

Fiscal 12/2018 Second-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 2018 Second-quarter Business Report: October 12, 2018

Scheduled payment of dividends: November 9, 2018

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 Second Quarter of Fiscal 12/2018 (From March 1, 2018 to August 31, 2018)

(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)	%
FY12/2018 Second Quarter	40,876	—	6,186	—	6,149	—	4,780	—
FY2/2018 Second Quarter	28,105	22.3	2,291	26.8	2,609	76.0	1,680	58.4

(Note) Comprehensive income FY 12/2018 Second Quarter ¥4,159 million [—%] FY 2/2018 Second Quarter ¥1,467 million [—%]

	Net Income Per Share	Diluted Net Income Per Share
	(¥)	(¥)
FY12/2018 Second Quarter	130.14	114.35
FY2/2018 Second Quarter	45.07	39.47

As fiscal 12/2018 is a transitional period, the consolidated fiscal year for consolidated companies whose fiscal year previously ended in February was six months from March 1, 2018 to August 31, 2018, and for consolidated companies whose fiscal year ends in December was eight months from January 1, 2018 to August 31, 2018. Given that the reporting of accounts for this fiscal year is an anomaly, the rates of change over the corresponding quarter for the previous fiscal year are omitted.

(2) Consolidated Financial Position

	Total Assets	Net Assets	Equity Ratio
	(¥ million)	(¥ million)	%
As of August 31, 2018	78,083	49,764	62.4
As of February 28, 2018	77,362	47,446	60.1

Reference: Shareholders' Equity

As of August 31, 2018 ¥48,753 million As of February 28, 2018 ¥46,521 million

2. Dividends

	Dividends Per Share				
	1Q end	2Q end	3Q end	Year-end	Full Year
	(¥)	(¥)	(¥)	(¥)	(¥)
FY 2/2018	—	25.00	—	27.00	52.00
FY 12/2018	—	27.00			
FY 12/2018(projected)			—	27.00	54.00

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

3. Consolidated Outlook for the Fiscal Year Ending December 31, 2018 (From March 1, 2018 to December 31, 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)	%	(¥)
Full Year	61,200	—	8,200	—	8,300	—	6,000	—	164.06

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

As fiscal 2018, the fiscal year ending December 31, 2018, is a transitional period, forecast data is based on and presented for the 10-month period from March 1, 2018 to December 31, 2018 for the Company and consolidated subsidiaries whose account settlement date is February 28, and for the 12-month period from January 1, 2018 to December 31, 2018 for consolidated subsidiaries whose account settlement date is December 31. 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: 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 August 31, 2018	46,774,634 shares	As of February 28, 2018	46,774,634 shares
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(ii) Number of treasury stock at period-end

As of August 31, 2018	10,385,236 shares	As of February 28, 2018	9,944,576 shares
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(iii) Average number of outstanding shares (during the six months ended August 31)

As of August 31, 2018	36,729,125 shares	As of August 31, 2017	37,283,286 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

As fiscal 12/2018 is a transitional period, the consolidated fiscal year for consolidated companies whose fiscal year previously ended in February was six months from March 1, 2018 to August 31, 2018, and for consolidated companies whose fiscal year ends in December was eight months from January 1, 2018 to August 31, 2018. Given that the reporting of accounts for this fiscal year is an anomaly, the rates of change over the corresponding quarter for the previous fiscal year are omitted.

(1) Explanation of Consolidated Operating Results

In the major markets in which the Star Micronics Group operates, during the second quarter of fiscal 12/2018 there was strong demand for machine tools in Japan and overseas, while demand in the POS-related market in the Special Products Segment was solid mainly in overseas markets. As far as the precision products-related markets were concerned, demand was firm for both wristwatch and non-wristwatch components. In contrast, demand was weak for certain components for hard disk drives (HDDs) and other products.

Under these circumstances, the Star Micronics Group reported sales of ¥40,876 million for the second quarter of the fiscal year under review. From a profit perspective, operating income came to ¥6,186 million, ordinary income was ¥6,149 million, and net income attributable to owners of parent amounted to ¥4,780 million.

