

Company Report

August 26 , 2025

Strategy Advisors Inc.
Akihiko Uchino



FY3/26 Q1 Results: Slightly Below Target Due to Sluggish European Primary Business. However, Likely to Recover from Q2 Onwards

SATO reported a slight increase in revenue and a decrease in profit in its Q1 FY3/26 financial results, with net sales +0.4% YoY to ¥37.8 billion and operating income -17.6% YoY to ¥2.36 billion. Compared to the previous quarter (January-March), net sales +2.0% QoQ and operating income -4.7%, showing a slight slowdown. Progress against the first half forecast announced in May 2025 was 48.1% for net sales and 42.9% for operating income. Q1 results are progressing slightly slower than the company's expectations.

Looking at Q1 results relative to the company's forecasts, net sales fell shortly due to a slump in the overseas base business. Operating income also fell short because the negative impact of sluggish performance in the overseas primary business in Europe (Russia) was not offset by the positive impact of strong domestic business and increased factory utilization rates in Asia. However, excluding the impact of the Russian subsidiary, which has high volatility in performance, operating income +7.4% YoY to ¥1.92 billion, which means an increase in profits. It is safe to say that there are no major changes in the fundamentals.

The company maintained its FY3/26 forecasts of full-year net sales of ¥161.0 billion (+4.0% YoY), operating income of ¥12.5 billion (+1.3% YoY) and H1 net sales of ¥78.6 billion (+3.3% YoY) and operating income of ¥5.5 billion (-4.8% YoY). Although Q1 got off to a somewhat sluggish start, it believes there is a good chance that the company will recover from H2 onwards. This is due to the company's expectation that the performance of its Russian subsidiary will recover from the 2H onwards, the progress in improving profitability despite concerns over demand trends in overseas base businesses and the high possibility that the domestic business will continue to perform well from Q2 onwards.

The company is currently in the second year of its medium-term management plan (3/2025 to 3/2029) and has already achieved its midpoint operating income target of ¥11.5 billion for FY2027 ahead of schedule, achieving ¥12.3 billion in its FY2025 results. Meanwhile, the company's forecast-based PER for FY2026 is 9.4x, while its actual PBR for FY2025 is 0.9x, remaining low.

Stock Price and Trading Volume (Past Year)



Source: Strategy Advisors

Key Indicators

Stock Price (8/26/25)	2,237
52-Week High (2/13/25)	2,337
52-Week Low (4/07/25)	1,791
All-Time High (9/26/18)	3,795
All-Time Low (3/13/09)	634
Number of Shares Issued	32.5
Market Capitalization (¥bn)	72.6
EV (¥bn)	68.3
Equity Ratio (FY3/25, %)	54.8
ROE (FY3/25 Actual, %)	9.7
PER (FY3/26 CoE, x)	9.4
PBR (FY3/25 Actual, x)	0.9
Yield (FY3/26 CoE, %)	3.4

Source: Strategy Advisors

Our view of the company's equity story is that it will leverage its on-site expertise accumulated through its solutions development in Japan to transform its overseas operations; which are still primarily focused on selling products, into a solutions-based business, thereby increasing its global share in the rapidly growing auto-identification market (see the April 1, 2025, Initial Report: [SATO \(6287\): A Company that Solves Social Issues with Tagging Solutions. Capturing Growing Demand with a Unique Business Model](#)).

Given the achievement of the FY2026 company forecast and the planned announcement of a revised medium-term management plan after the Q2 financial results, if the equity story becomes more feasible, there will be room for the stock price to rise.

Japanese GAAP

FY	Net Sales	YoY	Operating Income	YoY	Ordinary Profit	YoY	Net Income	YoY	EPS	DPS
	(¥mn)	(%)	(¥mn)	(%)	(¥mn)	(%)	(¥mn)	(%)	(¥)	(¥)
3/25Q1	37,674	10.8	2,864	32.6	2,411	16.4	1,197	-8.2	36.95	-
3/26Q1	37,829	0.4	2,359	-17.6	1,885	-21.8	1,211	1.2	37.31	-
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 CoE	161,000	4.0	12,500	1.3	12,100	8.6	7,700	7.7	237.3	76.0

Source: Company Data. Compiled by Strategy Advisors.

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1. Overview of FY3/26Q1 Financial Results

Q1 Financial Results Show Slight YoY Increase in Revenue and Decrease in Profit. Slightly Below Company Expectations

The Q1 financial results announced on August 12th showed net sales +0.4% YoY to ¥37.82 billion, while operating income was -17.6% YoY to ¥2.36 billion, resulting in a slight increase in revenue and a decrease in profit. The YoY change in operating income of -¥510 million (+¥130 million excluding Russian subsidiary) was broken down into: +¥370 million (+¥420 million YoY) due to increased revenue, -¥260 million (+¥300 million YoY) due to gross profit and other factors, -¥430 million (-¥390 million YoY) due to selling and administrative expenses and -¥180 million (-¥200 million YoY) due to foreign exchange factors. Compared to the previous Q4 (January-March), net sales were -2.0% QoQ and operating income was down -4.7% YoY to ¥2.48 billion, showing a slight slowdown.

Overseas Primary Business in Europe (Russia) is Sluggish

Progress against the first half forecast announced in May 2025 was 48.1% for net sales and 42.9% for operating income. Q1 results progressed slightly slower than the company's expectations. Net sales fell shortly due to sluggish overseas base business. Operating income also fell short of the company's expectations, as the downside due to sluggish performance in Europe (Russia) in the overseas primary business was not offset by the upside due to strong performance in the domestic business and in Asia and Oceania.

However, when broken down by region, the overseas base business exceeded the company's expectations, as the negative impact of sluggish net sales was fully offset by increased utilization rates at Asian production plants. In Japan, Mechatronics products performed well, thanks to a strong willingness to invest in efficiency in the manufacturing market with results exceeding the company's expectations. Therefore, only the overseas primary business fell short of the company's expectations.

Maintains Company Forecast Announced in May

The company maintained its forecasts for the first half of FY3/26, and the full year announced in May. Q1 results progressed at a pace slightly below the company's forecast. However, the company has determined that it is fully capable of achieving its forecasts by recovering from Q2 onwards. We believe that trends in overseas primary business will hold the key to achieving its forecasts and will be closely monitoring developments.

