

Fiscal 2018 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: First Section, Tokyo Stock Exchange
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Scheduled release of Fiscal 2018 Third-quarter Business Report: January 11, 2018
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 2018 (From March 1, 2017 to November 30, 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 Third Quarter	43,412	23.6	4,090	54.2	4,687	90.2	3,133	44.8
FY2017 Third Quarter	35,134	(12.5)	2,652	(36.5)	2,464	(34.9)	2,163	(20.6)

(Note) Comprehensive income FY2018 Third Quarter ¥3,397 million [- %] FY2017 Third Quarter ¥(2,037) million [- %]

	Net Income Per Share	Diluted Net Income Per Share
	(¥)	(¥)
FY2018 Third Quarter	84.21	73.93
FY2017 Third Quarter	54.85	50.65

(2) Consolidated Financial Position

	Total Assets	Net Assets	Equity Ratio
	(¥ million)	(¥ million)	%
As of November 30, 2017	73,193	44,865	60.1
As of February 28, 2017	68,350	43,754	62.8

Reference: Shareholders' Equity

As of November 30, 2017 ¥43,984 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	—	25.00	—		
FY2018(projected)				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)	%	(¥)
Full Year	59,500	21.6	5,900	63.6	6,500	81.4	4,600	44.6	123.92

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

*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 November 30, 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 November 30, 2017	9,972,896 shares	As of February 28, 2017	9,741,728 shares
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- (iii) Average number of outstanding shares (during the nine months ended November 30)

As of November 30, 2017	37,207,370 shares	As of November 30, 2016	39,454,978 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

(i) 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.

(ii) At a meeting of its Board of Directors held on January 10, 2018, the Company resolved to repurchase and retirement its own shares. Star Micronics has taken into account the impact of repurchase and retirement of its own shares in its consolidated net income per share forecast for the fiscal year ending February 28, 2018. For details, please refer to the Company's press release, "Notice regarding Repurchase and Retirement of Own Shares" disclosed separately on January 10, 2018.

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1. Qualitative Information regarding Quarterly Consolidated Business Performance

(1) Explanation of Consolidated Operating Results

Looking at economic conditions during the third quarter, the nine-month period from March 1, 2017 to November 30, 2017, of fiscal 2018, the fiscal year ending February 28, 2018, the U.S. economy continued to recover steadily and the European economy recovered at a modest pace. In Asia, there were indications of a favorable turnaround in China. On the domestic front, the Japanese economy continued 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 significantly 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. However, demand in the precision products-related market was partially sluggish.

Looking at movements in foreign currency exchange rates during the third quarter of fiscal 2018, the value of the yen fell 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 a substantial increase in sales of ¥43,412 million for the third quarter of the fiscal year under review, up 23.6% 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 ¥4,090 million, an increase of 54.2% compared with the corresponding period of the previous fiscal year. Ordinary income amounted to ¥4,687 million, up 90.2% year on year. Despite posting an impairment loss for a manufacturing subsidiary in Thailand in the Precision Products segment, net income attributable to owners of parent grew substantially climbing 44.8% year on year, to ¥3,133 million.

Performance by segment was as follows:

(Special Products)

In POS printers, sales in the U.S. market decreased due to the impact of temporary inventory adjustments by sales agents. Sales in the European market increased due to the recovery trend in market conditions mainly in developed countries. Sales declined in the Asian market due to sluggish sales of dot impact printers in China. Sales in Japan increased on the back of robust mPOS-related sales.

As a result, sales in the Special Products Segment edged up 5.2% compared with the corresponding period of the previous fiscal year, to ¥8,911 million. Operating income decreased 11.1% year on year to ¥1,077 million.

(Machine Tools)

In CNC automatic lathes, amid robust demand worldwide, sales grew substantially in the U.S. market, mainly in the medical equipment-related sector. Sales also rose strongly in the European market, largely reflected sustained capital investment mainly in automotive-related sectors. In the Asian market, sales were strong in the automotive, communication and medical equipment-related sectors, centered on China, while sales were healthy in the automotive sector in Japan, supporting a steep rise in overall sales of CNC automatic lathes.

