

SATO S.A.

[SATr.AT]

The office furniture leader penetrates the home furniture market



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Greek Equities – November 6, 2006

SATO SA

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Company Description:

Sato is currently one of the leading companies in the broader Greek furniture market, specializing in the production and marketing of office as well as home furniture. Sato Group operates three production plants in Greece and abroad, along with a broad distribution network located not only in major Greek cities but also across the country.

	2005	2006 E	2007 F
(in mil. €)			
Turnover	74.06	75.50	91.13
EBITDA	4.91	8.28	12.37
Margin %	6.63%	10.97%	13.58%
Net Income	6.16	5.79	4.22
Margin %	8.32%	7.67%	4.64%

Price (06/11/2006)	€ 2.81
Shares (outstanding in mn)	27.36
MktCap (in mn €)	76.88

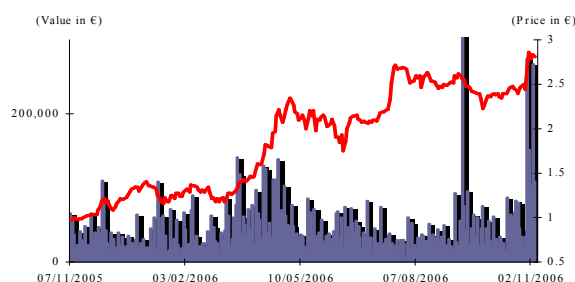
Hist. Beta	1.7		
Div. '05	€ 0.03		
Div. Yield	0.89%		
P/E	12.48x	13.28x	18.20x
P/BV	2.51x	2.15x	1.96x
Debt / Eq.	1.32	0.98	1.04
ROE (avg)	23.37%	17.44%	11.26%

Source: Company Data & VRS Projections

Key Investment Points

- ◎ Sato Group is the most recognized brand name in Greek office furniture, dominating the market for more than two decades. In this context, Sato is in position to capitalize on its leading market share and attempt for a stronger penetration in the home furniture market, which is a larger market with significant growth potential.
- ◎ The great majority of revenues are still generated from the office market, via Sato Office Systems, and the Group's two subsidiaries in Germany and Turkey. We anticipate a gradual shift of the Group's revenue generation to the home furniture market ("ENTOS", Bo Concept, LMC, Divani&Divani), which should contribute about 62% of domestic turnover by 2010.
- ◎ Sato's revenue and profit growth should be delivered both organically, via a more efficient cost structure due to the Group's investment plan, as well as through network expansion in Greece and abroad. Competition is expected strong in the Greek furniture market.
- ◎ Based on our forecasts for the next 5-years, and applying the DCF model, the fair price for Sato stock accounts for € 3.17. Important limitations for this valuation stand on the investment risk section of our equity research report.

Share Price Graph (52 weeks)
Min.: € 0.98 - Max.: € 2.86



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Investment Case & Growth Drivers

At an initial stage, Sato activated in the Greek office furniture market, capturing and maintaining a leading market share for more than two decades. Currently, the Group is seeking to capture a leading position in the domestic home furniture market as well. The major growth drivers of Sato Group of Companies are the following furniture collections distributed via the corresponding retail chains: Sato Office Systems, ENTOS by Sato, Bo Concept, La Maison Coloniale, and Divani&Divani. The Group also owns Sato GmbH, a German based manufacturer that also has a subsidiary in Turkey (TCC). At the same time, the Group is targeting stronger efficiency gains through investments in logistics and CRM systems, which are expected to complete by the end of 2007.

Strong Brand Recognition

Sato Group is the most recognized brand name in Greek office furniture, dominating the market for more than two decades. In this context, Sato is in position to capitalize on its leading market share and attempt for a stronger penetration of the home furniture market.

“SATO” Office Systems

The traditional business activity of office furniture has been Sato’s major growth driver over the past 2 decades. Moreover, this activity remains the key driving force behind the Group’s expansion strategy, at a time that the Management has strategically chosen to shift its focus to a much larger business, which is the home furniture market. As of the financial year 2005, the office furniture market (including office furniture sales from “ENTOS” stores, from the German subsidiary Sato GmbH, as well as the Turkish operations) generated 83% of Sato Group’s revenues, with the remaining share coming from the home furniture market. Sato also plans the operation of the Sato Business Center in Marroussi, in the broader Athens area, within 2006.

Revenues from Sato Office systems are generated in the Greek market (via production in Thessalonica factory and trading of third party products), in the European markets via the German subsidiary’s production plant, and in Turkey, where the Group owns a third manufacturing facility.



We believe that Sato has successfully responded in market needs offering a broad range of office furniture with an emphasis on innovation, design, user friendly and comfortable products, which correspond to modern times' customer needs. This is opposed to the older trend, according to which customer needs had to be satisfied through luxurious on the one hand, or very low profile on the other hand, office furniture products.