Figure 1. Summary of FY3/26Q1 Financial Results

(¥mn)

	3/25 Q1	Q2	Q3	Q4	3/26 Q1	3/25 FY	3/26CoE FY
Sales	37,674	38,415	40,121	38,596	37,829	154,807	161,000
YoY	10.8%	7.3%	6.6%	7.1%	0.4%	7.9%	4.0%
Overseas	19,321	19,223	19,104	17,937	18,737	75,587	78,000
YoY	17.4%	12.4%	8.3%	7.2%	-3.0%	11.3%	3.2%
Base Business	13,355	12,806	13,329	13,141	12,628	52,632	54,000
YoY	13.4%	8.5%	7.3%	8.9%	-5.4%	9.5%	2.6%
Primary Labels Business	5,966	6,416	5,775	4,796	6,109	22,955	24,000
YoY	27.6%	21.1%	10.5%	2.9%	2.4%	15.6%	4.6%
Domestic	18,353	19,191	21,016	20,658	19,092	79,220	83,000
YoY	4.7%	2.7%	5.2%	7.0%	4.0%	4.9%	4.8%
Mechatronics	6,848	7,559	7,987	9,231	7,181	31,627	-
YoY	7.1%	2.4%	7.2%	8.9%	4.9%	6.5%	-
Consumables	11,505	11,633	13,029	11,426	11,911	47,593	-
YoY	3.3%	2.8%	4.0%	5.5%	3.5%	3.9%	-
(Consumables Ratio)	30.5%	30.3%	32.5%	29.6%	31.5%	30.7%	-
Operating Income	2,864	2,914	4,086	2,475	2,359	12,341	12,500
YoY	32.6%	18.5%	17.9%	7.8%	-17.6%	18.9%	1.3%
OP Margin	7.6%	7.6%	10.2%	6.4%	6.2%	8.0%	7.8%
Overseas	2,586	2,303	2,405	1,183	1,629	8,478	8,300
YoY	19.2%	-1.8%	-3.4%	-4.4%	-37.0%	2.9%	-2.1%
OP Margin	13.4%	12.0%	12.6%	6.6%	8.7%	11.2%	10.6%
Base Business	1,277	1,053	1,200	785	1,118	4,317	4,000
YoY	27.3%	55.1%	-10.4%	50.1%	-12.5%	21.7%	-7.3%
OP Margin	9.6%	8.2%	9.0%	6.0%	8.9%	8.2%	7.4%
Primary Labels Business	1,301	1,290	1,198	409	561	4,199	4,300
YoY	16.4%	-14.5%	5.5%	-47.2%	-56.9%	-7.5%	2.4%
OP Margin	21.8%	20.1%	20.7%	8.5%	9.2%	18.3%	17.9%
Domestic	186	773	1,824	1,123	864	3,906	4,200
YoY	-	622.4%	96.8%	24.6%	364.5%	126.6%	7.5%
OP Margin	1.0%	4.0%	8.7%	5.4%	4.5%	4.9%	5.1%
Elimination	92	-162	-143	169	-134	-43	-

Source: Company Data. Compiled by Strategy Advisors.

2. Trends by Sector

1) Overseas (Based Business)

Asia & Oceania Performed Well in Q1

Overseas (Base business) Q1 results showed a decline in both revenue and profit, with net sales -5.4% YoY to ¥12.6 billion and operating income -12.5% YoY to ¥1.12 billion. Net sales were driven by strong performance from sales subsidiaries in Asia and Oceania, but currency fluctuations, particularly at sales subsidiaries in Europe and the United States, were a negative factor, resulting in a YoY decline. While strong performance in Asia and Oceania contributed to operating income, this was not enough to offset the negative impact of increased SG&A expenses resulting from the disappearance of the positive factor of the reversal of the allowance for doubtful accounts in the United States in the previous Q1, resulting in a YoY decline in profits.

RFID & Automation Solutions Also Saw YoY Sales Growth

Demand for solutions continues to increase due to labor shortages and the shift to digital transformation. RFID sales increased 45.3% YoY due to a continued increase in large-scale projects in the manufacturing market. Although automation solutions (automatic labelers) were affected by the economic downturn in Europe, sales increased 25.4% YoY due to continued large-scale projects in the US logistics market.

Americas Q1 Results - Logistics Was Strong. But Currency Fluctuations & Increased Costs Negatively Impacted

Sales and profits in the Americas decreased YoY in Q1. Sales of large-scale orders for automatic labeling for the logistics market in the US and sales of consumables products increased. However, negative factors included exchange rate fluctuations and the disappearance of the one-off positive factor of the reversal of allowance for doubtful accounts in the previous Q1. Demand was also strong in South America, but exchange rate fluctuations and increased costs such as labor costs in an inflationary environment contributed negatively.

European Q1 Results - Demand Itself is Sluggish Due to an Economic Downturn

In Europe, Q1 revenue decreased YoY, but profits increased slightly (almost flat). Although demand itself was sluggish due to the general economic downturn, PJM-RFID, a strength of the company, performed well in the healthcare market. Operating income was offset by the negative impact of the decline in revenue through SG&A expense control and mixed improvements (strong performance in healthcare).

Asia/Oceania Q1 Results: Strong Performance in Australia & ASEAN. Slowdown at Taiwan's Argox

Asia & Oceania saw a YoY decrease in sales and a slight decrease in profits (almost flat) in Q1. While the manufacturing market in Thailand and a large RFID project with a retail customer in the Philippines contributed, sales at Argox in Taiwan slowed due to inventory adjustments by a distributor customer. Large RFID projects in Australia continued to perform well. Operating income benefited from increased factory utilization rates due to increased demand for printers for the US and strong performance in Australia, but this was offset by the negative impact of decreased sales at Argox in Taiwan.

Figure 2. Overseas (Base Business) Revenue Trends

(¥mn)

	3/25 Q1	Q2	Q3	Q4	3/26 Q1	3/25 FY	3/26CoE FY
Sales	13,355	12,806	13,329	13,141	12,628	52,632	54,000
Americas	4,568	4,295	4,503	4,769	4,264	18,135	-
Europe	3,221	3,029	3,106	3,122	3,129	12,478	-
Asia/Oceania	5,564	5,483	5,718	5,256	5,234	22,021	-
Operating Income	1,277	1,053	1,200	785	1,118	4,317	4,000
Americas	318	54	-24	27	164	375	-
Europe	105	145	73	87	109	410	-
Asia/Oceania	853	854	1,151	672	843	3,530	-
OP Margin	9.6%	8.2%	9.0%	6.0%	8.9%	8.2%	7.4%
Americas	7.0%	1.3%	-0.5%	0.6%	3.8%	2.1%	-
Europe	3.3%	4.8%	2.4%	2.8%	3.5%	3.3%	-
Asia/Oceania	15.3%	15.6%	20.1%	12.8%	16.1%	16.0%	-

Sales Breakdown by Application

			3/24 FY	3/25 FY
Manufacturing			26.7%	28.5%
Logistics			4.2%	4.0%
Retail			32.1%	30.8%
Healthcare			7.5%	7.3%
Food			10.0%	9.2%
Public Sector			0.5%	0.4%
Others			19.0%	19.8%

Note: The figures for sales breakdown is based on segment information. Operating income breakdown is based on segment information and presentation materials.

