SATO | 6287 (TSE Prime)

Company Report
April 1, 2025

Strategy Advisors Inc.
Akihiko Uchino

A Company that Solves Social Issues with Tagging Solutions. Capturing Growing Demand with a Unique Business Model

Founded in 1940, SATO began selling Japan's first 'hand labeler' (a handy printer that prints prices and other information and attaches it to products) in 1962 and began manufacturing labels in 1965 to ensure printing quality, growing alongside supermarkets. In 1981, the company developed a thermal transfer barcode printer, contributing to the global spread of barcodes. Since 1990, the company has taken advantage of its ability to supply customers with both mechatronics (printers, etc.) and consumables (labels, etc.) to shift from selling things to selling services, in other words, they moved into the tagging solutions business.

We believe that SATO's corporate DNA is "the attitude of combining the power of employees and contributing to the development of society through tagging" and that the difficulty of imitation comes from "the ability to make proposals to customers, cultivated by having both mechatronics (label printers) and supply products as a tagging solutions company". As a result, it has the strength of having a unique business model that allows it to directly sell and supply everything related to tagging globally, from printers, automatic labeling machines, software, consumables and maintenance provision.

The mid-term management plan (FY3/25-FY3/29) will focus on three measures: strengthening the core business, creating a new revenue base (Perfect and Unique Tagging) and finally strengthening the management base. The Q3 FY3/25 financial results announced on February 12th showed favorable factors such as an improvement in domestic gross profit margins and the launch of a competitive entry model overseas, raising expectations for future earnings growth. There are signs of change at the moment, such as the domestic gross profit margin starting to improve due to a change in the sales department's mindset and preparations are underway to expand the overseas solutions business. In particular, we will pay attention to the continuity of the improvement in domestic gross profit margins.

Stock Price & Volumes (1 Year)

Source: Strategy Advisors

Key Indicators

Stock Price (3/31/2025)	2,110
52-Week High (4/10/2024)	2,338
52-Week Low (8/5/2024)	1,733
Historical High (9/26/2018)	3,795
Historical Low (3/13/2009)	634
Number of Shares Issued	32.5
Market Capitalization (¥bn)	68.5
EV (¥bn)	63.2
Equity Ratio (FY3/24, %)	53.8
ROE (FY3/24 Actual, %)	5.2
PER (FY3/25 CoE, Times)	9.8
PBR (FY3/24 Actual,Times)	1.0
Yield (FY3/25 CoE, %)	3.5

Source: Strategy Advisors

Currently, serious social issues common to the world are emerging, such as the need to improve the efficiency of various industries due to labor shortages, protecting the global environment and strengthen traceability. The company's unique tagging solution is likely to greatly expand business opportunities as a means of resolving these issues. It is expected that the company will steadily advance the measures in its medium-term plan to improve ROIC and lead to increased corporate value.

The PER based on the company's plan for FY3/25 is 9.8 times, while the PBR based on the results for FY3/24 is 1.0 times, remaining low. Our equity story is "to utilize the on-site knowledge accumulated through the development of solutions in Japan and to transform overseas, which is still centered on selling products, into a solution seller, thereby increasing the global share in the rapidly growing auto-recognition market." If the equity story becomes more feasible, the stock price will likely rise.

Japanese GAAP - Consolidated

FY	Sales (¥ mn)	YoY Change (%)	OP (¥ mn)	YoY Change (%)	Ordinary Profit (¥ mn)	YoY Change (%)	Net Profit (¥ mn)	YoY Change (%)	EPS (¥)	DPS (¥)
3/21	109,052	-6.3	5,847	-21.6	5,521	-16.0	12,959	-788.6	385.9	70.0
3/22	124,783	14.4	6,404	9.5	6,057	9.7	3,794	-70.7	112.7	70.0
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 CoE	155,000	8.1	11,400	9.8	10,400	16.1	7,000	96.4	215.8	74.0

Source: Company Data. Compiled by Strategy Advisors

Table of Contents

Executive Summary

Playing a Part in the Global Spread of Barcodes

The company was founded in 1940 as SATO Bamboo Machinery Works. In 1962, the company introduced Japan's first ‘hand labeler’ (a handy printer that prints labels with prices and attaches them to products) and in 1965, it began manufacturing labels to ensure printing and pasting quality. It experienced initial growth along with the expansion of supermarkets in Japan. The company was one of the first to respond to barcodes, which appeared in the 1970’s and then in 1981 introduced a thermal transfer barcode printer, playing a part in the global spread of barcodes. Since 1990, the company has shifted to a solutions-oriented business model, taking advantage of its strength of having both mechatronics (label printers, etc.) and consumables (labels, etc.) product lineups. The second-generation president, who supported the company's revival, summarized the founder's ideas and established a unique system called "Teiho"; which can be explained as system that has the strength of being able to gather the wisdom of employees and use it to make improvements.

Overseas Market Share Not Expanding

The company has two business segments: Auto-ID Solutions (Domestic) and Auto-ID Solutions (Overseas). The company's customers come from a variety of industrial sectors (manufacturing, logistics, retail, healthcare, food, public, etc.). The company has had a high market share in Japan for quite some time, but the economy has been sluggish compared to other countries since 2000; and the company's business growth rate has been somewhat stagnant for an extended period of time. On the other hand, overseas markets are large and demand itself is growing, so the company, which has a low market share overseas, has grown by utilizing M&A and other methods. However, the company's market share has not expanded to the same extent as it did in Japan and it can be said that the company is only halfway to its goal of horizontal expansion in high value-added solutions.

Corporate DNA and Difficulty of Imitation

We believe that SATO's corporate DNA is "the attitude of combining the power of employees and contributing to the development of society through tagging". In addition, based on the history of expanding from hand labelers to barcode label printers and directly absorbing customer needs from the "on-site perspective" of supermarkets, we believe that SATO’s difficulty in imitation is due to "the ability to make proposals to customers, cultivated by having both mechatronics (label printers) and consumable products as a tagging solutions company". As a result, they have a unique business model that allows them to directly sell and supply everything globally, from printers, automatic labeling machines, software, consumables and provide maintenance.

Mid-Term Plan Sets Target Figures for FY3/2027

In the mid-term plan (FY3/2025-FY3/2029), the company has set three policies: strengthening core business (Japan/overseas), creating a new revenue base (Perfect and Unique Tagging) and strengthening the management base. The target figures for FY3/2027 are sales of ¥160 billion, operating profit of ¥11.5 billion, operating profit margin of 7.2%, ROIC of 7%, and PBR of 1.5 times. As the temporary favorable performance in Europe fades in the future, the company plans to grow its business by accelerating the development of overseas solutions and to further improve ROIC by increasing high value-added businesses. There are signs of change at the moment, such as the domestic gross profit margin starting to improve due to a change in the sales department's awareness. Preparations are currently being made to expand the overseas solutions business. In particular, we will pay attention to the continuity of the improvement in the domestic, gross profit margin.

Contributing to Solving Common Social Issues around the World

Currently, serious global social issues are emerging one after another, such as the need to improve operational efficiency in various industries due to labor shortages, global environmental conservation and enhanced traceability. The company's tagging solutions are expected to contribute to solving these social issues. By taking advantage of the company's established reputation for being difficult to imitate and steadily implementing the measures outlined in its medium-term plan, they will likely be able to secure opportunities to expand its business.

If the Equity Story Becomes More Feasible, the Stock Price is Expected to Rise

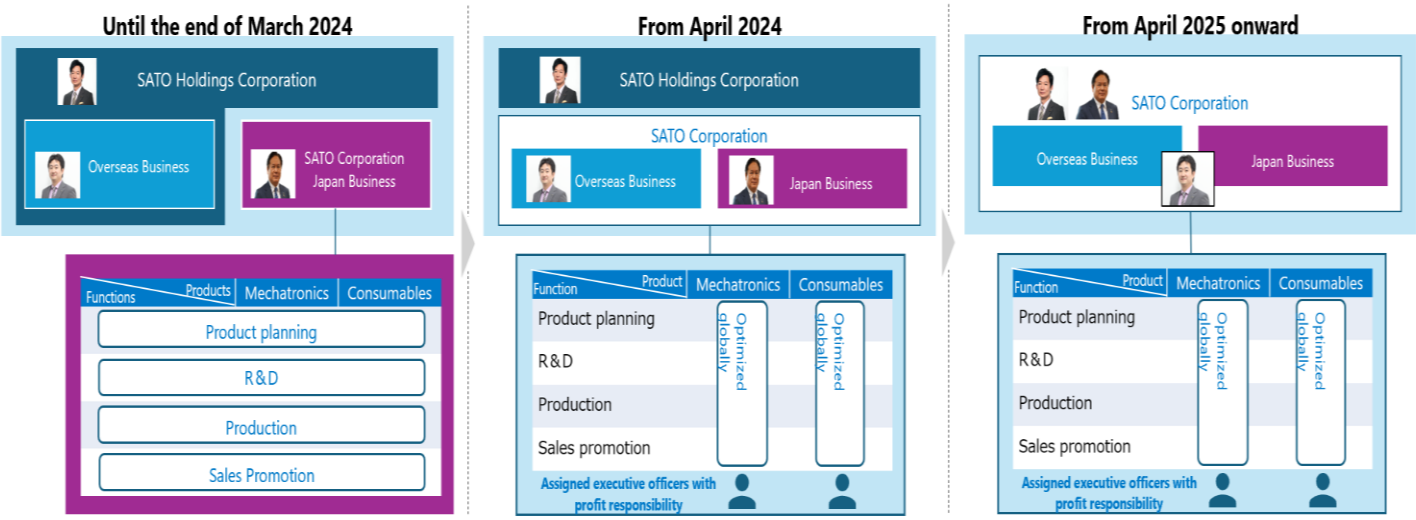
The PER based on the company's forecast for FY3/2025 is 9.8 times and the PBR based on FY3/2024 results is 1.0 times, remaining at low levels. Recently, the effects of price revisions in response to rising costs of consumables have begun to appear and inventory adjustments at overseas distributors for mechatronics have ended, leading to an expansion in performance. In the medium to long term, if the equity story we envision is more likely to be realized, "to utilize the on-site knowledge accumulated through the development of solutions in Japan, and to transform overseas, which is still centered on selling products, into solutions sellers, thereby increasing the global share in the rapidly growing auto-recognition market", we can expect the stock price to rise.

1. Company Profile

In April 2025, the Holding Company Structure will be Dissolved & the Company Relaunched as SATO Corporation

The company was listed on TSE Prime market as SATO Holdings Corporation (holding 100% of SATO Corporation's shares) and will remain so named until the end of March 2025. After April 2025, the holding company structure will be dissolved and the company will be relaunched as SATO Corporation.

Figure 1. SATO Group Organization Chart

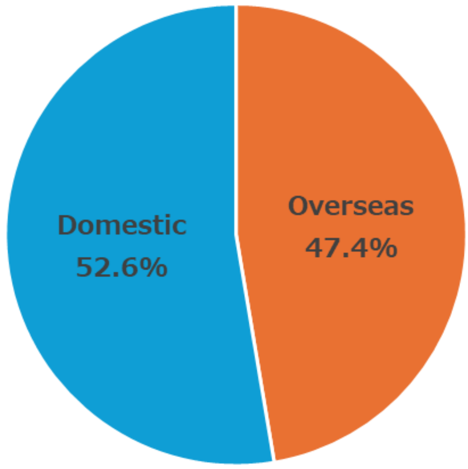


Source: Company Data

Two Segments: Auto-ID Solutions (Domestic) & Auto-ID Solutions (Overseas)

Currently, the company's business consists of two segments: Auto-ID Solutions (Domestic) and Auto-ID Solutions (Overseas). Auto-ID Solutions are products and services that realize the company's business model of DCS (Data Collection System) & labeling. Specifically, this refers to printers, labels, software, maintenance support, etc., or combinations of these. The overseas business include companies acquired through M&A, such as Achernar (Argentina) in 2012, Okil (Russia) in 2014, and Prakolar Rotulos Autoadesivos (Brazil) in 2015.

Figure 2. SATO's Sales Breakdown by Segment (FY3/24 Results)

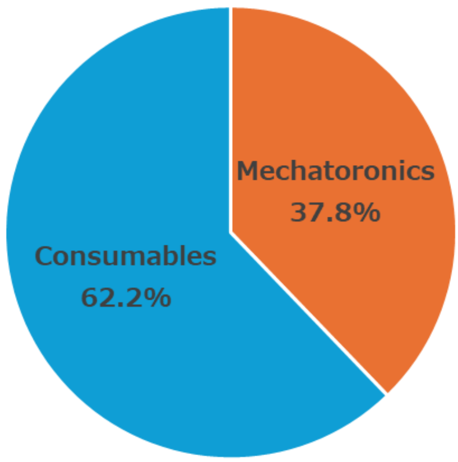


Source: Company Data. Compiled by Strategy Advisors

Products Categorized as Mechatronics & Consumables

Categorized by products and services, the company's products are divided into mechatronics (hereafter referred to as mechatronics) and consumables (hereafter referred to as consumables). Mechatronics refers to hardware such as printers, labeling equipment, scanners and hand labelers, as well as software and maintenance support. On the other hand, consumables refer to variable information labels, RFID tags, primary labels (product stickers) and ribbons. Variable information labels are labels that print information that changes at the customer's site, such as barcodes, product prices, manufacturing dates and expiration dates. Generally, the profit margin from consumables is lower than that of mechatronics. However, as demand for consumables is expected to continue, they contribute to stabilizing business performance. The ratio of consumables to sales has remained stable at around 60% for quite some time.

Figure 3. SATO's Sales Breakdown by Product (FY3/24 Results)

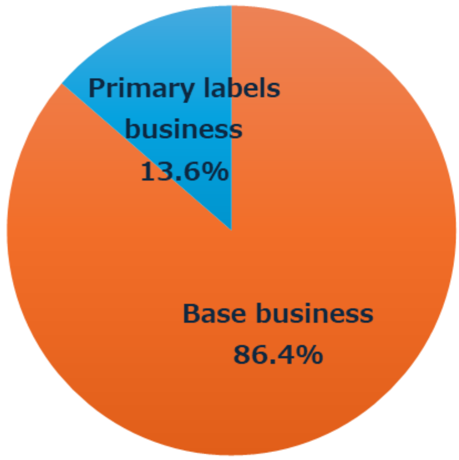


Source: Company Data. Compiled by Strategy Advisors

In Terms of Business Form, there is the Base Business & Primary Labels Business

The company's business model is divided into base business and primary labels business. The base business realizes variable information tagging (physically linking information such as ID's and locations to objects and people), while the primary labels business is responsible for fixed information tagging. The base business accounts for the majority of the company's domestic operations, but overseas there is a mixture of base business and primary labels business. The overseas primary labels business has been mainly handled by companies acquired through M&A since 2014.

Figure 4. SATO's Sales Breakdown by Business Type (FY3/24 Results)

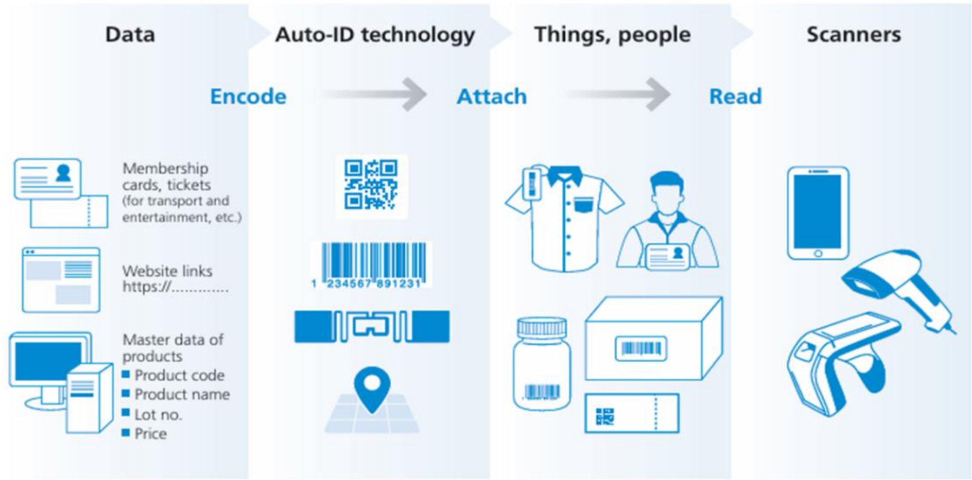


Source: Company Data. Compiled by Strategy Advisors

Optimizing the Movement of Goods and People with Tagging Solutions

The company's business domain, tagging, is a system for collecting small data such as ID and locations of objects and people at various sites. As the use of big data and AI advances, the potential for optimizing the movement of objects and people in all industries and contributing to the realization of a sustainable society is increasing. The company aims to achieve medium to long-term business growth by quickly providing high-added-value tagging solutions in new industrial fields while at the same time strengthening profitability in existing fields.

Figure 5. What is a Tagging Solution?



Source: Company Data

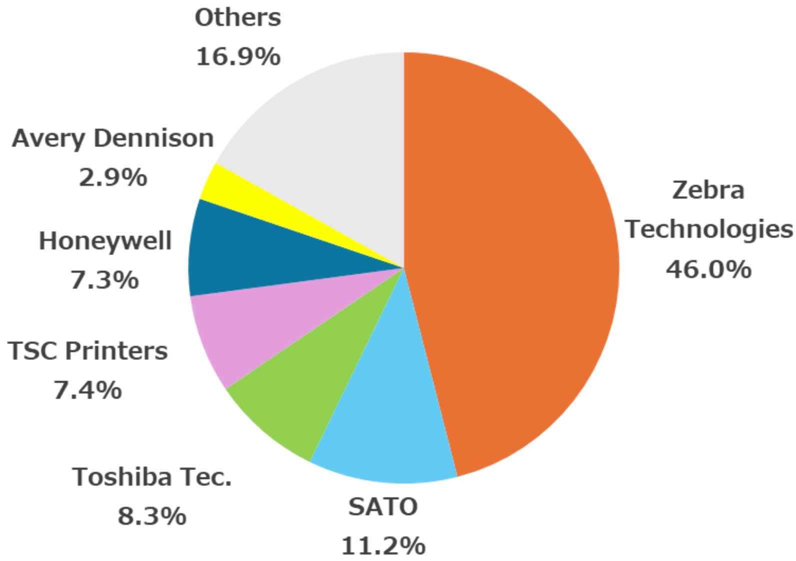
Global Market Share: Second Only to Zebra Technologies in Printers

The company has the second highest global market share in label printers, behind industry leader Zebra Technologies (ZBRA NASDAQ). Other competitors include Toshiba Tec (6588 TSE Prime), TSC Printers (3611 TWO), Honeywell (HON NASDAQ), Aveny Dennison (AVY NYSE), Citizen Systems, Teraoka Seiko, etc.

Competitors in the consumables field include Osaka Sealing Printing (unlisted), Fuji Seal International (7864 TSE Prime), Avery Dennison, CCL Industries (CCL.B CA), Multi-Color (LABL NASDAQ), etc. Printer competitors, such as Zebra, sell hardware for collecting big data and connect it to the customer's own systems, providing so-called "top-based" solutions.

Meanwhile, SATO provides "site-based" solution services by extracting problems when collecting data at the customer's site and supplying hardware such as printers and consumables. SATO's unique business model allows it to propose such original "on-site" solutions by owning both mechatronics (printers, etc.) and consumables.

Figure 6. Global Market Share of Label Printers (2022)



Source: Strategy Advisors

2. History

Formerly Known as SATO Bamboo Machinery Works, they Contributed Greatly in Popularizing Assembled Bamboo Boxes

SATO Bamboo Machinery Works, the predecessor of SATO, was established in 1940 by founder Yo Sato (1921-2001, age 19 at the time) to commercialize a machine for processing bamboo assembly boxes that he invented with his father Seiji. A bamboo assembly box is a prefabricated box made from bamboo. It is lightweight, sturdy and has a low environmental impact. The parts can be disassembled and flattened, making it easy to transport and store, and therefore save space. Taking advantage of these characteristics, the need for prefabricated bamboo boxes suitable for transporting and storing goods rapidly increased. The company increased sales of bamboo machinery that could achieve low-cost mass production and in 1951 it became SATO Bamboo Machinery Works. Especially after the war, the company supplied bamboo machinery to help with the reconstruction of Asia; and the founder himself traveled to the Philippines, India, Myanmar (then Burma), Thailand, etc. to provide technical guidance. The gratitude for the great support it received from Asian countries at that time became the basis for the company's subsequent business development.

Started Manufacturing & Selling Hand Labelers. Next, Expanded into Sales of Barcode Printers

After that, Mr. Sato succeeded in developing the first ‘hand labeler’ in Japan and began production and sales in 1962. A hand labeler is a type of small printer that can easily attach labels with printed information such as price and manufacturing date to products. Demand for hand labelers increased with the growth of supermarkets. After that, hand labelers spread from Japan to overseas as a necessity in the retail industry and are still used around the world today.

In the 1970's, barcode (an identifier that represents numbers and letters by the width of striped lines) labels appeared instead of letters. The company was one of the first to develop hand labelers that could print barcodes and bring them to the market, playing a part in the practical use of barcodes. Barcode printers at the time were thermal, but had the disadvantage that the print would fade in a few days due to heat and light. Later, in 1981, the company developed the world's first thermal transfer barcode printer, the 'M-2311', which eliminated this disadvantage and increased durability, making a significant contribution to the global spread of barcodes. At the same time, the company began manufacturing labels for printers in-house. By providing printers and labels tailored to the needs of various industries, such as apparel, logistics, manufacturing and healthcare, the company has succeeded in expanding the market areas in which barcodes can be applied. Through these efforts, the company has cultivated the "on-site capabilities" that form the foundation for proposing tagging solutions that are suited to customers.

Since the 1980's, the Company has Actively Expanded Overseas

Since the 1980's, the company has expanded overseas in earnest with the aim of expanding its business globally. First, in 1986, it established a factory in Malaysia and began manufacturing hand labelers. In 1987, it established local subsidiaries in the United States and Singapore and also in Germany in 1989. In 1996, it acquired the British company Nor Systems. In 2004, it established a factory in Vietnam and began manufacturing printers. It acquired the French company L'etiquetage Rationnel in 2005 and the American company Checkpoint Systems in 2006 to strengthen its overseas operations. As automatic identification technology became more widespread around the world, the company also grew.

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

In 1990, SATO Corporation (which changed its name in 1974) was listed over the counter, listed on the Second Section of the Tokyo Stock Exchange in 1994, and listed on the First Section in 1997. The second-generation president and son-in-law of the founder, Tokuo Fujita (1951-2011), was appointed president in 1990 (having joined the company in 1985).

Advocating DCS & Labeling

President Tokuo Fujita proposed the idea of DCS & labeling, setting the stage for SATO to transform into a solutions-oriented company. Since 2000, advances in IT technology have led to more sophisticated management of the movement of goods, making data collection at the site all the more important. In response to this trend, the company has strengthened its "auto-ID solutions" business, proposing total solutions covering hardware, software, consumables and maintenance.

Expanding into the Medical Field

Around 2000, when medical errors were occurring frequently, the company began providing wristbands with patient information printed on them and announced the 'L'esprit', a compact printer suitable for medical use. In 2015, the company released the 'Scantronics CL4/6NX-J', a label printer capable of remote preventive maintenance.

The Holding Company Structure will be Dissolved from April 2025

In October 2011, the company transitioned to become a holding company and changed its name to SATO Holdings Corporation for reasons such as improving the efficiency of group management, accelerating decision-making by business and promoting M&A. However, in order to strengthen profitability, the company is currently promoting the restructuring of a simpler structure that centralizes the management of its Japanese and overseas businesses and globally optimizes product planning, development, production and sales for both mechatronics and consumables. As mentioned above, the holding company will be dissolved at the end of March 2025 and the company name will be changed back to SATO Corporation on April 1.

