



Consolidated Financial Results for the Nine Months Ended December 31, 2019 (Japanese GAAP)

January 30, 2020

Tokyo Stock Exchange

Company name	Foster Electric Company, Limited	
Code Number	6794	
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Scheduled date of submitting quarterly report		February 12, 2020
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 Nine Months Ended December 31, 2019 (From April 1, 2019 to December 31, 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	%
Nine months ended								
December 31, 2019	84,409	(22.3)	2,711	(25.1)	2,834	(29.4)	1,350	—
December 31, 2018	108,652	(21.8)	3,620	(58.2)	4,013	(53.8)	(2,020)	—

Note: Comprehensive income: Nine months ended December 31, 2019 ¥1,246 million [-%]
 Nine months ended December 31, 2018 ¥(1,416 million) [-%]

	Net income per share	Diluted net income per share
Nine months ended	Yen	Yen
December 31, 2019	59.72	—
December 31, 2018	(81.04)	—

(2) Consolidated financial position

	Total assets	Net assets	Equity ratio	Net assets per share
	Millions of yen	Millions of yen	%	Yen
As of December 31, 2019	83,833	59,785	65.4	2,415.17
As of March 31, 2019	91,271	59,294	59.5	2,404.10

Reference: Equity capital: As of December 31, 2019 ¥54,809 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	110,000	(21.6)	2,800	(28.9)	3,300	(23.6)	2,200	-	97.30

Note: Changes in forecast of financial results subsequent to the most recent announcement: Yes

* Notes

(1) Changes in major subsidiaries during the nine months ended December 31, 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)
 December 31, 2019: 26,000,000
 March 31, 2019: 26,000,000
 (ii) Number of treasury stock at the end of the period
 December 31, 2019: 3,306,088
 March 31, 2019: 3,392,641
 (iii) Average number of shares outstanding for the period
 Nine months ended December 31, 2019: 22,611,026
 Nine months ended December 31, 2018: 24,927,851

* 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 nine months ended December 31, 2019, the global economy remained uncertain due to lingering tension between the US and China despite a truce in the trade dispute, economic slowdown in China and Europe, and heightened geopolitical risks.

In the electronic components industry, a key area for the Foster Group (the "Group"), demand for electronic components softened due to the maturing of the smartphone market and a global slowdown in new car sales. Meanwhile, the development of parts for 5G and next-generation vehicles, as represented by trends toward CASE, is starting to attract attention.

Against this backdrop, the Group worked to rationalize its production capabilities for smartphone headsets while implementing business reforms to place the most focus on automotive products. The Group also prepared for the mass production of promising new products.

As a result, consolidated net sales for the nine months ended December 31, 2019 came to ¥84,409 million (down 22.3% YoY), operating income to ¥2,711 million (down 25.1% YoY), and ordinary income to ¥2,834 million (down 29.4% YoY). Net income attributable to owners of the parent was ¥1,350 million (a net loss attributable to owners of the parent of ¥2,020 million in the previous year).

Results by segment were as follows.

[Speaker Segment]

Segment sales came to ¥48,728 million (down 7.6% YoY) and operating income to ¥2,571 million (down 23.6% 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 ¥30,977 million (down 39.7% YoY) and operating income to ¥388 million (an operating loss of ¥19 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 ¥4,813 million (up 2.0% YoY). Development costs incurred led to a ¥248 million operating loss (operating income of ¥273 million in the previous year). The Other Segment includes micro-acoustic components and FOSTEX brand products.

(2) Financial position for the period under review

As of December 31, 2019, total assets amounted to ¥83,833 million, down ¥7,437 million from their level on March 31, 2019, mainly because of a decrease in inventories. Liabilities declined ¥7,928 million to ¥24,048 million, owing chiefly to a decrease in debt. Net assets increased ¥491 million to ¥59,785 million, mainly due to an increase in retained earnings. The equity ratio was 65.4%, up 5.9 percentage points from March 31, 2019.

(Cash flows for the period under review)

Cash and cash equivalents as of December 31, 2019 totaled ¥20,209 million, down ¥1,315 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 ¥7,498 million. The principal source of cash was a decrease in inventories.

[Investing activities]

Net cash used in investing activities was ¥150 million. The main use of cash was capital expenditures.

[Financing activities]

Net cash used in financing activities was ¥8,089 million, due mainly to a decrease in debt.

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

We revised our forecast considering recent business trends. For more information, please refer to the disclosure, "Announcement Concerning Recording of Extraordinary Loss, Expected Recording of Extraordinary Income, and Revision to Full-Year Consolidated Forecasts," separately announced today.

