

Fiscal 2021 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.

Company name: Star Micronics Co., Ltd.

Stock listing: First Section, Tokyo Stock Exchange

Code: 7718

URL <https://www.star-m.jp>

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Scheduled release of Fiscal 2021 Second-quarter Business Report: August 12, 2021

Scheduled payment of dividends: August 31, 2021

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 2021 (From January 1, 2021 to June 30, 2021)

(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 2021 Second Quarter	27,930	32.5	2,630	319.8	2,872	371.4	2,114	—
FY 2020 Second Quarter	21,076	-32.9	626	-80.8	609	-82.8	69	-97.1

(Note) Comprehensive income FY 2021 Second Quarter ¥3,893 million [—%]
FY 2020 Second Quarter ¥(583) million [—%]

	Net Income Per Share	Diluted Net Income Per Share
FY 2021 Second Quarter	(¥) 57.61	(¥) 51.50
FY 2020 Second Quarter	1.97	1.34

(2) Consolidated Financial Position

	Total Assets	Net Assets	Equity Ratio
As of June 30, 2021	(¥ million) 79,223	(¥ million) 60,697	% 75.4
As of December 31, 2020	71,621	49,821	68.2

Reference: Shareholders' Equity

As of June 30, 2021 ¥59,695 million As of December 31, 2020 ¥48,840 million

2. Dividends

	Dividends Per Share				
	1Q end	2Q end	3Q end	Year-end	Full Year
FY 2020	(¥) —	(¥) 28.00	(¥) —	(¥) 30.00	(¥) 58.00
FY 2021	(¥) —	(¥) 29.00			
FY 2021(projected)			(¥) —	(¥) 29.00	(¥) 58.00

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

3. Consolidated Outlook for the Fiscal Year Ending December 31, 2021 (From January 1, 2021 to December 31, 2021)

(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	58,100	27.2	5,800	166.9	6,100	120.0	4,500	159.9	117.10	

(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, 2021	45,091,334 shares	As of December 31, 2020	45,091,334 shares
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(ii) Number of treasury stock at period-end

As of June 30, 2021	4,936,943 shares	As of December 31, 2020	9,787,046 shares
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(iii) Average number of outstanding shares (During the six months)

As of June 30, 2021	36,701,666 shares	As of June 30, 2020	35,281,531 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.Net income per share data in the consolidated outlook for the fiscal year ending December 31, 2021 takes into account the impact of exercising of zero coupon convertible bonds.

◦(Attached Documents) Index

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1. Qualitative Information regarding Quarterly Consolidated Business Performance

(1) Explanation of Consolidated Operating Results

Looking at conditions in each of the major markets in which the Star Micronics Group operates during the first half of fiscal 2021, the global economy experienced a recovery trend mainly in the manufacturing sector despite the ongoing uncertainty surrounding economic conditions attributable to COVID-19. At the same time, demand for POS printers was strong especially in the U.S. market with progress in the pickup in demand for the Group's mainstay machine tools in each market.

Under these circumstances, the Star Micronics Group reported sales of ¥27,930 million for the first half of the fiscal year under review, up 32.5% compared with the corresponding period of the previous fiscal year. This was largely due to the substantial increase in sales of machine tools. From a profit perspective, operating income climbed 319.8%, to ¥2,630 million owing mainly to the substantial jump in sales. Ordinary income surged 371.4%, to ¥2,872 million. Net income attributable to owners of parent totaled ¥2,114 million, up from ¥69 million in the corresponding period of the previous fiscal year.

Performance by segment was as follows.

Effective from the fiscal quarter of fiscal 2021, Star Micronics has changed the classification of its reportable segments. Amounts included in the Precision Products Segment in the segment information for the previous fiscal year are now included in the Machine Tools Segment. For comparative purposes, figures for the corresponding period of the previous fiscal year have been adjusted to reflect the new segment classification.

