SATO | 6287 (TSE Prime)

Company Report
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Strategy Advisors Co., Ltd.
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FY3/26 Results: Securing their AI Foundations: The Role of Edge-Tagging in Industrial Big Data

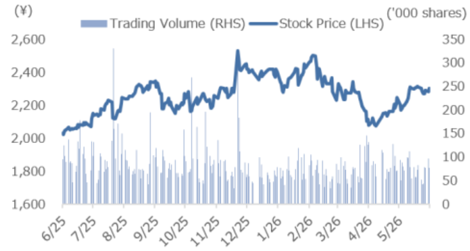
Daily lives are filled with labels and tags printed with text, barcodes and QR codes. In logistics as well, labels and tags are affixed to cardboard boxes and trays to manage the movement of goods. SATO specializes in "tagging" - the process of assigning IDs and status information to people and objects - and is a unique B2B company that provides comprehensive "Auto-ID Solutions" through the supply of printers and labels. Embedding RFID chips in labels enables data to be rewritten and read at high speeds, significantly enhancing convenience. "Tagging" is expected to serve as an edge function - the foundation for big data collection - as AI is implemented across various industrial sectors in the future.

The company reported cumulative results for FY3/26, net sales increased to ¥163.43 billion (+5.6% YoY), while operating income decreased to ¥11.04 billion (-10.5% YoY), resulting in higher net sales but lower operating income. Compared to the company's February forecast, net sales exceeded expectations due to strong performance in Japan; however, operating income fell slightly short due to a decline in profitability, including the recognition of temporary expenses overseas. Net profit fell to ¥5.09 billion (-28.9% YoY), partly due to an extraordinary loss of ¥1.24 billion related to system development incurred in Q4.

By region, Japan posted higher revenue and profits, driven by strong printer sales, among other factors. However, the overseas Base business saw higher revenue, but lower profits due to increased costs and other factors. The Primary Labels business also saw higher revenue, but a significant decline in profits, impacted by lower profitability in Russia. However, considering that the strong performance from the FY3/23 to March 2025 was the result of a temporary improvement in the business environment in Russia, it can be said that FY3/26 saw these positive factors fade away, returning to normal conditions.

The company forecasts FY3/27 net sales of ¥168.5 billion and operating income of ¥11.7 billion. Driven by robust demand and new printer models, revenue is rising, though operating income growth is limited to +¥660 million YoY due to a ¥1 billion strategic R&D investment. To protect gross profit against soaring material and semiconductor costs, price adjustments will be implemented. Key focus areas from the December 2025 mid-term update remain stabilizing revenue, sustaining growth and managing with capital-cost mindfulness.

Stock Price and Trading Volumes (Past Year)



Source: Strategy Advisors.

Key Indicators

Stock Price (6/23/26)	2,299
52-Week High (12/15/25)	2,529
52-Week Low (6/25/25)	2,022
All-Time High (9/26/18)	3,795
All-Time Low (3/13/09)	634
Number of Shares Issued	32.5
Market Capitalization (¥bn)	74.6
EV (¥bn)	67.9
Equity Ratio (FY3/26, %)	58.6
ROE (FY3/26 Actual, %)	6.3
PER (FY3/27 CoE, x)	10.1
PBR (FY3/26 Actual, x)	0.9
Yield (FY3/27 CoE, %)	3.5

Source: Strategy Advisors.

The stock price is currently trading around ¥2,300. The PER based on the company's forecast for FY3/27 stands at 10.1x, while the PBR based on actual results for FY3/26 remains low at 0.9x. Strategy Advisors view of the company's equity story is that it will leverage its on-site competency accumulated through its solutions development in Japan to transform its overseas operations. These operations are still primarily focused on selling products, into a solutions-based business, thereby increasing its global share in the rapidly growing auto-ID market driven by the widespread adoption of AI". The company's steady progress in "improve the global management infrastructure", coupled with its commitment to "developing a robust revenue base for the core business" and "commercialize the Perfect and Unique Tagging concept", is worthy of praise. Going forward, if the feasibility of this equity story increases in line with earnings growth, there will be room for the stock's valuation to rise.

Japanese GAAP- Consolidated

FY	Net Sales	YoY	Operating Income	YoY	Ordinary Profit	YoY	Net Profit	YoY	EPS	DPS
	(¥mn)	(%)	(¥mn)	(%)	(¥mn)	(%)	(¥mn)	(%)	(¥)	(¥)
3/23	142,824	14.5	8,841	38.1	9,068	49.7	4,184	10.3	126.7	72.0
3/24	143,446	0.4	10,383	17.4	8,961	-1.2	3,565	-14.8	110.0	73.0
3/25	154,807	7.9	12,341	18.9	11,144	24.4	7,151	100.6	220.4	75.0
3/26	163,434	5.6	11,041	-10.5	9,881	-11.3	5,086	-28.9	156.69	76
3/27 CoE	168,500	3.1	11,700	6.0	11,200	13.3	7,400	45.5	227.94	80

Note: Net profit refers to the profit attributable to owners of parent.

Source: Company Data. Compiled by Strategy Advisors.

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1. Overview of FY3/26 Financial Results

FY3/26 Financial Results Show YoY Revenue Growth, But Decline in Profit

FY3/26 financial results announced on May 15 showed net sales of ¥163.43 billion (+5.6% YoY), while operating income was ¥11.04 billion (-10.5% YoY), resulting in higher net sales, but lower operating income. By segment, the overseas Base business saw a 2.3% YoY increase in revenue, but operating income fell 11.5% YoY due to factors such as one-time expenses in Asia and Oceania. The overseas Primary Labels business saw a 7% YoY increase in revenue, but operating income fell 53.1% YoY due to a worsening competitive environment and rising costs. Meanwhile, Japan performed well, with revenue up 7.3% YoY and operating income up 38.6% YoY.

Recorded an Extraordinary Loss of ¥1.24 billion

In a press release dated April 14, the company disclosed that it had recorded an extraordinary loss of ¥1.24 billion (impairment of fixed assets) for FY3/26. This loss resulted from changes to the maintenance service system development plan that had been underway since FY3/21. In FY3/25, the company abandoned plans for integrated development with all business systems and changed its strategy to focus development on 3 specific systems: the core system, the consumables production system and the maintenance service system. Currently, development of the core system and the consumables production system is proceeding as planned. However, regarding the maintenance service system, the company decided to revise its plan due to significant issues arising from the selected system package and development quality. For FY3/27, the company plans to restart the process of selecting a system package and development vendor.

Q4 Saw a YoY Decline in Profit, with Bad Debt Losses of ¥400 million Contributing Negatively

In Q4, net sales increased to ¥41.68 billion (+8.0% YoY), while operating income decreased to ¥2.37 billion (-4.3% YoY). The breakdown of the YoY operating income change, of -¥110 (excluding the Russian subsidiary: +40) million was as follows: Japan contributed +¥560 million, Overseas Base Business contributed -¥360 million, and Overseas (Primary Labels Business) contributed -¥130 (excluding the Russian subsidiary: +20) million, among others. In Overseas Base Business, bad debt losses of approximately ¥400 million in Asia and Oceania contributed negatively.

Compared to the February Forecast, Net Sales Exceeded Expectations, While Operating Income Fell Slightly Short

Compared to the company’s February plan, net sales exceeded expectations. In Japan, this was driven by strong performance across various markets, including Logistics, as well as growth in Mechatronics products due to the launch of a new printer model (1,400 units sold). Meanwhile, operating income fell slightly short of the company’s February plan, as the strong performance in Japan offset negative factors Overseas, such as expenses incurred in the Base business and increased costs in Russia for the Primary Labels business.

Figure 1. Summary of FY3/26 Financial Results

(¥mn)	3/25	3/26	YoY	3/27 CoE	YoY
Net Sales	**154,807**	**163,434**	**5.6%**	**168,500**	**3.1%**
Overseas	75,587	78,396	3.7%	82,000	4.6%
Base Business	52,632	53,833	2.3%	57,400	6.6%
Primary Labels Business	22,955	24,562	7.0%	24,600	0.2%
Domestic	79,220	85,038	7.3%	86,500	1.7%
Mechatronics	31,626	36,769	16.3%	-	-
Consumables	47,593	48,269	1.4%	-	-
(Consumables Ratio)	60.1%	56.8%	-	-	-
Operating Income	**12,341**	**11,041**	**-10.5%**	**11,700**	**6.0%**
(OP Margin)	8.0%	6.8%	-	6.9%	-
Overseas	8,478	5,704	-32.7%	6,200	8.7%
(OP Margin)	11.2%	7.3%	-	7.6%	-
Base Business	4,317	3,822	-11.5%	4,300	12.5%
(OP Margin)	8.2%	7.1%	-	7.5%	-
Primary Labels Business	4,199	1,970	-53.1%	1,900	-3.6%
(OP Margin)	18.3%	8.0%	-	7.7%	-
Domestic	3,906	5,415	38.6%	5,500	1.6%
(OP Margin)	4.9%	6.4%	-	6.4%	-
Elimination	-43	-78	-	-	-

Source: Company Data. Compiled by Strategy Advisors.

Figure 2. Summary of FY3/26 Financial Results (¥mn, Qtly)

FY	3/25				3/26				3/25	3/26	3/27 CoE
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	FY	FY	FY
Sales	**37,674**	**38,415**	**40,121**	**38,596**	**37,829**	**40,418**	**43,507**	**41,679**	**154,807**	**163,434**	**168,500**
(YoY)	10.8%	7.3%	6.6%	7.1%	0.4%	5.2%	8.4%	8.0%	7.9%	5.6%	8.8%
Overseas	19,321	19,223	19,104	17,937	18,737	18,944	20,648	20,064	75,587	78,396	82,000
(YoY)	17.4%	12.4%	8.2%	7.2%	-3.0%	-1.4%	8.1%	11.9%	11.3%	3.7%	8.5%
Base Business	13,355	12,806	13,329	13,142	12,628	13,022	13,915	14,267	52,632	53,833	57,400
(YoY)	13.4%	8.5%	7.3%	8.9%	-5.4%	1.7%	4.4%	8.6%	9.5%	2.3%	9.1%
Primary Labels Business	5,966	6,416	5,775	4,796	6,109	5,922	6,733	5,797	22,955	24,562	24,600
(YoY)	27.6%	21.1%	10.5%	2.9%	2.4%	-7.7%	16.6%	20.9%	15.6%	7.0%	7.2%
Domestic	18,353	19,191	21,016	20,658	19,091	21,473	22,858	21,614	79,220	85,038	86,500
(YoY)	4.7%	2.7%	5.2%	7.0%	4.0%	11.9%	8.8%	4.6%	4.9%	7.3%	9.2%
Mechatronics	6,848	7,559	7,987	9,231	7,180	9,743	9,868	9,976	31,627	36,769	-
(YoY)	7.1%	2.4%	7.2%	8.9%	4.8%	28.9%	23.6%	8.1%	6.5%	16.3%	-
Consumables	11,505	11,633	13,029	11,426	11,911	11,729	12,989	11,638	47,593	48,269	-
(YoY)	3.3%	2.8%	4.0%	5.5%	3.5%	0.8%	-0.3%	1.9%	3.9%	1.4%	-
(Consumables Ratio)	62.7%	60.6%	62.0%	55.3%	62.4%	54.6%	56.8%	53.8%	30.7%	56.8%	-
Operating Income	**2,864**	**2,914**	**4,086**	**2,475**	**2,359**	**2,741**	**3,571**	**2,368**	**12,341**	**11,041**	**11,700**
(YoY)	32.6%	18.5%	17.9%	7.8%	-17.6%	-5.9%	-12.6%	-4.3%	18.9%	-10.5%	-5.2%
(OP Margin)	7.6%	7.6%	10.2%	6.4%	6.2%	6.8%	8.2%	5.7%	8.0%	6.8%	6.9%
Overseas	2,586	2,303	2,405	1,183	1,629	1,626	1,782	666	8,478	5,704	6,200
(YoY)	19.2%	-1.8%	-3.4%	-4.4%	-37.0%	-29.4%	-25.9%	-43.7%	2.9%	-32.7%	-26.9%
(OP Margin)	13.4%	12.0%	12.6%	6.6%	8.7%	8.6%	8.6%	3.3%	11.2%	7.3%	7.6%
Base Business	1,277	1,053	1,200	785	1,118	1,133	1,147	423	4,317	3,822	4,300
(YoY)	27.3%	55.1%	-10.4%	50.1%	-12.5%	7.6%	-4.5%	-46.1%	21.7%	-11.5%	-0.4%
(OP Margin)	9.6%	8.2%	9.0%	6.0%	8.9%	8.7%	8.2%	3.0%	8.2%	7.1%	7.5%
Primary Labels Business	1,301	1,290	1,198	409	561	468	658	281	4,199	1,970	1,900
(YoY)	16.4%	-14.5%	5.4%	-47.2%	-56.9%	-63.7%	-45.1%	-31.3%	-7.5%	-53.1%	-54.8%
(OP Margin)	21.8%	20.1%	20.7%	8.5%	9.2%	7.9%	9.8%	4.8%	18.3%	8.0%	7.7%
Domestic	186	773	1,824	1,123	864	1,036	1,830	1,682	3,906	5,415	5,500
(YoY)	-	622.4%	96.8%	24.6%	364.5%	34.0%	0.4%	49.8%	126.6%	38.6%	40.8%
(OP Margin)	1.0%	4.0%	8.7%	5.4%	4.5%	4.8%	8.0%	7.8%	4.9%	6.4%	6.4%
Elimination	92	-162	-143	169	-134	78	-41	20	-43	-78	-

Source: Company Data. Compiled by Strategy Advisors.

2. Trends by Sector: Q4

1) Overseas (Base Business)

Sales Driven by Strong Performance in the Americas

For the overseas Base business in Q4 FY 3/26, net sales increased to ¥14.27 billion (+8.6% YoY), while operating income decreased to ¥420 million (-46.1% YoY). Net sales increased YoY due to steady performance in the Americas, coupled with favorable foreign exchange movements. While the Americas contributed to the increase in operating income; the recognition of bad debt losses in Asia and Oceania, along with rising costs in Europe, acted as negative factors, resulting in an overall YoY decrease in operating income. The situation by region is described below.

RFID Net Sales Remained Flat YoY, While Automation Solutions Saw a Decline

Demand for solutions continues to grow, driven by labor shortages and the push toward digital transformation (DX). In the RFID segment, although a large project in Australia slowed down, this was offset by a large project in the Americas, resulting in revenue that was largely flat, with a 0.1% YoY increase. In the automation solutions (automatic labelers) segment, revenue decreased by 29.6% YoY, due to a decline in large projects for the U.S. Logistics market compared to the same period last year.

Americas: Contributed by Large BLE Sensor Tag Projects for the Retail Sector

The Americas region reported YoY growth in both revenue and profit. In the U.S., net sales were driven by large projects related to BLE (Bluetooth Low Energy) sensor tags for the Retail sector, in addition to steady performance in the Healthcare market. In South America, while Argentina performed well, Brazil was affected by a decline in demand due to inflation, resulting in flat overall net sales. Operating income increased in the U.S. due to an improved product mix. In South America, operating income decreased due to higher costs, such as labor expenses.

Europe: Recorded Upfront Expenses (Approx. ¥200 million) to Strengthen the Regional Headquarters Structure

Europe’s net sales rose YoY, but operating income fell into a loss. While weak regional demand dragged down local-currency sales, favorable forex tailwinds drove the overall net sales increase. Conversely, the UK bucked the trend, growing even in local currency due to high-value food labeling printer projects. The operating loss was driven by the local-currency revenue drop, rising personnel costs and a ¥200 million upfront investment to strengthen the regional headquarters structure.

Asia-Oceania: Bad Debt Loss (Approx. ¥400 million) Recorded at the Singapore Sales Subsidiary

Asia-Oceania also saw YoY net sales growth, but a decline in operating income. Positive factors included China’s recovery from the slump in the same period of the previous year and steady performance, particularly in Thailand’s Manufacturing market. However, ongoing inventory adjustments by customers at Argox in Taiwan had a negative impact. Overall, strong performance in China and Thailand offset the slump in Taiwan, securing revenue growth. Meanwhile, momentum in large RFID projects in Australia has slowed somewhat. Operating income declined due to the recognition of a bad debt loss of approximately ¥400 million at the Singapore sales subsidiary.

Figure 3. Overseas (Base Business) Revenue Trends (Half/Qtly, ¥mn)

FY	3/24		3/25		3/26	
	1H	2H	1H	2H	1H	2H
Sales	**23,583**	**24,486**	**26,161**	**26,471**	**25,650**	**28,183**
Americas	8,766	8,568	8,863	9,273	8,579	9,458
Europe	5,705	6,008	6,250	6,229	6,320	7,040
Asia/Oceania	9,246	9,777	11,047	10,971	10,751	11,684
Operating Income	**1,682**	**1,864**	**2,330**	**1,987**	**2,251**	**1,571**
Americas	278	261	372	4	297	211
Europe	595	298	250	160	205	9
Asia/Oceania	824	1,292	1,707	1,823	1,748	1,351
OP Margin	**7.1%**	**7.6%**	**8.9%**	**7.5%**	**8.8%**	**5.6%**
Americas	3.2%	3.0%	4.2%	0.0%	3.5%	2.2%
Europe	10.4%	5.0%	4.0%	2.6%	3.2%	0.1%
Asia/Oceania	8.9%	13.2%	15.5%	16.6%	16.3%	11.6%

FY	3/25				3/26				3/25	3/26	3/27 CoE
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	FY	FY	FY
Sales	**13,355**	**12,806**	**13,329**	**13,142**	**12,628**	**13,022**	**13,915**	**14,267**	**52,632**	**53,833**	**57,400**
Americas	4,568	4,294	4,503	4,770	4,264	4,315	4,450	5,008	18,136	18,037	-
Europe	3,221	3,028	3,106	3,121	3,129	3,191	3,582	3,457	12,479	13,360	-
Asia/Oceania	5,564	5,483	5,718	5,253	5,234	5,516	5,882	5,801	22,018	22,435	-
Operating Income	**1,277**	**1,053**	**1,200**	**785**	**1,118**	**1,133**	**1,147**	**423**	**4,317**	**3,822**	**4,300**
Americas	318	54	-24	28	164	133	27	183	376	508	-
Europe	105	144	73	85	109	95	133	-125	410	214	-
Asia/Oceania	853	854	1,151	671	843	904	986	364	3,530	3,099	-
OP Margin	**9.6%**	**8.2%**	**9.0%**	**6.0%**	**8.9%**	**8.7%**	**8.2%**	**3.0%**	**8.2%**	**7.1%**	**7.5%**
Americas	7.0%	1.3%	-0.5%	0.6%	3.8%	3.1%	0.6%	3.7%	2.1%	2.8%	-
Europe	3.3%	4.8%	2.4%	2.7%	3.5%	3.0%	3.7%	-3.6%	3.3%	1.6%	-
Asia/Oceania	15.3%	15.6%	20.1%	12.8%	16.1%	16.4%	16.8%	6.3%	16.0%	13.8%	-

Net Sales Breakdown by Application

		3/25 FY	3/25 FY	3/26 FY
Manufacturing		26.7%	28.9%	29.5%
Logistics		4.2%	4.0%	3.9%
Retail		32.1%	30.8%	30.4%
Healthcare		7.5%	7.3%	7.3%
Food		10.0%	9.2%	9.6%
Public Sector		0.5%	-	-
Others		19.0%	19.8%	19.3%

Note: The figures for net sales breakdown are based on segment information. The operating income breakdown is based on segment information and presentation materials.
Source: Company Data. Compiled by Strategy Advisors.

2) Overseas (Primary Labels Business)

Europe (Russia) Returned to its Previous Challenging Competitive Environment, While the Americas Performed Well

The Overseas (Primary Labels business) saw net sales increase to ¥5.8 billion (+20.9% YoY), while operating income decreased to ¥280 million (-31.1% YoY), resulting in higher net sales, but lower operating income. In Europe (Russia), although the expansion of production facilities had a positive effect, the competitive environment returned to its previous challenging state, leading to a decline in net sales on a local currency basis. However, favorable exchange rate fluctuations helped secure an increase in net sales. Operating income declined due to the negative impact of increased costs (including labor costs) associated with capacity expansion. Multiple negative factors contributing to lower profitability - such as the return of the competitive environment in Russia to normal levels and increased costs associated with production capacity expansion - have already run their course, and annual performance is believed to have bottomed out in FY3/26. Meanwhile, in the Americas (South America), demand remained robust due to progress in customer acquisition despite the inflationary environment, resulting in increased revenue and profit despite higher costs, such as labor expenses.

Figure 4. Revenue Trends for Overseas (Primary Business) (Half-Year/Qtly, ¥mn)

FY	3/24		3/25		3/26	
	1H	2H	1H	2H	1H	2H
Sales	**9,974**	**9,888**	**12,383**	**10,572**	**12,032**	**12,530**
Americas	1,809	1,765	1,787	1,688	1,827	1,932
Europe	8,029	7,969	10,402	8,692	10,019	10,379
Asia/Oceania						
Operating Income	**2,628**	**1,912**	**2,592**	**1,607**	**1,030**	**940**
Americas	422	506	391	240	252	343
Europe	2,191	1,389	2,264	1,261	759	591
Asia/Oceania						
OP Margin	**26.3%**	**19.3%**	**20.9%**	**15.2%**	**8.6%**	**7.5%**
Americas	23.3%	28.7%	21.9%	14.2%	13.8%	17.8%
Europe	27.3%	17.4%	21.8%	14.5%	7.6%	5.7%
Asia/Oceania	0.0%	0.0%	14.9%	6.3%	9.8%	2.3%

FY	3/25				3/26				3/25	3/26	3/27 CoE
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	FY	FY	FY
Sales	**5,966**	**6,416**	**5,775**	**4,796**	**6,109**	**5,922**	**6,733**	**5,797**	**22,955**	**24,562**	**24,600**
Americas	960	827	794	894	922	905	908	1,022	3,475	3,759	-
Europe	4,904	5,498	4,882	3,810	5,089	4,930	5,714	4,664	19,094	20,398	-
Asia/Oceania	101	93	98	92	97	87	110	110	384	405	-
Operating Income	**1,301**	**1,290**	**1,198**	**409**	**561**	**468**	**658**	**281**	**4,199**	**1,970**	**1,900**
Americas	255	136	82	158	135	116	155	187	631	595	-
Europe	1,028	1,143	1,110	243	413	346	495	96	3,525	1,351	-
Asia/Oceania	17	11	6	6	12	5	7	-2	41	23	-
OP Margin	**21.8%**	**20.1%**	**20.7%**	**8.5%**	**9.2%**	**7.9%**	**9.8%**	**4.8%**	**18.3%**	**8.0%**	**7.7%**
Americas	26.6%	16.4%	10.3%	17.7%	14.6%	12.8%	17.1%	18.3%	18.2%	15.8%	-
Europe	21.0%	20.8%	22.7%	6.4%	8.1%	7.0%	8.7%	2.1%	18.5%	6.6%	-
Asia/Oceania	16.8%	11.8%	6.1%	6.5%	12.4%	5.7%	6.4%	-1.8%	10.7%	5.7%	-

Source: Company Data. Compiled by Strategy Advisors.

3) Japan

Mechatronics Saw a Significant YoY Increase in Revenue. Demand for Consumables Remained Strong

The Japan business posted both net sales growth and operating income growth, with net sales to ¥21.61 billion (+4.6% YoY) and operating income to ¥1.68 billion (+49.8% YoY). The Mechatronics segment (printers, etc.) saw net sales rise 8.1% YoY, driven by increased demand in the logistics market related to the revised Logistics Efficiency Act, as well as high-value projects in the Healthcare and Food markets. In the manufacturing market, new printer models are driving strong sales. Demand for consumables (such as labels) was generally robust, leading to a 1.9% YoY increase in revenue. Operating income saw a significant increase, largely driven by higher revenue - primarily from the Mechatronics segment - and improvements in the product mix, despite the negative impact of the appreciation of the local currency at the printer manufacturing plant in Malaysia.

The Operating margin for Q4 Remained at the Same Level as Q3. Factors Contributing to the Decline in Gross Profit Ran Their Course in Q3

On a QoQ basis, while net sales decreased by ¥1.24 billion, operating income fell by only ¥150 million. The operating margin remained at a similar level, standing at 7.8% in Q4 compared to 8% in Q3. The short-term decline in gross margin caused by the acquisition of large projects in the Mechatronics sector appears to have run its course in Q3, and margins are believed to have returned to normal levels in Q4.

RFID Revenue Declined Slightly YoY, While Automation Solutions Saw Revenue Growth

Demand for solutions remains robust, driven by labor shortages and the push toward digital transformation (DX). In the RFID segment, while sales in the Manufacturing market were driven by deals for equipment spare parts management, revenue decreased by 1.2% YoY as the impact of large projects in the Healthcare and Food markets during the same period last year faded. On the other hand, revenue for automation solutions (automatic labelers) increased by 5.7% YoY, driven by rising demand in the logistics market related to the revised Logistics Efficiency Act and the accumulation of small-scale projects in the Food market.

Manufacturing Market - Sales of New Printer Models Grow in the Electronics Industry

In the manufacturing market, production of advanced semiconductors remained strong against the backdrop of AI adoption and investment in digital transformation (DX) remained robust due to labor shortages. In the Consumables segment, demand remained strong in industries such as chemicals and electronic components related to semiconductor production. In Mechatronics, although sales of new printers grew in the electronics industry, overall revenue declined due to a rebound effect from the absence of large projects in the same period last year. However, customer investment sentiment itself is viewed as remaining at a high level.

Logistics Market - Large Projects Peaked in Q3. Gross Margin Recovery Expected Going Forward

The logistics market continues to see increased demand driven by the boom in e-commerce and inbound tourism, as well as the need to comply with the revised Logistics Efficiency Act. On the supply side, sales grew, particularly in the wholesale sector, driven by strong sales at retail companies. In the mechatronics segment, sales were driven by increased demand related to the revised Logistics Efficiency Act and by sales of printers for delivering luggage to tourists, fueled by rising inbound demand. Meanwhile, printer shipments for large projects were completed in Q3. Going forward, a recovery in gross profit margins and increased sales of consumables and maintenance services are expected.

Retail Market - Demand for Store Digital Transformation Expanding at Food Supermarkets & Other Outlets

In the retail market, in-store digital transformation is progressing at food supermarkets and investment in the e-commerce sector remains robust. The consumables segment grew, driven by the retail goods sector, which benefited from strong inbound tourism demand. The Mechatronics segment was driven by sales of printers for issuing store price tags and automation solutions.

