

Fiscal 12/2018 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
Code: 7718 URL <https://www.star-m.jp>
Representative Director: Mamoru Sato, President and CEO
Inquiries: Masato Yamanashi, Senior Executive Officer, General Manager, General Administration Headquarters
TEL: 054 -263-1111
Scheduled release of Fiscal 2018 First-quarter Business Report: July 12, 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 First Quarter of Fiscal 12/2018 (From March 1, 2018 to May 31, 2018)

(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 12/2018 First Quarter	23,884	—	4,006	—	4,069	—	3,320	—
FY 2/2018 First Quarter	13,475	22.1	1,102	37.3	1,160	54.5	837	28.2

(Note) Comprehensive income FY 12/2018 First Quarter ¥2,261 million [—%] FY 2/2018 First Quarter ¥178 million [—%]

	Net Income Per Share	Diluted Net Income Per Share
	(¥)	(¥)
FY 12/2018 First Quarter	90.16	79.22
FY 2/2018 First Quarter	22.45	19.57

As fiscal 12/2018 is a transitional period, the consolidated fiscal year for consolidated companies whose fiscal year previously ended in February was three months from March 1, 2018 to May 31, 2018, and for consolidated companies whose fiscal year ends in December was five months from January 1, 2018 to May 31, 2018. Given that the reporting of accounts for this fiscal year is an anomaly, 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 May 31, 2018	77,012	48,726	62.0
As of February 28, 2018	77,362	47,446	60.1

Reference: Shareholders' Equity

As of May 31, 2018 ¥47,743 million As of February 28, 2018 ¥46,521 million

2. Dividends

	Dividends Per Share				
	1Q end	2Q end	3Q end	Year-end	Full Year
	(¥)	(¥)	(¥)	(¥)	(¥)
FY 2/2018	—	25.00	—	27.00	52.00
FY 12/2018	—				
FY 12/2018(projected)		27.00	—	27.00	54.00

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

3. Consolidated Outlook for the Fiscal Year Ending December 31, 2018 (From March 1, 2018 to December 31, 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)	%	(¥)
Interim term	39,100	—	5,700	—	5,800	—	4,500	—	122.49
Full Year	59,300	—	8,000	—	8,100	—	6,000	—	164.22

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

As fiscal 2018, the fiscal year ending December 31, 2018, is a transitional period, forecast data is based on and presented for the 10-month period from March 1, 2018 to December 31, 2018 for the Company and consolidated subsidiaries whose account settlement date is February 28, and for the 12-month period from January 1, 2018 to December 31, 2018 for consolidated subsidiaries whose account settlement date is December 31. 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: 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 May 31, 2018	46,774,634 shares	As of February 28, 2018	46,774,634 shares
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- (ii) Number of treasury stock at period-end

As of May 31, 2018	9,942,616 shares	As of February 28, 2018	9,944,576 shares
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- (iii) Average number of outstanding shares (during the three months ended May 31)

As of May 31, 2018	36,830,711 shares	As of May 31, 2017	37,306,806 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 July 11, 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 December 31, 2018. For details, please refer to the Company's press release, "Notice regarding Repurchase and Retirement of Own Shares" disclosed separately on July 11, 2018.

○(Attached Documents) Index

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1. Qualitative Information regarding Quarterly Consolidated Business Performance

As fiscal 12/2018 is a transitional period, the consolidated fiscal year for consolidated companies whose fiscal year previously ended in February was three months from March 1, 2018 to May 31, 2018, and for consolidated companies whose fiscal year ends in December was five months from January 1, 2018 to May 31, 2018. Given that the reporting of accounts for this fiscal year is an anomaly, the rates of change over the corresponding quarter for the previous fiscal year are omitted.

(1) Explanation of Consolidated Operating Results

In the major markets in which the Star Micronics Group operates, during the first quarter of fiscal 12/2018 there was strong demand for machine tools in Japan and overseas, while demand in the POS-related market in the Special Products Segment was solid mainly in European and U.S. markets. In precision products-related markets, demand remained solid for wristwatch components but was weak for components for hard disk drives (HDDs).

