

Fiscal 2017 Third-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 Third-quarter Business Report: January 12, 2017
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 2017 (March 1, 2016 to November 30, 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 Third Quarter	35,134	(12.5)	2,652	(36.5)	2,464	(34.9)	2,163	(20.6)
FY2016 Third Quarter	40,152	11.1	4,175	8.1	3,785	(13.4)	2,724	(22.4)

(Note) Comprehensive income FY2017 Third Quarter ¥(2,037) million [—%] FY2016 Third Quarter ¥2,054million [(53.0)%]

	Net Income Per Share	Diluted Net Income Per Share
	(¥)	(¥)
FY2017 Third Quarter	54.85	50.65
FY2016 Third Quarter	64.43	64.20

(2) Consolidated Financial Position

	Total Assets	Net Assets	Equity Ratio
	(¥ million)	(¥ million)	%
As of November 30, 2016	63,909	39,764	61.1
As of February 29, 2016	67,827	50,199	72.7

Reference: Shareholders' Equity

As of November 30, 2016 ¥39,029 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	—	24.00	—		
FY2017(projected)				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)	%	(¥)
Full Year	44,400	(18.5)	3,300	(42.5)	3,100	(40.5)	2,800	(24.7)	71.99

(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 November 30, 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 November 30, 2016	9,799,328 shares	As of February 29, 2016	4,713,213 shares
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- (iii) Average number of outstanding shares (during the nine months ended November 30)

As of November 30, 2016	39,454,978 shares	As of November 30, 2015	42,281,241 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

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 "Qualitative Financial Information" on page 4.

Qualitative Financial Information

1. Qualitative Information Related to Consolidated Operating Results

Looking at economic conditions during the third quarter, the nine-month period from March 1, 2016 to November 30, 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, the Chinese economy continued to slow at a moderate pace. There were, however, signs of a positive turnaround in Southeast Asia. On the domestic front, the Japanese economy continued along its modest recovery path.

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 third 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 ¥35,134 million for the third quarter of the fiscal year under review, down 12.5% 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 strong yen. From a profit perspective, operating income came to ¥2,652 million, a decrease of 36.5% compared with the corresponding period of the previous fiscal year. Ordinary income declined 34.9%, to ¥2,464 million and net income attributable to owners of parent amount to ¥2,163 million, a downturn of 20.6%.

Performance by segment was as follows:

(Special Products)

In POS printers, due to the effect of the strong yen, sales in the U.S. market grew only slightly, while in Europe and Asia, sales declined, although the numbers of units sold increased. Sales in Japan increased substantially on the back of robust mPOS related sales.

Accounting for each of these factors, sales in the Special Products Segment edged up 1.7% compared with the corresponding period of the previous fiscal year, to ¥8,467 million. Operating income climbed 6.9% year on year to ¥1,211 million.

(Machine Tools)

CNC automatic lathes were impacted by the strong yen mainly in Europe and the U.S. Against this backdrop, trends in the mainstay medical equipment-related sector in the U.S. were firm. However, sales declined as results stalled in other sectors. Sales in Europe declined substantially in the period under review. This was largely due to sluggish sales in such emerging markets as Eastern Europe as well as in major countries including Germany. Sales in the Asian market declined. Despite steady trends in China, this decline was mainly due to the downturn in sales in other regions. Sales also declined substantially in Japan. This largely reflected the cautious approach adopted by the market toward capital expenditures.

As a result, sales in the Machine Tools Segment decreased 16.5% compared with the corresponding period of the previous fiscal year, to ¥23,441 million. Operating income fell by a wide margin to 31.4% year on year, to ¥2,909 million.

(Precision Products)

Sales of wristwatch components declined. This was mainly due to the impact of production adjustments by wristwatch manufacturers. Sales of non-wristwatch components also declined. This largely reflected the downturn in automotive components, etc. as well as the impact of the strong yen.

Accounting for each of these factors, sales in the Precision Products Segment decreased 14.0% compared with the corresponding period of the previous fiscal year, to ¥3,224 million. Operating income fell by a wide margin to ¥254 million, a year-on-year drop of 52.0%

2. Explanation Concerning Financial Position

Total assets as of the end of the third quarter of the fiscal year under review were impacted by movements in foreign currency exchange rates. The balance of total assets as of November 30, 2016 stood at ¥63,909 million, a decrease of ¥3,918million compared with the end of the previous fiscal year. This decrease largely reflected the declines in trade receivables, inventories, and property, plant and equipment despite an increase in cash and cash equivalents.

Total liabilities came in at ¥24,145million, an increase of ¥6,516million compared with the previous fiscal year-end. This increase was mainly due to the issuance of bonds with stock acquisition rights.

Total net assets declined ¥10,434 million compared with the end of the previous fiscal year, to ¥39,764million. This was primarily due to the acquisition of treasury stock and a drop in the balance of foreign currency translation adjustments.

3. Explanation Concerning the Consolidated Earnings Projections and Other Forecasts

Earnings projections have been left unchanged from the projections announced on September 29, 2016.