Source: Company Data. Compiled by Strategy Advisors.

2) Overseas (Primary Labels Business)

Sales of Certain Products Remain Sluggish in Q1 Due to Tax Changes in Russia

Overseas (Primary Labels business) Q1 results showed increased sales but decreased profits, with net sales increasing 2.4% YoY to ¥6.11 billion and operating income decreasing 56.9% YoY to ¥560 million. In Europe, sluggish sales of certain products due to tax changes in Russia had a negative impact, but the weak yen and strong ruble contributed to a positive increase in sales YoY. On the other hand, increased costs associated with capacity expansion, increased labor costs, and higher raw material costs due to the weak euro and strong ruble had a negative impact, resulting in a decrease in profits YoY. In South America, demand was strong despite an inflationary environment, but exchange rate fluctuations and increased costs such as labor costs led to a decline in profitability.

Figure 3. Overseas (Primary Business) Revenue Trends

(¥mn)

	3/25 Q1	Q2	Q3	Q4	3/26 Q1	3/25 FY	3/26CoE FY
Sales	5,966	6,416	5,775	4,796	6,109	22,955	24,000
Americas	960	827	794	894	922	3,475	-
Europe	4,904	5,498	4,882	3,810	5,089	19,094	-
Asia/Oceania	101	93	98	92	97	384	-
Operating Income	1,301	1,290	1,198	409	561	4,199	4,300
Americas	255	136	82	158	135	631	-
Europe	1,028	1,236	1,110	151	413	3,525	-
Asia/Oceania	17	12	6	6	12	41	-
OP Margin	21.8%	20.1%	20.7%	8.5%	9.2%	18.3%	17.9%
Americas	26.6%	16.4%	10.3%	17.7%	14.6%	18.2%	-
Europe	21.0%	22.5%	22.7%	4.0%	8.1%	18.5%	-
Asia/Oceania	16.8%	12.9%	6.1%	6.5%	12.4%	10.7%	-

Source: Company Data. Compiled by Strategy Advisors.

3) Japan

Q1 Results Were Strong for Both Mechatronics & Consumables

In Japan, Q1 results showed increased sales and profits, with net sales increasing 4.0% YoY to ¥19.1 billion and operating income increasing 4.6 times to ¥860 million. Mechatronics product sales (printers, etc.) increased 4.9% YoY, driven by efficiency investments in the manufacturing market and increased demand related to the revised Logistics Efficiency Act in the logistics market. Demand for consumables (labels, etc.) also increased steadily, resulting in a 3.5% increase in sales. Operating income increased because of increased sales, improved product mix, increased printer exports, and control of SG&A expenses.

RFID Sales Slightly Decreased YoY, While Automation Solutions Sales Slightly Increased YoY

Demand for solutions continues to increase, driven by labor shortages and the need to respond to digital transformation, just as it has overseas (Base business). However, while RFID saw a solid performance in the manufacturing market, it was unable to cover the reactionary decline in large orders in the public sector, resulting in a 3.4% YoY decline in sales. Automation solutions (automatic labelers) saw sales increase by 2.3% YoY, thanks in part to a large order related to e-commerce in the logistics market.

Q1 Manufacturing Market - Demand Increases Due to Strong Performance in Advanced Semiconductor Production

In the manufacturing market (which includes the public sector market from this year), demand is increasing in the electronic parts and chemical industries due to the strong performance of advanced semiconductor production. In mechatronics, demand increased in almost all industries, including manufacturing logistics, thanks to large-scale deals with automatic labelers in the electronic parts industry and the automotive industry. Consumables also remained strong in almost all industries.

Q1 Logistics Market - Demand from E-commerce and Inbound Tourists is Booming

The logistics market continues to see an increase in logistics due to buoyant e-commerce and inbound demand. Demand for Mechatronics, including printers for parcel delivery, is on the rise due to increased demand related to the revised Logistics Efficiency Act. Overall demand for consumables is also expanding due to increased volume. Strategic pricing is being implemented for Mechatronics products (delivery driver terminals) for large customers, which may result in a short-term decline in gross profit, but sales expansion due to branding effects and increased factory utilization rates are expected to contribute in the medium to long term.

Q1 Retail Market - Growing Demand for Store Digital Transformation in Supermarkets, etc.

In the retail market, digital transformation of supermarket stores is progressing and investment in the e-commerce industry is also trending steadily. Mechatronics saw a YoY decline in sales as large orders from the retail industry were unable to cover the drop in sales from large orders for automatic labeling in the previous fiscal year; however, demand remains on an upward trend. Consumables grew, driven by the retail industry, which benefited from strong inbound demand.

Q1 Healthcare Market: Solution Deals Are Increasing

In the healthcare market, demand for solutions utilizing automatic labeling and RFID is increasing to improve the efficiency of administrative work. Mechatronics sales decreased YoY due to a reactionary decline in large automation projects for medical equipment. In consumables, the reactionary decline in large projects was covered by RFID solution negotiations and net sales remained flat YoY.

Q1 Food Market - Impacted by a Reactionary Decline in Large-scale Projects. But Demand Itself Remains Strong

In the food market, investments in efficiency (RFID, automation) are booming against the backdrop of rising costs and labor shortages. Mechatronics saw contributions from large orders in the food service industry, but this was not enough to cover the rebound in decline in large orders related to traceability in the previous fiscal year, resulting in a YoY decrease in sales. Consumables saw contributions from price revisions, but this was not enough to cover the decline in sales of specific products in the food manufacturing industry, resulting in a YoY decrease in sales. However, demand itself is generally strong.

Figure 4. Revenue Trends in Japan

(¥mn)

	3/25 Q1	Q2	Q3	Q4	3/26 Q1	3/25 FY	3/26CoE FY
Sales	18,353	19,191	21,016	20,658	19,092	79,220	83,000
Manufacturing	4,899	5,330	5,981	6,550	5,632	22,762	-
Logistics	4,141	4,334	4,684	4,370	4,410	17,530	-
Retail	2,777	2,809	3,207	2,705	2,938	11,500	-
Healthcare	2,268	2,486	2,581	2,716	2,233	10,052	-
Food	2,062	2,131	2,298	1,893	1,899	8,386	-
Public Sector	303	226	279	479	-	1,288	-
Others	1,903	1,873	1,986	1,940	1,980	7,702	-

Source: Company Data. Compiled by Strategy Advisors.