2. Quarterly consolidated financial statements and important notes

(1) Quarterly consolidated balance sheet

(Millions of yen)

	As of March 31, 2019	As of December 31, 2019
Assets		
Current assets		
Cash and deposits	11,854	18,295
Notes and accounts receivable—trade	18,888	18,936
Electronically recorded monetary claims—operating	373	251
Securities	11,386	2,880
Finished goods	16,405	12,896
Raw materials	5,247	3,939
Work in process	1,148	1,228
Supplies	167	166
Accounts receivable—other	1,033	642
Other	1,291	1,782
Allowance for doubtful receivables	(24)	(31)
Total current assets	67,773	60,986
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	9,127	8,322
Machinery, equipment and vehicles, net	5,187	3,890
Tools, furniture and fixtures, net	2,142	1,780
Land	874	1,429
Construction in progress	1,142	2,590
Net property, plant and equipment	18,475	18,013
Intangible assets		
Software	194	100
Leasehold rights	821	—
Other	154	111
Total intangible assets	1,171	212
Investments and other assets		
Investment securities	2,488	3,203
Long-term prepaid expenses	97	141
Asset for employees' retirement benefits	697	732
Deferred tax assets	240	244
Other	326	299
Total investments and other assets	3,851	4,621
Total non-current assets	23,497	22,847
Total assets	91,271	83,833

(Millions of yen)

	As of March 31, 2019	As of December 31, 2019
Liabilities		
Current liabilities		
Notes and accounts payable–trade	8,334	8,086
Short-term bank loans	2,634	2,348
Current portion of long-term debt	6,863	1,511
Accounts payable–other	3,112	2,620
Income taxes payable	713	810
Accrued expenses	2,005	1,991
Reserve for bonuses	689	649
Other	1,098	798
Total current liabilities	25,453	18,816
Non-current liabilities		
Long-term debt	5,108	3,365
Deferred tax liabilities	778	1,077
Liability for employees' retirement benefits	77	66
Liability for directors' retirement benefits	12	15
Provisions for stock benefit program	92	116
Asset retirement obligations	244	248
Other	208	343
Total non-current liabilities	6,523	5,232
Total liabilities	31,977	24,048
Net assets		
Shareholders' equity		
Common stock	6,770	6,770
Capital surplus	7,961	7,957
Retained earnings	44,813	45,481
Treasury shares	(5,222)	(5,089)
Total shareholders' equity	54,322	55,120
Accumulated other comprehensive income		
Unrealized gain on investment securities	677	1,198
Foreign currency translation adjustment	(161)	(1,182)
Remeasurements of defined benefit plans	(488)	(326)
Total accumulated other comprehensive income	27	(310)
Non-controlling interests	4,944	4,975
Total net assets	59,294	59,785
Total liabilities and net assets	91,271	83,833

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

(Nine months ended December 31)

(Millions of yen)

	Nine months ended December 31, 2018	Nine months ended December 31, 2019
Net sales	108,652	84,409
Cost of sales	94,922	72,390
Gross profit	13,729	12,019
Selling, general and administrative expenses	10,109	9,307
Operating income	3,620	2,711
Non-operating income		
Interest income	103	209
Dividend income	35	30
Foreign currency exchange gain	292	—
Miscellaneous income	325	323
Total non-operating income	757	562
Non-operating expenses		
Interest expense	149	103
Foreign currency exchange loss	—	208
Miscellaneous loss	214	129
Total non-operating expenses	364	440
Ordinary income	4,013	2,834
Extraordinary income		
Gain on sales of non-current assets	—	2,918
State subsidy	—	295
Total extraordinary income	—	3,213
Extraordinary losses		
Impairment losses	2,401	2,290
Special retirement payments	1,235	668
Total extraordinary losses	3,636	2,959
Income before income taxes	376	3,088
Income taxes—current	836	1,190
Income taxes—deferred	1,013	59
Total income taxes	1,849	1,249
Net income (loss)	(1,473)	1,838
Net income attributable to non-controlling interests	547	488
Net income (loss) attributable to owners of the parent	(2,020)	1,350

(Quarterly consolidated statement of comprehensive income)

(Nine months ended December 31)

(Millions of yen)

	Nine months ended December 31, 2018	Nine months ended December 31, 2019
Net income (loss)	(1,473)	1,838
Other comprehensive income		
Unrealized gain on investment securities	(213)	520
Foreign currency translation adjustment	242	(1,337)
Remeasurements of defined benefit plans	27	224
Total other comprehensive income	56	(592)
Comprehensive income	(1,416)	1,246
(Breakdown)		
Total comprehensive income attributable to owners of the parent	(1,849)	1,011
Total comprehensive income attributable to non-controlling interests	433	234

