

Fiscal 2019 Third-quarter Consolidated Earnings Report (Japanese GAAP)

These financial statements have been prepared for reference in accordance with accounting principles and practices generally accepted in Japan.

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Scheduled release of Fiscal 2019 Third-quarter Business Report: November 13, 2019

Scheduled payment of dividends: -

Preparation of supplementary explanatory materials for quarterly earnings report: Yes

Quarterly earnings presentation: None

(Figures less than one million are rounded down)

1. Results for the Third Quarter of Fiscal 2019 (From January 1, 2019 to September 30, 2019)

(1) Consolidated Operating Results (Percentages represent changes over the corresponding period of the previous fiscal year)

	Net Sales		Operating Income		Ordinary Income		Net Income Attributable to Owners of Parent	
	(¥ million)	%	(¥ million)	%	(¥ million)	%	(¥ million)	%
FY2019 Third Quarter	46,564	—	4,812	—	4,960	—	3,364	—
FY2018 Third Quarter	—	—	—	—	—	—	—	—

(Note) Comprehensive income FY2019 Third Quarter ¥2,213 million [—%] FY2018 Third Quarter —million [—%]

	Net Income Per Share	Diluted Net Income Per Share
	(¥)	(¥)
FY2019 Third Quarter	94.02	82.19
FY2018 Third Quarter	—	—

(Note) Since the previous fiscal year was a transitional year in which Star Micronics changed its consolidated settlement date, we have not created quarterly financial statements for the 1Q–3Q consolidated period during that term. Moreover, given the irregular nature of the term, we have omitted year-on-year comparisons for profit and loss increases or decreases and consolidated operating results on a quarterly basis.

(2) Consolidated Financial Position

	Total Assets	Net Assets	Equity Ratio
	(¥ million)	(¥ million)	%
As of September 30, 2019	78,613	48,691	60.9
As of December 31, 2018	79,935	49,311	60.3

Reference: Shareholders' Equity

As of September 30, 2019 ¥47,869 million As of December 31, 2018 ¥48,237 million

(Note) Effective from the beginning of the first quarter of the current fiscal year, Star Micronics has adopted the “Partial Amendments to the Accounting Standard for Tax Effect Accounting” (Accounting Standards Board of Japan (ASBJ) Statement No. 28 dated February 16, 2018) together with other related pronouncements. Accordingly, figures and other data for the Company’s consolidated financial position as of the end of the previous fiscal year have been adjusted retroactively.

2. Dividends

	Dividends Per Share				
	1Q end	2Q end	3Q end	Year-end	Full Year
	(¥)	(¥)	(¥)	(¥)	(¥)
FY2018	—	27.00	—	27.00	54.00
FY2019	—	28.00	—		
FY2019(projected)				28.00	56.00

(Note) Changes to the latest dividend forecast announced: None

3. Consolidated Outlook for the Fiscal Year Ending December 31, 2019 (From January 1, 2019 to December 31, 2019)

(Percentages represent changes over the corresponding period of the previous fiscal year)

	Net Sales		Operating Income		Ordinary Income		Net Income Attributable to Owners of Parent		Net Income Per Share
	(¥ million)	%	(¥ million)	%	(¥ million)	%	(¥ million)	%	(¥)
Full Year	58,600	—	4,900	—	5,000	—	3,300	—	92.57

(Note) Changes to the latest consolidated results forecast announced: Yes

As the previous fiscal year was a transitional period, the consolidated fiscal year for consolidated companies whose fiscal year previously ended in February was the 10-months from March 1, 2018 to December 31, 2018, and for consolidated companies whose fiscal year ended in December was the 12-months from January 1, 2018 to December 31, 2018. Due to this method of presentation, year-on-year percentage change data is not provided.