Figure 7. 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 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	Acquires the automatic identification 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 Brazil 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. acquires the label business of Jenkins Labels Limited in New Zealand
	BrazilPrakolar 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

Taking Office as Seventh President in 2023

Mr. Hiroyuki Konuma, the seventh president who will take office in 2023, is 52 years old and was born in Tokyo in 1973. He grew up in a family with a father who was a businessman, but he had to change schools a lot during his childhood. After spending his youth devoted to swimming and playing in a band, he worked for two companies after graduating from university before joining SATO in 2000, his third company, at the age of 27. He said he found SATO through Hello Work (the employment service center) and cited the fact that it is a large company with a 60-year history, as well as the fact that he had a good impression of manufacturers, as reasons for his choice.

Contributing to Business Results by Working as a Salesman in the Medical Field

Mr. Konuma worked as a sales representative in the medical field for seven years and was then promoted to section manager and manager of the printer sales promotion department, before becoming general manager of the medical division in 2012 (the division was established in 2010). SATO had already entered the medical field in 1998, before Mr. Konuma joined the company; but in 2002, with the provision of government subsidies, the introduction of electronic medical records in medical facilities progressed and the demand for printers connected to these records also increased rapidly. Given that this was a time of improvement in the market environment, Mr. Konuma humbly spoke about his significant contribution to the company's performance in the medical field, saying, "The main reason was good timing".

Sense of Crisis over the Commoditization of Printers

What made the biggest impression on him in the 10 years after he joined the company was that printers, the company's main hardware product, became commoditized and prices began to fall. This created a sense of crisis within the company. Meanwhile, his awareness of SATO's unique business model, which distinguishes it from its competitor Zebra by handling both mechatronics (hardware) and consumables, deepened. In terms of relationships with customers, the company placed too much importance on directly understanding the needs of the field, leading to a subcontractor-like situation that became the norm and exposed the pressure to reduce prices, something he felt firsthand during his time as a salesman.

Focus on Future M&A Strategies

Looking back at recent actions by presidents regarding M&A, the frequency was high during the time of the fifth president, Kazuo Matsuyama (currently the CEO of Asahi Breweries Ltd.), but the frequency decreased during the time of the sixth president, Ryutaro Kotaki. After taking office in 2023, Mr. Hiroyuki Konuma adopted a strategy of first promoting the soundness of earnings, but we believe that he may increase the frequency of M&A in the future. However, as can be seen from the dissolution of the holding company structure; as social issues gradually become common globally, there is also a desire to simplify the hierarchical structure of the group organization and speed up decision-making.

Therefore, if M&A is carried out in the future, we will pay attention to PMI (Post Merger Integration) to ensure that the acquired business functions organically within the group organization as soon as possible.

Figure 8. SATO's Past 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	1997
4	Koichi Nishida	June 2007 - September 2011	March 1981
5	Kazuo Matsuyama	October 2011 - March 2018	June 2001
6	Ryutaro Kotaki	April 2018 - March 2023	February 1988
7	Hiroyuki Konuma	April 2023 - Present	July 2000

Source: Compiled by Strategy Advisors from Securities Reports

4. Contributing to Society with Tagging Solutions

What is a Tagging Solution?

Tagging solutions refer to a system that assigns IDs, status information (small data) to objects and people in various fields and collects them. SATO provides the mechatronics and consumables necessary for tagging and is positioned as a company that offers optimal systems (tagging solutions) for customers.

1) Business Model

From Bamboo Processing Machines to Hand Labelers and Barcode Printers

The company's main products have evolved from bamboo processing machines and binding machines at the time of its founding to hand labelers from 1962 onwards and thermal transfer barcode printers in the 1980's. Up until that point, it could be said that the business model was mainly focused on manufacturing (selling products). However, in the mid-1990's, the company advocated the idea of DCS & labeling and shifted to a solutions-based business model (selling services). In addition, the company has been expanding overseas since the 1990's and the overseas sales ratio has expanded to 47.3% in FY3/2024.

Shifting Business Model from Selling Things to Selling Experiences

In the era of selling things, customer needs included, for example, "I want to print labels faster" in order to increase labor productivity at the site. The company responded to such needs by improving the performance of the hardware it supplied (for example, printers). However, in the era of selling services, the company visits customers' work sites and proposes the placement of people and printers when attaching information to objects, the selection of printer performance and the selection of consumables (for example, labels).

If such collaboration with customers can improve productivity by, for example, 20% compared to before, it will contribute to solving more fundamental customer issues such as the "lack of manpower."

Figure 9. Sales Growth Due to Evolution of Business Model

Source: Company Data

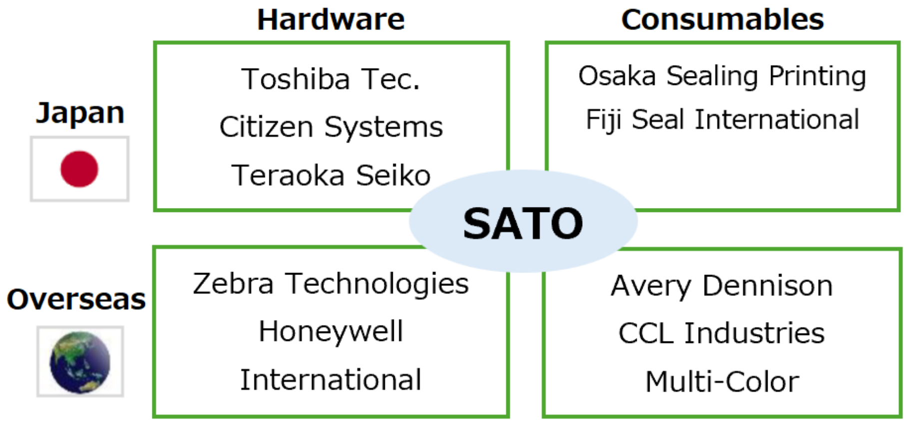
Providing Optimal Solutions to Customers by Selling Services

The reason why SATO is committed to selling services is because it wants to continuously provide optimal solutions using technological innovation to address the challenges its customers face, which are constantly changing due to changes in society. Examples of social changes include digital shifts, changes in industrial structure, demands for safety and security, labor shortages and growing awareness of the SDG's. To respond to these changes, SATO has adopted a policy of timely adoption of technological innovations such as IoT, AI, wireless communication technology, sensing and robotics.

Sato's Strength is Providing Both Hardware (Mechatronics) & Consumables

To put the concept of selling services into practice, it is necessary to have both hardware (mechatronics) and consumables businesses. As a company whose business area is tagging, by handling supply itself, the company has accumulated on-site knowledge in the diverse industries it covers. The continuous problem-solving ability that derives from this is a strength that other companies do not have. And once a solution is created through the optimal combination of mechatronics (for example, printers) and consumables, it becomes extremely difficult for other companies to replace it. In this way, building barriers to entry and building a stable business foundation is the winning formula for the company's business.

Figure 10. Competitive Map - SATO's Position in the Industry



Source: Company Data. Compiled by Strategy Advisors

2) Base Business and Primary Labels Business

Domestically, Base Business is the Main Focus. Whilst Overseas, Base & Primary are Mixed

The company explains its auto-ID solutions by dividing them into base business and primary labels business depending on the content of the information to be tagged. In Japan, the base business accounts for the majority, while overseas, the base business and primary labels business are mixed.

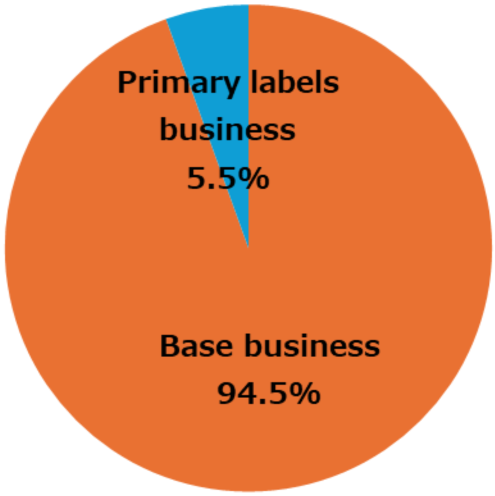
The Base Business has a Diverse Product Lineup

The base business refers to the business of tagging "variable information". "Variable information" includes barcodes, product prices, manufacturing dates, expiration dates, etc. SATO sells hardware (mechatronics) such as printers for printing text and barcodes (QR codes) on labels at the customer's site, automatic label applicators and scanners for reading information. At the same time, it provides total tagging solutions by simultaneously supplying consumables (tags and labels) optimized for each application. In addition, with the spread of RFID, it also consumables RFID-compatible label printers, RFID reader/writers, RFID tags and labels, etc., providing total solutions here as well.

Primary Labels Business is Mainly Handled by Subsidiaries Acquired through Overseas M&A

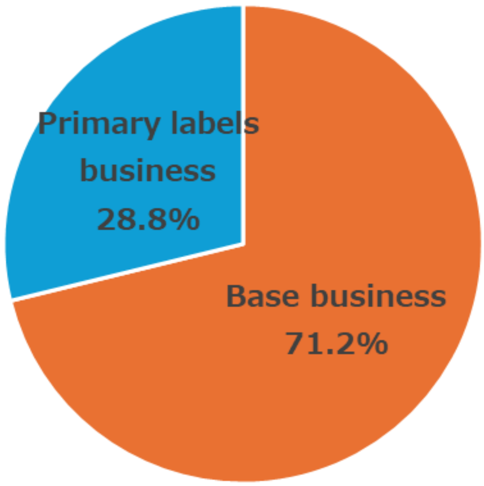
The primary labels business refers to the business of tagging "fixed information." "Fixed information" is, for example, predetermined information that is printed on product labels. Therefore, the products supplied may be more familiar to the public if they are simply called seals or stickers. The products are shipped from SATO with the letters and images already printed on them and the customer only has to attach the seals or stickers. The overseas primary labels business is handled by five subsidiaries acquired in past M&A deals: Achernar in Argentina, Prakolar in Brazil, Okil and X-Pack in Russia and Hirich in Vietnam.

Figure 11. Base/Primary Ratio (Sales Results for FY3/24) - Japan



Source: Company Data. Compiled by Strategy Advisors

Figure 12. Base/Primary Ratio (Sales Results for FY3/24) - Overseas



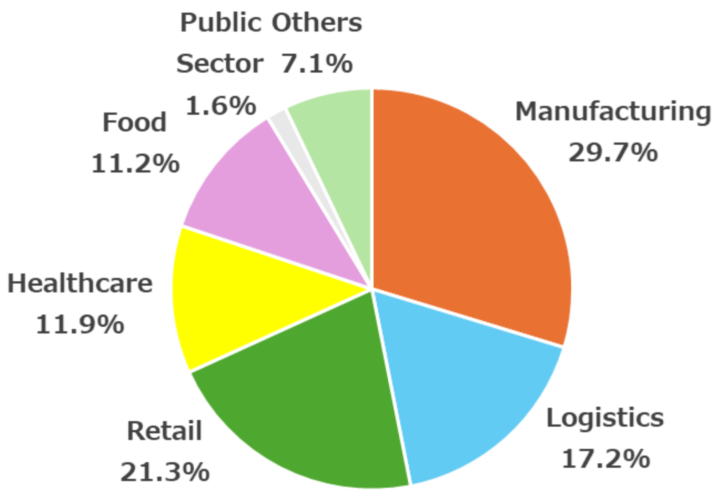
Source: Company Data. Compiled by Strategy Advisors

3) Providing a Wide Range of Products & Services to Many Markets

Business Areas are Diversified across Various Markets

SATO's business domains are not concentrated in a specific market but are well-balanced across a variety of markets. The breakdown of consolidated sales by application for FY3/2024 was as follows: manufacturing 29.7%, logistics 17.2%, retail 21.3%, healthcare 11.9%, food 11.2%, public 1.6% and others 7.1%.

Figure 13. Sales Composition by Use (FY3/24 Actual Results)

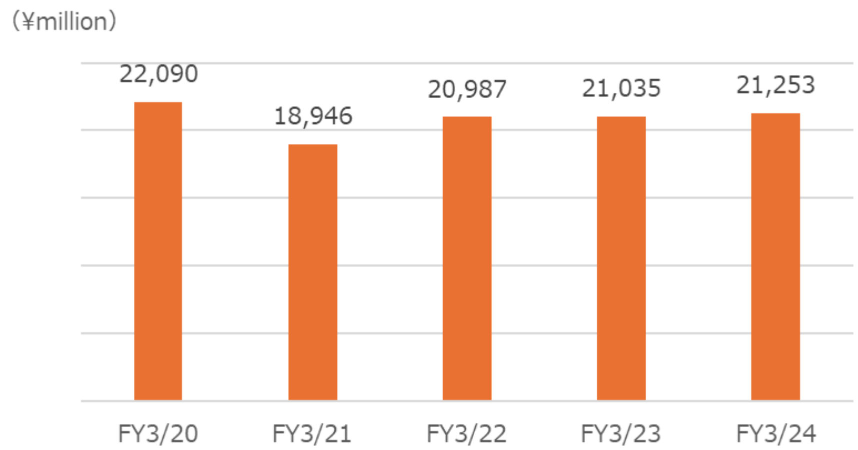


Source: Company Data. Compiled by Strategy Advisors

Manufacturing

Manufacturing industries such as automobiles, electrical and electronic components, chemicals and steel face many challenges on a daily basis. For example, in the automobile industry, there are issues such as improving traceability accuracy, streamlining parts supply and streamlining work at the time of receiving parts and shipping products. In particular, in recent years, the increased awareness of quality control triggered by the problem of fraudulent inspections has made improving traceability accuracy extremely important. In response to these issues, SATO has resolved customer issues by realizing not only product tracing; but also tracing that which links products, workers and work contents using location measurement, labels, RFID, etc. In addition, in the electronic components industry, as electronic products become lighter, thinner, shorter and smaller, the issue of accurate labeling of small chips and parts has emerged. SATO can provide solutions using highly accurate micro-labeling machines that meet these needs.

Figure 14. Manufacturing Sales Trends (Domestic)

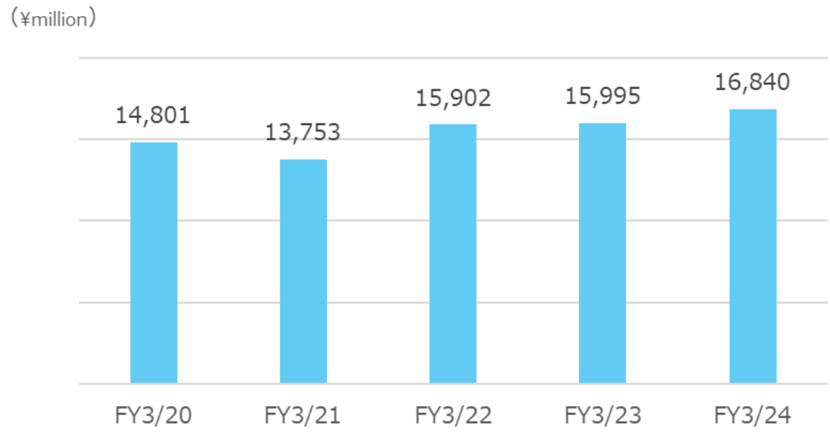


Source: Company Data. Compiled by Strategy Advisors

Logistics

In the distribution industry, issues include efficiency in receiving, sorting, storing and picking at warehouses, while in the transportation industry, issues include administrative processing at collection and delivery destinations and health management of drivers. These issues are especially troubling for customers as labor shortages become the norm. Solution proposals for resolving issues, centered on labels to be attached to cardboard boxes used for transportation, are highly appealing. SATO aims to contribute to its customers by implementing various proposals that reduce the burden on workers by utilizing its on-site capabilities. Another strength is its development capabilities that incorporate cutting-edge technologies evolving in warehouses, such as integrated solutions with automatic transport robots and inspection work using voice recognition and wearable devices. In addition, in home delivery work, SATO's solutions also contribute to reducing the burden on drivers, such as the introduction of mobile printers to reduce the time required to issue labels for collection and redelivery and the centralized management of undelivered packages using RFID.

Figure 15. Logistics Sales Trends (Domestic)

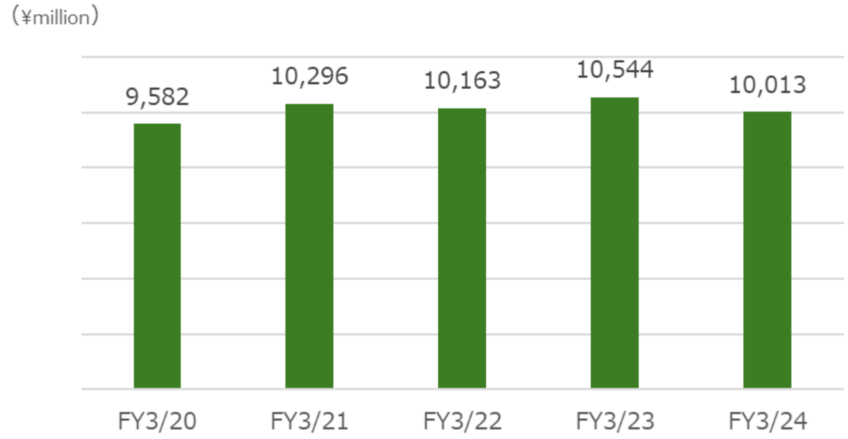


Source: Company Data. Compiled by Strategy Advisors

Retail

It started as a hand labeler that issues price tags for supermarkets and now many applications have been derived. SATO is continuously in charge of proposing solutions that meet customer needs such as complex labeling, food hygiene management, discounts to reduce food waste, improving the work efficiency of store staff and preventing labeling mistakes. There is also a lot of room for utilizing advanced technology, such as using AI to determine discounts to reduce food waste. Retail stores (apparel, miscellaneous goods, jewelry, etc.) have common challenges such as understanding popular products and linking them with factory production management, understanding back-office inventory and improving the quality of customer service by reducing the workload of store staff. SATO proposes a solution that improves the efficiency of factory and logistics operations by changing product tags from barcodes to RFID and also links them to store sales status through cloud services. This aims to shorten the lead time of the entire supply chain and optimize operations so that sales opportunities are not missed.

Figure 16. Retail Sales Trends (Domestic)

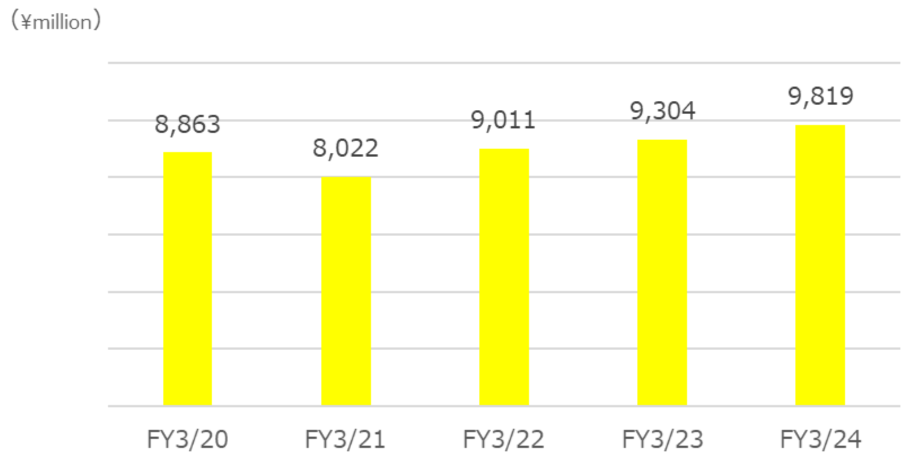


Source: Company Data. Compiled by Strategy Advisors

Healthcare

For SATO, the medical field is a relatively new business field that began in earnest around 2000. In hospitals, barcode authentication using wristbands is widely used to prevent mistakes when administering injections or infusions to hospitalized patients. However, the company is promoting the introduction of RFID wristbands to address the need to reduce work hours due to staff shortages and the issue of waking up sleeping patients. Product traceability is of utmost importance in the pharmaceutical industry and the company is proposing packaging for a label issuing system that complies with the Ministry of Health, Labor and Welfare's CSV guidelines and ER/ES guidelines. RFID standardization is also progressing in the medical device industry and the company is supplying a solution that allows writing and printing on RFID tags simply by reading existing barcodes with a scanner.

Figure 17. Healthcare Sales Trends (Domestic)

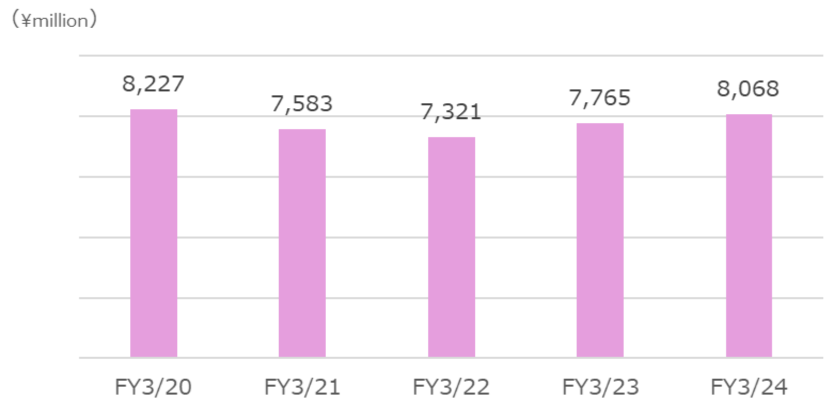


Source: Company Data. Compiled by Strategy Advisors

Food

As food is directly linked to people's health, it is necessary to balance compliance with the law with operational efficiency. In the food manufacturing industry, issues include error-free labeling in accordance with the Food Labeling Act, monitoring food hygiene management, automating labeling work, maintaining quality in expiration date labels for frozen and chilled foods, strengthening traceability in the supply chain and accurately understanding inventory. SATO proposes corresponding solutions. In the restaurant industry, SATO is promoting the introduction of label-based solutions for the centralized management of ingredients in family restaurant chains and on-site expiration date management of ingredients.

Figure 18. Food Sales Trends (Domestic)

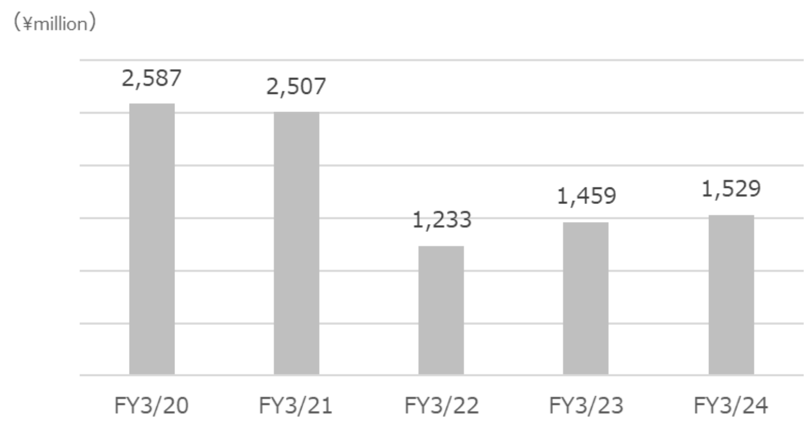


Source: Company Data. Compiled by Strategy Advisors

Public

SATO can provide labels that can print QR codes and have a durability of 10 years outdoors for infrastructure equipment installed outdoors (electricity and gas meters, roadside facilities, firefighting facilities, disaster prevention facilities, elevators, multi-story car parks, etc.) Meanwhile, RFID is increasingly being introduced into employee ID cards used for entering and exiting offices; and SATO provides a system that allows employees to issue their own employee ID cards using an RFID printer.

Figure 19. Trends in Public Sector Sales (Domestic)



Source: Company Data. Compiled by Strategy Advisors

4) Characteristics and Production Bases of Mechatronics & Consumables

Hardware, Software, Consumables & More, All in One Package

SATO's main mechatronics products are label printers, but the company also has other hardware products such as handheld terminals/scanners, automatic label applicators, label removers, hand labelers and magnetic card reader/writer systems, and they also handle maintenance support and software. On the other hand, consumables mainly refer to labels, tags and stickers (primary labels).

Mechatronics

The company's label printers are characterized by having a wide product lineup for customers with various needs in each industry. Currently, the best-selling product is the "CL4/6NX-J", which the company calls Scantronics. The various needs include label width (inch size), installation space, printing speed, printing resolution, printing position accuracy, paper feeding method (manual or automatic), compatibility with multiple label materials, display size, touch panel presence or absence, preventive maintenance function presence or absence, portability and many more. In addition, models compatible with RFID labels are also available. For example, there are products suitable for product traceability labels in factories, products for attaching labels to cardboard in logistics and products for issuing RFID wristbands in hospitals. This is one of the company's strengths, as it allows customers to select the label printer that is best suited to the solution of each industry.

