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FAQs following the Announcement of Financial Results for Q1 FY 2026

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Q1 (Apr-Jun) results

1. How did each region perform compared to the plan in terms of operating income?
   - Worldwide: The results exceeded the plan, led by the Japan business.
   - Japan business: It outperformed the plan, supported by the robust sales of new printers which lead to higher sales of mechatronics products, and the strong sales of consumables products attributed to customers' front-loading orders in anticipation of worsening situations in the Middle East and ahead of price increases.
   - Overseas business: The base business underperformed relative to the plan due to upfront expenses spent on enhancing regional functions in Europe. The primary labels business performed better than the plan, as stronger-than-expected results in the Americas more than offset the shortfalls against the plan in Russia. Overall, results were largely in line with the plan.

Overseas base business

2. Americas: How did Q1 results compare to the plan?
   - Net sales: The results were in line with the plan, supported by a large-scale Bluetooth Low Energy sensor tag* project for the retail market, increased consumables sales to a major e-commerce customer, successful customer acquisitions and increased customer share at key accounts, as well as favorable exchange rates.
   - Operating income: The results were lower than the plan despite the net sales that were in line with the plan due to cost increases.

   * Low power and small-sized Bluetooth® tags with integrated sensor functions for sensing temperature, proximity, humidity and/or the like. Bluetooth word mark is a registered trademark owned by Bluetooth SIG, Inc.

3. Europe: How did Q1 results compare to the plan?
   - Net sales: The results were lower than the plan despite the strong consumables sales, reflecting weak mechatronics products sales amid economic slowdowns.
   - Operating income: The results fell short of the plan, due to lower-than-planned net sales and higher SG&A expenses that are attributed to investments made earlier than planned to enhance regional headquarters functions.

4. Asia and Oceania: How did Q1 results compare to the plan?
   - Net sales: The results were in line with the plan in most parts of the region, partly helped by favorable exchange rates.
   - Operating income: The results were in line with the plan, supported by strong performance of the sales companies and factories in Southeast Asia.

Overseas primary labels business

5. How did Q1 results compare to the plan?
   - Net sales: The results were in line with the plan. In Russia, the negative impact of lower selling prices attributed to the normalization of the competitive environment and unfavorable foreign exchange rates between certain local currencies was offset by higher sales volumes resulting from expanded production capacity and favorable exchange rates of the yen against local currencies.
   - Operating income: The results were largely in line with the plan. In Russia, lower selling prices mentioned above, and higher personnel and raw materials costs weighed on profit, while the macroeconomic environment in South America was better than expected, which helped the company deliver on the plan.

6. What is your expectation of the Russian subsidiaries' operating margins going forward?
   - We expect normalized operating margins to be in the low teens. The high operating margins of around 20% recorded in FY 2022 through 2024 were anomalies largely attributed to competitors' temporary difficulties in securing paper base materials.

7. Do you plan to continue the operation of Russian subsidiaries?
   - We are working closely with the local management and evaluating different options, assessing their financial implications and associated risks.
   - Our current policy is to continue the operations; however, we will closely monitor the situation and make changes as necessary.

Japan business

8. How did Q1 results compare to the plan?
   - Net sales: The results were higher than the plan. Mechatronics products sales increased, boosted by brisk sales of the new printer CL4/6-SXR as well as stronger-than-expected sales of previous printer models. Consumables sales also increased, partly due to forward buying by customers ahead of the planned price revisions.

- Operating income: The results were higher than the plan, driven by robust overall sales and more favorable product mix attributed to strong sales of the new printers.

9. How sustainable are the strong sales of the new printers?
   - Based on the sales trends of previous models, strong sales are likely to continue for several years.
   - There is a good chance that the elevated sales may continue beyond several years considering that the long interval from the previous model's release is likely to have made the refresh demand stronger, and that our ongoing actions to explore new applications are expected to drive sales as well.
   - The new printers have been released in phases outside Japan as well. We expect to see their full-scale contribution to earnings from the second half of the fiscal year.

10. What is your expectation of the potential pullback from the forward buying of consumables?
    - Q1 saw consumables demand significantly above normal levels, largely attributed to early purchases made in anticipation of price revisions.
    - We expect to see some pullback in orders in the second half of the fiscal year.
    - In Q2, many customers will still be in negotiations with us on price revisions; we expect to see continued forward buying by some of these customers while seeing temporary drops in orders with others.