*Note

(1) Significant changes in subsidiaries during the period under review (changes in certain specified subsidiaries resulting in revised scope of consolidation): None

New company: — (Company name), Excluded company: — (Company name)

(2) Adoption of special accounting treatment used in preparation of the quarterly consolidated financial statements: None

(3) Changes in accounting policies, estimates and restatement or corrections

(i) Changes associated with revised accounting standards: Yes

(ii) Changes other than those in (i) above: None

(iii) Changes in accounting estimates: None

(iv) Retrospective restatement: None

(Note) For details, please refer to (3) Notes to Quarterly Consolidated Financial Statements (Changes in Accounting Policies)" under "2. Quarterly Consolidated Financial Statements and Major Notes" on page 7.

(4) Number of shares issued and outstanding (Common stock)

(i) Number of shares issued and outstanding at period-end (Including treasury stock)

As of September 30, 2019	45,772,234 shares	As of December 31, 2018	45,772,234 shares
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(ii) Number of treasury stock at period-end

As of September 30, 2019	10,532,106 shares	As of December 31, 2018	9,910,156 shares
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(iii) Average number of outstanding shares (During the nine months)

As of September 30, 2019	35,782,646 shares	FY2018 Third Quarter	— shares
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(Note) Since the previous fiscal year was a transitional year in which Star Micronics changed its settlement date, we have not created a 3Q quarterly financial statements for that term. We have accordingly omitted the average number of outstanding shares for the third quarter in that period.

* This quarterly earnings report is not subject to quarterly reviews.

* Regarding the appropriate use of earnings projections and other noteworthy matters

The above projections are based on information available at the time of release of this report and certain assumptions the Company considers reasonable. The Company does not promise that these projections will be achieved. Actual results may differ materially from projections due to a variety of factors. For information regarding the assumptions and other matters related to earnings projections in this report, refer to "(3) Explanation of the Consolidated Earnings Projections and Other Forecasts" under "1. Qualitative Information regarding Quarterly Consolidated Business Performance" on page 2.

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1. Qualitative Information regarding Quarterly Consolidated Business Performance

Since the previous fiscal year was a transitional year in which Star Micronics changed its consolidated settlement date, we have not created quarterly financial statements for the 1Q–3Q consolidated period during that term. Moreover, given the irregular nature of the term, we have omitted year-on-year comparisons for profit and loss increases or decreases on a quarterly basis.

(1) Explanation of Consolidated Operating Results

Looking at the major markets in which the Star Micronics Group operates in the third quarter cumulative period of fiscal 2019, demand in the Company-related machine tools markets overseas and in Japan remained firm in the first half, but showed signs of slowing thereafter. In the POS-related market in the Special Products Segment, operating conditions were mixed. On the one hand, demand was firm in Japan. On the other hand, demand stalled in overseas markets, particularly in Europe. In precision products-related markets, demand was sluggish for both wristwatch and non-wristwatch components.

Under these circumstances, the Star Micronics Group reported sales of ¥46,564 million for the third quarter of the fiscal year under review. From a profit perspective, operating income came to ¥4,812 million, ordinary income was ¥4,960 million, and net income attributable to owners of parent amounted to ¥3,364 million after posting business restructuring expenses related to the Precision Products Segment.

Performance by segment was as follows:

(Special Products)

In POS printers, sales were firm for thermal printers in the U.S. market. In contrast, sales were sluggish in Europe due mainly to a slump in market conditions. Sales in the Asia market were somewhat lackluster, due in part to slumping demand for dot-matrix printers in China. Sales in Japan were robust amid last-minute demand in the leadup to the consumption tax rate hike.

As a result, sales in the Special Products Segment came to ¥9,956 million and operating income was ¥1,537 million.

(Machine Tools)

Sales were brisk for CNC automatic lathes, mainly in the medical equipment-related sector in the U.S. market. In contrast, sales were weak in Europe amid slumping market conditions in the automotive products market. Turning to the Asian market, sales trends in the medical equipment- and telecommunications-related sectors in China were firm. Sales in Japan languished amid signs that companies were adopting a cautious approach toward automobile-related capital investment.

As a result, the Machine Tools Segment reported sales of ¥34,240 million and operating income of ¥4,914 million.