Figure 20. Mechatronics Product Lineup

Source: Company Data

Consumables

In addition to standard labels, there are various types of labels, including solvent-resistant labels, clean paper, heat-resistant labels, thick reinforced synthetic paper, highly weather-resistant labels, water-resistant thermal paper, non-repeatable thermal paper (three-layer structure), non-separate labels (no backing paper), heat-resistant thermal paper, transparent labels, and peel-off repeat (easy to peel off). There are also a variety of tags, including brand tags, eco-tags, and department store tags. In addition, there are wristbands (also compatible with RFID), specimen (blood collection) labels and injection (infusion) labels for hospitals.

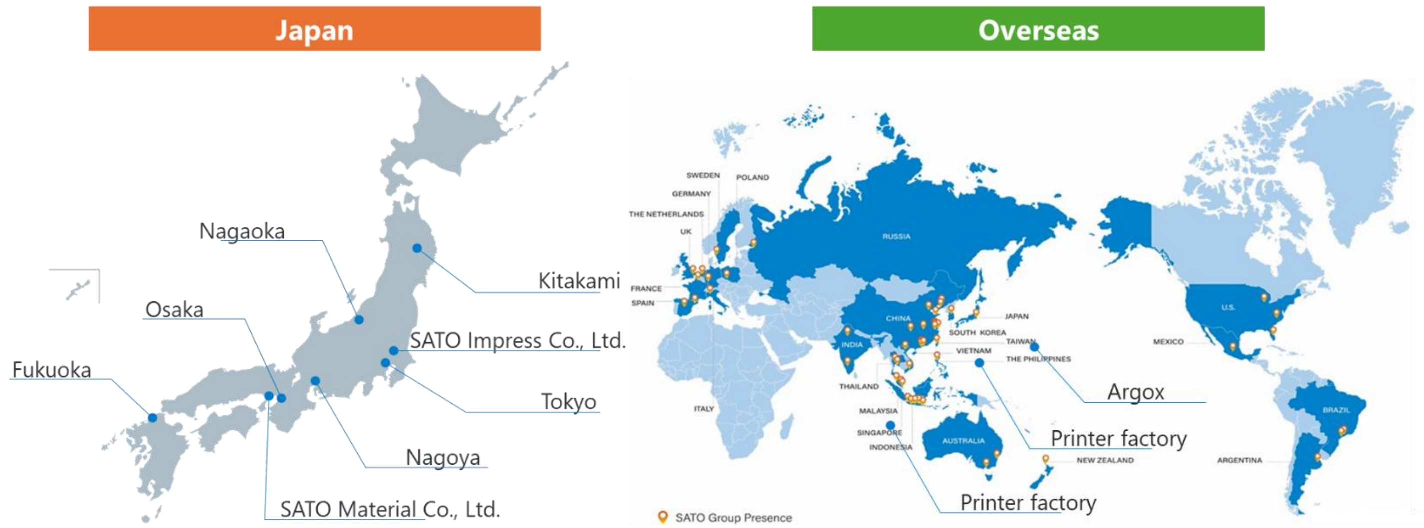
Figure 21. Consumables Product Lineup

Source: Company Data

Production Base: Mechatronics Mainly in Asia

Mechatronics (mainly label printers) are produced at three locations: at factories in Malaysia and Vietnam, as well as Argox, a group company in Taiwan. Meanwhile, consumables are produced at 42 locations worldwide, including 37 label factories, 3 ribbon factories and 2 group company factories. SATO's domestic business involves importing products produced at overseas printer factories and selling them domestically; so, a weak yen and a strong Asian currency have a negative impact on operating profits, while a strong yen and a weak Asian currency will have a positive impact.

Figure 22. Production Base



Source: Company Data

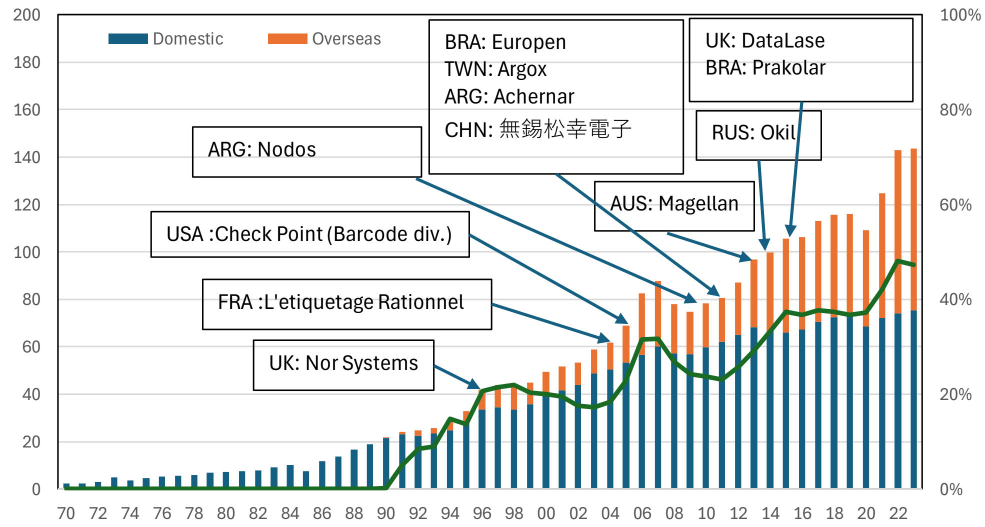
5. Performance Trends by Segment

Continuing Stable Growth

Since the launch of thermal transfer barcode printers in the 1980's, SATO's sales have been steadily increasing. In particular, thanks to the effects of global expansion that began in earnest in the 1990's and the contribution of its unique solution-based business model, sales exceeded ¥50 billion in FY3/2002 and exceeded ¥100 billion in FY3/2016. In FY3/2024, sales were ¥143.4 billion and operating profit was ¥10.3 billion, exceeding ¥10 billion for the first time. The overseas sales ratio was 19% in FY3/2002, but has since increased to 37% in FY3/2016 and again to 47% in FY3/2024. It can be seen that in addition to solid growth in Japan, overseas growth is also rapid, driving the consolidated results.

Figure 23. Changes in Overseas Sales Ratio

(Unit：￥billion)



Source: Company Data. Compiled by Strategy Advisors

1) Domestic Situation (Mechatronics, Consumables)

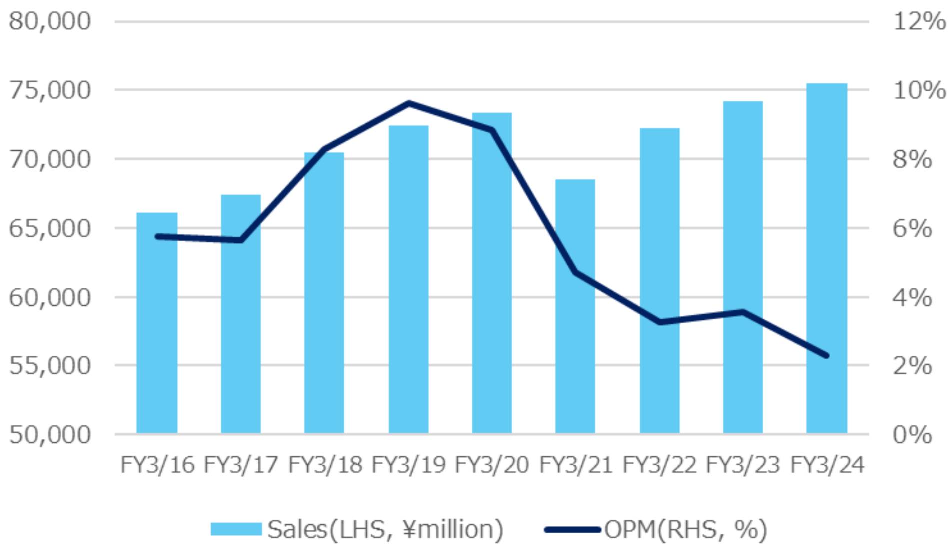
Sales Growth Rate Stagnates

52.6% of total company sales in FY3/2024, operating profit margin 2.3%

The performance of Auto-ID Solutions (Japan) has been stable. The ratio of consumables to sales has remained stable at around 60% since 2000. In general, sales volatility due to economic fluctuations is relatively high in mechatronics and low in consumables. Therefore, due to the economic downturn following the 2008 financial crisis, the consumables ratio rose to around 65% from FY3/2009 to FY3/2012. The actual figure for FY3/2024 was 60.7%, returning to the usual trend of around 60%. Sales growth rate (10-year CAGR) was 1.0%, remaining in the range of slight growth.

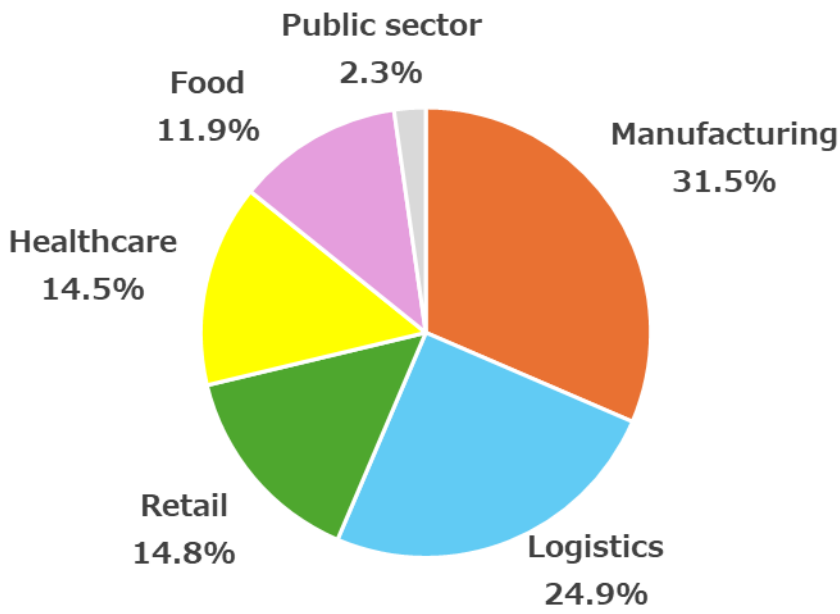
Over the past five years, while logistics and healthcare have grown, manufacturing, retail and food have not grown, which has led to a stagnation in sales. The breakdown of actual sales by application for FY3/2024 in Japan (excluding maintenance, etc.) was as follows: manufacturing 31.5%, logistics 24.9%, retail 14.8%, healthcare 14.5%, food 11.9% and public 2.2%.

Figure 24. Auto-ID Solutions (Japan) Business Performance Trends



Source: Company Data. Compiled by Strategy Advisors

Figure 25. Domestic Sales Composition by Application Market (FY3/24 Results)

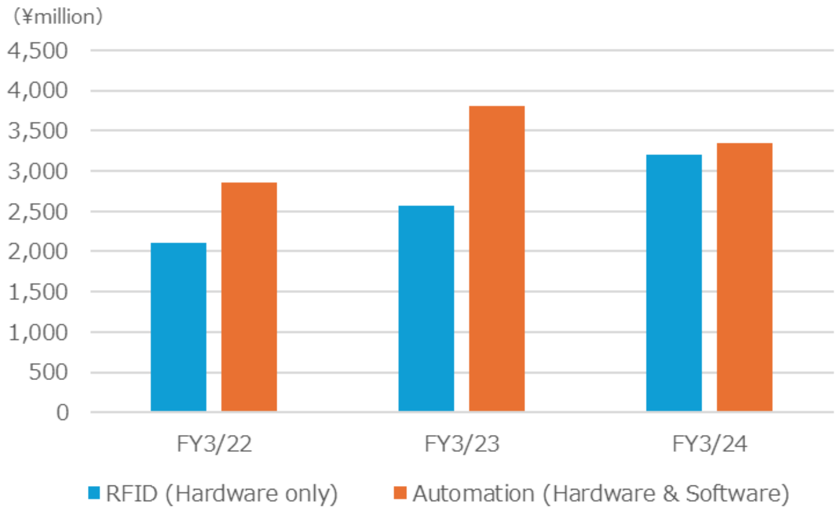


Source: Company Data. Compiled by Strategy Advisors

Operating Profit Margins are on a Downward Trend

The operating profit margin was 2.3% in FY3/2024. It exceeded 5% in the six years from FY3/2015,and the peak in the past 10 years was 9.6% in FY3/2019. However, in the past four years, it has fallen below 5% at 4.7% in FY3/2021 and has continued to decline to 3.3% in FY3/2022, 3.6% in FY3/2023 and 2.3% in FY3/2024. Possible reasons for this include the decline in gross profit margin due to rising costs of raw materials and the weak yen; as well as the increase in personnel linked to new product development and new solution proposals and the increase in costs associated with the relocation of the head office, which has led to an increase in selling and administrative expenses. On the other hand, the action of revising prices in response to rising costs has only just begun and at the time of FY3/2024 results, it has not yet been enough to fully offset the negative effects of past price increases. In addition, the business scale of high value-added fields such as "RFID/automation," which are expected to grow in the future, is currently relatively small and it will be some time before the positive contribution from these fields becomes apparent.

Figure 26. Domestic Sales Trends in the "RFID/Automation" Field



Note: Estimates by Strategy Advisors

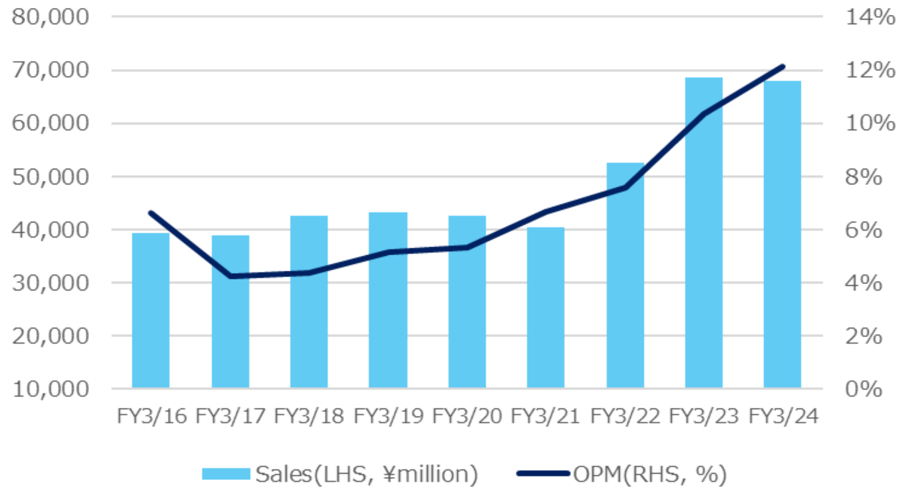
Source: Company Data. Compiled by Strategy Advisors

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

Sales are Growing Steadily in the Base Business & the Primary Labels Business is Also Growing Rapidly through M&A

The performance of Auto-ID Solutions (Overseas) continues to grow. SATO discloses the segment separately into the Base Business and Primary Labels business (see Chapter 4). The overseas business has a high sales growth rate (10-year CAGR) of 9.1%, driving the company's overall top-line growth. In addition to the steady growth of the Base Business (5-year CAGR 6.9%), the Primary Label business (Seals) has shown rapid growth (5-year CAGR 17.6%) due to M&A. The company has refrained from disclosing the Base Business divided into mechatronics and consumables as in Japan, but we estimate that the ratio of consumables to sales is around 50%, slightly lower than in Japan, as most sales are made via distributors.

Figure 27. Auto-ID Solutions (Overseas) Business Performance Trends



Source: Company Data. Compiled by Strategy Advisors

Operating Profit Margins Have Risen in Recent Years, Exceeding 10% in FY3/2023 and FY3/2024

Over the past 10 years, the operating profit margin has fluctuated between 4% and 8%, but in the past two years, it has exceeded double digits, reaching 10.4% in FY3/2023 and 12.1% in FY3/2024. The operating profit margin of the base business has been stable at around 6% to 7%, while the operating profit margin of the primary labels business, which was originally at a low level (1.0% in FY3/2020), has risen sharply to 8.1% in FY3/2021, 9.9% in FY3/2022, 17.9% in FY3/2023, and 23.0% in FY3/2024, demonstrating that it is driving profit growth. The profit margin of the primary labels business is being boosted by the expansion of business performance of two Russian subsidiaries (Okil and X-Pack). In addition, because the costs of managing overseas businesses are recorded in domestic businesses, the operating profit margin tends to be slightly lower in Japan and slightly higher overseas.

Figure 28. Breakdown of Operating Profit for Auto-ID Solutions (Overseas)

(¥ Million)	FY3/20	FY3/21	FY3/22	FY3/23	FY3/24
Auto-ID solution (Overseas)					
Sales	42,648	40,349	52,496	68,657	67,931
Operating Profit	2,277	2,684	3,978	7,111	8,243
OPM	5.3%	6.7%	7.6%	10.4%	12.1%
Base Business					
Sales	33,378	31,010	40,209	47,841	48,359
Operating Profit	2,184	1,857	2,745	3,604	3,577
OPM	6.5%	6.0%	6.8%	7.5%	7.4%
Primary Labels Business					
Sales	9,270	9,339	12,287	20,816	19,572
Operating Profit	94	756	1,218	3,719	4,509
OPM	1.0%	8.1%	9.9%	17.9%	23.0%

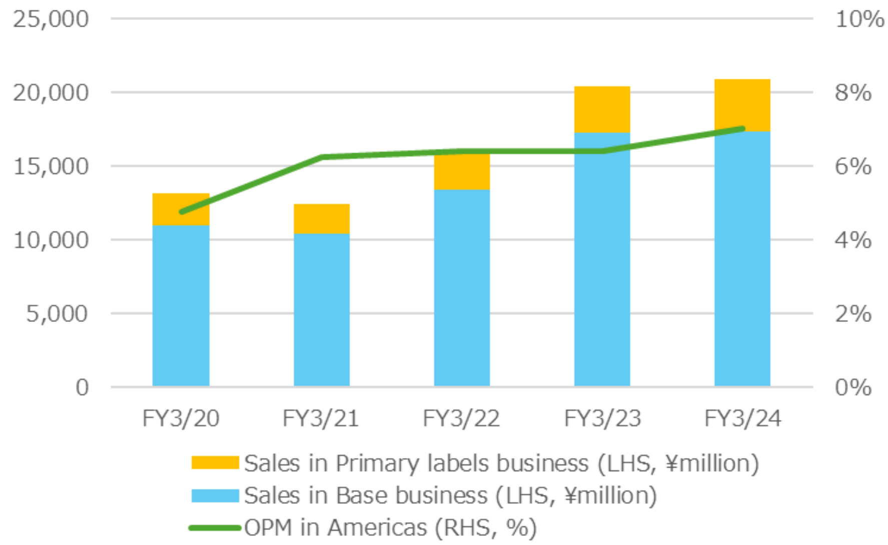
Source: Company Data. Compiled by Strategy Advisors

Americas

14.6% of total company sales in FY3/2024, operating profit margin 7.0%

Primary labels sales accounted for 17.1% of sales in the Americas. The Sales growth rate (5-year CAGR) was high at 9.0%, dropped to 9.0% for the base business and 9.5% for primary labels business, with the difference being small. The operating profit margin of 7.0% is broken into a low 3.1% for the base business and 26.0% for primary labels business, with profitability improving significantly in recent years. In the Americas as a whole, most sales are made via distributors. In FY3/2024, the company was hit by printer inventory adjustments at distributors, but this has run its course during the term and going forward, backed by favorable inquiries from major customers, the company is expected to return to a growth trajectory.

Figure 29. Sales and Operating Profit Margin Trends in the Americas (Base/Primary)



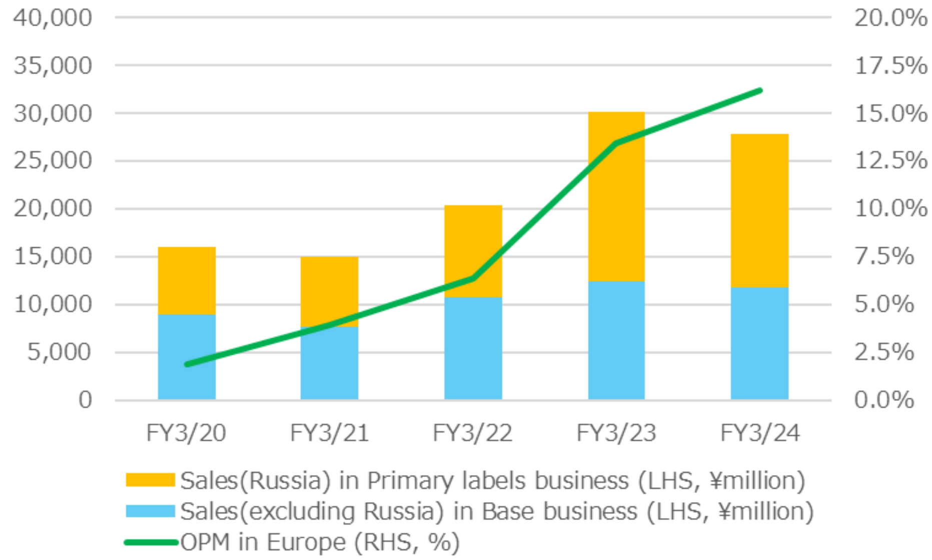
Source: Company Data. Compiled by Strategy Advisors

Europe

19.3% of total company sales in FY3/2024, operating profit margin 16.1%

Primary sales accounted for 57.7% of European sales. Sales growth rate (5-year CAGR) was high at 12.3%, with the breakdown being 5.2% for the base business and 20.0% for primary labels, driving overall growth. The operating profit margin of 16.1% was broken down to 7.6% for the base business and 22.4% for primary labels, showing not only top-line growth but also improved profitability. The strong performance of primary was due to the fact that the performance of the two Russian subsidiaries acquired through M&A, namely Okil (from FY3/2015) and X-Pack (from FY3/2017), fluctuated due to changes in the geopolitical situation. It is expected that the base business (other than the two Russian companies) will have completed printer inventory adjustments at distributors by FY3/2024 and will move out of their slumps and into a recovery period.

Figure 30. Trends in Sales and Operating Profit Margins in Europe (Base/Primary)



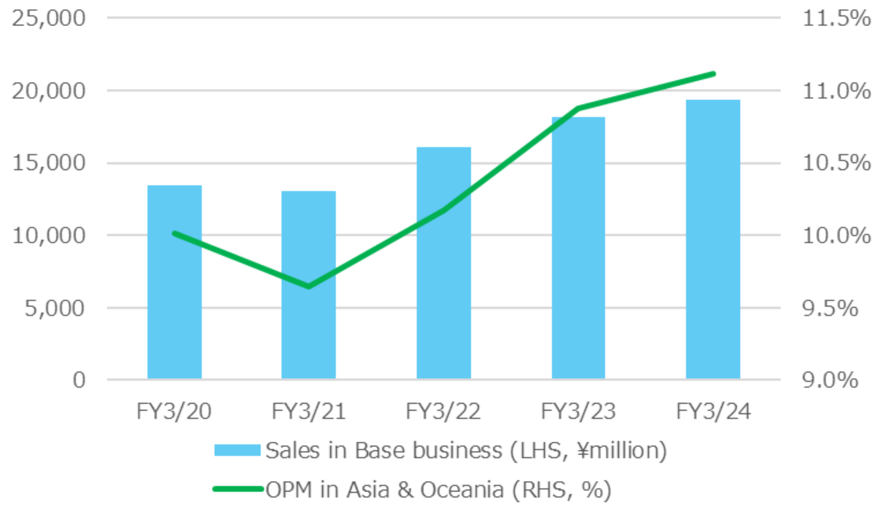
Source: Company Data. Compiled by Strategy Advisors

Asia/Oceania

13.5% of total company sales in FY3/2024, operating profit margin 7.0%

All sales in Asia and Oceania are accounted for by the base business. Sales growth rate (5-year CAGR) is 6.3%, which is somewhat high. The operating profit margin is 11.1% and has remained stable at over 10% for the past 5 years. Although China continues to struggle due to the economic downturn, production of automobiles, electrical equipment and electronics is on the road to recovery in Southeast Asia. Oceania remains strong.

