

Fiscal 2022 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.

Company name: Star Micronics Co., Ltd. Stock listing: Tokyo Stock Exchange

Code: 7718 URL <https://www.star-m.jp>

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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 2022 (From January 1, 2022 to September 30, 2022)

(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)	%
FY 2022 Third Quarter	61,657	35.1	9,286	72.2	9,219	66.4	6,572	53.4
FY 2021 Third Quarter	45,647	44.3	5,393	429.6	5,540	347.7	4,286	605.6

(Note) Comprehensive income FY 2022 Third Quarter ¥13,291 million [115.8%] FY 2021 Third Quarter ¥6,159 million [-%]

	Net Income Per Share	Diluted Net Income Per Share
FY 2022 Third Quarter	(¥) 172.56	(¥) 171.65
FY 2021 Third Quarter	113.58	105.35

(2) Consolidated Financial Position

	Total Assets	Net Assets	Equity Ratio
As of September 30, 2022	(¥ million) 98,492	(¥ million) 71,242	% 71.6
As of December 31, 2021	82,360	61,728	74.1

Reference: Shareholders' Equity
As of September 30, 2022 ¥70,496 million As of December 31, 2021 ¥61,054 million

2. Dividends

	Dividends Per Share				
	1Q end	2Q end	3Q end	Year-end	Full Year
FY 2021	—	(¥) 29.00	—	(¥) 29.00	(¥) 58.00
FY 2022	—	(¥) 30.00	—		
FY 2022(projected)				30.00	60.00

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

3. Consolidated Outlook for the Fiscal Year Ending December 31, 2022 (From January 1, 2022 to December 31, 2022)

(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	80,500	25.1	10,800	45.6	11,100	42.4	7,900	37.6	207.99

(Note) Changes to the latest consolidated results forecast announced: None

***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
- *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 for details.

(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, 2022	42,465,134 shares	As of December 31, 2021	44,091,334 shares
(ii) Number of treasury stock at period-end			
As of September 30, 2022	4,795,079 shares	As of December 31, 2021	5,367,223 shares
(iii) Average number of outstanding shares (During the nine months)			
As of September 30, 2022	38,088,667 shares	As of September 30, 2021	37,737,392 shares

* 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

The Company has applied the Accounting Standard for Revenue Recognition (ASBJ Statement No. 29, March 31, 2020), etc. since the beginning of the first quarter of the fiscal year under review.

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 for details.

(1) Explanation of Consolidated Operating Results

During the third quarter of fiscal 2022, the fiscal year ending December 31, 2022, the global economy was generally on a recovery trajectory. Despite this recovery, economic conditions remained uncertain due to a variety of factors including the resurgence of COVID-19, lockdowns in China, the accelerated pace of global inflation, soaring resource prices triggered by the prolonged Ukraine crisis, tight supplies of components and parts such as semiconductors, and sharp fluctuations in foreign currency exchange rates.

In each of the major markets in which the Star Micronics Group operates, demand for POS printers was strong especially in the U.S. market, while demand for the Group's mainstay machine tools remained generally high in both overseas and domestic markets.

Under these circumstances, the Star Micronics Group reported sales of ¥61,657 million for the third quarter of the fiscal year under review, up 35.1% compared with the corresponding period of the previous fiscal year. The increase was largely due to an upswing in sales of machine tools. From a profit perspective, operating income climbed 72.2%, to ¥9,286 million due in large part to higher sales. Ordinary income increased 66.4%, to ¥9,219 million. Net income attributable to owners of parent grew 53.4%, to ¥6,572 million.

(Special Products)

In POS printers, market conditions remained favorable owing to continued brisk demand for mPOS in each market, coupled with the impact of the yen's depreciation. Nevertheless, sales remained on par with the corresponding period of the previous fiscal year given the impact of significant decreases in production volumes caused by shortages in the supply of components and parts, and disruptions to logistics. Looking at trends by geographic region, sales in the U.S. market increased due to the impact of the yen's depreciation, although product shortages also had an effect. In the European and domestic markets, conditions were favorable, yet sales decreased due to shortages in the supply of products.