(Precision Products)

Sales in the Precision Products Segment were weak. This was mainly due to the impact of inventory adjustments by wristwatch makers on the Group's wristwatch component operations as well as the effects of the drop in demand in China and reorganization of overseas production bases on non-wristwatch activities.

As a result, the Precision Products Segment posted sales of ¥2,368 million operating income of ¥114 million.

(2) Explanation of Financial Position

Despite an increase in inventory, assets at the end of third quarter cumulative period of the current fiscal year were down ¥1,321 million compared to the end of the previous fiscal term to ¥78,613 million, mainly due to a decrease in trade receivables as well as cash and deposits. Liabilities were down ¥702 million compared to the end of the previous fiscal term to ¥29,921 million on a decline in trade payables. Despite an improvement in retained earnings, net equity was down ¥619 million from the end of the previous fiscal term to ¥48,691 million, largely due to the company repurchasing treasury stock, as well as the impact of foreign currency translation adjustments.

Effective from the beginning of the first quarter of the current fiscal year, Star Micronics has adopted the “Partial Amendments to the Accounting Standard for Tax Effect Accounting” (Accounting Standards Board of Japan (ASBJ) Statement No. 28 dated February 16, 2018) together with other related pronouncements. Accordingly, figures and other data for the Company's consolidated financial position as of the end of the previous fiscal year have been adjusted retroactively to facilitate a comparison.

(3) Explanation of the Consolidated Earnings Projections and Other Forecasts

Earnings projections for the consolidated full year of fiscal 2019 have been revised from the projections announced on August 9, 2019. For details, please see the “Notice Regarding Revisions to Business Forecasts” disclosed separately today (November 11, 2019).

2. Quarterly Consolidated Financial Statements and Major Notes

(1) Quarterly Consolidated Balance Sheet

(Unit: Thousands of yen)

	As of December 31, 2018	As of September 30, 2019
Assets		
Current assets		
Cash and deposits	20,879,679	17,549,511
Trade notes and accounts receivable	18,756,178	16,242,950
Securities	500,000	500,000
Merchandise and finished goods	10,047,819	13,864,246
Work in process	4,539,076	4,749,718
Raw materials and supplies	3,195,901	2,726,043
Other	2,137,540	2,422,461
Allowance for doubtful accounts	(141,988)	(111,354)
Total current assets	59,914,206	57,943,577
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	8,369,154	7,721,989
Machinery, equipment and vehicles, net	3,098,228	3,420,166
Tools, furniture and fixtures, net	1,415,613	1,257,410
Land	2,553,740	2,529,752
Lease assets, net	61,201	47,587
Construction in progress	23,093	480,979
Other, net	—	668,322
Total property, plant and equipment	15,521,032	16,126,208
Intangible assets		
Other	867,450	484,771
Total intangible assets	867,450	484,771
Investments and other assets		
Investment securities	1,782,548	2,171,331
Deferred tax assets	1,490,515	1,529,456
Other	359,458	357,983
Total investments and other assets	3,632,522	4,058,771
Total Non-current assets	20,021,005	20,669,751
Total assets	79,935,211	78,613,328

(Unit: Thousands of yen)