3. Outlook and Progress of the Medium-Term Plan

FY3/26 Company Forecasts 4.0% YOY Increase in Sales & 1.3% YOY Increase in Operating Income

The company's forecast for full-year FY3/26 is for net sales to increase 4.0% YoY to ¥161 billion and operating income to increase 1.3% YoY to ¥12.5 billion. On a half-year basis, net sales are ¥78.6 billion and operating income ¥5.5 billion in the first half, with net sales of ¥82.4 billion and operating income ¥7.0 billion in the second half. The exchange rate is assumed to be ¥140 to the dollar (up ¥12.62 YoY). The annual negative impact of a ¥1 appreciation shift would be ¥561 million on net sales and ¥35 million on operating income (company estimates).

Q1 Results Fell Short of Company Forecasts. But Recovery Expected From 2H Onwards

Q1 results started off slightly below the company's expectations. However, the company expects its Russian subsidiary's performance to recover from the second half onward, that its overseas base business is improving profitability despite concerns about demand trends, and that its domestic business is likely to remain strong. Given these factors, the company is likely to have concluded that it is fully capable of achieving its forecasts. However, excluding its overseas primary business, Q1 results exceeded the company's expectations. This may be due to the impact of advance sales of goods in manufacturing markets, primarily in Japan and Asia, prior to the imposition of U.S. reciprocal tariffs. Therefore, the risk of a backlash in Q2 in these markets warrants close monitoring.

The Number of Business Negotiations in New Business Areas is Increasing Rapidly

Recent news includes the announcement and launches of the new product "Trace Eye Circular Economy" on July 1st, aimed at realizing the circular economy. Going forward, the company plans to launch a new type of printer to stimulate replacement demand. Furthermore, the number of business negotiations is rapidly increasing across the board in new business areas (circular economy, blood supply chain management, logistics digitalization, etc.) that are being strengthened as projects under the direct control of the CEO. These areas are expected to contribute to business performance as growth areas from FY3/27 onwards.

Explanation of Current initiatives from a Medium to Long-Term Perspective

At the Q1 earnings briefing, in addition to explaining the performance trends, the company explained its current initiatives from a medium to long-term perspective under the themes of "Optimization of Materiality" and "Actions toward realizing optimal cost of capital and enhancing shareholder value". The details are described below.

Optimization of Materiality

In Optimization of Materiality, the company reconsidered the theme from the perspective of reviewing the priority areas for value creation and decided to place the idea of balancing "business growth" and "solving social issues" (CSV: Creating Shared Value) at the center of management. CSV has been separated from ESG and positioned at the top, making it the center of the company's unique value creation. ESG also plays a role as the foundation that supports CSV. For all material issues set on the map, a responsible officer and KPIs have been set and a system has been established to regularly monitor progress.

Actions Toward Realizing Optimal Cost of Capital & Enhancing Shareholder Value

In the section on "Actions toward realizing optimal cost of capital and enhancing shareholder value", the company cited the results of its self-analysis, which showed that its ROIC is consistently above its WACC (set at 7% as a guideline) and further recognized the issue of its current stock price remaining at around 1.0x PBR. The company cited concerns about stable growth as a factor behind the low PBR. For example, the company cited high business volatility in some regions and uncertainty about its future growth story. The company is implementing initiatives to improve ROIC and resolve its low PBR by breaking down ROIC into its components. Regarding improving the numerator and operating income, the company is already reviewing its revenue structure and optimizing costs. Meanwhile, regarding capital efficiency, the denominator, the company is prioritizing working capital management and reviewing its investment decision-making process.

Initiatives to Improve the Operating Income Rate

To improve the operating income rate, the priority for the overseas business is to steadily increase sales. To achieve this, it is necessary to strengthen relationships with global key accounts and to strengthen solution sales by improving the ability to propose solutions to customers. Furthermore, the company is increasing its production capacity for consumer products with the aim of growing its recurring revenue business. In Japan, the company is prioritizing building a track record of transactions with leading customers in each industry and region. Furthermore, a project under the direct control of the CEO is currently moving into the commercialization phase with the aim of cultivating a business that will become a pillar of the future.

Initiatives to Improve Invested Capital Turnover

To improve invested capital turnover, the company has begun working on improving inventory turnover, which has a large impact on working capital. It plans to establish a highly accurate management system for PSI (Production, Sales, Inventory) for printers and promote supply and demand stability and inventory optimization, including through system operations. For consumables, the company will also promote inventory visualization and begin reviewing inventory contracts with customers and replenishment operations, adopting a policy of curbing excess inventory. It is also implementing measures for receivables and payables and fixed assets (tangible and intangible), each with a set theme. Here, the merger of the holding company and core operating companies, which took place in April, has had a major effect in enabling cross-group decision-making, such as measures for PSI.

Currently Reviewing Our Capital Allocation Policy

Operating income for FY3/25 exceeded the mid-term plan target ahead of schedule, but operating cash flow temporarily decreased. This was due to an increase in inventory, an increase in accounts receivable, a decrease in accounts payable. This is something that the company is working on measures to improve these factors. Considering this situation, the company is currently reviewing its "capital allocation policy."

A New Mid-term Plan (Revised Version) Will be Formulated and Announced After the Q2 Financial Results Announcement

The company expects that ROIC will temporarily decline due to growth in investments in the future, but plans to address this with an eye toward medium to long-term improvement. However, the company expects that ROE levels will steadily increase. The company is currently formulating a new medium-term plan (a revised version of the current medium-term plan), which it plans to announce the details after the FY3/26Q2 financial results announcement.