(Special Products)

Sales of POS printers increased substantially in the U.S. market, due largely to robust sales of printers to the food delivery sector. In the European market, sales were strong, owing mainly to large orders, while sales increased significantly due to robust trends in demand for mPOS applications in the domestic market.

As a result, both sales and profits grew substantially. In specific terms, sales increased 27.9% compared with the corresponding period of the previous fiscal year, to ¥7,457 million. Operating income grew substantially climbing 54.6% year on year, to ¥1,279 million.

(Machine Tools)

Despite favorable market conditions across a wide range of industries in the U.S. market, sales of CNC automatic lathes were held to the same level as the corresponding period of the previous fiscal year. This reflected a variety of factors including the incidence of logistics delays. In the European and domestic markets, sales were robust on the back of an automotive-related recovery. Turning to the Asian market, sales increased substantially owing to ongoing robust sales of mainly telecommunications- and automotive-related products in China.

Accounting for each of the aforementioned factors, both sales and profits increased substantially. In specific terms, sales grew 34.3% compared with the corresponding period of the previous fiscal year, to ¥20,472 million. Operating income jumped 145.6% year on year, to ¥2,171 million.

(2) Explanation of Financial Position

Total assets as of the end of the first half of the current fiscal year stood at ¥79,223 million, an increase of ¥7,601 million compared with the end of the previous fiscal year. Despite a decrease in securities, this increase was largely due to the upswing in inventories as well as cash and deposits. Total liabilities came in at ¥18,526 million, a decrease of ¥3,273 million compared with the previous fiscal year-end. While such accounting line items as trade payables increased, this decrease largely reflected the decline in convertible bonds. Total net assets increased ¥10,875 million compared with the end of the previous fiscal year, to ¥60,697 million. This was mainly due to the increase in capital surplus due to the conversion of convertible bonds and the decrease in treasury stock.

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

In light of results for the first half of the fiscal year under review, the Company has revised its full fiscal year earnings forecasts announced on May 13, 2021. Please refer to the disclosure "Notice Regarding Business Forecasts for the Full Fiscal Year" issued separately today (August 10, 2021) for details.

2. Quarterly Consolidated Financial Statements and Major Notes

(1) Quarterly Consolidated Balance Sheet

(Unit: Thousands of yen)

	As of December 31, 2020	As of June 30, 2021
Assets		
Current assets		
Cash and deposits	23,367,293	30,846,137
Trade notes and accounts receivable	14,295,774	15,129,202
Securities	1,895,760	—
Merchandise and finished goods	8,259,947	8,945,625
Work in process	3,422,980	3,554,820
Raw materials and supplies	2,440,604	2,912,411
Other	1,319,450	1,432,817
Allowance for doubtful accounts	(109,053)	(110,666)
Total current assets	54,892,757	62,710,349
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	7,991,788	7,795,002
Machinery, equipment and vehicles, net	2,645,922	2,619,237
Tools, furniture and fixtures, net	1,035,799	1,058,423
Land	1,889,231	1,893,163
Lease assets, net	69,832	61,205
Construction in progress	3,982	40,139
Other, net	635,234	624,747
Total property, plant and equipment	14,271,791	14,091,919
Intangible assets		
Other	451,651	437,882
Total intangible assets	451,651	437,882
Investments and other assets		
Investment securities	913,965	740,301
Deferred tax assets	746,929	897,419
Other	344,735	345,733
Total investments and other assets	2,005,630	1,983,454
Total Non-current assets	16,729,073	16,513,257
Total assets	71,621,831	79,223,606

(Unit: Thousands of yen)

