



Consolidated Financial Results for the Six Months Ended September 30, 2019 (Japanese GAAP)

October 30, 2019

Company name	Foster Electric Company, Limited	Tokyo Stock Exchange
Code Number	6794	
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Scheduled date of submitting quarterly report		November 12, 2019
Scheduled date of commencing dividend payment		December 6, 2019
Preparation of supplementary materials on quarterly financial results:		Yes
Holding of a briefing on quarterly financial results:		Yes (for analysts and institutional investors)

(Amounts less than one million yen are omitted)

1. Consolidated Financial Results for the Six Months Ended September 30, 2019 (From April 1, 2019 to September 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	%
Six months ended								
September 30, 2019	55,277	(19.6)	1,594	(17.7)	1,668	(24.1)	2,090	—
September 30, 2018	68,758	(14.4)	1,938	(51.7)	2,198	(44.7)	(1,776)	—

Note: Comprehensive income: Six months ended September 30, 2019 ¥739 million [-%]
Six months ended September 30, 2018 ¥(723 million) [-%]

	Net income per share	Diluted net income per share
Six months ended	Yen	Yen
September 30, 2019	92.48	—
September 30, 2018	(69.21)	—

(2) Consolidated financial position

	Total assets	Net assets	Equity ratio	Net assets per share
	Millions of yen	Millions of yen	%	Yen
As of September 30, 2019	87,609	59,602	62.4	2,420.07
As of March 31, 2019	91,271	59,294	59.5	2,404.10

Reference: Equity capital: As of September 30, 2019 ¥54,711 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	—	20.00	—	—	—
Fiscal year ending March 31, 2020 (Forecast)	—	—	—	15.00	35.00

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

Note: The dividend 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: None

* Notes

(1) Changes in major subsidiaries during the six months ended September 30, 2019 (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)
 September 30, 2019: 26,000,000
 March 31, 2019: 26,000,000
 (ii) Number of treasury stock at the end of the period
 September 30, 2019: 3,392,788
 March 31, 2019: 3,392,641
 (iii) Average number of shares outstanding for the period
 Six months ended September 30, 2019: 22,607,258
 Six months ended September 30, 2018: 25,662,296

* 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

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 six months ended September 30, 2019, the global economy remained unpredictable due to deepening turmoil surrounding the US-China trade friction, economic slowdown in China and Europe, heightened geopolitical risks, and other factors.

In the electronic components industry, a key area for the Foster Group (the "Group"), the auto-related market was affected by the downtrend in global new car sales. However, the development of components for next-generation vehicles—as represented by electric vehicles and autonomous driving cars—has gathered momentum. The smartphone-related market was impacted by a slowdown in demand for components due in part to an already high percentage of smartphone ownership.

Against this backdrop, the Group focused on rationalizing its production capabilities for smartphone headsets and preparing for mass production of new products.

As a result, consolidated net sales for the six months ended September 30, 2019 came to ¥55,277 million (down 19.6% YoY), operating income to ¥1,594 million (down 17.7% YoY), and ordinary income to ¥1,668 million (down 24.1% YoY). Net income attributable to owners of the parent was ¥2,090 million (a net loss attributable to owners of the parent of ¥1,776 million in the previous year).

Results by segment were as follows.

[Speaker Segment]

Segment sales came to ¥32,631 million (down 5.3% YoY) and operating income to ¥1,754 million (down 14.4% 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 ¥19,603 million (down 37.6% YoY) and the operating loss to ¥170 million (an operating loss of ¥254 million in the previous year). Segment sales were depressed by the decline in sales volume of headsets to a major customer.

[Other Segment]

Segment sales were ¥3,107 million (up 3.9% YoY) and operating income was ¥10 million (down 92.4% YoY). The Other Segment includes micro-acoustic components and FOSTEX brand products.

(2) Financial position for the period under review

As of September 30, 2019, total assets amounted to ¥87,609 million, down ¥3,662 million from their level on March 31, 2019, mainly because of a decrease in inventories. Liabilities declined ¥3,969 million to ¥28,007 million, owing chiefly to a decrease in debt. Net assets increased ¥307 million to ¥59,602 million, mainly attributable to an increase in retained earnings. The equity ratio was 62.4%, up 2.9 percentage points from March 31, 2019.

(Cash flows for the period under review)

Cash and cash equivalents as of September 30, 2019 totaled ¥22,114 million, up ¥590 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 ¥3,248 million. The principal source of cash was a decrease in inventories.

[Investing activities]

Net cash provided by investing activities was ¥1,172 million. The main source of cash was proceeds from sales of property, plant and equipment.

[Financing activities]

Net cash used in financing activities was ¥3,331 million, due mainly to a decrease in debt.

(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.