Figure 5. Income Statement (Quarterly)

(¥mn)	3/25				3/26	3/26 CoE	3/26 CoE	3/26 CoE
	Q1	Q2	Q3	Q4	Q1	Q2	H2	FY
Net Sales	37,674	38,415	40,121	38,596	37,829	40,771	82,400	161,000
Cost of Sales	22,070	22,902	23,393	22,972	22,497	-	-	-
Gross Profit	15,604	15,513	16,728	15,624	15,332	-	-	-
Gross Profit Margin	41%	40%	42%	40%	41%	-	-	-
SG&A Expenses	12,740	12,598	12,641	13,148	12,973	-	-	-
Sales to SG&A Expenses Ratio	33.8%	32.8%	31.5%	34.1%	34.3%	-	-	-
Operating Income	2,864	2,914	4,086	2,475	2,359	3,141	7,000	12,500
OP Margin	7.6%	7.6%	10.2%	6.4%	6.2%	7.7%	8.5%	7.8%
Non-Operating Income/Expenses	-453	-442	-47	-255	-474	-	-	-
Ordinary Profit	2,411	2,472	4,040	2,221	1,885	3,415	6,800	12,100
Ordinary profit margin	6.4%	6.4%	10.1%	5.8%	5.0%	8.4%	8.3%	7.5%
Extraordinary Profit/ Losses	-8	4	8	514	-67	-	-	-
Profit Before Tax	2,404	2,474	4,049	2,735	1,819	-	-	-
Corporate Tax, etc.	984	415	1,276	1,155	556	-	-	-
(Corporate Tax Rate)	40.9%	16.8%	31.5%	42.2%	30.6%	-	-	-
Net Income Attributable to Owners of Parent	1,197	1,830	2,564	1,558	1,211	2,089	4,400	7,700
Net Income Margin	3.2%	4.8%	6.4%	4.0%	3.2%	5.1%	5.3%	4.8%

Source: Company Data. Compiled by Strategy Advisors.

4. Stock Price and Valuation

The Stock Price is Currently Around ¥2,100

SATO's stock price generally fluctuated between ¥2,000 and ¥2,300 between January and March 2025, but plummeted after President Trump's remarks on April 2 regarding the imposition of reciprocal tariffs. After bottoming out at ¥1,776 in intraday trading on April 7, it gradually recovered and returned to around ¥2,000. The stock price did not significantly react to the financial results announced on May 15, but have been gradually rising since July. Prior to the announcement of the Q1 financial results, expectations for strong results led to the stock price hitting its highest level since April at ¥2,238 in intraday trading on August 8. After the announcement on the 12th, the stock market fell slightly and is currently trading around ¥2,100.

However, there has been no significant change in the low valuation. In recent years, in addition to an improving business environment, the company has been making progress in shifting to an aggressive capital policy. However, this has not yet generated confidence in the stock market regarding the feasibility of the equity story and it does not appear to have led to an increase in stock prices.

If the Equity Story Becomes More Feasible, it Will Be a Factor in Pushing up the Stock Price

Strategy Advisors believes the company's equity story is to "leverage the on-site knowledge it has accumulated through the development of solutions in Japan and transform its overseas operations, which are still primarily focused on selling products, into a solutions seller, thereby increasing its global share in the rapidly growing auto-identification market" (see our report issued on April 1, 2025, "[SATO \(6287\): A Company that Solves Social Issues with Tagging Solutions. Capturing Growing Demand with a Unique Business Model](#)"). If the equity story becomes more feasible, it will be a factor in pushing up the stock price through increases in ROE and PER. At the Q1 earnings briefing, the company presented measures to increase its PBR and, by extension, its stock price, under the theme of "Actions toward realizing optimal cost of capital and enhancing shareholder value".

Actions to Improve ROE

The company explains that the factors for improving ROE are the improvement of the operating income ratio and the investment capital turnover ratio. Regarding the improvement of the operating income ratio, the key factors are strengthening solution sales and expanding recurring revenue businesses overseas (based businesses). Regarding FY3/26 initiatives, the company made steady progress in strengthening its engagement with global customers and strengthening its production capacity for consumables, and these efforts are expected to produce positive results. In Japan, the company is also steadily capturing demand for efficiency investments in the manufacturing, logistics, and healthcare markets. We will be keeping an eye on further business expansion as sales of new printers expand.

Additionally, the company's efforts to increase productivity per employee by shifting its sales department's evaluation criteria to a profit-focused approach are noteworthy. Regarding the improvement of the investment capital turnover ratio, the company plans to implement various measures to improve investment efficiency in fixed assets, including inventory optimization. The reform of the group's management structure, which was undertaken throughout FY3/25, and the integration of the holding company and core operating companies in April 2025, have enabled an approach to overall optimization.

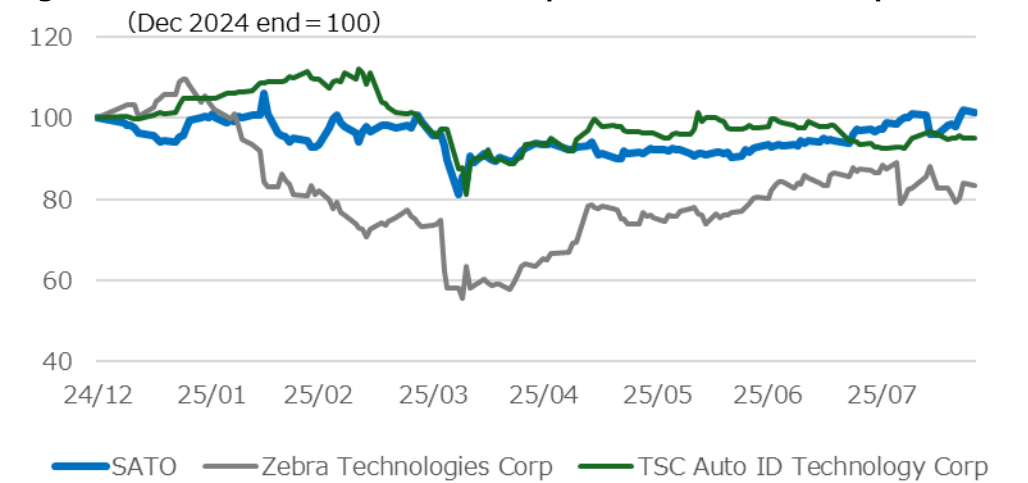
Actions to Improve PER

The company explains that factors for improving its PER include steadily implementing and achieving the measures in its medium-term plan and building an IR story (what we call an equity story). Going forward, it is expected that the need for solving global social issues (such as improving operational efficiency in various industries due to labor shortages, protecting the global environment, and strengthening traceability) will rapidly increase globally. The company's unique tagging solution will likely serve as a means of resolving these issues, greatly expanding business opportunities. It will be necessary to implement measures to steadily capture these customer needs. In particular, the launch of a circular economy-related business, which is being carried out as a project directly under the CEO, will be a test of its ability to improve corporate value.

Comparison with Label Printer Companies

The company's stock price trends are compared with those of label printer companies. Its leading competitor, Zebra Technologies, saw its stock price decline in 2025 due to concerns about an economic recession centered on the US. However, since bottoming out in April, its stock price has been recovering. Meanwhile, the company has entered a phase where it is steadily capturing new demands to solve global social issues such as labor shortages and improved business efficiency through its Kotouri (selling the solution, not the product) philosophy and is gradually becoming less susceptible to economic fluctuations. The volatility of its stock price has been relatively contained, giving it a sense of stability compared to Zebra's.