Performance by segment was as follows:

(Special Products)

In POS printers, sales were solid in the U.S. market. Sales were also strong in the European market, against the backdrop of a recovery in market conditions. In the Asian market, demand in China dropped for certain products that include thermal finished products used in retail outlets but was solid in other areas. The overall domestic market remained solid, but large project demand was weak.

As a result, sales in the Special Products Segment came to ¥7,901 million and operating income was ¥1,325 million.

(Machine Tools)

In CNC automatic lathes, sales remained solid in the U.S. market centered on the medical equipment-related sector. In the European market, sales were strong centered on the automotive-related sector in major markets such as German and Italy. Sales were also robust in the automobiles, telecommunications, and medicine-related markets in Asia centered on China. Moreover, sales were strong across a wide array of sectors including those related to automobiles and semiconductors in Japan.

As a result, the Machine Tools Segment reported sales of ¥30,272 million and operating income of ¥5,884 million.

(Precision Products)

Sales of wristwatch components remained solid owing to strong sales by wristwatch makers. Sales of non-wristwatch components were sluggish amid HDDs component market shrinkage, but sales for air conditioning and medical-related components were strong.

As a result, the Precision Products Segment posted sales of ¥2,702 million operating income of ¥271 million.

(2) Explanation of Financial Position

Total assets as of the end of the second quarter of the fiscal year under review stood at ¥78,083 million, an increase of ¥720 million compared with the end of the previous fiscal year. Despite a decline in such accounting line items as cash and deposits, this increase in total assets was primarily attributable to the rise in property, plant and equipment. Total liabilities came in at ¥28,318 million, a decrease of ¥1,597 million compared with the end of the previous fiscal year. This was largely due to the decline in other current liabilities. Total net assets increased ¥2,318 million compared with the end of the previous fiscal year, to ¥49,764 million. While impacted by the purchase of treasury stock as well as foreign currency translation adjustments, the increase in total net assets mainly reflected the upswing in retained earnings.

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

Earnings projections for the consolidated full year of fiscal 12/2018 have been revised from the projections announced on July 11, 2018 mainly based on earnings for the Second quarter. For details, please see the Notice regarding Revision to Business Forecasts disclosed separately today (October 11, 2018).

2. Quarterly Consolidated Financial Statements and Major Notes

(1) Quarterly Consolidated Balance Sheet

(Unit: Thousands of yen)

	As of February 28, 2018	As of August 31, 2018
Assets		
Current assets		
Cash and deposits	22,072,044	21,133,891
Trade notes and accounts receivable	16,955,708	16,905,154
Securities	1,000,000	1,100,110
Merchandise and finished goods	10,239,928	10,235,461
Work in process	4,250,464	4,364,503
Raw materials and supplies	2,638,195	2,468,446
Deferred tax assets	663,986	381,832
Other	1,958,947	1,892,126
Allowance for doubtful accounts	(144,844)	(140,288)
Total current assets	59,634,430	58,341,238
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	4,940,901	8,344,085
Machinery, equipment and vehicles, net	2,749,658	3,361,170
Tools, furniture and fixtures, net	887,413	1,381,160
Land	2,747,404	2,737,743
Lease assets, net	75,253	71,012
Construction in progress	2,675,595	364,541
Total property, plant and equipment	14,076,227	16,259,714
Intangible assets		
Other	917,697	864,246
Total intangible assets	917,697	864,246
Investments and other assets		
Investment securities	1,463,817	1,360,726
Deferred tax assets	906,975	903,009
Other	363,853	354,794
Allowance for doubtful accounts	(17)	—
Total investments and other assets	2,734,628	2,618,530
Total Non-current assets	17,728,553	19,742,491
Total assets	77,362,984	78,083,729

(Unit: Thousands of yen)