“ENTOS by Sato” – Expansion in the Home Furniture Market



“ENTOS by Sato” is a relatively new brand name (established in 2005) of Sato Group, operating in an existing store network, which previously carried the brand name “Sato Stock”. “ENTOS” stores target low to medium wealth consumers in the Greek home as well as home office furniture market, which is especially competitive and fragmented. The concept behind this activity is illustrated by the slogan “best value for money”, with Sato targeting consumers who search for attractive priced and good quality furniture concerning a broad range of products such as sofas, futon beds, cabinets, reclining armchairs and other pieces. With the launch of the new brand name, Sato operated 3 stores in the broader Athens area and 2 stores in Thessalonica.

Until the financial year 2005, “ENTOS” sales were essentially generated from office furniture due to the transformation phase from Sato Stock into “ENTOS by Sato”.

Sato has drawn a 3-year business plan concerning the expansion of “ENTOS” stores, targeting the completion and operation of 3 new large stores in the broader Athens area and 1 new store in Thessalonica until 2007. According to preliminary estimates, the required Capex settles at EUR 1 million per store with an area of at least 2,000 square meters. Sato Group also plans the expansion of “ENTOS” activity in the continental Greece via representatives, whereas in a later stage, it will contemplate expansion in the international markets. The network in continental Greece is currently numbers 16 points of sale, with the Management planning the operation of 11 points of sale in 2007, 10 in 2008, and 12 in 2009.

Therefore, “ENTOS” revenues should derive from two channels: stores in the two large Greek cities and representatives or points of sale in the rest of Greece. Our model indicates that stores will be the key growth driver and revenue contributor, due to their location in Athens and Thessalonica areas, where the market is much larger than in the rest of Greece. We project that “ENTOS” revenues will account

for EUR 44.96 million in 2010 from EUR 21.45 million in 2005, representing 35.53% of total group turnover from 28.96% last year.

“Bo Concept”



Sato acts as master franchisee of the Danish firm Bo Concept SA (former Denka), operating 5 stores in the two largest Greek cities (4 in Athens and 1 in Thessalonica) and another 8 stores in the rest of the country (under a franchising scheme), targeting the medium to higher end home furniture market. Bo Concept chain constantly renews the product mix, adding innovative products with a new look and with an emphasis on modern design for modern home. It is noted that Bo Concept is listed on Copenhagen Stock Exchange and specializes in the production and marketing of home and office furniture.

Our model's forecasts are based on a rising number of stores and franchisees in Greece over the next 5-year period, with a single-digit growth due to market trends that indicate a slowly growing acceptance of modern design furniture by Greek consumers. Therefore, we project that “Bo Concept” revenues will account for EUR 10.66 million in 2010 from EUR 7.2 million in 2005, representing 8.43% of total group turnover from 9.68% last year.

La Maison Coloniale



By establishing this new brand name in 2005, Sato entered the ethnic home furniture market, which is steadily becoming attractive to Greek consumers. Sato has created a broad range of ethnic furniture pieces, offering authentic as well as total solutions from countries such as Indonesia, China, Japan and India. The Management plans to expand its network on a gradual basis, adding 1-2 stores per year, from the 4 stores operating in 2005.

The ethnic furniture is still a small part of the Greek market, thus we don't expect this revenue stream to become significant for Sato Group, at least in the following 4-5 years. On other hand, this revenue stream generates one of the highest gross profit margins among other business activities in the Sato Group. In view of the above, we keep our projections relatively conservative, expecting that revenues will account for EUR 5.6 million in 2010 from EUR 1.7 million in 2005, representing 4.46% of total group turnover from 2.27% last year.



Divani & Divani

Sato Group is representative of the NYSE (New York Stock Exchange) listed “Natuzzi”, one of the world’s largest sofa manufacturers. Sato operates a chain of 4 “Divani & Divani” stores in the two large cities of Greece (3 in Athens and 1 in Thessalonica) with 10 more points of sale (under a franchising scheme) in the rest of the country. The chain offers a wide range of designs, prices and quality standards in leather sofas and complete solutions for the home living room to Greek consumers.

Taking into consideration the mature sofa market in Greece, we project that “Divani&Divani” revenues will account for EUR 5.1 million in 2010 from EUR 3.7 in 2005, representing 4.03% of total group turnover from 5.04% last year.



According to European Furniture Manufacturers Federation, Germany is the largest furniture producer in the 15-member European Union with a share of 25%.



International Operations

Since 2000, Sato has been expanding in the European markets via its subsidiaries in Germany (Sato GmbH) and Turkey (TCC Buro Koltuk Ltd), which both operate production plants. The subsidiaries offer innovative chairs using the Glide tec global patent. The Management foresees greater business opportunities in the Turkish market, however in the longer run. In Bursa (Turkey), the Group operates modern chair assembly lines incorporating state-of-the-art technology. At the same time, Sato runs a network of dealers in other markets as well, such as Romania, Bulgaria, Hungary, Serbia, Albania, France, UK, Netherlands, Belgium, Russia, Poland, Hungary, Czech Republic and Middle East (Saudi Arabia, Kuwait, etc.).