Figure 6. SATO and Label Printer Companies Stock Price Comparison



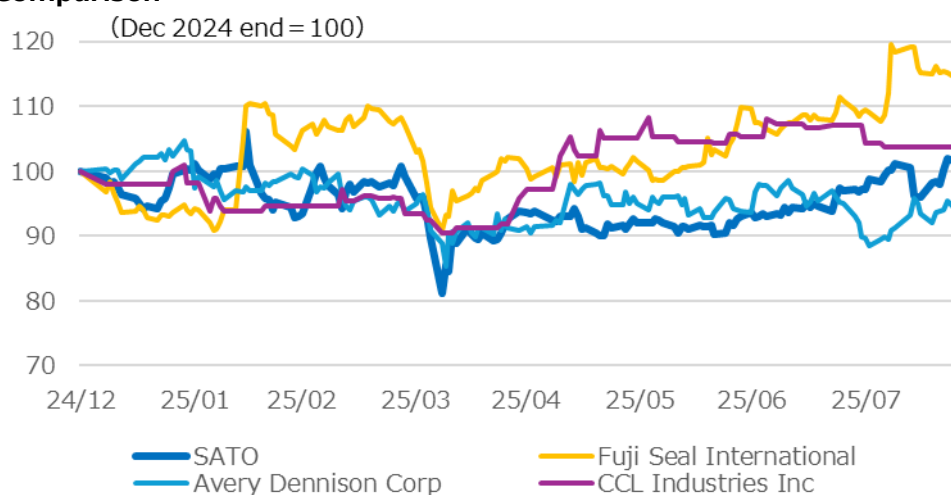
Source: Company Data. Compiled by Strategy Advisors.

Comparison with Consumables (Sticker) Companies

We will also compare the company's stock price with consumable (Stickers) companies. Comparing performance with its main competitor Avery Dennison, the company was slightly ahead in July, but in recent years, Avery Dennison's stock price has rebounded while the Sato's stock price has fallen slightly since the end of this fiscal year. The company, which place emphasis on selling "services", has a disadvantage of a high selling and general administrative expense ratio to net sales.

The company will strive to eliminate this disadvantage by expanding its solutions business and increasing the added value of its business. Differentiating itself from competitors by leveraging its unique business model of having both printers and consumables will be important for the company's stock price.

Figure 7. SATO and Consumables Companies (Stickers) Stock Price Comparison



Source: Company Data. Compiled by Strategy Advisors.

PER/PBR Trends

Figures 8 and 9 compare SATO's profitability and valuation with those of label printer manufacturers, consumers manufacturers, and general printer-related companies. SATO's valuation remains low. The company's forecast-based PER is 9.4x and its PBR based on FY3/25 actual BPS is 0.9x. The dividend yield based on this fiscal year's forecast is 3.4%. The PER is low among its competitors, roughly on a par with Fuji Seal International. The PBR is the lowest, excluding general printer companies. Furthermore, the company's ROE recovered from 5.2% in FY3/24 to 9.7% in FY3/25. However, while it is higher than general printer company's, it has not yet exceeded 10% and is still low among its competitors.

Valuation Comparison with Peer Companies

Meanwhile, Zebra Technologies, the industry leader, has a PER of 20.5x and a PBR of 4.6x, while Avery Dennison, the largest consumers manufacturer, has a PER of 18.5x and a PBR of 6.1x, making Ricoh and the two other companies far superior in both PER and PBR. We will be focusing on the improvement of the company's ROIC (and ROE) as it seeks to break away from its low valuation situation.

Future Stock Price Direction

We believe there is room for upside for the company's stock price going forward. The first reason is that the overseas primary business (Russia) is likely to recover from Q2 onwards, increasing the likelihood of achieving the company's FY3/26 forecast. The second reason is that a new (revised) medium-term plan will be announced after the Q2 financial results are announced. New KPIs for around FY3/28-FY3/29 will likely be set here.

In addition, measures to improve the operating income margin and capital policy are likely to be more specifically outlined within the medium to long-term growth scenario. In conclusion, we believe that the recovery of the overseas primary business and the announcement of the new medium-term plan will be catalysts for a rise in the stock price.

Figure 8. Profitability Comparison with Companies in the Same Industry

Company Name	Code	FY	Curr.	Sales (¥mn)	OP (¥mn)	OPM (%)	ROE (%)	ROIC (%)	Equity Ratio (%)
SATO	6287	3/25	JPY	154,807	12,341	8.0	9.7	9.3	54.8
Zebra Technologies	ZBRA	12/24	USD	755,578	116,044	15.4	15.9	9.3	45.0
TSC Auto ID Technology	3611.TW	12/24	NTD	41,552	4,329	10.4	12.8	8.8	40.1
Fuji Seal International	7864	3/25	JPY	212,345	18,844	8.9	8.8	9.0	69.2
Avery Dennison	AVY	12/24	USD	1,328,170	169,197	12.7	31.8	15.2	27.5
Ricoh	7752	3/25	JPY	2,527,876	63,829	2.5	4.4	2.6	43.7
Canon	7751	12/24	JPY	4,509,821	279,754	6.2	4.8	3.8	63.2
Seiko Epson	6724	3/25	JPY	1,362,944	75,108	5.5	6.8	5.1	55.3
Brother Industries	6448	3/25	JPY	876,558	69,888	8.0	8.1	7.2	74.1
Konica Minolta	4902	3/25	JPY	1,127,882	-64,014	-5.7	-9.5	-8.1	38.0

Source: Company Data. Compiled by Strategy Advisors.

Figure 9. Valuation Comparison with Peer Companies

Company Name	Code	FY	Curr.	Stock Price (8/26)	Market Cap. (¥mn)	PER (CoE, x)	PBR (Actual, x)	EV/ EBITDA (x)	Dividend Yield (CoE, %)	ROE (Actual, %)
SATO	6287	3/25	JPY	2,237	72,625	9.4	0.9	3.8	3.4	9.7
Zebra Technologies	ZBRA	12/24	USD	319.55	2,395,704	20.5	4.6	15.5	-	15.5
TSC Auto ID Technology	3611.TW	12/24	NTD	188.00	43,093	10.4	1.8	-	-	18.9
Fuji Seal International	7864	3/25	JPY	2,905	154,654	9.0	1.1	4.6	2.4	12.0
Avery Dennison	AVY	12/24	USD	175.77	2,021,071	18.5	6.1	11.5	-	33.9
Ricoh	7752	3/25	JPY	1,301	740,576	13.2	0.7	5.6	3.1	5.4
Canon	7751	12/24	JPY	4,356	3,927,162	12.0	1.2	6.3	3.7	10.3
Seiko Epson	6724	3/25	JPY	1,899	608,333	14.8	0.8	4.2	3.9	5.2
Brother Industries	6448	3/25	JPY	2,528	641,813	11.3	0.9	4.0	4.0	8.0
Konica Minolta	4902	3/25	JPY	513	253,615	10.6	0.5	5.2	1.9	5.1

Note: For overseas companies, closing prices are as of August 25th, 2025. 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.

