Consolidated Financial Report
for the First Six Months of the March 2019 Term

<Under Japanese GAAP>

November 2, 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: November 9, 2018
Date of commencement of dividend payments: December 11, 2018
Supplementary explanatory materials for quarterly results: Available
Holding of meeting to explain quarterly results (for analysts and institutional investors): Yes

(Millions of yen, with fractional amounts discarded)

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

(1) Consolidated financial results (cumulative)

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

	Net sales		Operating income		Ordinary income	
Six months ended	(Millions of yen)	%	(Millions of yen)	%	(Millions of yen)	%
September 30, 2018	56,489	3.0	3,343	30.8	3,190	34.7
September 30, 2017	54,823	7.3	2,556	(3.6)	2,369	(0.4)

(Note) Comprehensive income: Six months ended September 30, 2018: ¥1,509 million (-55.3%)
Six months ended September 30, 2017: ¥3,374 million (–%)

	Net income attributable to owners of parent		Basic earnings per share	Diluted earnings per share
Six months ended	(Millions of yen)	%	(Yen)	(Yen)
September 30, 2018	1,919	(20.4)	57.22	57.17
September 30, 2017	2,413	60.1	71.98	71.89

(2) Consolidated financial position

	Total assets	Net assets	Equity ratio	Net assets per share
As of	(Millions of yen)	(Millions of yen)	%	(Yen)
September 30, 2018	105,536	56,681	52.5	1,650.13
March 31, 2018	106,447	56,225	51.5	1,634.69

(N.B.) Total equity:

As of September 30, 2018: ¥55,384 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	–	35.00			
March 31, 2019 (Forecast)			–	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)
Annual	117,000	3.2	7,600	21.6	7,400	25.7	4,300	5.5	128.16

(Note) Revisions of consolidated forecasts most recently announced: Yes

For details, please refer to the section "(3) Explanation of consolidated forecasts and other projections" of "1. Qualitative Information Regarding Settlement of Accounts for the First Six Months" on page 5 of the attached materials.

*** Notes**

(1) Changes in significant subsidiaries during the first six 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 September 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 September 30, 2018:	1,357,678 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 six months):

Six months ended September 30, 2018:	33,551,558 shares
Six months ended September 30, 2017:	33,527,012 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 5 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 Six 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-ID solutions industry worldwide, exceeding customer expectations in an ever-changing world. This plan aims to concentrate more resources on the auto-ID 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-ID 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 six months to produce increased revenues and profits for our auto-ID solutions business, which maintained strong performance both in 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 3.0% from the same period of the previous fiscal year to ¥56,489 million, and an increase in operating income, up 30.8% to ¥3,343 million. Ordinary income increased by 34.7% to ¥3,190 million, and net income attributable to owners of parent decreased by 20.4% to ¥1,919 million. In the same period of the previous fiscal year, the Group had recorded extraordinary income of ¥2,726 million from the sale of non-current assets.

By segment, the SATO Group reported the following.

The Group has renamed its “Materials business” reporting segment “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-ID solutions business (Japan)>

The external environment and efforts of our sales frontlines at accurately addressing the pain points of customers have worked in favor of our auto-ID solutions business in Japan. The business was able to post growth in mechatronics sales (primarily printers) with a year-on-year increase in consumables sales, even as natural disasters around the country led to a transient slowdown in its existing growth trend. Verticals driving overall sales growth include the manufacturing sector, where there is strong demand for capital investments in automation and operational visibility, and the retail sector, where our solutions targeted at the growing e-commerce landscape and other surrounding changes have proved successful. 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 across all trades, 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 the increasingly sophisticated challenges of our customers to grow this business stably.
Under these circumstances, net sales increased 1.8% to ¥34,661 million, and operating income increased 28.2% to ¥2,831 million, compared with the same period of the previous fiscal year.

