



Consolidated Financial Results for the Three Months Ended June 30, 2019 (Japanese GAAP)

July 30, 2019

Company name	Foster Electric Company, Limited	Tokyo Stock Exchange
Code Number	6794	
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Scheduled date of submitting quarterly report		August 9, 2019
Scheduled date of commencing dividend payment		—
Preparation of supplementary materials on quarterly financial results:		No
Holding of a briefing on quarterly financial results:		No

(Amounts less than one million yen are omitted)

1. Consolidated Financial Results for the Three Months Ended June 30, 2019 (From April 1, 2019 to June 30, 2019)

(1) Consolidated operating results (cumulative)

(Percentage figures represent changes from the previous year)

	Net sales		Operating income		Ordinary income		Net income attributable to owners of the parent	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
Three months ended								
June 30, 2019	27,561	(24.5)	741	(21.8)	648	(41.1)	2,067	—
June 30, 2018	36,512	(3.4)	947	(35.5)	1,101	(33.5)	(2,464)	—

Note: Comprehensive income: Fiscal period ended June 30, 2019 ¥1,310 million [-%]
 Fiscal period ended June 30, 2018 ¥(2,349 million) [-%]

	Net income per share	Diluted net income per share
Three months ended	Yen	Yen
June 30, 2019	91.45	—
June 30, 2018	(95.78)	—

(2) Consolidated financial position

	Total assets	Net assets	Equity ratio	Net assets per share
	Millions of yen	Millions of yen	%	Yen
As of June 30, 2019	90,062	60,171	61.3	2,443.09
As of March 31, 2019	91,271	59,294	59.5	2,404.10

Reference: Equity capital: As of June 30, 2019 ¥55,231 million
 As of March 31, 2019 ¥54,350 million

2. Dividends

	Annual dividends				
	End of 1st quarter	End of 2nd quarter	End of 3rd quarter	Year-end	Total
	Yen	Yen	Yen	Yen	Yen
Fiscal year ended March 31, 2019	—	10.00	—	10.00	20.00
Fiscal year ending March 31, 2020	—				
Fiscal year ending March 31, 2020 (Forecast)		20.00	—	15.00	35.00

Note: Changes in dividend forecast subsequent to the most recent announcement: No

Note: The dividend scheduled to be paid at the end of the second quarter of the fiscal year ending March 31, 2020 comprises an ordinary dividend of ¥15.00 and a commemorative dividend of ¥5.00.

3. Forecast of Financial Results for the Fiscal Year Ending March 31, 2020 (From April 1, 2019 to March 31, 2020)

(Percentage figures represent changes from the previous year)

	Net sales		Operating income		Ordinary income		Net income attributable to owners of the parent		Net income per share
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%	Yen
Fiscal year ending March 31, 2020	120,000	(14.5)	3,500	(11.1)	3,500	(18.9)	2,800	-	123.85

Note: Changes in forecast of financial results subsequent to the most recent announcement: No

* Notes

(1) Changes in major subsidiaries during the consolidated fiscal quarter (changes in specified subsidiaries accompanying changes in scope of consolidation): No

Newly added: - subsidiaries (Company name) -

Excluded: - subsidiaries (Company name) -

(2) Application of special accounting treatment in preparing the quarterly consolidated financial statements: No

(3) Changes in accounting policies, changes of accounting estimates and restatement

(i) Changes in accounting policies due to amendment of accounting standards, etc. : Yes

(ii) Changes in accounting policies other than (i) : No

(iii) Changes in accounting estimates : No

(iv) Restatement : No

(4) Number of shares outstanding (common stock)

(i) Number of issued shares at the end of the period (including treasury stock)

June 30, 2019: 26,000,000

March 31, 2019: 26,000,000

(ii) Number of treasury stock at the end of the period

June 30, 2019: 3,392,765

March 31, 2019: 3,392,641

(iii) Average number of shares outstanding for the period

Three months ended June 30, 2019: 22,607,296

Fiscal year ended March 31, 2019: 25,729,597

* Quarterly consolidated financial statements are not subject to quarterly audit by a certified public accountant or audit corporation.

* Information on proper use of the projected financial results and other notes

(Precautionary notes on forward-looking statements)

Forward-looking statements in this document, including earnings projections, are based on currently available information and certain assumptions that the Company regards as reasonable at the time of writing, and the Company does not in any way guarantee the achievement of the projections. Actual results may differ substantially from the forecast figures depending on various factors. For the preconditions of and precautions in using the earnings projections, please refer to "Explanation of forecast of consolidated financial results and other forward-looking information" on page 2 of the Attachment.

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1. Overview of operating results, etc.

