

Fiscal 2018 First-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: First Section, Tokyo Stock Exchange
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Scheduled release of Fiscal 2018 First-quarter Business Report: July 13, 2017
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 First Quarter of Fiscal 2018 (From March 1, 2017 to May 31, 2017)

(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)	%
FY2018 First Quarter	13,475	22.1	1,102	37.3	1,160	54.5	837	28.2
FY2017 First Quarter	11,036	(10.5)	802	(33.1)	751	(17.6)	653	(18.1)

(Note) Comprehensive income FY2018 First Quarter ¥178 million [-%] FY2017 First Quarter ¥(888) million [-%]

	Net Income Per Share	Diluted Net Income Per Share
	(¥)	(¥)
FY2018 First Quarter	22.45	19.57
FY2017 First Quarter	15.43	15.41

(2) Consolidated Financial Position

	Total Assets	Net Assets	Equity Ratio
	(¥ million)	(¥ million)	%
As of May 31, 2017	68,811	43,086	61.4
As of February 28, 2017	68,350	43,754	62.8

Reference: Shareholders' Equity

As of May 31, 2017 ¥42,258 million As of February 28, 2017 ¥42,937 million

2. Dividends

	Dividends Per Share				
	1Q end	2Q end	3Q end	Year-end	Full Year
	(¥)	(¥)	(¥)	(¥)	(¥)
FY2017	—	24.00	—	24.00	48.00
FY2018	—				
FY2018(projected)		25.00	—	25.00	50.00

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

3. Consolidated Outlook for the Fiscal Year Ending February 28, 2018 (From March 1, 2017 to February 28, 2018)

(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)	%	(¥)
Interim term	24,200	5.3	1,680	(7.0)	1,780	20.0	1,300	22.6	34.86
Full Year	51,200	4.6	4,600	27.5	4,800	33.9	3,700	16.3	99.22

(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: None
 - (ii) Changes other than those in (i) above: None
 - (iii) Changes in accounting estimates: None
 - (iv) Retrospective restatement: None

- (4) Number of shares issued and outstanding (common stock)

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

As of May 31, 2017	47,033,234 shares	As of February 28, 2017	47,033,234 shares
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- (ii) Number of treasury stock at period-end

As of May 31, 2017	9,709,848 shares	As of February 28, 2017	9,741,728 shares
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- (iii) Average number of outstanding shares (during the three months ended May 31)

As of May 31, 2017	37,306,806 shares	As of May 31, 2016	42,319,843 shares
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* 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

(1) Explanation of Consolidated Operating Results

Looking at economic conditions during the first quarter, the three-month period from March 1, 2017 to May 31, 2017, of fiscal 2018, the fiscal year ending February 28, 2018, the U.S. and European economy continued to exhibit signs of positive, but slow recovery. In Asia, there were indications of a favorable turnaround in China. On the domestic front, the Japanese economy remained along its modest recovery path.

In the major markets in which the Star Micronics Group operates, levels of demand in the machine tools market in Japan and overseas were both higher compared with the corresponding period of the previous fiscal year. Demand in the POS-related market in the Special Products Segment was also robust mainly in European and Japanese markets.

Looking at movements in foreign currency exchange rates during the first quarter of fiscal 2018, the value of the yen appreciated against both the U.S. dollar and the euro compared with the corresponding period of the previous fiscal year.

Under these circumstances, the Star Micronics Group reported sales of ¥13,475 million for the first quarter of the fiscal year under review, up 22.1% year on year. This increase in sales was led mainly by growth in the Machine Tools Segment. From a profit perspective, operating income came to ¥1,102 million, an increase of 37.3% compared with the corresponding period of the previous fiscal year. Ordinary income improved 54.5%, to ¥1,160 million and net income attributable to owners of parent amounted to ¥837 million, up 28.2% year on year.

Performance by segment was as follows:

(Special Products)

In POS printers, sales in the U.S. market decreased due to the impact of inventory adjustments by sales agents. Sales in the European market increased despite the effect of the strong yen. This was mainly attributable to the recovery trend in market conditions mainly in developed countries. In the Asian market, sales in China declined. However, sales in Japan increased substantially on the back of robust mPOS-related sales.