	As of February 28, 2018	As of August 31, 2018
Liabilities		
Current liabilities		
Trade notes and accounts payable	6,928,315	6,596,827
Electronically recorded obligations-operating	3,383,790	3,545,938
Short-term loans payable	2,500,000	2,500,000
Lease obligations	28,277	26,781
Income taxes payable	842,462	761,260
Provision for bonuses	1,069,894	1,315,584
Provision for directors' bonuses	—	47,000
Other	5,466,664	3,906,517
Total current liabilities	20,219,403	18,699,910
Non-current liabilities		
Convertible bonds	8,052,000	8,044,000
Lease obligations	52,923	49,457
Net defined benefit liability	1,433,209	1,355,323
Other	158,704	170,294
Total non-current liabilities	9,696,837	9,619,075
Total liabilities	29,916,241	28,318,986
Net assets		
Shareholders' equity		
Capital stock	12,721,939	12,721,939
Capital surplus	13,876,517	13,879,906
Retained earnings	32,845,575	36,631,174
Treasury stock	(11,519,292)	(12,401,025)
Total shareholders' equity	47,924,738	50,831,994
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	165,067	151,353
Foreign currency translation adjustments	(1,185,575)	(1,942,884)
Remeasurements of defined benefit plans	(382,271)	(286,915)
Total accumulated other comprehensive income	(1,402,779)	(2,078,446)
Stock acquisition rights	250,509	287,644
Noncontrolling interests	674,274	723,550
Total net assets	47,446,743	49,764,743
Total liabilities and net assets	77,362,984	78,083,729

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

(Quarterly Consolidated Statement of Income)

(Second six-month period)

(Unit: Thousands of yen)

	Second six-month period from March 1, 2017 to August 31, 2017, of FY2/2018	Second six-month period from March 1, 2018 to August 31, 2018, of FY12/2018
Net sales	28,105,957	40,876,270
Cost of sales	18,230,921	25,265,678
Gross profit	9,875,035	15,610,592
Selling, general and administrative expenses	7,583,584	9,424,126
Operating income	2,291,451	6,186,465
Non-operating income		
Interest income	67,042	106,664
Dividend income	6,202	8,776
Foreign exchange gains	196,585	—
Rent income	27,529	27,999
Electricity sales income	8,753	8,695
Miscellaneous income	39,976	84,647
Total non-operating income	346,091	236,783
Non-operating expenses		
Interest expense	2,592	4,706
Loss on valuation of investment securities	15,520	—
Foreign exchange loss-net	—	251,844
Cost of lease revenue	1,604	1,892
Electricity sales expense	5,315	4,688
Miscellaneous loss	2,612	10,376
Total non-operating expenses	27,645	273,508
Ordinary income	2,609,897	6,149,740
Extraordinary income		
Gain on sales of non-current assets	1,775	3,627
Total extraordinary income	1,775	3,627
Extraordinary losses		
Loss on disposal of non-current assets	20,265	11,724
Impairment loss	286,405	—
Total extraordinary losses	306,670	11,724
Income before income taxes	2,305,001	6,141,642
Income taxes-current	681,630	1,086,900
Income taxes-deferred	(103,687)	186,189
Total income taxes	577,942	1,273,089
Net income	1,727,059	4,868,553
Net income attributable to noncontrolling interests	46,784	88,542
Net income attributable to owners of parent	1,680,275	4,780,010

(Quarterly Consolidated Statement of Comprehensive Income)
(Second six-month period)

(Unit: Thousands of yen)

	Second six-month period from March 1, 2017 to August 31, 2017, of FY2/2018	Second six-month period from March 1, 2018 to August 31, 2018, of FY12/2018
Net income	1,727,059	4,868,553
Other comprehensive income		
Valuation difference on available-for-sale securities	11,121	(13,714)
Foreign currency translation adjustments	(381,656)	(782,247)
Remeasurements of defined benefit plans	124,744	95,356
Share of other comprehensive income of entities	(13,615)	(8,563)
Total other comprehensive income	(259,405)	(709,169)
Comprehensive income	1,467,654	4,159,383
(Total comprehensive income attributable to:)		
Owners of parent	1,428,135	4,104,343
Noncontrolling interests	39,518	55,040

(3) Notes to Quarterly Consolidated Financial Statements

(Note on Going Concern Assumption)

Not applicable

(Note on Significant Changes in Shareholders' Equity Accounts)

(Repurchase of Shares)

The Company resolved to repurchase 454,600 of its own shares during the period from July 12, 2018 to August 31, 2018 at a meeting of its Board of Directors held on July 11, 2018. As a result, the balance of treasury stock increased ¥897,926 thousand in the second quarter of the fiscal year under review and stood at ¥12,401,025 thousand as of August 31, 2018.