

Key questions and answers from the financial results briefing, 1H FY2018

1. You mentioned that the Japan business showed successful results for 1H, particularly an improvement in gross profit ratio. Tell us the factors behind the success and how sustainable it is.
 - The improvement was due to mechatronics accounting for a larger proportion of sales, as they carry relatively high profitability.
 - Talks in our pipeline continuing from the previous fiscal year have come to involve larger orders with longer lead times as a result of us providing more solutions to customers. During 1H, we managed to monetize the ones cultivated in FY2017. However, this trend could pose challenges in terms of maintaining sales and profits.
 - To address these challenges, we are focusing on securing printer replacement deals. Together with our abovementioned efforts to monetize solution talks in our pipeline, we plan to maintain sales and profits.

2. The overseas business did not meet its 1H targets and has also revised its full-year targets downward. Explain to us the status, excluding FX impact.
 - The unsatisfactory results and downward revision came mainly due to slow business in the Americas. As there are issues in how we sell and operate, I, as the CEO will visit the region this month to get to the root of these issues and decide on what actions to take.
 - In Asia, we have been transplanting our Japan-market business model to our local sales subsidiaries over the last several years with notable success. Enforcing the model, however, requires people and numerous procedures, which may create value but have led to expose shortage of talent. I believe we need to invest in this area in 2H.

3. The IDP business was mentioned to have spent costs efficiently by reviewing and narrowing its scope of R&D. Update us on the progress of tests undergoing at customer sites.
 - R&D is progressing as planned. Of the several milestones set throughout the process, we are currently at the phase of two major companies evaluating new technologies and are concentrating on passing that stage.

4. What is the biggest challenge facing the overseas business?

- The scale and speed of growth at our subsidiaries and acquired companies overseas had been limited because they had been conducting business on their own. I am visiting each of them to identify the challenges they are facing and to come up with action plans together. To maximize the effect of the plans, it is imperative that we develop a common understanding of what must be done locally and what support headquarters should offer, and ensure that both sides put them into action.
5. The Japan business seems healthy; has there been any shift in market share?
- Our share of printers in terms of shipment value is 35 to 40%. By vertical, while our share in manufacturing is difficult to gauge due to the diversity of printer usage, it is about 40% in retail and probably below 20% in food.
6. Do you see the increase in solution opportunities a positive trend for SATO or a potential challenge?
- The increase in itself is positive. We are receiving more requests for solutions that require us to understand the customer's business operations and identify issues. As a result, each deal has become larger with longer lead times.
 - The challenge is to speed up the closing process, and it is imperative that we develop sales personnel to possess consultation capabilities.
7. Are orders from domestic manufacturers increasing from the previous quarter? Outline for us your 2H prospects, considering that there are near-term deceleration trends in industries such as semiconductors and machinery.
- As installation of a CRM* system in Japan a year ago has provided us visibility in our talks with pipeline businesses, the value and number of orders are steadily increasing.
 - As the vast majority of solutions we offer manufacturers are designed only for a single process of a customer's entire operation, we believe they are prone to little impact from the macro economy.
- (*) CRM: Customer Relationship Management
8. Explain to us how the consumption tax hike scheduled next year would impact the SATO business, referring to the impact seen last time.
- When the consumption tax was raised from 5% to 8% in 2014, many of our customers expecting another round of increase implemented systems with parameter adjustment capabilities to cope with a recurrence. We therefore expect

impact from the next hike to be minimal.

- Having said that, we realize that customer operations would increase complexity to accommodate for tax relief procedures, and customers using older generations of printers might consider switching to new ones. We are continuously talking with our customers to hear out such needs.

9. Is the 1H capex in line with plan?

- It is behind plan. After the change in management this April, some of the plans that ought to be progressing with speed from 1H have fallen behind schedule. This was due to overly careful steps taken to identify issues before deciding on necessary actions and to develop links between investments to be made in Japan and overseas. We intend to speed investments in 2H, picking up on what should have been done in 1H as well.