Under these circumstances, the Start Micronics Group reported sales of ¥23,884 million for the first quarter of the fiscal year under review. From a profit perspective, operating income came to ¥4,006 million, ordinary income was ¥4,069 million, and net income attributable to owners of parent amounted to ¥3,320 million.

Performance by segment was as follows:

(Special Products)

In POS printers, sales were solid in the U.S. market as well as the European market, where conditions are continuing to recover. In the Asian market, demand in China dropped for certain products that include thermal finished products used in retail outlets but was solid in other areas. The overall domestic market remained solid, but large project demand was weak.

As a result, sales in the Special Products Segment came to ¥4,476 million and operating income was ¥817 million.

(Machine Tools)

In CNC automatic lathes, sales remained solid in the U.S. market centered on the medical equipment-related sector. In the European market, sales were strong centered on the automotive-related sector in major markets such as German and Italy. Sales remained strong in a wide array of sectors that include automobiles, telecommunications, and medicine in the Asian market centered on China as well as automobiles and semiconductors in Japan.

As a result, the Machine Tool Segment reported sales of ¥17,908 million and operating income of ¥3,691 million.

(Precision Products)

Sales of wristwatch components remained solid owing to strong sales by wristwatch makers. Sales of non-wristwatch components were sluggish amid HDDs component market shrinkage, but sales for medical-related and air conditioning components were solid.

As a result, the Precision Products Segment posted sales of ¥1,498 million operating income of ¥150 million.

(2) Explanation of Financial Position

Total assets as of the end of the first quarter of the fiscal year under review stood at ¥77,012 million, a decrease of ¥350 million compared with the end of the previous fiscal year. Despite the rise mainly in property, plant and equipment, this was primarily attributable to a decline in trade receivables. Total liabilities came in at ¥28,285 million, a decrease of ¥1,630 million compared with the end of the previous fiscal year. This was largely due to declines in trade payables and current liabilities. Total net assets increased ¥1,279 million compared with the end of the previous fiscal year, to ¥48,726 million. Despite a decline in foreign currency translation adjustments, this mainly reflected a rise in retained earnings.

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

Earnings projections for the consolidated second quarter and full year of fiscal 12/2018 have been revised from the projections announced on April 11, 2018 mainly based on earnings for the first quarter. For details, please see the Notice regarding Revision to Business Forecasts disclosed separately today (July 11, 2018).

2. Quarterly Consolidated Financial Statements and Major Notes

(1) Quarterly Consolidated Balance Sheet

(Unit: Thousands of yen)

	As of February 28, 2018	As of May 31, 2018
Assets		
Current assets		
Cash and deposits	22,072,044	21,978,882
Trade notes and accounts receivable	16,955,708	16,151,800
Securities	1,000,000	1,090,000
Merchandise and finished goods	10,239,928	10,167,126
Work in process	4,250,464	4,740,083
Raw materials and supplies	2,638,195	2,573,311
Deferred tax assets	663,986	629,480
Other	1,958,947	1,739,858
Allowance for doubtful accounts	(144,844)	(162,024)
Total current assets	59,634,430	58,908,518
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	4,940,901	4,732,800
Machinery, equipment and vehicles, net	2,749,658	3,388,694
Tools, furniture and fixtures, net	887,413	859,556
Land	2,747,404	2,737,607
Lease assets, net	75,253	78,405
Construction in progress	2,675,595	2,833,289
Total property, plant and equipment	14,076,227	14,630,355
Intangible assets		
Other	917,697	868,798
Total intangible assets	917,697	868,798
Investments and other assets		
Investment securities	1,463,817	1,347,407
Deferred tax assets	906,975	898,202
Other	363,853	358,836
Allowance for doubtful accounts	(17)	—
Total investments and other assets	2,734,628	2,604,446
Total Non-current assets	17,728,553	18,103,600
Total assets	77,362,984	77,012,118

(Unit: Thousands of yen)

