

Fiscal 2020 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 2020 Second-quarter Business Report: August 12, 2020
Scheduled payment of dividends: September 4, 2020
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 2020 (From January 1, 2020 to June 30, 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 Second Quarter	21,076	(32.9)	626	(80.8)	609	(82.8)	69	(97.1)
FY 2019 Second Quarter	31,412	—	3,269	—	3,536	—	2,406	—

(Note) Comprehensive income FY 2020 Second Quarter ¥(583) million [—%] FY 2019 Second Quarter ¥1,430 million [—%]

	Net Income Per Share	Diluted Net Income Per Share
	(¥)	(¥)
FY 2020 Second Quarter	1.97	1.34
FY 2019 Second Quarter	67.07	58.61

(2) Consolidated Financial Position

	Total Assets	Net Assets	Equity Ratio
	(¥ million)	(¥ million)	%
As of June 30, 2020	69,996	49,240	69.0
As of December 31, 2019	76,393	50,789	65.2

Reference: Shareholders' Equity

As of June 30, 2020 ¥48,304 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	—	28.00	—	—	—
FY 2020(projected)	—	—	—	28.00	56.00

(Note) Changes to the latest dividend forecast announced: Yes

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

(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	41,000	(32.4)	650	(88.8)	700	(88.6)	100	(97.5)	2.83

(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 June 30, 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 June 30, 2020	9,802,946 shares	As of December 31, 2019	9,841,986 shares
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(iii) Average number of outstanding shares (During the six months)

As of June 30, 2020	35,281,531 shares	As of June 30, 2019	35,889,234 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

During the second quarter of fiscal 2020, conditions in the global economy continued to be extremely severe due to the slump in economic activity as a result of the COVID-19 pandemic. Under these circumstances, although POS-related demand was relatively firm in the U.S. market, in other markets demand declined substantially. Although demand for the Company's mainstay machine tools showed signs of recovery in China, demand also declined substantially in other markets.

Under these circumstances, the Star Micronics Group reported sales of ¥21,076 million for the second quarter of the fiscal year under review, down 32.9% year on year. This decrease was mainly due to the substantial downturn in sales of machine tools. From a profit perspective, operating income came to ¥626 million, a decrease of 80.8% compared with the corresponding period of the previous fiscal year owing largely to the drop in sales of machine tools. Ordinary income declined 82.8%, to ¥609 million and net income attributable to owners of parent amounted to ¥69 million, a downturn of 97.1%.

Performance by segment was as follows:

(Special Products)

Amid the impact from the COVID-19 pandemic in each market, sales of POS printers increased in the U.S. market due, for example, to favorable sales for food deliveries. In contrast, conditions in the European market were sluggish, and in Japan reaction to the last-minute demand in the lead-up to the 2019 consumption tax rate hike spilled over into the fiscal year under review, resulting in a decrease in sales in both of these markets.

As a result, sales and profits decreased in the Special Products Segment. In specific terms, sales decreased 4.2% compared with the corresponding period of the previous fiscal year, to ¥5,830 million and operating income decreased 6.3% year on year, to ¥827 million.

(Machine Tools)

Buffeted by the significant restrictions on sales activities brought about by the spread of the COVID-19 pandemic, sales for CNC automatic lathes in the medical equipment-related sector in the U.S. market, where they had been performing well, reverted toward a slowdown. In Europe and Japan, the automotive-related markets remained sluggish, and sales declined substantially. Turning to the Asian market, although demand was quick to recover in China, this did not make up for the decline at the beginning of the period, and sales decreased.

As a result, sales and profits decreased substantially in the Machine Tools Segment. In specific terms, sales decreased 38.3% compared with the corresponding period of the previous fiscal year, to ¥14,625 million and operating income decreased 75.5% year on year, to ¥852 million.

(Precision Products)

Sales of wristwatch components declined significantly due to the sluggish sales at wristwatch makers suffering from the effects of the COVID-19 pandemic. The Company fundamentally withdrew from non-wristwatch component operations as of the end of March 2020.

As a result, sales and profits decreased substantially in the Precision Products Segment. In specific terms, sales decreased 61.6% compared with the corresponding period of the previous fiscal year, to ¥619 million and operating income decreased 59.2% year on year, to ¥31 million.

(2) Explanation of Financial Position

Total assets as of the end of the second quarter of the current fiscal year stood at ¥69,996 million, a decrease of ¥6,397 million compared with the end of the previous fiscal year. This was mainly due to decreases in inventories and trade receivables. Total liabilities came in at ¥20,755 million, a decrease of ¥4,848 million compared with the previous fiscal year-end. This largely reflected the downturn in trade payables and other current liabilities. Total net assets declined ¥1,549 million compared with the end of the previous fiscal year, to ¥49,240 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 business forecasts for the full fiscal year ending December 31, 2020 were yet to be determined as of the release of its press release "Notice Regarding Revisions to Business Forecasts" issued on May 14, 2020, the Company has announced its estimation of business forecasts based on information available as of the date of this report.

Please refer to the disclosure "Notice Regarding Business Forecasts for the Full Fiscal Year and Revision to the Fiscal Year-End Dividend Forecast" issued separately today (August 11, 2020) for details.

