

Fiscal 2020 Third-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 Third-quarter Business Report: November 13, 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 Third Quarter of Fiscal 2020 (From January 1, 2020 to September 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 Third Quarter | 31,640 | (32.1) | 1,018 | (78.8) | 1,237 | (75.1) | 607 | (81.9) |
| FY 2019 Third Quarter | 46,564 | — | 4,812 | — | 4,960 | — | 3,364 | — |

(Note) Comprehensive income FY 2020 Third Quarter ¥(232) million [-%] FY 2019 Third Quarter ¥2,213 million [-%]

| | Net Income Per Share | Diluted Net Income Per Share |
|-----------------------|----------------------|------------------------------|
| | (¥) | (¥) |
| FY 2020 Third Quarter | 17.21 | 14.62 |
| FY 2019 Third Quarter | 94.02 | 82.19 |

(2) Consolidated Financial Position

| | Total Assets | Net Assets | Equity Ratio |
|--------------------------|--------------|-------------|--------------|
| | (¥ million) | (¥ million) | % |
| As of September 30, 2020 | 68,930 | 48,624 | 69.2 |
| As of December 31, 2019 | 76,393 | 50,789 | 65.2 |

Reference: Shareholders' Equity

As of September 30, 2020 ¥47,666 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) | | | — | 30.00 | 58.00 |

(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 | 44,600 | (26.5) | 1,600 | (72.5) | 1,800 | (70.8) | 1,000 | (75.3) | 28.34 |

(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 September 30, 2020 | 45,091,334 shares | As of December 31, 2019 | 45,091,334 shares |
|--------------------------|-------------------|-------------------------|-------------------|

(ii) Number of treasury stock at period-end

| | | | |
|--------------------------|------------------|-------------------------|------------------|
| As of September 30, 2020 | 9,802,966 shares | As of December 31, 2019 | 9,841,986 shares |
|--------------------------|------------------|-------------------------|------------------|

(iii) Average number of outstanding shares (During the nine months)

| | | | |
|--------------------------|-------------------|--------------------------|-------------------|
| As of September 30, 2020 | 35,283,815 shares | As of September 30, 2019 | 35,782,646 shares |
|--------------------------|-------------------|--------------------------|-------------------|

* 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

Looking at the Group's principal related markets during the third quarter of fiscal 2020, conditions throughout the global economy continued to become increasingly severe due to the COVID-19 pandemic. Despite steps to gradually ease restrictions on economic activity in each market over the second half of the fiscal year and relatively firm POS-related demand in the U.S. market, activity in other markets declined substantially in the period under review. 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 ¥31,640 million for the third quarter of the fiscal year under review, down 32.1% 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 ¥1,018 million, a decrease of 78.8% compared with the corresponding period of the previous fiscal year owing largely to the drop in sales of machine tools. Ordinary income declined 75.1%, to ¥1,237 million and net income attributable to owners of parent amounted to ¥607 million, a downturn of 81.9%.

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 11.7% compared with the corresponding period of the previous fiscal year, to ¥8,793 million and operating income decreased 14.6% year on year, to ¥1,312 million.

(Machine Tools)

Impacted by the COVID-19 pandemic, sales for CNC automatic lathes declined substantially. This was due to a variety of factors including restrictions on sales activities in the U.S. market. Despite initial signs of a recovery over the second half, results were also affected by a downturn in the automobile-related markets of Europe and Japan. 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 35.5% compared with the corresponding period of the previous fiscal year, to ¥22,071 million and operating income decreased 72.2% year on year, to ¥1,364 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 67.3% compared with the corresponding period of the previous fiscal year, to ¥775 million and operating income decreased 62.8% year on year, to ¥42 million.

