

April 12, 2016

Consolidated Earnings Report for the Fiscal Year Ended February 29, 2016 (Japanese GAAP)

Company name: Star Micronics Co., Ltd.

Stock listing: First Section, Tokyo Stock Exchange

Code no.: 7718 URL <http://www.star-m.jp>

Representative Director: Hajime Sato, President and CEO

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Scheduled annual general meeting of shareholders: May 26, 2016

Scheduled payment of dividends: May 27, 2016

Scheduled release of fiscal 2016 business report: May 27, 2016

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 29, 2016 (From March 1, 2015 to February 29, 2016)

(1) 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 29, 2016	54,457	6.9	5,735	4.7	5,206	(15.4)	3,720	(20.8)
Year Ended February 28, 2015	50,957	17.2	5,476	110.1	6,150	91.1	4,695	310.7

(Note) Comprehensive income

Year ended February 2016 ¥1,867 million ((76.4 %)) Year ended February 2015 ¥7,902 million (27.9 %)

	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 29, 2016	87.98	87.69	7.4	7.5	10.5
Year Ended February 28, 2015	111.36	111.05	9.8	9.5	10.7

Reference: Equity in earnings of affiliated companies

Year ended February 2016 ¥19 million

Year ended February 2015 ¥31 million

(2) Consolidated Financial Position

	Total Assets	Net Assets	Equity Ratio	Net Assets per Share
	(¥ million)	(¥ million)	%	(¥)
As of February 29, 2016	67,827	50,199	72.7	1,164.47
As of February 28, 2015	70,260	51,902	72.4	1,205.10

Reference: Shareholders' Equity

As of February 29, 2016 ¥49,280 million

As of February 28, 2015 ¥50,887 million

(3) Consolidated Cash Flows

	Operating Activities	Investing Activities	Financing Activities	Year-end Cash and Cash Equivalents
	(¥ million)	(¥ million)	(¥ million)	(¥ million)
Year Ended February 29, 2016	3,106	(1,073)	(2,179)	14,869
Year Ended February 28, 2015	4,326	(2,500)	(1,568)	15,313

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			
FY2015	(¥) -	(¥) 19.00	(¥) -	(¥) 25.00	(¥) 44.00	(¥ million) 1,856	% 39.5	% 3.9
FY2016	-	23.00	-	23.00	46.00	1,946	52.3	3.9
FY2017 (projected)	-	24.00	-	24.00	48.00		48.4	

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

(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	23,100	(15.0)	1,570	(45.0)	1,670	(32.4)	1,400	(24.6)	33.08
Full Year	48,800	(10.4)	4,500	(21.5)	4,700	(9.7)	4,200	12.9	99.24

*Notes

(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: None

(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 29, 2016	47,033,234 shares	As of February 28, 2015	47,033,234 shares
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(ii) Number of treasury stock at period-end

As of February 29, 2016	4,713,213 shares	As of February 28, 2015	4,806,584 shares
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(iii) Average number of outstanding shares

As of February 29, 2016	42,289,996 shares	As of February 28, 2015	42,167,115 shares
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(Reference) Overview of Non-consolidated Financial Results

Non-consolidated Results for the Fiscal Year Ended February 29, 2016 (March 1, 2015 to February 29, 2016)

(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 29, 2016	33,510	(0.8)	1,174	(31.6)	4,269	(18.9)	4,206	(16.4)
Year Ended February 28, 2015	33,764	15.3	1,717	-	5,261	41.9	5,033	64.0

	Net Income per Share	Diluted Net Income per Share
	(¥)	(¥)
Year Ended February 29, 2016	99.47	99.15
Year Ended February 28, 2015	119.36	119.03

(2) Non-consolidated Financial Position

	Total Assets	Net Assets	Equity Ratio	Net Assets Per Share
	(¥ million)	(¥ million)	%	(¥)
As of February 29, 2016	52,278	40,945	78.0	963.93
As of February 28, 2015	53,742	40,649	75.5	960.62

Reference: Shareholders' Equity

As of February 29, 2016 ¥40,793 million

As of February 28, 2015 ¥40,563 million

*Disclosure regarding status of auditing procedure enactment

This earnings report is not subject to the auditing procedures stipulated by Japan's Financial Instruments and Exchange Act. Consequently, auditing procedures for financial statements based on the Financial Instruments and Exchange Act were not completed as of date of release of this report.