Figure 10. Income Statement (¥mn)

FY	3/18	3/19	3/20	3/21	3/22	3/23	3/24	3/25	3/26 CoE
Sales	113,383	116,179	116,372	109,052	124,783	142,824	143,446	154,807	161,000
Cost of Sales	64,728	65,503	66,193	63,317	74,385	86,140	84,329	91,337	-
Gross Profit	48,655	50,676	50,179	45,735	50,398	56,684	59,117	63,470	-
Gross Profit Margin	42.9%	43.6%	43.1%	41.9%	40.4%	39.7%	41.2%	41.0%	-
SG&A Expenses	42,405	42,997	42,718	39,888	43,994	47,843	48,733	51,129	-
Operating Income	6,249	7,679	7,461	5,847	6,404	8,841	10,383	12,341	12,500
OP Margin	5.5%	6.6%	6.4%	5.4%	5.1%	6.2%	7.2%	8.0%	7.8%
Non-Operating Income	455	569	324	393	404	610	804	863	-
Non-Operating Expenses	816	629	1,213	719	751	384	2,226	2,060	-
Ordinary Profit	5,888	7,618	6,571	5,521	6,057	9,068	8,961	11,144	12,100
Ordinary Profit Margin	5.2%	6.6%	5.6%	5.1%	4.9%	6.3%	6.2%	7.2%	7.5%
Extraordinary Profit	2,835	11	824	10,454	49	37	42	1,220	-
Extraordinary Losses	2,229	1,057	6,760	1,519	143	1,958	3,341	702	-
Profit Before Tax	6,494	6,573	636	14,457	5,963	7,147	5,662	11,662	-
Corporate Tax, Resident Tax & Business Tax	2,544	2,971	2,076	1,403	1,958	2,760	2,246	2,568	-
Corporate Tax Adjustments	19	-182	536	-10	47	-570	-784	1,262	-
Total Corporate Tax, etc.	2,563	2,789	2,612	1,393	2,005	2,190	1,462	3,830	-
(Corporate Tax Rate)	39.5%	42.4%	410.7%	9.6%	33.6%	30.6%	25.8%	32.8%	-
Net Income Attributable to Owners of Parent	4,074	3,773	-1,882	12,959	3,794	4,184	3,565	7,151	7,700
Net Income Margin	3.6%	3.2%	-1.6%	11.9%	3.0%	2.9%	2.5%	4.6%	4.8%
EPS (¥)	121.54	112.46	-56.06	385.86	112.74	126.66	110.02	220.39	237.30

Source: Company Data. Compiled by Strategy Advisors.

Figure 11. Balance Sheet (¥mn)

FY	3/18	3/19	3/20	3/21	3/22	3/23	3/24	3/25
Current Assets	57,161	59,367	66,195	74,641	81,950	81,137	86,268	91,558
Cash and Deposits	16,461	16,837	23,796	33,037	29,854	21,923	25,078	27,481
Accounts Receivable	24,737	25,522	23,766	24,878	26,688	27,113	28,617	29,697
Accounts Receivable and Unearned Revenue	1,780	1,834	3,759	1,784	2,177	1,763	1,994	2,123
Inventory	11,365	13,453	13,053	13,072	20,418	26,854	27,135	28,955
Others	2,818	1,721	1,821	1,870	2,813	3,484	3,444	3,302
Allowance For Doubtful Accounts	-208	-153	-185	-236	-234	-230	-451	-275
Fixed Assets	49,286	48,206	36,952	34,671	38,054	41,721	46,188	48,198
Tangible Fixed Assets	31,398	30,720	28,936	27,306	30,390	32,331	36,406	38,725
Intangible Fixed Assets	14,436	11,933	3,688	3,356	3,256	4,372	3,841	5,362
Investments And Other Assets	3,450	5,552	4,326	4,007	4,407	5,017	5,941	4,110
Investment Securities	1,498	1,607	1,188	1,192	1,479	928	1,122	163
Deferred Tax Assets	1,782	1,865	1,311	1,011	1,087	2,132	2,919	1,899
Others	170	2,080	1,827	1,804	1,841	1,957	1,900	2,048
Total Assets	106,447	107,574	103,147	109,312	120,005	122,858	132,457	139,757
Current Liabilities	34,064	36,904	41,492	36,988	42,071	44,963	43,064	41,677
Trade Payables	18,311	18,954	18,095	17,740	20,644	19,360	19,402	16,705
Accounts Payable and Accrued Expenses	3,038	2,835	2,566	3,080	4,705	4,212	4,399	4,920
Interest-Bearing Debt	4,049	4,966	8,549	4,792	4,720	7,722	5,085	4,556
Advance Payment	0	0	4,915	5,536	6,820	7,322	7,518	7,761
Deferred Tax Liabilities	0	0	0	0	0	0	0	0
Others	8,666	10,149	7,367	5,840	5,182	6,347	6,660	7,735
Fixed Liabilities	16,157	14,000	12,832	12,862	13,426	10,200	15,307	17,842
Interest-Bearing Debt	12,671	10,917	9,798	10,555	11,011	7,795	12,562	14,934
Retirement Benefits/Salary Reserves	2,181	1,843	1,800	1,193	1,227	1,002	1,065	975
Others	1,305	1,240	1,234	1,114	1,188	1,403	1,680	1,933
Net Assets	56,225	56,668	48,823	59,462	64,508	67,694	74,085	80,237
Shareholders' Equity	54,664	56,245	51,999	62,646	64,144	63,451	63,149	68,012
Capital And Surplus	16,180	16,205	16,206	16,208	16,233	16,232	16,231	13,815
Retained Earnings	41,145	42,624	38,345	48,974	50,256	52,061	51,718	56,461
Treasury Stock	-2,662	-2,584	-2,552	-2,537	-2,345	-4,842	-4,801	-2,265
Accumulated Other Comprehensive Income	140	-870	-4,206	-4,372	-1,008	2,001	8,127	8,528
Stock Acquisition Rights	99	57	39	28	28	28	19	12
Non-Controlling Interests	1,320	1,235	990	1,159	1,343	2,213	2,789	3,685
Liabilities and Net Assets	106,447	107,574	103,147	109,312	120,005	122,858	132,457	139,757
Interest-Bearing Debt	16,792	15,957	18,423	15,425	15,814	15,599	17,732	19,490
Capital Adequacy Ratio	51.6%	51.5%	46.4%	53.3%	52.6%	53.3%	53.8%	54.8%
D/E Ratio	0.31	0.29	0.39	0.26	0.25	0.24	0.25	0.25

Source: Company Data. Compiled by Strategy Advisors.