	As of December 31, 2018	As of September 30, 2019
Liabilities		
Current liabilities		
Trade notes and accounts payable	6,921,278	6,515,634
Electronically recorded obligations-operating	3,510,823	3,267,016
Short-term loans payable	2,500,000	2,500,000
Lease obligations	24,391	22,415
Income taxes payable	820,964	1,078,097
Provision for bonuses	977,117	715,570
Provision for directors' bonuses	—	33,000
Other	5,822,803	5,511,587
Total current liabilities	20,577,379	19,643,322
Non-current liabilities		
Convertible bonds	8,038,666	8,026,666
Lease obligations	41,384	29,100
Net defined benefit liability	1,751,800	1,649,760
Other	214,273	572,578
Total non-current liabilities	10,046,124	10,278,105
Total liabilities	30,623,504	29,921,427
Net assets		
Shareholders' equity		
Capital stock	12,721,939	12,721,939
Capital surplus	13,876,517	13,888,665
Retained earnings	36,461,396	37,851,435
Treasury stock	(12,067,694)	(12,995,969)
Total shareholders' equity	50,992,158	51,466,070
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	86,599	86,184
Foreign currency translation adjustments	(2,300,978)	(3,264,911)
Remeasurements of defined benefit plans	(540,349)	(418,165)
Total accumulated other comprehensive income	(2,754,727)	(3,596,892)
Stock acquisition rights	314,527	381,592
Noncontrolling interests	759,749	441,131
Total net assets	49,311,707	48,691,901
Total liabilities and net assets	79,935,211	78,613,328

(2) Quarterly Consolidated Statement of Income and Consolidated Statement of Comprehensive Income
(Quarterly Consolidated Statement of Income)
(Third nine-month period)

(Unit: Thousands of yen)

**Third nine-month period
from January 1, 2019 to
September 30, 2019, of
FY2019**

Net sales	46,564,613
Cost of sales	29,185,249
Gross profit	17,379,363
Selling, general and administrative expenses	12,567,342
Operating income	4,812,021
Non-operating income	
Interest income	146,052
Dividend income	5,774
Gain on valuation of investment securities	76,070
Rent income	38,619
Miscellaneous income	105,686
Total non-operating income	372,203
Non-operating expenses	
Interest expense	8,139
Foreign exchange loss-net	188,561
Cost of lease revenue	1,368
Miscellaneous loss	25,251
Total non-operating expenses	223,319
Ordinary income	4,960,905
Extraordinary income	
Gain on sales of non-current assets	34,328
Reversal of impairment loss	236,074
Total extraordinary income	270,403
Extraordinary losses	
Loss on disposal of non-current assets	117,977
Impairment loss	239,772
Business restructuring expenses	471,384
Total extraordinary losses	829,133
Income before income taxes	4,402,175
Income taxes-current	1,477,130
Income taxes-deferred	(147,556)
Total income taxes	1,329,574
Net income	3,072,601
Net loss attributable to noncontrolling interests	(291,505)
Net income attributable to owners of the parent	3,364,106

(Quarterly Consolidated Statement of Comprehensive Income)
(Third nine-month period)

(Unit: Thousands of yen)

	Third nine-month period from January 1, 2019 to September 30, 2019, of FY2019
Net income	3,072,601
Other comprehensive income	
Valuation difference on available-for-sale securities	(415)
Foreign currency translation adjustments	(970,981)
Remeasurements of defined benefit plans	122,183
Share of other comprehensive income of entities	(10,332)
Total other comprehensive income	(859,545)
Comprehensive income	2,213,056
(Total comprehensive income attributable to:)	
Owners of parent	2,521,941
Noncontrolling interests	(308,885)

(3) Notes to Quarterly Consolidated Financial Statements

(Note on Going Concern Assumption)

Not applicable

(Note on Significant Changes in Shareholders' Equity Accounts)

(Repurchasing of treasury stock)

Star Micronics resolved at its Board of Directors' meeting held on August 9, 2019 to repurchase 680,900 of the company's own shares. This lifted 1Q-3Q spending on the repurchasing of the company's own shares by ¥999,943,000, with the total price for repurchasing shares by the end of third quarter cumulative period of the current fiscal year at ¥12,995,969,000.

(Changes in Accounting Policies)

(Application of IFRS 16 "Leases")

Effective from the first quarter of the current fiscal year, Star Micronics has adopted International Financial Reporting Standard (IFRS) No. 16 "Leases" with respect to the Company's overseas consolidated subsidiaries.

The effect of adopting this standard on the Company's consolidated financial statements is immaterial.

Meanwhile, in adopting this standard, Star Micronics applies the standard retrospectively as a transition method with the cumulative effects of initially applying the standard recognized as of the date of initial application.