

Q&A summary from the Q1 FY 2025 financial results briefing

1. How do you assess Q1 operating income compared to the plan?
 - Overall: Slightly below the planned targets.
 - Japan: Operating income was in line with the plan, driven by stable consumable sales and strong performance of the mechatronics business in the manufacturing and logistics verticals.
 - Overseas: Operating income fell short of the plan. The primary labels business in Europe (Russia) underperformed due to the reduced demand following the tax revisions, higher personnel costs and rises in depreciation costs from capital investments. While the base business met its targets, driven by improved plant profitability from increased production volumes for high-value projects in the US, it was not enough to offset the shortfall from the primary labels business.
2. What were the key drivers of the 600 million-yen year-on-year decline in operating income for the primary labels business in Europe (Russia)?
 - The main cause was a 560 million-yen decline in operating income at a key group company, Okil. The decline is attributed to the three factors below:
 - An increase in operating expenses due to higher personnel costs driven by inflation, as well as increased depreciation and other costs associated with the expansion of production capacity to support digital printing and product lineup enhancement.
 - Negative foreign exchange impacts from euro-denominated transactions. Approximately 80 percent of sales are denominated in euros but settled in rubles; therefore, when the ruble strengthens against the euro, both sales and operating income decline in ruble terms.
 - A temporary decline in demand following the excise tax increase on alcoholic beverages implemented in Russia in January 2025.
3. What are the factors contributing to the low operating margins of the base business in Europe and the Americas?
 - Europe: The economic downturn continues to have a significant impact. We are focusing on key accounts and the relatively profitable health care vertical, promoting our unique PJM RFID technology to help increase the consumable sales that are declining due to the economic slowdown. We control SG&A expenses by aligning spending with the business's profitability and concentrating on initiatives and projects that have immediate impact.
 - Americas: The operating margin was impacted by the completion of a high-value project at a major account at the end of FY24. Personnel costs increased due to the attachment of an executive officer and a senior manager from Japan to support key account development. Additionally, development costs were incurred for a new printer tailored to a specific customer's needs. These upfront investments raised SG&A expenses, but we aim to recover profitability by delivering results quickly.

4. What drove the improvement in operating margin of the Japan business?
- The improvement was partly driven by (1) the effects of price revisions implemented in FY23, (2) successful capturing of increased demand for digital transformation in logistics, and (3) higher production by customers who front-loaded exports to the U.S. in response to changes in the “reciprocal” tariff policies. We expect the situations related to the third factor to normalize from Q2 onward.
 - Also, sales of industrial printers, maintenance services, and software, all of which have high gross margins, increased, improving the overall product mix.
 - It was also driven by printer refresh in small and medium-sized volumes.
 - We manage SG&A expenses through careful ROI evaluation. Sales representatives, who have been focused only on gross profit, are now encouraged to look at SG&A expenses as well to help improve overall operating income.
5. While a year-on-year decline in consolidated operating income is expected in the first half of FY25, an increase is projected for the second half. Can the second-half targets be achieved?
- While there are both positive and negative factors, we expect to achieve the targets.
 - The year-on-year decline in H1 was primarily due to the previously mentioned impact of the excise tax increases in Russia, which affected the primary labels business.
6. What is the outlook for the primary labels business from Q2 onward?
- Russia: In line with the initial assumption, we expect the demand for alcoholic beverages and the labels used for them to recover in H2. Although higher personnel costs and depreciation costs from production expansion will persist, operating income is projected to improve as sales growth is expected to absorb these increased expenses.
 - Americas: Competition is expected to intensify in Argentina and Brazil. We aim to secure profits by developing small and medium-sized customers with whom we currently have limited business.
7. What is the expected operating margin for the Japan business from Q2 onward?
- We expect the operating margin to remain in line with our initial plan.
 - Positive factor: A continued increase in business is expected with small and medium-sized customers in Q2 and beyond.
 - Negative factor: We expect decline in sales to result from the front-loading of printer exports to the U.S. and a worsening product mix caused by an increase in sales from a large project with relatively lower margins. The impacts from the project started showing in Q1 and are expected to continue into Q2 and beyond.

8. How will SATO's strategy change after updating its materiality assessment?

- SATO's business model is designed to address challenges faced by customers and society while helping improve operational efficiency and productivity. Following the recent optimization of our materiality assessment, we have clearly positioned creating shared value (CSV) — that is, achieving business growth while addressing social issues — at the core of our business. We have assigned areas of responsibility to executives and established KPIs to ensure the effectiveness.

9. What causes ROIC to decline to 7.9 percent in FY26 (slide 31)?

- We expect interest-bearing debt to increase as we invest for growth, raising invested capital and temporarily reducing ROIC.
- As the financial leverage will be higher, ROE is expected to remain stable.

10. What specific measures will you take to strengthen overseas consumables production in order to grow recurring revenue (slide 28)?

- A new factory in Thailand began its operations in July 2025 to strengthen production capacity.
- Sales of consumable products in Thailand are expected to increase by about 50% by FY30.
- Production efficiency is expected to improve through the implementation of manufacturing execution systems in Europe and the US.

11. When will the revised medium-term management plan be released?

- It is scheduled to be released after the announcement of Q2 financial results.

End