

Fiscal 2019 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 2019 Second-quarter Business Report: August 13, 2019
Scheduled payment of dividends: September 6, 2019
Preparation of supplementary explanatory materials for quarterly earnings report: Yes
Quarterly earnings presentation: Yes

(Figures less than one million are rounded down)

1. Results for the Second Quarter of Fiscal 2019 (From January 1, 2019 to June 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)	%
FY 2019 Second Quarter	31,412	—	3,269	—	3,536	—	2,406	—
FY 2018 Second Quarter	40,876	—	6,186	—	6,149	—	4,780	—

(Note) Comprehensive income FY 2019 Second Quarter ¥1,430 million [—%] FY 2018 Second Quarter ¥4,159 million [—%]

	Net Income Per Share	Diluted Net Income Per Share
	(¥)	(¥)
FY 2019 Second Quarter	67.07	58.61
FY 2018 Second Quarter	130.14	114.35

(Note) As the previous fiscal year was a transitional period, the second quarter cumulative period of the consolidated fiscal year for consolidated companies whose fiscal year previously ended in February was the six months from March 1, 2018 to August 31, 2018, and for consolidated companies whose fiscal year ended in December was the eight months from January 1, 2018 to August 31, 2018. In light of the aforementioned, 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 June 30, 2019	80,509	49,884	61.0
As of December 31, 2018	79,935	49,311	60.3

Reference: Shareholders' Equity

As of June 30, 2019 ¥49,125 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
	(¥)	(¥)	(¥)	(¥)	(¥)
FY 2018	—	27.00	—	27.00	54.00
FY 2019	—	28.00			
FY 2019(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	61,300	—	6,200	—	6,600	—	4,400	—	123.42

(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 June 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 June 30, 2019	9,851,106 shares	As of December 31, 2018	9,910,156 shares
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(iii) Average number of outstanding shares (During the six months)

As of June 30, 2019	35,889,234 shares	As of August 31, 2018	36,729,125 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

1. 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.

2. STAR MICRONICS CO., LTD. resolved at a Board of Directors' meeting held on August 9, 2019 to repurchase and retire its own shares. As a result, steps have been taken to factor in the impact of this repurchase and retirement of own shares on net income per share in the Company's consolidated outlook for the fiscal year ending December 31, 2019.

Please refer to the press release "Notice Regarding Determination of Matters Relating to the Repurchase and Retirement of Own Shares" issued separately on August 9, 2019 for details.

○(Attached Documents) Index

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1. Qualitative Information regarding Quarterly Consolidated Business Performance

As the previous fiscal year was a transitional period, the second quarter cumulative period of the consolidated fiscal year for consolidated companies whose fiscal year previously ended in February was the six months from March 1, 2018 to August 31, 2018, and for consolidated companies whose fiscal year ended in December was the eight months from January 1, 2018 to August 31, 2018. In light of the aforementioned, details of any increase or decrease compared with the corresponding period of the previous year have been omitted.

(1) Explanation of Consolidated Operating Results

Looking at the major markets in which the Star Micronics Group operates, and despite signs of a temporary curb on capital investments as a result of prolonged issues relating to the U.K.'s exit from the European Union throughout Europe, overall demand in the Company-related machine tools market remained strong during the second quarter cumulative period of fiscal 2019. 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 and mainly 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 ¥31,412 million for the second quarter of the fiscal year under review. From a profit perspective, operating income came to ¥3,269 million, ordinary income was ¥3,536 million, and net income attributable to owners of parent amounted to ¥2,406 million after posting business restructuring expenses related to the Precision Products Segment.

Performance by segment was as follows:

(Special Products)

In POS printers, trends in sales were firm. This was due to strong demand for thermal printers in the U.S. market. In contrast, sales were sluggish in Europe due mainly to the slowdown in market conditions and the sense of uncertainty. Demand for dot-matrix printers slumped in China. Owing to this and other factors, sales in the Asia market were dull. On a positive note, sales in Japan were robust. This was primarily due to market activity in the leadup to the consumption tax rate hike.

As a result, sales in the Special Products Segment came to ¥6,086 million and operating income was ¥883 million.

(Machine Tools)

In CNC automatic lathes, trends in sales were brisk mainly in the medical equipment-related sector in the U.S. market. In contrast, sales were weak in Europe with market conditions sluggish as a result of issues relating to the U.K.'s exit from the European Union and other factors. Turning to the Asian market, sales remained strong in the medical equipment- and telecommunications-related sectors in China. While there were signs that a portion of the market in Japan was adopting a cautious approach toward capital investment, sales trends were generally firm.

As a result, the Machine Tools Segment reported sales of ¥23,715 million and operating income of ¥3,480 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 ¥1,610 million operating income of ¥76 million.

(2) Explanation of Financial Position

Total assets as of the end of the second quarter of the current fiscal year stood at ¥80,509 million, an increase of ¥574 million compared with the end of the previous fiscal year. Despite a decrease in trade receivables, this increase was largely due to the upswing in inventories. Total liabilities came in at ¥30,624 million, the same level as the previous fiscal year-end. While trade payables and income taxes payable increased, this was to a large degree offset by the decrease in other current liabilities. Total net assets increased ¥573 million compared with the end of the previous fiscal year, to ¥49,884 million. Although the balance of net assets was affected by foreign currency translation adjustments and other factors, this increase in net assets largely reflected the increase in retained earnings.