Arguments behind Sato’s Entry in the Home Furniture Market

Greek home furniture market is nearly five times larger than the office furniture market: Sector analysis illustrates that Greek home furniture market is much larger compared to the office furniture one, implying that market share and growth potential for Sato Group should not be underestimated. On the other hand, this market is especially competitive, price sensitive and very fragmented, implying also that penetrating the Greek home furniture market will not be an easy task for Sato Group.

Sato's expertise in design is a key advantage for the penetration of the home furniture market: Current trends strongly illustrate that apart from the price issue, modern design is one of the most important factors determining home furniture demand. As consumer needs and preferences constantly change, manufacturers with the ability to timely adapt their product range and satisfy new market trends will keep on gaining ground and market share. In this context, Sato is considered to be one of the most competitive furniture manufacturers in the Greek market with a long history in responding to a constantly changing market environment.

Sato's Strategy in Penetrating the Home Furniture Market

Sato has been applying a strategy of promoting different brands via different retail chains in an effort to penetrate the home furniture market in Greece. In the case of "ENTOS" stores, which target the home office and home furniture market, Sato has chosen to promote the new brand name along with the historically successful "Sato" name, whereas in the case of the Group's other retail chains, which target the higher end home furniture market, Sato promotes the brand names Bo Concept, LMC and Divani&Divani, without directly relating its marketing campaign to the "Sato" name. In our opinion, this "fragmented" strategy takes time to deliver new market shares and to maximize growth potential in the very competitive home furniture market in Greece.

Financial Analysis

Strong Growth Rates

Following the recent strategic decision of the management to expand operations in home furniture market, we expect turnover to grow in line with market share growth (we project to exceed 8.5% of the total Greek home furniture market from about 3% today), driven by new stores and supported by strong promotion.

- For the period 2005-2010, we estimate Group turnover CAGR of 11.31%, with revenues related to home furniture representing about 62% of total domestic turnover at end 2010 from 30% today. We made the following key assumptions for the period 2005-2010:
 - Office furniture market growth of 3.7% annually (inflation rate + volume growth). Home furniture market growth of 4% annually (inflation rate + volume growth).
 - Sato will operate 3 own stores. Revenue / store will increase due to brand name high recognition and Group's improved logistics and higher promotion. We expect Sato revenues to increase by 6.6% annually.
 - ENTOS by Sato, is expected to grow revenues by 16% annually due to the introduction of new stores reaching a total of 15 (in full operation) by the end of fiscal 2010. We have assumed that revenue per store will decrease until fiscal 2009 (due to the introduction of new stores that need a period of 3-6 months to receive revenues) and increase from that year and on. We expect the Company to grab about 5.5% market share of the total home furniture market by the end of fiscal 2010.
 - La Maison Coloniale revenues will expand by 27.3% annually due to the increasing demand (it currently appears very strong), that will raise revenue per store significantly and due to the introduction of new stores, reaching a total of 8 by the end of 2008.
 - We have estimated Bo Concept average annual revenue growth of 8.3%, in line with increasing number of stores (8 stores in full operation by the end of fiscal 2009) and light increase of revenue / store (GAGR of 2.8% during the period 2005-2010).
 - We have estimated a 9% average annual growth for international sales contributing about 26.5% of total group turnover at the end of fiscal 2010. The growth is attributed mostly to the expansion of activities in Turkey (the management of the German subsidiary is planning to launch at least 1 store in Turkey) and the enrichment of product portfolio.

Historic & Projected Turnover Breakdown

(in € ,000)	2004	2005	2006 E	2007 E	2008 E	2009 E	2010 E
SATO	49,253	19,389	21,109	22,732	24,064	25,390	26,698
% of total	59.53%	26.18%	27.96%	24.94%	23.10%	21.82%	21.09%
y-o-y change		-60.6%	8.9%	7.7%	5.9%	5.5%	5.2%
ENTOS by Sato	0	21,450	21,547	29,907	34,756	39,097	44,965
% of total	0.00%	28.96%	28.54%	32.82%	33.36%	33.60%	35.53%
y-o-y change			0.5%	38.8%	16.2%	12.5%	15.0%
BO Concept	7,460	7,165	6,601	6,986	7,981	9,309	10,665
% of total	9.02%	9.68%	8.74%	7.67%	7.66%	8.00%	8.43%
y-o-y change		-4.0%	-7.9%	5.8%	14.2%	16.6%	14.6%
La Maison Coloniale	69	1,685	2,900	4,263	5,116	5,371	5,640
% of total	0.08%	2.27%	3.84%	4.68%	4.91%	4.62%	4.46%
y-o-y change		2355.5%	72.1%	47.0%	20.0%	5.0%	5.0%
Divani&Divani	4,576	3,736	2,693	3,739	4,736	4,972	5,097
% of total	5.53%	5.04%	3.57%	4.10%	4.55%	4.27%	4.03%
y-o-y change		-18.4%	-27.9%	38.9%	26.6%	5.0%	2.5%
Total Domestic Turnover	61,358	53,426	54,850	67,628	76,652	84,140	93,065
% of total	74.16%	72.14%	72.65%	74.21%	73.58%	72.30%	73.53%
y-o-y change		-12.9%	2.7%	23.3%	13.3%	9.8%	10.6%
Sato Office GmbH	17,679	16,685	17,492	19,722	23,020	26,858	27,915
% of total	21.37%	22.53%	23.17%	21.64%	22.10%	23.08%	22.06%
y-o-y change		-5.6%	4.8%	12.7%	16.7%	16.7%	3.9%
TCC (Turkey)	3,705	3,951	3,157	3,782	4,504	5,374	5,585
% of total	4.48%	5.33%	4.18%	4.15%	4.32%	4.62%	4.41%
y-o-y change		6.6%	-20.1%	19.8%	19.1%	19.3%	3.9%
Total Turnover	82,742	74,062	75,499	91,132	104,176	116,372	126,565