	As of February 28, 2018	As of May 31, 2018
Liabilities		
Current liabilities		
Trade notes and accounts payable	6,928,315	6,253,788
Electronically recorded obligations-operating	3,383,790	3,582,004
Short-term loans payable	2,500,000	2,500,000
Lease obligations	28,277	28,666
Income taxes payable	842,462	528,222
Provision for bonuses	1,069,894	931,629
Provision for directors' bonuses	—	33,000
Other	5,466,664	4,766,935
Total current liabilities	20,219,403	18,624,247
Non-current liabilities		
Convertible bonds	8,052,000	8,048,000
Lease obligations	52,923	55,537
Net defined benefit liability	1,433,209	1,396,243
Other	158,704	161,570
Total non-current liabilities	9,696,837	9,661,351
Total liabilities	29,916,241	28,285,598
Net assets		
Shareholders' equity		
Capital stock	12,721,939	12,721,939
Capital surplus	13,876,517	13,877,663
Retained earnings	32,845,575	35,171,857
Treasury stock	(11,519,292)	(11,517,054)
Total shareholders' equity	47,924,738	50,254,405
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	165,067	142,393
Foreign currency translation adjustments	(1,185,575)	(2,317,690)
Remeasurements of defined benefit plans	(382,271)	(335,195)
Total accumulated other comprehensive income	(1,402,779)	(2,510,493)
Stock acquisition rights	250,509	265,945
Noncontrolling interests	674,274	716,662
Total net assets	47,446,743	48,726,519
Total liabilities and net assets	77,362,984	77,012,118

(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 March 1, 2017 to May 31, 2017, of FY2/2018	First three-month period from March 1, 2018 to May 31, 2018, of FY12/2018
Net sales	13,475,448	23,884,239
Cost of sales	8,666,370	14,480,987
Gross profit	4,809,077	9,403,252
Selling, general and administrative expenses	3,707,027	5,396,966
Operating income	1,102,049	4,006,285
Non-operating income		
Interest income	31,790	59,329
Dividend income	2,698	3,188
Foreign exchange gains	1,195	—
Rent income	13,754	14,245
Electricity sales income	3,923	4,024
Miscellaneous income	19,647	67,403
Total non-operating income	73,010	148,191
Non-operating expenses		
Interest expense	2,794	2,987
Loss on valuation of investment securities	5,560	—
Foreign exchange loss-net	—	74,442
Cost of lease revenue	638	996
Electricity sales expense	2,657	2,344
Miscellaneous loss	2,535	4,578
Total non-operating expenses	14,185	85,349
Ordinary income	1,160,873	4,069,127
Extraordinary income		
Gain on sales of non-current assets	1,285	1,487
Total extraordinary income	1,285	1,487
Extraordinary losses		
Loss on disposal of non-current assets	19,336	2,536
Total extraordinary losses	19,336	2,536
Income before income taxes	1,142,822	4,068,078
Income taxes-current	342,776	699,870
Income taxes-deferred	(54,331)	(14,736)
Total income taxes	288,445	685,134
Net income	854,377	3,382,943
Net income attributable to noncontrolling interests	16,829	62,249
Net income attributable to owners of the parent	837,547	3,320,693

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

(Unit: Thousands of yen)

	First three-month period from March 1, 2017 to May 31, 2017, of FY2/2018	First three-month period from March 1, 2018 to May 31, 2018, of FY12/2018
Net income	854,377	3,382,943
Other comprehensive income		
Valuation difference on available-for-sale securities	(1,779)	(22,673)
Foreign currency translation adjustments	(725,159)	(1,144,503)
Remeasurements of defined benefit plans	62,372	47,075
Share of other comprehensive income of entities	(11,779)	(1,709)
Total other comprehensive income	(676,345)	(1,121,811)
Comprehensive income	178,031	2,261,132
(Total comprehensive income attributable to:)		
Owners of parent	173,652	2,212,980
Noncontrolling interests	4,379	48,151

(3) Notes to Quarterly Consolidated Financial Statements

(Note on Going Concern Assumption)

Not applicable

(Note on Significant Changes in Shareholders' Equity Accounts)

Not applicable