As a result, sales and profits increased substantially in the Machine Tools Segment. In specific terms, sales increased 34.0% compared with the corresponding period of the previous fiscal year, to ¥31,402 million and operating income increased 66.1% year on year, to ¥4,832 million.

(Precision Products)

Sales of wristwatch components were steady compared with the corresponding period of the previous fiscal year, despite an impact from production adjustments at wristwatch makers in the first half of the fiscal year. Sales of non-wristwatch declined. Despite robust sales trends in medical-related components, this result was largely attributable to the decline in automotive and HDD components.

As a result, sales in the Precision Products Segment decreased 3.9% compared with the corresponding period of the previous fiscal year, to ¥3,098 million. Operating income decreased 0.9% year on year to ¥252 million.

(2) Explanation of Financial Position

Total assets as of the end of the third quarter of the fiscal year under review stood at ¥73,193 million, an increase of ¥4,843 million compared with the end of the previous fiscal year. This was mainly attributable to increases for trade accounts and notes receivable and for construction in progress due to the construction of the head office building. Total liabilities came in at ¥28,328 million, an increase of ¥3,732 million compared with the end of the previous fiscal year. This was largely due to an increase in trade payables.

Despite the repurchase of treasury stock, total net assets increased ¥1,110 million compared with the end of the previous fiscal, to ¥44,865 million, mainly due to an increase in retained earnings.

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

In light of business performance in the first three quarters of the fiscal year ending February 28, 2018, the Star Micronics Group has revised its earnings projections announced on August 21, 2017. For details, please see the separate press release titled "Notice regarding Revisions to Business Forecasts", which was issued separately today (January 10, 2018).

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

(Unit: Thousands of yen)

	As of February 28, 2017	As of November 30, 2017
Assets		
Current assets		
Cash and deposits	20,777,539	19,996,114
Trade notes and accounts receivable	14,209,376	15,823,282
Securities	—	999,865
Merchandise and finished goods	10,698,809	10,399,060
Work in process	3,611,188	4,302,580
Raw materials and supplies	2,102,186	2,304,596
Deferred tax assets	158,262	199,838
Other	1,688,797	1,819,444
Allowance for doubtful accounts	(74,401)	(90,040)
Total current assets	53,171,760	55,754,742
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	5,564,379	5,022,240
Machinery, equipment and vehicles, net	3,347,167	2,972,941
Tools, furniture and fixtures, net	894,530	841,451
Land	2,984,099	2,953,147
Lease assets, net	56,807	82,544
Construction in progress	78,869	2,657,496
Total property, plant and equipment	12,925,854	14,529,822
Intangible assets		
Other	1,048,647	944,067
Total intangible assets	1,048,647	944,067
Investments and other assets		
Investment securities	733,570	1,472,975
Deferred tax assets	138,436	160,702
Other	332,391	331,520
Allowance for doubtful accounts	(37)	(30)
Total investments and other assets	1,204,360	1,965,168
Total Non-current assets	15,178,862	17,439,058
Total assets	68,350,623	73,193,801

(Unit: Thousands of yen)

