

Translation

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Consolidated Financial Results for the Nine Months Ended December 31, 2021 (Based on Japanese GAAP)

January 31, 2022

Company name: Foster Electric Company, Limited
 Stock exchange listing: Tokyo
 Stock code: 6794 URL <https://www.foster-electric.com/>
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 Scheduled date to file Quarterly Securities Report: February 14, 2022
 Scheduled date to commence dividend payments: –
 Preparation of supplementary material on quarterly financial results: Yes
 Holding of quarterly financial results meeting: No

(Amounts less than one million yen are rounded down)

1. Consolidated financial results for the nine months ended December 31, 2021 (from April 1, 2021 to December 31, 2021)

(1) Consolidated operating results (cumulative)

Percentages indicate year-on-year changes

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
Nine months ended December 31, 2021	65,571	5.5	(3,146)	–	(2,762)	–	(3,298)	–
Nine months ended December 31, 2020	62,169	(26.3)	111	(95.9)	412	(85.5)	(1,202)	–

Note: Comprehensive income (loss):
 Nine months ended December 31, 2021 ¥(1,324) million [-%]
 Nine months ended December 31, 2020 ¥(2,032) million [-%]

	Earnings per share		Diluted earnings per share	
	Yen		Yen	
Nine months ended December 31, 2021	(148.26)		–	
Nine months ended December 31, 2020	(52.97)		–	

(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, 2021	81,150	54,222	60.1	2,190.68
As of March 31, 2021	77,233	55,993	65.6	2,276.20

Reference: Equity capital: As of December 31, 2021 ¥48,748 million
 As of March 31, 2021 ¥50,638 million

2. Cash dividends

	Annual dividends per share				
	1st quarter-end	2nd quarter-end	3rd quarter-end	Fiscal year-end	Total
	Yen	Yen	Yen	Yen	Yen
Year ended March 31, 2021	–	10.00	–	5.00	15.00
Year ending March 31, 2022	–	10.00	–	–	–
Year ending March 31, 2022 (Forecast)	–	–	–	0.00	10.00

Note: Changes in dividend forecast subsequent to the most recent announcement: Yes

3. Forecast of consolidated financial results for the year ending March 31, 2022 (from April 1, 2021 to March 31, 2022)

Percentages indicate year-on-year changes

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent		Earnings per share
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%	Yen
Full year	92,000	8.0	(7,000)	–	(7,000)	–	(6,000)	–	(269.65)

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

4. Notes

- (1) Changes in significant subsidiaries during the nine months ended December 31, 2021
(changes in specified subsidiaries resulting in the change in scope of consolidation): No
- (2) Application of special accounting methods for preparing quarterly consolidated financial statements: No
- (3) Changes in accounting policies, changes in accounting estimates, and restatement of prior period financial statements
- (i) Changes in accounting policies due to revisions to accounting standards and other regulations: Yes
 - (ii) Changes in accounting policies due to other reasons: No
 - (iii) Changes in accounting estimates: No
 - (iv) Restatement of prior period financial statements: No
- Note: For details, please refer to “2. Quarterly consolidated financial statements and important notes (4) Notes to the quarterly consolidated financial statements (Changes in accounting policies)” on page 9 of the Attachment.

(4) Number of issued shares (common shares)

Total number of issued shares at the end of the period (including treasury shares)

As of December 31, 2021	25,000,000 shares	As of March 31, 2021	25,000,000 shares
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Number of treasury shares at the end of the period

As of December 31, 2021	2,747,493 shares	As of March 31, 2021	2,752,847 shares
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Average number of shares during the period (cumulative from the beginning of the fiscal year)

Nine months ended December 31, 2021	22,250,412 shares	Nine months ended December 31, 2020	22,694,152 shares
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* 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 Group regards as reasonable at the time of writing, and the Group 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 3 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, 2021, the global economy saw a normalization of economic and social activities mainly in developed countries aided by progress in vaccinations and other government measures. However, the situation remains unpredictable as the threat of the ever-mutating COVID-19 showed no signs of abating and geopolitical risks increased.

In the electronic components industry, particularly in the automobile market where the Foster Group (the "Group") focuses, automobile manufacturers and parts suppliers were forced to review their production plans due to disruptions in the supply chain caused by the spread of COVID-19 in addition to the shortage of semiconductors.

On the other hand, expectations for medium- to long-term demand for electronic components rose, as global efforts to decarbonize began in earnest and EVs were developed at an accelerated pace.

For the fiscal year ending March 31, 2022, the Group expects net sales to exceed the previously revised forecast due to the increase in sales of car speakers accompanying the recovery in automobile sales. However, the profit situation remains harsh due to soaring costs of international freight and raw materials and components, coupled with the effects of supply chain disruptions caused by the ever-mutating COVID-19.

Against this backdrop, consolidated net sales for the nine months ended December 31, 2021 rose year on year due to increased sales of car speakers accompanying the recovery in automobile sales. However, profits were squeezed due to the sharp rise in marine container freight rates and raw material and component costs, along with supply chain disruptions due to the ever-mutating COVID-19, especially the increased usage of air freight.