(2) Explanation of Financial Position

Total assets as of the end of the third quarter of the current fiscal year stood at ¥68,930 million, a decrease of ¥7,463 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 ¥20,306 million, a decrease of ¥5,298 million compared with the previous fiscal year-end. This largely reflected the downturn in trade payables and other current liabilities. Total net assets declined ¥2,165 million compared with the end of the previous fiscal year, to ¥48,624 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

Earnings projections for the consolidated full year of fiscal 2020 have been revised from the projections announced on August 11, 2020. Please refer to the disclosure " Notice Regarding Revision to Business Results Forecasts for the Full Fiscal Year and the Fiscal Year-End Dividend Forecast (Dividend Increase)" issued separately today (November 12, 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 September 30, 2020 |
|--|-------------------------|--------------------------|
| Assets | | |
| Current assets | | |
| Cash and deposits | 20,158,296 | 19,743,849 |
| Trade notes and accounts receivable | 14,390,556 | 11,965,349 |
| Securities | 500,000 | 1,795,500 |
| Merchandise and finished goods | 12,750,263 | 10,584,050 |
| Work in process | 4,486,083 | 3,446,448 |
| Raw materials and supplies | 2,902,351 | 2,140,965 |
| Other | 1,754,218 | 1,269,787 |
| Allowance for doubtful accounts | (111,535) | (87,081) |
| Total current assets | 56,830,234 | 50,858,868 |
| Non-current assets | | |
| Property, plant and equipment | | |
| Buildings and structures, net | 7,580,972 | 8,128,577 |
| Machinery, equipment and vehicles, net | 3,326,034 | 2,706,767 |
| Tools, furniture and fixtures, net | 1,193,557 | 1,085,788 |
| Land | 2,048,347 | 1,889,685 |
| Lease assets, net | 101,821 | 77,597 |
| Construction in progress | 508,204 | 3,357 |
| Other, net | 782,401 | 655,412 |
| Total property, plant and equipment | 15,541,339 | 14,547,186 |
| Intangible assets | | |
| Other | 506,018 | 452,610 |
| Total intangible assets | 506,018 | 452,610 |
| Investments and other assets | | |
| Investment securities | 2,239,005 | 1,940,026 |
| Deferred tax assets | 923,331 | 789,556 |
| Other | 353,852 | 342,258 |
| Total investments and other assets | 3,516,189 | 3,071,841 |
| Total Non-current assets | 19,563,547 | 18,071,638 |
| Total assets | 76,393,781 | 68,930,507 |

(Unit: Thousands of yen)

| | As of December 31, 2019 | As of September 30, 2020 |
|---|-------------------------|--------------------------|
| Liabilities | | |
| Current liabilities | | |
| Trade notes and accounts payable | 4,290,386 | 3,129,548 |
| Electronically recorded obligations-operating | 2,961,364 | 993,205 |
| Short-term loans payable | 2,500,000 | 2,500,000 |
| Current portion of convertible bonds | — | 8,010,666 |
| Lease obligations | 34,817 | 30,483 |
| Income taxes payable | 709,354 | 238,046 |
| Provision for bonuses | 768,557 | 510,442 |
| Allowance for doubtful accounts | — | 6,000 |
| Other | 4,664,541 | 3,464,297 |
| Total current liabilities | 15,929,021 | 18,882,692 |
| Non-current liabilities | | |
| Convertible bonds | 8,022,666 | — |
| Lease obligations | 76,359 | 54,258 |
| Net defined benefit liability | 922,823 | 818,827 |
| Other | 653,372 | 550,322 |
| Total non-current liabilities | 9,675,221 | 1,423,408 |
| Total liabilities | 25,604,243 | 20,306,100 |
| 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 | 37,173,380 |
| Treasury stock | (12,144,398) | (12,096,260) |
| Total shareholders' equity | 52,169,063 | 50,854,042 |
| Accumulated other comprehensive income | | |
| Valuation difference on available-for-sale securities | 115,639 | 20,754 |
| Foreign currency translation adjustments | (2,571,586) | (3,314,775) |
| Remeasurements of defined benefit plans | 111,986 | 106,373 |
| Total accumulated other comprehensive income | (2,343,960) | (3,187,647) |
| Stock acquisition rights | 421,487 | 411,014 |
| Noncontrolling interests | 542,947 | 546,997 |
| Total net assets | 50,789,538 | 48,624,407 |
| Total liabilities and net assets | 76,393,781 | 68,930,507 |

