

## INTERVIEW WITH PRESIDENT AND CEO HAJIME SATO



# REAFFIRMING OUR VALUES

## MORE WITH LESS

Since its founding, Star Micronics has continuously developed high added-value products ranking among the world's thinnest and smallest, aiming to realize businesses that "generate the greatest impact from the least materials." We have rigorously kept to our strategy of preserving a high market share and high profit margins in niche markets in which we can make the best use of our own original technology. Moreover, from the initial period after our establishment onwards we have proactively developed business globally as regards both sales and production. For Star Micronics, these points of management policy are the bedrock of our business and the source of our growth—going forward, our policy will not change.

## REVIEW OF BUSINESS PERFORMANCE

### Lower sales and earnings due to slumps in Machine Tools Segment and Special Products Segment.

#### QUARTERLY FINANCIAL DATA

	Net Sales	Change 2009/2008	Operating Income	Change 2009/2008	Net Income (Loss)	Change 2009/2008
1Q	15,285	(7.5)%	2,774	(12.9)%	1,902	(12.4)%
2Q	17,024	(6.3)%	2,722	(17.4)%	1,416	(21.0)%
3Q	15,582	(17.9)%	3,020	(27.5)%	2,477	(13.5)%
4Q	9,062	(55.2)%	28	(99.3)%	(1,457)	–
<b>Total</b>	<b>56,953</b>	<b>(22.9)%</b>	<b>8,545</b>	<b>(41.7)%</b>	<b>4,338</b>	<b>(46.3)%</b>

(Millions of yen)

In the year ended February 28, 2009, our operating environment worsened rapidly due to the global economic slowdown triggered by the financial crisis in the U.S. In these circumstances, for the fiscal year under review, Star Micronics posted net sales of ¥56,953 million, down 22.9% year on year, operating income of ¥8,545 million, down 41.7% year on year, and net income of ¥4,338 million, down 46.3%. The reasons were the slumps in the Machine Tools Segment and the Special Products Segment, both of which had boosted our business results in the past. The Components Segment saw favorable results until the third quarter, but towards the end of the fiscal year it was adversely impacted by the drastic production cutbacks on the part of mobile phone manufacturers.

Looking back at past results, in the fiscal year ended February 29, 2008, Star Micronics posted a new record high of earnings for the second consecutive year, and achieved a fifth consecutive year of top- and bottom-line growth. The reasons for these good results were an extremely active demand for capital investment in machine tools and a successful business performance by POS printers mainly due to market growth in emerging economies, particularly in Brazil, Russia, India, and China (BRICs), as well as the mainstay U.S. and Europe markets, and business expansion into new domains such as devices for issuing lottery tickets. Against this backdrop of favorable external factors, we responded to the flourishing demand by enhancing our production system and developing products that matched customer needs.

However, if we look back from the current severe economic conditions, we can see that the Star Micronics management team was so busy looking after the immediate needs of customers with which they were faced that they attached too much importance to the taking of short-term management decisions. We need to reflect upon this fact.

In light of the regional strategies we implemented overseas, we can now see that our focus on developing the machine tools and POS printer businesses in Eastern Europe, South America and Asia comprised the first moves toward the next stage of growth. To be specific, we devoted efforts primarily toward Russia, the Eastern Europe countries of Hungary, Poland and the Czech Republic, the South American countries of Brazil, Chile and Argentina, and India in the Asian region. This is because our management policy calls for developing global niche markets—developing business at an early stage in regions where growth is expected even though the markets are still small-sized. Our strategy up to now has been not to compete with major companies in a market, but rather to obtain 10% or more market share in niche markets worth around ¥100 billion, aiming to become a price leader. Going forward, we do not intend to change this approach.

## MANAGEMENT'S THINKING

We will build a strong corporate framework that puts a higher priority on profitability.