Source: Company Data & VRS Estimates

– Improve Profit Margins

- The increasing share of home furniture to total turnover will elevate gross profit margin (excl. depreciation expenses) to about 49.9% at the end of fiscal 2010 from 42.35% at the of fiscal 2005, since home furniture market operates on a higher margin compared to office furniture one.

Historic & Projected Gross Profit Breakdown

(in € ,000)	2005	2006 E	2007 E	2008 E	2009 E	2010 E
SATO	8,923	10,581	11,573	12,311	13,062	13,755
Gross Margin	46.02%	50.12%	50.91%	51.16%	51.44%	51.52%
y-o-y change		18.6%	9.4%	6.4%	6.1%	5.3%
ENTOS by Sato	10,356	11,871	16,873	19,709	22,345	25,844
Gross Margin	48.28%	55.09%	56.42%	56.71%	57.15%	57.47%
y-o-y change		14.6%	42.1%	16.8%	13.4%	15.7%
BO Concept	3,439	3,548	3,773	4,352	5,139	5,269
Gross Margin	47.99%	53.75%	54.00%	54.53%	55.20%	55.22%
y-o-y change		3.2%	6.3%	15.3%	18.1%	2.5%
La Maison Coloniale	1,078	1,795	2,643	3,197	3,384	3,553
Gross Margin	64.01%	61.90%	62.00%	62.50%	63.00%	63.00%
y-o-y change		66.5%	47.2%	21.0%	5.8%	5.0%
Divani & Divani	1,565	1,237	1,720	2,178	2,287	2,344
Gross Margin	41.90%	45.93%	46.00%	46.00%	46.00%	46.00%
y-o-y change		-21.0%	39.1%	26.6%	5.0%	2.5%
Total Domestic Turnover	25,361	29,031	36,582	41,747	46,217	50,765
Gross Margin	47.47%	52.93%	54.09%	54.46%	54.93%	55.21%
y-o-y change		14.5%	26.0%	14.1%	10.7%	9.8%
Sato Office GmbH	4,038	4,513	5,147	6,400	7,655	8,095
Gross Margin	24.20%	25.80%	26.10%	27.80%	28.50%	29.00%
y-o-y change		11.8%	14.1%	24.3%	19.6%	5.8%
TCC (Turkey)	1,055	1,013	1,267	1,545	1,881	1,955
Gross Margin	26.70%	32.10%	33.50%	34.30%	35.00%	35.00%
y-o-y change		-3.9%	25.0%	21.9%	21.8%	3.9%
Total Gross Profit	30,454	34,557	42,997	49,691	55,752	61,472
Gross Margin	41.12%	45.77%	47.18%	47.70%	47.91%	48.57%

*include depreciation expenses

Source: Company Data & VRS Estimates

- **EBITDA margin** accounted for approximately 6.63% at the end of fiscal 2005, a level that will increase to 15.80% at the end of fiscal 2010, **growing on a CAGR₂₀₀₅₋₂₀₁₀ of 32.44%**. The strong EBITDA increase is mostly attributed to the following:
1. Gross profit margin increase as it is stated above.
 2. Increased productivity (light but sustained increase of revenue / employee).
 3. Increased efficiency utilizing logistic system.
 4. Tight control of expenses.

	2005	2006 E	2007 E	2008 E	2009 E	2010 E
Gross Margin	42.35%	47.00%	48.48%	49.10%	49.24%	49.85%
EBITDA Margin	6.63%	10.97%	13.58%	14.16%	14.95%	15.80%
EBIT Margin	2.93%	7.08%	9.44%	9.72%	10.72%	11.72%
Pre-tax profit margin	7.56%	12.96%	6.92%	7.26%	8.72%	10.38%
Net Profit margin	8.32%	7.67%	4.64%	5.80%	6.97%	8.30%

Source: Company Data & VRS Estimates

Key Elements of Balance Sheet

For the next 5 year period (2006-2010), the Group is planning to invest **approximately € 50 million**, for the opening of new own stores and the renovation of older, launching an ERP system, investments in production, and the development of the new logistics centre (est. capex of 20 million). Total Capex will be financed by own capital, bank debt and possible government grants of about € 5.8 million.