(2) Quarterly Consolidated Statement of Income and Consolidated Statement of Comprehensive Income

(Quarterly Consolidated Statement of Income)

(Third nine-month period)

(Unit: Thousands of yen)

| | Third nine-month period from January 1, 2019 to September 30, 2019, of FY2019 | Third nine-month period from January 1, 2020 to September 30, 2020, of FY2020 |
|---|--|--|
| Net sales | 46,564,613 | 31,640,345 |
| Cost of sales | 29,185,249 | 20,856,117 |
| Gross profit | 17,379,363 | 10,784,227 |
| Selling, general and administrative expenses | 12,567,342 | 9,765,947 |
| Operating income | 4,812,021 | 1,018,280 |
| Non-operating income | | |
| Interest income | 146,052 | 119,819 |
| Gain on valuation of investment securities | 76,070 | — |
| Foreign exchange gains | — | 28,339 |
| Rent income | 38,619 | 31,695 |
| Miscellaneous income | 111,461 | 151,141 |
| Total non-operating income | 372,203 | 330,995 |
| Non-operating expenses | | |
| Interest expense | 8,139 | 13,067 |
| Loss on valuation of investment securities | — | 36,140 |
| Share of loss of entities accounted for using equity method | 5,290 | 42,107 |
| Foreign exchange loss-net | 188,561 | — |
| Miscellaneous loss | 21,328 | 20,271 |
| Total non-operating expenses | 223,319 | 111,585 |
| Ordinary income | 4,960,905 | 1,237,689 |
| Extraordinary income | | |
| Gain on sales of non-current assets | 34,328 | 143,935 |
| Reversal of impairment loss | 236,074 | — |
| Total extraordinary income | 270,403 | 143,935 |
| Extraordinary losses | | |
| Loss on disposal of non-current assets | 117,977 | 36,666 |
| Impairment loss | 239,772 | — |
| Business restructuring expenses | 471,384 | — |
| Total extraordinary losses | 829,133 | 36,666 |
| Income before income taxes | 4,402,175 | 1,344,959 |
| Income taxes-current | 1,477,130 | 590,293 |
| Income taxes-deferred | △147,556 | 127,265 |
| Total income taxes | 1,329,574 | 717,559 |
| Net income | 3,072,601 | 627,400 |
| Net income (loss) attributable to noncontrolling interests | △291,505 | 20,004 |
| Net income attributable to owners of the parent | 3,364,106 | 607,395 |

(Quarterly Consolidated Statement of Comprehensive Income)
(Third nine-month period)

(Unit: Thousands of yen)

| | Third nine-month period from January 1, 2019 to September 30, 2019, of FY2019 | Third nine-month period from January 1, 2020 to September 30, 2020, of FY2020 |
|---|--|--|
| Net income | 3,072,601 | 627,400 |
| Other comprehensive income | | |
| Valuation difference on available-for-sale securities | (415) | (94,884) |
| Foreign currency translation adjustments | (970,981) | (761,780) |
| Remeasurements of defined benefit plans | 122,183 | (5,613) |
| Share of other comprehensive income of entities | (10,332) | 2,636 |
| Total other comprehensive income | (859,545) | (859,641) |
| Comprehensive income | 2,213,056 | (232,241) |
| (Total comprehensive income attributable to:) | | |
| Owners of parent | 2,521,941 | (236,291) |
| Noncontrolling interests | (308,885) | 4,050 |

(3) Notes to Quarterly Consolidated Financial Statements

(Note on Going Concern Assumption)

Not applicable

(Note on Significant Changes in Shareholders' Equity Accounts)

Not applicable