Figure 31. Sales & Operating Profit Margin Trends in Asia & Oceania (Base)

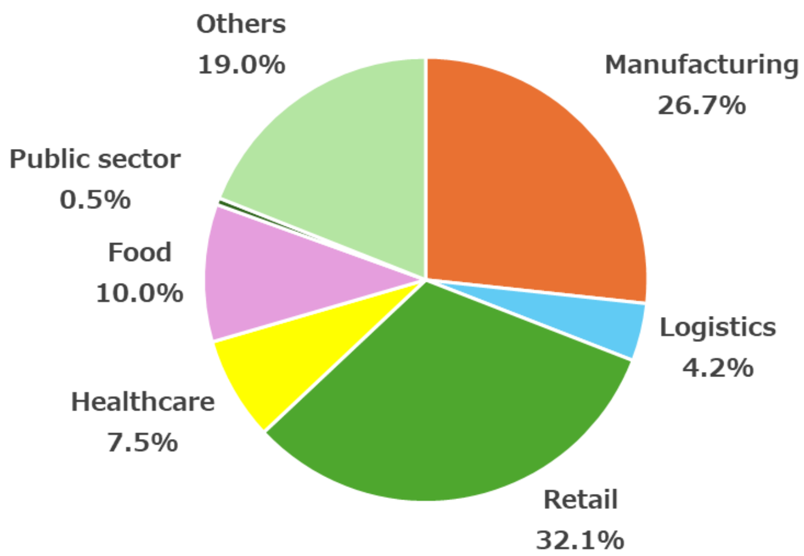


Source: Company Data. Compiled by Strategy Advisors

Sales Breakdown by Application

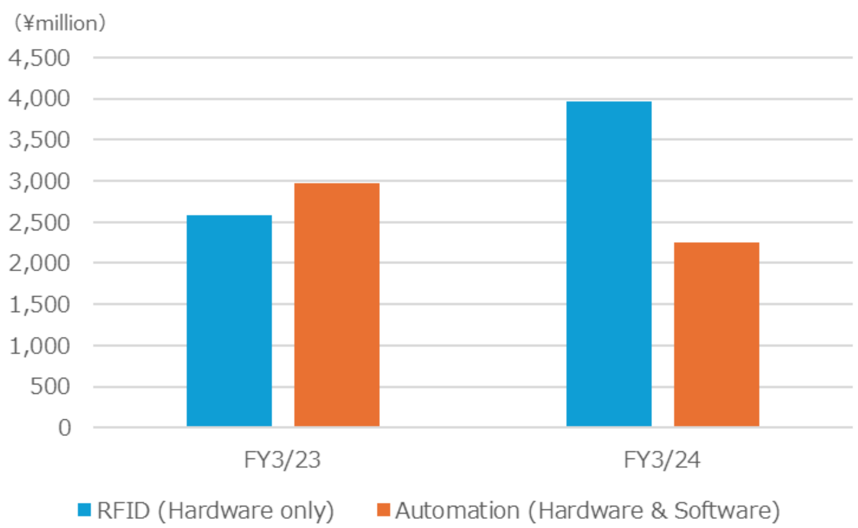
The difference in sales by application compared to Japan is that the composition ratio of logistics is low and that of retail is high. Looking at the trends over the past five years, there is no significant difference in growth rate by application, except for the slightly larger growth in healthcare. The composition ratio of actual sales by application for FY3/2024 (excluding major distributors and primaries) is manufacturing 26.7%, logistics 4.2%, retail 32.1%, healthcare 7.5%, food 10.0%, public 0.5% and others 19.1%. Also, high value-added fields such as "RFID/automation" have not yet made a significant contribution at present.

Figure 32. Overseas (Excluding Primary Labels) Sales Composition by Application Market (FY3/24 Results)



Source: Company Data. Compiled by Strategy Advisors

Figure 33. Changes in Overseas Sales in the "RFID/Automation" Field



Note: Estimates and Compilation by Strategy Advisors

Source: Company Data

6. Corporate DNA and Difficulty of Imitation

1) Positioning Theory

Adopt Focus & Differentiation Strategy's

The basic competitive strategies advocated by Michael E. Porter consist of three strategies: 1) cost leadership strategy, 2) differentiation strategy and 3) concentration strategy. Of these, SATO uses 3) concentration strategy and 2) differentiation strategy. Since expanding its business from processing machines for bamboo assembly boxes, which was the main product at the time of its founding, to hand labelers, SATO has focused on businesses related to "tagging," which attaches information to people and things through labels (3). In addition, during the period when barcode labels became widespread, SATO took advantage of its characteristic of having both mechatronics (label printers, etc.) and consumables businesses at the same time and expanded into a solutions proposal business named "DCS & labeling" in the mid-1990's. This is a business model (2) that is not available from competitors such as Zebra Technologies.

Developing Solutions Business in the Niche Market of Label Printers

The general printer market (BtoB, BtoC), several large companies such as HP (HPQ NYSE), CANON (7751 TSE Prime), RICOH (7752 TSE Prime) and Xerox (XRX NASDAQ) are competing fiercely. On the other hand, the label printer market is a niche area that is only B-2-B and by utilizing the knowledge and customer base of its leading hand labelers, Xerox has steadily gained a certain share of the market since the market's early days. Since then, this company has expanded its solutions business by leveraging its strengths in both mechatronics and consumables and is now in second place behind Zebra Technologies, the industry leader.

2) Corporate DNA

Founder Yo Sato has been Releasing One Invention After Another to the World

SATO's founder, Yo Sato (1921-2001), was both an inventor and businessman. He introduced bamboo processing machines for manufacturing bamboo assembly boxes, which was his original business. As well as binding machines and other products and began the production and sale of Japan's first domestically produced hand labelers, which are the source of this current business. Mr. Sato received support from many people when he provided technical guidance on production using bamboo processing machines in the Philippines, India, Myanmar, Thailand and other countries during the postwar reconstruction of Southeast Asia. This is thought to have been the inspiration for his subsequent inventions with a view to contributing to society and his strong motivation for commercializing tagging technology.

Second President, Tokuo Fujita, Established "DCS & Labeling"

Second-generation president, Tokuo Fujita (1951-2011), he established SATO's unique "DCS & Labeling" and played a vital role in laying the foundation for the global expansion of tagging solutions. Mr. Fujita summarized the founder's philosophy in easy-to-understand terms such as "Basic principles for how to work", "SATO's management rules", "Management ideas" and "SATO's spirit" which he presented to employees. He also personally formulated the basic management policy. The policy states that the company will make production and sales its business and do its utmost to contribute to the development of society. Furthermore, the creed states that cooperation is necessary to achieve development and that we will work together with a sense of mission. In addition, as specific messages, he presented unique concepts such as "Four-way returns", "Teiho", and "Make a ripple Teiho." "Four-way returns" refers to the fact that a company cannot be run well without giving back to shareholders, employees, society and the company. "Teiho" means that a company can change with just three lines, that is, it is the practice of all employees thinking about "creativity, ingenuity, proposals and ideas for improving the company, things they have noticed, and reports on the measures taken" on a daily basis, and it is a way of thinking that emphasizes employee unity. The idea of " Teiho" has been passed down to the present day at SATO as "Teiho report". "Teiho report" refers to a system in which the three-line daily reports written by all employees are screened to 30-50 reports and submitted to top management every day, after which top management issues instructions to the relevant departments, leading to improvement activities.

"Attitude of Combining the Power of Employees and Contributing to the Development of Society through Tagging"

If we consider the hand labeler, a mechatronics product launched by the founder, as a point, then the solution proposal that came next, combining barcode printers and consumables (labels), it became a line. We believe that SATO's corporate DNA, which was cultivated through this business model transformation from a point to a line, is "an attitude of combining the power of employees and contributing to the development of society through tagging". Promoting business based on corporate DNA is essential for growing companies and this also applies to SATO. From a long-term perspective, industrial structures change and new technologies emerge, so it is natural that the conditions at customers' sites will also change from time-to-time. However, as long as things and people are involved in the supply chain of each industry, we believe that the need to add variable information through tagging will continue to exist in a different form. For SATO to continue to retain its corporate DNA will be an essential element in proposing tagging solutions that are adjusted to customer needs, even in a world that will undergo drastic changes in the future.

3) Difficulty in Imitation

We Focus on the Difficulty of Imitation

The resource-based view advocated by Jay B. Barney and others focuses on a company's management resources and capabilities. The VRIO framework is a concrete example of this. In other words, it says that value, rarity, inimitability and organization should be considered. At Strategy Advisors, we focus particularly on inimitability.

"Ability to Make Proposal to Customers, Cultivated by Having Both Mechatronics and Consumables"

We believe that the reason why SATO is difficult to imitate is because of SATO's "ability to make proposals to customers, cultivated by having both mechatronics (label printers) and consumables as a tagging solutions company".

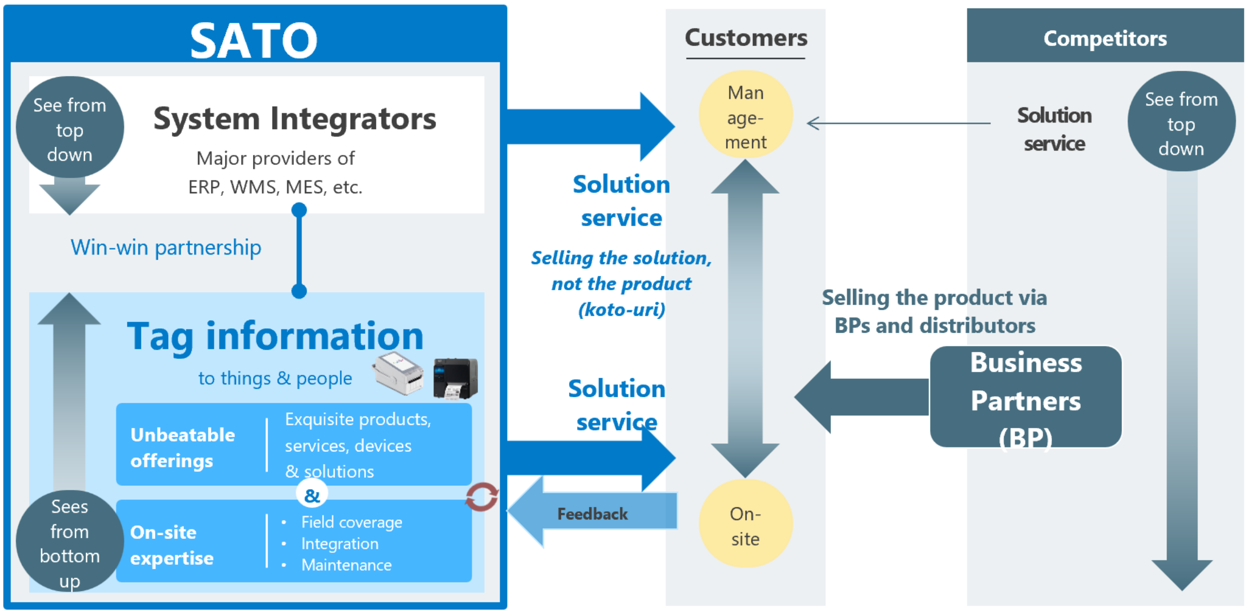
A Unique Business Model that Offers Optimal Solutions from a Field Perspective

Comparing the business models of label printer companies, competitors and SATO, the differences between the two become clear. Competitors focus on selling printers through distributors, while at the same time aiming to propose solutions such as visualizing and analyzing information from a "management perspective" by utilizing the big data they collect. In other words, they are positioned as a printer manufacturer that also has elements of an SIer (System Integrator). On the other hand, SATO not only sells label printers, which boast a wide product lineup, but also proposes optimal tagging solutions (selling services) from a "field perspective" by handling the supply of labels, tags (consumables) and software. In other words, they leave the analysis of big data collected from a "management perspective" to the SIer with which they have a partnership and they are thoroughly committed to focusing on solving problems on the ground. It is presumed that SATO's unique business model was built on the foundation of the company's corporate DNA, which has enhanced its difficulty in imitation.

Commitment to Social Contribution and Teamwork and Improvement Thinking Rooted in "Teiho"

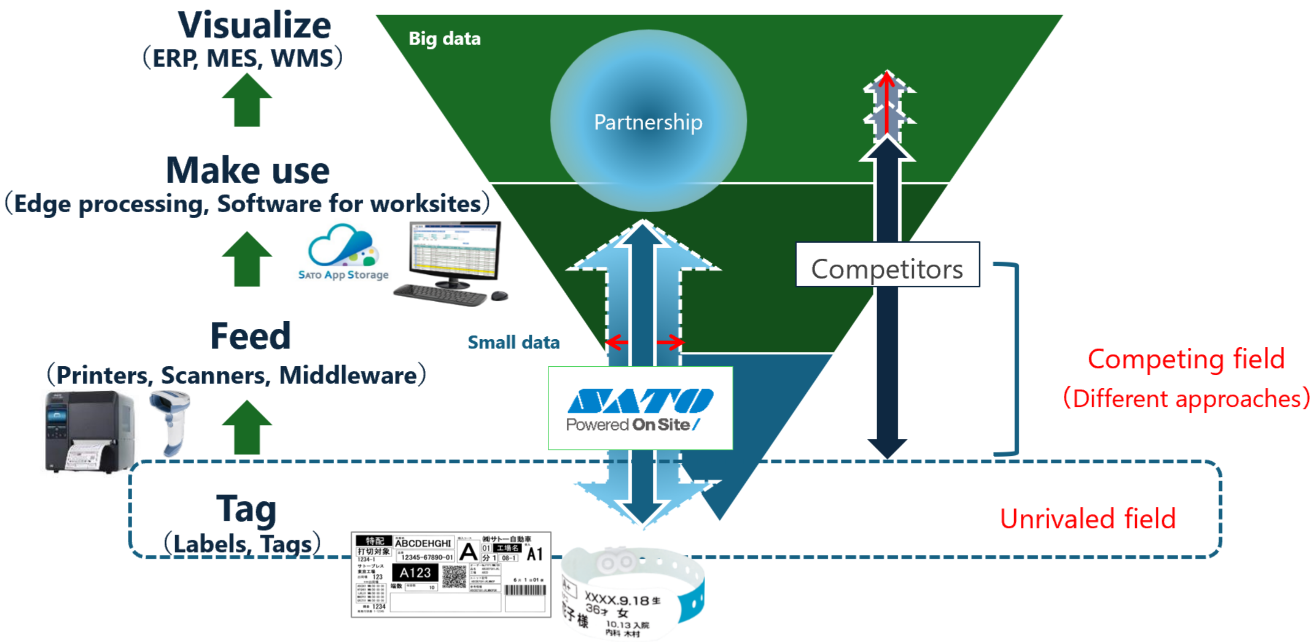
It should be noted that the reason for the company's difficulty in imitation is that it has adopted a bottom-up approach in which employees pool their strengths to carry out down-to-earth, detailed work rooted in the field of working with customers to solve their problems, which sets it apart from the top-down approach of its competitors. This is due to the founder's strong commitment to contributing to society through manufacturing and the teamwork and improvement mindset of its employees that are rooted in the "Teiho" systematized by Mr. Fujita, the second-generation president which has been passed down through to the present day in the company's DNA.

Figure 34. Differences in Business Model from Competitors (1)



Source: Company Data

Figure 35. Areas of Difference in Business Model from Competitors (2)



Source: Company Data

4) Equity Story

Utilize the On-Site Knowledge Accumulated in Japan & Transform Overseas into a Solution Seller

Our equity story is to take full advantage of the inimitability that has been cultivated based on the company's DNA and to "utilize the on-site knowledge accumulated through the development of solutions in Japan and to transform overseas, which is still centered on selling products, into a solution seller, thereby increasing the global share in rapidly growing auto-recognition market." Early response to RFID and automation is a good example of what should be done.

New Needs Emerge Due to Worsening Labor Shortages and Growing Awareness of Global Environmental Conservation

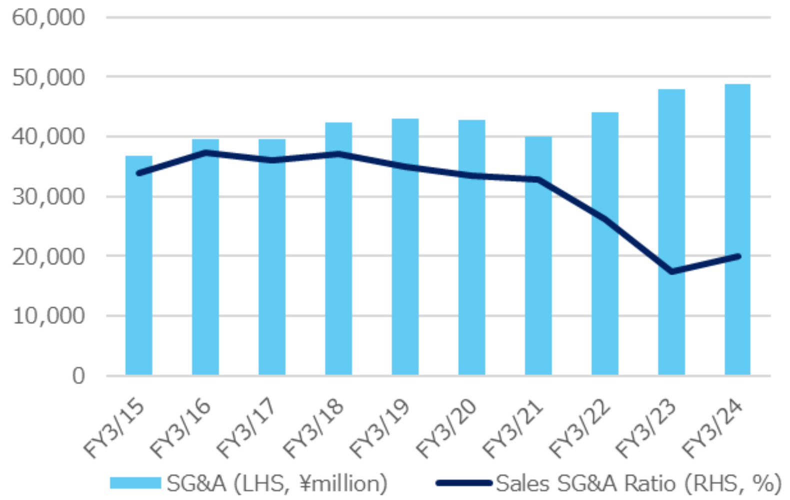
Currently, labor shortages in Japan are becoming serious in various industries due to the decline in the working population. In the manufacturing industry, robot assembly and automatic transportation and in logistics, automatic transportation as well as improving the work efficiency of delivery drivers have become urgent issues. In addition, labor saving is also essential in retail, medical care, etc. Since it is fully foreseeable that such phenomena occurring in Japan will occur later in other countries around the world in the future, the company believes that by taking the lead, it can increase its market share and obtain large business opportunities in the medium to long term. In addition, new needs have emerged, such as building logistics networks for resource recycling and efforts to reduce food waste, due to the increasing awareness of global environmental conservation. In the midst of such major trend changes, many new global issues have become apparent and will continue to arise in the future. If the company can take advantage of the difficulty of imitation born from its corporate DNA, bring together the wisdom of its employees based on teamwork and improvement thinking and also accelerate its high-value-added tagging solutions and entry into new fields, it will lead to long-term corporate growth.

5) Future Challenges

Improving Gross Profit Margins & Reducing Selling and Administrative Expenses are Issues

SATO's future challenges will be to increase operating profit margins along with sales growth, i.e., improve gross profit margins and reduce SG&A expenses. First, to improve gross profit margins (reduce cost of sales), it is necessary to implement appropriate price adjustments on a timely basis in response to rising raw material procurement costs (including exchange rate fluctuations) and wage increases; and at the same time to reduce production costs by creating mass production benefits through the promotion of hardware standardization in various tagging solutions. In addition, to reduce SG&A expenses, it is most important to approach productivity improvement (= increase sales per person) in the sales and development departments.

Figure 36. Trends in Selling and Administrative Expenses



Source: Company Data. Compiled by Strategy Advisors

Resolving Issues by Implementing Measures in the Mid-Term Plan

Since it is difficult to compare employees in each department, we will look at the relationship between the number of employees and sales. SATO had 5,744 employees at the end of FY3/2024, and sales per employee were ¥25.0 million. On the other hand, Zebra, which focuses on "selling products," had 9,900 employees and sales per employee were ¥65.1 million (FY12/2024), which shows that its labor productivity is about 2.6 times higher. SATO is a "seller of services," that is, it focuses on proposing solutions, so it is necessary to visit the site frequently to uncover needs and furthermore to secure a certain number of personnel to develop products that meet the detailed needs of each customer. On the other hand, KEYENCE (6861 TSE Prime), a solution-proposal sensor company that handles different products, has 12,286 employees and sales per employee were ¥78.7 million (FY3/2024), which shows that its labor productivity is at the same level as Zebra. From this, it can be said that the added value of SATO's solution-proposal business is not fully reflected in sales.

However, as times change and various social issues emerge, the company's tagging solutions will likely become increasingly high-added value as a means of resolving these issues. If the company, which boasts a high domestic market share, rolls out standardized, high-added-value solutions in Japan, which is one of the first in the world to face urgent issues such as labor shortages due to population decline, it is believed that productivity will rise as prices rise. Furthermore, in overseas countries where the focus is still on "selling things," if the company can horizontally roll out "selling experiences," i.e., high-added-value solutions, based on its track record in Japan, its market share will increase, leading to further improvements in productivity.

Figure 37. Comparison of Sales per Employee

(¥ Million/Person)

Company Name	FY	Sales	Number of Employees	Sales per Person
SATO	3/24	143,446	5,744	25.0
Zebra Technologies	12/24	644,817	9,900	65.1
KEYENCE	3/24	967,288	12,286	78.7
CANON	12/23	4,180,972	169,151	24.7
RICOH	3/24	2,348,987	79,544	29.5

Source: Company Data. Compiled by Strategy Advisors

The company's 2030 vision is to " utilize ' Perfect and Unique Tagging ' to contribute to the realization of a future where everything is digitalized, and social movements are optimized." The company's targets for FY3/2031 are consolidated sales of ¥200 billion, operating profit of ¥21 billion (profit margin of 10.5%), EBITDA of ¥29.5 billion and ROIC of 10% or more. In the mid-term plan (FY3/2025-3/2029), which is currently underway to achieve these targets, the goal of the Japanese business is to restore a profitable structure, and the goal of the overseas business is to pursue sustainable and efficient growth. In order to realize the equity story, the company's mid-term plan goals show the right direction to solve the above issues by utilizing the difficulty of imitation created based on the company's DNA.

Figure 38. Vision for 2030

Consolidated Management Targets	
Sales	¥200 billion
Operating Profit	¥21 billion
Operating Profit Margin	10.50%
ROIC	More than 10%

Source: Company Data. Compiled by Strategy Advisors

7. Financial Strategy

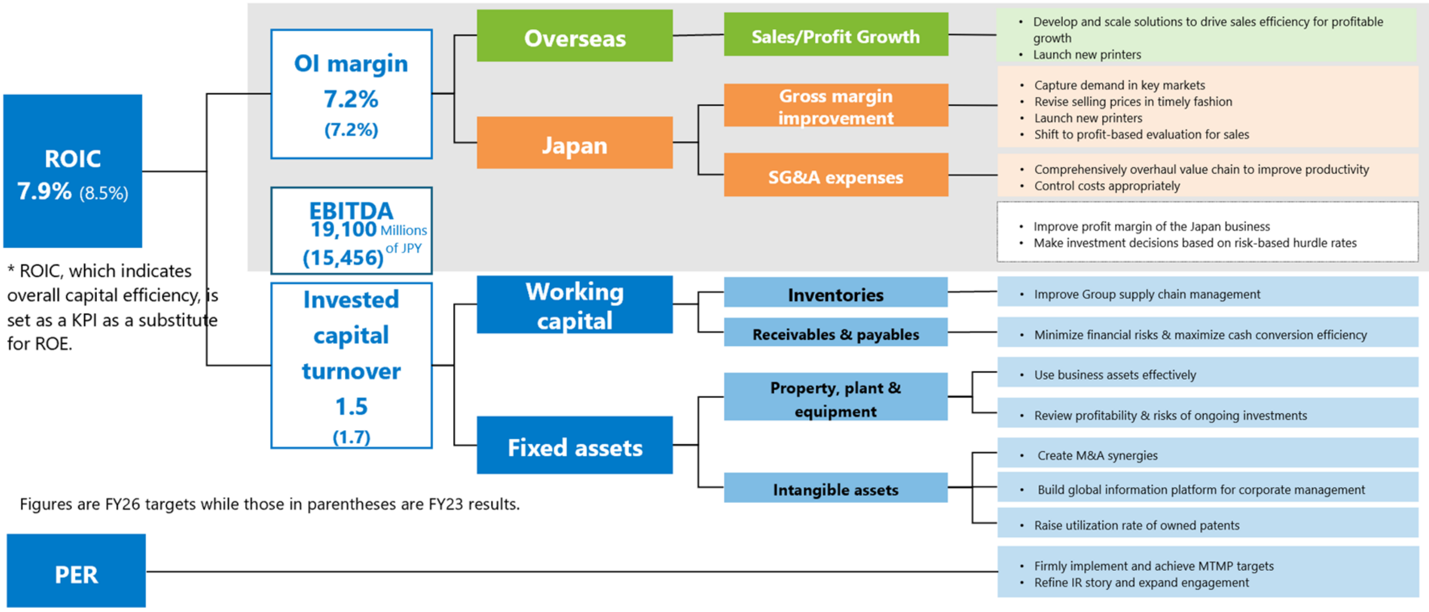
FY3/2027 Target: Operating Profit of ¥11.5 Billion & ROIC of 7%

The company's financial officer is Mr. Osamu Masuko, Senior Executive Officer and CFO. After joining SATO from a major bank in 2014, he transferred to another business for a while, but returned to SATO as CFO in April 2024. The company has set the following financial targets for the mid-term plan for FY3/2027: consolidated sales of ¥160 billion, operating profit of ¥11.5 billion (profit margin of 7.2%), EBITDA of 19.1 billion yen, ROIC of 7% and PBR of 1.5 times.

