

Fiscal 2023 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 2023 Second-quarter Business Report: August 10, 2023

Scheduled payment of dividends: September 6, 2023

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 2023 (From January 1, 2023 to June 30, 2023)

(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 2023 Second Quarter	42,926	9.4	7,380	29.0	7,614	27.5	5,238	24.5
FY 2022 Second Quarter	39,252	40.5	5,722	117.5	5,971	107.9	4,209	99.1

(Note) Comprehensive income FY 2023 Second Quarter ¥9,113 million [(3.0)%] FY 2022 Second Quarter ¥9,393 million [141.2%]

	Net Income Per Share	Diluted Net Income Per Share
	(¥)	(¥)
FY 2023 Second Quarter	139.36	138.91
FY 2022 Second Quarter	109.91	109.34

(2) Consolidated Financial Position

	Total Assets	Net Assets	Equity Ratio
	(¥ million)	(¥ million)	%
As of June 30, 2023	99,638	79,758	79.7
As of December 31, 2022	99,538	73,088	73.0

Reference: Shareholders' Equity

As of June 30, 2023 ¥79,378 million As of December 31, 2022 ¥72,628 million

2. Dividends

	Dividends Per Share				
	1Q end	2Q end	3Q end	Year-end	Full Year
	(¥)	(¥)	(¥)	(¥)	(¥)
FY 2022	—	30.00	—	40.00	70.00
FY 2023	—	30.00			
FY 2023(projected)			—	30.00	60.00

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

Breakdown of Year-End Dividends in FY2022 Ordinary dividend ¥30.00 Special dividend ¥10.00

3. Consolidated Outlook for the Fiscal Year Ending December 31, 2023 (From January 1, 2023 to December 31, 2023)

(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	79,000	(9.6)	11,000	(21.0)	11,400	(19.7)	8,400	(18.4)	224.85

(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: Yes
 - (ii) Changes other than those in (i) above: None
 - (iii) Changes in accounting estimates: None
 - (iv) Retrospective restatement: None

*Please refer to "(3) Notes to Quarterly Consolidated Financial Statements (Changes in Accounting Policies)" under "2. Quarterly Consolidated Financial Statements and Major Notes" on page 7 for details.

- (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, 2023	42,465,134 shares	As of December 31, 2022	42,465,134 shares
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- (ii) Number of treasury stock at period-end

As of June 30, 2023	5,249,794 shares	As of December 31, 2022	4,809,548 shares
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- (iii) Average number of outstanding shares (During the six months)

As of June 30, 2023	37,591,661 shares	As of June 30, 2022	38,298,973 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 first half of the fiscal year ending December 31, 2023, conditions surrounding the global economy remained shrouded in uncertainty. Despite an overall modest economic recovery amid signs of a lull in the surge in resource prices and prolonged inflation, this uncertainty largely reflects growing concerns of a slowdown in the economy due to interest rate hikes by the central banks in the U.S. and Europe, a downturn in the pace of consumption and investment in China, and fluctuations in foreign currency exchange rates.

In each of the major markets in which the Star Micronics Group operates, demand for POS printers was generally weak mainly in the U.S. and European markets. In addition, demand for the Group's mainstay machine tools in overseas markets, which had previously remained high, stalled with little or no forward momentum. Exacerbating these difficult trends, demand in Japan also failed to recover.

Under these circumstances, the Star Micronics Group reported sales of ¥42,926 million for the second quarter of the fiscal year under review, up 9.4% compared with the corresponding period of the previous fiscal year. The increase was largely due to an upswing in sales of machine tools. From a profit perspective, operating income climbed 29.0%, to ¥7,380 million due in large part to higher sales. Ordinary income increased 27.5%, to ¥7,614 million. Net income attributable to owners of parent grew 24.5%, to ¥5,238 million.

Meanwhile, Smart Solution Technology, Inc. (SST) was included in the Company's scope of consolidation and the Special Products Segment effective from the first half of the fiscal year under review.

(Special Products)

In POS printers, mPOS demand, which had previously remained robust, stalled in the period under review. Despite this sluggish demand, sales increased. In addition to the easing of delays in the supply of products that had arisen due to difficulties in procuring components and parts as well as disruptions to logistics throughout the previous fiscal year, this upswing in sales largely reflects the impact of the yen's depreciation. Looking at trends by geographic region, sales in the U.S. and European markets grew substantially. This is mainly due in part to the impact of the yen's depreciation. Despite weak market conditions throughout the domestic market, sales were on a par with the corresponding period of the previous fiscal year owing to the inclusion of SST in the Company's scope of consolidation.