*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 "1. Analysis of Operating Results and Financial Position ((ii) Outlook for Fiscal 2017)" under "(1) Analysis of Operating Results " page 3.

1. Analysis of Operating Results and Financial Position

(1) Analysis of Operating Results

(i) Consolidated Results for the Year Ended February 29, 2016

Looking at economic conditions during the fiscal year ended February 29, 2016, the U.S. economy exhibited a steady recovery trend, and Europe continued to experience a modest positive turnaround. In Asia, the pace of economic growth in China and Southeast Asia slowed. In Japan, the economy continued to recover at a moderate but sluggish pace.

In the major markets in which the Star Micronics Group operates, while demand for machine tools was robust during the first half, the market experienced a downward trend over the second half. In the Special Products Segment, the POS-related markets experienced weak demand in the U.S. and Europe. In the markets related to precision products, there was strong demand for wristwatch components.

The exchange rate during the fiscal 2016 reflected a depreciation of the yen against the U.S. dollar and an appreciation of the yen against the euro compared with the previous fiscal year.

Amid environment, the Star Micronics Group reported an increase in sales led mainly by growth in the Machine Tools Segment. Taking into account the added favorable effects of depreciation in the value of the yen, consolidated net sales climbed 6.9% compared with the corresponding period of the previous fiscal year to ¥54,457 million. From a profit perspective, operating income came to ¥5,735 million, an increase of 4.7% year on year. Due to the incidence of a foreign exchange loss totaling ¥880 million recorded as a non-operating expense and other factors, ordinary income declined 15.4% compared with the corresponding period of the previous fiscal year to ¥5,206 million and net income amounted to ¥3,720 million, down 20.8% year on year.

Performance by segment was as follows:

(Special Products)

In POS printers, despite the positive flow-on effects of depreciation in the value of the yen, sales were held to a slight increase in the U.S. market. This mainly reflected the negative impact of inventory adjustments by sales agents. Accounting also for the slow pace of recovery in the European market, sales were unchanged from the previous fiscal year. In the Asian market, sales declined due mainly to the sluggish performance in China. Owing to such factors as the absence of large-scale orders, sales in the domestic Japanese market also declined.

Accounting for each of these factors, sales in the Special Products Segment decreased 1.5% compared with the corresponding period of the previous fiscal year to ¥11,381 million. Operating income also declined 11.3% year on year to ¥1,542 million as a result of the incidence of new business development and other expenses.

(Machine Tools)

In CNC automatic lathes, sales increased in the U.S. This was largely due to firm sales in the medical equipment-related sector and the weak yen. In Europe, sales were steady compared with the corresponding period of the previous fiscal year, mainly on the back of solid sales in the automotive-related sector. Sales grew significantly in the Asian market, which was largely attributable to strong sales in the automotive-related sector, mainly in East Asia. In Japan, sales saw a slight decrease. This in part reflected the downturn in demand following the end of a round of government subsidies over the second half.

As a result, sales and profits increased substantially in the Machine Tools Segment, with sales rising 10.3% compared with the corresponding period of the previous fiscal year to ¥38,150 million and operating income improving 8.2% year on year to ¥5,843 million.

(Precision Products)

Sales of wristwatch components increased due to strong sales to wristwatch makers. Despite a boost from the weak yen, sales of non-wristwatch components declined slightly due to a slump in sales of components for HDDs.

As a result, while sales in the Precision Products Segment increased 2.1% compared with the corresponding period of the previous fiscal year to ¥4,926 million, Operating income declined 14.3% year on year to ¥593 million.