With regard to **current assets** on group basis, inventory turnover ratio is expected to increase and then return to current levels of 125-130 days mostly due to the expansion of LMC stores that presumes high stock levels (the delivery of an order stands at around 6 months). **Debtor's turnover ratio** is expected to gradually

decrease at approximately 70 days from 83 during 2005, whereas according to our model, **creditor's turnover ratio** will gradually increase at approximately 85 days from 81 days. Annual working capital needs is expected to range at approximately € 1 million from € 2.4 million that we estimate for fiscal 2006.

We have assumed that the Group will increase its bank debt to 41 million (26.5 million l-term and 14.5 million s-term bank debt) in fiscal 2008 in order to finance its capital needs for investments. However, strong cash inflows will reduce bank debt to a total of 21 million by the end of fiscal 2010.

	2005	2006 E	2007 E	2008 E	2009 E	2010 E
Stock Days	130	165	145	135	130	125
Debtors Days	83	88	77	73	70	70
Creditors Days	79	81	83	85	85	85
Total Debt / Total Equity	2.02	1.62	1.63	1.42	1.14	0.87
Bank Loans / Total Equity	1.32	0.98	1.04	0.75	0.55	0.35
Net fixed Assets on Total Assets	61.72%	57.25%	60.07%	58.54%	56.46%	54.28%
Interest Coverage	1.60	3.50	4.96	5.44	7.04	10.84

Source: Company Data & VRS Estimates

Valuation

DCF Methodology

The fair value for Sato Group settles at EUR 86.83 million based on the DCF model. The following important assumptions have been made in the model:

- Cost of Capital at 8.8%,
- Infinity Sales Growth of 2.0%,
- Infinity EBIT Margin of 12%.

	2006 E	2007 E	2008 E	2009 E	2010 E	L-Term Assumptions
ASSUMPTIONS						
Growth Rate (Sales)	1.9%	20.7%	14.3%	11.7%	8.8%	2.0%
EBIT Margin	7.1%	9.4%	9.7%	10.7%	11.7%	12.0%
Tax Rate	29.0%	25.0%	20.0%	20.0%	20.0%	20.0%
Working Capital (% of sales)	3.0%	0.4%	0.7%	1.0%	0.9%	1.0%
Capex (% of sales)	15.9%	13.4%	5.4%	3.8%	3.4%	3.0%
Cost of Capital	7.4%	7.7%	8.3%	8.7%	9.3%	8.8%
Depreciation (% of sales)	4.0%	3.9%	4.1%	4.4%	4.2%	3.0%
CASH FLOW STATEMENT						
Turnover	75.5	91.1	104.2	116.4	126.6	129.1
EBIT	5.3	8.6	10.1	12.5	14.8	15.5
Less: Adjusted Tax	2.8	1.6	1.5	2.0	2.6	2.7
Adjusted Operating Profit	2.5	7.0	8.6	10.4	12.2	12.7
Plus: Depreciation	2.9	3.8	4.6	4.9	5.2	3.9
Operating Cash Flow	5.4	10.8	13.2	15.4	17.4	16.6
Less: Change in Working Capital	2.3	0.4	0.7	1.1	1.1	1.3
Less: Capex	12.0	12.2	5.7	4.4	4.4	3.9
Cash Flow to the Firm (FCFF)	-8.9	-1.8	6.9	9.9	11.9	11.5
Discount Factor	0.93	0.86	0.79	0.72	0.64	0.66
Present Value of Cash Flows	-8.25	-1.54	5.41	7.05	7.65	
Accumulated Present Value	-8.25	-9.79	-4.39	2.66	10.32	
Residual Value						168.2
Present Value of Residual Value						110.3

VALUATION

Enterprise Value	120.57
% Residual Value of Total	91.4%
Less: Net Debt	33.75

Value of firm (in mn)	86.83
Outstanding # of shares (000)	27,361
Value of share	3.17

Source: Company Data & VRS Estimates

The model's assumptions presume also the following:

- The Group should complete its expansion strategy as it is described above,
- Sustained growth of the home and office furniture market,
- Ongoing profitability on group level, and
- Ability to finance its long-term investment program.