(1) Operating results for the period under review

During the three months ended June 30, 2019, the global economy remained unpredictable due to growing trade friction between the US and China, the economic slowdown in China, heightened geopolitical risks, and others. In the electronic components industry, a key area for the Foster Group (the "Group"), the automotive components market was affected by the decline in new car sales worldwide. However, the development of components for next-generation vehicles—as represented by electric vehicles and autonomous driving cars—has gathered momentum. Meanwhile, demand for smartphone components was blunted by widespread ownership of smartphones. Against this backdrop, the Group focused on scaling back its production capabilities for smartphone headsets and preparing for mass production of new products slated for release during the fiscal year ending March 31, 2020. As a result, consolidated net sales for the three months ended June 30, 2019 came to ¥27,561 million (down 24.5% YoY), operating income to ¥741 million (down 21.8% YoY), and ordinary income to ¥648 million (down 41.1% YoY). Net income attributable to owners of the parent was ¥2,067 million (a net loss of ¥2,464 million in the previous year). This mainly reflected the booking of gains on sale of non-current assets.

Results by segment were as follows.

[Speaker Segment]

Segment sales came to ¥16,253 million (down 6.9% YoY) and operating income to ¥915 million (down 15.0% YoY), mainly due to sales of car speakers and speaker systems being dented by the decline in new car sales worldwide.

[Mobile Audio Segment]

Segment sales amounted to ¥9,826 million (down 44.5% YoY) and the operating loss to ¥205 million (an operating loss of ¥203 million in the previous year). Segment sales were depressed by the ongoing decline in sales volume of headsets to a major customer since the previous fiscal year. Meanwhile, the operating loss was kept in check by solid progress on a restructuring plan that has been underway since the previous fiscal year.

[Other Segment]

Segment sales were ¥1,511 million (up 8.0% YoY) and operating income was ¥30 million (down 59.9% YoY). The Other Segment includes micro-acoustic components and FOSTEX brand products.

(2) Financial position for the period under review

As of June 30, 2019, total assets amounted to ¥90,062 million, down ¥1,209 million from their level on March 31, 2019, mainly because of a decrease in inventories. Liabilities declined ¥2,086 million to ¥29,890 million, owing chiefly to a decrease in notes and accounts payable—trade. Net assets increased ¥876 million to ¥60,171 million, mainly attributable to an increase in retained earnings. The equity ratio was 61.3%, up 1.8 percentage points from March 31, 2019.

(Cash flow for the period under review)

Cash and cash equivalents as of June 30, 2019 totaled ¥23,007 million, up ¥1,482 million from their level on March 31, 2019, as the result of the following cash flow activities.

[Operating activities]

Net cash provided by operating activities was ¥873 million. The principal source of cash was a decrease in inventories.

[Investing activities]

Net cash provided by investing activities was ¥1,862 million. The main source of cash was proceeds from sales of property, plant and equipment.

[Financing activities]

Net cash used in financing activities was ¥1,023 million, due mainly to a decrease in bank loans.

(3) Explanation of forecast of consolidated financial results and other forward-looking information

There has been no change to the forecast of financial results for the fiscal year ending March 31, 2020, which we announced on April 26, 2019 along with the consolidated financial results for the fiscal year ended March 31, 2019.

2. Consolidated financial statements and important notes
(1) Consolidated balance sheet

(Millions of yen)

	As of March 31, 2019	As of June 30, 2019
Assets		
Current assets		
Cash and deposits	11,854	19,839
Notes and accounts receivable–trade	18,888	17,960
Electronically recorded monetary claims– operating	373	761
Securities	11,386	4,965
Finished goods	16,405	15,165
Raw materials	5,247	4,194
Work in process	1,148	1,176
Supplies	167	181
Accounts receivable–other	1,033	880
Other	1,291	2,121
Allowance for doubtful receivables	(24)	(27)
Total current assets	67,773	67,221
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	9,127	9,257
Machinery, equipment and vehicles, net	5,187	4,690
Tools, furniture and fixtures, net	2,142	2,019
Land	874	1,711
Construction in progress	1,142	1,248
Net property, plant and equipment	18,475	18,927
Intangible assets		
Software	194	177
Leasehold rights	821	–
Other	154	137
Total intangible assets	1,171	314
Investments and other assets		
Investment securities	2,488	2,331
Long-term prepaid expenses	97	59
Asset for employees' retirement benefits	697	708
Deferred tax assets	240	205
Other	326	293
Total investments and other assets	3,851	3,598
Total non-current assets	23,497	22,840
Total assets	91,271	90,062

(Millions of yen)