Healthcare Market - Driven by RFID Automatic Labeling Solutions

In the Healthcare market, demand is increasing for RFID-based solutions aimed at streamlining administrative operations. In the Consumables segment, while sales of RFID labels for hospital logistics remained steady, revenue declined due to a pullback from large projects in the year prior. The Mechatronics segment performed well, driven by large projects in the pharmaceutical industry related to packaging management and automated RFID labeling solutions.

Food Market - Continued Investment in Efficiency Amid Labor Shortages

In the food market, investments in efficiency improvements (RFID, automation) are continuing against a backdrop of rising raw material and logistics costs, as well as labor shortages. In the Consumables segment, although sales of specific products declined in the food manufacturing industry, the foodservice industry remained robust, resulting in overall sales remaining flat. The Mechatronics segment saw growth driven by large projects related to traceability and automation solutions.

Figure 5. Revenue Trends in Japan (Half-year/Qtly, ¥mn)

FY	3/24		3/25		3/26	
	1H	2H	1H	2H	1H	2H
Sales	**36,229**	**39,285**	**37,545**	**41,675**	**40,565**	**44,473**
Manufacturing	10,953	11,979	10,758	13,292	11,653	13,506
Logistics	8,182	8,736	8,475	9,055	9,848	10,735
Retail	4,765	5,321	5,587	5,913	6,183	5,899
Healthcare	4,639	5,195	4,754	5,298	4,711	5,600
Food	3,902	4,218	4,194	4,192	3,925	4,624
Other	2,980	4,644	3,777	3,925	4,245	4,109

FY	3/25				3/26				3/25	3/26	3/27 CoE
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	FY	FY	FY
Sales	**18,353**	**19,191**	**21,016**	**20,658**	**19,091**	**21,473**	**22,858**	**21,614**	**79,220**	**85,038**	**86,500**
Manufacturing	5,202	5,557	6,260	7,030	5,633	6,021	6,292	7,212	24,050	25,159	-
Logistics	4,141	4,334	4,684	4,370	4,410	5,438	5,927	4,806	17,530	20,583	-
Retail	2,777	2,809	3,207	2,705	2,938	3,244	3,140	2,758	11,500	12,082	-
Healthcare	2,268	2,486	2,581	2,716	2,233	2,477	2,736	2,863	10,052	10,311	-
Food	2,062	2,131	2,298	1,893	1,899	2,026	2,511	2,112	8,386	8,549	-
Other	1,903	1,874	1,986	1,939	1,978	2,267	2,252	1,863	7,702	8,354	-

Source: Company Data. Compiled by Strategy Advisors.

3. Outlook for FY3/27 and Topics from the Investor Briefing

Company Forecasts: Net Sales of ¥168.5 Billion & Operating Income of ¥11.7 Billion

The company's full-year forecast for FY3/27 is net sales of ¥168.5 billion (+3.1% YoY) and operating income of ¥11.7 billion (+6% YoY). The exchange rate assumption is at ¥150/USD. By segment, the Overseas (Base) Business is projected to see net sales of ¥57.4 billion (+6.6% YoY) and operating income of ¥4.3 billion (+12.5% YoY), driven by deeper penetration of the Healthcare and Manufacturing markets and the conversion of sales opportunities in blood and specimen supply chain management (SCM). For the Overseas (Primary Labels business), net sales are projected to be ¥24.6 billion (+0.2% YoY) and operating income is expected to be ¥1.9 billion (-3.6% YoY), remaining at roughly the same level as the previous fiscal year. In Japan, net sales are forecast to increase to ¥86.5 billion (+1.7% YoY), driven by expanded sales of new printer models, among other factors, with operating income expected to be ¥5.5 billion (+1.6% YoY).

It should be noted that fluctuations in demand resulting from changes in the Middle East situation have not been factored into these plans. Furthermore, even if soaring raw material prices (semiconductors, resins, etc.) occur in the future, the company plans to offset them through price revisions, aiming to keep the impact on business performance neutral. In a press release dated June 2, the company announced price increases of approximately 20% across all products. On the other hand, the company does not currently anticipate a decline in production capacity utilization due to shortages in raw material procurement.

Operating Income up ¥660 Million YoY; ¥2.2 billion Increase in SG&A Expenses Acts as a Negative Factor

Operating income is forecast at ¥11.7 billion. The company explains the factors behind the YoY increase of ¥660 million. Positive factors include contribution margin generated by increased revenue (+¥4.96 billion YoY) and an improvement in the product mix in Japan (¥1.6 billion), driven by the completion of large projects with upfront costs during FY3/26. On the other hand, negative factors include the recognition of a ¥2.2 billion increase in SG&A expenses in Japan (including ¥1 billion in strategic investments, primarily for R&D).

Q4 Operating Income is Expected to Be Around ¥3.0 Billion on an Underlying Basis - the Company's Forecast for FY3/27 is Fully Achievable

Looking at the quarterly operating income for FY3/26 shows results of ¥2.36 billion in Q1, ¥2.74 billion in Q2 and ¥3.57 billion in Q3, compared to ¥2.37 billion in Q4. However, adjusting for one-off factors - including provisions for doubtful accounts in Asia and Oceania and costs associated with organizational strengthening in Europe - underlying operating income for Q4 is estimated to have been around ¥3 billion.

Taking into account the seasonality whereby Q3 typically represents the earnings peak in a fiscal year, there appears to have been no material change in fundamentals and earnings momentum remains solid. Furthermore, in light of strong sales of newly launched printers, progress in the commercialization of the "PUT" initiative and the steady enhancement of the global management platform, the company's forecast for FY3/27 appears sufficiently achievable.

Assumptions for Overseas Base Businesses

The overseas base business is expected to benefit from favorable tailwinds such as regulatory requirements for DPP (Digital Product Passport) and the efficient rollout of solutions. By region, sales growth is anticipated in Europe and elsewhere following the conclusion of business negotiations for PJM-RFID in the blood products sector. In the Americas, in addition to the continuation of large projects related to BLE (Bluetooth Low Energy) sensor tags in the Retail market, demand is expected to increase in the Manufacturing and Healthcare markets. In Asia and Oceania, a government-led PET bottle recycling program is set to be implemented in a certain ASEAN country and as a result demand for solutions is anticipated there.

Assumptions for Overseas Primary Labels business

The overseas Primary Labels business anticipates an increase in sales volume due to the expansion of production facilities, while factoring in price declines amid a challenging business environment.

Assumptions for the Japan Business

In Japan, in addition to continued demand in the logistics market related to compliance with the Logistics Efficiency Act, proposals for industry standards in the Manufacturing market and other sectors, as well as changes in the consumption tax rate in the Retail market, are expected to provide tailwinds.

The Projected DPS for FY3/27 is ¥80

The DPS is projected to be ¥76 for FY3/26 (interim: ¥38, year-end: ¥38), and ¥80 for FY3/27, representing a ¥4 increase (DOE: 3%). The company aims for stable, progressive dividends and is guided by a shareholder return policy of a DOE of 3% or higher.

3 Key Topics from the Analyst Briefing

Under its current mid-term management plan (FY3/25 to FY3/29), the company has positioned the period starting with FY3/27 as a phase for resuming growth investments. At the briefing held on May 15, the company provided an explanation regarding the future consolidation of its core businesses (overseas and Japan) and the process to commercialize the Perfect and Unique Tagging concept. Additionally, recent initiatives aimed at strengthening global management infrastructure were introduced. The details are outlined below.

Develop a Robust Revenue Base for the Core Business (Overseas) - Base Business

For the overseas base business, the company plans to prioritize the allocation of management resources to countries and regions with growth potential, focus on winning over key accounts and strengthen the organizational structure - including production, sales and inventory management. Additionally, in Europe, where profitability has been declining, the company will consolidate functions such as strategic planning, business planning, marketing, investment decisions and project management - which were previously dispersed across individual countries - into the regional headquarters in Germany, with the aim of restructuring the command center.

For FY3/27, the company plans to implement these measures while assessing their effectiveness, with the goal of contributing to earnings in FY3/28. Furthermore, the company plans to expand sales of the new printer models in the Retail and Logistics (distribution warehouses) markets and establish them as the standard equipment for customers, thereby aiming to increase their market share in applications involving the high-volume, centralized issuance of labels. On the consumables side, the company will proceed with expanding production capacity in sectors expected to grow. In addition, the company plans to continue introducing manufacturing execution systems to improve productivity.

Primary Labels Business

For the overseas Primary Labels business, stabilizing sales and profits remains a key challenge. Leveraging the production capacity expansion implemented in FY3/26, the company will expand its product lineup and develop new applications.

Develop a Robust Revenue Base for the Core Business (Japan) - Building a Common Platform

In Japan, the company plans to steadily capture replacement demand, starting with the new printer model launched in FY3/26. Regarding value chain management, the company intends to utilize the common platform established in FY3/26 to standardize software and control boards, thereby streamlining development and evaluation processes, improving quality, and facilitating deployment across multiple models.

Commercialize the Perfect & Unique Tagging Concept - Targeting ¥35 billion for FY3/31(All 3 Themes)

The company expects that “PUT”, a new business expansion area, will boost the projected CAGR for net sales by 3.6ppt over the 5-year period from FY3/26 to FY3/31. Furthermore, “PUT” is characterized by higher profitability compared to existing businesses. The company classifies these initiatives into 2 categories: “Individual Item Management” and “Standardization”. Under “Individual Item Management”, there are 2 strategic themes: “Blood and Specimen Solutions” and “Smart Packaging”.

Under "Standardization", there are 2 strategic themes: "Circular Economy" and "Logistics DX". An executive officer has been assigned to each theme to accelerate execution. Of the 4 themes mentioned above, the company aims for net sales of ¥22 billion for FY3/29 and ¥35 billion for FY3/31 from the 3 themes excluding "Logistics DX", which is positioned as an existing core business (see Chapter 10, Section 3 for details).

Improve the Global Management Infrastructure

The company is focusing on improving the global management infrastructure to develop a robust base for the core businesses and commercialize the Perfect and Unique Tagging concept. In FY3/27, the company will introduce a new personnel system that clarifies roles and evaluations and will appoint regional CFOs to improve the effectiveness of financial governance at subsidiaries. The strengthening of the European organizational structure is also part of this effort. Regarding cybersecurity, the company aims to expand the scope of coverage and enhance management standards.

Figure 6. Income Statement (Qtly, ¥mn)

FY	3/25				3/26				3/16	3/27 CoE
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	FY	FY
Net Sales	**37,674**	**38,415**	**40,121**	**38,596**	**37,829**	**40,419**	**43,507**	**41,679**	**163,434**	**168,500**
Cost of Sales	22,070	22,902	23,393	22,972	22,497	24,315	26,469	24,822	98,103	
Gross Profit	15,604	15,513	16,728	15,624	15,332	16,104	17,038	16,857	65,331	
Gross Profit Margin	41.4%	40.4%	41.7%	40.5%	40.5%	39.8%	39.2%	40.4%	40.0%	
SG&A Expenses	12,740	12,598	12,641	13,148	12,973	13,361	13,467	14,488	54,289	
SG&A Margin	33.8%	32.8%	31.5%	34.1%	34.3%	33.1%	31.0%	34.8%	33.2%	
Operating Income	**2,864**	**2,914**	**4,086**	**2,475**	**2,359**	**2,742**	**3,572**	**2,368**	**11,041**	**11,700**
OP Margin	7.6%	7.6%	10.2%	6.4%	6.2%	6.8%	8.2%	5.7%	6.8%	6.9%
Non-Operating Income/Expenses	-453	-442	-47	-255	-474	-167	-154	-366	-1,161	
Ordinary Income	**2,411**	**2,472**	**4,040**	**2,221**	**1,885**	**2,575**	**3,417**	**2,004**	**9,881**	**11,200**
Ordinary Income Margin	6.4%	6.4%	10.1%	5.8%	5.0%	6.4%	7.9%	4.8%	6.0%	6.6%
Extraordinary Gains/Losses	-8	4	8	514	-67	7	-28	-1,444	-1,532	
Pre-Tax Profit	2,404	2,474	4,049	2,735	1,819	2,580	3,390	560	8,349	
Corporate taxes, etc.	984	415	1,276	1,155	556	702	1,259	592	3,109	
(Corporate Tax Rate)	40.9%	16.8%	31.5%	42.2%	30.6%	27.2%	37.1%	-	37.2%	
Profit Attributable to Owners of Parent	**1,197**	**1,830**	**2,564**	**1,558**	**1,211**	**1,841**	**2,053**	**-19**	**5,086**	**7,400**
Net Profit Margin	3.2%	4.8%	6.4%	4.0%	3.2%	4.6%	4.7%	-	3.1%	4.4%

Source: Company Data. Compiled by Strategy Advisors.

4. Stock Price and Valuation

The Stock Price is Currently Hovering Around ¥2,300

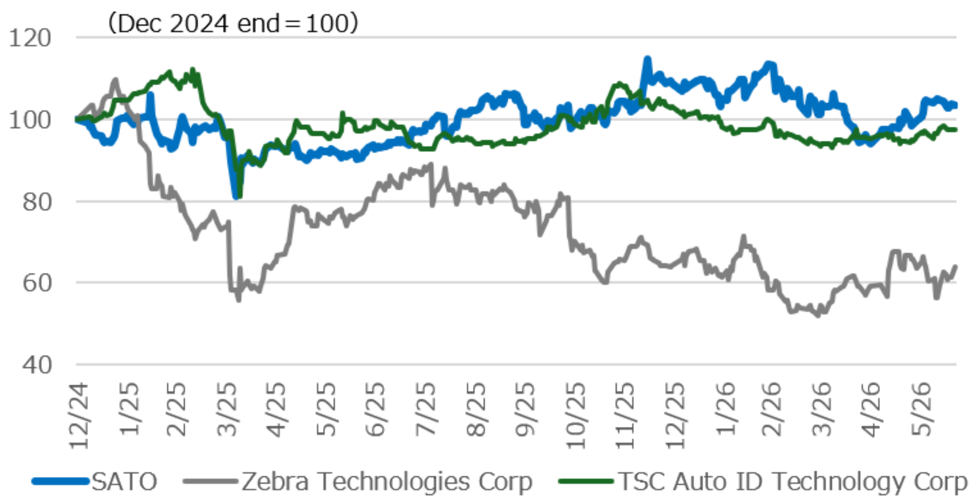
SATO's stock price plummeted following President Trump's April 2025 remarks regarding the introduction of reciprocal tariffs. After hitting a low of ¥1,776 during intraday trading on April 7, the stock rebounded and continued to rise steadily. Immediately following the mid-term plan update on December 15, the stock surged further, reaching a high of ¥2,565 during intraday trading on the following day, December 16. Since the start of 2026, the stock price has settled somewhat and is currently trading around ¥2,300 following the earnings announcement.

Comparison with Label Printer Companies

Below is a comparison of the company's stock price trend with that of other label printer companies. Zebra Technologies, the leading competitor, saw its stock price remain sluggish in 2025 due to stagnant business performance. However, thanks in part to strong results in Q1 of FY3/26, the stock price has recently shown signs of a rebound.

Meanwhile, the company has entered a phase in which it is steadily capturing new demand by addressing global social issues - such as labor shortages and operational efficiency - through Koto-Uri (Selling the Solution, Not the Product). It is currently undergoing a gradual transition toward a business model that is less susceptible to economic fluctuations. The content of its updated mid-term management plan has also been well received. As a result, stock price volatility has been relatively contained, and the stock has shown greater stability compared to Zebra's stock price trends.

Figure 7. SATO & Label Printer Companies Stock Price Comparison



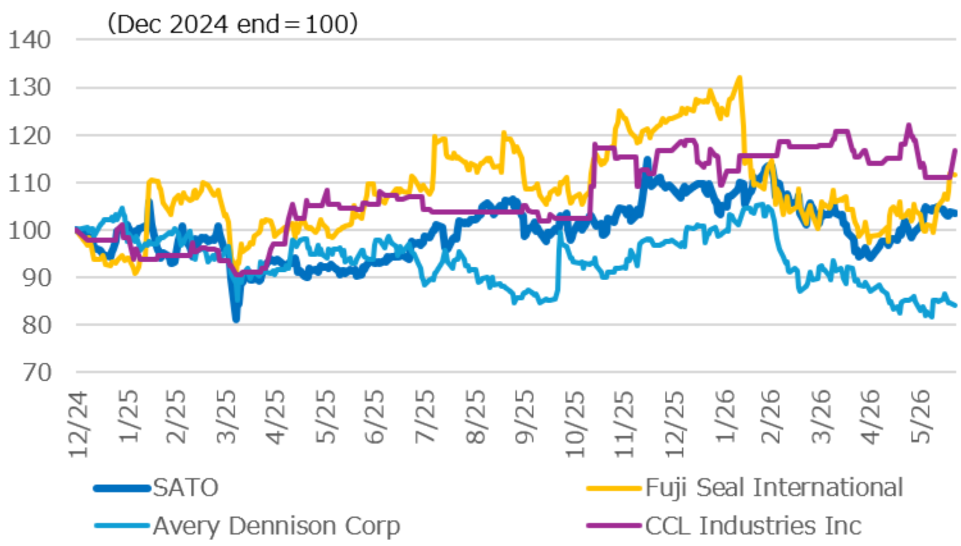
Source: Company Data. Compiled by Strategy Advisors.

Comparison with Consumables (Stickers) Companies

We also compare the company's stock price with that of consumables (Stickers) manufacturers. In a comparison of stock price performance with its main competitor, Avery Dennison, the company held a slight advantage through September 2025, but Avery Dennison staged a comeback following the announcement of strong Q3 FY3/25 earnings in October. Avery Dennison also reported strong full-year results for FY3/25 on February 4, but its stock price has since turned downward starting in March due to uncertainty regarding future demand.

A key feature of the company's business model is its emphasis on "Koto-uri (Selling the solution, not the product)", but this comes with the drawback of a high ratio of SG&A expenses. The company aims to address this drawback by expanding its solutions business and increasing the value added by its operations. Currently, the company is implementing an aggressive sales expansion strategy, including efforts to increase production capacity for consumables overseas. Leveraging its unique business model - which encompasses both printers and consumables - to differentiate itself from competitors will be crucial for the company's stock price.

Figure 8. SATO & Consumables Firm (Stickers) Stock Price



Source: Company Data. Compiled by Strategy Advisors.

Trends in PER & PBR Ratios

Figures 9 and 10 compare the company's profitability and valuation with those of label printer manufacturers, consumables manufacturers and general printer-related companies. SATO's valuation remains low. Based on the company's forecast for FY3/27, the PER is 10.1x, and based on actual BPS for FY3/26, the PBR is 0.9x. The dividend yield based on FY3/27 forecasts is 3.5%. PER remains relatively low among competing companies. PBR is also low, excluding general printer companies. Meanwhile, ROE fell from 9.7% in FY3/25 to 6.3% in FY3/26, partly due to extraordinary losses. While this places the company in the middle range compared to general printer companies, it remains at a low level among its direct competitors.

Valuation Comparison with Peer Companies

In contrast, Zebra Technologies, the industry leader, has a PER of 13.2x and a PBR of 3.4x, while Avery Dennison, the leading consumables supplier, has a PER of 15.7x and a PBR of 5.4x. These 2 companies stand out as having significantly higher PER and PBR ratios than the rest of the industry. We believe focus on improvements in the company's ROIC (and ROE) are the means of moving away from its current low valuation.

Future Stock Price Trends

We see upside potential for the company's stock driven by several factors. First, the struggling Overseas Primary Labels business bottomed out in FY3/26 and should cease to drag down FY3/27 earnings. Second, the Base business (domestic and overseas) is positioned to drive earnings growth via updated mid-term strategic initiatives. Regionally, key catalysts include improved profitability in Japan and expanded "Koto-uri" (sell the solution-based business) overseas. Close attention should be paid to sales of the well-received new printer model - the company's first to feature its proprietary common platform - and progress in commercializing the Perfect and Unique Tagging (PUT) concept.

Figure 9. Profitability Comparison with Peer Companies

Company Name	Code	FY	Currency	Sales (¥mn)	OP (¥mn)	OPM (%)	ROE (%)	ROIC (%)	Equity Ratio (%)
SATO	**6287**	**3/26**	**JPY**	**163,434**	**11,041**	**6.8**	**6.3**	**7.7**	**58.6**
Zebra Technologies	ZBRA	12/25	USD	5,396	800	14.8	11.7	8.6	42.2
TSC Auto ID Technology	611.TW	12/25	NTD	11,529	1,155	10.0	17.9	10.5	42.6
Fuji Seal International	7864	3/26	JPY	217,752	20,463	9.4	13.5	10.3	71.3
Avery Dennison	AVY	12/25	USD	8,856	1,124	12.7	30.2	14.4	25.5
Ricoh	7752	3/26	JPY	2,608,314	90,713	3.5	5.1	3.4	45.5
Canon	7751	12/25	JPY	4,624,727	455,390	9.8	9.7	7.3	56.9
Seiko Epson	6724	3/26	JPY	1,413,251	49,558	3.5	2.2	1.7	55.6
Brother Industries	6448	3/26	JPY	893,464	77,868	8.7	9.3	7.8	74.9
Konica Minolta	4902	3/26	JPY	1,087,738	49,869	4.6	6.1	4.3	43.4

Source: Company Data. Compiled by Strategy Advisors.

Figure10 . Valuation Comparison with Peer Companies

Company Name	Code	FY	Curr.	Stock Price (6/23)	Market Cap. (¥mn)	PER (CoE, x)	PBR (Actual, x)	EV/ EBITDA (x)	Dividend Yield (CoE, %)	ROE (CoE, %)
SATO	**6287**	**3/26**	**JPY**	**2,299**	**74,636**	**10.1**	**0.9**	**3.8**	**3.5**	**8.4**
Zebra Technologies	ZBRA	12/25	USD	246	1,891,636	13.2	3.4	10.7	-	17.7
TSC Auto ID Technology	611.TW	12/25	NTD	193	46,770	9.6	1.7	-	-	17.8
Fuji Seal International	7864	3/26	JPY	2,815	150,163	9.8	1.0	4.1	3.1	9.5
Avery Dennison	AVY	12/25	USD	157	1,946,586	15.7	5.4	10.3	-	33.2
Ricoh	7752	3/26	JPY	1,456	828,801	13.1	0.8	5.5	3.0	5.4
Canon	7751	12/25	JPY	4,222	3,667,177	10.9	1.1	6.2	3.8	9.7
Seiko Epson	6724	3/26	JPY	2,673	856,343	14.5	1.1	4.9	3.0	6.9
Brother Industries	6448	3/26	JPY	3,780	940,822	13.1	1.4	5.5	2.6	9.4
Konica Minolta	4902	3/26	JPY	558	275,755	9.7	0.6	5.3	3.2	5.3

Note: For overseas companies, closing prices are as of Jun. 22, 2026.
ROE (company forecast) is calculated by dividing the company's forecast net profit for the current period by the equity capital at the end of the most recent quarterly financial period. For overseas companies, it is the FactSet consensus forecast.
EBITDA in EV/EBITDA is calculated by adding the company's forecast operating income for the full year to the depreciation expenses of the most recent full year.
Source: Company Data. Compiled by Strategy Advisors.

5. Equity Story

"Increase Global Market Share in the Rapidly Growing Auto-ID Market, Driven by the Widespread Adoption of AI"

We believe SATO's equity story is to maximize the Inimitability cultivated through their corporate DNA - which is difficult to replicate, and "leverage the field expertise the company has steadily accumulated through solution deployment in Japan to proactively transform overseas operations; which are still primarily focused on selling products, into a solution-based model, thereby increasing global market share in the rapidly growing automatic identification market driven by the widespread adoption of AI". Currently, in addition to advancing the RFID and automation solutions (automatic labeling), the company aim to break into new areas by commercializing the Perfect and Unique Tagging concept.

New Needs Emerge Amid Worsening Labor Shortages & Growing Awareness of Global Environmental Conservation

Currently, labor shortages are becoming increasingly severe across various industries in Japan due to the shrinking working-age population. In the manufacturing sector, robotic assembly and automated material handling are gaining traction, while in logistics, improving the operational efficiency of delivery drivers - in addition to automated material handling - has emerged as an urgent priority ("Logistics DX"). Furthermore, labor-saving measures have become essential in sectors such as retail and healthcare ("blood and specimen SCM"). Since it is entirely foreseeable that these trends currently unfolding in Japan will eventually emerge in other countries around the world, Sato believes that by taking the lead, the company can increase its market share and secure significant business opportunities over the medium to long term. Furthermore, rising awareness of global environmental conservation is giving rise to new needs, such as the establishment of logistics networks for resource recycling ("Circular Economy") and initiatives to reduce food waste. A recent trend involves the addition of variable information to product labels and packaging ("Smart Packaging"), for which significant demand is expected in the future. Amid these major shifts in trends, as described above, numerous new social challenges common to the global community are emerging and are likely to continue to arise in the future.

As Society Enters the AI Era, "Tagging" Serves as an Edge Function That Forms the Foundation for Big Data Collection

Meanwhile, in the "tagging" domain - on which the company is focusing - if the movements of objects and people are collected as vast amounts of data along with status information, the databases storing this data will be effectively utilized in the future to implement AI across various industrial sectors. In other words, SATO's "Auto-ID solutions" are expected to play a key role as an edge function that forms the foundation for big data collection as enter the AI era. We believe that if the company leverages the inimitability - a trait born from its corporate DNA - and pools the collective wisdom derived from employee teamwork and a mindset focused on continuous improvement to accelerate the commercialization of the Perfect and Unique Tagging concept, this will lead to long-term corporate growth.

6. Overview - (Business Overview, History & President's Profile)

Playing a Key Role in the Global Spread of Barcodes

The company traces its origins to SATO Bamboo Machinery Works, founded in 1940. In 1962, it launched Japan's first hand-held labeler (a portable printer that prints prices and other information onto labels and applies them to products). In 1964, it began manufacturing labels to ensure print and application quality, achieving early growth alongside the expansion of supermarkets. The company was quick to adapt to barcodes when they emerged in the 1970s. Subsequently, in 1981, it introduced thermal transfer barcode printers, playing a key role in the global adoption of barcodes. From 1990 onward, leveraging its strength of simultaneously offering product lines in Mechatronics (such as label printers) and consumables (such as labels), the company shifted to a solution-providing business model. Founder Mr. Yo Sato initiated a unique system called the "Teiho", in which employees submit a daily report - without fail - to top management. This report summarized in 3 lines (100–150 characters) "proposals and ideas for improving the company, as well as observations and reports on measures taken". This system allows the company to harness the collective wisdom of its employees and drive continuous improvement.