<Auto-ID solutions business (Overseas)>
Overseas, the auto-ID solutions business maintained an overall recovery trend to post higher sales and profits. For our companies specializing in primary labels, Okil-Holding in Russia 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 impacts of economic stagnation and local currency depreciation.
Other overseas companies engaging in our base business made general progress in switching to “selling the solution, not the product” to improve customers’ field operations with solutions involving our strategic CLNX printer series. Sales and profits declined in the Americas, however, due to the absence of large-scale deals that were recorded for North America in the same period last fiscal year and the economic slump affecting South America. Meanwhile in Europe, Asia and Oceania regions, sales and profits increased on account of steady top-line growth.
Under these circumstances, net sales increased 4.8% to ¥21,597 million (increase of 8.6%, excluding foreign currency effects) and operating income increased 11.0% to ¥1,220 million, compared with the same period of the previous fiscal year.

<IDP business>
For the IDP business centering on the Inline Digital Printing (IDP) technology that we own after fully acquiring UK-based DataLase 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 increased 43.8% to ¥230 million (increase of 41.0%, excluding foreign currency effects), and an operating loss of ¥676 million was incurred, compared with that of ¥745 million for the same period of the previous fiscal year.

(2) Explanation of financial position

Total assets at the end of the second quarter were ¥105,536 million, a decrease of ¥911 million compared with the end of the previous fiscal year. This was primarily the result of a decrease in intangible assets.

Net assets were ¥56,681 million, a ¥456 million increase from the end of the previous fiscal year, mainly due to the recording of net income attributable to owners of parent, notwithstanding the decrease in foreign currency translation adjustment and the payment of cash dividends.

Cash flows

At the end of the second quarter, cash and cash equivalents (referred to below as “cash”) stood at ¥16,137 million, an increase of ¥111 million compared with the end of the previous fiscal year.

Cash flows from operating activities

Net cash provided by operating activities amounted to ¥4,414 million, an increase of 422.5% compared with the same period of the previous fiscal year.

This resulted primarily from cash inflows including ¥3,167 million of income before income taxes and ¥2,186 million for depreciation, and cash outflows including a ¥1,253 million increase in inventories and ¥1,065 million of income taxes paid.

Cash flows from investing activities

Net cash used in investing activities amounted to ¥2,453 million.

This resulted primarily from cash outflows including ¥2,228 million for purchase of property, plant and equipment, and ¥299 million for purchase of intangible assets.

Cash flows from financing activities

Net cash used in financing activities was ¥1,868 million, a decrease of 10.0% compared with the same period of the previous fiscal year.

This resulted primarily from cash outflows including a ¥517 million net decrease in short-term loans payable and ¥1,111 million of cash dividends paid.

(3) Explanation of consolidated forecasts and other projections

Considering the Group's operating results for the first six months, we have revised our consolidated forecasts for the entire fiscal year as follows.

Consolidated forecasts for the fiscal year ending March 31, 2019

Net sales	¥117,000 million	(previous forecast ¥120,000 million)
Operating income	¥7,600 million	(previous forecast ¥7,300 million)
Ordinary income	¥7,400 million	(previous forecast ¥7,100 million)
Net income attributable to owners of parent	¥4,300 million	(previous forecast ¥4,100 million)

The foreign exchange rates assumed in the above forecast are US$1 = ¥110 and €1 = ¥130.

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 materially from the consolidated forecasts due to various factors.