Sensitivity Analysis

The table below presents the sensitivity analysis on DCF model showing the valuation of Sato Group based on different growth rates and different values for weighted average cost of capital (WACC):

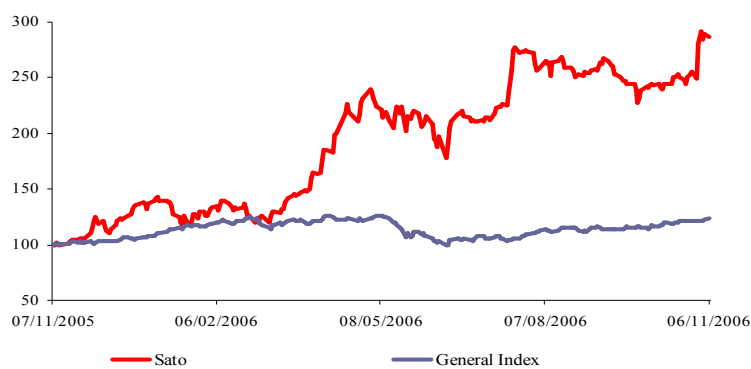
		WACC				
		6.8%	7.8%	8.8%	9.8%	10.8%
GROWTH	0.50%	3.43	3.02	2.40	1.92	1.54
	1.50%	4.79	3.68	2.88	2.28	1.82
	2.00%	5.40	4.09	3.17	2.50	1.99
	2.50%	6.16	4.58	3.51	2.75	2.17
	3.00%	7.12	5.18	3.91	3.03	2.38

Source: Company Data & VRS Estimates

WACC CALCULATION	
Risk Free Rate	4.5%
Expected Beta Factor	1.2
Market risk Premium	5.0%
Cost of Equity	10.5%
Debt / Debt + Equity	35.0%
Cost of Debt	7.1%
Tax Rate	20.0%
Weighted Average Cost of Capital	8.8%

Source: Company Data & VRS Estimates

Share Price Performance vs. General Index (base=100)



Shareholders' Structure

The shareholders' structure of Sato SA, the parent company listed on the Athens Exchange, is presented below:

Shareholder	Participation Stake (As of October 31, 2006)
Theodoridis Group	59.9%
Theodoridis Family	8.4%
Investors	4.5%
Free Float	27.2%
Total	100.00%

Source: Athens Exchange.

Sato Group of Companies

Company Profile

Sato Group of Companies engages in both production and trading activities of office and home furniture. The Group owns three production plants, in Thessalonica, Germany and Turkey, and at the same time has developed a broad network of representatives and franchisees across Greece. On consolidated basis, Sato employs more than 500 people and its production facilities cover more than 33,000 m².

Sato has built strong commercial partnerships with internationally recognized furniture suppliers, while via the two subsidiaries in Germany and Turkey, the Group exports in more than 10 countries covering European, Balkan and Arab regions.

Sato utilizes a broad distribution network in Greece, consisting of a significant number showrooms, dealers / representatives and franchisees. On the other hand, the customer base is an extensive one, consisting not only of retail customers, but also of large corporate clients from all major sectors of the Greek economy, such as industry, trade, public organizations, financial services, etc. Furthermore, in an effort to most efficiently service as well as take advantage of its customer base, Sato recently launched an upgraded customer relationship management (CRM) system.

According to the management, Sato's business philosophy is to utilize the extensive know-how of its human resources in order to ensure ergonomics and functionality of products delivered to the customer at the most advantageous price and quality. In this context, the Company places emphasis on the design and selection of materials, while at the same time, it is targeting an efficient cost structure.

Sato Group: Financial Results of 6M 2006

During the first half of 2006, Sato Group experienced a drop of 8.5% in turnover, whereas gross profit margin improved to 44.01% from 41.48% last year. In addition, the realization of a financial gain of EUR 2,975 thousand led to a significant net profit growth of 136.2%. The financial gain was generated from the sale of Sato's participations.

<i>Group, EUR thous.</i>	6M 2006	6M 2005	Change
Turnover	33,415	36,521	-8.50%
Gross Profit	14,705	15,149	-2.93%
Gross Margin	44.01%	41.48%	
EBIT	788	1,540	-48.83%
EBIT Margin	2.36%	4.22%	
EAT (a.m.)	463	196	136,22%
EAT (a.m.) Margin	1.39%	0.54%	

Source: Company Data & VRS Estimates

Recent Developments

July 2006: Sato proceeded with a share capital increase by EUR 4.1 million via the capitalization of share premium reserves. The Company issued 4,560,116 new common registered shares, which would be distributed to shareholders based on the ratio 2 new shares for every 10 previously held shares. Following the share capital increase, share capital would account for EUR 24.62 million (27,360,698 shares in total per EUR 0.90 each).

July 2006: Sato sold its 7.538% stake in the construction firm "Anastilotiki ATE" for a total consideration of EUR 6.15 million, equal to the initial acquisition cost.

4th Quarter 2005: As part of a broader investment strategy, Sato Group decided to reduce its holding in the Danish firm DENKA Holdings from 31% to 10%, and direct the proceeds to investments in the domestic furniture market. On the other hand, the two companies continue their co-operation in the development of the Bo Concept chain in Greece.