Failed to Expand Market Share Overseas

The company's business segments are divided by region into 2 (or 3) categories: Japan and Overseas (Base Business and Primary Labels Business). Additionally, the company's customers span various industrial sectors, including Manufacturing, Logistics, Retail, Healthcare and Food. While the company has historically held a high market share in Japan, the economy has remained sluggish compared to other countries since 2000, and the company's business growth has been somewhat stagnant during this period.

In contrast, overseas markets not only have a large market size, but are also experiencing growing demand. The company, which has a lower market share there, has grown by leveraging M&A and other strategies. However, its market share has not reached the high levels seen in Japan, and the company's efforts to expand its high-value-added solutions horizontally can be said to still be a work in progress.

Corporate DNA & Inimitability

SATO's corporate DNA is characterized by the attitude of combining the power of employees and contributing to the development of society through tagging. Furthermore, given the company's history of expanding from hand labelers to barcode label printers and directly gathering customer needs from a "front-line perspective" in supermarkets. SATO's inimitability lies in its "ability to propose solutions to customers, cultivated by offering both Mechatronics and consumables as a tagging solutions provider". As a result, the company possesses a unique business model that enables provisions from end-to-end, both direct global sales and supply - from printers, automatic labelers and software to consumables and maintenance.

KPI Targets Set for FY3/29 in the Medium-Term Plan - Net Sales of ¥186 Billion, Operating Income of ¥15.7 Billion

In its medium-term plan (FY3/25 to FY3/29), the company has set forth 3 key initiatives: commercialize the Perfect and Unique Tagging concept, develop a robust revenue base for the core business (in Japan and overseas), and improve the global management infrastructure. The KPIs for FY3/29 are set at net sales of ¥186 billion, operating income of ¥15.7 billion, an operating margin of 8.4%, ROIC of 9.4%, ROE of 10.2% and a PBR of 1x or higher. In FY3/26, although the temporary strong performance of the European Primary Labels business faded, the company achieved a recovery in earnings for its core businesses. The company views the period starting with FY3/27 as a phase for resuming growth investments and plans to pursue a transformation toward management that balances stabilizing revenue and sustaining growth while being mindful of the cost of capital.

Contributing to the Resolution of Global Social Challenges

Currently, serious global social challenges are emerging one after another, including operational efficiency improvements across various industries driven by labor shortages, global environmental conservation and enhanced traceability. The company's tagging solutions are now expected to contribute to solving these social challenges. By leveraging the inimitability and steadily executing the measures outlined in its medium-term plan, opportunities to expand the scale of its business are likely to increase.

Share Price Rise Expected as the Equity Story Gains Credibility

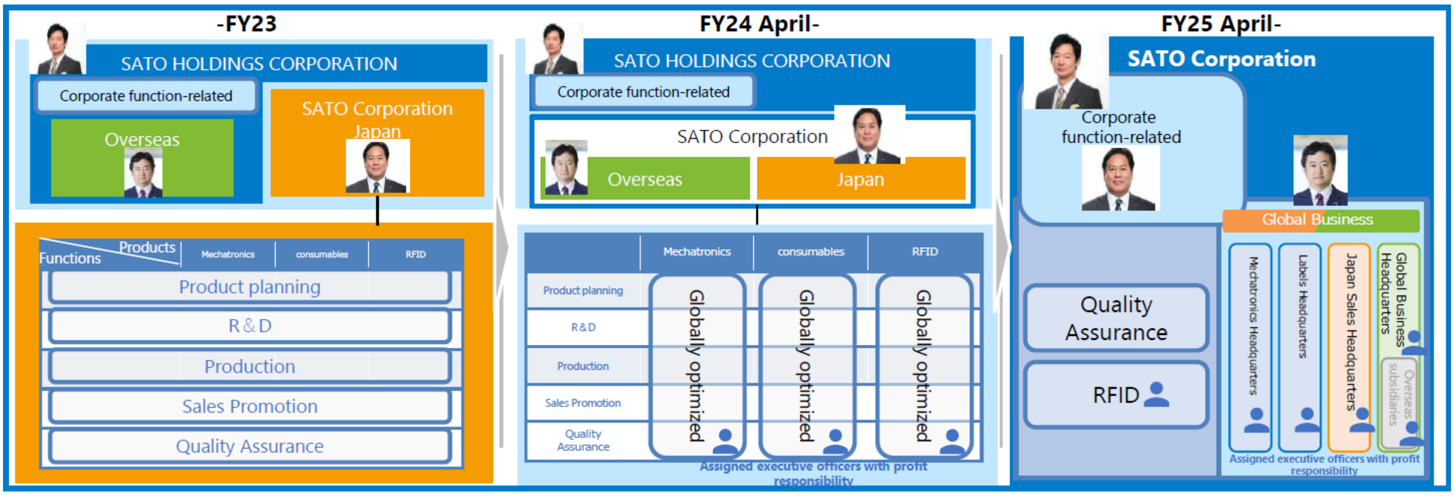
Based on the company's forecast for FY3/27, the PER stands at 10.1x, while the PBR based on actual results for FY3/26 is 0.9x - a slight increase from 0.8x in May of the previous year, though it remains at a low level. Recently, as the performance of the company's Primary Labels business has bottomed out, there is a high probability that earnings for FY3/27 will begin to recover. In the medium to long term, further stock price appreciation is expected if the feasibility of the equity story increases by - "leveraging the field expertise accumulated over many years through the deployment of solutions in Japan to proactively transform overseas markets, which remain primarily product-centric, into solution-based sales, thereby increasing global market share in the rapidly growing auto-ID market driven by the widespread adoption of AI".

1) Business Overview

Dissolved the Holding Company Structure in April 2025 and Relaunched as SATO Co., Ltd.

The company was listed on the TSE Prime Market as SATO Holdings Co., Ltd. (which held 100% of the shares of SATO Co., Ltd.) until FY3/25. In April 2025, it dissolved its holding company structure and relaunched as SATO Co., Ltd. President and Representative Director Executive Officer Konuma (Group CEO) oversees the entire organization. Together with Director, Senior Executive Officer & Executive Vice President Sasahara, they are responsible for the execution of the Group's overall business operations. Senior Executive Officer Shindo oversees global operations. Additionally, Senior Executive Officer Masuko (Group CFO) is responsible for financial strategy. Furthermore, as part of its mid-term plan, the company is improving the global management infrastructure as a measure to support the development of a robust revenue base for the core businesses and the commercialization of the Perfect and Unique Tagging concept.

Figure 11. SATO Group Organizational Chart

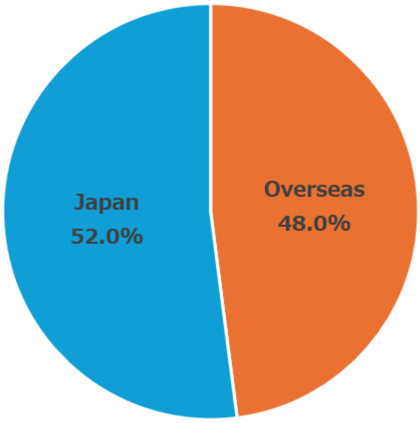


Source: Company materials

Composed of 2 Segments: Japan and Overseas

The company's business consists of 2 segments by region: Japan and Overseas (Overseas is further divided into Base business and Primary Labels business). The Overseas segment includes companies acquired through M&A, such as Achernar (Argentina) in 2012, Okil (Russia) in 2014 and Prakolar Rotulos Autoadesivos (Brazil) in 2015.

Figure 12. SATO's Sales Breakdown by Segment (FY3/26 Results)

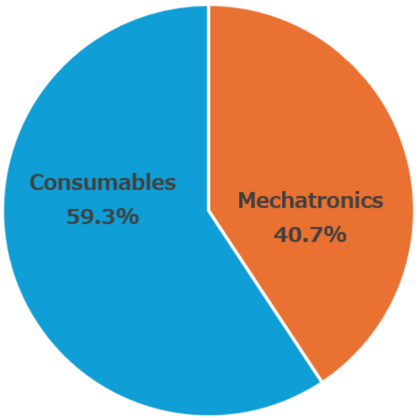


Source: Company Data. Compiled by Strategy Advisors.

Classified by Products & Services, the Company Offers Mechatronics & Consumables

When classified by products and services, the company's offerings consist of Mechatronics and Consumables. Mechatronics refers to hardware such as printers, label applicators, scanners, and hand labelers, as well as software and maintenance support. Consumables, on the other hand, refer to items such as variable-information labels, RFID tags, primary labels (product stickers) and ribbons. Variable-information labels are those printed with information that changes at the customer's site, such as barcodes, product prices, manufacturing dates and expiration dates. Generally, the profit margin for consumables is lower than that for Mechatronics. However, since consumables are expected to generate continuous demand, they contribute to the stability of the company's performance. The ratio of consumables to net sales has remained stable at around 60% for some time.

Figure 13. SATO's Sales Breakdown by Product (FY3/26 Results)

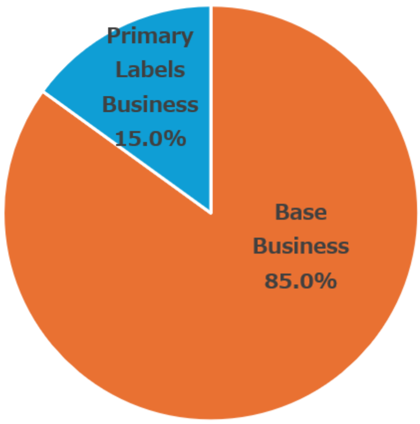


Source: Company Data. Compiled by Strategy Advisors.

Business Structures: Base Business & Primary Labels Business

The company's business operations are divided into the Base business and the Primary Labels business. The Base business handles the tagging of variable information (physically linking information such as IDs and locations to objects or people), while the Primary Labels business handles the tagging of fixed information. In Japan, the Base business accounts for the majority of business, whereas overseas operations consist of a mix of the Base business and the Primary Labels business. Note that the overseas Primary Labels business is primarily handled by companies (specializing in primary services) acquired through M&A since 2014.

Figure 14. SATO's Sales Breakdown by Business Segment (FY3/26 Results)

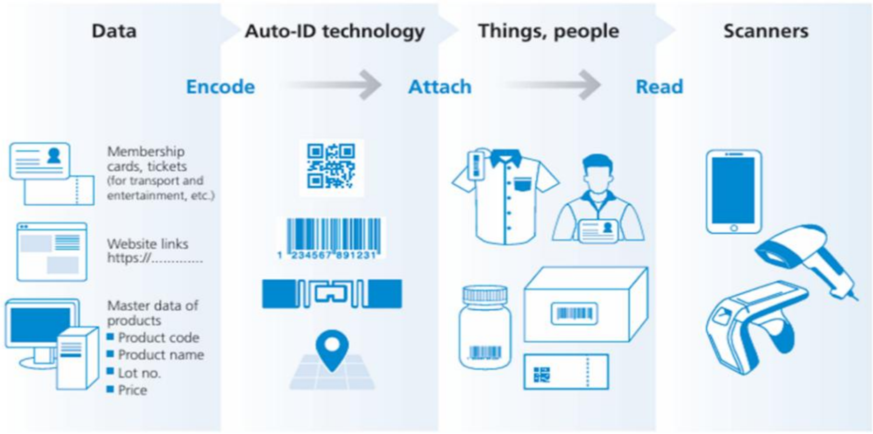


Source: Company Data. Compiled by Strategy Advisors.

Optimizing the Movement of Objects & People with Tagging Solutions

Tagging, the company's core business domain, is a system for collecting "small data" - such as the IDs and locations of objects and people - across various operational settings. As the use of big data and AI continues to advance, the potential for this technology to optimize the movement of objects and people across all industries and contribute to the realization of a sustainable society is growing ever stronger. The company aims to achieve medium to long-term earnings growth by strengthening profitability in its existing fields while simultaneously being the first to provide high-value-added tagging solutions in new industrial sectors.

Figure 15. What Are Tagging Solutions?

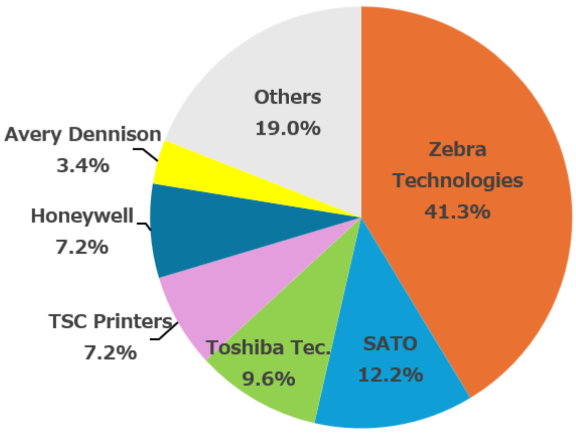


Source: Company Materials.

Global Market Share: Ranked 2nd in Printers, Behind Zebra Technologies

In the global label printer market, the company ranks second behind the market leader, Zebra Technologies (ZBRA NASDAQ). Other competitors include Toshiba Tec (6588 TSE Prime), TSC Printers (3611 TWO), Honeywell (HON NASDAQ), Avery Dennison (AVY NYSE), Citizen Systems and Teraoka Seiko, among others. Meanwhile, competitors in the consumables sector include Osaka Sealing Printing (unlisted), Fuji Seal International (7864 TSE Prime), Avery Dennison, CCL Industries (CCL.B CA) and Multi-Color (LABL NASDAQ), among others. Printer competitors, typified by Zebra, sell hardware for collecting big data and connect it to customers' existing systems - in other words, they provide "top-down" solutions. In contrast, SATO identifies issues that arise when collecting data at the customer's site and provides "field-centric" solution services through the supply of hardware, such as printers, and consumables. By possessing capabilities in both Mechatronics and consumables, SATO has a unique business model that enables it to propose these distinctive "field-centric" solutions.

Figure 16. Global Market Share of Label Printers (2024)



Source: Company Data. Compiled by Strategy Advisors.

2) History

The Company Traces its Origins to SATO Bamboo Machinery Works, Which Was Instrumental in Popularizing Bamboo Assembly Boxes

Sato's predecessor, SATO Bamboo Machinery Works, was founded in 1940 by founder Yo Sato (1921–2001, then 19 years old) to commercialize a machine for processing bamboo assembly boxes, which he had invented together with his father, Seiji. Bamboo assembly boxes are collapsible boxes made from bamboo. Lightweight, sturdy, and environmentally friendly, these boxes can be disassembled and flattened, making them easy to transport and store while saving space. Capitalizing on these features, demand for bamboo assembly boxes - ideal for the transport and storage of goods - grew rapidly. The company increased sales of its bamboo machinery, which enabled low-cost mass production, and in 1951, it was incorporated as SATO Bamboo Machinery Works. Particularly in the postwar period, the company supplied bamboo machinery to support the reconstruction of Asia and the founder himself traveled to the Philippines, India, Myanmar (then Burma), Thailand, and other countries to provide technical guidance. The gratitude the company felt for the tremendous support received from these Asian nations during this time became the foundation for its future business development.

Began Production & Sales of Hand Labelers, Followed by the Expansion of Barcode-Compatible Printers

Subsequently, Mr. Yo Sato succeeded in developing Japan's first, hand labeler and began production and sales in 1962. A hand labeler is a type of small printer - a device that allows users to easily apply labels printed with prices, manufacturing dates and other information to products. Demand for hand labelers grew alongside the expansion of the supermarket industry. Hand labelers subsequently spread from Japan to other countries as an essential tool in the retail industry and are still in use worldwide today. In the 1970s, barcode labels (identifiers that represent numbers and letters through variations in the thickness of striped patterns) emerged to replace text. The company was quick to develop and launch hand labelers capable of printing barcodes, playing a key role in the practical adoption of barcodes. Barcode printers at the time used thermal printing, but this method had the drawback that the print would fade within a few days due to heat or light. Subsequently, in 1981, the company developed the "M-2311", the world's first thermal transfer barcode printer, which eliminated this drawback and improved durability, thereby contributing significantly to the global adoption of barcodes. At the same time, the company began manufacturing its own printer labels. By providing printers and labels tailored to the needs of various industries - including apparel, logistics, manufacturing and Healthcare - the company succeeded in expanding the market segments where barcodes could be applied. Through these efforts, the company cultivated the "on-site competency" that serves as the foundation for proposing tagging solutions best suited to its customers.

Since 1980, The Company Has Actively Pursued Overseas Expansion

From 1980 onward, the company began full-scale overseas expansion with the aim of global business growth. First, in 1986, it established a factory in Malaysia and began manufacturing hand-held labelers. In 1987, it established local subsidiaries in the United States and Singapore, followed by one in Germany in 1989. In 1996, it acquired Nor Systems in the United Kingdom. Additionally, in 2004, it established a factory in Vietnam and began manufacturing printers. In 2005, the company acquired L'etiquetage Rationnel in France and in 2006, Checkpoint Systems in the United States, with the aim of strengthening its overseas operations. The company's growth coincided with the global spread of auto-ID technology.

Listed on the First Section of the Tokyo Stock Exchange in 1997

In 1990, SATO Co., Ltd. (which changed its trade name in 1974) registered its shares on the over-the-counter market; in 1994, it was listed on the Tokyo Stock Exchange's Second Section; and then in 1997, it was listed on the Tokyo Stock Exchange's First Section. Additionally, Tokuo Fujita (1951–2011), the second president and son-in-law of the founder, assumed the presidency in 1990 (having joined the company in 1985).

Advocating DCS & Labeling

Second-generation President Fujita advocated the concept of DCS (Data Collection System) & Labeling, paving the way for SATO's transformation into a solution-oriented company. From 2000 onward, advances in IT technology led to more sophisticated management of the movement of goods, increasing the importance of data collection on the shop floor. In response to this trend, the company strengthened its "auto-ID solutions", offering comprehensive proposals that integrated hardware, software, consumables and maintenance.

Expansion into the Medical Field

Around the year 2000, when medical accidents were frequent, the company introduced wristbands printed with patient information and 'L'esprit', a compact printer designed for medical settings. In 2015, it also launched models capable of remote preventive maintenance.

Dissolving the Holding Company Structure in April 2025

In October 2011, the company transitioned to a holding company structure and changed its trade name to Sato Holdings Co., Ltd., citing reasons such as streamlining group management, accelerating decision-making by business unit, and promoting M&A. However, to strengthen profitability, the company is currently pushing for a restructuring into a simpler organizational framework that centralizes management in Japan and overseas and globally optimizes product planning, development, production and sales for its Mechatronics and Consumables divisions. As mentioned earlier, the holding company structure was dissolved at the end of March 2025, and the company reverted to the name SATO Co., Ltd. at the beginning of April of that year, a name it retains to this day.

Figure 17. History of SATO

1940	Founded as a manufacturer of bamboo processing machinery
1951	Established joint stock company SATO Bamboo Machinery Works
1960	Company name changed to SATO Machinery & Engineering Co., Ltd.
1962	Started manufacturing and selling hand labelers, portable price marking machines
1974	Company name changed to SATO Corporation
1981	Launched the world's first thermal transfer barcode printer, the M-2311
1986–	Established local subsidiaries in Malaysia, the United States, Singapore, and Germany
1990	Registered Over-The-Counter (OTC) with the Japan Securities Dealers Association
1994	Listed on the Second Section of the Tokyo Stock Exchange
1996	Acquired shares in the UK company Nor Systems Ltd. and made it a consolidated subsidiary.
1997	Listed on the First Section of the Tokyo Stock Exchange
2000–	Established local subsidiaries in Singapore, Thailand, Poland, China, Belgium, Vietnam, Malaysia, the United States, Germany, Spain, Australia, New Zealand, and Sweden.
2005	Acquired shares of France L'etiquetage Rationnel and made it a consolidated subsidiary
2006	Acquired the auto-ID technology-related business division of Walker Datavision Ltd. in New Zealand
2009	Acquired shares of software developer InOut and made it a consolidated subsidiary
2010–	Established local subsidiaries in the Netherlands, Germany, India, Vietnam, Australia, Indonesia, the Philippines, Taiwan, Switzerland and Mexico
2010	Acquired shares in Argentina 's Nodos SA and made it a consolidated subsidiary
	Acquired shares of Sankyo Printing Co., Ltd. (name changed to SATO Impress Co., Ltd. in 2015) and made it a consolidated subsidiary.
2011	Acquired shares of Nitta Industry Co., Ltd. and established SATO Materials Co., Ltd. as a consolidated subsidiary.
	Acquired shares in Brazil's European Do Brasil Ltda. (name changed to SATO Auto-ID do Brazil Ltda. in 2012) and made it a consolidated subsidiary.
	The company transitioned to a pure-holding company structure and changed its name to SATO Holdings Corporation.
	Acquired shares of China's Wuxi Songxing Electronic Components Co., Ltd. and made it a consolidated subsidiary.
2012	Acquired shares in Taiwan's Argox Information Co., Ltd. and made it a consolidated subsidiary.
	Acquired shares in Argentina's Achernar SA and made it a consolidated subsidiary
	Established PT. SATO Nagatomi as a joint venture between SATO and PT. Indonagatomi in Indonesia (renamed PT. SATO Label Indonesia in 2016).
2013	Acquired RFID business from Australia's Magellan Technology Pty Ltd. Established SATO Vicinity Pty Ltd.
2014	Acquired shares in Russia's Okil-Holding, JSC, making it a consolidated subsidiary
2015	SATO New Zealand Ltd. acquired the label business of Jenkins Labels Limited in New Zealand
	Brazil Prakolar Rotulos Auto-Adesivos SA (2017, Prakolar Rotulos Acquired shares in Autoadesivos Ltda., making it a consolidated subsidiary.
2017	Acquired shares in UK Company DataLase Ltd. and made it a consolidated subsidiary (in 2020, transferred all shares through MBO).
2020	UK DataLase Ltd. transferred to DataLase Holdings Limited through MBO
2022	Changed listing market of Tokyo Stock Exchange from First Section to Prime Market
2023	Acquired shares of Stafford Press, Inc. through SATO International America, Inc., a subsidiary in the United States, and made it a subsidiary.
2025	The holding company structure was dissolved, and the company name was changed to SATO Corporation.

Source: Company Data. Compiled by Strategy Advisors.

3) President's Profile

Assumed Office as the 7th President in 2023

Mr. Hiroyuki Konuma, the 7th President who took office in 2023, was born in Tokyo in 1973 and is 53 years old. In 2000, at the age of 27, he joined SATO, his third employer. He cited the company's 60-year history and its status as a large firm, as well as his positive impression of manufacturers, as reasons for his choice.

Made Significant Contributions to the Company's Performance as a Sales Representative in the Medical Field

Mr. Konuma served as a sales representative in the medical field for 7 years, after which he was promoted to section chief and then department manager in the printer sales promotion division. In 2010, he became General Manager of the Medical Business Division (which was established that same year). SATO had already entered the medical field in 1998, before Mr. Konuma joined the company. However, in 2002, the introduction of electronic medical records in healthcare facilities accelerated due to government subsidies, and demand for printers compatible with these systems surged dramatically. Recognizing that this was a period of favorable market conditions, Mr. Konuma humbly attributes his significant contributions to the medical sector to "good timing".

Concerns Over the Commoditization of Printers

Looking back on his first 10 years at the company, he first cites the commoditization of printers - the company's flagship hardware product - and the clear downward trend in prices as particularly memorable. This fostered a sense of crisis within the company. At the same time, the company's awareness deepened that SATO possessed a unique business model - distinct from that of its competitor, Zebra - by handling both Mechatronics (Hardware) & Consumables. Regarding customer relationships, he seems to have experienced firsthand during his time as a sales representative the harsh reality of being subjected to constant price-cutting pressure, due to a situation where the company routinely operated in a subcontractor-like role, all because of an excessive emphasis on directly understanding on-site needs.

Focus on Future M&A Strategy

Looking back at recent M&A activity under past presidents, the frequency was high during the tenure of the Fifth president, Kazuo Matsuyama (currently Representative Director of Asahi Breweries), but declined during the tenure of the Sixth president, Ryutaro Kotaki. After taking office in 2023, Mr. Konuma initially adopted a strategy focused on improving financial health, but it is believed he may increase the frequency of M&A going forward. However, as evidenced by the dissolution of the holding company structure in 2025, the company also aims to simplify the hierarchical structure of the group organization and accelerate decision-making as social challenges gradually become shared on a global scale. Therefore, should M&A transactions be carried out in the future, we will also be watching for Post-Merger Integration (PMI) efforts designed to ensure that acquired businesses function organically within the group organization at an early stage.

Figure 18: SATO's Successive Presidents

		Term as President	Joined SATO
1	Yo Sato	May 1951 - June 1990	
2	Tokuo Fujita	June 1990 - June 2003	1985
3	Masanori Otsuka	June 2003 - June 2007	1977
4	Koichi Nishida	June 2007 - September 2011	Mar-81
5	Kazuo Matsuyama	October 2011 - March 2018	Jun-01
6	Ryutaro Kotaki	April 2018 - March 2023	Feb-88
7	Hiroyuki Konuma	April 2023 - Present	Jul-00

Source: Strategy Advisors based on the Securities Report

7. Contributing to Society Through Tagging Solutions

What Are Tagging Solutions?

A tagging solution refers to a system that assigns and collects information - such as IDs and status data (small data) - to objects and people in various settings. SATO is positioned as a company that supplies the Mechatronics and Consumables necessary for tagging and provides the optimal system (tagging solution) for its customers.

1) Business Model

From Bamboo Processing Machines to Hand Labeler & Then to Barcode Printers

The company's flagship products evolved from bamboo processing machines and strapping machines in its early days to hand-labelers introduced in 1962 and thermal transfer barcode printers in the 1980s. Up to this point, the company's business model can be described as primarily manufacturing-oriented (sell the products). However, in the mid-1990s, the company proposed the concept of "DCS & Labeling" and shifted to a solutions-oriented (sell the solutions) business model. Furthermore, the company has been expanding overseas since the 1990s and as of FY3/26, the proportion of overseas net sales has grown to 48% of total net sales.