2. Consolidated Financial Statements and Significant Notes Thereto

(1) Consolidated balance sheets

Unit: Millions of yen

	March 31, 2018	September 30, 2018
Assets		
Current assets		
Cash and deposits	16,250	16,343
Notes and accounts receivable - trade	24,737	23,775
Securities	211	207
Merchandise and finished goods	7,761	8,964
Work in process	484	481
Raw materials and supplies	3,120	3,198
Other	3,834	3,889
Allowance for doubtful accounts	(208)	(182)
Total current assets	56,193	56,679
Non-current assets		
Property, plant and equipment		
Machinery, equipment and vehicles, net	11,494	11,841
Land	6,484	6,152
Other, net	13,419	13,740
Total property, plant and equipment	31,398	31,734
Intangible assets		
Goodwill	9,504	8,751
Other	4,932	4,238
Total intangible assets	14,436	12,989
Investments and other assets	4,418	4,132
Total non-current assets	50,254	48,856
Total assets	106,447	105,536
Liabilities		
Current liabilities		
Notes and accounts payable - trade	7,085	6,956
Electronically recorded obligations - operating	11,226	11,072
Short-term loans payable	3,286	2,771
Accounts payable - other	3,038	2,683
Income taxes payable	1,121	1,257
Provision	643	833
Other	7,646	7,491
Total current liabilities	34,048	33,065
Non-current liabilities		
Long-term loans payable	8,891	9,003
Net defined benefit liability	2,181	1,986
Other	5,100	4,798
Total non-current liabilities	16,173	15,788
Total liabilities	50,221	48,854

Unit: Millions of yen

	March 31, 2018	September 30, 2018
Net assets		
Shareholders' equity		
Capital stock	8,468	8,468
Capital surplus	7,712	7,737
Retained earnings	41,145	41,951
Treasury shares	(2,662)	(2,584)
Total shareholders' equity	54,664	55,573
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	1	–
Foreign currency translation adjustment	565	83
Remeasurements of defined benefit plans	(426)	(272)
Total accumulated other comprehensive income	140	(189)
Share acquisition rights	99	57
Non-controlling interests	1,320	1,240
Total net assets	56,225	56,681
Total liabilities and net assets	106,447	105,536

(2) Consolidated statements of (comprehensive) income

(Consolidated statements of income)

Unit: Millions of yen

	Six months ended September 30, 2017	Six months ended September 30, 2018
Net sales	54,823	56,489
Cost of sales	31,111	31,594
Gross profit	23,712	24,894
Selling, general and administrative expenses	21,156	21,550
Operating income	2,556	3,343
Non-operating income		
Interest income	68	86
Dividend income	32	16
Rent income	77	3
Reversal of allowance for doubtful accounts	–	57
Share of profit of entities accounted for using equity method	–	1
Other	108	104
Total non-operating income	286	271
Non-operating expenses		
Interest expenses	64	101
Foreign exchange losses	99	198
Sales discounts	26	38
Provision of allowance for doubtful accounts	98	–
Share of loss of entities accounted for using equity method	0	–
Other	183	86
Total non-operating expenses	472	424
Ordinary income	2,369	3,190
Extraordinary income		
Gain on sales of non-current assets	2,726	4
Total extraordinary income	2,726	4
Extraordinary losses		
Loss on retirement of non-current assets	111	27
Loss on sales of non-current assets	162	0
Impairment loss	457	–
Provision for loss on guarantees	350	–
Total extraordinary losses	1,081	27
Income before income taxes	4,014	3,167
Income taxes - current	1,956	1,027
Income taxes - deferred	(212)	218
Total income taxes	1,744	1,246
Net income	2,270	1,921
Net income (loss) attributable to non-controlling interests	(142)	1
Net income attributable to owners of parent	2,413	1,919

(Consolidated statements of comprehensive income)

Unit: Millions of yen

	Six months ended September 30, 2017	Six months ended September 30, 2018
Net income	2,270	1,921
Other comprehensive income		
Valuation difference on available-for-sale securities	0	(1)
Foreign currency translation adjustment	1,105	(563)
Remeasurements of defined benefit plans, net of tax	(1)	153
Share of other comprehensive income of entities accounted for using equity method	(0)	(0)
Total other comprehensive income	1,104	(412)
Comprehensive income	3,374	1,509
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	3,538	1,589
Comprehensive income attributable to non-controlling interests	(163)	(80)