2. Quarterly consolidated financial statements and important notes

(1) Quarterly consolidated balance sheet

(Millions of yen)

	As of March 31, 2019	As of September 30, 2019
Assets		
Current assets		
Cash and deposits	11,854	12,575
Notes and accounts receivable—trade	18,888	19,003
Electronically recorded monetary claims—operating	373	286
Securities	11,386	10,877
Finished goods	16,405	14,123
Raw materials	5,247	4,128
Work in process	1,148	1,138
Supplies	167	207
Accounts receivable—other	1,033	1,039
Other	1,291	2,028
Allowance for doubtful receivables	(24)	(28)
Total current assets	67,773	65,381
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	9,127	8,683
Machinery, equipment and vehicles, net	5,187	4,321
Tools, furniture and fixtures, net	2,142	1,922
Land	874	1,610
Construction in progress	1,142	1,578
Net property, plant and equipment	18,475	18,116
Intangible assets		
Software	194	143
Leasehold rights	821	—
Other	154	290
Total intangible assets	1,171	433
Investments and other assets		
Investment securities	2,488	2,419
Long-term prepaid expenses	97	56
Asset for employees' retirement benefits	697	720
Deferred tax assets	240	204
Other	326	276
Total investments and other assets	3,851	3,677
Total non-current assets	23,497	22,227
Total assets	91,271	87,609

(Millions of yen)

	As of March 31, 2019	As of September 30, 2019
Liabilities		
Current liabilities		
Notes and accounts payable–trade	8,334	8,067
Short-term bank loans	2,634	2,295
Current portion of long-term debt	6,863	5,291
Accounts payable–other	3,112	2,807
Income taxes payable	713	869
Accrued expenses	2,005	1,695
Reserve for bonuses	689	813
Other	1,098	599
Total current liabilities	25,453	22,439
Non-current liabilities		
Long-term debt	5,108	3,918
Deferred tax liabilities	778	757
Liability for employees' retirement benefits	77	196
Liability for directors' retirement benefits	12	14
Provisions for stock benefit program	92	110
Asset retirement obligations	244	247
Other	208	323
Total non-current liabilities	6,523	5,567
Total liabilities	31,977	28,007
Net assets		
Shareholders' equity		
Common stock	6,770	6,770
Capital surplus	7,961	7,961
Retained earnings	44,813	46,676
Treasury shares	(5,222)	(5,222)
Total shareholders' equity	54,322	56,185
Accumulated other comprehensive income		
Unrealized gain on investment securities	677	635
Foreign currency translation adjustment	(161)	(1,763)
Remeasurements of defined benefit plans	(488)	(347)
Total accumulated other comprehensive income	27	(1,474)
Non-controlling interests	4,944	4,891
Total net assets	59,294	59,602
Total liabilities and net assets	91,271	87,609

(2) Quarterly consolidated statement of income and quarterly consolidated statement of comprehensive income**(Quarterly consolidated statement of income)**

(Six months ended September 30)

(Millions of yen)

	Six months ended September 30, 2018	Six months ended September 30, 2019
Net sales	68,758	55,277
Cost of sales	59,998	47,473
Gross profit	8,760	7,804
Selling, general and administrative expenses	6,821	6,209
Operating income	1,938	1,594
Non-operating income		
Interest income	64	167
Dividend income	20	18
Foreign currency exchange gain	255	—
Miscellaneous income	180	287
Total non-operating income	520	473
Non-operating expenses		
Interest expense	102	73
Foreign currency exchange loss	—	223
Miscellaneous loss	158	102
Total non-operating expenses	260	399
Ordinary income	2,198	1,668
Extraordinary income		
Gain on sales of non-current assets	—	2,706
State subsidy	—	295
Total extraordinary income	—	3,001
Extraordinary losses		
Impairment losses	2,088	663
Special retirement payments	969	616
Total extraordinary losses	3,057	1,280
Income (loss) before income taxes	(859)	3,390
Income taxes—current	597	964
Income taxes—deferred	55	18
Total income taxes	652	983
Net income (loss)	(1,511)	2,406
Net income attributable to non-controlling interests	264	316
Net income (loss) attributable to owners of the parent	(1,776)	2,090

(Quarterly consolidated statement of comprehensive income)

(Six months ended September 30)

(Millions of yen)

	Six months ended September 30, 2018	Six months ended September 30, 2019
Net income (loss)	(1,511)	2,406
Other comprehensive income		
Unrealized gain on investment securities	(32)	(41)
Foreign currency translation adjustment	801	(1,825)
Remeasurements of defined benefit plans	19	200
Total other comprehensive income	788	(1,666)
Comprehensive income	(723)	739
(Breakdown)		
Total comprehensive income attributable to owners of the parent	(785)	588
Total comprehensive income attributable to non-controlling interests	62	151