Shift from a Product-Centric to a Solution-Centric Business Model

During the "product-centric" era, customer needs included requests such as "We want to issue labels faster" to improve labor productivity on the shop floor. The company addressed these needs by improving the performance of the hardware it supplied (such as printers). However, in the "sell the solutions" era, the company visits customers' work sites to propose solutions regarding the placement of personnel and printers when attaching information to items, the selection of printer performance and the choice of consumables (such as labels). Through such collaboration with customers, if, for example, productivity can be improved by 20% compared to previous levels, this contributes to solving more fundamental customer challenges, such as "labor shortages".

Figure 19: Sales Growth Accompanying Business Model Evolution

Note: DCS & L: Data Collection Systems & Labeling.
Source: Company Materials.

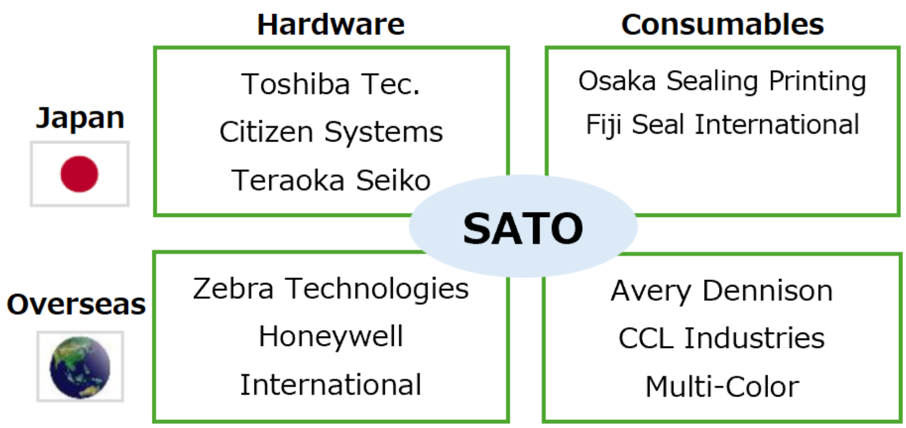
Providing Optimal Solutions to Customers Through Sell the Solutions

The reason SATO is committed to "Koto-uri (sell the solutions)" is its desire to continuously provide optimal solutions through technological innovation in response to customer challenges that are constantly evolving due to societal changes. Social changes in this context include, for example, the digital shift, changes in industrial structure, demands for safety and security, labor shortages and growing awareness of the SDGs. To address these challenges, SATO has adopted a policy of promptly incorporating technological innovations such as IoT, AI, wireless communication technologies, sensing and robotics.

Company's Strength Lies in Having Both Hardware (Mechatronics) & Consumables Businesses

To successfully implement a "sell the solutions" approach, it is essential to operate both hardware (Mechatronics) and Consumables businesses. As a company specializing in tagging, Sato's direct involvement in the consumables business allows it to accumulate on-site competency across the diverse industries it serves. The resulting ability to continuously solve problems represents a unique strength not found in other companies. Furthermore, solutions achieved through the optimal combination of Mechatronics (e.g., printers) and consumables become extremely difficult for competitors to replicate once established. Building barriers to entry in this way and establishing a stable business foundation constitutes Sato's winning business model.

Figure 20. Competitive Landscape – SATO's Position within the Industry



Source: Company Data. Compiled by Strategy Advisors.

2) Base Business: Primary Labels Business

Japan Focuses on Base Business. Overseas Markets Feature a Mix of Base & Primary Businesses

The company categorizes its auto-ID solutions into "Base business" and "Primary Labels business" based on the nature of the information being tagged. While the Base business accounts for the majority in Japan, overseas operations feature a mix of Base business and Primary Labels business.

The Base Business Features a Diverse Product Lineup

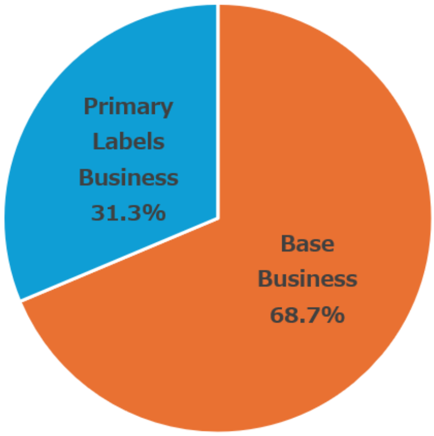
The "Base business" refers to the business of tagging "variable information". "Variable information" includes barcodes, product prices, manufacturing dates and expiration dates. SATO sells hardware (Mechatronics) such as printers for printing text and barcodes (QR codes) on labels at customer sites, automatic label applicators and scanners for reading information. At the same time, by supplying consumables (such as tags and labels) optimized for specific applications, Sato provides comprehensive tagging solutions. Furthermore, in line with the widespread adoption of RFID, the company also supplies RFID-compatible label printers, RFID reader-writers and RFID tags and labels, offering comprehensive solutions in this area as well.

The "Primary Labels" Business is Primarily Handled by Subsidiaries Acquired Through Overseas M&A

The Overseas Primary Labels business specializes in printing "fixed information" (predetermined text and graphics) on standard product stickers and seals, which customers apply themselves. This segment is driven by 5 M&A-acquired subsidiaries: Achernar (Argentina), Prakolar (Brazil), Okil and X-Pack (Russia), and finally Hirich (Vietnam). Europe dominates net sales, with the company holding the top market share in Russia.

Leveraging high-performance equipment that supports advanced technologies like adhesive labels, shrink sleeves, and in-mold labels, the strategy is shifting toward highly profitable, value-added products - which currently comprise an estimated 25–30% of net sales (Strategy Advisors estimate). Additionally, the emerging smart packaging sector represents a promising future growth area.

Figure 21. Base/Primary Ratio (FY3/26 Sales) — Overseas



Source: Company Data. Compiled by Strategy Advisors.

3) Providing a Variety of Products and Services to Many Markets

Business Areas Are Diversified Across Various Markets

SATO's business areas are not concentrated on specific markets but are well-balanced across a diverse range of markets. The breakdown of actual net sales for FY3/26 by application, on a consolidated basis, was as follows: Manufacturing 31.5%, Logistics 18.2%, Retail 21.3%, Healthcare 11.1%, Food 10.6% and Others 7.3%.

Figure 22. Sales Breakdown by Application (FY3/26 Results)

Source: Company Data. Compiled by Strategy Advisors.

Manufacturing industries such as automotive, electrical and electronic components and chemicals and steel are constantly faced with numerous challenges. In the automotive industry, for example, these include improving the accuracy of traceability, streamlining parts replenishment and optimizing operational efficiency during parts receipt and product shipment. In recent years, in particular, awareness of quality control has heightened due to issues stemming from fraudulent inspections and there is a growing demand for improved traceability accuracy.

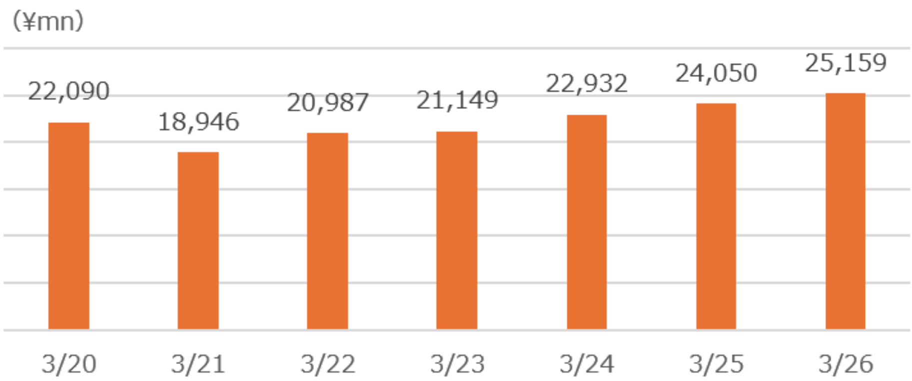
Manufacturing

In addition to product traceability, SATO solves these challenges by implementing traceability that links products, worker, and work details through positioning, labeling, and RFID. Furthermore, in the electronic components industry, the precise application of labels to small components is a key challenge. SATO is able to provide solutions using high-precision, ultra-small label applicators designed to meet these needs.

Demand for "Logistics DX" is Growing

Furthermore, while the company describes "Logistics DX" as an area of expansion and anticipates its spread to various markets, it is currently centered on the Manufacturing market. Both "IritoDe", a process management software for manufacturing sites; and "ASETRA", an asset management software, are RFID-based solutions for which demand is growing. Net sales for "Logistics DX" amounted to ¥2.5 billion for FY3/26 (primarily in Japan). The number of business negotiations in Japan is on the rise, standing at approximately 2,000 (as of the end of FY3/26). The company is currently a member of 2 industry associations (semiconductor-related and chemical-related).

Figure 23. Sales Trends in Manufacturing Market (Japan)



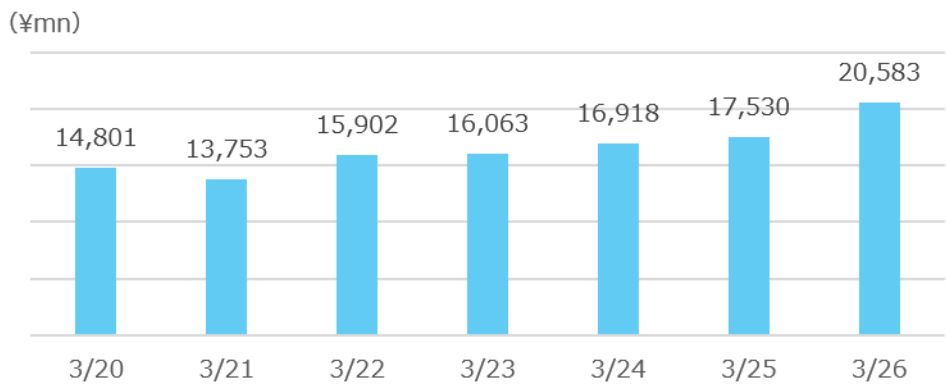
Source: Company Data. Compiled by Strategy Advisors.

Logistics

In the distribution industry, key challenges include improving efficiency in warehouse operations such as receiving, sorting, storage and order picking. In the transportation industry, they include administrative processing at pickup and delivery locations, as well as driver health management. These challenges are particularly troubling for customers as labor shortages have become the norm. Solutions focused on labels affixed to cardboard boxes used for shipping are particularly appealing.

SATO aims to contribute to its customers by implementing various proposals that leverage on-site competency to reduce the burden on workers. Another strength is SATO's development capabilities, which incorporate cutting-edge technologies advancing within warehouses, such as integrated solutions with automated guided vehicles (AGVs) and inspection tasks utilizing voice recognition and wearable devices. Furthermore, in home delivery operations, SATO's solutions help reduce the burden on drivers and other staff by shortening label issuance times during pickups and redeliveries through the introduction of mobile printers, as well as by enabling centralized management of undelivered packages via RFID.

Figure 24. Sales Trends Logistics Market (Japan)

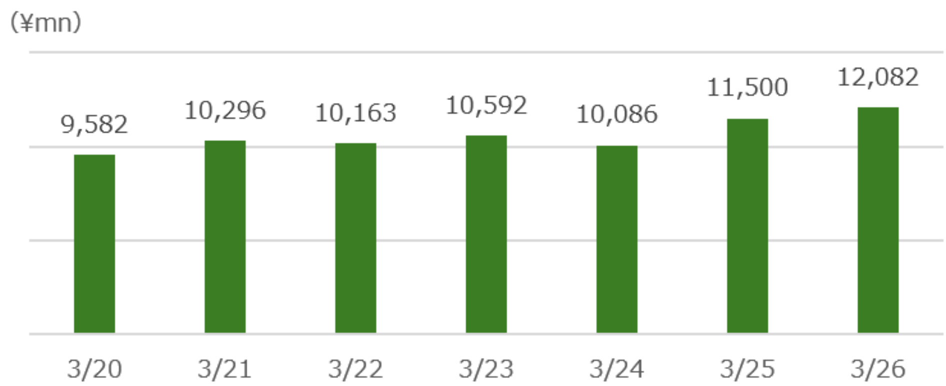


Source: Company Data. Compiled by Strategy Advisors.

Retail

Starting with hand labelers used to print price tags in supermarkets, SATO's solutions have since branched out into many applications. SATO continues to propose solutions that address customer needs, such as complex label displays, food safety management, discounting to reduce food waste, improving store staff efficiency and preventing labeling errors. In particular, there is significant potential for utilizing cutting-edge technologies, such as AI to determine discounting strategies aimed at reducing food waste. Retail stores (including apparel, general merchandise, and jewelry) face common challenges such as identifying best-selling products and linking that information to factory production management, tracking backroom inventory and improving customer service quality by reducing the workload on store staff. SATO proposes a solution that streamlines factory and logistics operations by switching product tags from barcodes to RFID, and further integrates this with in-store sales data via cloud services. This aims to shorten lead times across the entire supply chain and achieve optimized operations that ensure no sales opportunities are missed.

Figure 25. Sales Trends in Retail Market (Japan)

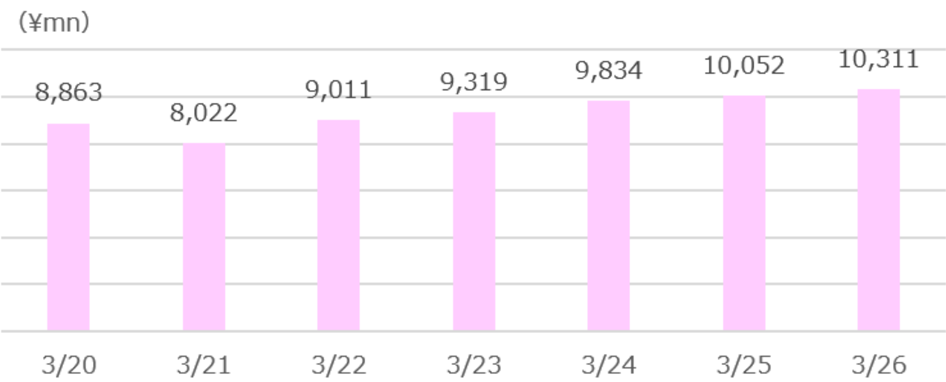


Source: Company Data. Compiled by Strategy Advisors.

Healthcare

The healthcare sector is a relatively new business area for SATO, having taken off in earnest around the year 2000. In hospitals, barcode authentication using wristbands is widely adopted to prevent errors during injections and IV drips for inpatients. However, to address the need to reduce work time due to staff shortages and the challenge of waking patients while they are asleep, the company is promoting the introduction of RFID wristbands. While product traceability is of the utmost importance in the pharmaceutical industry, the company offers packaged proposals for label issuance systems that comply with the Ministry of Health, Labor and Welfare's CSV Guidelines and ER/ES Guidelines. Furthermore, as RFID standardization progresses in the medical device industry, the company provides solutions that enable writing to or printing on RFID tags simply by scanning existing barcodes with a scanner.

Figure 26. Sales Trends in Healthcare Market (Japan)

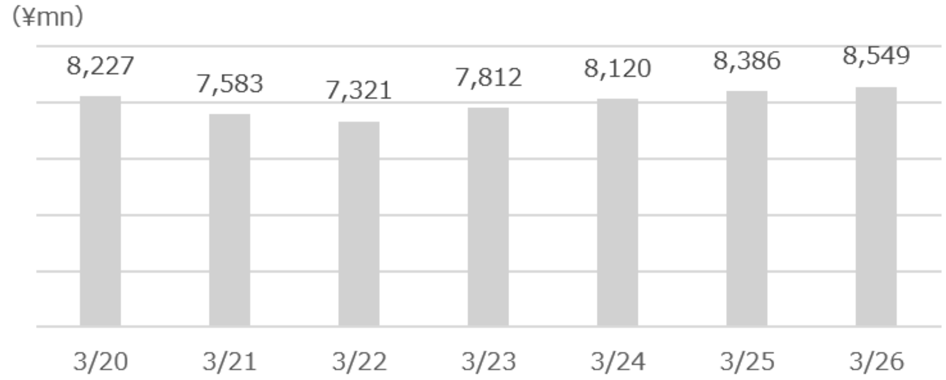


Source: Company Data. Compiled by Strategy Advisors.

Food

Since food is directly linked to people's health, it is necessary to balance compliance with laws and regulations with operational efficiency. In the food manufacturing industry, key challenges include error-free label issuance in compliance with the Food Labeling Act, monitoring of food hygiene management, automation of label application, maintaining quality in expiration date labels for frozen and chilled foods, strengthening supply chain traceability and accurate inventory tracking. SATO proposes solutions to address these challenges. In the foodservice industry, SATO is promoting the adoption of label-based solutions for centralized ingredient management at family restaurant chains and other establishments, as well as on-site expiration date management of ingredients.

Figure 27. Sales Trends in Food Market (Japan)



Source: Company Data. Compiled by Strategy Advisors.

4) Characteristics of Mechatronics and Consumables & Production Bases

Provides a Comprehensive Suite of Hardware, Software & Consumables

While label printers are SATO's main mechatronics product, the company also offers a range of other hardware, including handheld terminals, scanners, automatic labelers, label peelers, hand labelers and magnetic card reader/writer systems, in addition to providing maintenance support and software. Meanwhile, consumables primarily refer to labels, tags, stickers and packaging (primary labels).

Mechatronics

<MECHATRONICS>

The company's label printers are characterized by a wide product lineup designed to meet the diverse needs of customers across various industries. The company's flagship model, which it calls "Scantronics", is currently in the process of transitioning from the previous "CL4/6NX" to the new "CL4/6-SXR". These diverse customer needs include label width (in inches), installation space, print speed, print resolution, print position accuracy, paper feed method (manual or automatic), compatibility with multiple label materials, display size, presence or absence of a touch panel, presence or absence of preventive maintenance functions, portability and many others. In addition, models compatible with RFID labels are also available.

For example, the company's strength lies in enabling customers to select label printers suited to solutions for various industries - such as product lines suitable for product traceability labels in factories, product lines for labels affixed to cardboard boxes in logistics and products for issuing RFID wristbands in hospitals.

Figure 28. Mechatronics Product Lineup

Source: Company Materials.

Consumables

<CONSUMABLES>

In addition to standard labels, the label types include solvent-resistant labels, clean paper, heat-resistant labels, thick paper-reinforced synthetic paper, highly weather-resistant labels, water-resistant thermal paper, non-repeat thermal paper (3-layer structure), non-separator labels (no backing paper), heat-resistant thermal paper, transparent labels, and easy-peel labels (easy to peel off). Tags also come in various types, such as brand tags, eco-tags and department store tags. In addition, products for hospitals include wristbands (also compatible with RFID), specimen (blood draw) labels and injection (IV) labels.

Figure 29. Consumables' Product Lineup

Source: Company Materials.

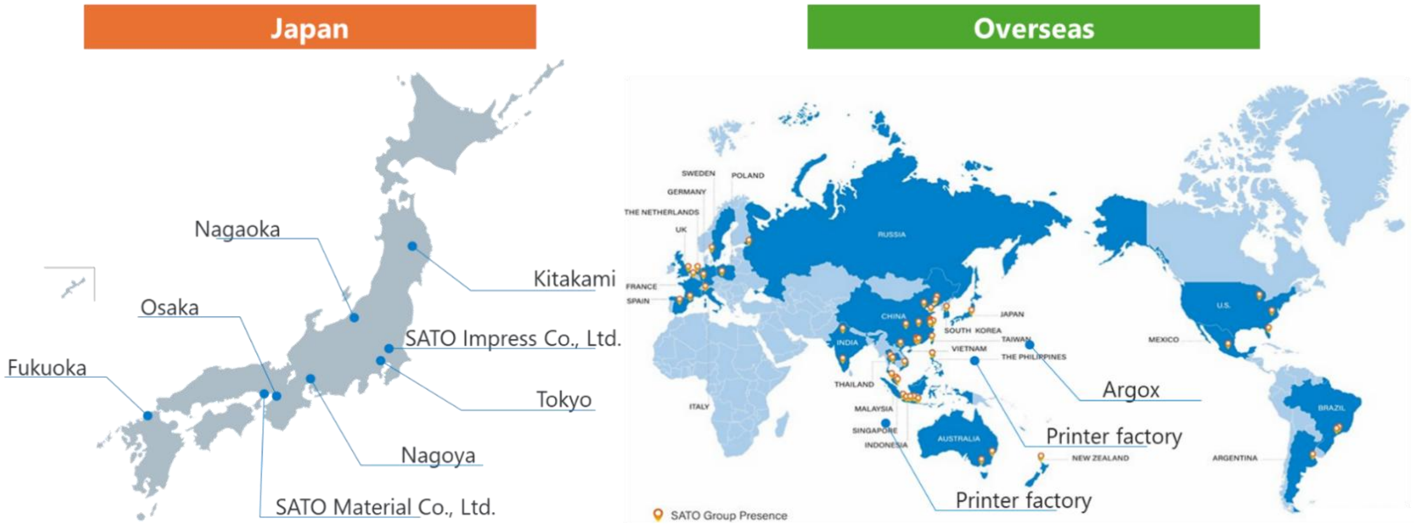
Production Bases (Mechatronics): Primarily in Asia

Production of mechatronics products (primarily label printers) takes place at 3 locations: factories in Malaysia and Vietnam, as well as at the group company Argox in Taiwan. The company is optimizing its product lineup and inventory levels in conjunction with the standardization of printer platforms, which is expected to lead to cost reductions. Furthermore, since SATO's Japan operations import products manufactured at overseas printer factories for sale in Japan, a weak yen and strong Asian currencies have a negative impact on operating income, while a strong yen and weak Asian currencies have a positive impact.

Production Bases (Consumables): 42 Locations Worldwide

Consumables production is carried out at 42 sites worldwide. Of these, 37 are label factories, 3 are ribbon factories and 2 are factories operated by group companies. The company is strategically promoting the strengthening of its solutions business overseas and is working to expand label production capacity and improve productivity.

Figure 30. Production Sites



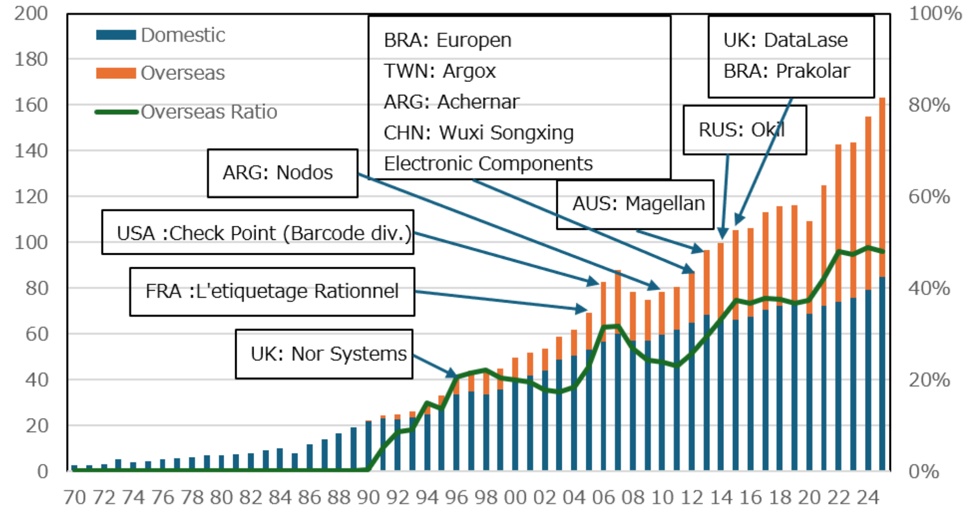
Source: Company Materials.

8. Performance Trends by Segment

Continued Steady Growth

Since the launch of its thermal transfer barcode printers in the 1980s, SATO's net sales have generally followed an upward trend, demonstrating steady growth. Driven in particular by the effects of its global expansion - which began in earnest in the 1990s - and the contribution of its unique, solutions-oriented business model, net sales surpassed ¥50 billion in FY3/02 and exceeded ¥100 billion in FY3/16. For FY3/24, net sales were ¥143.4 billion and operating income was ¥10.3 billion, marking the first time operating income exceeded ¥10 billion. Operating income remained above ¥10 billion in both FY3/25 and FY3/26. Furthermore, while the ratio of overseas revenue stood at 19% in FY3/02, it rose to 37% in FY3/16 and reached 48% in FY3/26. This demonstrates that, in addition to steady growth in Japan, rapid growth overseas is driving consolidated performance.

Figure 31. Trends in the Overseas Sales Ratio



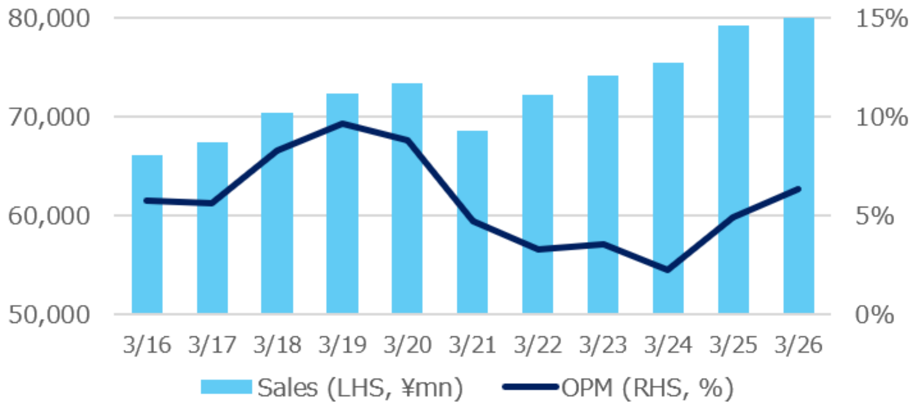
Source: Company Data. Compiled by Strategy Advisors.

