

Fiscal 2020 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 2020 First-quarter Business Report: May 15, 2020
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 2020 (From January 1, 2020 to March 31, 2020)

(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 2020 First Quarter	10,707	(25.2)	512	(61.6)	250	(83.7)	(122)	—
FY 2019 First Quarter	14,323	—	1,333	—	1,535	—	1,100	—

(Note) Comprehensive income FY 2020 First Quarter ¥(742) million [—%] FY 2019 First Quarter ¥1,269 million [—%]

	Net Income Per Share	Diluted Net Income Per Share
	(¥)	(¥)
FY 2020 First Quarter	(3.47)	—
FY 2019 First Quarter	30.68	26.70

(2) Consolidated Financial Position

	Total Assets	Net Assets	Equity Ratio
	(¥ million)	(¥ million)	%
As of March 31, 2020	71,993	49,086	66.9
As of December 31, 2019	76,393	50,789	65.2

Reference: Shareholders' Equity

As of March 31, 2020 ¥48,158 million As of December 31, 2019 ¥49,825 million

2. Dividends

	Dividends Per Share				
	1Q end	2Q end	3Q end	Year-end	Full Year
	(¥)	(¥)	(¥)	(¥)	(¥)
FY 2019	—	28.00	—	28.00	56.00
FY 2020	—				
FY 2020(projected)		28.00	—	32.00	60.00

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

Breakdown of year-end dividend for FY2020(Projected) Ordinary dividend ¥28 Commemorative dividend ¥4

3. Consolidated Outlook for the Fiscal Year Ending December 31, 2020 (From January 1, 2020 to December 31, 2020)

While the STAR MICRONICS Group anticipates that its operating results will be impacted by the slump in economic activity attributable to COVID-19, the degree to which earnings will be affected is difficult to reasonably estimate at this time. With its outlook yet to be determined, the Company has decided to temporarily withdraw its earnings forecasts announced on February 13, 2020. Details will be disclosed when an estimate becomes possible. For details, please see the "Notice Regarding Revisions to Business Forecasts" disclosed separately today (May 14, 2020).

(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 March 31, 2020	45,091,334 shares	As of December 31, 2019	45,091,334 shares
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 - (ii) Number of treasury stock at period-end

As of March 31, 2020	9,802,926 shares	As of December 31, 2019	9,841,986 shares
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 - (iii) Average number of outstanding shares (During the three months ended March 31)

As of March 31, 2020	35,274,675 shares	As of March 31, 2019	35,874,625 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. Actual results may differ materially from projections due to a variety of factors.

○(Attached Documents) Index

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1. Qualitative Information regarding Quarterly Consolidated Business Performance

(1) Explanation of Consolidated Operating Results

During the first quarter of fiscal 2020, the global economy exhibited a turnaround to negative growth. This was largely due to the slump in economic activity as a result of the COVID-19 pandemic. Under these circumstances, trends throughout the major markets in which the Star Micronics Group operates were mixed. On the one hand, POS-related demand in the Special Products Segment was relatively firm. On the other hand, demand in the mainstay Machine Tools Segment declined substantially in each of the Group's principal markets of Asia beginning with China, Europe, and Japan.

Against this backdrop, the Star Micronics Group reported sales of ¥10,707 million for the first quarter of the fiscal year under review. This was 25.2% lower than the corresponding period of the previous fiscal year. This decrease was mainly due to the substantial downturn in sales of machine tools. From a profit perspective, operating income fell 61.6%, to ¥512 million owing largely to the drop in sales. Due to such factors as the loss on valuation of investment securities, ordinary income declined 83.7%, to ¥250 million. For the first quarter of the fiscal year under review, the Star Micronics Group incurred a net loss attributable to owners of the parent of ¥122 million compared with net income attributable to owners of the parent totaling ¥1,100 million in the corresponding period of the previous fiscal year. This reflected the impact of tax effect accounting in connection with unrealized profit, which served to push up the Group's tax burden.