	As of February 28, 2017	As of November 30, 2017
Liabilities		
Current liabilities		
Trade notes and accounts payable	4,676,447	6,674,230
Electronically recorded obligations-operating	2,147,907	3,389,689
Short-term loans payable	2,500,000	2,500,000
Lease obligations	21,928	29,869
Income taxes payable	503,719	748,499
Provision for bonuses	759,393	659,349
Provision for directors' bonuses	—	62,000
Other	4,051,263	4,432,999
Total current liabilities	14,660,661	18,496,638
Non-current liabilities		
Convertible bonds	8,068,000	8,056,000
Lease obligations	39,147	59,157
Net defined benefit liability	1,612,938	1,494,247
Other	215,342	222,370
Total non-current liabilities	9,935,427	9,831,776
Total liabilities	24,596,089	28,328,415
Net assets		
Shareholders' equity		
Capital stock	12,721,939	12,721,939
Capital surplus	13,939,178	13,958,472
Retained earnings	29,095,882	30,406,186
Treasury stock	(10,783,273)	(11,251,621)
Total shareholders' equity	44,973,727	45,834,977
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	140,279	163,821
Foreign currency translation adjustments	(1,354,059)	(1,379,233)
Remeasurements of defined benefit plans	(822,394)	(635,276)
Total accumulated other comprehensive income	(2,036,174)	(1,850,688)
Stock acquisition rights	210,329	241,230
Noncontrolling interests	606,650	639,867
Total net assets	43,754,533	44,865,386
Total liabilities and net assets	68,350,623	73,193,801

(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 March 1, 2016 to November 30, 2016, of FY2017	Third nine-month period from March 1, 2017 to November 30, 2017, of FY2018
Net sales	35,134,104	43,412,776
Cost of sales	21,866,314	27,767,212
Gross profit	13,267,790	15,645,564
Selling, general and administrative expenses	10,615,032	11,555,335
Operating income	2,652,757	4,090,229
Non-operating income		
Interest income	91,265	104,573
Dividend income	27,297	6,202
Foreign exchange gains	—	406,222
Rent income	56,255	41,391
Electricity sales income	11,942	12,278
Miscellaneous income	106,937	55,710
Total non-operating income	293,698	626,380
Non-operating expenses		
Interest expense	4,736	3,882
Loss on valuation of investment securities	—	11,650
Foreign exchange loss-net	404,009	—
Cost of lease revenue	17,406	2,758
Electricity sales expense	9,039	7,973
Miscellaneous loss	47,094	2,887
Total non-operating expenses	482,286	29,151
Ordinary income	2,464,169	4,687,458
Extraordinary income		
Gain on sales of non-current assets	4,396	14,633
Gain on sale of investment securities	164,579	—
Total extraordinary income	168,976	14,633
Extraordinary losses		
Loss on disposal of non-current assets	10,488	31,243
Impairment loss	—	289,753
Total extraordinary losses	10,488	320,997
Income before income taxes	2,622,657	4,381,093
Income taxes-current	751,551	1,260,857
Income taxes-deferred	(359,446)	(83,137)
Total income taxes	392,104	1,177,720
Net income	2,230,553	3,203,373
Net income attributable to noncontrolling interests	66,633	70,071
Net income attributable to owners of parent	2,163,919	3,133,301

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

(Unit: Thousands of yen)

	Third nine-month period from March 1, 2016 to November 30, 2016, of FY2017	Third nine-month period from March 1, 2017 to November 30, 2017, of FY2018
Net income	2,230,553	3,203,373
Other comprehensive income		
Valuation difference on available-for-sale securities	(65,572)	23,542
Foreign currency translation adjustments	(4,238,226)	(4,853)
Remeasurements of defined benefit plans, net of tax	85,903	187,117
Share of other comprehensive income of entities accounted for using equity method	(50,405)	(11,960)
Total other comprehensive income	(4,268,301)	193,846
Comprehensive income	(2,037,747)	3,397,219
Total comprehensive income attributable to:		
Owners of parent	(1,992,706)	3,318,787
Noncontrolling interests	(45,040)	78,432

(3) Notes to Quarterly Consolidated Financial Statements

(Note on Going Concern Assumption)

Not applicable

(Note on Significant Changes in Shareholders' Equity Accounts)

The Company resolved to repurchase 300,000 of its own shares at a meeting of its Board of Directors held on August 21, 2017. As a result, the balance of treasury stock increased ¥544,680 thousand in the third quarter of the fiscal year under review and stood at ¥11,251,621 thousand as of November 30, 2017.