(3) Quarterly consolidated statement of cash flows

(Millions of yen)

	Six months ended September 30, 2018	Six months ended September 30, 2019
Operating activities		
Income (loss) before income taxes	(859)	3,390
Depreciation and amortization	2,631	1,576
(Increase) decrease in asset for employees' retirement benefits	7	(23)
Increase (decrease) in liability for employees' retirement benefits	55	123
Increase (decrease) in directors' retirement benefits	2	2
Increase (decrease) in allowance for doubtful receivables	10	4
Increase (decrease) in reserve for bonuses	191	128
Loss (gain) on sales of property, plant and equipment	—	(2,706)
Subsidy income	—	(295)
Impairment losses	2,088	663
Special retirement payments	969	616
Interest and dividend income	(85)	(185)
Interest expense	102	73
Foreign exchange loss (gain)	104	(19)
Decrease (increase) in trade notes and accounts receivable	2,822	(608)
Decrease (increase) in inventories	1,114	2,615
Increase (decrease) in trade notes and accounts payable	(3,908)	51
Decrease (increase) in other accounts receivable	130	(47)
Increase (decrease) in other accounts payable	(574)	(189)
Other	352	(1,084)
Subtotal	5,158	4,086
Interest and dividend income received	85	185
Interest expenses paid	(102)	(73)
Proceeds from subsidy income	—	295
Payments for special retirement expenses	(969)	(616)
Income taxes paid	(717)	(628)
Income taxes refund	162	—
Net cash provided by operating activities	3,617	3,248
Investing activities		
Purchases of securities	(1,526)	(658)
Proceeds from redemption of securities	1,341	885
Purchases of investment securities	(0)	(0)
Purchases of property, plant and equipment	(1,714)	(1,884)
Proceeds from sales of property, plant and equipment	—	2,595
Purchases of intangible assets	(71)	(10)
Decrease (increase) in time deposits	(186)	239
Decrease (increase) in short-term loans receivable	0	—
Payments of long-term loans receivable	(0)	—
Collection of long-term loans receivable	4	—
Payment for long-term prepaid expenses	(8)	(20)
Other	8	25
Net cash provided by (used in) investing activities	(2,154)	1,172

(Millions of yen)

	Six months ended September 30, 2018	Six months ended September 30, 2019
Financing activities		
Increase (decrease) in short-term bank loans payable, net	468	(221)
Proceeds from long-term debt	3,665	—
Repayments of long-term debt	(754)	(2,720)
Dividends paid	(904)	(227)
Dividends paid to non-controlling interests	(149)	(148)
Purchase of treasury stock	(1,167)	(0)
Other	—	(13)
Net cash provided by (used in) financing activities	1,158	(3,331)
Effect of exchange rate changes on cash and cash equivalents	190	(498)
Net increase (decrease) in cash and cash equivalents	2,812	590
Cash and cash equivalents, beginning of period	10,150	21,524
Cash and cash equivalents, end of period	12,962	22,114

(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 ¥197 million, current liabilities—other have increased ¥79 million, and non-current liabilities—other have increased ¥129 million as of September 30, 2019. The resulting impact on earnings for the consolidated cumulative second quarter is immaterial. Note that ¥786 million in land use rights included in "Leasehold rights" reported under intangible assets has been moved to "Land" reported under property, plant and equipment since the beginning of the second quarter of the current consolidated fiscal year.

(Segment information, etc.)

[Segment information]

I. Six months ended September 30, 2018 (From April 1, 2018 to September 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	34,450	31,407	2,900	68,758	—	68,758
Inter-segment sales or transfers	—	—	89	89	(89)	—
Total	34,450	31,407	2,990	68,848	(89)	68,758
Segment income (loss)	2,050	(254)	143	1,938	0	1,938

Notes: 1. Adjustments reflect the elimination of inter-segment transactions.

2. Total segment income (loss) matches the value of operating income in the quarterly 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, ¥2,088 million is recognized as impairment losses of non-current assets related to business assets.

II. Six months ended September 30, 2019 (From April 1, 2019 to September 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	32,631	19,603	3,043	55,277	—	55,277
Inter-segment sales or transfers	—	—	64	64	(64)	—
Total	32,631	19,603	3,107	55,341	(64)	55,277
Segment income (loss)	1,754	(170)	10	1,594	(0)	1,594

Notes: 1. Adjustments reflect the elimination of inter-segment transactions.

2. Total segment income (loss) matches the value of operating income in the quarterly 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 Speaker segment, ¥487 million is recognized as impairment losses of non-current assets related to business assets.

In the Other segment, ¥175 million is recognized as impairment losses of non-current assets related to business assets.