Accounting for these factors, sales increased 12.8% compared with the corresponding period of the previous fiscal year, to ¥8,982 million. Operating income increased 11.7% year on year, to ¥1,701 million.

(Machine Tools)

Sales of CNC automatic lathes increased. While market conditions were sluggish across all regions from the beginning of the year, this increase in sales was largely attributable to progress in reducing the order backlog from the previous fiscal year mainly in the European and U.S. markets and the impact of the yen's depreciation. Meanwhile, sales decreased substantially in the Asian market. This was largely attributable to weak sales of automotive-related products on the back of the continued cautious approach toward capital investment in China over the latter half of the previous fiscal year. Sales declined in the domestic market, mainly due to the continued lackluster performance of the automotive sector.

Accounting for each of the aforementioned factors, sales grew 8.5% compared with the corresponding period of the previous fiscal year, to ¥33,943 million. Operating income jumped 30.0%, to ¥6,684 million.

(2) Explanation of Financial Position

Total assets as of the end of the first half of the fiscal year under review stood at ¥99,638 million, roughly in line with the balance as of the end of the previous fiscal year. Despite an increase in inventories, this was mainly due to the decline in cash and deposits as well as trade notes and accounts receivable. Total liabilities came to ¥19,879 million, a decrease of ¥6,570 million compared with the previous fiscal year-end. This largely reflected the decline in trade payables. Total net assets increased ¥6,670 million compared with the end of the previous fiscal year, to ¥79,758 million. This was in large part due to the increase in retained earnings and foreign currency translation adjustments notwithstanding such factors as the purchase of treasury stock.

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

Looking ahead, economic conditions throughout the global economy are expected to remain shrouded in uncertainty. This is primarily due to global geopolitical risks and concerns of an economic slowdown caused by inflation and financial instability.

Under these circumstances, and in light of results for the first half of the fiscal year under review, net sales for the full fiscal year ending December 31, 2023 are projected to total ¥79,000 million (down 9.6% compared with the previous fiscal year). Turning to earnings forecasts for the full fiscal year, operating income is expected to come in at ¥11,000 million (down 21.0% year on year), ordinary income ¥11,400 million (down 19.7% year on year), and net income ¥8,400 million (down 18.4% year on year).

Forecasts are based on the assumptions that the yen/US dollar exchange rate will be JPY130 and the yen/Euro exchange rate will be JPY145.

2. Quarterly Consolidated Financial Statements and Major Notes

(1) Quarterly Consolidated Balance Sheet

(Unit: Thousands of yen)

	As of December 31, 2022	As of June 30, 2023
Assets		
Current assets		
Cash and deposits	30,069,164	28,169,932
Trade notes and accounts receivable	22,749,935	21,663,024
Securities	34,278	—
Merchandise and finished goods	14,361,778	17,577,855
Work in process	6,578,912	5,787,931
Raw materials and supplies	4,146,484	4,110,688
Other	2,264,776	1,733,688
Allowance for doubtful accounts	(132,608)	(166,492)
Total current assets	80,072,720	78,876,629
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	7,384,989	7,383,476
Machinery, equipment and vehicles, net	3,332,228	3,586,395
Tools, furniture and fixtures, net	1,350,231	1,419,556
Land	2,008,241	2,464,997
Lease assets, net	61,195	62,805
Construction in progress	215,439	187,322
Other, net	1,344,130	1,416,566
Total property, plant and equipment	15,696,456	16,521,121
Intangible assets		
Other	445,331	705,759
Total intangible assets	445,331	705,759
Investments and other assets		
Investment securities	1,131,830	1,042,465
Deferred tax assets	425,428	459,840
Net defined benefit asset	1,299,938	1,482,307
Other	466,926	550,468
Total investments and other assets	3,324,123	3,535,081
Total non-current assets	19,465,910	20,761,962
Total assets	99,538,631	99,638,592

(Unit: Thousands of yen)

