

Key Questions and Answers from Financial Results Briefing for 1st Half of

FY2019

1. Did you experience last-minute demand in the leadup to the consumption tax increase in Japan? If so, is it possible that there will be a fallback in demand during the second half?
 - There was not any unusual demand in particular. There were some cases of increased transaction volume, but we cannot definitively say that these were only due to the consumption tax increase. We do not foresee any severe fallback in demand during the second half.

2. How much impact did the liquidation of your US software development subsidiary have in the first half? Will the positive impact on profitability continue into the second half?
 - We expect the positive effect of the liquidation on profitability to be around 600 million yen for the year, with approximately 300 million yen in the first and second half respectively. The decline in gross profit margin we are currently facing is attributable to higher raw materials costs for consumables. We are working to reduce costs among other things, and the effects of these efforts should become apparent in the second half.

3. Since you indicated that development on the laser in the IDP business is three months behind the original plan, is it possible that the decision on its commercialization could be delayed? And in what area will it initially be sold?
 - This delay is due to requests from customers involving print quality, tolerance, and other technical aspects, plus the addition of food certification clearance which was not among the initial requirements. For bottles, we are currently in the assessment phase, but even when the assessment is complete, we do not expect to have production lines running and contributing to sales right away. This could cause sales and profitability to fall short of our initial expectations. We plan to launch in Europe first.

4. You have continued to achieve growth in Japan's health care market. Is this due to strong sales performance with specific major customers? And do you expect to maintain a high rate of growth?

- We are doing more business in the hospitals and implant industries in particular. While we do have deals with major companies, there is a strong need for solutions to improve productivity in the health care market overall, and we are seeing continued investments in medical settings. We have an increasing number of interests utilizing RFID in the blood bag management process, and we expect this growth to continue.
5. How much of a timeline are you expecting until your current overseas initiatives are reflected in terms of business performance?
- The execution phases of our strategies are being carried out separately in each region, so the effects will appear according to the circumstances in each area. We are making progress in individual initiatives with potential customers, but we cannot say with certainty that all of them will achieve their forecasted sales.
6. What achievements have you produced in your alliances with Manhattan Associates and JDA?
- The two companies are both leaders in their industry and do lots of business with large customers that operate globally. We have received several orders from them. Amongst those customers, we can increase our recognition in countries where we have no business yet through introductions from countries where we do business. Expanding our business horizontally in this manner is one of the major benefits of partnering with these two companies.
7. You mentioned that Okil had record high sales, but their operating income slumped due to higher raw materials costs. What is your specific action plan to address the issue in the second half?
- Okil's main business is selling labels to consumer goods manufacturers. On the other hand, X-Pack handles a lot of shrink sleeve and in-mold labels (for shampoo bottles, etc.), and has established an operating setup to handle large volumes. As X-Pack becomes fully operational, we can expect gross profit margin to rise, and profitability for its parent Okil should increase. The higher raw materials costs will be addressed with thorough cost management going forward. We expect to see synergies between Okil and X-Pack starting in the second half.

8. When do you expect a recovery of the sales subsidiary in China suffering from US-China trade conflict?
- Our sales subsidiary in China is heavily dependent on the manufacturing industry, of which around half are Japanese companies and the other half are Chinese. Performance has taken a major hit because these companies are putting on hold investments in hardware, and because of reduced orders for consumables.
 - To address this, our employees are revisiting customers who had mainly been handled by distributors to uncover their potential needs. We are also working to expand our business in inland China and to cover domestic demand, areas which still have room for growth, but we believe it will take some time for the overall performance to recover.
9. What progress have you made in establishing alliances with the systems integrators you need to partner with in your *koto-uri* sales efforts in Japan?
- Currently there is increasing demand for solutions that utilize positioning technology. This is due to initiatives to improve productivity and ensure safety of workers at manufacturing sites. These solutions are becoming particularly more pervasive in the steel industry and industries which use large equipment such as forklifts.
 - We are actively developing solutions that cater to the needs in each industry so that we do not miss out on any sales opportunities.
 - Systems integrators are the main customers of Business Division 5 at SATO. These system integrators introduce and broker our products and services to end users. They are actively working to generate sales leads as they always have.
10. How was Achernar able to produce positive operating income despite exchange rate turbulence and rising raw materials costs, as opposed to Okil which produced an operating loss due to rising raw materials costs?
- Achernar is located in Argentina which has continued to struggle with economic crisis and exchange rate turbulence. Because of this, Achernar has been pursuing cost management for the past few years, and the results of their long-term efforts are showing. Okil is also working on cost management, but their efforts are on a different timeline from Achernar which is now able to pass on cost increases to its customers.
 - It may take some time for profitability to improve at Okil. However, since it has a large number of customers with high transaction amounts, we believe that successful price negotiations with any particular customer could have major ripple effects.

11. Roughly how much sales do you forecast for the year from deals with global key accounts?

- Sales negotiations with multiple large companies are proceeding, but the recording of sales is triggered by delivery of products and implementation of services, and there will likely be only a limited number of deals that will be recorded in the second half. Therefore, we do not see these as having a major impact on our performance for the year.

12. How many units of your global strategic models do you expect to sell?

- Over the next five years we aim to sell a global cumulative total of 200,000 units of compact-size SCeaTa (pronounced "sea-ta") printers. (Reference volumes: CLNX sold 11,000 units in Japan and 24,000 units overseas in FY2018)

13. How confident are you to achieve your operating income target in the second half?

- Factoring in the expectation levels of business prospects in Japan and internationally, we have set our operating income target at 4.9 billion yen based on the total calculated figures and the probabilities of achieving them.