Accounting for these factors, sales decreased 0.6% compared with the corresponding period of the previous fiscal year, to ¥11,917 million. Operating income declined 5.5% year on year, to ¥2,136 million.

(Machine Tools)

Sales of CNC automatic lathes jumped significantly amid brisk global demand for capital investment. By geographic region, sales were strong in a wide range of industries centered on the medical-related sector in the U.S. market. In the European market, sales were robust in mainly the automotive-related industries. Accordingly, sales rose significantly in each market. Sales in the Asian market grew substantially. Despite the temporary impact of lockdowns in China, this growth largely reflected continued high levels in mainly automotive-related industries. In the domestic market, sales significantly increased in a wide range of industries.

Accounting for each of the aforementioned factors, sales and profits increased substantially. In specific terms, sales grew 47.8% compared with the corresponding period of the previous fiscal year, to ¥49,740 million. Operating income jumped 95.6%, to ¥8,613 million.

(2) Explanation of Financial Position

Amid foreign currency exchange rates affecting the consolidated balance sheet as a whole at the end of the third quarter of the fiscal year under review, assets stood at ¥98,492 million, an increase of ¥16,132 million compared with the end of the previous fiscal year. This was mainly due to the upswing in inventories and trade receivables. Total liabilities came to ¥27,249 million, an increase of ¥6,617 million compared with the previous fiscal year-end. This largely reflected the upturn in trade payables and other current liabilities. Total net assets increased ¥9,514 million compared with the end of the previous fiscal year, to ¥71,242 million. This was in large part due to the increase in foreign currency translation adjustments and retained earnings notwithstanding such factors as the purchase and retirement of treasury stock.

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

Earnings projections remain unchanged from the projections announced on August 9, 2022.

2. Quarterly Consolidated Financial Statements and Major Notes

(1) Quarterly Consolidated Balance Sheet

(Unit: Thousands of yen)

	As of December 31, 2021	As of September 30, 2022
Assets		
Current assets		
Cash and deposits	27,575,626	29,208,547
Trade notes and accounts receivable	18,553,333	22,750,823
Securities	—	34,278
Merchandise and finished goods	9,558,322	13,956,441
Work in process	4,620,202	7,248,658
Raw materials and supplies	3,644,476	4,640,719
Other	1,891,617	2,239,447
Allowance for doubtful accounts	(136,868)	(123,118)
Total current assets	65,706,710	79,955,798
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	7,507,511	7,663,271
Machinery, equipment and vehicles, net	2,462,171	3,174,113
Tools, furniture and fixtures, net	1,073,662	1,367,198
Land	1,892,487	1,942,123
Lease assets, net	74,083	64,207
Construction in progress	175,143	264,308
Other, net	1,124,027	1,504,989
Total property, plant and equipment	14,309,087	15,980,211
Intangible assets		
Other	415,966	448,631
Total intangible assets	415,966	448,631
Investments and other assets		
Investment securities	946,639	1,143,922
Deferred tax assets	598,718	477,327
Other	383,435	486,686
Total investments and other assets	1,928,793	2,107,936
Total non-current assets	16,653,847	18,536,779
Total assets	82,360,558	98,492,577

(Unit: Thousands of yen)