### CONSOLIDATED FORECASTS FOR FISCAL 2010

(Millions of yen)

	Net sales	Change 2010/2009	Operating income (Loss)	Change 2010/2009	Operating income ratio
Special Products	7,850	(33.5)%	600	(62.5)%	7.6%
Components	8,650	(30.0)%	(800)	—	—
Machine Tools	8,300	(71.1)%	(2,300)	—	—
Precision Products	3,300	(18.6)%	(180)	—	—
<b>Total</b>	<b>28,100</b>	<b>(50.7)%</b>	<b>(4,500)</b>	<b>—</b>	<b>—</b>

When company managers are formulating corporate strategy for the medium term, they must first determine their views on the manner in which the global economy will recover. According to informed authorities, for the U.S. economy to recover it is crucial for the automobile industry to recover and for the falling housing prices to bottom out. Based on these two factors, I think that the U.S. economy will bottom out in the year 2010. Globally, I believe that first we will see the recovery of the American economy, and this will be followed by that of Europe, and then Japan. In Europe, the subprime loan problem is having a greater adverse impact on the banks than in the U.S., and here in Japan we face the hurdle of a declining population that is causing growth in domestic demand to be sluggish. As a result, the speed of the economic recoveries in Europe and Japan will be slower than in the U.S.

Star Micronics is formulating its corporate strategy for the next few years on the assumption that this overall scenario I have just described is correct. I see the fiscal year ending February 28, 2010 as a period of preparation for what should be a somewhat improved business performance in the fiscal year ending February 28, 2011. We are working to realize a policy of building a strong corporate framework that puts a higher priority on profitability.

The ratio of operating income to net sales is a management indicator upon which I place high importance and I would like to see this ratio raised to 20.0% in the medium term. In other words, I believe that Star Micronics should not pursue greater sales for their own sake—our management strategy can move forward even if net sales decline as long as operating income improves. To this end, we will implement a corporate strategy that gives priority to a “select and focus” approach from the viewpoint of profitability in all domains, including businesses, regions and customers.



## TASKS TO ACHIEVE GROWTH

From a medium- and long-term perspective, we will pursue “transformative” initiatives that will lead to growth.

- ▶ We will build a business portfolio not easily adversely impacted by economic trends.
- ▶ We will increase our corporate presence with products differentiated from our competitors’ products, especially in emerging economies.
- ▶ We will inculcate a changed “transformative” mindset in employees and others.

To speak frankly, I did not think that the deterioration of the real economy caused by the current financial crisis would negatively impact our business performance to the extent that it has. Our mainstay businesses—machine tools, small printers for point-of-sale (POS) applications and components for mobile phones—have become strongly affected by economic trends. Although it will not be easy, I believe that we must act to change our business portfolio, even if only a little. I am working to achieve the creation of new core businesses that will rank with our current mainstay businesses. To make this happen, one option I am considering is the use of M&As, and I am putting in place the framework that enables us to act immediately if we see a good opportunity. Furthermore, to increase our presence as a company and grow, it is absolutely necessary to identify new markets, particularly in emerging nations, and to continue to launch products differentiated from our competitors.

To accomplish these management tasks, I believe it is important to raise the level of awareness of Star Micronics personnel. In today’s severe economic environment, the worst kind of mentality is to think that nothing can be changed. Although I myself must take the lead in showing personnel the way forward, employees must also adopt the positive elements of a crisis mentality and raise their consciousness. I really believe this is necessary. Naturally, we will make every use of management’s power, but I want all Star Micronics members to share a common vision of the way forward, thereby energizing the Company.

Next, I would like to describe each of our business segments.

- ▶ **SPECIAL PRODUCTS SEGMENT: In response to decreased sales due to sluggish consumption, we will differentiate our software and take other steps to further expand market share.**

In the fiscal year ending February 28, 2009, the Special Products Segment experienced severe conditions with a decline in net sales resulting from a drop in sales volume. However, the underlying reason for the fall in net sales was a slump in consumption, and therefore sales of POS printers are very likely to increase if the global economy recovers and consumption picks up in countries around the world. I should add that the Company’s POS printers are mainly used in supermarkets, convenience stores and department stores. These users have customarily upgraded the POS printers every five or six years, but due to the worsening economy it seems

they are currently deciding to extend this period by one or two years. Comparisons with our competitors' POS printers confirm that our current product lineups have sufficient competitive edge, and as regards the regions in which we develop business, we will maintain our focus on Eastern Europe and similar markets.

The global market share of Star Micronics in this segment was around 15% in the fiscal year ended February 28, 2005, and has been steadily approaching 20%. Going forward, we are committed to further increasing this market share.

