

Consolidated Earnings Report for the Fiscal Year Ended February 28, 2017 (Japanese GAAP)

Company name: Star Micronics Co., Ltd. Stock listing: First Section, Tokyo Stock Exchange
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 Scheduled annual general meeting of shareholders: May 25, 2017 Scheduled payment of dividends: May 26, 2017
 Scheduled release of fiscal 2017 business report: May 26, 2017
 Preparation of supplementary explanatory materials for earnings report: Yes
 Earnings presentation: Yes

(Figures less than one million are rounded down)

1. Consolidated Results for the Fiscal Year Ended February 28, 2017 (From March 1, 2016 to February 28, 2017)

(1) Consolidated Operating Results (Percentages represent changes over the previous fiscal year)

	Net Sales		Operating Income		Ordinary Income		Net Income Attributable to Owners of Parent	
	(¥ million)	%	(¥ million)	%	(¥ million)	%	(¥ million)	%
Year Ended February 28, 2017	48,937	(10.1)	3,606	(37.1)	3,583	(31.2)	3,181	(14.5)
Year Ended February 29, 2016	54,457	6.9	5,735	4.7	5,206	(15.4)	3,720	(20.8)

(Note) Comprehensive income

Year Ended February 28, 2017 ¥1,865 million ((0.1 %)) Year Ended February 29, 2016 ¥1,867 million ((76.4 %))

	Net Income per Share	Diluted Net Income per Share	Ratio of Net Income to Shareholders' Equity	Ratio of Ordinary Income to Total Assets	Ratio of Operating Income to Net Sales
	(¥)	(¥)	%	%	%
Year Ended February 28, 2017	81.77	74.69	6.9	5.3	7.4
Year Ended February 29, 2016	87.98	87.69	7.4	7.5	10.5

Reference: Equity in earnings of affiliated companies

Year Ended February 28, 2017 ¥13 million Year Ended February 29, 2016 ¥19 million

(2) Consolidated Financial Position

	Total Assets	Net Assets	Equity Ratio	Net Assets per Share
	(¥ million)	(¥ million)	%	(¥)
As of February 28, 2017	68,350	43,754	62.8	1,151.40
As of February 29, 2016	67,827	50,199	72.7	1,164.47

Reference: Shareholders' Equity

As of February 28, 2017 ¥42,937 million As of February 29, 2016 ¥49,280 million

(3) Consolidated Cash Flows

	Operating Activities	Investing Activities	Financing Activities	Year-end Cash and Cash Equivalents
	(¥ million)	(¥ million)	(¥ million)	(¥ million)
Year Ended February 28, 2017	5,338	813	138	20,477
Year Ended February 29, 2016	3,106	(1,073)	(2,179)	14,869

2. Dividends

	Dividends per Share					Dividends Total (Year)	Dividend Payout Ratio (Consolidated)	Dividend on Equity Ratio (Consolidated)
	1Q End	2Q End	3Q End	Year-End	Full Year			
	(¥)	(¥)	(¥)	(¥)	(¥)	(¥ million)	%	%
FY2016	-	23.00	-	23.00	46.00	1,946	52.3	3.9
FY2017	-	24.00	-	24.00	48.00	1,812	58.7	4.1
FY2018 (projected)	-	25.00	-	25.00	50.00		50.4	

3.Consolidated Outlook for the Fiscal Year Ending February 28, 2018 (From March 1, 2017 to February 28, 2018)

(Percentages represent changes over the previous fiscal year)

	Net Sales		Operating Income		Ordinary Income		Profit attributable to owners of the parent		Net Income per Share
	(¥ million)	%	(¥ million)	%	(¥ million)	%	(¥ million)	%	(¥)
Interim	24,200	5.3	1,680	(7.0)	1,780	20.0	1,300	22.6	34.86
Full Year	51,200	4.6	4,600	27.5	4,800	33.9	3,700	16.3	99.22

*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) 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: Yes

(iv) Retrospective restatement: None

(3) Number of shares issued and outstanding (common stock)

(i) Number of shares issued and outstanding at period-end (including treasury stock)

As of February 28, 2017	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 February 28, 2017	9,741,728 shares	As of February 29, 2016	4,713,213 shares
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(iii) Average number of outstanding shares

As of February 28, 2017	38,908,443 shares	As of February 29, 2016	42,289,996 shares
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(Reference) Overview of Non-consolidated Financial Results

