes	575	617
Net income	195	785
Net income (loss) attributable to non-controlling interests	(141)	4
Net income attributable to owners of parent	337	781

(Consolidated statements of comprehensive income)

Unit: Millions of yen

	Three months ended June 30, 2017	Three months ended June 30, 2018
Net income	195	785
Other comprehensive income		
Valuation difference on available-for-sale securities	0	(0)
Foreign currency translation adjustment	170	(1,036)
Remeasurements of defined benefit plans, net of tax	(3)	29
Share of other comprehensive income of entities accounted for using equity method	–	(2)
Total other comprehensive income	167	(1,009)
Comprehensive income	363	(223)
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	564	(158)
Comprehensive income attributable to non-controlling interests	(201)	(65)

(3) Consolidated statements of cash flows

Unit: Millions of yen

	Three months ended June 30, 2017	Three months ended June 30, 2018
Cash flows from operating activities		
Income before income taxes	771	1,402
Depreciation	1,043	1,105
Amortization of goodwill	366	287
Impairment loss	458	–
Loss (gain) on sales of non-current assets	(525)	(0)
Loss on retirement of non-current assets	16	1
Increase (decrease) in provision	26	(4)
Increase (decrease) in allowance for doubtful accounts	69	(12)
Increase (decrease) in net defined benefit liability	40	(18)
Interest and dividend income	(62)	(28)
Interest expenses	33	32
Foreign exchange losses (gains)	172	174
Decrease (increase) in notes and accounts receivable - trade	374	1,013
Decrease (increase) in inventories	(302)	(532)
Increase (decrease) in notes and accounts payable - trade	139	126
Increase (decrease) in accounts payable - other	241	(367)
Other, net	(908)	(476)
Subtotal	1,957	2,703
Interest and dividend income received	62	28
Interest expenses paid	(33)	(32)
Income taxes paid	(1,591)	(945)
Payments for business restructuring	–	(110)
Net cash provided by (used in) operating activities	393	1,642
Cash flows from investing activities		
Payments into time deposits	(13)	–
Proceeds from withdrawal of time deposits	60	33
Purchase of property, plant and equipment	(1,206)	(1,250)
Proceeds from sales of property, plant and equipment and intangible assets	675	22
Purchase of intangible assets	(394)	(166)
Other, net	(185)	(56)
Net cash provided by (used in) investing activities	(1,065)	(1,417)
Cash flows from financing activities		
Net increase (decrease) in short-term loans payable	(57)	(876)
Proceeds from long-term loans payable	182	228
Repayments of long-term loans payable	(56)	(69)
Repayments of lease obligations	(248)	(221)
Cash dividends paid	(988)	(1,086)
Other, net	179	0
Net cash provided by (used in) financing activities	(988)	(2,025)
Effect of exchange rate change on cash and cash equivalents	136	(135)
Net increase (decrease) in cash and cash equivalents	(1,524)	(1,935)
Cash and cash equivalents at beginning of period	16,757	16,026
Cash and cash equivalents at end of period	15,233	14,090

(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)

Effective from the start of the fiscal year under review, the Company has applied the "Partial Amendments to Accounting Standard for Tax Effect Accounting" (ASBJ Statement No. 28, February 16, 2018) and relevant guidances to classify deferred tax assets under "Investments and other assets" and deferred tax liabilities under "Non-current liabilities".

(Segment information)

I. Three months ended June 30, 2017 (from April 1, 2017 to June 30, 2017)

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

Unit: Millions of yen

	Auto-Identification Solutions Business (Japan)	Auto-Identification Solutions Business (Overseas)	IDP Business	Total
Net sales				
External customer sales	16,630	10,087	82	26,799
Intersegment sales and transfer	1,388	2,013	15	3,417
Total	18,018	12,100	97	30,217
Segment profit (loss)	862	369	(319)	912

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	912
Intersegment eliminations	(3)
Adjustment of inventories	(57)
Operating income on the consolidated statements of income	851

3. 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-Identification Solutions Business (Japan) segment, the carrying amount of business assets and goodwill that are losing profitability to yield sufficient return on investment has been reduced to their recoverable amount, with such reduction amount recorded as impairment loss.

Accordingly, impairment loss of ¥46 million was recorded in the three months ended June 30, 2017.

In the Auto-Identification Solutions Business (Overseas) segment, the carrying amount of goodwill that is losing profitability to yield sufficient return on investment has been reduced to its recoverable amount, with such reduction amount recorded as impairment loss.

Accordingly, impairment loss of ¥412 million was recorded in the three months ended June 30, 2017.

II. Three months ended June 30, 2018 (from April 1, 2018 to June 30, 2018)

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

Unit: Millions of yen

	Auto-Identification Solutions Business (Japan)	Auto-Identification Solutions Business (Overseas)	IDP Business	Total
Net sales				
External customer sales	17,081	10,910	125	28,118
Intersegment sales and transfer	2,007	1,866	16	3,890
Total	19,089	12,776	142	32,008
Segment profit (loss)	1,224	553	(303)	1,473

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	1,473
Intersegment eliminations	0
Adjustment of inventories	(0)
Operating income on the consolidated statements of income	1,473

3. Matters related to changes in reportable segments

The SATO Group has renamed its “Materials Business” reporting segment to “IDP Business” as the business would now focus on the development and commercialization of the IDP technology in anticipation of its strong future demand, based on the new Medium-term Management Plan launched in April 2018. The definition of the segment remains unchanged.

Segment information for the three months ended June 30, 2017 has been prepared in accordance with the new segment name.

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

Not Applicable