1) Situation in Japan (Mechatronics, Consumables)

Performance Has Been Growing Steadily & the Pace of Net Sales Growth Has Accelerated in Recent Years

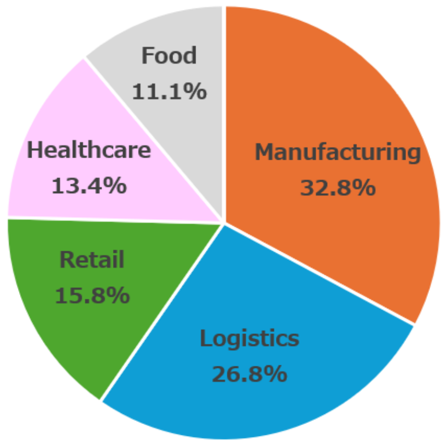
<52% of Consolidated Sales, Operating Margin of 6.4% for FY3/26>
The performance of the Japan business has been growing steadily, and the operating margin, in particular, has been on a recovery trend since FY3/25. Furthermore, the ratio of consumables to net sales has remained stable at around 60% since 2000. Generally, net sales volatility due to economic fluctuations is relatively high in the Mechatronics segment and low in the Consumables segment. Consequently, due to the economic downturn following the Lehman Shock, the Consumables segment’s share rose and hovered around 65% from FY3/09 through FY3/12. The actual figure for FY3/26 was 56.8%; currently, it is trending slightly downward from the usual level of around 60% due to an increase in new project acquisitions and the capture of printer replacement demand. The 10-year CAGR for net sales is 2.5%, but the 5-year CAGR is 4.4%, indicating that the pace of growth has accelerated in recent years. Over the past 5 years, the logistics sector has continued to show strong growth, while Manufacturing and Healthcare have also grown steadily. In the retail and food sectors, demand related to operational efficiency improvements driven by labor shortages has also begun to emerge. Furthermore, the breakdown of actual net sales by application for FY3/26 was as follows for Japan (excluding maintenance, etc.): Manufacturing 32.8%, Logistics 26.8%, Retail 15.8%, Healthcare 13.4% and Food 11.1%.

Figure 32. Performance Trends for Auto-ID Solutions Business (Japan)



Source: Company Data. Compiled by Strategy Advisors.

Figure 33. Net Sales Breakdown by Application Market in Japan (FY3/26 Results)



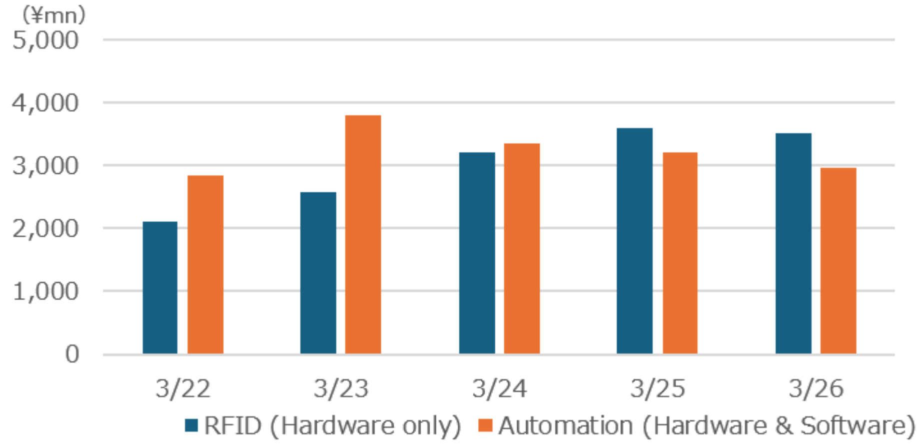
Source: Company Data. Compiled by Strategy Advisors.

Operating Margin Shows a Recovery Trend

The operating margin stood at 6.4% for FY3/26. It exceeded 5% during the 4-year period from FY3/17 to FY3/20, with the peak point over the past 10 years being 9.6% in FY3/19. However, it fell below 5% to 4.7% in FY3/21 and the downward trend generally continued thereafter, declining to 2.3% in FY3/24. Possible factors include a decline in gross margin due to rising raw material costs and increased production costs associated with the weak yen, as well as a trend of rising SG&A expenses driven by factors such as an increase in headcount linked to new product development and the proposal of new solutions.

On the other hand, since then, appropriate price adjustments have been implemented in response to rising costs, and the scale of operations in high-value-added sectors has also begun to expand gradually. Against this backdrop, the operating margin bottomed out at 2.3% in FY3/24 and has since rebounded to 4.9% in FY3/25 and 6.4% in FY3/26, indicating a recovery trend.

Figure 34. Sales Trends in Japan's "RFID/Automation" Sector



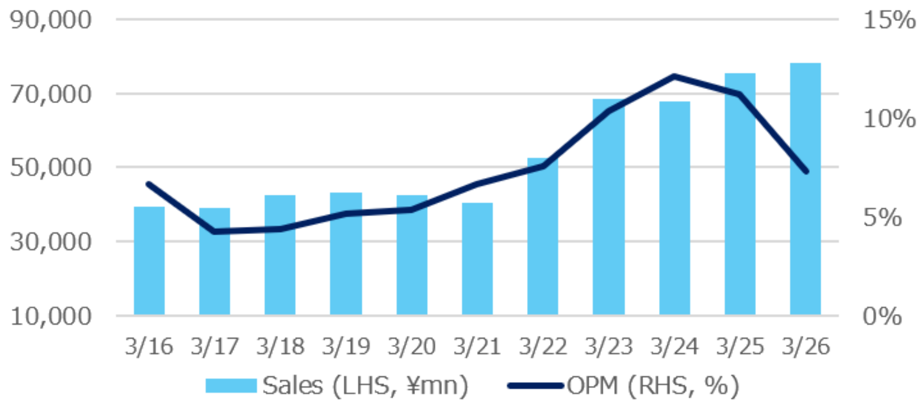
Note: Estimated and prepared by Strategy Advisors.
Source: Company Data. Compiled by Strategy Advisors.

2) Situation Overseas (Americas, Europe, Asia/Oceania)

Net Sales in the Base Business Are Growing Steadily. The Primary Labels Business is Experiencing Rapid Growth in Russia

The overseas business continues to grow. SATO discloses this segment as the Base business and the Primary Labels business (See Chapter 7). The net sales growth rate for overseas operations (10-year CAGR) is high at 7.1%, and the 5-year CAGR, in particular, stands at 14.2%, indicating that the growth rate has accelerated in recent years. In addition to the steady growth of the Base Business (5-year CAGR of 11.7%), the Primary Labels business (Stickers) has shown rapid growth (5-year CAGR of 21.3%) driven by strong performance in Russia. Although the company does not disclose its Base business segment broken down into Mechatronics and Consumables as it does in Japan, we estimate that the Consumables segment accounts for just under 50% of net sales - slightly lower than in Japan - due to the high proportion of sales made through distributors.

Figure 35. Performance Trends for Auto-ID Solutions (Overseas)



Source: Company Data. Compiled by Strategy Advisors.

Operating Margin Exceeded 10% from FY3/23 to FY3/25. But Fell to 7.3% in FY3/26

The operating margin has generally fluctuated within the 4–8% range since FY3/17, but for the 3-years starting from FY3/23, it exceeded double digits, reaching 10.4% in FY3/23, 12.1% in FY3/24 and 11.2% in FY3/25. On the other hand, in FY3/26, it fell to 7.3% due to sluggish performance in the Primary Labels business. While the operating margin for the Base business has remained generally stable at around 6–8%, it is evident that the operating margin for the Primary Labels business - which was originally at a low level (1.0% in FY3/20) - rose sharply to 17.9% in FY3/23, 23% in FY3/24 and 18.3% in FY3/25, thereby boosting overall operating income levels. The high profit margins in the Primary Labels business were achieved due to a temporary improvement in the competitive environment for the 2 Russian subsidiaries (Okil and X-Pack). Although the operating margin fell to 8% in FY3/26, this was primarily due to the dissipation of positive factors that had persisted for 3-years and a return to normal business conditions. Furthermore, since expenses related to the management of overseas operations are recorded in the Japan segment, operating margins tend to be slightly lower in Japan and slightly higher overseas.

Figure 36. Breakdown of Operating Income for Auto-ID Solutions Business (Overseas, ¥mn)

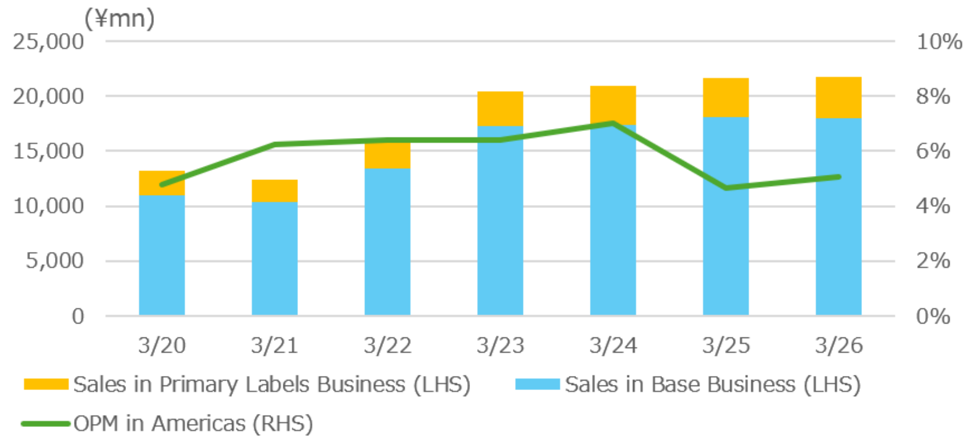
FY	3/21	3/22	3/23	3/24	3/25	3/26
Auto-ID Solutions (Overseas)						
Sales	40,349	52,496	68,657	67,931	75,587	78,396
Operating Income	2,684	3,978	7,111	8,243	8,478	5,704
OP Margin	6.7%	7.6%	10.4%	12.1%	11.2%	7.3%
Base Business						
Sales	31,010	40,209	47,841	48,069	52,632	53,833
Operating Income	1,857	2,745	3,604	3,546	4,317	3,822
OP Margin	6.0%	6.8%	7.5%	7.4%	8.2%	7.1%
Primary Labels Business						
Sales	9,339	12,287	20,816	19,862	22,955	24,562
Operating Income	756	1,218	3,719	4,540	4,199	1,970
OP Margin	8.1%	9.9%	17.9%	22.9%	18.3%	8.0%

Source: Company Data. Compiled by Strategy Advisors.

Americas

<13.3% of Consolidated Sales, Operating Margin of 5.1% for FY3/26>
Primary business accounts for 17.3% of net sales in the Americas. The sales growth rate (5-year CAGR) is high at 11.9%, with the breakdown showing 11.7% for the Base business and 13.2% for the Primary Labels business - a negligible difference. The operating margin stands at 5.1%; while the Base business has a low margin of 2.8%, the Primary Labels business has a high margin of 15.8%. Net sales in the Americas as a whole are predominantly conducted through distributors. Although net sales for FY3/26 remained largely flat YoY, positive developments that will lead to future growth were observed in Q4, such as the launch of sales following the successful conclusion of efforts related to large retail projects (involving BLE sensor tags).

Figure 37. Trends in Sales & OP Margin in Americas (Base/Primary)

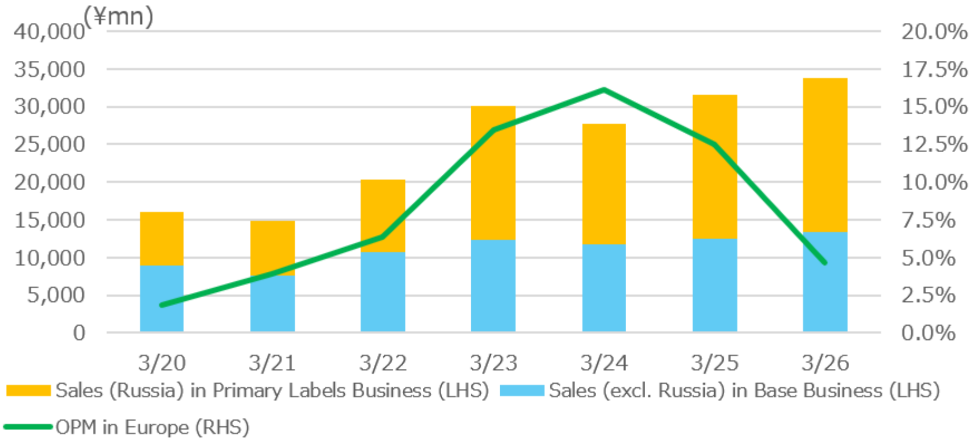


Source: Company Data. Compiled by Strategy Advisors.

Europe

<20.7% Of Consolidated Sales, Operating Margin of 4.6% for FY3/26>
The Primary Labels business accounts for 60.4% of European net sales. Revenue growth (5-year CAGR) is high at 17.8%; the breakdown shows the Base business at 12%, while the Primary Labels business at 22.8% is driving overall growth. The operating margin stands at 4.6%, with the Base business at 1.6% and the Primary Labels business at 6.6% - both down YoY. In the Primary Labels business, the performance of the 2 Russian subsidiaries acquired through M&A - namely, Okil (from FY3/15) and X-Pack (from FY3/17) - expanded over the 3-year period from FY3/23 to FY3/25 due to a temporary improvement in the competitive environment and the operating margin also rose to around 20%. For FY3/27, the operating margin is projected to revert to the single digits as the competitive environment normalizes. While net sales in the Base business (excluding the 2 Russian subsidiaries) have been on a recovery trend since bottoming out in FY3/24, the operating margin continues to face downward pressure from rising costs. To address this profitability challenge, the company-initiated plans in 2H FY3/26 to centralize various localized functions into regional headquarters - an ongoing structural reform aimed at improving efficiency. Starting in 2H FY3/26, the company has begun initiatives to improve the profitability of the Base business, such as consolidating functions that were previously dispersed across various countries into regional headquarters.

Figure 38. Trends in Sales & OP Margin in Europe (Base/Primary)



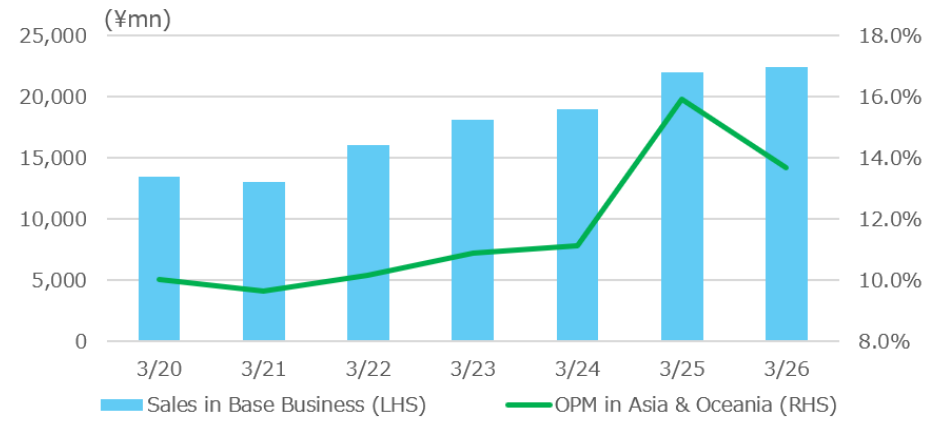
Source: Company Data. Compiled by Strategy Advisors.

Asia and Oceania

<14% Of Consolidated Sales, 13.7% of Operating Margin for FY3/26>

The Primary Labels business accounts for only 1.8% of Asia-Oceania net sales, with the majority coming from the Base business. Sales growth (5-year CAGR) is high at 11.9%. The operating margin stands at 13.7% and has remained stable at generally over 10% over the past 5 years. While China is experiencing a slowdown due to economic conditions, Southeast Asia is seeing increased production in the automotive, electrical and electronics sectors. Demand in Oceania remains robust, driven primarily by large RFID projects. Meanwhile, Argox in Taiwan is experiencing sluggish performance due to customer inventory adjustments.

Figure 39. Trends in Sales & OP Margin in Asia/Oceania (Base)



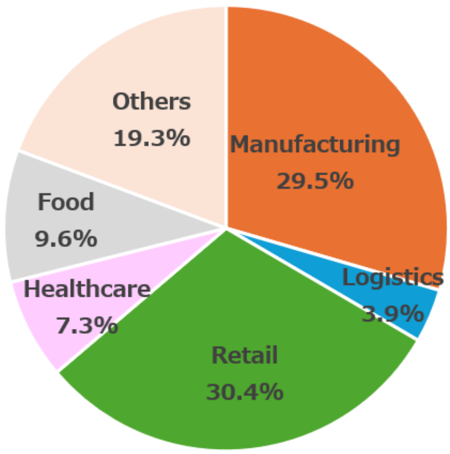
Source: Company Data. Compiled by Strategy Advisors.

Net Sales Breakdown by Application

The difference in net sales composition by application compared to Japan is that the logistics segment has a lower share, while Retail has a higher share. Looking at trends over the past 5-years, the CAGR for net sales in Healthcare, Food and Manufacturing has exceeded 10%. However, Retail and Logistics are also growing. The net sales breakdown by application for FY3/26 (excluding the Primary Labels business) was as follows: Manufacturing 29.5%, Logistics

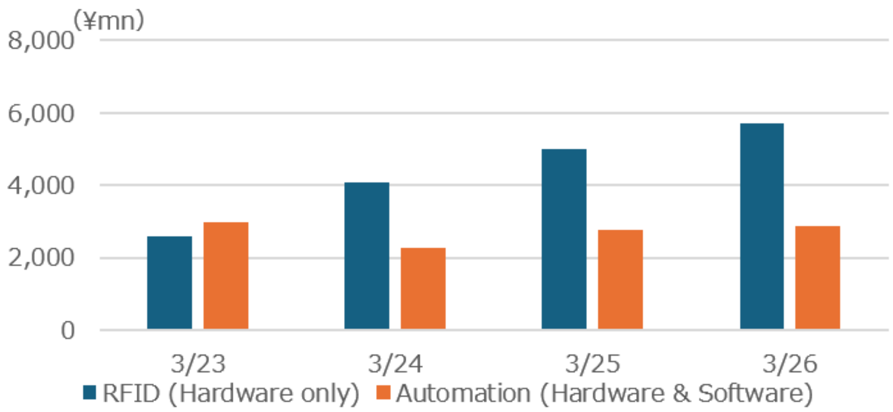
3.9%, Retail 30.4%, Healthcare 7.3%, Food 9.6% and Others 19.3%. Furthermore, in high-value-added sectors such as "RFID and Automation", RFID has begun to gain momentum.

Figure 40. Sales Breakdown by Application Market in Overseas (excl. Primary Labels business, FY3/26 Results)



Source: Company Data. Compiled by Strategy Advisors.

Figure 41. Sales Trends in "RFID/Automation" Segment in Overseas



Note: Estimated & Prepared by Strategy Advisors
Source: Company Data. Compiled by Strategy Advisors.

9. Corporate DNA and Inimitability

1) Positioning Theory

Adopting a Focus Strategy and a Differentiation Strategy

The 3 basic competitive strategies proposed by Michael E. Porter are: i) cost leadership strategy, ii) differentiation strategy and iii) focus strategy. Of these, SATO has adopted iii) the focus strategy and ii) the differentiation strategy. Since expanding its business from processing machinery for bamboo assembly boxes - its flagship product at the time of its founding - to hand labelers, the company has focused on businesses related to “tagging”, which involves attaching information to people and objects via labels (iii). Furthermore, during the boom in barcode labels, the company leveraged its unique position of simultaneously operating both Mechatronics (label printers, etc.) and Consumables businesses to expand into a solution-based business it named “DCS & Labeling” in the mid-1990s. This is a business model (ii) not found among competitors such as Zebra Technologies.

Expanding the Solutions Business in the Niche Market of Label Printers

In the general printer market (B2B and B2C segments), several major companies - including HP (HPQ NYSE), Canon (7751 TSE Prime), Ricoh (7752 TSE Prime) and Xerox (XRX NASDAQ) - are fiercely competing. In contrast, the label printer market is a niche sector limited to B2B and by leveraging the expertise and customer base gained from its early foray into hand-held labelers, the company has steadily secured a solid market share since the market’s inception. Since then, it has expanded its solutions business by capitalizing on its strengths in Mechatronics and Consumables, and currently ranks second in the industry, trailing only Zebra Technologies, the market leader.

2) Corporate DNA

Founder Yo Sato Introduced One Invention After Another to the World

SATO’s founder, Yo Sato (1921–2001), was both an inventor and an entrepreneur. Starting with bamboo processing machines for manufacturing the company’s original product - bamboo assembly boxes - he introduced products such as strapping machines to the market and began producing and selling Japan’s first, hand-labelers, which are the foundation of the company’s current business. During the postwar reconstruction period in Southeast Asia, Yo Sato received support from many people while providing technical guidance on production using bamboo processing machines in countries such as the Philippines, India, Myanmar and Thailand. It is believed that this experience served as a strong motivation for his subsequent inventions - which were aimed at contributing to society - and for the commercialization of tagging technology.

Second-Generation President Tokuo Fujita Established "DCS & Labeling"

Under his strong leadership, the second president, Tokuo Fujita (1951–2011), played a crucial role in establishing SATO's unique "DCS & Labeling" system and laying the foundation for the global expansion of tagging solutions. Mr. Fujita clearly summarized the founder's "Basic Guidelines for Work Practices" into "SATO's Management Rules", "Management Philosophy" and "SATO's Esprit" for employees, and further formulated the company's basic management policies himself.

The guidelines compiled by the founder state that the company's business is production and sales, and that it must devote its full efforts to contributing to the development of society. Furthermore, as a guiding principle, it states that achieving growth requires the cooperation of every individual, and that employees must work together with a sense of mission to advance the company's business. The company also has unique systems and concepts, such as "Four-Party Value Sharing" and "Teiho". "Four-Party Value Sharing" refers to the principle that the company cannot be managed successfully if even one of the four parties - shareholders, employees, society and the company itself - is neglected. "Teiho" means that the company can change with just 3 lines; specifically, it involves the active practice of all employees submitting "proposals and ideas for improving the company - such as creativity, ingenuity and observations - along with reports on the corresponding measures" on a daily basis, reflecting a philosophy that emphasizes employee unity.

The "Teiho" Supports a Vibrant Corporate Culture

The "Teiho" refers to a system in which all employees write 3-line daily reports, which are then screened down to 30–50 entries and submitted to top management every day; top management subsequently issues instructions to the relevant departments, leading to improvement initiatives. The "Teiho" not only aids in the improvement of daily operations, but also helps identify various opinions regarding the organization and its systems. It serves as a tool to promote communication between management and employees and resolve misunderstandings. It is no exaggeration to say that the company's vibrant corporate culture is supported by unique concepts such as the "Teiho".

Corporate DNA: "The Attitude of Combining the Power of Employees and Contributing to the Development of Society Through Tagging"

If we consider the hand labelers - the Mechatronics products launched by the founder - as a "point", then the subsequent solution proposals combining barcode printers with consumables (labels) represent a "line". We believe that SATO's corporate DNA, cultivated through this transition from a "point" to a "line" business model, is "the attitude of combining the power of employees and contributing to the development of society through tagging". Driving business forward based on corporate DNA is essential for growing companies, and this certainly applies to SATO as well. From a long-term perspective, industrial structures change, and new technologies emerge, so it is only natural that the realities of customers' workplaces are constantly evolving. For example, even if AI is widely adopted in society, as long as goods and people remain part of the supply chains across various industries, the need to add variable information through tagging will persist.

Conversely, the trend of capturing the flow of goods and people as big data through tagging - which customers can then utilize with AI - will serve as a tailwind for the company's demand. SATO's continued preservation of its corporate DNA will be an indispensable element in proposing tagging solutions tailored to customer needs, even in a world set to undergo drastic changes in the future.

3) Inimitability

Focuses on Inimitability

The Resource-Based View, proposed by Jay B. Barney and others, is a framework that focuses on a company's management resources and capabilities. A concrete illustration of this is the VRIO framework (Value: economic value; Rarity: scarcity; Inimitability: difficulty of imitation; Organization: organizational structure). At Strategy Advisors, we place particular emphasis on "Inimitability".

"The Ability to Make Proposals to Customers by Offering Both Mechatronics & Consumables"

We believe SATO's inimitability lies in "its ability to make proposals to customers, cultivated by offering both Mechatronics (label printers) and consumables as a tagging solutions provider".

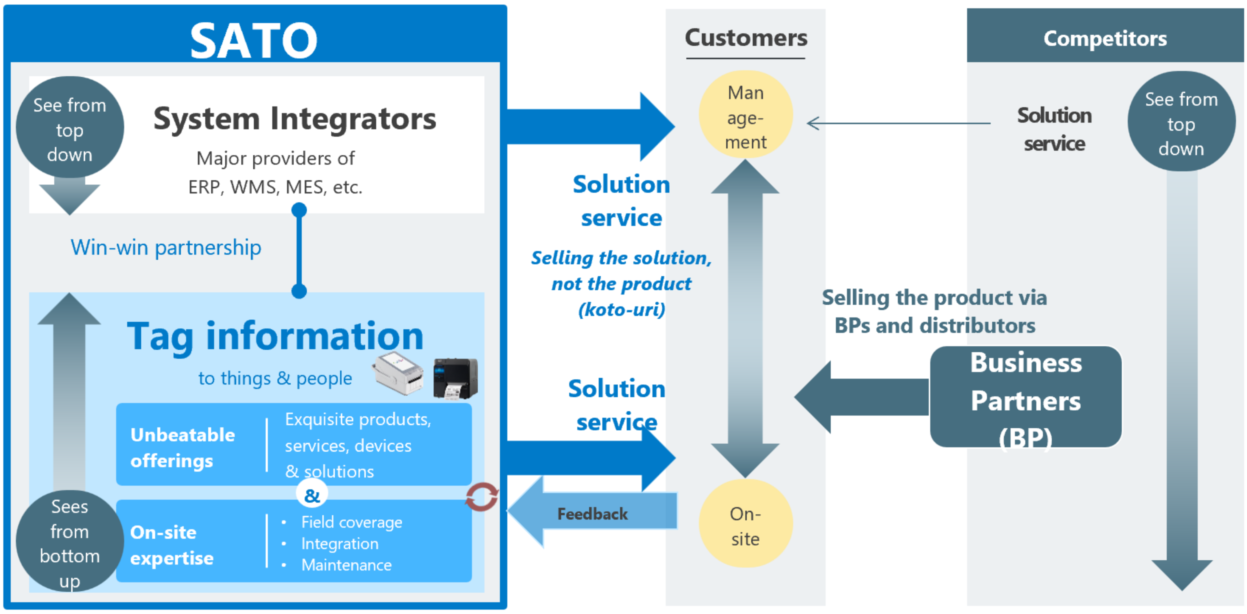
A Unique Business Model That Proposes Optimal Solutions from a Field-Level Perspective

A comparison of the business models of label printer companies - specifically SATO and its competitors - highlights the differences between them. Competitors focus exclusively on selling printers through distributors (product sales) while also leveraging the big data they collect to propose solutions such as information visualization and AI analysis from a "management perspective". In other words, they are positioned as printer manufacturers that also incorporate elements of a system integrator (SI). SATO, on the other hand, not only sells its own extensive lineup of label printers but also supplies labels, tags (Consumables) and software to propose optimal tagging solutions (service-oriented sales) from a "front-line perspective". In other words, the company consistently maintains a stance of entrusting the analysis of big data - collected with AI utilization and other "management-level" considerations in mind - to partner SIers, while focusing its own efforts on solving on-site challenges. SATO's unique business model, built on the company's corporate DNA, has fostered a level of inimitability that is difficult to replicate.