As a result, sales in the Special Products Segment edged up 6.6% compared with the corresponding period of the previous fiscal year, to ¥2,953 million. Operating income climbed 1.5% year on year to ¥394 million.

(Machine Tools)

In CNC automatic lathes, sales in the U.S. market increased substantially mainly in the medical equipment-related sector. Despite the impact of the strong yen, sales grew in the European market. This growth largely reflected capital expenditures mainly in automotive-related sectors in major countries. Sales increased substantially in the Asian market. This was largely attributable to strong sales in the automotive-related sector in China. Sales in the Japanese market also increased substantially mainly in the automotive-related sector.

As a result, sales and profits increased substantially in the Machine Tools Segment. In specific terms, sales increased 31.7% compared with the corresponding period of the previous fiscal year, to ¥9,494 million and operating income increased 39.6% year on year, to ¥1,293 million.

(Precision Products)

Sales of wristwatch components declined owing to the ongoing impact of production adjustments by wristwatch manufacturers. Sales of non-wristwatch components were held to roughly the same level as the corresponding period of the previous fiscal year. Despite robust sales trends in medical-related components, this result was largely attributable to the decline in automotive and air conditioning components.

As a result, sales in the Precision Products Segment decreased 2.9% compared with the corresponding period of the previous fiscal year, to ¥1,027 million. Operating income improved 12.3% year on year to ¥87 million.

(2) Explanation of Financial Position

Total assets as of the end of the first quarter of the fiscal year under review stood at ¥68,811 million, an increase of ¥461 million compared with the end of the previous fiscal year. Despite a decrease in cash and deposits, this was mainly attributable to an increase in securities and property, plant and equipment.

Total liabilities came in at ¥25,725 million, an increase of ¥1,129 million compared with the end of the previous fiscal year. This was largely due to an increase in trade payables.

Total net assets declined ¥668 million compared with the end of the previous fiscal year, to ¥43,086 million. This mainly reflected the drop in foreign currency translation adjustments.

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

Earnings projections remain unchanged from the projections announced on April 12, 2017.

2. Quarterly Consolidated Financial Statements
(1) Quarterly Consolidated Balance Sheet

(Unit: Thousands of yen)

	As of February 28, 2017	As of May 31, 2017
Assets		
Current assets		
Cash and deposits	20,777,539	19,546,507
Trade notes and accounts receivable	14,209,376	14,208,306
Securities	—	789,159
Merchandise and finished goods	10,698,809	10,316,496
Work in process	3,611,188	3,817,234
Raw materials and supplies	2,102,186	1,998,001
Deferred tax assets	158,262	178,731
Other	1,688,797	1,729,095
Allowance for doubtful accounts	(74,401)	(75,967)
Total current assets	53,171,760	52,507,565
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	5,564,379	5,369,002
Machinery, equipment and vehicles, net	3,347,167	3,210,408
Tools, furniture and fixtures, net	894,530	901,359
Land	2,984,099	2,984,569
Lease assets, net	56,807	85,540
Construction in progress	78,869	1,331,608
Total property, plant and equipment	12,925,854	13,882,489
Intangible assets		
Other	1,048,647	1,000,408
Total intangible assets	1,048,647	1,000,408
Investments and other assets		
Investment securities	733,570	936,892
Deferred tax assets	138,436	146,491
Other	332,391	338,064
Allowance for doubtful accounts	(37)	(34)
Total investments and other assets	1,204,360	1,421,413
Total Non-current assets	15,178,862	16,304,311
Total assets	68,350,623	68,811,877

(Unit: Thousands of yen)

