

Fiscal 2017 Second-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>
Representative Director: Hajime Sato, President and CEO
Inquiries: Mamoru Sato, Managing Director, General Manager, General Administration Headquarters
TEL: 054 -263-1111
Scheduled release of Fiscal 2017 Second-quarter Business Report: October 13, 2016
Scheduled payment of dividends: November 10, 2016
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 2017 (March 1, 2016 to August 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 Second Quarter	22,979	(15.4)	1,806	(36.7)	1,483	(40.0)	1,060	(42.9)
FY2016 Second Quarter	27,173	19.0	2,853	23.6	2,471	(1.3)	1,856	(12.2)

(Note) Comprehensive income FY2017 Second Quarter ¥(2,790) million [-%] FY2016 Second Quarter ¥2,122 million [61.2%]

	Net Income Per Share	Diluted Net Income Per Share
	(¥)	(¥)
FY2017 Second Quarter	26.26	24.73
FY2016 Second Quarter	43.92	43.75

(2) Consolidated Financial Position

	Total Assets	Net Assets	Equity Ratio
	(¥ million)	(¥ million)	%
As of August 31, 2016	63,428	41,277	64.0
As of February 29, 2016	67,827	50,199	72.7

Reference: Shareholders' Equity

As of August 31, 2016 ¥40,570 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: 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

- (4) Number of shares issued and outstanding (common stock)

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

As of August 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 August 31, 2016	8,803,808 shares	As of February 29, 2016	4,713,213 shares
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- (iii) Average number of outstanding shares (during the six months ended August 31)

As of August 31, 2016	40,394,740 shares	As of August 31, 2015	42,269,988 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 "Qualitative Financial Information" on page 4.
- (ii) At a meeting of its Board of Directors held on September 29, 2016, the Company resolved to repurchase its own shares. Star Micronics has taken into account the impact of the repurchase of its own shares in its consolidated net income per share forecast for the fiscal year ending February 28, 2017. For details, please refer to the Company's press release, "Notice regarding Repurchase of Shares" disclosed separately on September 29, 2016.

Qualitative Financial Information

1. Qualitative Information Related to Consolidated Operating Results

Looking at economic conditions during the second quarter, the six-month period from March 1, 2016 to August 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, the Chinese economy continued to slow at a moderate pace. There were, however, signs of a positive turnaround in parts of 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 second 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 ¥22,979 million for the second quarter of the fiscal year under review, down 15.4% 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 ¥1,806 million, a decrease of 36.7% compared with the corresponding period of the previous fiscal year. Ordinary income declined 40.0%, to ¥1,483 million and net income attributable to owners of parent amount to ¥1,060 million, a downturn of 42.9%.

Performance by segment was as follows:

(Special Products)

In POS printers, the U.S. market was negatively impacted by appreciation in the value of the yen. Sales, on the other hand, increased as a round of inventory adjustments by sales agents came to an end. Conditions in Europe trended toward a recovery and the markets in Asia were generally firm. In contrast, sales declined due to the affects of the strong yen. 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 4.0% compared with the corresponding period of the previous fiscal year, to ¥5,613 million. Operating income climbed 25.8% year on year to ¥801 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 21.2% compared with the corresponding period of the previous fiscal year, to ¥15,186 million. Operating income fell by a wide margin to 32.9% year on year, to ¥1,996 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 dropped substantially. This largely reflected the downturn in automotive components as well as the drop in demand for components for hard disk drives.

Accounting for each of these factors, sales in the Precision Products Segment decreased 14.1% compared with the corresponding period of the previous fiscal year, to ¥2,179 million. Operating income fell by a wide margin to ¥163 million, a year-on-year drop of 54.7%

2. Explanation Concerning Financial Position

Total assets as a whole as of the end of the second quarter of the fiscal year under review were impacted by movements in foreign currency exchange rates. The balance of total assets as of August 31, 2016 stood at ¥63,428 million, a decrease of ¥4,399 million compared with the end of the previous fiscal year. This decrease largely reflected the drop in the balances of such accounting line items as trade receivables as well as property, plant and equipment.

Total liabilities came in at ¥22,150 million, an increase of ¥4,522 million compared with the previous fiscal year-end. Despite a decrease in the “other” item in current liabilities, this increase was mainly due to the issuance of bonds with stock acquisition rights.

Total net assets declined ¥8,921 million compared with the end of the previous fiscal year, to ¥41,277 million. 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

Turning to earnings projections, and in light of the Company’s business performance for the second quarter cumulative period of the fiscal year ending February 28, 2017 as well as trends in foreign currency exchange rates, Star Micronics revised its forecasts for the full fiscal year previously announced on April 12, 2016. For details, please refer to the Company’s press release, “Notice regarding Revisions to Performance Forecasts” disclosed separately on September 29, 2016.

These projections assume a foreign exchange rate of ¥100 to US\$1, and ¥110 to 1 euro for the third and fourth quarters of the year ending February 28, 2017.