A Commitment to Social Contribution and Teamwork & a Culture of Continuous Improvement Rooted in "Teiho"

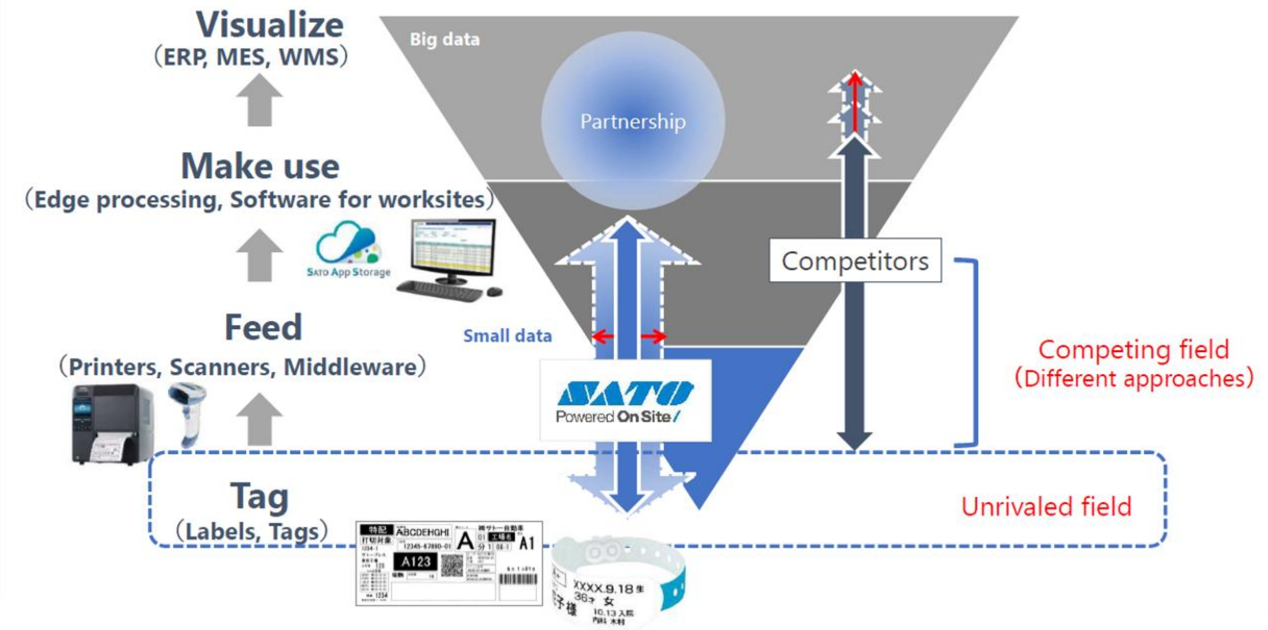
It should also be noted that the background to this established inimitability lies in the company's thorough commitment to a bottom-up approach, in which employees pool their efforts to perform the hands-on, meticulous work rooted in the front lines - working collaboratively with customers to solve problems - which sets it apart from the top-down approaches of its competitors. Here, the founder's strong commitment to social contribution through manufacturing, along with the teamwork and improvement-oriented mindset of employees rooted in the "Teiho", continue to be passed down as part of the company's DNA to this day.

Figure 42. Areas of Difference in Business Models Compared to Competitors (1)



Source: Company Materials.

Figure 43. Areas of Business Model Differences from Competitors (2)



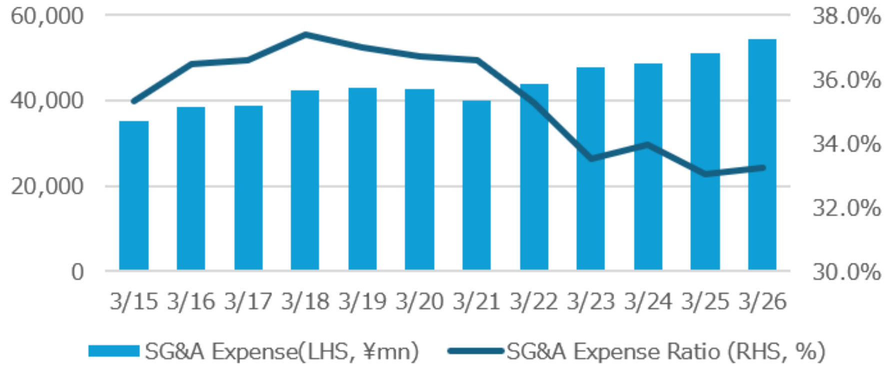
Source: Company Materials.

4) Future Challenges for the Business

Improving Gross Margin & Reducing SG&A Expenses Are Key Challenges

As net sales grow, improving the operating margin - specifically, improving the gross profit margin and reducing the SG&A expense ratio - will be SATO's key challenges moving forward. First, regarding the improvement of the gross profit margin, it is necessary to implement timely and appropriate price adjustments in response to rising raw material procurement costs (including exchange rate fluctuations) and wage increases, as well as to reduce production costs by generating economies of scale through a reduction in the number of models. Furthermore, to reduce the SG&A ratio, the most important approach is to improve productivity in the R&D and sales departments (i.e., increasing net sales per employee).

Figure 44. Trends in SG&A Expenses



Source: Company Data. Compiled by Strategy Advisors.

Increasing Labor Productivity is a Key Challenge

Since it is difficult to compare employees across departments, we will examine the relationship between the number of employees and net sales. As of FY3/26, SATO has 6,012 employees, with net sales per employee of ¥27.2 million. In contrast, Zebra, which focuses on "sell the products", had 10,700 employees and net sales per employee of ¥75.4 million (FY12/25), indicating that its labor productivity is approximately 2.8x higher. This is because SATO focuses on "sell the solutions" - that is, solution-based proposals - which requires its employees to frequently visit customer sites to identify needs and develop products tailored to each customer's specific requirements, necessitating a certain level of staffing.

On the other hand, Keyence (6861 TSE Prime), a solution-oriented sensor company that handles different products, has 12,784 employees and per-employee net sales of ¥91.5 million (FY3/26), showing labor productivity that exceeds that of Zebra. From this, it can be said that the added value of SATO's solution-oriented business is not fully reflected in its net sales. However, SATO's net sales per employee are trending upward compared to the ¥25 million recorded in FY3/24.

The Key Lies in Deploying Standardized, High-Value-Added Solutions

As various social challenges emerge alongside changing times, the company's tagging solutions are likely to become increasingly high-value-added as a means of addressing these challenges. Given that the company boasts a high market share in Japan - a country facing pressing global challenges such as labor shortages due to population decline - we believe that rolling out standardized, high-value-added solutions there will lead to increased productivity through higher pricing. Furthermore, in overseas markets that remain focused on "sell the products", if the company can leverage its track record in Japan to expand "sell the solutions" - that is, high-value-added solutions - across these markets, its market share will rise, leading to further productivity gains. Additionally, the company has adopted a common platform that standardizes control units and interfaces. This approach aims to shorten development cycles, streamline evaluation processes and maintain and improve quality, while also facilitating deployment across multiple models.

Figure 45. Comparison of Net Sales Per Employee

(Unit: ¥mn, people)

Company Name	FY	Sales	# of Employees	Sales Per Employee
SATO	3/26	163,434	6,012	27.2
Zebra Technologies	12/25	807,306	10,700	75.4
Keyence	3/26	1,169,289	12,784	91.5
Canon	12/25	4,624,727	165,547	27.9
Ricoh	3/26	2,608,314	75,600	34.5

Source: Company Data. Compiled by Strategy Advisors.

Addressing Challenges Through Implementation of Mid-Term Plan Initiatives

The company's Vision 2030 is to "contribute to realizing a future where everything is digitized and societal operations are optimized through the utilization of 'PUT'". The targets for FY3/31 are consolidated net sales of ¥200 billion, operating income of ¥21 billion (operating margin of 10.5%), EBITDA of ¥30 billion, ROIC of 12.3% and ROE of 14.1%. The mid-term plan (FY3/25–FY3/29), updated in December 2025 to achieve these targets, identifies the following priorities: develop a robust revenue base for the core businesses, commercialize the Perfect and Unique Tagging concept and improve the global management infrastructure (see Chapter 10). To realize its equity story, the company has set mid-term targets that leverage its Inimitability - a characteristic created based on its corporate DNA - and point the company in the right direction to resolve the aforementioned challenges.

Figure 46. 2030 Vision

Consolidated Management Targets	
Sales	¥200 billion
Operating Income	¥21 billion
OP Margin	10.5%
ROIC	10% or more

Source: Company Data. Compiled by Strategy Advisors.

10. Mid-Term Management Plan and Future Outlook

1) Overview of the Mid-Term Management Plan Update

5-Year Plan Covering the Period from FY3/25 to FY3/29, with KPIS Set for FY3/27

The Medium-Term Management Plan (FY3/25–FY3/29), announced in March 2024, was updated in December 2025. The original plan designated FY3/25–FY3/26 as the profit recovery phase and FY3/27–FY3/29 as the phase for resuming growth investments and initially set numerical targets only for the midpoint - FY3/27 (sales of ¥160 billion, operating income of ¥11.5 billion and an operating margin of 7.2%). However, as the company moves from the profit recovery phase to the resumption of growth investment starting in FY3/27, it has newly set numerical targets for the final year, FY3/29 (net sales of ¥186 billion, operating income of ¥15.7 billion, operating margin of 8.4%, ROIC of 9.4%, ROE of 10.2% and PBR of 1x or higher).

The breakdown by segment is shown below. Compared to the FY3/26 actual operating income of ¥11.0 billion, the FY3/29 target of ¥15.7 billion represents an increase of ¥4.7 billion; the breakdown is ±¥0 billion for the Japan business and +¥1.2 billion for the Base business. The “Overseas Primary Labels Business” segment is projected to contribute +¥1 billion, while the “PUT” expansion (amongst other factors) domain is expected to contribute ¥2.3 billion. Operating income for the “Overseas Primary Labels Business” segment is projected to increase by ¥1 billion to ¥3 billion, though this figure remains significantly below the peak of ¥4.5 billion recorded in FY3/24.

Figure 47. Mid-Term Management Plan (FY3/25–FY3/31, ¥mn)

FY	3/25 (Actual)	3/26 (Actual)	3/27 (CoE)	3/29 (Mid-Term Plan)	3/31 (Targets)
Consolidated					
Sales	**154,807**	**163,434**	**168,500**	**186,000**	**210,000**
Operating Income	**12,341**	**11,041**	**11,700**	**15,700**	**21,000**
OP Margin	**8.0%**	**6.8%**	**6.9%**	**8.4%**	**10.5%**
				Focused Business Domains	
			Sales	**22,000**	**35,000**
			Operating Income	**2,300**	
			OP Margin	**10.5%**	
				Core Business	
Sales	**154,807**	**163,434**	**168,500**	**164,000**	**175,000**
Auto-ID Solutions (Overseas)	75,587	78,396	82,000	77,000	
Base Business	52,632	53,833	57,400	51,000	
Primary Labels Business	22,955	24,562	24,600	26,000	
Auto-ID Solutions (Japan)	79,220	85,038	86,500	87,000	
Mechatronics	31,626	36,769	-	-	
Consumables	47,593	48,269	-	-	
(Consumables Ratio)	60.1%	56.8%	-	-	
Operating Income	**12,341**	**11,041**	**11,700**	**13,400**	
Auto-ID Solutions (Overseas)	8,478	5,704	6,200	8,000	
Base Business	4,317	3,822	4,300	5,000	
Primary Labels Business	4,199	1,970	1,900	3,000	
Elimination	-38	-88	-	-	
Auto-ID Solutions (Japan)	3,906	5,415	5,500	5,400	
Elimination	-43	-78	-	-	
OP Margin	**8.0%**	**6.8%**	**6.9%**	**8.2%**	
Auto-ID Solutions (Overseas)	11.2%	7.3%	7.6%	10.4%	
Base Business	8.2%	7.1%	7.5%	9.8%	
Primary Labels Business	18.3%	8.0%	7.7%	11.5%	
Auto-ID Solutions (Japan)	4.9%	6.4%	6.4%	6.2%	
EBITDA	17,884	17,028	18,100	24,000	30,000
ROIC	9.3%	7.7%	-	9.4%	12.3%
ROE	9.7%	6.3%	-	10.2%	14.1%
PBR	0.9x	0.9x	-	1x or higher	

Source: Company Data. Compiled by Strategy Advisors.

Results & Challenges of the Previous Mid-Term Plan

Looking back on the first half of the mid-term plan (FY3/25–FY3/26), although the Russian subsidiary experienced a slowdown in FY3/26, steady progress was made on each of the key initiatives:

1) Strengthening the core business, in addition to seeing the effects of organizational efforts to revise pricing, profit-focused metrics were introduced into the sales department's performance evaluations to foster a mindset shift toward profit generation. Furthermore, while advancing efforts to secure global key accounts, the company completed development of a new industrial printer (using a common platform) and began its market launch.

2) Implementing the PUT strategy, where the company carried out investments and collaborations for solutions development.

3) Strengthening the global management foundation through simplification of the responsibilities and authorities through organizational changes, reviewed materiality criteria and implemented institutional reforms to put human capital management into practice.

Market Launch of New Printer Model a Major Achievement

Additional details are available regarding the market launch of the new CL4/6-SXR industrial printer, which is a result of "Strengthening the Core Business (2)". The CL4/6-SXR offers further performance improvements over the previous model, the CL4/6-NX Plus, and is positioned to cover the professional-grade segment of the industrial printer market. At the same time, the company aims to achieve high competitiveness by maintaining a price advantage over competitors in the professional-grade segment. Additionally, the company launched the WT4-AXB as an entry-level model in February 2025, establishing a framework to capture a wide range of customer needs.

The Company is Implementing 3 Initiatives

The company will continue to implement measures 1) through 3) in the updated Mid-Term Management Plan. Furthermore, recognizing the current challenges, the company has identified the following priorities: addressing increasing geopolitical risks (particularly those related to Russia), continuing efforts to restore the profitability of Japan business and strengthening global management infrastructure, considering rising cybersecurity and governance risks.

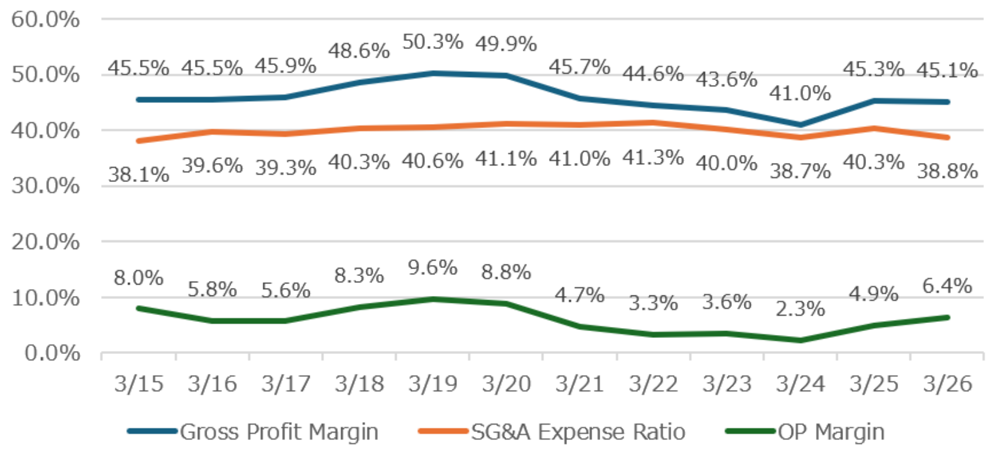
2) Develop a Robust Revenue Base for the Core Business

<JAPAN Business: Generating Stable Earnings>

No Changes Are Observed in the Competitive Environment in Japan

The Japan business already holds a high market share of approximately 40%, and no significant changes are observed in the competitive environment. However, the company has set a policy to grow net sales by capturing business opportunities, particularly in key markets. On the other hand, the operating margin has been on a steady decline, falling below 5% since FY3/21 and reaching 2.3% in FY3/24. Subsequently, measures outlined in the medium-term business plan proved effective, leading to a recovery to 4.9% in FY25/3 and a return to 6.4% in FY3/26 - the first time in a long while that the margin exceeded 5%.

Figure 48. Trends in OP Margin for Japan Business



Source: Company Data. Compiled by Strategy Advisors.

The Theme is "Achieving More Stable Revenue", with 4 Key Initiatives

The theme for developing a robust revenue base for the core business (existing operations) in Japan is "Achieving more stable revenue". The target operating margin for FY3/29 is 6.2%, including increased strategic investments focused on R&D (actual result for FY3/26 was 6.4%). The measures are, in order: 1) Focus on key markets and industries, 2) Enhance Value Chain Management, 3) Introducing Profit Evaluation in the Sales Division and 4) Strengthen SG&A Expense Management. Each item is explained below.

(1) Focus on Key Markets and Industries

The company's strategy is to target the Healthcare and Manufacturing sectors, which offer high growth potential, as priority markets. Regarding the Mechatronics product strategy, the company announced its new flagship printer model, the "CL4/6-SXR", in the fall of 2025 and launched it in 2026. This will drive sales expansion to meet both new and replacement demand. Additionally, the company plans to build a business model that positions maintenance, service and other recurring revenue streams as stable sources of income. In the RFID and Automation Solutions sector, the company aims to expand its business by promoting sales, including packaged software.

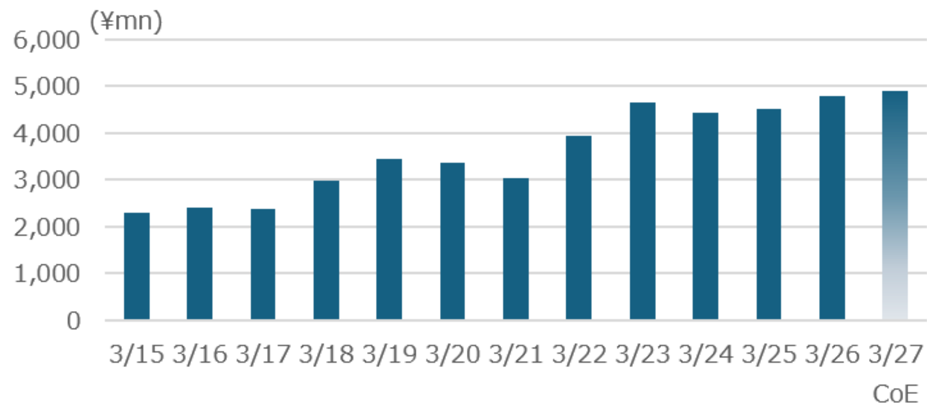
(2) Enhance Value Chain Management - Transition to a Common Platform

The goal is to improve productivity, reduce costs and optimize inventory through product lineup optimization. The most notable feature of the new “CL4/6-SXR” printer is that it is the company’s first model to adopt a common platform. For customers, the benefit lies in the potential for further functional improvements. For example, the CL4/6-SXR offers enhanced performance in areas such as 1) scalability, 2) user interface, 3) print performance and quality and 4) predictive maintenance. On the company’s side, the primary benefit is the optimization of the product lineup. The company previously faced the issue of high management costs due to its large number of printer models. Consequently, by optimizing the number of models through the horizontal rollout of the common platform, the company expects to reduce total costs going forward. Furthermore, this will enable the flexible utilization of development resources, leading to improved R&D efficiency. Additionally, by standardizing label specifications - which currently vary significantly from customer to customer - SATO can reduce production hours and lower production costs. Customers, in turn, will benefit from shorter delivery times and more flexible inventory management.

Strategic Investment Focused on R&D Prioritizing

Let us consider the effects of these measures not only on the Japan business but on a company-wide basis. The ¥1 billion in strategic investment factored into the company’s forecast for FY3/27 consists primarily of R&D expenses, and it is highly likely that strategic investment at a similar level will continue in FY3/28. However, from a medium to long-term perspective, these R&D expenditures are measures that contribute to raising ROIC (and ROE) by increasing net sales per employee while containing costs through efficiency improvements across various internal departments. They should be viewed as proactive, forward-looking investments aimed at enhancing corporate value in the future and are therefore worthy of recognition.

Figure 49. Trends in R&D Expenditures



Source: Company Data. Compiled by Strategy Advisors.

(3) Introducing Profit Evaluation in the Sales Division

Concrete actions to improve profit margins include adjusting the pricing of low-gross-margin products and expanding sales of high-gross-margin solutions. However, implementing these measures requires a fundamental shift in the mindset that underpins sales activities. By shifting the evaluation of sales staff to a profit-focused approach starting at the beginning of FY3/25, the company has been gradually adjusting this mindset and plans to introduce a new human resources system with clearly defined roles and evaluation criteria starting in FY3/27.

(4) Strengthen SG&A Expense Management

The company plans to enhance organizational capabilities and improve productivity through human resource development, thereby achieving optimal resource allocation. Additionally, the company will expand the use of AI to improve operational efficiency.

<Overseas Operations as a Whole: Achieving Steady Profit Growth, Reducing Risk and Volatility>

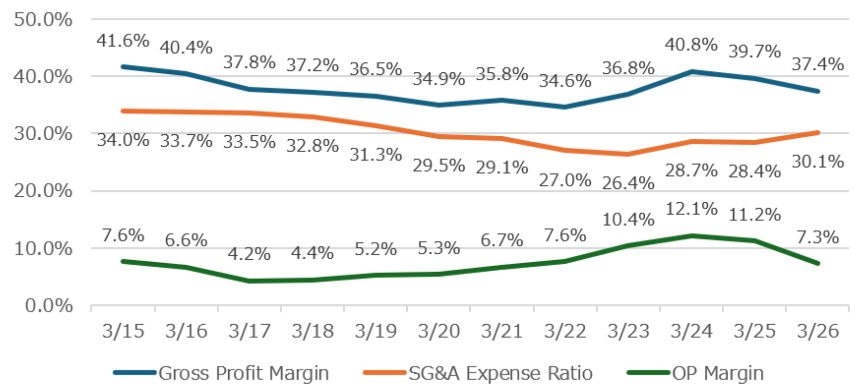
Overseas Net Sales Continue to Grow at a High Rate

Unlike Japan, where the Base business is the main focus, overseas markets are characterized by a mix of Base businesses and companies specializing in the Primary Labels business. Additionally, unlike Japan, where direct sales are the norm, sales through agents are more common overseas. The market share overseas is approximately 10%, and there is still room for growth. Net sales in the Base business have shown steady growth, but the Primary Labels business - handled by overseas subsidiaries acquired through M&A - exhibits high volatility. In FY3/26, a Primary Labels company in Russia underperformed, which had a negative impact on overall performance.

Operating margin Has Recently Fallen to 7.3%

The OP margin for agency sales generally exceeds 5%, as the company is able to control SG&A expenses and enjoys relatively favorable pricing terms compared to Japan. In particular, since FY3/23, the margin had exceeded 10% due to strong performance in Russia. However, in FY3/26, the situation reversed as Russia's performance slumped, causing the margin to drop to 7.3%. Additionally, the fact that the Japanese operations primarily bear the cost of head office expenses is another reason for the difference in operating margins between Japan and overseas.

Figure 50. Trends in OP Margins for Overseas Business



Source: Company Data. Compiled by Strategy Advisors.

Numerical Targets & 2 Key Initiatives for the Base Business

■ **FY3/29 Sales Target for Overseas Base Business: ¥51 billion (-5.3% from FY3/26)**

The FY3/29 Operating Income Target is ¥5 billion, with a Profit Margin of 9.8% (+2.7ppt from FY3/26). The company has identified the following 2 measures to achieve this target: 1) prioritizing the allocation of resources to key countries and regions and 2) efficiently developing and rolling out solutions.

(1) Prioritizing Resource Allocation to Key Countries and Regions

The policy is to prioritize resource allocation based on factors such as sales volume and the growth potential of the country or region itself. For example, the company views the United States in the Americas and Vietnam, India and Indonesia in Asia as promising markets and will focus on them, including sectors driven by domestic demand (such as Retail and Food). Furthermore, in markets with large Manufacturing sectors - such as China and ASEAN - where demand for new solutions emerges ahead of the rest of the world, resources will be allocated to capture that demand.

(2) Efficient Creation & Horizontal Rollout of Solutions

First, we will outline the strategies for consumables and Mechatronics, which are critical to the solution deployment. For Consumables, the policy is to expand global production capacity. The company will improve productivity through the ongoing implementation of MES (Manufacturing Execution System). In the Mechatronics sector, Sato will expand sales of the new “CL4/6-SXR” printer with the aim of securing key global accounts.

Overseas Solution Deployment

In the overseas operations, the company plans to roll out existing solutions developed in Japan while establishing specialized organizations in each region to accelerate the development of solutions tailored to local needs. The company will also prioritize developing industry-specific partners (such as ISVs: Independent Software Vendors) capable of supporting the solution sales approach. Furthermore, the company will expand the applications of the proprietary PJM-RFID and auto-ID solutions (automatic labeling). Furthermore, leveraging the collaboration with Wiliot (announced in September 2021), expectations are rising for the supply of solutions related to BLE (Bluetooth Low Energy) sensor tags. Wiliot has partnered with a major U.S. retailer on battery-free IoT and aims to deliver IoT pixels mounted on logistics pallets by the end of 2026.

Aiming to Expand Market Share & Control SG&A Expenses Through a Shift to “Selling Solutions”

As the company aims to expand its global market share by shifting from “selling products” to “selling solutions” - that is, by expanding into tagging solutions that leverage its strengths - it is crucial to curb the rise in SG&A expenses that accompanies business growth. Accelerating the horizontal rollout by standardizing developed solutions and minimizing development costs (including software) for adding features tailored to local needs will lead to an increase in net sales per employee within the development department. Furthermore, in the sales department, the company believes it can boost net sales per employee by promoting the horizontal rollout of solution sales while ensuring appropriate pricing and by flexibly utilizing distributors for the sale of existing products.