Non-consolidated Results for the Fiscal Year Ended February 28, 2017 (March 1, 2016 to February 28, 2017)

(1) Non-consolidated Operating Results

(Percentages represent changes over the previous fiscal year)

	Net Sales		Operating Income		Ordinary Income		Net Income	
	(¥ million)	%	(¥ million)	%	(¥ million)	%	(¥ million)	%
Year Ended February 28, 2017	31,335	(6.5)	1,004	(14.5)	3,060	(28.3)	2,971	(29.4)
Year Ended February 29, 2016	33,510	(0.8)	1,174	(31.6)	4,269	(18.9)	4,206	(16.4)

	Net Income per Share	Diluted Net Income per Share
	(¥)	(¥)
Year Ended February 28, 2017	76.37	69.73
Year Ended February 29, 2016	99.47	99.15

(2) Non-consolidated Financial Position

	Total Assets	Net Assets	Equity Ratio	Net Assets Per Share
	(¥ million)	(¥ million)	%	(¥)
As of February 28, 2017	55,244	35,755	64.3	953.16
As of February 29, 2016	52,278	40,945	78.0	963.93

Reference: Shareholders' Equity

As of February 28, 2017 ¥35,544 million

As of February 29, 2016 ¥40,793 million

* This earnings report is not subject to auditing.

* Regarding the appropriate use of earnings projections, and other special 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 "Analysis of Operating Results and Financial Position ((ii) Outlook for Fiscal 2018)" under "(1) Analysis of Operating Results " page 4.

Analysis of Operating Results and Financial Position

(1) Analysis of Operating Results

(i) Consolidated Results for the Year Ended February 28, 2017

Looking at economic conditions during the fiscal year ended 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 Tools and Precision Products-related markets, on the other hand, was sluggish.

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

Under these circumstances, the Star Micronics Group reported sales of ¥48,937 million for the fiscal 2017 under review, down 10.1% year on year. In addition to the effect of the strong yen, this decrease in sales also reflected the downturn in sales such as in Machine Tools. From a profit perspective, operating income came to ¥3,606 million, a decrease of 37.1% compared with the corresponding period of the previous fiscal year. Ordinary income declined 31.2% year on year, to ¥3,583 million and net income attributable to owners of parent amounted to ¥3,181 million, down 14.5% year on year.

Performance by segment was as follows:

(Special Products)

In POS printers, sales in Japan increased substantially on the back of robust mPOS-related sales. However, in the U.S., Europe and Asia, sales declined due to the effect of the strong yen.

As a result, sales in the Special Products Segment decreased 2.6% compared with the corresponding period of the previous fiscal year, to ¥11,081million. Operating income also declined 12.7% year on year to ¥1,345 million as a result of costs arising from new business development and others.

(Machine Tools)

In CNC automatic lathes, sales in the U.S. increased on the back of effect of the strong yen. Against this backdrop, trends mainly in the mainstay medical equipment-related sector were steady over the latter half of the fiscal year. Sales in Europe declined substantially in the period under review. This was largely due to the effect of the strong yen and 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 and the effect of the strong yen. Sales also declined 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 11.9% compared with the corresponding period of the previous fiscal year, to ¥33,629million. Operating income fell by a wide margin to 25.2% year on year, to ¥4,372 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 and others as well as the effect of the strong yen.

Accounting for each of these factors, sales in the Precision Products Segment decreased 14.2% compared with the corresponding period of the previous fiscal year, to ¥4,226 million. Operating income fell by a wide margin to ¥284 million, a year-on-year drop of 52.0%

(ii) Outlook for Fiscal 2018

Despite the uncertainty surrounding such factors as trends in the policies adopted by the new administration in the U.S., and the U.K.'s impending withdrawal from the European Union, global economic conditions are generally expected to recover modestly in fiscal 2018, the fiscal year ending February 28, 2018.

Under these circumstances, and in the context of the Company's consolidated business performance for the coming fiscal year, the Asian market is expected to experience robust trends in addition to the positive turnaround in Japan. As a result, sales in the mainstay Machine Tools Segment are projected to increase. In the Special Products Segment, the Star Micronics Group is forecasting strong trends focusing largely on mPOS-related printers. Sales in the Precision Products Segment are also projected to grow mainly in non-wristwatch components.

As a result, the Group is forecasting net sales of ¥51,200 million, an increase of 4.6% year on year. On the earnings front, the Group forecasts operating income of ¥4,600 million, an increase of 27.5% year on year, and ordinary income of ¥4,800 million, up 33.9% year on year. Net income attributable to owners of parent is projected to increase 16.3% year on year to ¥3,700 million. The Group is projecting revenue and income to increase in fiscal 2018.