3 Basic Strategies to Achieve PBR Improvement

CFO Masuko is expected to play a leading role in achieving the goal of increasing the PBR, which is currently around 1.0x. The company's basic financial strategy is (1) to pursue an optimal capital structure, (2) to pay stable progressive dividends (without reducing dividends) by improving its medium to long-term corporate value and (3) to flexibly acquire treasury stock based on a comprehensive judgment when surplus funds arise.

Figure 39. PBR Improvement: Efforts for Each Component of the ROIC Tree



Source: Company Data

The Equity Ratio was 53.8% at the End of March 2024

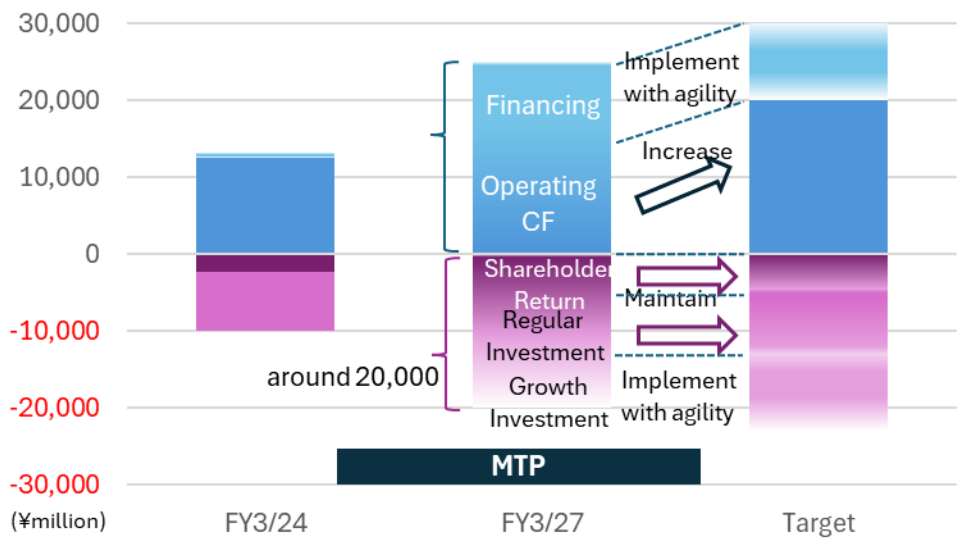
As of the end of FY3/2024, cash and deposits were ¥25.1 billion, interest-bearing liabilities were ¥17.7 billion, equity capital was ¥63.1 billion and the DE ratio was 0.25. The equity ratio was 53.8% and there was no sense of an excessive surplus of cash held, resulting in a generally healthy financial balance. The company has never cut dividends in the past and has maintained a stable progressive dividend in recent years despite fluctuations in performance before and after the COVID-19 Pandemic (Figure 40). The company has only bought back treasury stock once in the past 10 years, for a total of ¥2.5 billion in FY3/2023.

Cash Allocation

In terms of cash generation, the company plans to increase operating cash flow by steadily implementing the mid-term plan measures and to raise funds while considering necessary strategic investments and keeping in mind the cost of capital (WACC). On the other hand, in terms of cash allocation, in addition to regular investments (RFID, increasing supply capacity of consumables), the company will make growth investments (including M&A, etc.) to enhance tagging, which is expected to have a high ROIC, after thoroughly considering capital costs when deciding whether to make an investment.

Regarding shareholder returns, the company has made clear its policy of flexible share buybacks in addition to stable dividends as the base. WACC, which is the standard for deciding whether to make an investment, is set at 8% (calculated by the company).

Figure 40. Cash Allocation Ideas



Source: Compiled by Strategy Advisors. Based on Company Data

Attitude Towards M&A

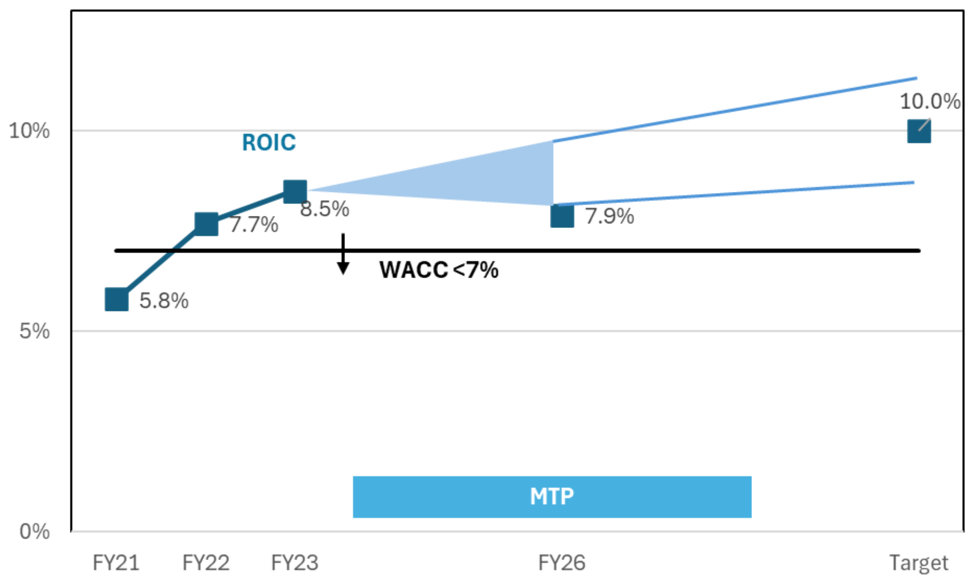
Regarding M&A, the company became more proactive under the fifth president, Kazuo Matsuyama. For example, in 2015, the company invested in the UK Company DataLase (33.3%) and obtained exclusive sales rights for the new printing technology IDP (Inline Digital Printing). In 2017, DataLase became a wholly owned subsidiary. IDP was a groundbreaking technology that was highly anticipated as it uses a special color pigment as a coating agent to be applied to various packaging materials, turning the coated surface into a heat-sensitive material and enabling digital printing by laser irradiation. However, issues remained in the development of the hardware required to realize the technology and a significant delay in commercialization became unavoidable, so the business was transferred in September 2020. This was during the time of the sixth president, Ryutaro Kotaki, who took office in 2018. Due to these circumstances, the company has focused on its core business and has not engaged in large-scale M&A in the last five years. However, it is possible that current President Konuma may once again adopt a proactive stance toward M&A during the current medium-term management plan in order to lay the strategic groundwork for Perfect and Unique Tagging.

Emphasis on Improving Capital Efficiency, Reducing Capital Costs & Fostering Growth Expectations

As mentioned above, the company aims to achieve a PBR of 1.5 times in its 2030 Vision. In order to improve PBR, improving capital efficiency (ROIC), reducing cost of capital (WACC) and fostering growth expectations are important factors. However, the target ROIC for FY3/2027 is only 7% due to growth investment, which is lower than the current WACC of 8%.

The company recognizes that in order to increase ROIC, it is necessary to improve the operating profit margin and invest capital turnover rate by implementing the growth strategy set out in the medium-term plan. To reduce WACC, the company places importance on reducing the proportion of the Russian business, which has high volatility in operating profit, optimizing fundraising methods and suppressing short-term performance fluctuations. In addition, with regard to fostering growth expectations, it will be necessary to steadily progress in preparations for Perfect and Unique Tagging by implementing the current medium-term plan and to widely promote this to the stock market through IR activities.

Figure 41. ROIC Spread Expansion Target



Source: Compiled by Strategy Advisors. Based on Company Data

Figure 42. Changes in Financial Standing

(¥ mn)							
FY	3/18	3/19	3/20	3/21	3/22	3/23	3/24
[Cash Flow]							
Net Income	4,074	3,773	-1,882	12,959	3,794	4,184	3,565
Depreciation	5,565	5,570	5,914	4,315	4,456	5,119	5,072
Capital Expenditures	-7,330	-4,288	-3,903	-4,321	-3,753	-7,256	-7,722
Share Buybacks	0	0	0	0	0	-2,500	0
Dividend	-2,089	-2,293	-2,393	-2,329	-2,362	-2,376	-2,337
[B/S]							
Cash and Deposits	16,461	16,837	23,796	33,037	29,854	21,923	25,078
Interest-Bearing Debt	16,792	15,957	18,423	15,425	15,814	15,599	17,732
Equity Capital	54,804	55,375	47,793	58,274	63,136	65,452	71,276
[Major indicators]							
Capital Adequacy Ratio	51.6%	51.5%	46.4%	53.3%	52.6%	53.3%	53.8%
D/E Ratio	30.6%	28.8%	38.5%	26.5%	25.0%	23.8%	24.9%
Net D/E Ratio	0.6%	-1.6%	-11.2%	-30.2%	-22.2%	-9.7%	-10.3%
Dividend Per Share (¥)	65.0	70.0	70.0	70.0	70.0	72.0	73.0
Dividend Payout Ratio	53.5%	62.2%	-124.9%	18.1%	62.1%	56.8%	66.4%

Source: Compiled by Strategy Advisors. Based on Company Data

8. Business Performance Trends & Future Outlook

1) Short-Term Performance Trends

Strong 1H Results for FY3/2025 Lead to an Upward Revision in the Full-Year Plan

In FY3/2025, compared to the previous fiscal year, overseas business has been performing well and the effects of price adjustments in response to rising costs have been realized in the domestic business, resulting in favorable results. In addition, compared to the initial company plan announced in May 2024, 1H of the fiscal year saw overseas business in Asia and Oceania perform well and the primary labels business in Russia exceeded the results. The domestic business fell slightly shortly due to sluggish mechatronics sales and a worsening product mix in Q1 (April-June). Reflecting this, the company revised its company plan upwards. Sales increased by ¥2.5 billion to ¥153.5 billion (+7.0%YoY) and operating profit increased by ¥1.0 billion to ¥11.4 billion (+9.8%YoY). However, this revision in November was mostly reflected in the change to 1H expectations versus the previous plan and the initial plan for 2H was largely unchanged.

Strong Performance Continues in Q3. Sales Revised Upward Again. Operating Profit Unchanged

In the Q3 financial results (cumulative for the nine months) announced on February 12, both domestic and overseas results were higher than the company's November plan, even excluding the effect of the weak yen. On the same day, the company revised its plan for the second time this fiscal year. Sales were revised upward by ¥1.5 billion (all from overseas businesses) to ¥153.5 billion. Operating profit was left unchanged at ¥11.4 billion, but since the company is now expecting one-off expenses (approximately ¥500 million) to be recorded in the domestic business in Q4 (January to March), this can essentially be considered an upward revision. The key to the good performance in Q3 (October to December) was the sudden recovery of the profit margin of the domestic business to 8.7%. The factors behind this, in order of effect, are (1) the emergence of the effect of price revisions (mainly consumables, but mechatronics is progressing), (2) favorable sales of software and maintenance with high gross profit margins and (3) recovery of the manufacturing market.

Domestic Business Trends

Domestic business is performing steadily in all markets. In particular, in manufacturing, the recovery of semiconductor production has led to an increase in consumables in the related electronic components and chemical industries; and in mechatronics, a large order for an automatic application machine for the steel industry and the resumption of a project for the automotive industry that had been postponed due to certification issues are major factors. In logistics, consumables increased due to price revisions and increased volume and mechatronics also continues to receive large orders to deal with the 2024 problem. In retail, the recovery of the retail industry is driving overall business. In healthcare, mechatronics demand has subsided following the rebound increase from the COVID-19 pandemic last year, but consumables have increased due to price revisions and RFID compatibility. Sales of "RFID/automation", a high value-added solution, have grown in the automation field (automatic application-related) due to the acquisition of large orders in logistics and healthcare.

Domestic Business Plan: Operating Profit Reduced to ¥3.2 billion, Including One-Off Losses

The new company plan leaves sales of ¥79 billion unchanged from the plan from November. Operating profit has been revised downwards by ¥500 million to ¥3.2 billion, including a one-off loss associated with the downsizing of the head office. The new Q4 plan calls for sales of ¥20.4 billion and operating profit of ¥400 million (effectively about ¥900 million if a one-off loss of about ¥500 million is considered). Considering that the Q3 results were sales of ¥21 billion and operating profit of ¥1.8 billion and that the current business environment has not changed significantly compared to Q3, these figures are likely to be achievable.

Overseas Business Trends

In the overseas business, Asia and Oceania led the overall business, but profitability at sales companies in Europe and the US is generally declining. In the Americas, sales increased due to a large order for an automatic applicator in the US, but profitability declined due to a temporary deterioration in the product mix of consumables and an increase in SG&A expenses. And in South America, the performance of the Argentine subsidiary deteriorated due to exchange rate fluctuations.

In Europe, profitability declined despite a turnaround in demand due to the completion of printer inventory adjustments at distributors and solid demand for consumables in Germany. However, it is expected that "venous logistics" demand (implementation of DPP: Digital Product Passport in Europe) utilizing MobileLogic's technology will be acquired in the future. Meanwhile, in Asia and Oceania, demand was driven by the effect of the continuation of a large RFID order for entertainment facilities in Australia and the recovery of the manufacturing market (related to electronic parts and semiconductors) in ASEAN. In addition, production factories contributed to profits due to an increase in operating rates. In the "RFID/ automation " area of high value-added solutions, RFID continues to see a significant increase due to large-scale projects in Australia, while automation is also on the rise thanks to the acquisition of large-scale projects in the US logistics market.

Overseas Primary Labels

In the overseas primary labels business, price revisions in the Americas contributed positively, but were unable to offset the negative effects of exchange rate fluctuations. Sales of high value-added products in Europe (Russia) were favorable. As a result, the operating profit margin remains at a high level of over 20%.

Overseas Business Plan: Operating Profit to Increase to ¥8.5 billion

The new company plan calls for sales of ¥76 billion, an increase of ¥1.5 billion from the November plan (breakdown: base ¥500 million, primary ¥1.0 billion). Operating profit has been revised upwards by ¥700 million to ¥8.5 billion (breakdown: base ¥350 million, primary etc. ¥350 million). The new Q4 plan calls for sales of ¥18.3 billion and operating profit of ¥1.2 billion. Considering that Q3 results were sales of ¥19.1 billion and operating profit of ¥2.4 billion, these figures seem quite achievable, even considering the usual seasonal slowdown in Q4.

Figure 43. Short-Term Performance Trends (Half Year/Full Year)

FY	3/23		3/24		3/25
	1H	2H	1H	2H	1H
Sales	**70,463**	**72,361**	**69,786**	**73,660**	**76,090**
Auto-ID Solutions (Overseas)	34,878	33,779	33,557	34,374	38,545
Base Business	24,608	23,233	23,583	24,776	26,162
Primary Labels	10,270	10,546	9,974	9,598	12,383
Auto-ID Solutions (Japan)	35,585	38,581	36,229	39,285	37,545
Mechatronics	13,669	16,208	13,774	15,926	14,407
Consumables	21,916	22,373	22,455	23,359	23,138
(Consumables Ratio)	61.6%	58.0%	62.0%	59.5%	61.6%
Operating Profit	**3,776**	**5,065**	**4,620**	**5,763**	**5,778**
Auto-ID Solutions (Overseas)	3,029	4,082	4,515	3,728	4,889
Base Business	1,849	1,755	1,682	1,895	2,330
Primary Labels	1,220	2,499	2,628	1,881	2,592
Erase	-40	-172	205	-48	-33
Auto-ID Solutions (Japan)	933	1,704	-103	1,827	959
Erase	416	-1,323	208	208	-70
Operating Profit Margin	**5.4%**	**7.0%**	**6.6%**	**7.8%**	**7.6%**
Auto-ID Solutions (Overseas)	8.7%	12.1%	13.5%	10.8%	12.7%
Base Business	7.5%	7.6%	7.1%	7.6%	8.9%
Primary Labels	11.9%	23.7%	26.3%	19.6%	20.9%
Auto-ID Solutions (Japan)	2.6%	4.4%	-0.3%	4.7%	2.6%

Source: Company Data. Compiled by Strategy Advisors

Figure 44. Short-term Performance Trends (Quarterly)

FY	3/24				3/25		
	Q1	Q2	Q3	Q4	Q1	Q2	Q3
Sales	**33,989**	**35,797**	**37,628**	**36,032**	**37,674**	**38,416**	**40,121**
Auto-ID Solutions (Overseas)	16,452	17,105	17,648	16,726	19,321	19,224	19,104
Base Business	11,776	11,807	12,498	12,278	13,355	12,807	13,329
Primary Labels	4,676	5,298	5,150	4,448	5,966	6,417	5,775
Auto-ID Solutions (Japan)	17,537	18,692	19,980	19,305	18,353	19,192	21,017
Mechatronics	6,395	7,379	7,451	8,475	6,848	7,559	7,988
Consumables	11,142	11,313	12,529	10,830	11,505	11,633	13,029
(Consumables Ratio)	63.5%	60.5%	62.7%	56.1%	62.7%	60.6%	62.0%
Operating Profit	**2,160**	**2,460**	**3,417**	**2,346**	**2,864**	**2,914**	**4,086**
Auto-ID Solutions (Overseas)	2,169	2,346	2,490	1,238	2,586	2,303	2,405
Base Business	1,003	679	1,345	550	1,277	1,053	1,200
Primary Labels	1,118	1,510	1,131	750	1,301	1,291	1,198
Erase	48	157	14	-62	8	-41	7
Auto-ID Solutions (Japan)	-210	107	927	900	186	773	1,824
Erase	201	7	0	208	92	-162	-143
Operating Profit Margin	**6.4%**	**6.9%**	**9.1%**	**6.5%**	**7.6%**	**7.6%**	**10.2%**
Auto-ID Solutions (Overseas)	13.2%	13.7%	14.1%	7.4%	13.4%	12.0%	12.6%
Base Business	8.5%	5.8%	10.8%	4.5%	9.6%	8.2%	9.0%
Primary Labels	23.9%	28.5%	22.0%	16.9%	21.8%	20.1%	20.7%
Auto-ID Solutions (Japan)	-1.2%	0.6%	4.6%	4.7%	1.0%	4.0%	8.7%

Source: Company Data. Compiled by Strategy Advisors

Briefing Topics

At the financial results briefing held on February 12, three topics were introduced: (1) the launch of the WT4-AXB industrial printer, an entry-level model, in the overseas-based business; (2) the promotion of "manufacturing logistics" solution proposals in Japan and finally (3) blood SCM solutions in new fields. In particular, with regard to (1), the lack of a lineup of entry-level models that are cost-competitive with competitors overseas has been an obstacle to market share expansion. With the launch of this new product, it will be possible to approach solution proposals by first expanding sales of mechatronics products. As for (2), "manufacturing logistics" solution proposals are now in full swing through collaboration between logistics and manufacturing personnel and this is attracting attention as an example of the efficient use of development and sales resources.

Figure 45. Launch of Entry-Level Industrial Printer WT4-AXB

Source: Company Data

Future Earnings Outlook: Many Positive Factors in Q3 Results

In looking at the company's future performance, the key points will be an increase in projects for high value-added solutions, mainly in manufacturing and healthcare in Japan and the expansion of solutions and improved profitability in the base business overseas. It is somewhat difficult to predict whether the strong performance in Europe, which specializes in overseas primary products, will continue. The market environment surrounding the company's customers is highly volatile and although the impact on performance is unavoidable, it is commendable that the measures in the medium-term plan are progressing smoothly. In particular, the improvement in the domestic operating profit margin in the Q3 settlement and the prospect of launching an entry-level model overseas are positive factors. With these things in mind, it is highly likely that the trend of increased sales and profits will continue in FY3/2026.

2) Medium-Term Management Plan

The 5-Year Plan Runs from FY3/2025 to FY3/2029. Numerical Targets are Set for FY3/2027

The mid-term management plan announced in March 2024 is a five-year plan from FY3/2025 to FY3/2029. In this plan, FY3/2025 to FY3/2026 are positioned as a profit recovery period and FY3/2027 to FY3/2029 are positioned as a period to resume growth investment, which will then lead to a period of investment recovery. However, numerical targets have not been set for the final year, FY3/2029, but rather numerical targets have been set for the midpoint, FY3/2027 (sales of ¥160 billion, operating profit of ¥11.5 billion, operating profit margin of 7.2%, ROIC of 7% and PBR of 1.5 times).

The breakdown by segment is shown below. Note that the operating profit for FY3/2024 was ¥10.4 billion, while the target for FY3/2027 is ¥11.5 billion, which seems to be a small increase. The background to this is that the temporary good performance currently seen in the overseas primary labels business is expected to fade and operating profit to decrease.

Figure 46. Mid-Term Management Plan (FY3/2025 to FY3/2031)

	FY3/24 (Actual)	FY3/25 (Company Plan)	FY3/27 (Medium-Term Plan)	FY3/31 (Long-Term Goal)
Sales	**143,446**	**155,000**	**160,000**	**200,000**
Auto-ID Solutions (Overseas)	67,931	76,000	80,000	
Base Business	48,359	53,000	57,000	
Primary Labels	19,572	23,000	23,000	
Auto-ID Solutions (Japan)	75,514	79,000	80,000	
Mechatronics	29,700			
Consumables	45,814			
(Consumables Ratio)	60.7%			
Operating Profit	**10,383**	**11,400**	**11,500**	**21,000**
Auto-ID Solutions (Overseas)	8,243	8,500	7,500	
Base Business	3,577	4,200	4,200	
Primary Labels	4,509	4,400	3,300	
Erase	157	-100	-	
Auto-ID Solutions (Japan)	1,724	3,200	4,000	
Erase	416	-300	-	
Operating Profit Margin	**7.2%**	**7.4%**	**7.2%**	**10.5%**
Auto-ID Solutions (Overseas)	12.1%	11.2%	9.4%	
Base Business	7.4%	7.9%	7.4%	
Primary Labels	23.0%	19.1%	14.3%	
Auto-ID Solutions (Japan)	2.3%	4.1%	5.0%	
EBITDA	15,456	16,900	16,900	19,100
ROIC	8.5%	9.4%	8.4%	7.9%

Source: Company Data. Compiled by Strategy Advisors

Achievements & Challenges of the Previous Mid-Term Plan

The results of the previous mid-term plan include the growth of overseas-based business due to the focus on the core business from FY3/2019 onwards, the growth of RFID and automation and the completion of the development of a common platform for printers. On the other hand, issues that have become apparent include the decline in domestic profit margins due to the implementation of strategic investments, a worsening product mix, the commoditization of printers and the change in customer issues to cross-industry issues affecting society as a whole. Addressing these issues is necessary in the current mid-term plan.