Investment Risks / Mitigating Factors

Investment Risks / Concerns	Mitigating Factors / Important Notes
<p>1 Competition in the office and home furniture market in Greece remains strong. Any significant pressures on prices might seriously affect profit margins.</p>	<p>With innovative design and high quality standards, Sato targets the medium to higher end consumer market. Consumers purchase Sato products not only for their attractive price but also for their design and quality.</p>
<p>2 Sato's marketing strategy in Greece is fragmented: Different brand names via different retail chains without sufficiently capitalizing on the historically successful "Sato" name.</p>	<p>It will take time for Sato to considerably increase its share in the home furniture market.</p>
<p>3 Lack of considerable knowledge of international markets may jeopardize Sato's geographic expansion plans.</p>	<p>The Company establishes partnerships with major European furniture players, in order to ensure their assistance in the materialization of its international expansion plans.</p>

Source: VRS

Office & Home Furniture Market in Greece

Office Furniture

In 2005, the total size of the office furniture market in Greece settled at EUR 118 million, posting a negative growth of 12.6% on annual basis. However, 2004 was an exceptional year for the office market, due to the strong demand created by the Athens Olympic Games. According to market participants, the office furniture market in Greece is expected to be slowly growing, by 2.5%-3.0%, in the next 2-3 years.

The domestic office market is quite concentrated since the 3 leading companies control 53%-55% of the total market value. Sato SA is the leader of the market, having captured a market share of 31.5%-32.0%, followed by Neoset SA 13.5%-14.0% and Dromeas SA 8.0%-8.5%.

Economics & Trends of Greek Office Furniture Market	
Supply Side	<ul style="list-style-type: none"> - Strong competition, with a small number of companies dominating the market - Most players operate a well organized retail network - There are also many importers, with imports steadily rising over the past years
Demand Size	<ul style="list-style-type: none"> - Cyclical sector, depends on business activity and the size of companies operating in the economy - Sector characterized by one-digit growth - Demand highly elastic against price - Manufacturers constantly update design and price of products to meet customer needs
Trends	<ul style="list-style-type: none"> - Modern way of living makes necessary the use of office furniture at home

Home Furniture

In 2002, the total size of the home furniture market in Greece settled at EUR 490.5 million, demonstrating a stable pattern as compared to the previous year. During the period 1998-2002, the domestic home furniture market grew on a CAGR of 3.3%, although the growth pattern was characterized by a decelerating rate. From 2003 until 2005, the market grew on stronger rate favored by recovering demand and the Athens Olympic Games.

The market is especially fragmented with one company, Neoset, having captured a 24.5%-25.0% market share, and all other players holding market shares below 5%. The 18 largest companies in the sector control a stake of 23%-26% of the total domestic home furniture market.

After posting a growth greater than 5% on average basis during the period 2002-2005, the home furniture market is expected to decelerate its growth pattern in the next couple of years.

Economics & Trends of Greek Home Furniture Market	
Supply Side	<ul style="list-style-type: none"> - Labor intensive sector - Dominated by large producers and importers (retail chains) - 80% of all companies in the sector are small manufacturers - Largest part of supply comes from domestic production <ul style="list-style-type: none"> - Imports are steadily rising - Importers are medium to large size companies - Export orientation is especially limited
Demand Size	<ul style="list-style-type: none"> - Economic conditions and disposable income are the major factors determining demand - Advertising and design trends also affect consumer preferences - Demand characterized by one-digit growth
Trends	<ul style="list-style-type: none"> - Consumers prefer branded furniture with attractive design - Rising, however low as compared to the total market size, demand for ethnic furniture

Group Historic & Projected Profit & Loss Account

(in € ,000)	2004	2005	2006 E	2007 E	2008 E	2009 E	2010 E
Turnover	82,741	74,062	75,499	91,132	104,176	116,372	126,565
y-o-y Change. %		-10.49%	1.94%	20.71%	14.31%	11.71%	8.76%
Cost of Sales	47,448	42,700	40,017	46,948	53,028	59,067	63,467
% of Turnover	57.35%	57.65%	53.00%	51.52%	50.90%	50.76%	50.15%
y-o-y Change. %		-10.01%	-6.28%	17.32%	12.95%	11.39%	7.45%
Total Gross Operating Results	35,293	31,362	35,482	44,184	51,149	57,305	63,098
Gross Operating Margin	42.65%	42.35%	47.00%	48.48%	49.10%	49.24%	49.85%
y-o-y Change. %		-11.14%	13.14%	24.52%	15.76%	12.04%	10.11%
Other operating income / expense	472	2,031	1,563	1,588	1,548	1,500	1,450
Operating Expenses	30,992	28,486	28,764	33,398	37,950	41,404	44,553
% of Turnover	37.46%	38.46%	38.10%	36.65%	36.43%	35.58%	35.20%
y-o-y Change. %		-8.09%	0.98%	16.11%	13.63%	9.10%	7.61%
EBITDA	4,773	4,907	8,281	12,373	14,747	17,401	19,995
EBITDA Margin	5.77%	6.63%	10.97%	13.58%	14.16%	14.95%	15.80%
y-o-y Change. %		2.81%	68.76%	49.41%	19.18%	18.00%	14.91%
Depreciation	2,892	2,738	2,934	3,767	4,623	4,926	5,158
% of Turnover	3.50%	3.70%	3.89%	4.13%	4.44%	4.23%	4.08%
EBIT	1,881	2,169	5,347	8,606	10,124	12,475	14,837
% of Turnover	2.27%	2.93%	7.08%	9.44%	9.72%	10.72%	11.72%
y-o-y Change. %		15.31%	146.51%	60.96%	17.64%	23.22%	18.93%
Net Financial Results	-3,842	3,427	4,435	-2,296	-2,562	-2,323	-1,695
Net Results Before Taxes	-1,961	5,596	9,782	6,310	7,562	10,152	13,142
EBT Margin	-2.37%	7.56%	12.96%	6.92%	7.26%	8.72%	10.38%
y-o-y Change. %		-385.4%	74.80%	-35.49%	19.84%	34.25%	29.45%
Tax Income & Other Taxes	1,027	-571	3,987	2,078	1,512	2,030	2,628
Effective Tax Rate	-	-	40.76%	32.92%	20.00%	20.00%	20.00%
Net Results After Taxes	-2,988	6,167	5,795	4,233	6,050	8,122	10,513
EAT Margin	-3.61%	8.33%	7.68%	4.64%	5.81%	6.98%	8.31%
y-o-y Change. %		-306.39%	-6.03%	-26.96%	42.93%	34.25%	29.45%
Proportion of Minority rights	-482	7.00	7.50	8.00	8.50	9.00	9.50
Net Results (a.t.&m.i.)	-2,506	6,160	5,788	4,225	6,041	8,113	10,504
Net Margin	-3.03%	8.32%	7.67%	4.64%	5.80%	6.97%	8.30%
y-o-y Change. %		-345.8%	-6.05%	-27.00%	43.00%	34.29%	29.47%