Performance by segment was as follows:

(Special Products)

Sales of POS printers increased owing mainly to the progress in inventory adjustments by sales agents in the U.S. Amid the downturn in market conditions in Europe, sales were essentially unchanged from the corresponding period of the previous year. This reflected successful efforts to secure several large-scale orders. From a domestic perspective, sales in Japan exceeded the levels recorded in the corresponding period of the previous year. Despite the residual impact of corrections in last-minute demand in the leadup to the consumption tax rate hike in 2019, this year-on-year upswing in sales was mainly due to firm trends in mobile printers.

As a result, sales and profits increased in the Special Product Segment. In specific terms, sales increased 19.3% compared with the corresponding period of the previous fiscal year, to ¥3,123 million and operating income increased 39.4% year on year, to ¥424 million.

(Machine Tools)

Sales for CNC automatic lathes increased mainly in the medical equipment-related sector in the U.S. market. In contrast, sales declined substantially in both Europe and Japan due to poor performances in mainstay automotive-related markets. Turning to the Asian market, and despite signs of a recovery in the medical equipment- and telecommunications-related sectors entering March 2020, sales declined significantly. This largely reflected the shutdown of plants and restrictions to travel as a result of the COVID-19 pandemic in China.

As a result, sales and profits decreased substantially in the Machine Tools Segment. In specific terms, sales decreased 34.5% compared with the corresponding period of the previous fiscal year, to ¥7,180 million and operating income decreased 62.1% year on year, to ¥631 million.

(Precision Products)

Sales in the Precision Products Segment decreased substantially. Despite an increase in sales of wristwatch components as a round of inventory adjustments by wristwatch makers came to an end, this substantial decline was mainly due to the Company's decision to fundamentally withdraw from non-wristwatch component operations as of the end of March 2020.

As a result, segment sales declined a substantial 45.2% to ¥402 million and reported an operating loss of ¥2 million, compared to a profit of ¥32 million a year earlier.

(2) Explanation of Financial Position

Total assets as of the end of the first quarter of the current fiscal year stood at ¥71,993 million, a decrease of ¥4,400 million compared with the end of the previous fiscal year. This was mainly due to the decrease in trade receivable as well as cash and deposits. Total liabilities came in at ¥22,906 million, a decrease of ¥2,697 million compared with the previous fiscal year-end. This largely reflected the downturn in trade payables and other current liabilities. Total net assets declined ¥1,703 million compared with the end of the previous fiscal year, to ¥49,086 million. This was mainly due to the decrease in retained earnings and foreign currency translation adjustments.

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

While the STAR MICRONICS Group anticipates that its operating results will be impacted by the slump in economic

activity attributable to COVID-19, the degree to which earnings will be affected is difficult to reasonably estimate at this time. With its outlook yet to be determined, the Company has decided to temporarily withdraw its earnings forecasts announced on February 13, 2020. Details will be disclosed when an estimate becomes possible. For details, please see the “Notice Regarding Revisions to Business Forecasts” disclosed separately today (May 14, 2020).

2. Quarterly Consolidated Financial Statements and Major Notes

(1) Quarterly Consolidated Balance Sheet

(Unit: Thousands of yen)

	As of December 31, 2019	As of March 31, 2020
Assets		
Current assets		
Cash and deposits	20,158,296	19,039,045
Trade notes and accounts receivable	14,390,556	12,283,130
Securities	500,000	593,550
Merchandise and finished goods	12,750,263	13,328,350
Work in process	4,486,083	3,895,489
Raw materials and supplies	2,902,351	2,824,895
Other	1,754,218	1,423,546
Allowance for doubtful accounts	(111,535)	(108,737)
Total current assets	56,830,234	53,279,272
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	7,580,972	7,470,505
Machinery, equipment and vehicles, net	3,326,034	2,957,202
Tools, furniture and fixtures, net	1,193,557	1,118,174
Land	2,048,347	2,022,239
Lease assets, net	101,821	93,431
Construction in progress	508,204	948,919
Other, net	782,401	727,727
Total property, plant and equipment	15,541,339	15,338,200
Intangible assets		
Other	506,018	503,859
Total intangible assets	506,018	503,859
Investments and other assets		
Investment securities	2,239,005	1,852,133
Deferred tax assets	923,331	675,209
Other	353,852	344,327
Total investments and other assets	3,516,189	2,871,669
Total Non-current assets	19,563,547	18,713,729
Total assets	76,393,781	71,993,002