► **COMPONENTS SEGMENT: While keeping mobile phones as our mainstay products, going forward we will develop composite products using the Company's audio technology.**

The Components Segment obtains the majority of its earnings from components for mobile phones, and the Company works to steadily build a good track record as a supplier to these major mobile phone manufacturers. Sales to these clients account for a high proportion of overall segment sales, and going forward, Star Micronics is committed to maintaining this powerful business foundation.

Components for mobile phones will remain our mainstay products in this segment. However, to further expand this business segment, going forward, we are considering developing headsets and other composite products with high added-value using the Company's proprietary audio technology in fields other than mobile phones.

► **MACHINE TOOLS SEGMENT: In addition to sliding headstock CNC Swiss-type automatic lathes, we will start marketing other lathes for processing machinery.**

In the Machine Tools Segment, we are developing business in the market for sliding headstock CNC Swiss-type automatic lathes. The monetary value of this market is around ¥100 billion, and Japanese manufacturers hold a majority share of the world market. Star Micronics has been expanding its own share, which is currently around 35%.

However, the size of the market for Swiss-type automatic lathes is limited and so we must enter new markets going forward. Leveraging the expertise we have accumulated in small lathes and lathes for composite processing, we will transcend the framework of Swiss-type automatic lathes and expand the business domain by marketing other lathes for processing machinery. In the near future, we will launch a new type of product on the market that is competitive in terms of both functionality and price, aiming to increase profitability and expand the business size.

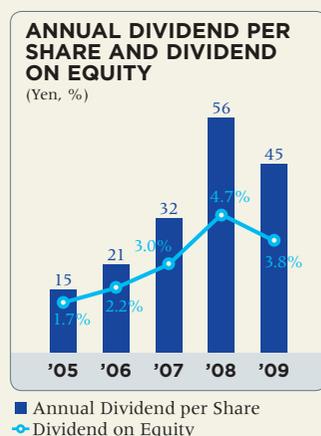
► **PRECISION PRODUCTS SEGMENT: We are considering reorganizing our plants in Japan and overseas.**

There are many actions that need to be taken in the Precision Products Segment. Our current thinking is to reorganize six plants, three in Japan and three overseas, from the viewpoint of increasing profitability and raising efficiency. We are considering integrating plants, primarily overseas, putting in place a framework to generate profits while maintaining the current sales size.

## TOGETHER WITH OUR STAKEHOLDERS

We place the utmost importance on DOE, and are not considering the option of eliminating dividend payments despite the harsh business situation.

- ▶ In the fiscal year ended February 28, 2009, we reduced our annual dividend per share by ¥11 from the previous fiscal year to ¥45.
- ▶ DOE for the fiscal year ended February 28, 2009 was 3.8%.
- ▶ DOE target of 6.0% or more.



In the fiscal year ended February 28, 2009, Star Micronics reduced its annual dividend per share by ¥11 to ¥45 in view of a worsening business performance due to the rapid deterioration of our operating environment. In the fiscal year ending February 28, 2010, we expect to face extremely severe business conditions in which our net income shifts to a net loss. We are not, however, considering the option eliminating dividend payments. We intend to maintain dividend on equity (DOE) of 2% despite the harsh business situation, and possess enough cash to do so. Our philosophy is that the fact that we are a listed stock means we are supported by all our shareholders, and this in turn entails compensating them with dividend payments.

Going forward, Star Micronics will place the utmost importance on DOE as a dividend indicator. The DOE for the fiscal year ended February 28, 2009 was 3.8%, and our target is to raise it to around 6.0%, on par with companies in the U.S. and Europe.

I believe that the important point in formulating capital policy is to compensate our shareholders, employees, business partners and all other stakeholders in a well-balanced manner. This will increase the Company's earnings and thereby raise shareholder value. In closing, I would like to ask our investors not to take an overly short-term viewpoint. Rather, I hope they will make their investment decisions after evaluating our strategies from medium- and long-term perspectives. The current severe business conditions may persist for one or two years, but I would like investors to take the long-term view and trust in the future performance of Star Micronics.

I ask for the continued support and understanding of our shareholders and other investors as we work to meet their expectations.