Targets for the Primary Labels business

- **Overseas (Primary Labels Business): Net Sales Target for FY3/29: ¥26 billion (+5.9% from FY3/26)**

The FY3/29 operating income target is ¥3 billion, with a profit margin of 11.5% (+3.5ppt from FY3/26). The company aims to stabilize sales and profits by expanding its product lineup. Mitigating the current volatility at its Russian subsidiaries (Okil and X-Pack) is a key priority. Furthermore, to drive future growth, the company plans to commercialize smart packaging and proceed with preparations to pursue synergies with its Base business (see the next section).

3) New Revenue Base (Toward Perfect and Unique Tagging)

A Solution That Enables Fully Automated identification and Management without Human Intervention

PUT (Perfect and Unique Tagging) refers to an advanced tagging method (as defined by SATO) that enables the traceability of complete and unique individual information by linking attribute data - such as IDs - to location and status information obtained from sensors for people and objects. Since it provides a solution capable of fully auto-ID and management without human intervention even as people and objects move, it is expected to contribute not only to solving on-site challenges at the corporate level but also to addressing common challenges facing society as a whole.

The Sales Target for the "New Domain" Segment for FY3/31 is ¥35 Billion

In its mid-term plan update, the company set numerical targets for the "Expansion Segment" - which corresponds to PUT - for FY3/29 at ¥22 billion in net sales, ¥2.3 billion in operating income and a profit margin of 10.5%. Incidentally, actual net sales for the "High-potential Area" in FY3/26 were ¥1.4 billion (excluding ¥2.5 billion from logistics DX), which is an extremely small figure. Furthermore, the net sales target for FY3/31 (2030 Vision) is set at a total of ¥35 billion.

Figure 51. Sales Breakdown for FY3/31

	FY3/31
Total Sales	**¥210 bn**
Core Business	¥175 bn
PUT (Standardized)	¥10 bn
PUT (Customized solution)	¥25 bn

Source: Company Data. Compiled by Strategy Advisors.

Acquiring New Related Technologies to Contribute to Solving Social Issues

The global landscape is currently undergoing significant changes, with climate change, resource depletion, labor shortages, new regulations and geopolitical risks emerging as common societal challenges. For SATO's customers, the need to establish new traceability systems has arisen through the assignment of IDs using tagging technology. To address this, SATO aims to expand its range of solutions by acquiring new peripheral technologies such as image recognition, PC-less label printing, next-generation cloud platforms, sensors, voice authentication, biometric authentication and location tracking.

The Themes Are "Individual Item Management" & "Standardization"

The target themes in the "High-potential Areas" segment are summarized as "Individual Item Management" and "Standardization". "Individual Item Management" refers to traceability at the item level, which is becoming increasingly important as the volume of information to be assigned grows. "Standardization" refers to the standardization of information across the supply chain as part of building an ecosystem in collaboration with industry associations. First, the 2 representative themes under "Individual Item Management" are blood and specimen SCM and smart packaging. Additionally, the 2 representative themes under "Standardization" are the circular economy and logistics DX. Here, the company will focus on blood and specimen SCM, the circular economy and smart packaging to explain the company's solutions.

Example 1: Blood & Specimen SCM

The healthcare sector faces challenges in managing blood, from blood donation to transfusion. The company's Blood and Specimen SCM solution addresses these challenges. It requires donor authentication during blood collection at blood donation centers; shipment, transport and receipt history information as the blood is transported to blood centers. It also requires information on testing, preparation status, temperature control and inventory management at blood centers, then shipment, transport and receipt history information as the blood is transported to medical institutions. Meanwhile, during the actual transfusion, after obtaining patient identification information, a cross-matching test is performed between the blood intended for transfusion and the blood drawn from the patient; if no issues are found, the transfusion proceeds. At this stage, the blood donation centers, blood centers and medical institutions that make up the supply chain manage information using their own methods, such as manual processes or barcode labels. Currently, ensuring these life-critical processes are carried out without error requires a significant amount of time from healthcare professionals. Labor shortages are increasing the workload on healthcare professionals, making the resolution of these issues an urgent priority. By utilizing the company's fully automated tagging solution, accurate information linking throughout the supply chain, precise and highly efficient shipping, receiving and traceability, as well as real-time inventory visibility can be achieved across the industry, leading to the resolution of blood shortages and a reduction in the burden on healthcare professionals.

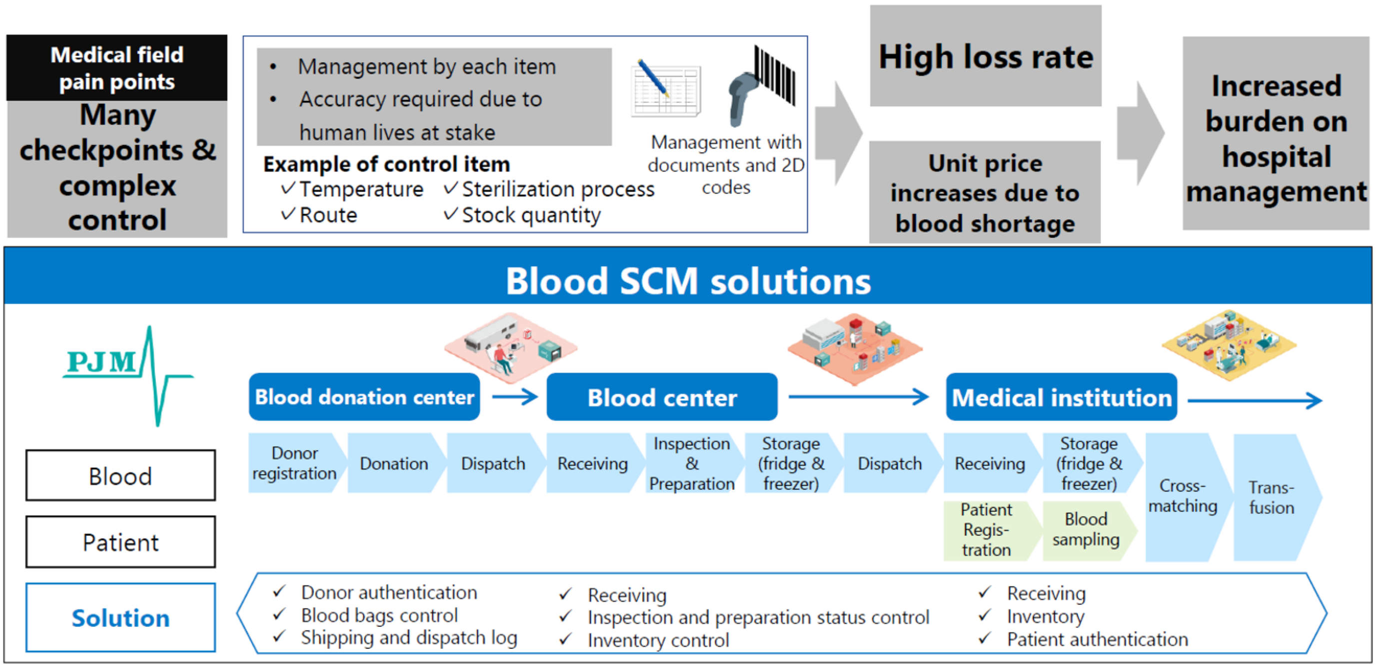
FY3/31 Sales Target: ¥10 Billion

Net sales from blood and specimen SCM solutions were ¥300 million for FY3/26 and the net sales target under the 2030 Vision (for FY3/31) is set at ¥10 billion. Currently, business negotiations are surging globally (December 2025: approx. 80 cases → End of March 2026: approx. 150 cases), and the selection of collaboration partners is underway in major countries. Specifically for the European market, development of the blood SCM solution has already been completed and we expect deals to be closed, starting in FY3/27.

Demonstrating Strength with PJM-RFID

Currently, the company's core strength lies in its proprietary PJM-RFID technology. PJM stands for Phase Jitter Modulation and operates in the HF band (13.56 MHz). Compared to conventional RFID systems that use the UHF band (860–960 MHz), it is more resistant to liquids and enables high-speed, highly reliable reading. In the case of blood and specimen supply chain management (SCM) in particular - where the primary applications involve managing IV bags and specimens, and where reading errors are simply not tolerated - the superiority of PJM-RFID is particularly evident. The PJM technology was acquired from Magellan Technology in December 2013, and the company has since begun supplying solutions through the development of antenna technology and other components. PJM-RFID net sales account for approximately 25% of the company's RFID-related sales (Strategy Advisors estimate) and are growing at a high rate of 9.4% YoY. Currently, the company is further expanding its partnerships and organizational structure to capitalize on business opportunities in Europe.

Figure 52. Blood SCM Solution



Source: Company Materials.

Example 2: Circular Economy

If the supply chain for manufacturing products such as electrical appliances is considered the "arteries", then the supply chain for recycling discarded products is the "veins". From the perspective of achieving carbon neutrality or preventing environmental destruction, the need to transition to a circular economy on a global scale is being discussed. This requires promoting recycling and securing and supplying recycled materials that meet the required quality standards. The company's circular economy solutions address these challenges. "Venous logistics" refers to the entire recycling process in which products that have reached the end of their useful life are collected and transported, then undergo regeneration, separation and sorting at a plant before being reborn as recycled materials. The company's tagging solution enables the identification of collected items at the collection site; facilitates inbound and outbound operations, container management and work-in-progress location management at recycling plants. It provides traceability across the entire supply chain, visualizing target materials over time. Furthermore, once a traceability system is established for "venous logistics", demand will emerge for new, recycling-focused traceability systems on the "arterial logistics" side as well.

Launching a Cross-Industry Initiative

If SATO supplies fully automated tagging solutions that contribute to the realization of such a circular economy across various industries, it will likely create significant new business opportunities for the company. The company is also collaborating with EnviPro Holdings (5698 TSE Prime) on lithium-ion battery (Li-ion) recycling (See October/December 2024 press releases) and with Nakadai Holdings (Unlisted; hereinafter "Nakadai") on the digitization of waste-to-resource processes (see November 2024 press release). Furthermore, the company announced plans to collaborate with Nakadai and Radar Lab (Unlisted) to build a resource circulation model based on the European DPP (See September 2025 press release).

Leading DPP Pilot Projects

The company launched its resource circulation traceability system, "Trace eye Circular Economy", in July 2025. Aiming to raise awareness, it strengthened its organizational structure in October and has been promoting the system's adoption. In October of the same year, the company began a pilot project focused on the social implementation of DPP and the acquisition and utilization of DPP information across companies and announced the results in December. In the pilot project, the company first used its label printers as test subjects, affixing labels containing DPP information (manufacturing information, material information and disassembly procedures) during the manufacturing process before shipping the products. Subsequently, the dismantling contractor (Nakadai), which collected the discarded printers, added various DPP data (such as work time, recovery rate, material weight, and color) during the dismantling, crushing and compaction processes. During the recycling process, DPP information - such as the recycling rate - is further integrated into the data. The recycled materials are then returned to SATO's production plants in a state where they can be traced using the integrated DPP information.

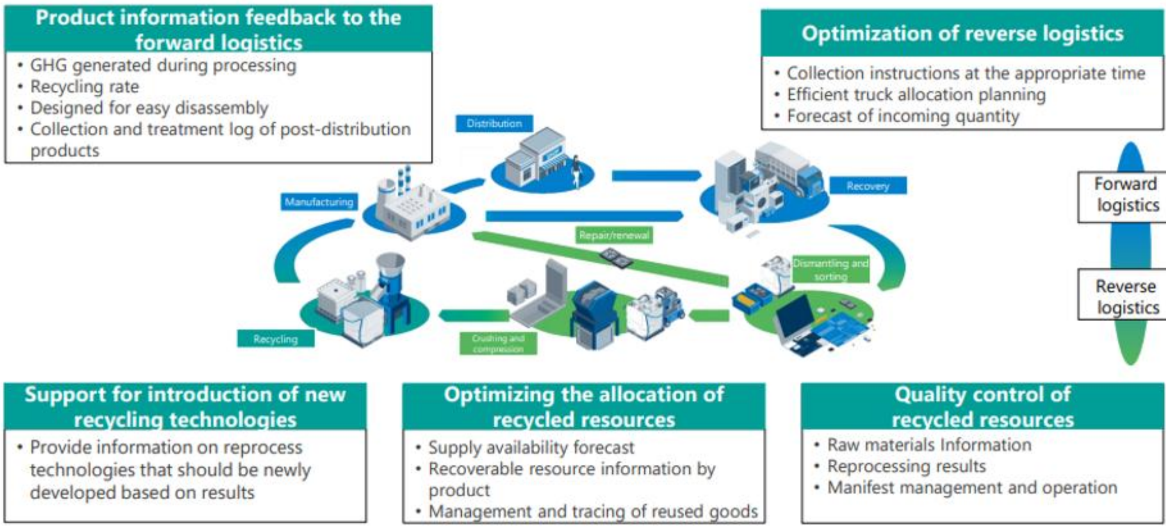
Prioritizing Standardization & Participating in Industry Associations

To promote the circular economy, it is essential to establish industry-wide rules - that is, standardization. While standardization for batteries is already well underway in Japan, other industries have yet to take action. The company is currently participating in seven relevant non-profit organizations (including the Council for the Promotion of Advanced Resource Circulation and Digitalization, Circular Partners, etc.). It is also working to build relationships with government agencies.

FY3/31 Sales Target: ¥10 billion

Although net sales from the circular economy were still modest at ¥200 million in FY3/26, the company has set a net sales target of ¥10 billion for FY3/31 as part of its 2030 Vision. Currently, the number of business negotiations is surging - reaching approximately 130 as of the end of March 2026 - and so it can be said that the company's medium to long-term growth potential is increasing.

Figure 53. Solutions for the Circular Economy



Source: Company Materials.

Example 3: Smart Packaging

Smart packaging refers to next-generation packaging technology that combines variable information with the label packaging (which contains fixed information) of products for sale to create new added value. Its main applications include authenticity verification, tamper detection and traceability. The company's strengths lie not only in its ability to propose label designs that leverage the know-how cultivated through its Primary Labels business, but also in its capacity to design information flow management systems that take the entire supply chain into account. The company is promoting this technology through initiatives such as exhibiting at "JAPAN PACK 2025".

Examples include samples featuring QR codes on pouch-type food packaging and RFID In-Mold containers. The technology has attracted strong global interest from the market. Currently, proposals to major clients are underway, and business negotiations have begun. The company has appointed an executive in charge and is actively pursuing plans for commercialization. Current challenges include a limited lineup of consumables and the lack of an established global collaboration framework. Going forward, the company plans to pursue joint proposals and proof-of-concept projects with brand owners and packaging material manufacturers. It also aims to build a business foundation through external co-creation and M&A activities.

A Wealth of Technologies Across the Entire Group

A key characteristic of the group is its ownership of high-performance printing presses, enabling it to manufacture high-value-added packaging by leveraging technologies such as "adhesive", "shrink sleeves", "In-Mold" and "multi-color". For example, Okil (Russia), as the largest player in its domestic market, specializes in premium labels for alcoholic beverages, while Prakolar Rotulos

(Brazil) has a proven track record in high-quality labels for pharmaceuticals. SATO itself (Japan) supplies adhesive labels and other products for the food and beverage industries. Since this business spans a wide range of target industries, regions, and required technologies, it will be important to address gaps through M&A and alliances.

FY3/31 Net Sales Target: ¥15 billion

The smart packaging market is projected to grow at a CAGR of 6.2% going forward, reaching approximately ¥6.5 trillion globally by 2030, of which pharmaceuticals will account for ¥1 trillion (both figures based on Grand View Research Inc. forecasts). The company's smart packaging results for FY3/26 were ¥900 million in net sales, with approximately 2,300 products sold and about 600 accounts (domestic). The net sales target for the 2030 Vision (FY3/31) is set at ¥15 billion.

Figure: 54. Areas of Application for Smart Packaging

Source: Company Materials.

4) Financial Strategy

Targets for FY3/29 Are Operating Income of ¥15.7 Billion & ROIC of 9.4%

The company's head of finance is Osamu Masuko, Senior Executive Officer and Group CFO. He joined a major bank right out of college, worked at several companies and joined SATO in 2014. Although he briefly transferred to another company, he returned to SATO as CFO in April 2024. As part of its mid-term plan update, the company has set the following financial targets for FY3/29: consolidated net sales of ¥186 billion, operating income of ¥15.7 billion (profit margin of 8.4%), EBITDA of ¥24 billion, ROIC of 9.4% and ROE of 10.2%. The company aims to achieve a PBR of 1x or higher at the earliest opportunity.

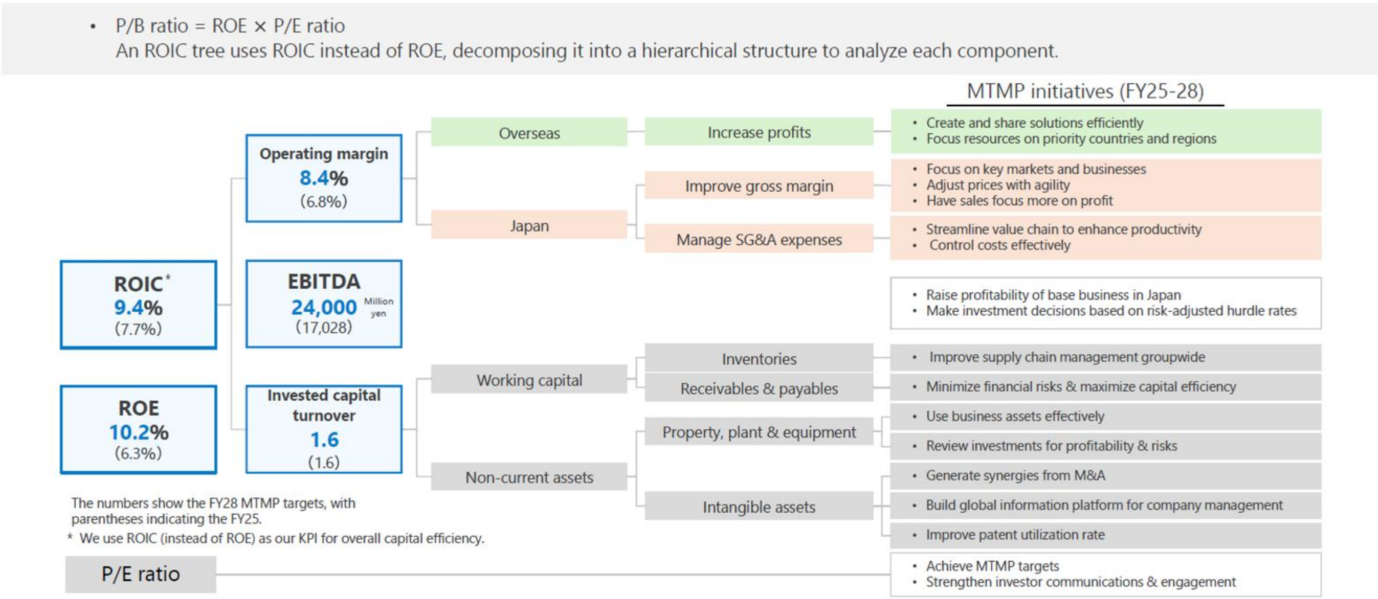
3 Core Strategies for Improving PBR

To improve PBR, which currently hovers below 1x, Masuko, the Group CFO who oversees financial strategy, is expected to play a leading role.
The company's financial strategy is based on the fundamental policy of balancing enhanced shareholder returns with improved capital efficiency, while prioritizing growth investments. It consists primarily of the following 3-points:

1) Pursuing an optimal capital structure that balances growth investments
2) Strengthening shareholder returns based on a stable and progressive dividend policy (a policy of not reducing dividends)
3) Flexible implementation of share buybacks based on capital efficiency and market conditions

Specifically, regarding capital structure, the company's policy is to optimize it as a result of simultaneously advancing the reliable execution of growth investments based on its capital allocation policy and measures to improve ROIC.

Figure 55. PBR Improvement: Initiatives for Each Component of the ROIC Tree



Source: Company Materials.

The Equity Ratio Stood at 58.7% as of the End of FY3/26

As of the end of FY3/26, cash and deposits totaled ¥28.3 billion, interest-bearing debt was ¥17.3 billion, equity capital was ¥70.6 billion and the D/E ratio was 0.20. Although the equity ratio is on an upward trend at 58.7%, there is no sense of excessive surplus in cash holdings and the financial balance is generally sound. The company has never reduced its dividend in the past and has maintained a stable, progressive dividend policy even amid performance fluctuations around the COVID-19 pandemic (Figure 57). Over the past 10 years, the company has conducted only one share buyback, totaling ¥2.5 billion in FY3/23.

Cash Allocation

In its Mid-Term Plan Update, the Company Outlined its Capital Allocation Policy for the 4-Year Period from FY3/26 to FY3/29. Regarding the Balance Sheet, the Company Aims to Diversify and Stabilize its Funding Sources While Ensuring Financial Soundness and Maintaining its Current Credit Rating. on the Cash Generation Side, the Company plans to Generate Approximately ¥70 billion Over the 4-Year Period, Consisting of ¥55 billion in Total Operating Cash Flow and ¥15 billion in Debt Financing. Meanwhile, Regarding Cash Allocation, the Basic Policy is to Allocate Roughly 70% to Business Investments and 20% to Shareholder Returns.

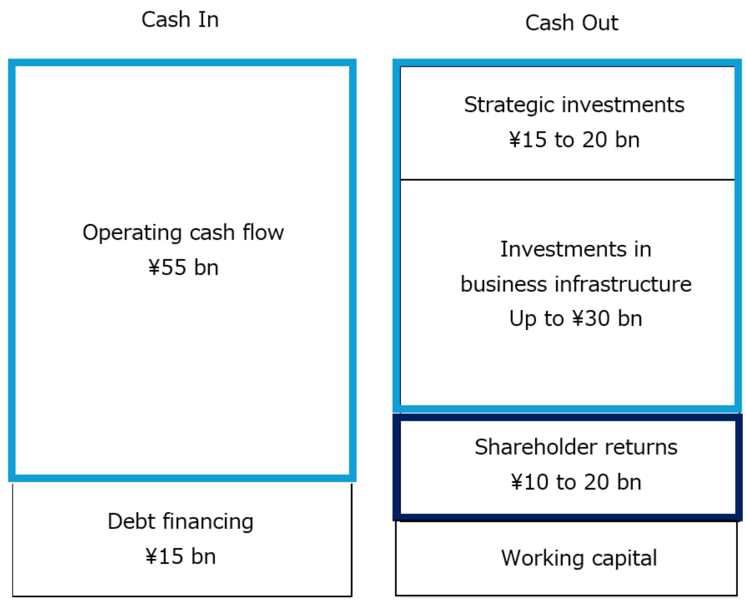
Strategic Investments

Strategic investments (¥15–¥20 billion) will be allocated to R&D, M&A, equity investments and collaborations that support the commercialization of PUT, with the principle that these investments must contribute to business earnings. For FY3/27, the company plans to increase R&D expenses by approximately ¥1 billion YoY through measures such as standardizing key component modules. Regarding M&A and equity investments, the company's policy is to set aside a budget, on the premise of executing high-quality deals that contribute to the commercialization of PUT at the appropriate timing.

Investment in Business Infrastructure

For business infrastructure investments (up to ¥30 billion), the company will invest in strengthening global management infrastructure and, as necessary, upgrade existing facilities. Regarding shareholder returns, the company will adhere to its basic policy of "aiming to continue stable, progressive dividends". The amount of any dividend increase will be determined based on current and future business performance and capital requirements.

Figure 56. Approach to Cash Allocation (FY3/26–FY3/29)



Note: Excludes the impact of the new lease accounting standards scheduled for introduction in April 2027.
Source: Company Data. Compiled by Strategy Advisors.

Stance on M&A

Regarding M&A, the company shifted to a proactive strategy during the tenure of Kazuo Matsuyama, the 5th president. For example, in 2015, the company acquired a 33.3% stake in the British firm DataLase and secured exclusive sales rights for its new printing technology, IDP (Inline Digital Printing). In 2017, DataLase became a wholly owned subsidiary. IDP was highly anticipated as a groundbreaking technology that uses a special color-forming pigment as a coating agent. When applied to various packaging materials, it transforms the coated surface into a heat-sensitive material, enabling digital printing via laser irradiation.

However, challenges remained in developing the hardware required to implement the technology and since a significant delay in commercialization became unavoidable, the business was transferred in September 2020. This occurred during the tenure of Ryutaro Kotaki, the sixth president, who took office in 2018. Given these circumstances, the company has focused on its core business in recent years and has not engaged in any major M&A activities. However, it is possible that the current president, Mr. Konuma, may adopt a more proactive stance toward M&A during the current medium-term management plan period in order to lay strategic groundwork for the commercialization of the PUT technology.

Emphasis on Improving Capital Efficiency, Reducing the Cost of Capital & Fostering Growth Expectations

As mentioned earlier, the company aims to achieve a PBR of 1.0x or higher early in the current medium-term plan period. Key factors for improving the PBR include enhancing capital efficiency (ROIC), reducing the cost of capital (WACC), and fostering growth expectations. The projected ROIC for FY3/27 is expected to remain at 7.6% due to upfront growth investments. While this figure is slightly above the company's assumed WACC of 7%, it falls short of the mid-term plan's KPI of 10.2%.

Increasing ROIC

The company recognizes that increasing ROIC requires improving the operating margin and capital turnover ratio through the execution of the growth strategies outlined in its mid-term plan. To improve the Cash Conversion Cycle (CCC), the company plans to rigorously manage the three Key Indicators - DIO, DSO and DPO - under the leadership of newly appointed regional CFOs (for Europe, the Americas, and APAC). In particular, regarding the improvement of DIO (Days Inventory Outstanding), the standardization of key printer components into common modules - and, consequently, the reduction in the number of models - being pursued by the development department is expected to be highly effective.

Reducing WACC

To reduce WACC, the company places high priority on lowering the proportion of its Russian operations - which exhibit high volatility in operating income - optimizing funding methods, and also mitigating short-term fluctuations in performance. Furthermore, to foster growth expectations, it will be necessary to make steady progress in preparing for the commercialization of the PUT business through the execution of the current mid-term management plan and to widely communicate this to the stock market through investor relations (IR) activities.