Implementing 3 Measures

The medium-term management plan will focus on three main initiatives: (1) Strengthening core business (Japan business/overseas business), (2) Creating a new revenue base (towards Perfect and Unique Tagging) and (3) Strengthening the management base. The specific details are as follows:

3) Strengthening Core Business (Domestic Business: Restoring Profit-Generating Structure)

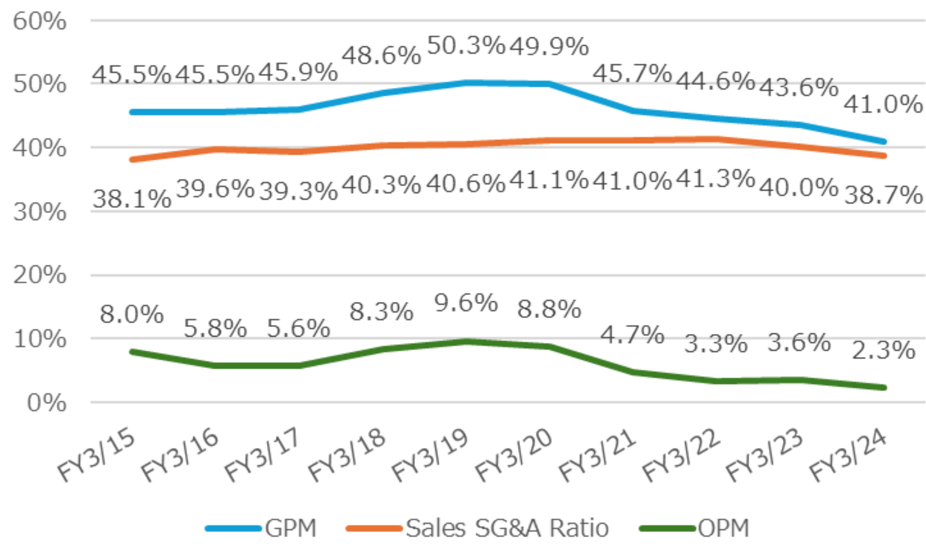
Domestic Sales are Expected to Continue to Experience Low Growth

The domestic business already has a high market share of about 40% and as there are no major changes in the competitive environment, it is unlikely that there will be any major changes in market share in the future. In addition, the top line sales of existing businesses are affected by economic trends and the business environment of customers. In particular, since the company's business domains are diversified across a wide range of markets, it is easy for pluses and minuses to offset each other, for example, while logistics and healthcare are doing well, manufacturing and retail are sluggish. On the other hand, the sales composition ratio of the tagging technology advancement domain, such as RFID and automation, is currently small at 8.7% in FY3/2024 and is insufficient to drive the overall business. Against this background, it is highly likely that sales centered on existing businesses will continue to grow at a low rate at least until FY3/2027.

Operating Profit Margins Have been Declining in Recent Years

Meanwhile, the operating profit margin has been below 5% since FY3/2021 and has been on a downward trend in recent years. In FY3/2024, it dropped to 2.3%. The main reasons for the decline in gross profit margin are the demand for discounts due to the commoditization of label printers, the increase in parts procurement costs due to inflation, the increase in minimum wages in ASEAN countries and also the increase in the purchase prices of mechatronics products from overseas factories due to the weak yen. In addition, the continued burden of development costs for new products and solutions on a global basis and the tendency for sales and administrative expenses to remain high are also factors behind the sluggish profit margins.

Figure 47. Changes in Operating Profit Margins in Domestic Business



Source: Company Data. Compiled by Strategy Advisors

The Theme is "Restoring Profit-Generating Capabilities". There are 5 Measures

The theme for strengthening the core business (existing business) in the domestic business is "restoring the company to a profitable structure". The target operating profit margin for FY3/2027 is 5% (the actual result for FY3/2024 was 2.3%). There are five measures, the order of expected impact being (1) Targeting key markets, (2) Flexible price revision, (3) Thorough value chain management, (4) Launching new printers and (5) Prioritizing the profit evaluation of the sales department. Each measure is explained below.

(1) Targeting Key Markets

The company plans to target healthcare and manufacturing as key markets. In healthcare, which is expected to have particularly high growth potential in the future, it has set a target of increasing gross profit by 40% in FY3/2027 compared to FY3/2024. In manufacturing, the electronics industry, including semiconductors, has begun to return to domestic production in response to geopolitical risks. It plans to complete optimization of personnel allocation during FY3/2025 and put the plan into action in FY3/2026. Sales results for Q3 FY3/2025 (cumulative for nine months) were -4.7%YoY in healthcare and +6.7%YoY in manufacturing.

(2) Flexible Pricing

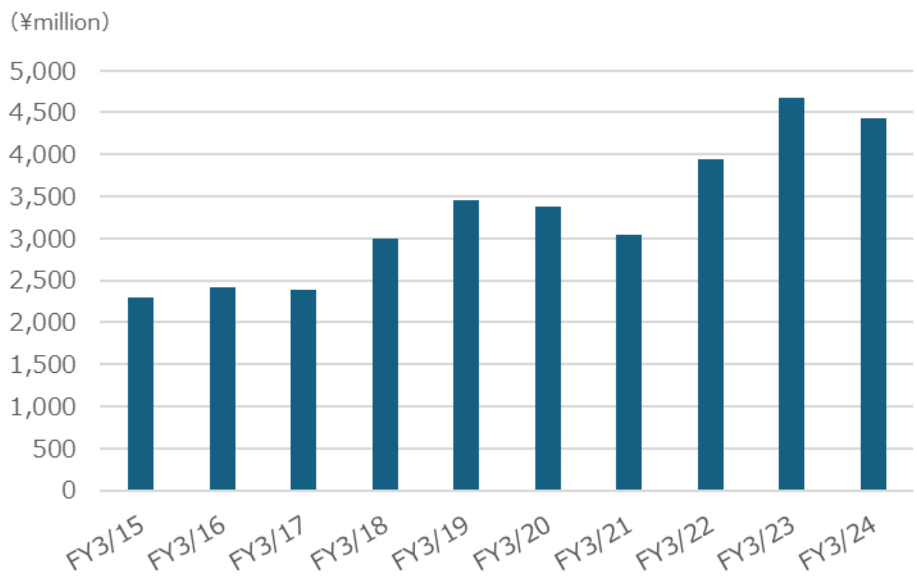
Costs have been rising in recent years due to disruptions to global logistics networks since the COVID-19 pandemic, raw material inflation due to rising material prices and rising labor costs in Southeast Asia, all leading to a decline in gross profit margins. Meanwhile, label printer prices have been gradually declining due to the increasing commoditization of label printers, but the company decided to adjust prices by adding the increased costs to orders received from October 2023. The effects began to appear from January 2024 onwards and have contributed greatly to improving profit margins in FY3/2025.

Going forward, the company will need to request price adjustments from customers in a timely fashion in response to cost fluctuations (especially upward trends) and flexible operations to maintain the profitability of existing businesses. In addition, pricing that can achieve appropriate high profit margins will be required for new tagging solutions with high added value that are differentiated from competitors.

(3) Thorough Value Chain Management

Through value chain management (3): The aim is to improve productivity and reduce costs by optimizing the product lineup. First, by reducing the number of models in the numerous printer product lineup, SATO will be able to reduce manufacturing and model management costs. In addition, customers will benefit from improved hardware and software performance and the ability to use the same models for a variety of purposes. In addition, by standardizing label specifications for consumables, which differ slightly from customer to customer, SATO will be able to reduce costs by reducing labor hours. Customers will also benefit from shorter delivery times and more flexible inventory utilization. The plan is to complete issue identification in the middle of FY3/2026 and then put the measures into action.

Figure 48. Research and Development Expenses



Source: Company Data. Compiled by Strategy Advisors

(4) Launch of New Printers

Launch of new printers (4): The aim is to stimulate replacement demand from existing customers. At the time of formulating the mid-term plan in March 2024, development was scheduled to be completed during FY3/2025, but due to delays in the development schedule, it has now been pushed back by one year and is expected to be completed during FY3/2026. The company has problems with its development project management methods, which it will revise and strengthen.

Regarding development, the development of a common printer platform aimed at reducing costs was completed by FY3/2024 and it is scheduled to be installed in new models in the current mid-term plan.

(5) Prioritizing Profit Evaluation of Sales Divisions

Prioritizing profit evaluation of sales department (5): Specifically, the company will optimize the prices of products with low gross margins and promote sales of solutions with high gross margins. It plans to formulate a scheme during FY3/2025 and put it into practice from FY3/2026. As mentioned in agile pricing (2), various measures to improve profit margins are important, but a change in the mindset of salespeople, which is the basis of their activities, is a prerequisite. The company's tagging and solutions business is characterized by a customer-oriented approach that values a "field perspective" and because of the close relationship with customers, it is also easy to be subject to requests for discounts. From the beginning of FY3/2025, the company has adopted a policy of changing the mindset of salespeople by switching their evaluation from linked to sales to linked to gross margins.

4) Strengthening Core Business (Overseas Business: Pursuit of Sustainable and Efficient Growth)

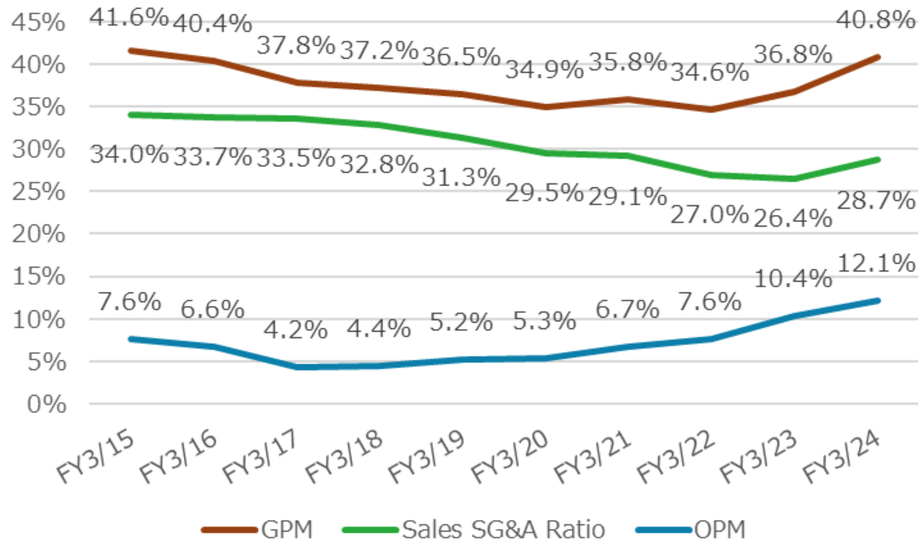
Overseas Sales Continue to Grow at a High Rate

Unlike the domestic market, which is dominated by base business, overseas markets are characterized by a mixture of base business and primary labels business. Also, unlike the domestic market, which is centered on direct sales, overseas markets are characterized by a large amount of sales through distributors. The overseas market share is about 10% and it can be said that there is still room for growth. Top line sales have continued to grow at a high rate, due to steady growth in base business, combined with a sharp increase in primary labels business handled by overseas subsidiaries acquired through M&A. In particular, the primary labels business has been contributed to by a temporary improvement in the business environment in Russia.

Operating Profit Margin Recently Increased to Over 10%

As for the operating profit margin, distributor sales are able to keep SG&A expenses down and price negotiation terms are relatively favorable compared to domestic sales, so it is generally over 5%. In particular, in the most recent FY3/2023 and FY3/2024, it has risen to over 10%, reflecting the favorable performance in Russia. However, the development costs of products (including software) that are deployed globally are mainly borne by domestic business, so SG&A expenses appear to be lower than they actually are. Therefore, it can be said that the actual profit margin figures are slightly higher than their real levels.

Figure 49. Changes in Operating Profit Margins in Overseas Businesses



Source: Company Data. Compiled by Strategy Advisors

Core Business Theme: "Pursuit of Sustainable & Efficient Growth"

The theme for strengthening the core business (existing business) in the overseas business is "pursuit of sustainable and efficient growth". The 3-year CAGR target for sales growth rate from FY3/2024 to FY3/2027 is an increase of approximately 6%. The sales composition ratio of advanced tagging technology areas such as RFID/automation is currently small at 9.2% in FY3/2024. On the other hand, the operating profit margin target for FY3/2027 is 7.4%, almost flat against the actual figure of 7.7% in FY3/2024. Below, we will explain the measures separately for the base business and the primary labels business.

Numerical Targets & 4 Measures for the Base Business

Base business sales target for FY3/2027 is ¥57 billion (17.9% increase from FY3/2024)

The operating profit target for FY3/2027 is ¥4.2 billion, with a profit margin of 7.4% (same as FY3/2024). By region, the plan is to increase sales in the Americas to ¥21 billion (+21.2%YoY), Europe to ¥14 billion (+19.5%YoY) and Asia/Oceania to ¥22 billion (+13.9%YoY). There are four measures. First, as a continuation from the previous mid-term plan, (1) increasing profits from consumables, (2) horizontal expansion of solutions, and as new measures, (3) reviewing the roles and functions of the headquarters and bases and (4) creating solutions optimal for each region.

Figure 50. Sales and Operating Profit Margin Plan for Overseas-Based Businesses

(Unit: ¥ Million, %)	FY3/24 (Achievements)	FY3/27 (Company Plan)
Sales		
Americas	17,333	21,000
Europe	11,713	14,000
Asia/Oceania	19,311	22,000
Total Sales	**48,358**	**57,000**
Operating Profit Margin (Overall Base Business)	7.7%	7.4%

Source: Company Data. Compiled by Strategy Advisors

(1) Increasing Revenue from Consumables

Globally, the company plans to promote process standardization and increase its overall supply capacity for consumables (see Thorough Value Chain Management (3) in Strengthening Core Business (Domestic)). By region, the company plans to improve productivity in the Americas and Europe by introducing an MES (Manufacturing Execution System). In Europe, the company will focus on expanding sales of environmentally friendly products to improve its competitiveness. In the Americas and Asia, the company will update its facilities to improve its ability to serve local customers. Furthermore, the company plans to raise its overall production capacity, including for RFID labels.

(2) Horizontal Deployment of Solutions

As a result of the previous mid-term plan, the idea of "selling experiences" was introduced to overseas businesses, which had previously focused on "selling products" and a path was created for the creation of solutions at each base. In the current mid-term plan, in order to further expand the creation of solutions, the company is working on visualizing the status of horizontal expansion by utilizing global CRM, raising the knowledge level of employees by strengthening training and revitalizing the sharing of know-how and mutual support by holding success story sharing meetings.

(3) Review of the Roles and Functions of Headquarters and Bases

Review of the roles and functions of the headquarters and bases (3): One of the issues remaining from the previous mid-term plan was that the headquarters-led system had been taking a long time to implement measures. Following the organizational changes in April 2024 and April 2025, the overseas business will have a simplified organizational structure directly linked to SATO Corporation, making it possible to clarify the division of roles. The headquarters plans to focus on capturing global key accounts. Meanwhile, each base will be responsible for various horizontal expansions, such as to other departments within existing clients, to new clients within existing industries and to other industries for existing solutions.

(4) Creating Optimal Solutions for Each Local Area

Creating optimal solutions for each region (4): While expanding existing solutions developed domestically, the company plans to set up specialized organizations in each region to accelerate the development of solutions that meet local needs. It will also place emphasis on cultivating industry-specific partners (e.g., ISVs: Independent Software Vendors) that can be approached to sell solutions.

Aiming to Expand Market Share and Reduce Selling and Administrative Expenses by Shifting to "Selling Experiences"

As mentioned above, especially in measures (2) to (4), the company aims to expand its global market share by shifting from "selling things" to "selling experiences", that is, by expanding into tagging solutions that utilize the company's strengths. It is important to suppress the expansion of SG&A expenses that accompany the expansion of business scale. By accelerating horizontal expansion by promoting standardization of developed solutions and minimizing development costs (including software) for adding functions that meet local needs, it will lead to an increase in sales per person in the development department. In addition, the sales department will be able to increase sales per person by promoting horizontal expansion of solution sales while keeping in mind appropriate pricing and flexibly utilizing distributors for the sale of existing products.

Target Figures for Primary School Specialists

Primary labels sales target for FY3/2027 is ¥23 billion (+17.5% from FY3/2024)

The operating profit target for FY3/2027 is ¥3.3 billion, with a profit margin of 14.3% (down 8.3% points from FY3/2024). The challenge is to stabilize sales and profits. In particular, it is assumed that the current good performance of Russian subsidiaries (Okil and X-Pack) will not continue in the future.

5) New Revenue Base (Towards Perfect and Unique Tagging)

A Solution that can Identify and Manage Data Automatically without Human Intervention

Perfect and Unique Tagging refers to an advanced tagging method that allows complete and unique individual information to be traced by linking attribute information such as ID's to people and objects, as well as status information obtained from locations and sensors (as defined by SATO). As it provides a solution that allows for fully automatic identification and management without human intervention while people and objects are moving, it is expected to contribute not only to solving on-site issues at individual companies, but also to solving common issues for the entire society.

Sales Target for "New Fields" in FY3/2031 is Over ¥40 billion

In the presentation materials, the company stated that the sales target for "new fields," which corresponds to Perfect and Unique Tagging, is over ¥40 billion for FY3/2031. This accounts for 20% of the consolidated sales plan of ¥200 billion and exceeds the sales plan of ¥35 billion for "RFID/automation," which is expected to grow steadily in existing fields.

Figure 51. Sales Composition for FY3/2031

	FY3/31 (Long-term goal)
Total Sales	**Over ¥200 billion**
Base Business (Conventional)	¥100 billion
Base Business (RFID/Automation)	¥35 billion
Base Business (New Field)	Over ¥40 billion
Primary Labels	¥25 billion

Source: Company Data. Compiled by Strategy Advisors

Acquiring New Peripheral Technologies and Contribute to Solving Social Issues

The world is currently undergoing major changes, with climate change, resource depletion, labor shortages, new legal regulations, geopolitical risks, and other common social issues becoming apparent. SATO's customers are now faced with the need to create new traceability systems by assigning ID's using tagging technology. In response to this, SATO aims to expand the range of solutions it provides by acquiring new peripheral technologies such as image recognition, PC-less label issuance, next-generation cloud platforms, sensors, voice authentication, biometric authentication and positioning.

Targets are Selected Based on Two Axis: Growth and Profitability

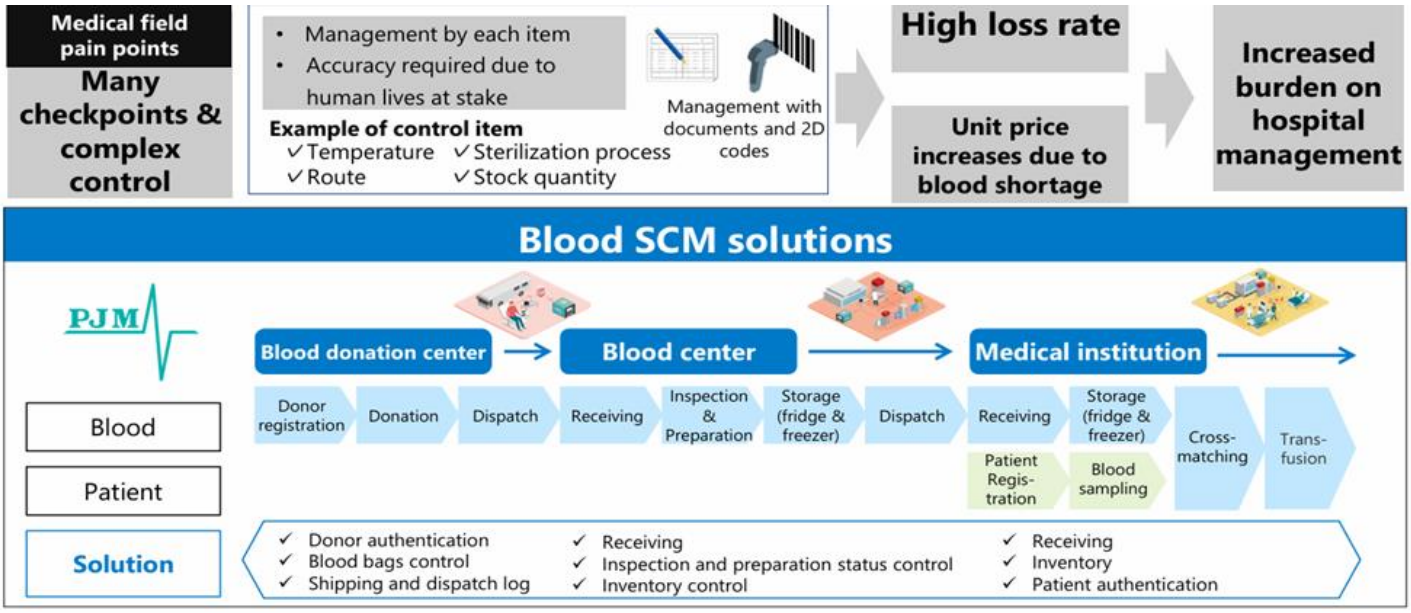
The company plans to actively shift development resources to target themes in new fields, selecting them based on two axis: growth and profitability. The selected themes include blood SCM (Supply Chain Management), AI solutions, reverse logistics and logistics digital transformation. Below we will explain the solutions the company envisions for blood SCM and reverse logistics.

Example 1: Blood SCM Solution

Medical facilities have a big problem with blood management from blood donation through to transfusion. The company's blood SCM solution solves this problem. Donor authentication when blood is collected at the blood donation center, shipping, transportation and arrival history information when it is transported to the blood center, test preparation status management, temperature control; and inventory management information at the blood center, shipping, transportation and arrival history information when it is transported to the medical institution; and inventory management information at the medical institution are all required. Meanwhile, when actually transfusing blood, after obtaining patient authentication information, a crossmatch test is performed between the blood for transfusion and the blood collected from the patient and if there are no problems, the transfusion is carried out. At this time, the blood donation center, blood center and medical institution that make up the SCM manage information in their own way, using manpower or barcode labels.

The current situation is that medical professionals need a lot of time to carry out these processes that involve human lives without making mistakes. The labor shortage is increasing the burden on medical professionals and solving these problems is an urgent issue. The company's fully automated tagging solution will enable accurate information linking in the supply chain, accurate and highly efficient shipping, receiving, shipping and traceability and real-time inventory visualization across industries, helping to alleviate blood shortages and reduce the burden on medical workers. The company's sales targets are ¥1 billion for FY3/2027 and ¥10 billion for FY3/2031.

Figure 52. Blood SCM Solution



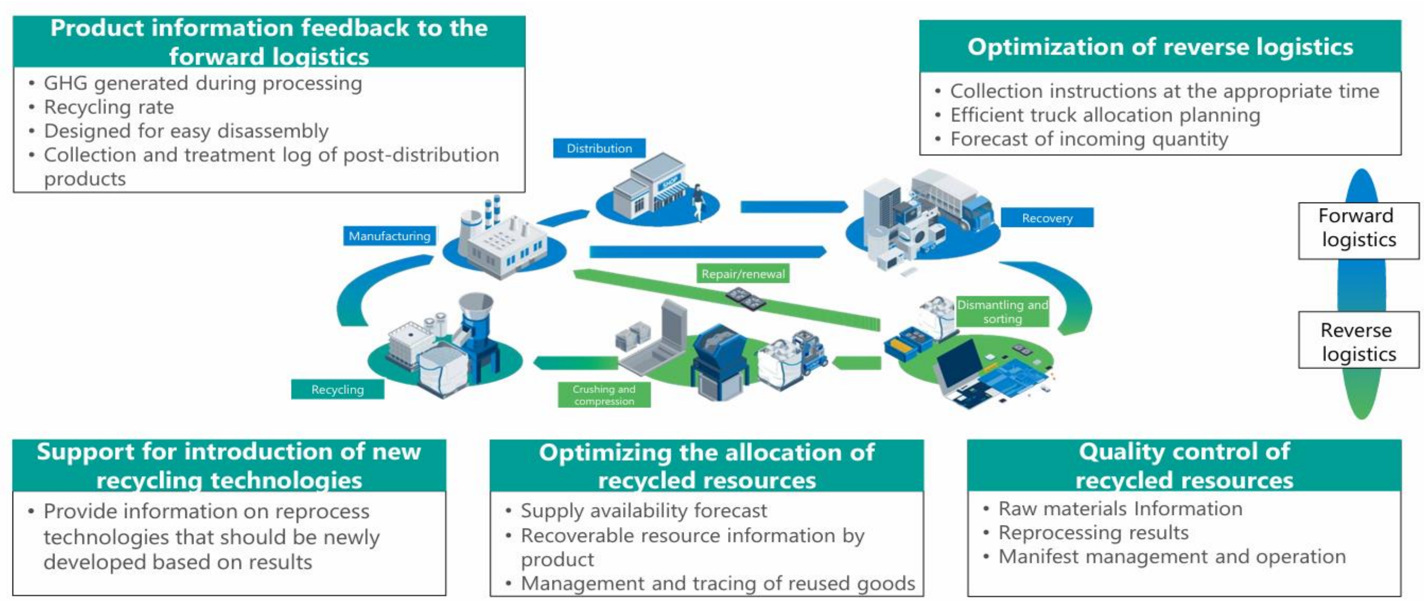
Source: Company Data

Example 2: Solutions for Reverse Logistics

From the perspective of achieving carbon neutrality and preventing environmental destruction, the need to transition to a recycling-oriented society is being discussed on a global scale. This requires promoting recycling and securing and supplying recycled materials of the required quality. The company's solutions for "reverse flow" solve this problem. For various products (things), such as electrical appliances, the raw materials are first procured, the products are manufactured (assembled) at a factory and then shipped through a logistics network. If this series of flows is called "arterial logistics", then the series of recycling flows in which products that have been discarded after use are collected and transported and are regenerated, sorted, and separated at a factory before being reborn as recycled materials is called "reverse logistics".