(ii) Outlook for Fiscal 2017

In fiscal 2017, the fiscal year ending February 28, 2017, the global economy as a whole is forecast to remain shrouded in uncertainty. While the U.S. is expected to experience firm growth, there are concerns that worldwide economic conditions will be impacted by such factors as a slowdown in the pace of economic growth in emerging markets including China.

Under these circumstances, in consolidated business performance for the coming fiscal year, the Special Products Segment is expected to continue to show increased sales of mobile POS printers mainly. Sales are projected to decline in the Machine Tools Segment. This is largely due to a slump in orders from the Asian market, which enjoyed substantial growth in the fiscal year under review, in addition to the mainstay European market. While trends in wristwatch components are forecast to remain firm, sales of non-wristwatch components are expected to decline in the Precision Products Segment.

As a result, the Group is forecasting net sales of ¥48,800 million, a decrease of 10.4% year on year. On the earnings front, the Group forecasts operating income of ¥4,500 million, a decrease of 21.5% year on year, and ordinary income of ¥4,700 million, down 9.7% year on year. Profit attributable to owners of the parent is projected to increase substantially, by 12.9% year on year, to ¥4,200 million. These projections assume a foreign exchange rate of ¥115 to \$1, and ¥125 to 1 euro.

(2) Analysis of Financial Position

(i) Total Assets, Total Liabilities and Net Assets

Total assets as of February 29, 2016 stood at ¥67,827 million, a decrease of ¥2,432 million compared with the end of the previous fiscal year. Despite an increase in inventories, this was mainly attributable to declines in investment securities and property, plant and equipment. Total liabilities stood at ¥17,628 million, a decrease of ¥729 million compared with the previous fiscal year-end. Although the net defined benefit liability associated with the application of the accounting standard for retirement benefits increased, the decrease in total liabilities was primarily due to the drop in trade payables. Total net assets declined ¥1,703 million compared with the end of the previous fiscal year to ¥50,199 million. This mainly reflected foreign currency translation adjustments, defined retirement benefit plans, and the decrease in unrealized gain on available-for-sale securities.

ii) Cash Flows

Cash and cash equivalents as of February 29, 2016 were ¥14,869 million, down ¥443 million from February 28, 2015. This was the result of ¥3,106 million in net cash provided by operating activities, offset by ¥1,073 million and ¥2,179 million in net cash used in investing and financing activities, respectively, and a translation adjustment on cash and cash equivalents.

(Operating Activities)

Net cash provided by operating activities totaled ¥3,106 million, down from ¥4,326 million in the previous fiscal year. The principal cash inflows were income before income taxes and minority interests and depreciation and amortization. The major cash outflows were from the increase in inventories and decrease in trade payables.

(Investing Activities)

Net cash used in investing activities came to ¥1,073 million, down from ¥2,500 million 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 decrease in short-term investments.

(Financing Activities)

Financing activities used net cash of ¥2,179 million, up from ¥1,568 million used in the previous fiscal year, mainly to pay dividends to shareholders.

(Trends in Cash Flow Related Indices)

	FY2 2012	FY2 2013	FY2 2014	FY2 2015	FY2 2016
Equity Ratio (%)	70.2	76.1	75.5	72.4	72.7
Market Value Basis Equity Ratio (%)	65.3	75.5	83.6	93.2	74.4
Debt / Cash Flow Ratio(Years)	0.4	4.1	0.8	0.5	0.6
Interest Coverage Ratio(Times)	373.9	35.9	164.1	267.6	281.0

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

The Company emphasizes shareholder returns in distributing profits, and will institute such returns in close consideration of dividend on equity (DOE), targeting a dividend payout ratio of at least 40%.

In accordance with this policy, Star Micronics plans to propose its year-end dividend to ¥23 per share. Consequently, the annual dividend—including a ¥23 interim dividend—will be ¥46 per share for the year ended February 29, 2016. Furthermore, the Company has budgeted a ¥2 increase in the annual dividend to ¥48 per share, or an interim and year-end dividend of ¥24 each, for the year ending February 28, 2017.

Retained earnings will be used to invest in growth businesses with the aim of sustaining the Company’s growth, enhancing corporate value and improving shareholder returns.