(Unit: Thousands of yen)

	As of December 31, 2019	As of March 31, 2020
Liabilities		
Current liabilities		
Trade notes and accounts payable	4,290,386	3,815,617
Electronically recorded obligations-operating	2,961,364	2,413,676
Short-term loans payable	2,500,000	2,500,000
Lease obligations	34,817	33,826
Income taxes payable	709,354	279,421
Provision for bonuses	768,557	397,250
Other	4,664,541	3,887,491
Total current liabilities	15,929,021	13,327,282
Non-current liabilities		
Convertible bonds	8,022,666	8,018,666
Lease obligations	76,359	68,198
Net defined benefit liability	922,823	885,726
Other	653,372	606,826
Total non-current liabilities	9,675,221	9,579,418
Total liabilities	25,604,243	22,906,700
Net assets		
Shareholders' equity		
Capital stock	12,721,939	12,721,939
Capital surplus	13,050,481	13,054,982
Retained earnings	38,541,041	37,431,775
Treasury stock	(12,144,398)	(12,096,210)
Total shareholders' equity	52,169,063	51,112,487
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	115,639	41,661
Foreign currency translation adjustments	(2,571,586)	(3,105,571)
Remeasurements of defined benefit plans	111,986	110,115
Total accumulated other comprehensive income	(2,343,960)	(2,953,794)
Stock acquisition rights	421,487	395,435
Noncontrolling interests	542,947	532,172
Total net assets	50,789,538	49,086,301
Total liabilities and net assets	76,393,781	71,993,002

(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 January 1, 2019 to March 31, 2019, of FY2019	First three-month period from January 1, 2020 to March 31, 2020, of FY2020
Net sales	14,323,143	10,707,401
Cost of sales	8,954,768	6,795,291
Gross profit	5,368,374	3,912,110
Selling, general and administrative expenses	4,035,214	3,399,839
Operating income	1,333,160	512,270
Non-operating income		
Interest income	49,286	40,088
Gain on valuation of investment securities	61,380	—
Foreign exchange gains	21,928	—
Rent income	14,164	10,616
Miscellaneous income	77,171	53,300
Total non-operating income	223,930	104,005
Non-operating expenses		
Interest expense	1,756	4,591
Loss on valuation of investment securities	—	181,090
Foreign exchange loss-net	—	151,392
Miscellaneous loss	19,754	28,586
Total non-operating expenses	21,511	365,661
Ordinary income	1,535,580	250,614
Extraordinary income		
Gain on sales of non-current assets	2,877	32,275
Total extraordinary income	2,877	32,275
Extraordinary losses		
Loss on disposal of non-current assets	38,471	7,492
Total extraordinary losses	38,471	7,492
Income before income taxes	1,499,986	275,398
Income taxes-current	616,802	127,044
Income taxes-deferred	(235,149)	262,122
Total income taxes	381,653	389,166
Net income (loss)	1,118,332	(113,767)
Net income attributable to noncontrolling interests	17,597	8,516
Net income (loss) attributable to owners of the parent	1,100,735	(122,284)

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

(Unit: Thousands of yen)

	First three-month period from January 1, 2019 to March 31, 2019, of FY2019	First three-month period from January 1, 2020 to March 31, 2020, of FY2020
Net income (loss)	1,118,332	(113,767)
Other comprehensive income		
Valuation difference on available-for-sale securities	25,929	(73,978)
Foreign currency translation adjustments	91,609	(558,802)
Remeasurements of defined benefit plans	40,727	(1,871)
Share of other comprehensive income of entities	(7,519)	5,525
Total other comprehensive income	150,747	(629,126)
Comprehensive income	1,269,080	(742,893)
(Total comprehensive income attributable to:)		
Owners of parent	1,236,076	(732,118)
Noncontrolling interests	33,004	(10,775)

(3) Notes to Quarterly Consolidated Financial Statements

(Note on Going Concern Assumption)

Not applicable

(Note on Significant Changes in Shareholders' Equity Accounts)

Not applicable