Figure 57. Changes in Financial Position (¥mn)

FY	3/19	3/20	3/21	3/22	3/23	3/24	3/25	3/26
[Cash Flow]								
Net Profit	3,773	-1,882	12,959	3,794	4,184	3,565	7,151	5,086
Depreciation and Amortization	5,570	5,914	4,315	4,456	5,119	5,072	5,541	5,987
Capital Expenditures	-4,288	-3,903	-4,321	-3,753	-7,256	-7,722	-9,022	-8,079
Share Repurchases	0	0	0	0	-2,500	0	-1	-1
Dividends	-2,293	-2,393	-2,329	-2,362	-2,376	-2,337	-2,404	-2,474
[Balance Sheet]								
Cash and Deposits	16,837	23,796	33,037	29,854	21,923	25,078	27,481	28,312
Interest-bearing Debt	15,957	18,423	15,425	15,814	15,599	17,732	19,576	17,265
Equity	55,375	47,793	58,274	63,136	65,452	71,276	76,540	85,308
【Key Indicators】								
Equity Ratio	51.5%	46.4%	53.3%	52.6%	53.3%	53.8%	54.8%	58.7%
D/E Ratio	28.8%	38.5%	26.5%	25.0%	23.8%	24.9%	25.6%	20.2%
Net D/E Ratio	-1.6%	-11.2%	-30.2%	-22.2%	-9.7%	-10.3%	-10.3%	-12.9%
DPS (¥)	70.0	70.0	70.0	70.0	72.0	73.0	75.0	76.0
Dividend Payout Ratio	62.2%	-124.9%	18.1%	62.1%	56.8%	66.4%	34.0%	48.5%

Source: Company Data. Compiled by Strategy Advisors.

5) Strengthening global management infrastructure

Prioritizing the Development of a Management Foundation that Supports Corporate Value Enhancement

The company recognizes the importance of strengthening global management infrastructure to support the enhancement of corporate value. The key themes are: 1) improving management practices, 2) strengthening corporate governance, 3) reinforcing cybersecurity, 4) global branding and 5) enhancing human capital management.

We will defer discussion of 5) to Chapter 12 and describe the details of 1) through 3) below.

(1) Improve Management Practices

Regarding management, to ensure that the approach is sophisticated and forward-looking rather than overly focused on past performance, the policy is to establish KPIs and medium to long-term indicators based on scenario forecasts starting from future target states, and to implement analysis and forecasting utilizing AI and other technologies. After investment decisions are made, the company makes course corrections as needed through monitoring, which in turn enables swift subsequent decisions. Investment proposals are compared and screened from a company-wide perspective, enabling resource allocation that balances short-term profits with growth investments. In this regard, the Project Review Committee established in April 2021 is functioning effectively and is helping to ensure sound decision-making at the Executive Officers' Meeting and the final Board of Directors meeting. As a result, the speed and quality of decision-making have improved and a framework aimed at enhancing capital efficiency is taking shape. Furthermore, early risk identification is expected to contribute to maximizing the return on investment.

(2) Strengthen Corporate Governance

In terms of governance, the company will first review the financial and management structures, establishing a system in which the Group CFO oversees newly appointed Regional CFOs (for the Americas, Europe, and APAC). This will enable us to build a mechanism for managing and allocating Group funds in a way that optimizes the overall portfolio. The aim is to standardize decision-making criteria and ensure consistency and effectiveness in decision-making through common rules (including those for the procurement department). Through these measures, the company aims to establish a governance framework capable of supporting global business expansion and to make management decisions - including those regarding growth investments and shareholder returns - in a flexible and agile manner. Furthermore, the company plans to prioritize strengthening the structure in Europe during FY3/27.

(3) Reinforce Cybersecurity

During FY3/26, the company established an infrastructure in which the security department oversees personnel at each location and manages IT, products, and factories. Since one cybersecurity incident occurred during FY3/26, the company plans to further strengthen its response measures starting in FY3/27. The company also plans to address the evolution of cyber technology and establish AI governance. Through these measures, the company aims to prevent business disruptions and damage to its reputation caused by cyber incidents, thereby ensuring global business continuity planning (BCP).

Figure 58. Earnings Overview (Excl. Russia, ¥mn)

FY	3/20	3/21	3/22	3/23	3/24	3/25	3/26
Company-Wide							
Sales	116,372	109,052	124,783	142,824	143,446	154,807	163,434
Operating Income	7,461	5,847	6,404	8,841	10,383	12,341	11,041
OP Margin	6.4%	5.4%	5.1%	6.2%	7.2%	8.0%	6.8%
All Companies excl. Russia							
Sales	116,372	109,052	115,082	125,157	127,448	135,713	143,036
Operating Income	7,461	5,847	5,353	5,298	6,616	8,659	9,593
OP Margin	6.4%	5.4%	4.7%	4.2%	5.2%	6.4%	6.7%
Russia							
Sales	0	0	9,701	17,667	15,998	19,094	20,398
Operating Income	0	0	1,051	3,543	3,767	3,682	1,448
OP Margin	-	-	10.8%	20.1%	23.5%	19.3%	7.1%

Source: Company Data. Compiled by Strategy Advisors.

11. Risk Factors

The risks affecting SATO's business performance and stock price trends are listed below, divided into short-term and medium to long-term categories.

Short-Term Risks (External Factors)

Short-term risks include those arising from external factors. First, among the risks with a high probability of occurrence, fluctuations in market share within the overseas Primary Labels business are anticipated, particularly a decline in market share at the strong-performing Russian subsidiary due to a worsening competitive environment. Next, while these are general risks, fluctuations in the performance of the various industries in which customers operate - both domestically and internationally (manufacturing, logistics, retail, Healthcare, food, Public Sectors, etc.) - have a significant impact on the business performance. Additionally, a decline in market share due to intensifying competition within individual customer accounts, as well as falling prices resulting from the commoditization of label printers, also pose risks. Exchange rate fluctuations, rising labor costs and inventory fluctuations in the supply chain are also risk factors.

Short-Term Risks (Internal Factors)

Among the company's internal risks is a potential delay in implementing price adjustments to address rising costs (particularly for DRAM and resin-related components). General risks include delays in the launch of new products, quality issues and declines in yield rates and productivity at production sites. Currently, the company is working to strengthen its management foundation as part of its mid-term management plan; we believe these risks can be minimized if measures to address them proceed as planned.

Medium to Long-Term Risks (External Factors)

Next, regarding medium to long-term risks stemming from external factors, the emergence of alternative technologies to barcode labels and RFID - which form the core of the company's tagging business - is a potential concern. However, there are no signs of new, low-cost and user-friendly technologies emerging as means of attaching ID information to people and objects; therefore, the risk is low at this stage. Furthermore, it is conceivable that competitors could enter the market with a business model that integrates the supply of Mechatronics (including software) and consumables, leveraging SATO's strength in proposing tagging solutions. While no such movements are currently observable and this does not represent a major risk at this time, we believe it warrants close monitoring.

Medium to Long-Term Risks (Internal Factors)

Internal factors include a lack of progress in improving gross profit margins in Japan, the rollout of high-value-added solutions overseas and the failure to develop "new domains" - namely, "PUT" - on a global scale. Particularly regarding overseas operations, it is necessary to effectively implement measures to strengthen global management infrastructure and for subsidiaries to proactively contribute to expanding market share. However, if this does not go well, we believe that improvements in ROIC (and ROE) may be delayed.

12. Promotion of Sustainability Management

1) Corporate Governance Structure (Following the June 25, 2025 Shareholders' Meeting)

Organizational Structure

SATO's organizational structure is that of a company with a Board of Auditors. The Board of Directors consists of 8 members (including one female), of whom 2 also serve as executive officers, 1 is an internal non-executive director and 5 are outside directors (including one female), with outside directors constituting a majority. The Board of Auditors consists of 3 members (including one female), comprising 1 full-time auditor and 2 independent outside auditors (including one female). The proportion of female officers is 18.2%. Since April 2021, the company has established a Nomination Committee and a Compensation Committee as advisory bodies to the Board of Directors.

Board of Directors

Independent outside directors account for 62.5% of the Board of Directors. Principle 4-8 of the Corporate Governance Code requires companies listed on the Prime Market to appoint at least one-third independent outside directors, and the company meets this standard. The 5 outside directors consist of experienced professionals with backgrounds in consulting and corporate management, a lawyer, individuals with experience in marketing and product planning and executives with management experience in the electronics and Healthcare industries.

However, Naoki Kubo, an outside auditor, received a low approval rate of 76.5% on the appointment proposal at the June 2025 shareholders' meeting. As a former employee of the company's audit firm, Azusa Audit Corporation, he faced opposition from some institutional investors on the grounds that he did not meet independence requirements.

Figure 59. Management Structure and Skills

Skills Matrix	Representative Director President and Group CEO **Hiroyuki Konuma**	Director Executive Vice President **Yoshinori Sasahara**	Director **Tatsuo Narumi**	Outside Director **Ryoji Itoh**	Outside Director Chair of the Board **Hideo Yamada**	Outside Director Chair of Nomination & Remuneration Advisory Committee **Sadayoshi Fujishige**	Outside Director **Yoshiko Nonogaki**	Outside Director **Hiroshi Nagumo**
Business/organizational management	○	○	○	○	○	○	○	○
Technology development, innovation& DX	○	○		○		○		○
Global business	○			○		○	○	○
Finance & accounting				○		○		
Governance, risk management & compliance	○			○	○	○	○	○
Human resource, labor relations & talent development			○		○	○	○	

Note: Honorifics omitted.
Source: SATO, “Integrated Report 2025”

Figure 60. SATO: Approach to Materiality

Source: SATO “Integrated Report 2025”

2) Human Capital Management

Basic Policy

SATO recognizes that "people" are the source of sustainable value creation within its business model and adopts the perspective that "employees are our greatest asset". In its new materiality framework, the company also prioritizes "enhancing employee engagement" and "respect for human rights". By enhancing "on-site competency" - the source of the Group's competitiveness - and putting into practice the corporate philosophy that serves as its foundation; the company seeks to ensure that each employee, through their daily work experiences, becomes a self-reliant and self-determining talent - an individual who "thinks and acts independently (self-reliance) and can drive change (self-determining)".

Human Capital Strengthening Policy

To improve employee engagement, the Group as a whole has set a KPI to raise the engagement score - defined as the positive response rate to 5 items directly related to employee engagement - from 65% (as of FY3/24) to 70% by FY3/30.

As HR measures to strengthen human capital, the company will follow a 3-step process:

Step 1: Practicing Daily Cycles (individual initiatives),
Step 2: Improving Frontline Capabilities (organizational initiatives)
Step 3: Embedding into Corporate Culture (fostering a creative corporate culture).

The company will provide support from 2 perspectives: various initiatives that serve as "SATO's Driving Force" (i.e., the integration of business strategy and human capital strategy) and various initiatives that provide "Support and Motivation" (i.e., mechanisms to enable all employees to thrive).

Diversity

The proportion of female managers across the entire Group (including 50 consolidated subsidiaries) stands at 8.5% (FY3/25). Although the target for FY3/26 (8.4%) was achieved, major subsidiaries have not yet met their targets (SATO Holdings: actual 14.9%, target for FY3/26: 15%; SATO: actual 7.7%, target for FY3/26: 8%). The company has set a target of 10% or more for the entire group by FY3/31 (SATO Holdings: 16%; SATO: 9%).

The company is promoting parental leave for male employees; while the Group-wide rate was 83.3% for FY3/25, a KPI of 85% or higher has been set for FY3/31. Regarding the gender pay gap, the figures for the Group as a whole are 72.1% for full-time employees, 76.1% for part-time and fixed-term employees, and 66% for all workers. The fact that there are still few women in senior positions, such as management roles, is a factor contributing to the lower average salary for women.

Intellectual Property

Through the creation and provision of solutions centered on tagging, the company has accumulated a diverse range of intellectual property, including patents, design rights, trademarks and technical know-how. These assets are the source of the company's current and future competitiveness and are positioned as critical management resources.

To strategically create and utilize this intellectual property, the company has established an Intellectual Property Department to oversee all IP-related operations. In the innovation creation process, the company is promoting the use of IP landscape analysis (intellectual property information analysis). In advancing "tagging" through external co-creation and in selecting new business ventures, the company has begun initiatives to enhance decision-making from an intellectual property perspective by leveraging business intelligence.

3) Climate Change Response

TCFD Disclosure

In 2021, the company expressed its support for the recommendations of the TCFD (Task Force on Climate-related Financial Disclosures) and is striving to address climate change in accordance with those recommendations. Since FY3/21, the company has been identifying and evaluating risks and business opportunities, as well as formulating response measures, through scenario analysis based on the TCFD framework.

GHG Emissions Reduction Targets

The company considers preventing global warming through the reduction of GHG emissions to be essential for realizing a sustainable society. The company has set a target to reduce Scope 1 and Scope 2 greenhouse gas emissions by 50% compared to FY3/19 levels by FY3/30 and to achieve net-zero (carbon neutrality) by FY3/50. Previously, the base year for GHG emission reductions was 2016 for Scope 1 and 2, and 2021 for Scope 3; however, after comprehensively considering feasibility and effectiveness, the company has unified all base years to 2019.

Figure 61. GHG Emissions Performance and Targets

(Unit: t-CO2)

Scope	Item	FY3/20 Results (Base Year)	FY3/23 Results	FY3/24 Results	FY3/25 Results	FY3/31 Target
Global	Scope 1 and 2	14,019	10,592	14,061	11,404	7,010
	Compared to FY3/20	–	-24.4%	0.3%	-18.7%	-50.0%
Japan	Scope 3	317,836	321,951	324,463	329,219	222,485
	Compared to FY3/20	–	1.3%	2.1%	3.6%	-30.0%

Source: Company Data. Compiled by Strategy Advisors.

Figure 62. Income Statement (¥mn)

FY	3/19	3/20	3/21	3/22	3/23	3/24	3/25	3/26	3/27CoE
Net Sales	**116,179**	**116,372**	**109,052**	**124,783**	**142,824**	**143,446**	**154,807**	**163,434**	**168,500**
Cost of Sales	65,503	66,193	63,317	74,385	86,140	84,329	91,337	98,103	
Gross Profit	50,676	50,179	45,735	50,398	56,684	59,117	63,470	65,331	
Gross Profit Margin	43.6%	43.1%	41.9%	40.4%	39.7%	41.2%	41.0%	40.0%	
SG&A Expenses	42,997	42,718	39,888	43,994	47,843	48,733	51,129	54,289	
Operating Income	**7,679**	**7,461**	**5,847**	**6,404**	**8,841**	**10,383**	**12,341**	**11,041**	**11,700**
OP Margin	6.6%	6.4%	5.4%	5.1%	6.2%	7.2%	8.0%	6.8%	6.9%
Non-Operating Income	569	324	393	404	610	804	863	908	
Non-Operating Expenses	629	1,213	719	751	384	2,226	2,060	2,069	
Ordinary Profit	**7,618**	**6,571**	**5,521**	**6,057**	**9,068**	**8,961**	**11,144**	**9,881**	**11,200**
Ordinary Profit Margin	6.6%	5.6%	5.1%	4.9%	6.3%	6.2%	7.2%	6.0%	6.6%
Extraordinary Profit	11	824	10,454	49	37	42	1,220	59	
Extraordinary Loss	1,057	6,760	1,519	143	1,958	3,341	702	1,591	
Income Before Income Tax	6,573	636	14,457	5,963	7,147	5,662	11,662	8,349	
Income Taxes – Current	2,971	2,076	1,403	1,958	2,760	2,246	2,568	2,691	
Income Taxes – Deferred	-182	536	-10	47	-570	-784	1,262	418	
Total Income Taxes	2,789	2,612	1,393	2,005	2,190	1,462	3,830	3,109	
(Corporate Tax Rate)	42.4%	410.7%	9.6%	33.6%	30.6%	25.8%	32.8%	37.2%	
Profit Attributable to Owners of Parent	**3,773**	**-1,882**	**12,959**	**3,794**	**4,184**	**3,565**	**7,151**	**5,086**	**7,400**
Net Income Margin	3.2%	-1.6%	11.9%	3.0%	2.9%	2.5%	4.6%	3.1%	4.4%
EPS (¥)	**112.46**	**-56.06**	**385.86**	**112.74**	**126.66**	**110.02**	**220.39**	**156.69**	**227.94**

Source: Company Data. Compiled by Strategy Advisors.

Figure 63. Balance Sheet (¥mn)

FY	3/19	3/20	3/21	3/22	3/23	3/24	3/25	3/26
Current Assets	**59,367**	**66,195**	**74,641**	**81,950**	**81,137**	**86,268**	**91,558**	**94,274**
Cash and Deposits	16,837	23,796	33,037	29,854	21,923	25,078	27,481	28,312
Accounts Receivable	25,522	23,766	24,878	26,688	27,113	28,617	29,697	31,020
Accounts Receivable and Unearned Revenue	1,834	3,759	1,784	2,177	1,763	1,994	2,123	2,014
Inventory	13,453	13,053	13,072	20,418	26,854	27,135	28,955	29,632
Others	1,721	1,821	1,870	2,813	3,484	3,444	3,302	3,296
Allowance For Doubtful Accounts	-153	-185	-236	-234	-230	-451	-275	-389
Fixed Assets	**48,206**	**36,952**	**34,671**	**38,054**	**41,721**	**46,188**	**48,198**	**51,184**
Tangible Fixed Assets	30,720	28,936	27,306	30,390	32,331	36,406	38,725	41,765
Intangible Fixed Assets	11,933	3,688	3,356	3,256	4,372	3,841	5,362	6,257
Investments and Other Assets	5,552	4,326	4,007	4,407	5,017	5,941	4,110	3,161
Investment Securities	1,607	1,188	1,192	1,479	928	1,122	163	155
Deferred Tax Assets	1,865	1,311	1,011	1,087	2,132	2,919	1,899	1,153
Others	2,080	1,827	1,804	1,841	1,957	1,900	2,048	1,853
Total Assets	**107,574**	**103,147**	**109,312**	**120,005**	**122,858**	**132,457**	**139,757**	**145,459**
Current Liabilities	**36,904**	**41,492**	**36,988**	**42,071**	**44,963**	**43,064**	**41,677**	**38,489**
Trade Payables	18,954	18,095	17,740	20,644	19,360	19,402	16,705	14,133
Accounts Payable and Accrued Expenses	2,835	2,566	3,080	4,705	4,212	4,399	4,920	5,043
Interest-Bearing Debt	4,966	8,549	4,792	4,720	7,722	5,085	4,556	2,575
Advance Payment	0	4,915	5,536	6,820	7,322	7,518	7,761	8,582
Deferred Tax Liabilities	0	0	0	0	0	0	0	0
Others	10,149	7,367	5,840	5,182	6,347	6,660	7,735	8,156
Fixed Liabilities	**14,000**	**12,832**	**12,862**	**13,426**	**10,200**	**15,307**	**17,842**	**17,384**
Interest -Bearing Debt	10,917	9,798	10,555	11,011	7,795	12,562	14,934	14,690
Retirement Benefits/Salary Reserves	1,843	1,800	1,193	1,227	1,002	1,065	975	1,006
Others	1,240	1,234	1,114	1,188	1,403	1,680	1,933	1,688
Net Assets	**56,668**	**48,823**	**59,462**	**64,508**	**67,694**	**74,085**	**80,237**	**89,585**
Shareholders' Equity	56,245	51,999	62,646	64,144	63,451	63,149	68,012	70,623
Capital and Surplus	16,205	16,206	16,208	16,233	16,232	16,231	13,815	13,815
Retained Earnings	42,624	38,345	48,974	50,256	52,061	51,718	56,461	59,070
Treasury Stock	-2,584	-2,552	-2,537	-2,345	-4,842	-4,801	-2,265	-2,262
Accumulated Other Comprehensive Income	-870	-4,206	-4,372	-1,008	2,001	8,127	8,528	14,685
Stock Acquisition Rights	57	39	28	28	28	19	12	12
Non-Controlling Interests	1,235	990	1,159	1,343	2,213	2,789	3,685	4,263
Liabilities and Net Assets	**107,574**	**103,147**	**109,312**	**120,005**	**122,858**	**132,457**	**139,757**	**145,459**
Interest -Bearing Debt	15,957	18,423	15,425	15,814	15,599	17,732	19,490	17,265
Equity Ratio	51.5%	46.4%	53.3%	52.6%	53.3%	53.8%	54.8%	58.7%
D/E Ratio	0.29	0.39	0.26	0.25	0.24	0.25	0.25	0.20

Source: Company Data. Compiled by Strategy Advisors.

Figure 64. Cash Flow Statement (¥mn)

FY	3/19	3/20	3/21	3/22	3/23	3/24	3/25	3/26
Cash Flows from Operating Activities								
Profit Before Tax	6,573	636	14,457	5,963	7,147	5,662	11,662	8,349
Depreciation	4,489	5,043	4,092	4,220	4,855	4,926	5,414	5,973
Amortization of Goodwill	1,081	871	223	236	264	146	127	14
Impairment Loss	1,024	6,397	448	11	0	2,168	631	1,241
Profit/Loss On Sale of Fixed Assets	-11	-711	-10,414	-30	-4	-32	-29	-55
Increase/Decrease in Accounts Receivable	-1,093	1,006	-598	-1,633	35	-953	-1,199	-59
Increase/Decrease in Accounts Payable	713	-139	-867	2,557	-1,827	-816	-2,152	-2,986
Increase/Decrease in Inventory	-2,254	-291	183	-6,288	-5,907	1,297	-1,647	1,482
Increase/Decrease in Accounts Payable	-188	-96	221	580	378	106	542	-56
Receipts of Interest and Dividends	143	121	93	140	301	613	568	568
Interest Payment	-140	-187	-220	-217	-252	-340	-679	-662
Corporate Tax Paid	-1,391	-2,469	-1,510	-1,505	-2,230	-2,766	-2,329	-1,655
Others	419	1,078	-302	-732	2,430	2,552	1,562	1,119
Total	9,365	11,259	5,806	3,302	5,190	12,563	12,471	13,273
Cash Flows from Investing Activities								
Income And Expenditures from Acquisition and Sale of Tangible Fixed Assets	-3,672	-2,858	-3,516	-2,550	-5,247	-5,657	-5,736	-5,032
Income And Expenditures from Acquisition and Sale of Intangible Fixed Assets	-545	411	13,564	-1,053	-1,903	-2,018	-3,251	-2,963
Income And Expenditure from Fixed Term Deposits	33	0	-10,000	-201	9,562	282	-729	-98
Income And Expenditures from Acquisition and Sale of Subsidiary Shares	0	0	-169	0	0	-617	0	0
Others	-1,028	-2	19	66	-122	76	1,508	-24
Total	-5,212	-2,449	-102	-3,738	2,290	-7,934	-8,208	-8,117
Cash Flows from Financing Activities								
Net Increase/Decrease in Short-Term Borrowings	-101	2,683	-3,522	-262	-295	-3,154	-333	-2,102
Net Increase/Decrease in Long-Term Borrowings	-386	-977	-27	-15	-21	4,924	2,396	-72
Expenditures From Sales of Treasury Stock	0	0	0	0	0	0	0	0
Repayment Of Lease Obligations	-752	-621	-1,251	-1,345	-1,116	-1,214	-1,734	-1,482
Dividend Payment	-2,293	-2,393	-2,329	-2,362	-2,376	-2,337	-2,404	-2,474
Expenditures For Acquisition of Treasury Stock	0	0	0	0	-2,500	0	-1	-1
Others	-2	-3	-2	-3	-1	30	-1	-3
Total	-3,534	-1,311	-7,131	-3,987	-6,309	-1,751	-2,077	-6,134
Exchange Differences on Cash	-214	-626	629	983	438	473	-403	1,529
Cash Increase/Decrease	404	6,871	-798	-3,439	1,610	3,350	1,781	550
Cash Beginning Balance	16,026	16,430	23,379	22,580	19,140	20,751	24,102	25,883
Ending Cash Balance	16,430	23,379	22,580	19,140	20,751	24,102	25,883	26,434

Source: Company Data. Compiled by Strategy Advisors.

Figure 65. Key Indicators

FY	3/19	3/20	3/21	3/22	3/23	3/24	3/25	3/26
EPS (¥)	112.46	-56.06	385.86	112.74	126.66	110.02	220.39	156.69
BPS (¥)	1,649.86	1,423.30	1,735.04	1,874.97	2,020.83	2,199.41	2,357.76	2,627.77
DPS (¥)	70.0	70.0	70.0	70.0	72.0	73.0	75.0	76.0
Dividend Payout Ratio	62.2%	-124.9%	18.1%	62.1%	56.8%	66.4%	34.0%	48.5%
#. of Shares Issued ('000)	34,921	34,921	34,921	34,921	34,921	34,921	33,636	33,636
Treasury Stock ('000)	1,358	1,342	1,334	1,248	2,532	2,514	1,173	1,171
# of Shares (Excl. Treasury Stock, '000)	33,564	33,579	33,587	33,673	32,389	32,407	32,463	32,465
Average # of Shares (Excl. Treasury Stock, '000)	33,558	33,571	33,587	33,654	33,035	32,403	32,449	32,465
Equity Ratio	51.5%	46.4%	53.3%	52.6%	53.3%	53.8%	54.8%	58.6%
Interest-Bearing Debt (¥mn)	15,957	18,423	15,425	15,814	15,599	17,732	19,490	17,265
Net Interest-Bearing Debt (¥mn)	-880	-5,373	-17,612	-14,040	-6,324	-7,346	-7,991	-11,047
D/E Ratio	0.29	0.39	0.26	0.25	0.24	0.25	0.25	0.20
Net D/E Ratio	-0.02	-0.11	-0.30	-0.22	-0.10	-0.10	-0.10	-0.13
OP Margin	6.6%	6.4%	5.4%	5.1%	6.2%	7.2%	8.0%	6.8%
EBITDA (¥mn)	13,249	13,375	10,162	10,860	13,961	15,456	17,884	17,028
EBITDA Margin	11.4%	11.5%	9.3%	8.7%	9.8%	10.8%	11.6%	10.4%
ROE	6.8%	-3.6%	24.4%	6.2%	6.5%	5.2%	9.7%	6.3%
ROIC	7.5%	7.5%	5.8%	5.8%	7.7%	8.5%	9.3%	7.7%
Number of Employees	5,307	5,429	5,451	5,656	5,637	5,744	5,986	6,012

Note: The figures for ROIC is calculated as NOPAT/ (Average of Invested Capital During the Period).
Source: Company Data. Compiled by Strategy Advisors.

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