	As of December 31, 2021	As of September 30, 2022
Liabilities		
Current liabilities		
Trade notes and accounts payable	8,151,499	10,825,467
Electronically recorded obligations-operating	3,816,185	4,427,641
Lease obligations	27,547	26,051
Income taxes payable	811,083	1,284,021
Contract liabilities	—	1,196,825
Provision for bonuses	1,100,165	1,097,651
Provision for directors' bonuses	—	60,000
Other	5,597,862	7,056,740
Total current liabilities	19,504,343	25,974,399
Non-current liabilities		
Lease obligations	53,697	44,987
Net defined benefit liability	130,198	16,514
Other	944,121	1,213,931
Total non-current liabilities	1,128,017	1,275,433
Total liabilities	20,632,360	27,249,833
Net assets		
Shareholders' equity		
Capital stock	12,721,939	12,721,939
Capital surplus	13,854,202	11,652,259
Retained earnings	41,814,173	46,123,499
Treasury stock	(7,066,934)	(6,621,846)
Total shareholders' equity	61,323,380	63,875,852
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	84,406	110,875
Foreign currency translation adjustments	(830,454)	6,036,612
Remeasurements of defined benefit plans	476,837	473,439
Total accumulated other comprehensive income	(269,210)	6,620,927
Stock acquisition rights	420,462	400,354
Noncontrolling interests	253,566	345,610
Total net assets	61,728,198	71,242,744
Total liabilities and net assets	82,360,558	98,492,577

(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, 2021 to September 30, 2021, of FY2021	Third nine-month period from January 1, 2022 to September 30, 2022, of FY2022
Net sales	45,647,629	61,657,968
Cost of sales	29,451,833	38,473,235
Gross profit	16,195,795	23,184,732
Selling, general and administrative expenses	10,802,505	13,897,848
Operating income	5,393,290	9,286,883
Non-operating income		
Interest income	119,989	116,431
Rent income	30,510	31,123
Miscellaneous income	169,058	92,059
Total non-operating income	319,558	239,614
Non-operating expenses		
Interest expense	12,185	24,232
Commission expense	10,213	—
Foreign exchange loss	119,118	243,711
Miscellaneous loss	30,600	39,075
Total non-operating expenses	172,118	307,019
Ordinary income	5,540,730	9,219,478
Extraordinary income		
Gain on sales of non-current assets	17,181	26,507
Gain on liquidation of subsidiaries and associates	166,462	—
Total extraordinary income	183,643	26,507
Extraordinary losses		
Loss on disposal of non-current assets	13,727	16,474
Total extraordinary losses	13,727	16,474
Income before income taxes	5,710,646	9,229,511
Income taxes-current	1,574,733	2,409,521
Income taxes-deferred	(189,009)	190,495
Total income taxes	1,385,724	2,600,017
Net income	4,324,922	6,629,494
Net income attributable to noncontrolling interests	38,892	56,827
Net income attributable to owners of the parent	4,286,030	6,572,666

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

(Unit: Thousands of yen)

	Third nine-month period from January 1, 2021 to September 30, 2021, of FY2021	Third nine-month period from January 1, 2022 to September 30, 2022, of FY2022
Net income	4,324,922	6,629,494
Other comprehensive income		
Valuation difference on available-for-sale securities	66,711	26,468
Foreign currency translation adjustments	1,754,900	6,589,730
Remeasurements of defined benefit plans	3,507	(3,397)
Share of other comprehensive income of entities	9,662	48,721
Total other comprehensive income	<u>1,834,782</u>	<u>6,661,522</u>
Comprehensive income	<u>6,159,704</u>	<u>13,291,016</u>
(Total comprehensive income attributable to:)		
Owners of parent	6,101,401	13,189,002
Noncontrolling interests	58,303	102,014

(3) Notes to Quarterly Consolidated Financial Statements

(Note on Going Concern Assumption)

Not applicable

(Note on Significant Changes in Shareholders' Equity Accounts)

The Company retired 626,200 shares of treasury stock on February 4, 2022, in accordance with a resolution of the Board of Directors at a meeting held on December 8, 2021. Furthermore, the Company repurchased 1,000,000 shares of treasury stock, and retired them on August 5, 2022, in accordance with a resolution of the Board of Directors at a meeting held on May 11, 2022.