(3) Consolidated statements of cash flows

Unit: Millions of yen

	Six months ended September 30, 2017	Six months ended September 30, 2018
Cash flows from operating activities		
Income before income taxes	4,014	3,167
Depreciation	2,097	2,186
Amortization of goodwill	664	566
Impairment loss	457	–
Increase (decrease) in provision for loss on guarantees	350	–
Loss (gain) on sales of non-current assets	(2,564)	(4)
Loss on retirement of non-current assets	111	27
Increase (decrease) in provision	8	82
Increase (decrease) in allowance for doubtful accounts	90	(45)
Increase (decrease) in net defined benefit liability	82	4
Interest and dividend income	(100)	(103)
Interest expenses	64	101
Foreign exchange losses (gains)	(148)	96
Decrease (increase) in notes and accounts receivable - trade	(575)	797
Decrease (increase) in inventories	(657)	(1,253)
Increase (decrease) in notes and accounts payable - trade	(1,558)	(50)
Increase (decrease) in accounts payable - other	836	(162)
Other, net	(784)	(27)
Subtotal	2,389	5,382
Interest and dividend income received	100	103
Interest expenses paid	(63)	(101)
Income taxes paid	(1,582)	(1,065)
Payments for business restructuring	–	(146)
Income taxes refund	0	242
Net cash provided by (used in) operating activities	845	4,414
Cash flows from investing activities		
Payments into time deposits	(27)	–
Proceeds from withdrawal of time deposits	222	33
Purchase of property, plant and equipment	(3,196)	(2,228)
Proceeds from sales of property, plant and equipment and intangible assets	3,915	18
Purchase of intangible assets	(639)	(299)
Other, net	(42)	22
Net cash provided by (used in) investing activities	233	(2,453)
Cash flows from financing activities		
Net increase (decrease) in short-term loans payable	(1,161)	(517)
Proceeds from long-term loans payable	329	229
Repayments of long-term loans payable	(115)	(73)
Repayments of lease obligations	(424)	(394)
Cash dividends paid	(1,010)	(1,111)
Other, net	305	(0)
Net cash provided by (used in) financing activities	(2,075)	(1,868)
Effect of exchange rate change on cash and cash equivalents	352	19
Net increase (decrease) in cash and cash equivalents	(644)	111
Cash and cash equivalents at beginning of period	16,757	16,026
Cash and cash equivalents at end of period	16,112	16,137

(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. Six months ended September 30, 2017 (from April 1, 2017 to September 30, 2017)

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

Unit: Millions of yen

	Auto-ID solutions business (Japan)	Auto-ID solutions business (Overseas)	IDP business	Total
Net sales				
External customer sales	34,058	20,604	160	54,823
Intersegment sales and transfer	3,045	4,286	33	7,365
Total	37,104	24,891	193	62,189
Segment profit (loss)	2,208	1,099	(745)	2,562

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

(Matters related to difference adjustment)

Unit: Millions of yen

Profit	Amount
Reportable segments total	2,562
Intersegment eliminations	(7)
Adjustment of inventories	1
Operating income on the consolidated statements of income	2,556

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-ID 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 six months ended September 30, 2017.

In the Auto-ID 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 ¥411 million was recorded in the six months ended September 30, 2017.

II. Six months ended September 30, 2018 (from April 1, 2018 to September 30, 2018)

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

Unit: Millions of yen

	Auto-ID solutions business (Japan)	Auto-ID solutions business (Overseas)	IDP business	Total
Net sales				
External customer sales	34,661	21,597	230	56,489
Intersegment sales and transfer	3,553	10,496	33	14,083
Total	38,215	32,094	263	70,572
Segment profit (loss)	2,831	1,220	(676)	3,375

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	3,375
Intersegment eliminations	0
Adjustment of inventories	(31)
Operating income on the consolidated statements of income	3,343

3. Matters related to changes in reportable segments

The SATO Group has renamed its “Materials business” reporting segment “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 six months ended September 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