2. Quarterly Consolidated Financial Statements and Major Notes

(1) Quarterly Consolidated Balance Sheet

(Unit: Thousands of yen)

	As of December 31, 2019	As of June 30, 2020
Assets		
Current assets		
Cash and deposits	20,158,296	20,141,663
Trade notes and accounts receivable	14,390,556	12,137,119
Securities	500,000	1,100,630
Merchandise and finished goods	12,750,263	11,946,242
Work in process	4,486,083	3,256,852
Raw materials and supplies	2,902,351	2,571,967
Other	1,754,218	969,010
Allowance for doubtful accounts	(111,535)	(95,835)
Total current assets	56,830,234	52,027,650
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	7,580,972	7,157,463
Machinery, equipment and vehicles, net	3,326,034	2,728,872
Tools, furniture and fixtures, net	1,193,557	1,087,305
Land	2,048,347	1,902,692
Lease assets, net	101,821	85,419
Construction in progress	508,204	950,253
Other, net	782,401	686,606
Total property, plant and equipment	15,541,339	14,598,613
Intangible assets		
Other	506,018	478,538
Total intangible assets	506,018	478,538
Investments and other assets		
Investment securities	2,239,005	1,918,565
Deferred tax assets	923,331	630,541
Other	353,852	342,344
Total investments and other assets	3,516,189	2,891,452
Total Non-current assets	19,563,547	17,968,603
Total assets	76,393,781	69,996,254

(Unit: Thousands of yen)

	As of December 31, 2019	As of June 30, 2020
Liabilities		
Current liabilities		
Trade notes and accounts payable	4,290,386	2,793,800
Electronically recorded obligations-operating	2,961,364	1,936,703
Short-term loans payable	2,500,000	2,500,000
Current portion of convertible bonds	—	8,014,666
Lease obligations	34,817	32,052
Income taxes payable	709,354	369,579
Provision for bonuses	768,557	719,036
Other	4,664,541	2,908,244
Total current liabilities	15,929,021	19,274,085
Non-current liabilities		
Convertible bonds	8,022,666	—
Lease obligations	76,359	61,228
Net defined benefit liability	922,823	853,744
Other	653,372	566,869
Total non-current liabilities	9,675,221	1,481,842
Total liabilities	25,604,243	20,755,927
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	37,623,684
Treasury stock	(12,144,398)	(12,096,231)
Total shareholders' equity	52,169,063	51,304,375
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	115,639	39,669
Foreign currency translation adjustments	(2,571,586)	(3,147,746)
Remeasurements of defined benefit plans	111,986	108,244
Total accumulated other comprehensive income	(2,343,960)	(2,999,832)
Stock acquisition rights	421,487	390,100
Noncontrolling interests	542,947	545,683
Total net assets	50,789,538	49,240,326
Total liabilities and net assets	76,393,781	69,996,254

(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 January 1, 2019 to June 30, 2019, of FY2019	Second six-month period from January 1, 2020 to June 30, 2020, of FY2020
Net sales	31,412,668	21,076,002
Cost of sales	19,542,667	13,876,456
Gross profit	11,870,001	7,199,546
Selling, general and administrative expenses	8,600,100	6,572,985
Operating income	3,269,900	626,560
Non-operating income		
Interest income	98,115	78,091
Gain on valuation of investment securities	67,530	—
Foreign exchange gains	1,258	—
Rent income	27,659	21,077
Miscellaneous income	101,310	125,754
Total non-operating income	295,873	224,923
Non-operating expenses		
Interest expense	4,219	8,998
Loss on valuation of investment securities	—	86,930
Foreign exchange loss-net	—	94,160
Miscellaneous loss	25,384	51,975
Total non-operating expenses	29,604	242,064
Ordinary income	3,536,170	609,418
Extraordinary income		
Gain on sales of non-current assets	24,578	142,374
Reversal of impairment loss	237,874	—
Total extraordinary income	262,452	142,374
Extraordinary losses		
Loss on disposal of non-current assets	79,369	31,960
Impairment loss	239,772	—
Business restructuring expenses	471,384	—
Total extraordinary losses	790,525	31,960
Income before income taxes	3,008,096	719,832
Income taxes-current	1,099,673	334,451
Income taxes-deferred	(158,774)	297,525
Total income taxes	940,899	631,976
Net income	2,067,197	87,855
Net income (loss) attributable to noncontrolling interests	(339,740)	18,230
Net income attributable to owners of the parent	2,406,937	69,625

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

(Unit: Thousands of yen)

	Second six-month period from January 1, 2019 to June 30, 2019, of FY2019	Second six-month period from January 1, 2020 to June 30, 2020, of FY2020
Net income	2,067,197	87,855
Other comprehensive income		
Valuation difference on available-for-sale securities	4,261	(75,970)
Foreign currency translation adjustments	(718,681)	(596,466)
Remeasurements of defined benefit plans	81,455	(3,742)
Share of other comprehensive income of entities	(3,548)	4,810
Total other comprehensive income	(636,512)	(671,367)
Comprehensive income	1,430,684	(583,511)
(Total comprehensive income attributable to:)		
Owners of parent	1,772,363	(586,247)
Noncontrolling interests	(341,679)	2,735

(3) Notes to Quarterly Consolidated Financial Statements

(Note on Going Concern Assumption)

Not applicable

(Note on Significant Changes in Shareholders' Equity Accounts)

Not applicable