These projections assume a foreign exchange rate of ¥110 to U.S.\$1, and ¥115 to 1 euro.

(2) Analysis of Financial Position

(i) Total Assets, Total Liabilities and Net Assets

Total assets as of February 28, 2017 stood at ¥68,350 million, an increase of ¥522 million compared with the previous fiscal year-end. Despite declines in inventories, property, plant and equipment and investment securities, this was mainly due to an increase in cash and deposit. Total liabilities stood at ¥ 24,596 million, an increase of ¥6,967 million 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 ¥6,444 million compared with the previous fiscal year-end to ¥43,754 million. This was mainly due to the repurchases of own shares.

(ii) Cash Flows

Cash and cash equivalents as of February 28, 2017 were ¥20,477 million, an increase of ¥5,608 million compared with the previous fiscal year-end. This was the result of ¥5,338 million, ¥813 million and ¥138 million in net cash provided by operated activities, investing activities and financing activities, respectively, and a translation adjustment on cash and cash equivalents.

(Operating Activities)

Net cash provided by operating activities totaled ¥5,338 million, up from ¥3,106 million in the previous fiscal year. The principal cash inflows were income before income taxes and minority interests and depreciation and amortization.

(Investing Activities)

Net cash provided by investing activities came to ¥813 million, a positive turnaround from ¥1,073 million used in the previous fiscal year. The principal cash outflow was for purchases of property, plant and equipment while the major cash inflows came from sales of investment securities and the net increase in short-term investments.

(Financing Activities)

Net cash provided by financing activities totaled ¥138 million, a positive turnaround from ¥2,179 million used in the previous fiscal year. In the fiscal year under review, the major cash inflows included proceeds from the issuance of bonds with stock acquisition rights. Such cash outflows also came from payments for the repurchases of own shares and cash dividends paid.

(Trends in Cash Flow Related Indices)

	FY2 2013	FY2 2014	FY2 2015	FY2 2016	FY2 2017
Equity Ratio (%)	76.1	75.5	72.4	72.7	62.8
Market Value Basis Equity Ratio (%)	75.5	83.6	93.2	74.4	89.1
Debt / Cash Flow Ratio(Years)	4.1	0.8	0.5	0.6	0.5
Interest Coverage Ratio(Times)	35.9	164.1	267.6	281.0	713.1

Equity Ratio : Shareholders Equity / Total Assets

Market Value Basis Equity Ratio : Market Capitalization/ Total Assets

Debt / Cash Flow Ratio : Debt/ Cash Flows

Interest Coverage Ratio : Cash Flows/Interest Payments

(Note)

1 Calculation based on the consolidated basis financial figures.

2 Market capitalization is calculated by multiplying the closing price as of the end of the fiscal year by the total number of shares issued and outstanding (excluding treasury stock).

3 “Cash flow” uses the net cash provided by operating activities.

4 “Interest-bearing liabilities” comprises all the liabilities recorded on the consolidated balance sheet for which interest must be paid.

(3) Basic Dividend Policy and Dividends for This Fiscal Year and the Next Fiscal Year

Star Micronics positions the return and distribution of profits to shareholders as an important management priority. In the fiscal year under review, the Company intends to implement the basic policy of a consolidated dividend payout ratio of at least 40% while taking into consideration dividend on equity (DOE).

Based on this policy, Star Micronics plans to set its fiscal year-end dividend at ¥24 per share. Consequently, the annual dividend—including a ¥24 per share interim dividend – for the year ended February 28, 2017 will be ¥48 per share, a ¥2 per share increase compared with the previous fiscal year-end.

In an effort to further bolster the return and distribution of profits to shareholders, Star Micronics will again implement its basic policy while taking into consideration dividend on equity (DOE) and a total consolidated payout ratio of at least 50% that includes the repurchases of own shares from the fiscal year ending February 28, 2018.

Based on this policy, the Company has budgeted a ¥2 per share increase in the annual dividend to ¥50 per share, or an interim and fiscal year-end dividend of ¥25 per share each, for the year ending February 28, 2018.

As far as the Company’s internal reserves are concerned, Star Micronics allocate funds to a wide range of areas including investments in growth businesses with the aim of ensuring sustainable growth. At the same time, the Company will work to enhance corporate value and improve shareholder returns.