	As of December 31, 2020	As of June 30, 2021
Liabilities		
Current liabilities		
Trade notes and accounts payable	4,509,373	6,382,122
Electronically recorded obligations-operating	1,266,992	2,870,630
Short-term loans payable	2,500,000	2,500,000
Current portion of convertible bonds	8,006,666	—
Lease obligations	28,657	26,222
Income taxes payable	370,143	475,884
Provision for bonuses	694,602	906,898
Provision for directors' bonuses	—	21,000
Other	3,157,642	4,151,447
Total current liabilities	<u>20,534,078</u>	<u>17,334,206</u>
Non-current liabilities		
Lease obligations	47,608	40,964
Net defined benefit liability	706,621	642,594
Other	511,556	508,668
Total non-current liabilities	<u>1,265,786</u>	<u>1,192,226</u>
Total liabilities	<u>21,799,865</u>	<u>18,526,433</u>
Net assets		
Shareholders' equity		
Capital stock	12,721,939	12,721,939
Capital surplus	13,058,502	15,145,182
Retained earnings	38,297,686	39,352,907
Treasury stock	(12,076,639)	(6,091,697)
Total shareholders' equity	<u>52,001,489</u>	<u>61,128,331</u>
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	27,210	61,288
Foreign currency translation adjustments	(3,352,302)	(1,660,118)
Remeasurements of defined benefit plans	163,982	166,321
Total accumulated other comprehensive income	<u>(3,161,109)</u>	<u>(1,432,508)</u>
Stock acquisition rights	428,914	400,902
Noncontrolling interests	552,672	600,447
Total net assets	<u>49,821,965</u>	<u>60,697,172</u>
Total liabilities and net assets	<u>71,621,831</u>	<u>79,223,606</u>

(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, 2020 to June 30, 2020, of FY2020	Second six-month period from January 1, 2021 to June 30, 2021, of FY2021
Net sales	21,076,002	27,930,620
Cost of sales	13,876,456	18,317,526
Gross profit	7,199,546	9,613,093
Selling, general and administrative expenses	6,572,985	6,982,570
Operating income	626,560	2,630,523
Non-operating income		
Interest income	78,091	84,820
Foreign exchange gains	—	21,647
Rent income	21,077	20,268
Miscellaneous income	125,754	155,942
Total non-operating income	224,923	282,678
Non-operating expenses		
Interest expense	8,998	8,214
Commission fee	—	10,213
Loss on valuation of investment securities	86,930	4,060
Foreign exchange loss-net	94,160	—
Miscellaneous loss	51,975	18,189
Total non-operating expenses	242,064	40,677
Ordinary income	609,418	2,872,524
Extraordinary income		
Gain on sales of non-current assets	142,374	2,296
Total extraordinary income	142,374	2,296
Extraordinary losses		
Loss on disposal of non-current assets	31,960	12,971
Total extraordinary losses	31,960	12,971
Income before income taxes	719,832	2,861,849
Income taxes-current	334,451	875,624
Income taxes-deferred	297,525	(147,087)
Total income taxes	631,976	728,536
Net income	87,855	2,133,312
Net income attributable to noncontrolling interests	18,230	18,962
Net income attributable to owners of the parent	69,625	2,114,350

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

(Unit: Thousands of yen)

	Second six-month period from January 1, 2020 to June 30, 2020, of FY2020	Second six-month period from January 1, 2021 to June 30, 2021, of FY2021
Net income	87,855	2,133,312
Other comprehensive income		
Valuation difference on available-for-sale securities	(75,970)	34,078
Foreign currency translation adjustments	(596,466)	1,714,937
Remeasurements of defined benefit plans, net of tax	(3,742)	2,338
Share of other comprehensive income of entities accounted for using equity method	4,810	9,332
Total other comprehensive income	(671,367)	1,760,686
Comprehensive income	(583,511)	3,893,999
(Total comprehensive income attributable to:)		
Owners of parent	(586,247)	3,842,951
Noncontrolling interests	2,735	51,047

(3) Notes to Quarterly Consolidated Financial Statements

(Note on Going Concern Assumption)

Not applicable

(Note on Significant Changes in Shareholders' Equity Accounts)

In the first half of the fiscal year under review, the Company retired treasury stock in line with the exercise of zero coupon convertible bonds. As a result, capital surplus increased ¥2,070,873,000 and treasury stock decreased ¥5,929,126,000.