In "reverse logistics," tagging solutions enable identification of collected materials at the collection site, inbound and outbound operations at the recycling factory, container management, location management of work-in-progress and traceability of the entire supply chain, making it possible to visualize target materials in chronological order. In addition, if a traceability system for "reverse logistics" is established, demand for a traceability system that is conscious of recycling will also emerge in the original "arterial logistics". If SATO could provide a fully automated tagging solution across industries that contributes to the realization of such a circular society, it would be able to create significant new business opportunities for the company. The company is also collaborating with EnviPro Holdings (5698 TSE Prime) on LIB (lithium-ion battery) recycling (see October/December 2024 release) and with Nakadai Holdings (unlisted) on the digitalization of waste recycling processes (see November 2024 release).

Figure 53. Solutions for Reverse Logistics



Source: Company Data

6) Strengthening the Management Base

3 Measures Aimed at Sustainable Corporate Growth

In April 2025, the holding company will be dissolved and become SATO Corporation, simplifying the management structure. With sustainable corporate growth in mind, the company will implement the following three measures: (1) Strengthening business management, (2) Improving capital efficiency and (3) Promoting sustainability management. (2) has already been described in Chapter 7, "Financial Strategy," so it will be omitted here. (3) will be left to Chapter 11, "Promoting Sustainability Management." Here, we will only explain (1).

(1) Strengthening Business Management

First, the sales department will implement profit-oriented performance evaluation. With this new management method, salespeople will be evaluated from a sales-oriented perspective to a gross profit-oriented perspective, which will encourage them to take orders with an awareness of appropriate pricing. Secondly, in order to expand overseas business, governance will be strengthened to provide a foundation for the autonomous growth of overseas subsidiaries. Specifically, personnel in charge of business management will be assigned and authority will be transferred and market share will be expanded by switching to a "service-selling" or solution-based business.

Figure 54. List of Achievements (Russia excluded)

	FY3/22	FY3/23	FY3/24
Company-Wide			
Sales	124,783	142,824	143,446
Operating Profit	6,404	8,841	10,383
Operating Profit Margin	5.1%	6.2%	7.2%
All Companies Except Russia			
Sales	115,082	125,157	127,448
Operating Profit	5,353	5,298	6,616
Operating Profit Margin	4.7%	4.2%	5.2%
Russia			
Sales	9,701	17,667	15,998
Operating Profit	1,051	3,543	3,767
Operating Profit Margin	10.8%	20.1%	23.5%

Source: Company Data. Compiled by Strategy Advisors

9. Valuation and Stock Price Outlook

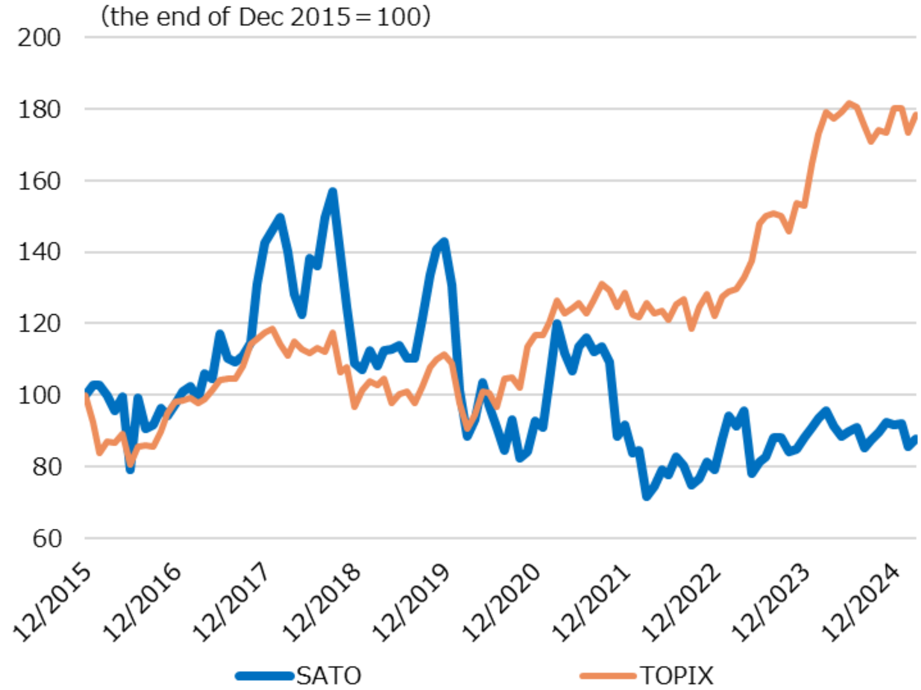
The Stock Price is Currently around ¥2,200

The company's operating profits plummeted to ¥700 million in FY3/2009 after the 2008 financial crisis, but then rebounded and recorded six consecutive years of profit growth, rising to ¥7.4 billion in FY3/2015, the highest profit at the time. The stock price has been rising since around 2012, reaching a post-2008 financial crisis high of ¥3,550 in June 2015. Meanwhile, the company's performance was stagnant in the ¥6 to ¥7 billion range for the seven years until FY3/2022. The stock price was on a downward trend for a while, but it rose again from around October 2016 due to expectations for Industry 4.0, reaching a historical high of ¥3,855 in September 2018. Since then, the stock price has fallen and risen repeatedly, in a reduced range and is currently fluctuating around ¥2,100. In the past two years, the stock price has generally moved within the range, although there was a temporary rise in the stock price due to favorable reactions to the contents of the medium-term plan announced in March 2024. Although the company's performance continued to grow in FY3/2023 and FY3/2024, this has not been reflected in a full-scale rise in its stock price due to concerns about the sustainability of the strong performance of its primary labels business, which is the driving force behind the company's performance.

Stock Prices have Underperformed TOPIX Since the COVID-19 Outbreak

The trend in SATO's stock price is shown below along with the TOPIX. The company's customers are widely distributed across a variety of industries, so its main domestic business is highly correlated with the movement of the Japanese economy as a whole. Therefore, it is natural to think that the company's stock price is generally correlated with the TOPIX. In fact, it can be seen that the stock price was generally correlated with the TOPIX in the 5-years prior to the COVID-19 pandemic. However, since the COVID-19 pandemic, disruptions to global logistics, restrictions on people's activities, and increased geopolitical risks have had a major impact on the company's tagging business and the company's stock price has significantly underperformed TOPIX, with the correlation now being broken.

Figure 55. Trends in SATO Stock Price and TOPIX

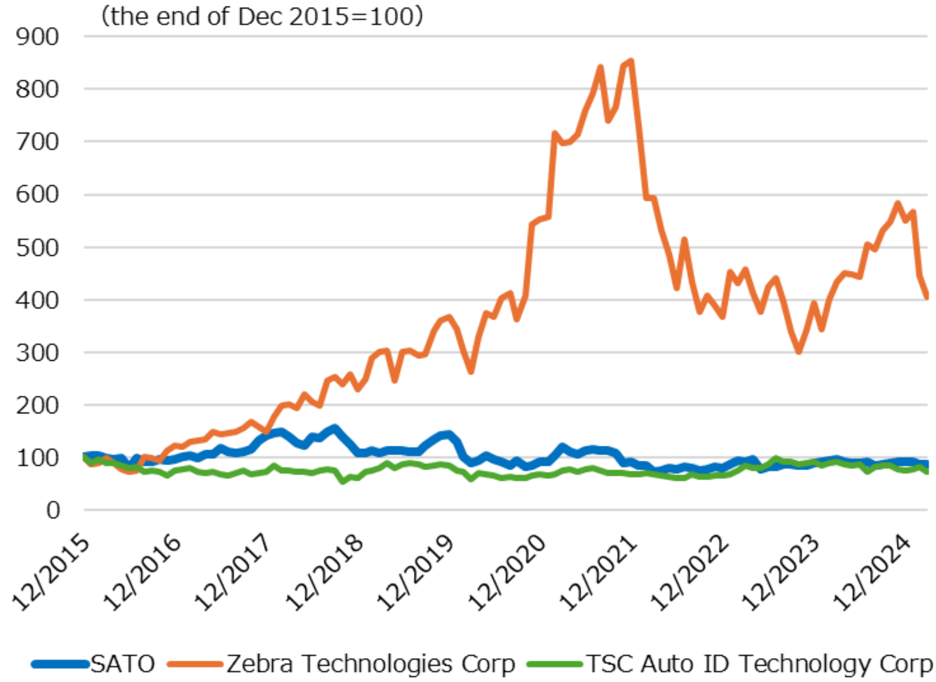


Source: Company Data. Compiled by Strategy Advisors

Comparison of Label Printer Companies & Consumables

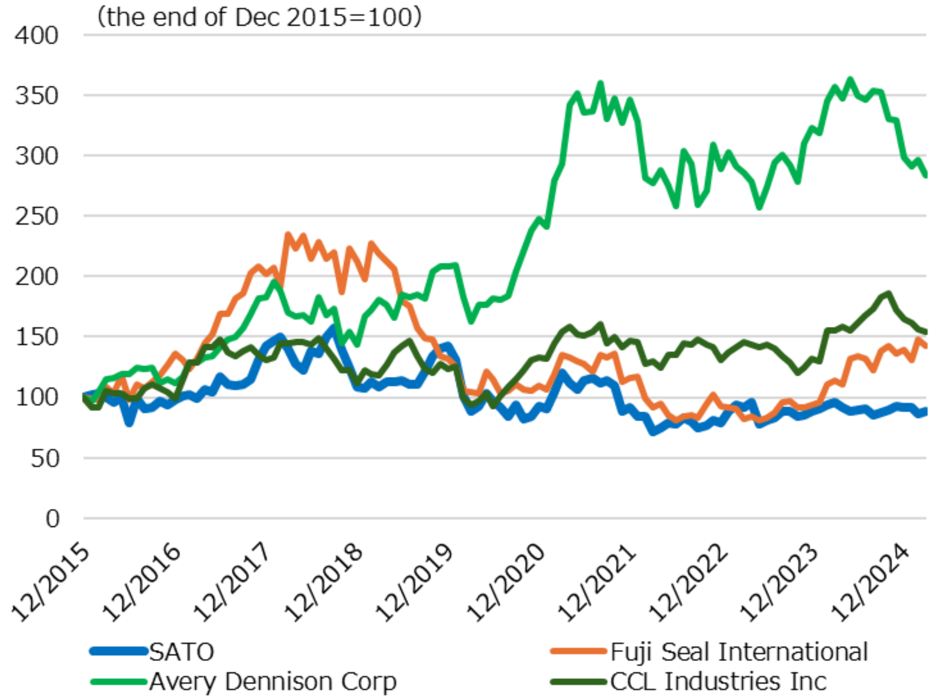
We will compare the stock price trends of SATO with label printer companies. Its leading competitor, Zebra Technologies, has significantly expanded its business overseas, a market that is centered on "selling things" and is showing overwhelming performance. On the other hand, SATO, which was one of the first to shift to "selling experiences" in Japan and has already captured a 40% market share, has fallen behind significantly due to slowing growth in Japan and its inability to fully demonstrate its characteristics due to its focus on "selling things" overseas. We will also compare SATO's stock price with consumables companies. Here too, its performance is inferior to that of its competitors, Fuji Seal, Avery Dennison and CCL Industries. To summarize the past 10 years, we can say that with stagnant domestic demand, SATO has not been able to fully expand its "selling experiences," i.e., solutions business, overseas and conversely, the heavy SG&A expenses incurred by promoting "selling experiences" have contributed negatively to its performance.

Figure 56. SATO and Label Printer Companies Stock Price Comparison



Source: Company Data. Compiled by Strategy Advisors

Figure 57. SATO and Consumables Companies (Seals) Stock Price Comparison



Source: Company Data. Compiled by Strategy Advisors

Trends in PER/PBR

The company's PER has remained in the range of 15 to 25 times since 2015, except for FY3/2020, when it posted a loss due to extraordinary losses from the impairment of the IPD business transfer and also in FY3/2021, when it posted extraordinary profits from the transfer of the former headquarters and saw its profits rise. In 2018, when expectations for Industry 4.0 were high, it even exceeded 30 times. However, it has gradually fallen since the COVID-19 pandemic and is currently around 10 times. However, if we exclude the Russian subsidiary, which has grown significantly in the last two years, it can be said that it has continued to fluctuate in the range of 15 to 20 times. In addition, ROE has gradually declined from 7.6% in FY3/2015 to 5.2% in FY3/2024. As a result, PBR has also fallen from its previous range of 1.5 to 2.0 and is currently fluctuating around 1.0.

Profitability Comparison with Other Companies in the Same Industry

Figures 60 and 61 compare the profitability and valuation of the company with label printer manufacturers, consumables manufacturers and general printer-related companies. SATO's ROIC is roughly the same as that of its competitor Zebra, but lower than TSC Auto ID and Avery Dennison. On the other hand, it is higher than general printer-related companies such as Canon and Ricoh. However, its ROE is the lowest among its competitors and is buried at a similarly low level compared to general printer-related companies. The company uses ROIC as its KPI and although it is expected to temporarily decline to 7.9% in FY3/2027, it is aiming for over 10% in FY3/2031. At present, the investment of management resources in new areas (Perfect and Unique Tagging) and the reactionary decline in the Russian subsidiary are headwinds for ROIC, but improving profitability in the medium to long-term is likely to be the company's biggest challenge.

Valuation Comparison with Other Companies in the Industry

In terms of stock valuation, Zebra Technologies, the largest company in the industry, has a PER of 18.5 times and a PBR of 4.1 times, while Avery Dennison, the largest consumables company, has a PER of 17.5 times and a PBR of 6.2 times, making these two companies by far the highest in both PER and PBR. Even when comparing based on excluding these two companies, SATO's PER is slightly lower than its competitors TSC Auto ID and Fuji Seal, and remains the lowest compared to general printer-related companies. In addition, SATO's PBR is 1.0 times, which is included in the group of companies with PBRs around 1.0 times (Fuji Seal, Ricoh, Seiko Epson: 6724 TSE Prime, Brother: 6448 TSE Prime) excluding TSC Auto ID's 1.7 times and Canon's 1.3 times. We will be paying attention to the improvement of ROIC (and ROE) in order to see how Sato can escape from the low valuation state.

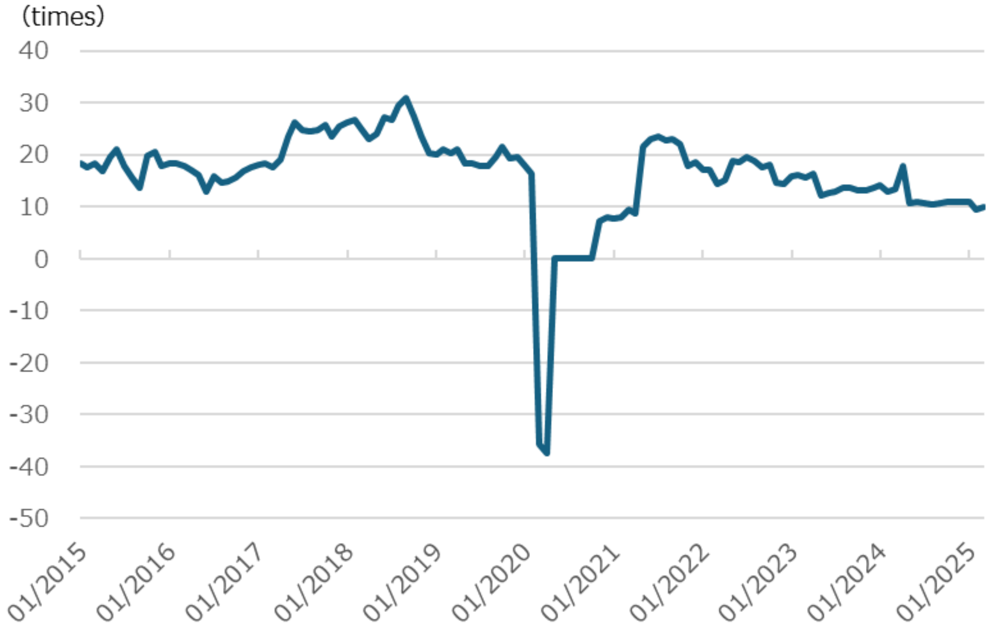
Future Stock Price Direction

We believe that the stock price is likely to rise in the future. The background to this is that the distribution inventory of mechatronics and consumables that had accumulated in the latter stages of the COVID-19 pandemic has returned to normal and the company's sales have entered a phase of steady growth in line with increased customer demand. In addition, in the domestic business, price adjustments in response to increased costs have begun to contribute and gross profit margins have begun to improve; and in the overseas business, even if the short-term contribution to performance from the primary labels business handled by the Russian subsidiary fades away, the development of solutions in the core business that will compensate for this are progressing smoothly. The results of the Q3 FY3/2025 announced on February 12 were also good and considering the occurrence of a temporary loss in Q4, the full-year plan can be seen as a substantial upward revision. With business performance now on an upward trend, we can expect the stock price to rise as EPS increases in the future.

Conditions for Improved Valuation

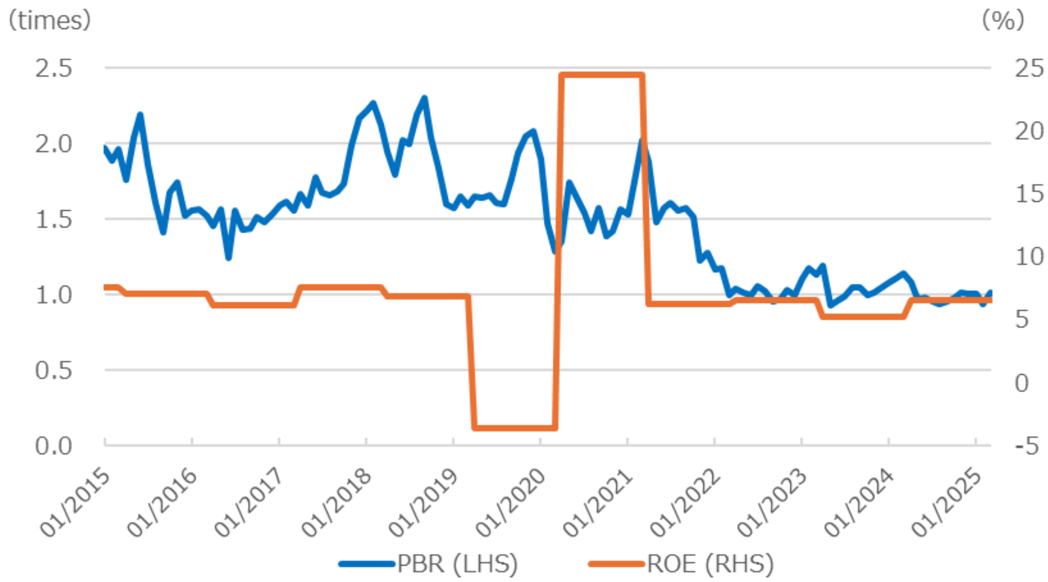
In the medium term, it is important to expand market share, especially overseas, by developing high-value-added solutions in the core overseas business and developing new global fields (Perfect and Unique Tagging) and also to achieve a sales growth rate above the industry average. To improve the operating profit margin, it is necessary to reduce production costs by standardizing the product lineup and to improve gross profit margins by continuing to set appropriate prices. In addition, it is necessary to curb the expansion of research and development expenses by actively horizontally deploying the developed standard tagging solutions (especially software) and to operate in a way that lowers the selling and administrative expenses ratio. As mentioned above, if the efforts to achieve high sales growth and increase the operating profit margin progress and expectations for improved ROIC (and ROE) are fostered, this will lead to further increases in the stock price through an improved valuation.

Figure 58. SATO's PER Trend



Source: Strategy Advisors

Figure 59. Trends in SATO's ROE and PBR



Source: Strategy Advisors

Figure 60. Profitability Comparison with Other Companies in the Same Industry

Company name	Code	FY	Currency	Sales (¥million)	OP (¥million)	OPM (%)	ROE (%)	ROIC (%)	Equity Ratio (%)
SATO	**6287**	**3/24**	**JPY**	**143,446**	**10,383**	**7.2**	**5.2**	**8.5**	**55.9**
Zebra technologies	ZBRA	12/24	USD	755,578	116,044	15.4	15.9	9.3	45.0
TSC Auto ID technology	3611.TW	3/24	NTD	37,698	5,401	14.3	18.2	14.7	61.0
Fuji Seal International	7864	3/24	JPY	196,624	13,309	6.8	8.1	7.2	68.6
Avery Dennison	AVY	12/24	USD	1,328,170	169,197	12.7	31.7	15.2	27.6
Ricoh	7752	3/24	JPY	2,348,987	62,023	2.6	4.5	2.7	46.6
Canon	7751	12/24	JPY	4,509,821	279,754	6.2	4.8	3.8	63.2
Seiko Epson	6724	3/24	JPY	1,313,998	57,533	4.4	6.8	4.0	57.4
Brother Industries	6448	3/24	JPY	822,930	49,792	6.1	5.0	4.2	74.6
Konica Minolta	4902	3/24	JPY	1,159,999	26,091	2.2	0.9	1.6	39.9

Note: ROE (company forecast) is calculated by multiplying the company's forecast net income for the current period by the equity capital at the end of the most recent quarterly fiscal period.

Source: Compiled by Strategy Advisors. Based on Company Data

Figure 61. Valuation Comparison with Other Companies in the Same Industry

Company name	コード	FY	Currency	Stock Price (3/31)	Market Cap. (¥million)	PER CoE (times)	PBR lastest Actual (times)	EV/ EBITDA (times)	Dividend Yield CoE (%)	ROE lastest Actual (%)
SATO	**6287**	**3/24**	**JPY**	**2,110**	**68,498**	**9.8**	**1.0**	**4.4**	**3.5**	**5.2**
Zebra technologies	ZBRA	12/24	USD	282.56	2,181,869	18.5	4.1	26.5	0.0	15.9
TSC Auto ID technology	3611.TW	3/24	NTD	190.50	40,594	10.0	1.7	9.0	6.8	18.2
Fuji Seal International	7864	3/24	JPY	2,614	141,986	12.2	1.1	5.9	2.5	8.1
Avery Dennison	AVY	12/24	USD	177.97	2,143,744	17.5	6.2	12.9	1.9	31.7
Ricoh	7752	3/24	JPY	1,577	897,867	20.7	0.9	7.3	2.4	4.5
Canon	7751	12/24	JPY	4,645	4,384,842	11.9	1.3	10.0	3.4	4.8
Seiko Epson	6724	3/24	JPY	2,387	772,028	14.8	1.0	5.4	3.1	6.8
Brother Industries	6448	3/24	JPY	2,694	688,733	12.1	1.0	5.7	3.7	5.0
Konica Minolta	4902	3/24	JPY	503	248,943	NA	0.5	6.8	0.0	0.9

Source: Compiled by Strategy Advisors. Based on Company Data

10. Risk Factors

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

Short-Term Risks (External Factors)

Short-term risks include those caused by external factors. First, as a likely risk, fluctuations in market share in overseas primary printers, particularly a decline in market share due to a worsening competitive environment at the currently successful Russian subsidiary, are expected. Next, as a general risk, fluctuations in the ups and downs of the various industries to which customers belong (manufacturing, logistics, retail, medical/healthcare, food, public, etc.), both domestic and overseas, will have a significant impact on business performance. Other risks include a decline in market share due to intensifying competition within each customer and a drop in prices due to the commoditization of label printers. Exchange rate fluctuations, rising labor costs and inventory fluctuations in the supply chain are also risk factors.