	As of March 31, 2019	As of June 30, 2019
Liabilities		
Current liabilities		
Notes and accounts payable–trade	8,334	7,507
Short-term bank loans	2,634	2,561
Current portion of long-term debt	6,863	6,912
Accounts payable–other	3,112	2,771
Income taxes payable	713	698
Accrued expenses	2,005	1,898
Reserve for bonuses	689	453
Other	1,098	1,000
Total current liabilities	25,453	23,802
Non-current liabilities		
Long-term debt	5,108	4,490
Deferred tax liabilities	778	713
Liability for employees' retirement benefits	77	154
Liability for directors' retirement benefits	12	13
Provisions for stock benefit program	92	104
Asset retirement obligations	244	246
Other	208	364
Total non-current liabilities	6,523	6,088
Total liabilities	31,977	29,890
Net assets		
Shareholders' equity		
Common stock	6,770	6,770
Capital surplus	7,961	7,961
Retained earnings	44,813	46,653
Treasury shares	(5,222)	(5,222)
Total shareholders' equity	54,322	56,162
Accumulated other comprehensive income		
Unrealized gain on investment securities	677	577
Foreign currency translation adjustment	(161)	(1,138)
Remeasurements of defined benefit plans	(488)	(369)
Total accumulated other comprehensive income	27	(931)
Non-controlling interests	4,944	4,939
Total net assets	59,294	60,171
Total liabilities and net assets	91,271	90,062

**(2) Consolidated statement of income and consolidated statement of comprehensive income
(Consolidated statement of income)**

(Consolidated quarter ended June 30, 2019)

(Millions of yen)

	Three months ended June 30, 2018	Three months ended June 30, 2019
Net sales	36,512	27,561
Cost of sales	32,093	23,716
Gross profit	4,419	3,844
Selling, general and administrative expenses	3,472	3,103
Operating income	947	741
Non-operating income		
Interest income	27	61
Dividend income	12	15
Foreign currency exchange gain	116	—
Miscellaneous income	91	84
Total non-operating income	248	162
Non-operating expenses		
Interest expense	50	38
Foreign currency exchange loss	—	158
Miscellaneous loss	43	57
Total non-operating expenses	93	254
Ordinary income	1,101	648
Extraordinary income		
Gain on sales of non-current assets	—	2,706
Total extraordinary income	—	2,706
Extraordinary losses		
Impairment losses	2,087	—
Special retirement payments	948	587
Total extraordinary losses	3,035	587
Income (loss) before income taxes	(1,934)	2,767
Income taxes—current	330	487
Income taxes—deferred	123	58
Total income taxes	454	546
Net income (loss)	(2,388)	2,221
Net income attributable to non-controlling interests	75	153
Net income (loss) attributable to owners of the parent	(2,464)	2,067

(Consolidated statement of comprehensive income)

(Consolidated quarter ended June 30, 2019)

(Millions of yen)

	Three months ended June 30, 2018	Three months ended June 30, 2019
Net income (loss)	(2,388)	2,221
Other comprehensive income		
Unrealized gain on investment securities	(51)	(99)
Foreign currency translation adjustment	75	(985)
Remeasurements of defined benefit plans	15	174
Total other comprehensive income	39	(911)
Comprehensive income	(2,349)	1,310
(Breakdown)		
Total comprehensive income attributable to owners of the parent	(2,185)	1,108
Total comprehensive income attributable to non-controlling interests	(163)	201

(3) Consolidated statement of cash flows

(Millions of yen)

	Three months ended June 30, 2018	Three months ended June 30, 2019
Operating activities		
Income (loss) before income taxes	(1,934)	2,767
Depreciation and amortization	1,680	826
(Increase) decrease in asset for employees' retirement benefits	19	(11)
Increase (decrease) in liability for employees' retirement benefits	15	78
Increase (decrease) in directors' retirement benefits	1	1
Allowance for doubtful receivables	2	3
Increase (decrease) in reserve for bonuses	(117)	(231)
Loss (gain) on sales of property, plant and equipment	—	(2,706)
Impairment losses	2,087	—
Special retirement payments	948	587
Interest and dividend income	(40)	(77)
Interest expense	50	38
Foreign exchange loss (gain)	12	17
Decrease (increase) in trade notes and accounts receivable	2,091	290
Decrease (increase) in inventories	(743)	1,786
Increase (decrease) in trade notes and accounts payable	(1,985)	(650)
Decrease (increase) in other accounts receivable	307	132
Increase (decrease) in other accounts payable	(512)	(270)
Other	19	(1,065)
Subtotal	1,898	1,515
Interest and dividend income received	40	77
Interest expenses paid	(50)	(38)
Payments for special retirement expenses	(737)	(198)
Income taxes paid	(492)	(482)
Income taxes refund	16	—
Net cash provided by operating activities	675	873
Investing activities		
Purchases of securities	(298)	(382)
Proceeds from redemption of securities	807	198
Purchases of investment securities	(0)	(0)
Purchases of property, plant and equipment	(974)	(619)
Proceeds from sales of property, plant and equipment	—	2,595
Purchases of intangible assets	(62)	(8)
Decrease (increase) in time deposits	—	78
Decrease (increase) in short-term loans receivable	0	—
Collection of long-term loans receivable	1	—
Payment for long-term prepaid expenses	(2)	(20)
Other	(28)	21
Net cash used in investing activities	(556)	1,862
Financing activities		
Increase (decrease) in short-term bank loans payable, net	2,926	(29)
Proceeds from long-term debt	606	—
Repayments of long-term debt	(436)	(577)
Dividends paid	(904)	(227)