11. What impact do you expect to see of the rising raw material costs and price revisions?
    - Raw material costs are rising, particularly for base materials and adhesives for consumables.
    - Although price revisions are being implemented, negotiations with customers for the revisions will take some time. We expect to see cost increases in Q2.
    - The full impact of the price revisions will be felt from the second half of the fiscal year when the higher prices will start offsetting the elevated costs.

FY 2026 forecasts

12. What were the factors behind the upward revision of the operating income forecasts?
    - The revision mainly reflects the outperformance of the Japan business in Q1 compared to the plan.
    - Q1 results: Sales were strong, driven by brisk sales of the new printers in mechatronics products segment and early placement of orders ahead of price revisions for consumables products, resulting in higher operating income which more than offset increases in SG&A expenses.
    - Q2 forecasts: We expect operating income to decline as cost increases exceed the benefits from the product mix improvements and the price revisions.
    - Second half, FY 2026, forecasts: No change is made to the original plan as we expect the impact from the price increases and the product mix improvements to offset the impact of pullbacks in consumables orders following the elevated levels of consumables demand in Q1.

- Hiranoya Bussan, the company that has recently become part of the SATO Group, will be consolidated from Q2 FY 2026. We are currently in the process of purchase price allocation, and because of this, only sales of Hiranoya Bussan have been reflected in the forecasts.

Medium-term management plan

13. What will be the growth drivers of the Japan business and the overseas business, respectively?
    - Japan business: In the short term, the new industrial printer CL4/6-SXR will drive growth, while in the medium to long term, smart packaging and circular economy solutions will.
    - Overseas base business: Our actions to acquire global key accounts are expected to drive sales growth, while strengthened focus on manufacturing and health care is expected to accelerate the growth of operating margins, mainly in Europe and the U.S.
    - Overseas primary labels business (Russia, etc.): Our focus on increasing the sales of high-value-added products (e.g., digital printing for anti-counterfeiting applications) is expected to drive the growth of operating margins.

14. What are the strategic reasons behind your decision to enter smart packaging business? What do you intend to achieve through Hiranoya Bussan that is now part of your group?
    - There is a growing demand for assigning information — such as unique IDs, production lot numbers and expiration dates — to products at an item level and managing it. We see this trend as a business opportunity.
    - We will combine Hiranoya Bussan's technologies related to manufacturing and printing on flexible packages with our own technologies and expertise in assigning and managing item-specific information.
    - We intend to deploy the smart packaging business not just in Japan but globally, adapting as necessary to local regulations and market trends.

15. What is your basic policy on shareholder returns and capital allocation?
    - The company adheres to the progressive dividend policy and uses Dividend on Equity (DOE: dividends divided by shareholders' equity) of 3% or higher as a guide.
    - As we have now entered the second phase of the medium-term management plan (FY 2024-2028) where we restart growth investments, we are prioritizing strategic investments with the intention to return the profit generated through the investments to shareholders.
    - We are expecting to return to shareholders around JPY 10 billion to JPY 20 billion from FY 2025 through 2028.

Other business-related topics

16. What were the sales and gross margin of the RFID business segment for Q1?
    - For Q1, the RFID business accounted for 5% of the company's consolidated net sales. The gross margin was about the same as that of the base business.

17. What are the differentiating factors of SATO's RFID in terms of technology and applications?

- In addition to allowing batch (or one-time) reading of up to 600 PJM RFID tags per second with high speed and accuracy, PJM RFID is highly effective for use in special environments (operable down to -80°C, unaffected by the presence of liquids, can be read even when tags are stacked on one another, and resistant to radiation including radiation used for medical sterilization).
- SATO holds many patents related to PJM RFID, including patents concerning reader circuits and systems comprising PJM RFID solutions.

Institutional investors' comments on SATO and its business*

- For the short term, investors expect to see strong operating income growth driven by robust sales of new printers. For the medium to long term, investors would like SATO to disclose more quantitative information on the market sizes of adjacencies it is expanding into, including smart packaging market, SATO's strengths and contribution of each of the adjacencies to the overall sales and operating income.

* The above is a generalized summary of institutional investors' comments evaluating SATO or describing the reasons behind meeting requests to the company. Please note that they do not represent views of all investors.

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Cautionary statement regarding forward-looking statements
The earnings forecasts and other forward-looking statements contained in this document are based on information currently available to SATO Corporation and on certain assumptions deemed to be reasonable by the company. They do not constitute guarantees of future performance by the company. Actual results may differ significantly from these forecasts due to various factors. Please refer to the relevant financial results (Kessan Tanshin) for the assumptions that form the basis of the earnings forecasts.