Source: Company Accounts and VRS Estimates

Group Historic & Projected Balance Sheet

(in € ,000)	2004	2005	2006 E	2007 E	2008 E	2009 E	2010 E
Assets							
Net Intangible Assets	289	201	219	223	213	189	151
Net Tangible Assets	40,781	42,211	51,268	59,695	60,732	60,239	59,469
Investments in Associates & Available for Sale	10,953	12,518	0	0	0	0	0
Other L-term assets	1,537	2,227	2,182	2,139	2,096	2,054	2,013
Total Non-Current Assets	53,560	57,157	53,669	62,057	63,041	62,482	61,633
% Total Assets	56.24%	61.72%	57.25%	60.07%	58.54%	56.46%	54.28%
Inventories	14,281	15,215	18,090	18,651	19,613	21,038	21,735
Trade Receivables	24,779	16,775	18,203	19,225	20,835	22,318	24,273
Other Receivables	1,475	2,588	2,536	2,409	2,289	2,175	2,066
Cash in bank and at hand	1,139	871	1,255	970	1,907	2,661	3,829
Total Current Assets	41,674	35,449	40,083	41,255	44,644	48,191	51,903
% Total Assets	43.76%	38.28%	42.75%	39.93%	41.46%	43.54%	45.72%
TOTAL ASSETS	95,234	92,606	93,752	103,311	107,685	110,673	113,536
Equity & Liabilities							
Shareholder's Equity	22,075	30,636	35,722	39,319	44,477	51,595	60,774
Minority Rights	100	28	33	39	45	51	58
Total Equity	22,175	30,664	35,756	39,358	44,522	51,646	60,832
% Total Equity & Liabilities	23.28%	33.11%	38.14%	38.10%	41.34%	46.67%	53.58%
L-Term Bank Loans	21,224	21,522	20,800	26,500	21,760	17,020	12,280
Provisions for Staff Retirement	2,847	2,975	2,990	3,005	3,020	3,035	3,050
Deferred Tax Liabilities	3,159	3,144	2,830	1,698	849	832	815
Government Grands	66	6	0	0	5,800	5,220	4,698
Total L-Term Liabilities	27,296	27,647	26,619	31,203	31,429	26,107	20,843
Suppliers	11,681	9,292	8,927	10,731	12,411	13,755	14,780
Banks	26,462	19,069	13,600	11,500	7,000	6,500	4,000
Taxes-duties	1,229	71	2,269	1,420	1,361	1,827	2,366
Other Receivables	6,391	5,863	5,980	6,100	6,222	6,097	5,975
Total Current Liabilities	45,763	34,295	31,377	32,751	31,734	32,920	31,861
Total Liabilities	73,059	61,942	57,996	63,953	63,163	59,027	52,704
% Total Equity & Liabilities	76.72%	66.89%	61.86%	61.90%	58.66%	53.33%	46.42%
TOTAL EQUITY & LIABILITIES	95,234	92,606	93,752	103,311	107,685	110,673	113,536

Source: Company Accounts and VRS Estimates

Notes

VALUATION & RESEARCH SPECIALISTS

Value Invest - www.valueinvest.gr Investment Research & Analysis Journal - www.iraj.gr

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Sato	SATr.AT	€ 3.17	€ 2.81	2,3,6

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