	As of December 31, 2022	As of June 30, 2023
Liabilities		
Current liabilities		
Trade notes and accounts payable	8,369,767	6,771,603
Electronically recorded obligations-operating	4,618,781	665,942
Short-term bank loans	—	15,000
Current portion of long-term bank loans	—	46,466
Lease obligations	26,484	30,826
Income taxes payable	2,417,312	1,479,596
Contract liabilities	965,914	790,228
Provision for bonuses	1,550,218	1,519,941
Provision for directors' bonuses	—	27,000
Other	7,155,653	6,492,358
Total current liabilities	25,104,131	17,838,965
Non-current liabilities		
Long-term bank loans	—	18,317
Lease obligations	41,207	38,777
Net defined benefit liability	100,988	113,592
Other	1,204,176	1,869,980
Total non-current liabilities	1,346,371	2,040,666
Total liabilities	26,450,503	19,879,631
Net assets		
Shareholders' equity		
Capital stock	12,721,939	12,721,939
Capital surplus	11,710,490	11,719,953
Retained earnings	49,849,455	53,581,033
Treasury stock	(6,608,499)	(7,466,035)
Total shareholders' equity	67,673,385	70,556,890
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	107,591	172,474
Foreign currency translation adjustments	3,366,425	7,333,802
Remeasurements of defined benefit plans	1,481,466	1,315,591
Total accumulated other comprehensive income	4,955,484	8,821,868
Stock acquisition rights	351,712	270,198
Noncontrolling interests	107,545	110,003
Total net assets	73,088,128	79,758,960
Total liabilities and net assets	99,538,631	99,638,592

(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, 2022 to June 30, 2022, of FY2022	Second six-month period from January 1, 2023 to June 30, 2023, of FY2023
Net sales	39,252,758	42,926,690
Cost of sales	24,653,589	25,401,165
Gross profit	14,599,168	17,525,524
Selling, general and administrative expenses	8,876,499	10,145,361
Operating income	5,722,669	7,380,163
Non-operating income		
Interest income	68,995	160,604
Foreign exchange gain	143,749	—
Rent income	20,687	20,904
Miscellaneous income	64,540	133,415
Total non-operating income	297,972	314,924
Non-operating expenses		
Interest expense	16,416	15,072
Loss on valuation of investment securities	25,630	—
Foreign exchange loss	—	59,833
Miscellaneous loss	6,709	5,367
Total non-operating expenses	48,756	80,273
Ordinary income	5,971,884	7,614,815
Extraordinary income		
Gain on sales of non-current assets	3,894	8,621
Gain on revision of retirement benefit plan	—	203,002
Total extraordinary income	3,894	211,623
Extraordinary losses		
Loss on disposal of non-current assets	7,737	4,837
Total extraordinary losses	7,737	4,837
Income before income taxes	5,968,041	7,821,600
Income taxes-current	1,290,228	2,053,357
Income taxes-deferred	432,656	531,374
Total income taxes	1,722,884	2,584,732
Net income	4,245,157	5,236,867
Net income (loss) attributable to noncontrolling interests	35,627	(1,901)
Net income attributable to owners of the parent	4,209,529	5,238,769

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

(Unit: Thousands of yen)

	Second six-month period from January 1, 2022 to June 30, 2022, of FY2022	Second six-month period from January 1, 2023 to June 30, 2023, of FY2023
Net income	4,245,157	5,236,867
Other comprehensive income		
Valuation difference on available-for-sale securities	10,069	64,882
Foreign currency translation adjustments	5,120,538	4,000,382
Remeasurements of defined benefit plans	(2,265)	(165,875)
Share of other comprehensive income of entities	20,233	(22,800)
Total other comprehensive income	5,148,577	3,876,588
Comprehensive income	9,393,734	9,113,455
(Total comprehensive income attributable to:)		
Owners of parent	9,319,452	9,105,154
Noncontrolling interests	74,281	8,301

(3) Notes to Quarterly Consolidated Financial Statements

(Note on Going Concern Assumption)

Not applicable

(Note on Significant Changes in Shareholders' Equity Accounts)

The Company repurchased 543,000 shares of treasury stock, in accordance with a resolution of the Board of Directors at a meeting held on May 11, 2023.

As a result, treasury stock increased ¥999,873 thousand during the second quarter of the fiscal year under review. This resulted in ¥7,466,035 thousand in treasury stock as of the end of the second quarter of the current fiscal year.

(Changes in Accounting Policies)

(Application of "Implementation Guidance on Accounting Standard for Fair Value Measurement")

The Company began applying the "Implementation Guidance on Accounting Standard for Fair Value Measurement" (ASBJ Guidance No. 31, revision issued on June 17, 2021) at the beginning of the first quarter of the fiscal year under review. Accordingly, the Company will apply the new accounting policies stipulated in the Implementation Guidance on Accounting Standard for Fair Value Measurement in the future in accordance with the transitional handling stipulated in Section 27-2 of the Implementation Guidance on Accounting Standard for Fair Value Measurement.

Application of this guidance has no impact on quarterly consolidated financial statements.