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 February 13, 2019 mainly based on earnings for the cumulative second quarter. For details, please see the "Notice Regarding Revisions to Business Forecasts" disclosed separately today (August 9, 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 June 30, 2019
Assets		
Current assets		
Cash and deposits	20,879,679	19,893,158
Trade notes and accounts receivable	18,756,178	16,321,547
Securities	500,000	500,000
Merchandise and finished goods	10,047,819	13,254,382
Work in process	4,539,076	4,670,575
Raw materials and supplies	3,195,901	2,991,728
Other	2,137,540	2,903,545
Allowance for doubtful accounts	(141,988)	(115,428)
Total current assets	59,914,206	60,419,509
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	8,369,154	7,757,700
Machinery, equipment and vehicles, net	3,098,228	3,423,374
Tools, furniture and fixtures, net	1,415,613	1,292,920
Land	2,553,740	2,468,886
Lease assets, net	61,201	45,973
Construction in progress	23,093	81,476
Other, net	—	484,248
Total property, plant and equipment	15,521,032	15,554,581
Intangible assets		
Other	867,450	471,132
Total intangible assets	867,450	471,132
Investments and other assets		
Investment securities	1,782,548	2,155,452
Deferred tax assets	1,490,515	1,551,693
Other	359,458	357,313
Total investments and other assets	3,632,522	4,064,459
Total Non-current assets	20,021,005	20,090,174
Total assets	79,935,211	80,509,683

(Unit: Thousands of yen)

	As of December 31, 2018	As of June 30, 2019
Liabilities		
Current liabilities		
Trade notes and accounts payable	6,921,278	6,907,944
Electronically recorded obligations-operating	3,510,823	3,853,387
Short-term loans payable	2,500,000	2,500,000
Lease obligations	24,391	22,038
Income taxes payable	820,964	1,039,734
Provision for bonuses	977,117	1,055,937
Provision for directors' bonuses	—	24,000
Other	5,822,803	5,055,882
Total current liabilities	20,577,379	20,458,925
Non-current liabilities		
Convertible bonds	8,038,666	8,030,666
Lease obligations	41,384	27,646
Net defined benefit liability	1,751,800	1,684,854
Other	214,273	422,706
Total non-current liabilities	10,046,124	10,165,874
Total liabilities	30,623,504	30,624,799
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	37,900,058
Treasury stock	(12,067,694)	(11,995,882)
Total shareholders' equity	50,992,158	52,514,780
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	86,599	90,861
Foreign currency translation adjustments	(2,300,978)	(3,021,269)
Remeasurements of defined benefit plans	(540,349)	(458,893)
Total accumulated other comprehensive income	(2,754,727)	(3,389,301)
Stock acquisition rights	314,527	351,067
Noncontrolling interests	759,749	408,337
Total net assets	49,311,707	49,884,883
Total liabilities and net assets	79,935,211	80,509,683

(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, 2018 to August 31, 2018, of FY2018	Second six-month period from January 1, 2019 to June 30, 2019, of FY2019
Net sales	40,876,270	31,412,668
Cost of sales	25,265,678	19,542,667
Gross profit	15,610,592	11,870,001
Selling, general and administrative expenses	9,424,126	8,600,100
Operating income	6,186,465	3,269,900
Non-operating income		
Interest income	106,664	98,115
Dividend income	8,776	3,550
Gain on valuation of investment securities	18,160	67,530
Foreign exchange gains	—	1,258
Rent income	27,999	27,659
Miscellaneous income	75,182	97,760
Total non-operating income	236,783	295,873
Non-operating expenses		
Interest expense	4,706	4,219
Foreign exchange loss-net	251,844	—
Cost of lease revenue	1,892	1,190
Miscellaneous loss	15,064	24,194
Total non-operating expenses	273,508	29,604
Ordinary income	6,149,740	3,536,170
Extraordinary income		
Gain on sales of non-current assets	3,627	24,578
Reversal of impairment loss	—	237,874
Total extraordinary income	3,627	262,452
Extraordinary losses		
Loss on disposal of non-current assets	11,724	79,369
Impairment loss	—	239,772
Business restructuring expenses	—	471,384
Total extraordinary losses	11,724	790,525
Income before income taxes	6,141,642	3,008,096
Income taxes-current	1,086,900	1,099,673
Income taxes-deferred	186,189	(158,774)
Total income taxes	1,273,089	940,899
Net income	4,868,553	2,067,197
Net income (loss) attributable to noncontrolling interests	88,542	(339,740)
Net income attributable to owners of the parent	4,780,010	2,406,937

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

(Unit: Thousands of yen)

	Second six-month period from March 1, 2018 to August 31, 2018, of FY2018	Second six-month period from January 1, 2019 to June 30, 2019, of FY2019
Net income	4,868,553	2,067,197
Other comprehensive income		
Valuation difference on available-for-sale securities	(13,714)	4,261
Foreign currency translation adjustments	(782,247)	(718,681)
Remeasurements of defined benefit plans	95,356	81,455
Share of other comprehensive income of entities	(8,563)	(3,548)
Total other comprehensive income	(709,169)	(636,512)
Comprehensive income	4,159,383	1,430,684
(Total comprehensive income attributable to:)		
Owners of parent	4,104,343	1,772,363
Noncontrolling interests	55,040	(341,679)

(3) Notes to Quarterly Consolidated Financial Statements

(Note on Going Concern Assumption)

Not applicable

(Note on Significant Changes in Shareholders' Equity Accounts)

Not applicable

(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.