(Millions of yen)

	Three months ended June 30, 2018	Three months ended June 30, 2019
Dividends paid to non-controlling interests	(149)	(148)
Purchase of treasury stock	(0)	(0)
Other	—	(41)
Net cash used in financing activities	2,043	(1,023)
Effect of exchange rate changes on cash and cash equivalents	(320)	(229)
Net increase (decrease) in cash and cash equivalents	1,840	1,482
Cash and cash equivalents, beginning of period	10,150	21,524
Cash and cash equivalents, end of period	11,991	23,007

(4) Notes to the consolidated financial statements

(Notes on going concern assumption)

Not applicable.

(Notes on significant changes in the amount of shareholders' equity)

Not applicable.

(Changes in accounting policies)

Adoption of IFRS 16 "Leases"

The overseas subsidiaries of the Group, except for subsidiaries in North America using US GAAP, have adopted IFRS 16 "Leases" from the beginning of the fiscal period under review. Accordingly, all assets and liabilities arising from a lease are in principle recognized on the balance sheet for lease transactions of a lessee. In applying the new standard, the relevant subsidiaries have adopted a method that recognizes the cumulative effect of the application of the standard as of the initial date of application, which is permitted as a transitional measure. As a result, property, plant and equipment have increased ¥424 million, current liabilities—other have increased ¥152 million, and non-current liabilities—other have increased ¥272 million as of June 30, 2019. The resulting impact on earnings for the fiscal period under review is immaterial. Note that ¥794 million in land use rights included in "Leasehold interests in land" reported under intangible assets has been moved to "Land" reported under property, plant and equipment starting from the fiscal period under review.

(Segment information, etc.)

[Segment information]

I. Consolidated quarter ended June 30, 2018 (From April 1, 2018 to June 30, 2018)

1. Information on amount of net sales and income (loss) for each reportable segment,

(Millions of yen)

	Reportable segments			Total	Adjustments * Note 1	Amounts on consolidated statement of income * Note 2
	Speaker	Mobile Audio	Other			
Net sales						
Sales to external customers	17,462	17,693	1,356	36,512	—	36,512
Inter-segment sales or transfers	—	—	42	42	(42)	—
Total	17,462	17,693	1,399	36,554	(42)	36,512
Segment income (loss)	1,077	(203)	76	950	(3)	947

Notes: 1. The negative ¥3 million in adjustments for segment income reflects the elimination of inter-segment transactions.

2. Total segment income (loss) matches the value of operating income in the consolidated statement of income.

2. Information on impairment losses of non-current assets or goodwill, etc. for each reportable segment

(Important impairment losses of non-current assets)

In the Mobile Audio segment, ¥2,087 million is recognized as impairment losses of non-current assets related to business assets.

II. Consolidated quarter ended June 30, 2019 (From April 1, 2019 to June 30, 2019)

1. Information on amount of net sales and income (loss) for each reportable segment,

(Millions of yen)

	Reportable segments			Total	Adjustments * Note 1	Amounts on consolidated statement of income * Note 2
	Speaker	Mobile Audio	Other			
Net sales						
Sales to external customers	16,253	9,826	1,481	27,561	—	27,561
Inter-segment sales or transfers	—	—	29	29	(29)	—
Total	16,253	9,826	1,511	27,591	(29)	27,561
Segment income (loss)	915	(205)	30	741	—	741

Notes: 1. The adjustments for segment income (loss) reflects the elimination of inter-segment transactions.

2. Total segment income (loss) is adjusted with the value of operating income posted in the consolidated statement of income.

2. Information on impairment losses of non-current assets or goodwill, etc. for each reportable segment

(Important impairment losses of non-current assets)

Not applicable.