Figure 12. Cash Flow Statement (¥mn)

FY	3/18	3/19	3/20	3/21	3/22	3/23	3/24	3/25
Cash Flows from Operating Activities								
Profit Before Tax	6,494	6,573	636	14,457	5,963	7,147	5,662	11,662
Depreciation	4,307	4,489	5,043	4,092	4,220	4,855	4,926	5,414
Amortization Of Goodwill	1,258	1,081	871	223	236	264	146	127
Impairment Loss	656	1,024	6,397	448	11	0	2,168	631
Profit/Loss On Sale of Fixed Assets	-2,664	-11	-711	-10,414	-30	-4	-32	-29
Increase/Decrease in Accounts Receivable	-1,766	-1,093	1,006	-598	-1,633	35	-953	-1,199
Increase/Decrease in Accounts Payable	-1,063	713	-139	-867	2,557	-1,827	-816	-2,152
Increase Or Decrease in Inventory	-576	-2,254	-291	183	-6,288	-5,907	1,297	-1,647
Increase Or Decrease in Accounts Payable	949	-188	-96	221	580	378	106	542
Receipt Of Interest and Dividends	160	143	121	93	140	301	613	568
Interest Payment	-141	-140	-187	-220	-217	-252	-340	-679
Corporate Tax Paid	-2,985	-1,391	-2,469	-1,510	-1,505	-2,230	-2,766	-2,329
Others	1,555	419	1,078	-302	-732	2,430	2,552	1,562
Total	6,184	9,365	11,259	5,806	3,302	5,190	12,563	12,471
Cash Flows from Investing Activities								
Income And Expenditures from Acquisition and Sale of Tangible Fixed Assets	-6,064	-3,672	-2,858	-3,516	-2,550	-5,247	-5,657	-5,736
Income And Expenditures from Acquisition and Sale of Intangible Fixed Assets	2,604	-545	411	13,564	-1,053	-1,903	-2,018	-3,251
Income And Expenditure from Fixed Term Deposits	191	33	0	-10,000	-201	9,562	282	-729
Income And Expenditures from Acquisition and Sale of Subsidiary Shares	0	0	0	-169	0	0	-617	0
Others	-235	-1,028	-2	19	66	-122	76	1,508
Total	-3,504	-5,212	-2,449	-102	-3,738	2,290	-7,934	-8,208
Cash Flows from Financing Activities								
Net Increase/Decrease in Short-Term Borrowings	-1,353	-101	2,683	-3,522	-262	-295	-3,154	-333
Net Increase/Decrease in Long-Term Borrowings	400	-386	-977	-27	-15	-21	4,924	2,396
Expenditures From Sales of Treasury Stock	0	0	0	0	0	0	0	0
Repayment Of Lease Obligations	-628	-752	-621	-1,251	-1,345	-1,116	-1,214	-1,734
Dividend Payment	-2,089	-2,293	-2,393	-2,329	-2,362	-2,376	-2,337	-2,404
Expenditures For Acquisition of Treasury Stock	0	0	0	0	0	-2,500	0	-1
Others	212	-2	-3	-2	-3	-1	30	-1
Total	-3,458	-3,534	-1,311	-7,131	-3,987	-6,309	-1,751	-2,077
Exchange Differences on Cash	47	-214	-626	629	983	438	473	-403
Cash Increase/Decrease	-731	404	6,871	-798	-3,439	1,610	3,350	1,781
Cash Beginning Balance	16,757	16,026	16,430	23,379	22,580	19,140	20,751	24,102
Ending Cash Balance	16,026	16,430	23,379	22,580	19,140	20,751	24,102	25,883

Source: Company Data. Compiled by Strategy Advisors.

Figure 13. Key Indicators

	3/18	3/19	3/20	3/21	3/22	3/23	3/24	3/25
EPS (¥)	121.54	112.46	-56.06	385.86	112.74	126.66	110.02	220.39
BPS (¥)	1,634.69	1,649.86	1,423.30	1,735.04	1,874.97	2,020.83	2,199.41	2,357.76
DPS (¥)	65.0	70.0	70.0	70.0	70.0	72.0	73.0	75.0
Dividend Payout Ratio	53.5%	62.2%	-124.9%	18.1%	62.1%	56.8%	66.4%	34.0%
No. of Shares Issued ('000)	34,921	34,921	34,921	34,921	34,921	34,921	34,921	33,636
Treasury Stock ('000)	1,395	1,358	1,342	1,334	1,248	2,532	2,514	1,173
No. of Shares (Excl. Treasury Stock, '000)	33,526	33,564	33,579	33,587	33,673	32,389	32,407	32,463
Average No. of Shares (Excl. Treasury Stock, '000)	33,527	33,558	33,571	33,587	33,654	33,035	32,403	32,449
Equity Ratio	51.6%	51.5%	46.4%	53.3%	52.6%	53.3%	53.8%	54.8%
Interest-Bearing Debt (¥mn)	16,792	15,957	18,423	15,425	15,814	15,599	17,732	19,490
Net Interest-Bearing Debt (¥mn)	331	-880	-5,373	-17,612	-14,040	-6,324	-7,346	-7,991
D/E Ratio	0.31	0.29	0.39	0.26	0.25	0.24	0.25	0.25
Net D/E Ratio	0.01	-0.02	-0.11	-0.30	-0.22	-0.10	-0.10	-0.10
Operating Profit Margin	5.5%	6.6%	6.4%	5.4%	5.1%	6.2%	7.2%	8.0%
EBITDA (¥mn)	11,814	13,249	13,375	10,162	10,860	13,961	15,456	17,884
EBITDA Margin	10.4%	11.4%	11.5%	9.3%	8.7%	9.8%	10.8%	11.6%
ROE	7.5%	6.8%	-3.6%	24.4%	6.2%	6.5%	5.2%	9.7%
ROIC	6.1%	7.5%	7.5%	5.8%	5.8%	7.7%	8.5%	9.3%
Number Of Employees	5,076	5,307	5,429	5,451	5,656	5,637	5,744	5,986

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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Strategy Advisors

Central Building 703, 1-27-8 Ginza, Chuo-Ku, Tokyo 104-0061, Japan



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