(3) Quarterly consolidated statement of cash flows

(Millions of yen)

	Nine months ended December 31, 2018	Nine months ended December 31, 2019
Operating activities		
Income before income taxes	376	3,088
Depreciation and amortization	3,552	2,388
(Increase) decrease in asset for employees' retirement benefits	(3)	(34)
Increase (decrease) in liability for employees' retirement benefits	80	(10)
Increase (decrease) in directors' retirement benefits	3	3
Increase (decrease) in allowance for doubtful receivables	12	7
Increase (decrease) in reserve for bonuses	108	(41)
Loss (gain) on sales of property, plant and equipment	—	(2,918)
Subsidy income	—	(295)
Impairment losses	2,401	2,290
Special retirement payments	1,235	668
Interest and dividend income	(139)	(239)
Interest expense	149	103
Foreign exchange loss (gain)	18	(4)
Decrease (increase) in trade notes and accounts receivable	(44)	(513)
Decrease (increase) in inventories	9,398	4,117
Increase (decrease) in trade notes and accounts payable	(4,206)	45
Decrease (increase) in other accounts receivable	130	333
Increase (decrease) in other accounts payable	(485)	(402)
Other	442	72
Subtotal	13,029	8,658
Interest and dividend income received	139	239
Interest expenses paid	(149)	(103)
Proceeds from subsidy income	—	295
Payments for special retirement expenses	(1,182)	(668)
Income taxes paid	(846)	(923)
Net cash provided by operating activities	10,990	7,498
Investing activities		
Purchases of securities	(1,683)	(832)
Proceeds from redemption of securities	2,077	1,458
Purchases of investment securities	(0)	(0)
Purchases of property, plant and equipment	(2,802)	(3,690)
Proceeds from sales of property, plant and equipment	—	2,807
Purchases of intangible assets	(99)	(62)
Decrease (increase) in time deposits	(120)	218
Decrease (increase) in short-term loans receivable	0	0
Payments of long-term loans receivable	(4)	(0)
Collection of long-term loans receivable	5	6
Payment for long-term prepaid expenses	(28)	(49)
Other	(32)	(6)
Net cash provided by (used in) investing activities	(2,687)	(150)

Financing activities		
Increase (decrease) in short-term bank loans payable, net	(278)	(169)
Proceeds from long-term debt	5,175	—
Repayments of long-term debt	(1,249)	(7,074)
Dividends paid	(1,154)	(681)
Dividends paid to non-controlling interests	(149)	(148)
Purchase of treasury stock	(4,499)	(0)
Other	—	(15)
Net cash provided by (used in) financing activities	(2,157)	(8,089)
Effect of exchange rate changes on cash and cash equivalents	(128)	(573)
Net increase (decrease) in cash and cash equivalents	6,016	(1,315)
Cash and cash equivalents, beginning of period	10,150	21,524
Cash and cash equivalents, end of period	16,167	20,209

(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 ¥267 million, current liabilities—other have increased ¥97 million, and non-current liabilities—other have increased ¥193 million as of December 31, 2019. The resulting impact on earnings for the consolidated cumulative third quarter is immaterial. Note that ¥728 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 first quarter of the current consolidated fiscal year.

(Segment information, etc.)

[Segment information]

I. Nine months ended December 31, 2018 (From April 1, 2018 to December 31, 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	52,719	51,348	4,583	108,652	—	108,652
Inter-segment sales or transfers	—	—	137	137	(137)	—
Total	52,719	51,348	4,721	108,789	(137)	108,652
Segment income (loss)	3,365	(19)	273	3,620	0	3,620

- Notes: 1. Adjustments to segment income (loss) reflect the elimination of inter-segment transactions.
2. Total segment income (loss) is adjusted with the 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, ¥2,091 million is recognized as impairment losses of non-current assets related to business assets.

In the Speaker segment, ¥309 million is recognized as impairment losses of non-current assets related to idle assets.

II. Nine months ended December 31, 2019 (From April 1, 2019 to December 31, 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	48,728	30,977	4,703	84,409	—	84,409
Inter-segment sales or transfers	—	—	110	110	(110)	—
Total	48,728	30,977	4,813	84,519	(110)	84,409
Segment income (loss)	2,571	388	(248)	2,711	(0)	2,711

- Notes: 1. Adjustments to segment income (loss) reflect the elimination of inter-segment transactions.
2. Total segment income (loss) is adjusted with the 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, ¥978 million is recognized as impairment losses of non-current assets related to business assets.

In the Mobile Audio segment, ¥1,050 million is recognized as impairment losses of non-current assets related to business assets.

In the Other segment, ¥262 million is recognized as impairment losses of non-current assets related to business assets.