	As of February 28, 2017	As of May 31, 2017
Liabilities		
Current liabilities		
Trade notes and accounts payable	4,676,447	5,361,527
Electronically recorded obligations-operating	2,147,907	2,530,894
Short-term loans payable	2,500,000	2,500,000
Lease obligations	21,928	28,627
Income taxes payable	503,719	549,839
Provision for bonuses	759,393	531,702
Provision for directors' bonuses	—	16,000
Other	4,051,263	4,297,021
Total current liabilities	14,660,661	15,815,613
Non-current liabilities		
Convertible bonds	8,068,000	8,064,000
Lease obligations	39,147	63,548
Net defined benefit liability	1,612,938	1,574,138
Other	215,342	208,133
Total non-current liabilities	9,935,427	9,909,821
Total liabilities	24,596,089	25,725,435
Net assets		
Shareholders' equity		
Capital stock	12,721,939	12,721,939
Capital surplus	13,939,178	13,946,524
Retained earnings	29,095,882	29,038,433
Treasury stock	(10,783,273)	(10,748,051)
Total shareholders' equity	44,973,727	44,958,845
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	140,279	138,499
Foreign currency translation adjustments	(1,354,059)	(2,078,547)
Remeasurements of defined benefit plans	(822,394)	(760,021)
Total accumulated other comprehensive income	(2,036,174)	(2,700,069)
Stock acquisition rights	210,329	216,635
Noncontrolling interests	606,650	611,030
Total net assets	43,754,533	43,086,441
Total liabilities and net assets	68,350,623	68,811,877

(2) Quarterly Consolidated Statement of Income and Consolidated Statement of Comprehensive Income

(Quarterly Consolidated Statement of Income)

(First three-month period)

(Unit: Thousands of yen)

	First three-month period from March 1, 2016 to May 31, 2016, of FY2017	First three-month period from March 1, 2017 to May 31, 2017, of FY2018
Net sales	11,036,252	13,475,448
Cost of sales	6,624,515	8,666,370
Gross profit	4,411,737	4,809,077
Selling, general and administrative expenses	3,608,942	3,707,027
Operating income	802,794	1,102,049
Non-operating income		
Interest income	27,697	31,790
Dividend income	250	2,698
Foreign exchange gains	—	1,195
Rent income	19,212	13,754
Electricity sales income	3,743	3,923
Miscellaneous income	31,892	19,647
Total non-operating income	82,795	73,010
Non-operating expenses		
Interest expense	1,945	2,794
Loss on valuation of investment securities	—	5,560
Foreign exchange loss-net	119,820	—
Cost of lease revenue	7,805	638
Electricity sales expense	3,013	2,657
Miscellaneous loss	1,827	2,535
Total non-operating expenses	134,411	14,185
Ordinary income	751,178	1,160,873
Extraordinary income		
Gain on sales of non-current assets	1,007	1,285
Total extraordinary income	1,007	1,285
Extraordinary losses		
Loss on disposal of non-current assets	2,145	19,336
Total extraordinary losses	2,145	19,336
Income before income taxes	750,040	1,142,822
Income taxes-current	232,143	342,776
Income taxes-deferred	(161,429)	(54,331)
Total income taxes	70,714	288,445
Net income	679,325	854,377
Net income attributable to noncontrolling interests	26,256	16,829
Net income attributable to owners of parent	653,069	837,547

(Quarterly Consolidated Statement of Comprehensive Income)
(First three-month period)

(Unit: Thousands of yen)

	First three-month period from March 1, 2016 to May 31, 2016, of FY2017	First three-month period from March 1, 2017 to May 31, 2017, of FY2018
Net income	679,325	854,377
Other comprehensive income		
Valuation difference on available-for-sale securities	(14,008)	(1,779)
Foreign currency translation adjustments	(1,558,294)	(725,159)
Remeasurements of defined benefit plans, net of tax	24,677	62,372
Share of other comprehensive income of entities accounted for using equity method	(20,262)	(11,779)
Total other comprehensive income	<u>(1,567,887)</u>	<u>(676,345)</u>
Comprehensive income	<u>(888,561)</u>	<u>178,031</u>
Total comprehensive income attributable to:		
Owners of parent	(873,958)	173,652
Noncontrolling interests	(14,603)	4,379

(3) Notes to Quarterly Consolidated Financial Statements

(Note on Going Concern Assumption)

Not applicable

(Note on Significant Changes in Shareholders' Equity Accounts)

Not applicable