Short-Term Risks (Internal Factors)

The company's internal risks include delays in the timing of price adjustments to deal with rising costs. General risks include delays in the timing of new product launches, quality issues and declines in yield and productivity at production sites. Currently, the company is working to strengthen its management base as part of its mid-term plan and it believes that if measures to address these risks are implemented, the risks can be minimized.

Mid to Long-Term Risks (External Factors)

Next, in terms of mid to long-term risks, external factors include the emergence of alternative technologies to barcode labels and RFID, which form the basis of the tagging business. However, there are no signs of the emergence of new, inexpensive, easy-to-use technologies for attaching ID information to people and objects, so the risk at this stage is low. In addition, it is possible that competitors will enter the business model of supplying mechatronics (including software) and consumables together, taking advantage of SATO's strength in proposing tagging solutions. At present, no such movement has been seen, so it is not a major risk, but we believe it is necessary to keep a close eye on this.

Mid to Long-Term Risks (Internal Factors)

Internal factors include sluggish progress in improving gross profit margins in Japan, in developing high-value-added solutions overseas and in developing "new fields" globally. In particular, for overseas businesses, it is necessary to effectively implement measures to strengthen the management base and for subsidiaries to proactively contribute to expanding market share. If this does not go well, it is possible that the improvement of ROIC (and ROE) will be delayed.

11. Promoting Sustainability Management

1) Corporate Governance System (as of the End of FY3/2024)

Organizational Structure

SATO Holdings is organized as a company with an audit and supervisory board. The board of directors is made up of eight members (one of whom is female), including two directors who also serve as executive officers, one internal non-executive director, and five outside directors (one of whom is female), with outside directors making up the majority. The board of auditors is made up of three members (one of whom is female), including one full-time auditor, and two independent outside auditors (one of whom is female). In April 2021, the company established a nomination committee and a compensation committee as advisory bodies to the board of directors.

Board of Directors

The ratio of outside directors on the board of directors is 62.5%. According to Principle 4-8 of the Corporate Governance Code, companies listed on the Prime Market are required to appoint at least one-third of independent outside directors and so the company meets this standard. The five outside directors are a former consultant with experience in corporate management, a lawyer, someone with experience in marketing and product planning, someone with management experience in the electronics industry and someone with management experience in the healthcare industry.

Figure 62. Management Structure and Skills

	Representative Director	Board of director (internal)		Board of director (External)				
	President and Group CEO	Vice President			Chair of the Board	Chair of the nomination & Remuneration Advisory		
	Hiroyuki Konuma	**Yoshinori Sasahara**	**Tatsuo Narumi**	**Ryoji Ito**	**Hideo Yamada**	**Sadayoshi Fujishige**	**Yoshiko Nonogaki**	**Hiroshi Nagumo**
Business/ organizational management	○	○	○	○	○	○	○	○
Industry knowledge (sales/technology)	○	○						
International business	○			○		○	○	○
Finance and accounting				○		○		
Legal and compliance			○		○			
Human resource and labor relations			○		○	○	○	
Governance and sustainability	○	○	○	○	○	○	○	○
Risk management	○	○	○	○	○	○	○	○
Diversity	○		○	○	○	○	○	○

Note: Titles omitted

Source: Company Data

2) Sustainability Policy

Basic Policy

The company's mission is to "create new value for customers with excellent products and services and contribute to the development of a richer and more sustainable global society". The company has established its basic sustainability policy of "creating value", "consequences of the core business", "emphasis on reproducibility", "connection with the field" and "enhancing disclosure", aiming to contribute to society through its core business of tagging.

Establishment of the Sustainability Promotion Committee

At SATO Group, sustainability encompasses all initiatives such as CSR, ESG, and SDG’s. To this end, the company has identified materiality (important issues) and established a sustainability promotion committee. Materiality consists of three categories: "Providing value to customers", which is closely related to the tagging-based auto-identification solutions business; "Value creation foundation", which supports sustainable value creation through internal and external initiatives such as human resource development and supply chain management and lastly, "Global environment," which harmonizes the environment and business. Furthermore, "Corporate governance/risk management" serves as the foundation that supports this. The materiality is listed below.

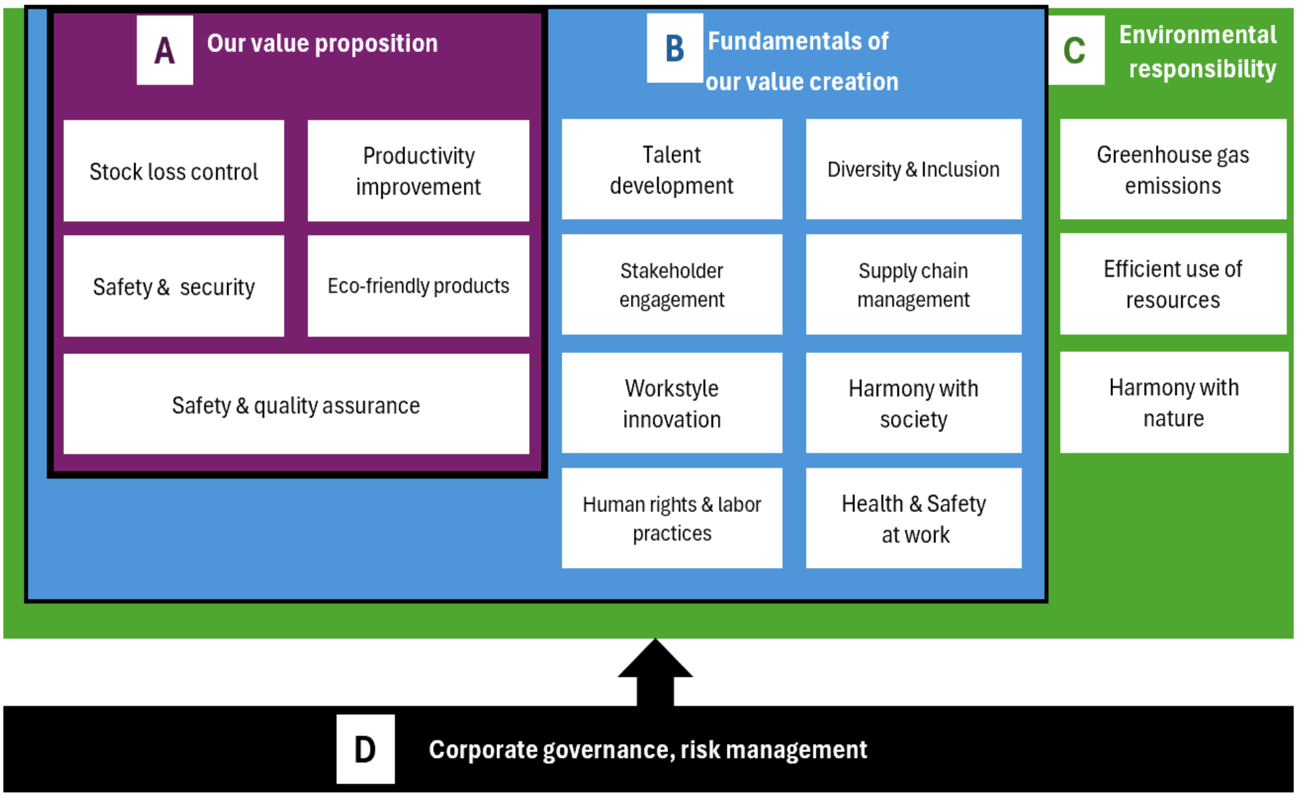
Materiality

(A) Providing value to customers: Reducing waste, improving productivity, providing safe and secure, environmentally friendly products, ensuring the safety and quality of products and services

(B) Value Creation Foundation: Human resource development, diversity and inclusion, dialogue with stakeholders, supply chain management, work style reform, harmony with society, respect for human rights and labor practices, occupational health and safety

(C) Global environment: atmospheric emissions, efficient use of resources, and coexistence with nature

Figure 63. SATO's Materiality Composition and Overall Picture



Note: RBA=Responsible Business Alliance

Source: Company Data

3) Value Creation Foundation

Human Capital Management

SATO Group believes that fostering an "organizational culture that creates innovation" is essential to creating customer value. Employees practice a daily cycle of "creativity and ingenuity" and "being happy with small changes," which leads to improved on-site capabilities. Innovation is promoted by such independent (self-reliant) human resources and by being conscious of and challenging the ideal organizational image. They are currently investing in human capital with the goal of continuing to establish it as a part of the company's culture. Specifically, the Human Resources Development Committee, established directly under the Nomination and Remuneration Advisory Committee, develops core human resources, ensures diversity and formulates and decides on various human resources management measures, then puts them into action.

Intellectual Property

The intellectual property created while solving the on-site problems of customers will be a source of competitiveness from now on and into the future and is positioned as an important management resource. An intellectual property department has been established directly under the Group CEO to work on the creation of intellectual property. In addition, the company has begun providing and utilizing IP landscapes in the process of creating innovation and is working on formulating strategies for creating intellectual property that supports competitive advantage and enhancing its intellectual property portfolio both in Japan and overseas.

4) Global Environment

GHG Emissions Reduction Targets

The company considers preventing global warming by reducing GHG emissions to be essential to realizing a sustainable society. The company group has set a global mid to long-term goal of "GHG emissions target for FY3/2031: 50% reduction compared to FY3/2017" and plans to promote GHG emission reduction through the use of renewable energy and energy conservation. Furthermore, regarding water risks linked to climate change, the company plans to strengthen appropriate water resource management and disclose information in a transparent manner so that these efforts can be evaluated externally.

Figure 64. GHG Emissions Performance and Targets

(Unit: t-CO2)

Area	Key indicators	FY3/17 results	FY3/22 results	FY3/23 results	FY3/24 results	FY3/31 targets
Groupwide	Scope1、2	11,931	10,252	8,709	12,188	5,965
	Relative to FY3/17	–	-14.1%	-27.0%	2.2%	-50.0%
Japan	Scope3	299,300	332,652	314,271	318,269	232,856
	Relative to FY3/22	–	–	-5.5%	-4.3%	-30.0%

Source: Company Data

Figure 65. Income Statement (¥ mn)

FY	3/17	3/18	3/19	3/20	3/21	3/22	3/23	3/24	3/25 CoE
Sales	106,302	113,383	116,179	116,372	109,052	124,783	142,824	143,446	155,000
Cost of Sales	61,280	64,728	65,503	66,193	63,317	74,385	86,140	84,329	
Gross Profit	45,022	48,655	50,676	50,179	45,735	50,398	56,684	59,117	
Gross Profit Margin	42.4%	42.9%	43.6%	43.1%	41.9%	40.4%	39.7%	41.2%	
SG&A	38,917	42,405	42,997	42,718	39,888	43,994	47,843	48,733	
Operating Profit	6,104	6,249	7,679	7,461	5,847	6,404	8,841	10,383	11,400
Operating Profit Margin	5.7%	5.5%	6.6%	6.4%	5.4%	5.1%	6.2%	7.2%	7.4%
Non-Operating Income	516	455	569	324	393	404	610	804	
Non-Operating Expenses	1,194	816	629	1,213	719	751	384	2,226	
Ordinary Profit	5,426	5,888	7,618	6,571	5,521	6,057	9,068	8,961	10,400
Ordinary Profit Margin	5.1%	5.2%	6.6%	5.6%	5.1%	4.9%	6.3%	6.2%	6.7%
Extraordinary Profit	613	2,835	11	824	10,454	49	37	42	
Extraordinary Loss	605	2,229	1,057	6,760	1,519	143	1,958	3,341	
Profit Before Tax	5,434	6,494	6,573	636	14,457	5,963	7,147	5,662	
Corporate Tax, Resident Tax, Business Tax	2,468	2,544	2,971	2,076	1,403	1,958	2,760	2,246	
Corporate Tax Adjustments	-298	19	-182	536	-10	47	-570	-784	
Total Corporate Tax, etc.	2,170	2,563	2,789	2,612	1,393	2,005	2,190	1,462	
(Corporate Tax Rate)	39.9%	39.5%	42.4%	410.7%	9.6%	33.6%	30.6%	25.8%	
Net Income Attributable to Owners of Parent	3,221	4,074	3,773	-1,882	12,959	3,794	4,184	3,565	7,000
Net Profit Margin	3.0%	3.6%	3.2%	-1.6%	11.9%	3.0%	2.9%	2.5%	4.5%
EPS (¥)	96.07	121.54	112.46	-56.06	385.86	112.74	126.66	110.02	215.75

Source: Company Data. Compiled by Strategy Advisors

Figure 66. Balance Sheet (¥ mn)

FY	3/17	3/18	3/19	3/20	3/21	3/22	3/23	3/24
Current Assets	55,571	57,161	59,367	66,195	74,641	81,950	81,137	86,268
Cash and Deposits	17,375	16,461	16,837	23,796	33,037	29,854	21,923	25,078
Accounts Receivable	23,215	24,737	25,522	23,766	24,878	26,688	27,113	28,617
Accounts Receivable and Unearned Revenue	1,577	1,780	1,834	3,759	1,784	2,177	1,763	1,994
Inventory	10,990	11,365	13,453	13,053	13,072	20,418	26,854	27,135
Others	2,414	2,818	1,721	1,821	1,870	2,813	3,484	3,444
Allowance For Doubtful Accounts	-168	-208	-153	-185	-236	-234	-230	-451
Fixed Assets	48,709	49,286	48,206	36,952	34,671	38,054	41,721	46,188
Tangible Fixed Assets	27,351	31,398	30,720	28,936	27,306	30,390	32,331	36,406
Intangible Fixed Assets	16,607	14,436	11,933	3,688	3,356	3,256	4,372	3,841
Investments And Other Assets	4,750	3,450	5,552	4,326	4,007	4,407	5,017	5,941
Investment Securities	1,379	1,498	1,607	1,188	1,192	1,479	928	1,122
Deferred Tax Assets	2,039	1,782	1,865	1,311	1,011	1,087	2,132	2,919
Others	1,332	170	2,080	1,827	1,804	1,841	1,957	1,900
Total Assets	104,280	106,447	107,574	103,147	109,312	120,005	122,858	132,457
Current Liabilities	34,446	34,064	36,904	41,492	36,988	42,071	44,963	43,064
Trade Payables	19,370	18,311	18,954	18,095	17,740	20,644	19,360	19,402
Accounts Payable and Accrued Expenses	1,876	3,038	2,835	2,566	3,080	4,705	4,212	4,399
Interest-Bearing Debt	5,024	4,049	4,966	8,549	4,792	4,720	7,722	5,085
Advance Payment	0	0	0	0	0	6,820	7,322	7,518
Deferred Tax Liabilities	0	0	0	0	5,536	0	0	0
Others	8,176	8,666	10,149	12,282	5,840	5,182	6,347	6,660
Fixed Liabilities	15,616	16,157	14,000	12,832	12,862	13,426	10,200	15,307
Interest-Bearing Debt	11,832	12,671	10,917	9,798	10,555	11,011	7,795	12,562
Retirement Benefits/Salary Reserves	2,345	2,181	1,843	1,800	1,193	1,227	1,002	1,065
Others	1,439	1,305	1,240	1,234	1,114	1,188	1,403	1,680
Net Worth	54,217	56,225	56,668	48,823	59,462	64,508	67,694	74,085
Shareholders' Equity	52,747	54,664	56,245	51,999	62,646	64,144	63,451	63,149
Capital And Surplus	16,243	16,180	16,205	16,206	16,208	16,233	16,232	16,231
Retained Earnings	39,162	41,145	42,624	38,345	48,974	50,256	52,061	51,718
Treasury Stock	-2,659	-2,662	-2,584	-2,552	-2,537	-2,345	-4,842	-4,801
Accumulated Other Comprehensive Income	209	140	-870	-4,206	-4,372	-1,008	2,001	8,127
Stock Acquisition Rights	99	99	57	39	28	28	28	19
Non-Controlling Interests	1,160	1,320	1,235	990	1,159	1,343	2,213	2,789
Total Assets	104,280	106,447	107,574	103,147	109,312	120,005	122,858	132,457
Interest-Bearing Debt	17,002	16,792	15,957	18,423	15,425	15,814	15,599	17,732
Capital Adequacy Ratio	50.9%	51.6%	51.5%	46.4%	53.3%	52.6%	53.3%	53.8%
D/E Ratio	0.32	0.31	0.29	0.39	0.26	0.25	0.24	0.25

Source: Company Data. Compiled by Strategy Advisors

Figure 67. Cash Flow Chart (¥ mn)

FY	3/17	3/18	3/19	3/20	3/21	3/22	3/23	3/24
Cash Flows from Operating Activities								
Profit Before Tax	5,434	6,494	6,573	636	14,457	5,963	7,147	5,662
Depreciation	3,996	4,307	4,489	5,043	4,092	4,220	4,855	4,926
Amortization Of Goodwill	1,195	1,258	1,081	871	223	236	264	146
Impairment Loss	557	656	1,024	6,397	448	11	0	2,168
Profit/Loss On Sale of Fixed Assets	-6	-2,664	-11	-711	-10,414	-30	-4	-32
Increase/Decrease in Accounts Receivable	-570	-1,766	-1,093	1,006	-598	-1,633	35	-953
Increase/Decrease in Accounts Payable	12,531	-1,063	713	-139	-867	2,557	-1,827	-816
Increase Or Decrease in Inventory	-467	-576	-2,254	-291	183	-6,288	-5,907	1,297
Increase Or Decrease in Accounts Payable	-11,168	949	-188	-96	221	580	378	106
Receipt Of Interest and Dividends	148	160	143	121	93	140	301	613
Interest Payment	-129	-141	-140	-187	-220	-217	-252	-340
Corporate Tax Paid	-1,409	-2,985	-1,391	-2,469	-1,510	-1,505	-2,230	-2,766
Others	657	1,555	419	1,078	-302	-732	2,430	2,552
Total	10,769	6,184	9,365	11,259	5,806	3,302	5,190	12,563
Cash Flows from Investing Activities								
Income And Expenditures from Acquisition and Sale of Tangible Fixed Assets	-3,911	-6,064	-3,672	-2,858	-3,516	-2,550	-5,247	-5,657
Income And Expenditures from Acquisition and Sale of Intangible Fixed Assets	-849	2,604	-545	411	13,564	-1,053	-1,903	-2,018
Income And Expenditure from Fixed Term Deposits	1,164	191	33	0	-10,000	-201	9,562	282
Income And Expenditures from Acquisition and Sale of Subsidiary Shares	-5,308	0	0	0	-169	0	0	-617
Others	188	-235	-1,028	-2	19	66	-122	76
Total	-8,716	-3,504	-5,212	-2,449	-102	-3,738	2,290	-7,934
Cash Flows from Financing Activities								
Net Increase/Decrease in Short-Term Borrowings	-4,443	-1,353	-101	2,683	-3,522	-262	-295	-3,154
Net Increase/Decrease in Long-Term Borrowings	5,754	400	-386	-977	-27	-15	-21	4,924
Expenditures From Sales of Treasury Stock	500	0	0	0	0	0	0	0
Repayment Of Lease Obligations	-697	-628	-752	-621	-1,251	-1,345	-1,116	-1,214
Dividend Payment	-1,950	-2,089	-2,293	-2,393	-2,329	-2,362	-2,376	-2,337
Expenditures For Acquisition of Treasury Stock	0	0	0	0	0	0	-2,500	0
Others	-507	212	-2	-3	-2	-3	-1	30
Total	-1,343	-3,458	-3,534	-1,311	-7,131	-3,987	-6,309	-1,751
Exchange Differences on Cash	-164	47	-214	-626	629	983	438	473
Cash Increase/Decrease	545	-731	404	6,871	-798	-3,439	1,610	3,350
Cash Beginning Balance	16,212	16,757	16,026	16,430	23,379	22,580	19,140	20,751
Ending Cash Balance	16,757	16,026	16,430	23,379	22,580	19,140	20,751	24,102

Source: Company Data. Compiled by Strategy Advisors

Figure 68. Key Indicators

FY	3/17	3/18	3/19	3/20	3/21	3/22	3/23	3/24
EPS (¥)	96.07	121.54	112.46	-56.06	385.86	112.74	126.66	110.02
BPS (¥)	1,579.53	1,634.69	1,649.86	1,423.30	1,735.04	1,874.97	2,020.83	2,199.41
DPS (¥)	60.0	65.0	70.0	70.0	70.0	70.0	72.0	73.0
Dividend Payout Ratio	62.5%	53.5%	62.2%	-124.9%	18.1%	62.1%	56.8%	66.4%
Number of Shares Issued ('000)	34,921	34,921	34,921	34,921	34,921	34,921	34,921	34,921
Treasury Stock ('000)	1,394	1,395	1,358	1,342	1,334	1,248	2,532	2,514
Number of Shares of Treasury Stock Excluded ('000)	33,527	33,526	33,564	33,579	33,587	33,673	32,389	32,407
Average Number of Shares of Treasury Stock Excluded ('000)	33,527	33,527	33,558	33,571	33,587	33,654	33,035	32,403
Equity Ratio	50.9%	51.6%	51.5%	46.4%	53.3%	52.6%	53.3%	53.8%
Interest-Bearing Debt (¥ mn)	17,002	16,792	15,957	18,423	15,425	15,814	15,599	17,732
Net Interest-Bearing Debt (¥ mn)	-373	331	-880	-5,373	-17,612	-14,040	-6,324	-7,346
D/E Ratio	0.32	0.31	0.29	0.39	0.26	0.25	0.24	0.25
Net D/E Ratio	0.00	0.01	-0.02	-0.11	-0.30	-0.22	-0.10	-0.10
Operating Profit Margin	5.7%	5.5%	6.6%	6.4%	5.4%	5.1%	6.2%	7.2%
EBITDA (¥ mn)	11,295	11,814	13,249	13,375	10,162	10,860	13,960	15,455
EBITDA Margin	10.6%	10.4%	11.4%	11.5%	9.3%	8.7%	9.8%	10.8%
ROE	6.2%	7.5%	6.8%	-3.6%	24.4%	6.2%	6.5%	5.2%
ROIC	6.2%	6.1%	7.5%	7.5%	5.8%	5.8%	7.7%	8.5%
Number Of Employees	5,012	5,076	5,307	5,429	5,451	5,656	5,637	5,744

Note: ROIC is calculated as NOPAT/(Average of invested capital during the period)

Source: Company Data. Compiled by Strategy Advisors

Disclaimer

This report is published by Strategy Advisors, Inc. (hereafter referred to as "the issuer") and was prepared with outside partners and analysts as the primary authors.

The purpose of this report is to provide an unconventional approach to the introduction and commentary of the companies covered. In principle, the publisher does not review or approve the content of the report (although we will point out obvious errors or inappropriate language to the authors).

The Publisher may receive compensation, directly or indirectly, from the Subject Company for providing planning proposals and infrastructure for the publication of this report.

The outside firms and analysts who write this report may receive compensation, directly or indirectly, from the subject company in addition to preparing this report. In addition, the outside firms and analysts who write this report may have entered into transactions in the securities of the subject company or may do so in the future.

This report is prepared solely for the purpose of providing information to assist in investment decisions and is not intended as a solicitation for securities or other transactions. Final decisions regarding securities and other transactions are the sole responsibility of the investor.

In preparing this report, the authors have received information through interviews with the subject companies. However, the hypotheses and views expressed in this report are not those of the subject companies, but rather are based on the authors' analysis and evaluation.

This report is based on information that the authors believe to be reliable, but they do not guarantee its accuracy, completeness, or timeliness. The views and forecasts expressed in this report are based on the judgment of the authors at the time of publication and are subject to change without notice.

In no event shall the publisher or authors be liable for any direct, indirect, incidental, or special damages that may be incurred by an investor as a result of reliance on the information or analysis contained in this report.

Strategy Advisors

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