

June 30, 2016

Fiscal 2017 First-quarter Consolidated Earnings Report (Japanese GAAP)

Company name: Star Micronics Co., Ltd. Stock listing: First Section, Tokyo Stock Exchange
Code: 7718 URL <http://www.star-m.jp>

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Scheduled release of Fiscal 2017 First-quarter Business Report: July 14, 2016

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 2017 (March 1, 2016 to May 31, 2016)

(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)	%
FY2017 First Quarter	11,036	(10.5)	802	(33.1)	751	(17.6)	653	(18.1)
FY2016 First Quarter	12,335	18.2	1,200	49.3	911	7.9	797	21.7

(Note) Comprehensive income FY2017 First Quarter ¥(888) million [-%] FY2016 First Quarter ¥454 million [676.8%]

	Net Income Per Share	Diluted Net Income Per Share
	(¥)	(¥)
FY2017 First Quarter	15.43	15.41
FY2016 First Quarter	18.89	18.82

(2) Consolidated Financial Position

	Total Assets	Net Assets	Equity Ratio
	(¥ million)	(¥ million)	%
As of May 31, 2016	64,420	48,347	73.6
As of February 29, 2016	67,827	50,199	72.7

Reference: Shareholders' Equity

As of May 31, 2016 ¥47,432 million As of February 29, 2016 ¥49,280 million

2. Dividends

	Dividends Per Share				
	1Q end	2Q end	3Q end	Year-end	Full Year
	(¥)	(¥)	(¥)	(¥)	(¥)
FY2016	—	23.00	—	23.00	46.00
FY2017	—				
FY2017(projected)		24.00	—	24.00	48.00

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

3. Consolidated Outlook for the Fiscal Year Ending February 28, 2017 (From March 1, 2016 to February 28, 2017)

(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	23,100	(15.0)	1,570	(45.0)	1,670	(32.4)	1,400	(24.6)	34.43
Full Year	48,800	(10.4)	4,500	(21.5)	4,700	(9.7)	4,200	12.9	105.46

(Note) Changes to the latest consolidated results forecast announced: None

*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
- (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, 2016	47,033,234 shares	As of February 29, 2016	47,033,234 shares
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- (ii) Number of treasury stock at period-end

As of May 31, 2016	4,713,440 shares	As of February 29, 2016	4,713,213 shares
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- (iii) Average number of outstanding shares (during the three months ended May 31)

As of May 31, 2016	42,319,843 shares	As of May 31, 2015	42,246,110 shares
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* Disclosure regarding progress of quarterly review procedures

This quarterly earnings report is not subject to quarterly reviews stipulated in the Financial Instruments and Exchange Act of Japan. As of the time this report was released, the Company has not completed review procedures for the quarterly consolidated financial statements based on the Financial Instruments and Exchange Act.

* 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. 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 Concerning the Consolidated Earnings Projections and Other Forecasts "under "1. Qualitative Financial Information" on page 4.
- (ii) At a meeting of its Board of Directors held on May 31, 2016, the Company resolved to repurchase its own shares. Star Micronics has taken into account the impact of the repurchase of its own shares up to June 24, 2016 in its consolidated net income per share forecast for the fiscal year ending February 28, 2017.

1. Qualitative Financial Information

(1) Qualitative Information Related to Consolidated Operating Results

Looking at economic conditions during the first quarter, the three-month period from March 1, 2016 to May 31, 2016, of fiscal 2017, the fiscal year ending February 28, 2017, the U.S. economy exhibited signs of a recovery trend while Europe continued to experience a modest positive turnaround. In Asia, China encountered a moderate slowdown in the pace of its economic growth. On a positive note, sign of a pickup began to emerge in certain parts of Southeast Asia. Turning to Japan, the domestic economy continued to gradually recover.

In the major markets in which the Star Micronics Group operates, POS-related transactions in the Special Products Segment benefited from a pickup in demand. Demand in the machine tool and precision products-related markets, on the other hand, was sluggish.

Looking at movements in foreign currency exchange rates during the first quarter of fiscal 2017, the value of the yen appreciated against both the U.S. dollar and the euro compared with the corresponding period of the previous fiscal year.

Under these circumstances, the Star Micronics Group reported sales of ¥11,036 million for the first quarter of the fiscal year under review, down 10.5% year on year. In addition to the downturn in machine tool and precision product sales, this decrease in sales also reflected the impact of the yen's appreciation. From a profit perspective, operating income came to ¥802 million, a decrease of 33.1% compared with the corresponding period of the previous fiscal year. Ordinary income declined 17.6%, to ¥751 million and net income attributable to owners of parent amount to ¥653 million, a downturn of 18.1%.

Performance by segment was as follows:

(Special Products)

In POS printers, sales in the U.S. and European markets were held to roughly the same levels as the corresponding period of the previous fiscal year. The positive effects of the end of a round of inventory adjustments by sales agents in the U.S. market as well as the recovery trend in market conditions in Europe were offset by the negative impact of appreciation in the value of the yen. In the Asian market, sales declined owing mainly to the slump in sales in China. Sales in Japan increased on the back of robust mPOS related sales.

Accounting for each of these factors, sales in the Special Products Segment edged up 0.1% compared with the corresponding period of the previous fiscal year, to ¥2,770 million. Operating income climbed 5.1% year on year to ¥389 million.

(Machine Tools)

In CNC automatic lathes, trends in the medical equipment-related sector in the U.S. were firm. However, sales were essentially unchanged from the corresponding period of the previous fiscal year owing to the effects of the strong yen. Sales in Europe declined in the fiscal year under review. This was largely due to weak sales in such emerging markets as Eastern Europe and sluggish sales in major countries including Germany. Sales in the Asian market declined with improved results in China unable to offset the downturn in other regions. On the domestic front, sales declined in Japan. This reflected a variety of factors including the cautious approach adopted by the market toward capital expenditures.

As a result, sales in the Machine Tools Segment decreased 13.1% compared with the corresponding period of the previous fiscal year, to ¥7,207 million. Operating income declined 23.2% year on year, to ¥926 million.

(Precision Products)

Sales of wristwatch components remained roughly the same year on year due to production adjustments by wristwatch manufacturers. Sales of non-wristwatch dropped substantially owing to the downturn in demand for components for hard disk drives, the decline in automotive components, and other factors.

Accounting for each of these factors, sales in the Precision Products Segment decreased 17.2% compared with the corresponding period of the previous fiscal year, to ¥1,058 million. Operating income fell by a wide margin to ¥77 million, a year-on-year drop of 60.2%.

(2) Explanation Concerning Financial Position

Total assets as of the end of the first quarter of the fiscal year under review stood at ¥64,420 million, a decrease of ¥3,407 million compared with the end of the previous fiscal year. The major movements included decreases in the balances of trade receivables and property, plant and equipment.

Total liabilities came in at ¥16,073 million, down ¥1,555 million compared with the previous fiscal year-end. This was largely due to decreases in the balances of trade payables and the “other” item in current liabilities.

Total net assets declined ¥1,851 million compared with the previous fiscal year-end, to ¥48,347 million. This mainly reflected the drop in the balance of foreign currency translation adjustments.

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

Uncertainty surrounding the future of the global economy continues to mount following the historic vote in the UK to leave the EU. The repercussions are expected to impact the Star Micronics Group’s performance.

While the Company has decided not to revise its disclosed data at this stage, steps will be taken to gather and evaluate all pertinent information including shifts in market trends. In the event of a change in the Group’s operating results forecasts, Star Micronics will undertake to disclose details in a timely manner.