As a result, capital surplus decreased ¥2,211,341 thousand and treasury stock decreased ¥561,270 thousand during the third quarter of the fiscal year under review. This resulted in ¥11,652,259 thousand in capital surplus and ¥6,621,846 thousand in treasury stock as of the end of the third quarter of the current fiscal year.

(Changes in Accounting Policies)

(Application of "Accounting Standard for Revenue Recognition")

The Company has applied the Accounting Standard for Revenue Recognition (ASBJ Statement No. 29, March 31, 2020; hereinafter referred to as the "Revenue Recognition Accounting Standard"), etc. since the beginning of the first quarter of the fiscal year under review and recognizes revenue from goods or services to be provided at an amount expected to be received in exchange for those goods or services at the time when control over the promised goods or services is transferred to a customer. As a result, the Company now recognizes revenue at the time of acceptance inspection for certain sales, whereas it previously recognized revenue at the time of shipment, mainly in the Machine Tools Segment. In addition, consideration payable to a customer, such as sales commissions, had been previously accounted for as selling, general and administrative expenses, but is now accounted for as a net amount deducted from sales.

The Company applies the Revenue Recognition Accounting Standard in accordance with the transitional handling stipulated in the proviso of Paragraph 84 of the Accounting Standard for Revenue Recognition. The Company adds or subtracts the amount of the cumulative effect on retained earnings from the beginning of the first quarter or from retained earnings in cases where the new accounting policies are applied retroactively to periods before the beginning of the first quarter. However, the Company applied the procedure provided for in Paragraph 86 of the Revenue Recognition Accounting Standards and did not retroactively apply the new accounting policy to contracts under which almost all revenue had been recognized before the beginning of the first quarter in accordance with the procedure before the application of the new accounting policy.

As a result, net sales decreased ¥59,653 thousand, cost of sales increased ¥390,515 thousand, and selling, general and administrative expenses decreased ¥105,703 thousand. Operating income, ordinary income, and income before income taxes decreased ¥344,465 thousand each in the third quarter of the fiscal year under review.

The balance of retained earnings at the beginning of the fiscal year under review decreased by ¥10,329 thousand. Due to the application of the Accounting Standard for Revenue Recognition, "advances received," which had been included in "Other" under "Current liabilities" is included in "Contract liabilities" from the first quarter of fiscal 2022. In accordance with the transitional handling stipulated in Paragraph 89-2 of the Accounting Standard for Revenue Recognition, no reclassification via new indication methods will be carried out for the previous fiscal year using the new presentation. Moreover, in accordance with the transitional handling stipulated in Paragraph 28-15 of the "Accounting Standard for Quarterly Financial Reporting" (ASBJ Statement No. 12, March 31, 2020), information that breaks down revenues arising in relation to contracts with customers for the second quarter of the previous fiscal year is not stated.

(Application of "Accounting Standard for Fair Value Measurement")

The Company began applying the "Accounting Standard for Fair Value Measurement" (ASBJ Statement No. 30 issued on July 4, 2019, hereinafter the "Fair Value Measurement Accounting Standard") and related measures at the beginning of the first quarter of the fiscal year under review. Accordingly, the Company will apply the new accounting policies stipulated in the Fair Value Measurement Accounting Standard and related measures in the future in accordance with the transitional handling stipulated in Section 19 of the same standard and Section 44-2 of the "Accounting Standard for Financial Instruments" (ASBJ Statement No. 10 issued on July 4, 2019).

Application of this standard has no impact on quarterly consolidated financial statements.

(Application of ASC No. 842 "Leases")

Effective from the first quarter of the fiscal year under review, the Company has adopted ASC No. 842, "Leases" with regard to overseas consolidated subsidiaries. Regarding the application of the applicable accounting standard, the cumulative effect of adopting the standard, which is permitted as a transitional measure, is recognized as of the date of adoption.

The adoption of the applicable accounting standard has an insignificant impact on the consolidated financial statements.