As a result, consolidated net sales for the nine months ended December 31, 2021 came to ¥65,571 million (up 5.5% YoY). Losses amounted to an operating loss of ¥3,146 million (in the previous year, operating income of ¥111 million), an ordinary loss of ¥2,762 million (in the previous year, ordinary income of ¥412 million), and a net loss attributable to owners of the parent of ¥3,298 million (in the previous year, net loss attributable to owners of the parent of ¥1,202 million).

Of the factors that squeezed profits, we expect the use of air freight to stop by the end of January. In addition, we have already gained the understanding of many customers to introduce a cost pass-through system in accordance with market conditions for the soaring transportation and material costs and will continue efforts to improve profitability.

Steady progress was made toward the achievement of the medium-term business plan for orders in the automotive business. In our partner strategy for target customers, we will strengthen our technical proposal capabilities and improve profitability through value-added products and solutions. In areas other than the automotive business, such as wearables and wellness, we are further promoting the commercialization of new businesses by building a development, production, and sales system that is nimble and responsive to changes in the future.

To ensure the achievement of the targets in the medium-term business plan, the Group will enhance the effectiveness and immediacy of countermeasures, including structural reforms, to address the issues at hand. At the same time, we will further strengthen our system to respond with urgency to growing uncertainties.

Results by segment were as follows.

[Speaker Segment]

Against the backdrop of a recovery in automobile sales from the COVID-19 pandemic, net sales came to ¥48,997million (up 23.4% YoY). The operating loss amounted to ¥2,638 million (in the previous year, operating income of ¥138 million), mainly attributable to the following factors: soaring container freight rates and raw material and component costs, increased usage of air freight due to prolonged disruptions in marine logistics, and lower operating rates due to the effects of COVID-19 at production sites.

[Mobile Audio Segment]

Shipments of consumer actuators were stronger than planned, but sales of headsets bundled with smartphones were nearing an end. As a result, net sales came to ¥11,181 million (down 36.1% YoY) and the operating loss amounted to ¥670 million (in the previous year, operating loss of ¥41 million).

[Other Segment]

In the Other Segment, including the micro acoustic components and FOSTEX brand products, net sales were ¥5,941 million (up 14.6% YoY) and operating income was ¥163 million (in the previous year, operating income of ¥14 million), due to the steady growth in the micro acoustic components business as automobile sales recovered.

(2) Financial position for the period under review

As of December 31, 2021, total assets amounted to ¥81,150 million, up ¥3,917 million from their level on March 31, 2021, mainly because of an increase in inventories. Owing chiefly to an increase in short-term bank loans, total liabilities increased ¥5,688 million to ¥26,928 million. Net assets came to ¥54,222 million, down ¥1,770 million, mainly as the result of a decrease in retained earnings. The equity ratio decreased by 5.5 percentage points from the level on March 31, 2021, to 60.1%.

(Cash flows for the period under review)

Cash and cash equivalents as of December 31, 2021 totaled ¥14,650 million, down ¥5,723 million from the level on March 31, 2021, as a result of the cash flows described below.

[Operating activities]

Net cash used in operating activities was ¥9,500 million, chiefly due to an increase in inventories.

[Investing activities]

Net cash used in investing activities totaled ¥2,370 million, mainly due to capital investments.

[Financing activities]

Net cash provided by financing activities totaled ¥5,915 million, primarily due to an increase in short-term bank loans.

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

In light of recent business trends, we revised our full-year financial results forecast announced on October 28, 2021. For details, please refer to the “Announcement on Revisions to Full-Year Consolidated Financial Results Forecast and Year-End Dividend Forecast” separately disclosed on February 1, 2022.

2. Quarterly consolidated financial statements
(1) Consolidated balance sheets

(Millions of yen)

	As of March 31, 2021	As of December 31, 2021
Assets		
Current assets		
Cash and deposits	15,470	13,863
Notes and accounts receivable - trade	16,768	15,632
Electronically recorded monetary claims -operating	177	388
Securities	5,622	1,859
Finished goods	11,517	16,194
Raw materials	5,656	9,014
Work in process	1,159	1,614
Supplies	147	105
Accounts receivable - other	831	750
Advance payments to suppliers	85	1,470
Other	1,635	1,895
Allowance for doubtful accounts	(32)	(49)
Total current assets	59,040	62,738
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	6,758	6,698
Machinery, equipment and vehicles, net	4,594	4,554
Tools, furniture and fixtures, net	1,533	1,807
Land	1,442	1,461
Construction in progress	883	832
Total property, plant and equipment	15,213	15,354
Intangible assets		
Software	69	86
Other	119	119
Total intangible assets	189	205
Investments and other assets		
Investment securities	1,482	1,534
Long-term prepaid expenses	83	61
Retirement benefit asset	791	815
Deferred tax assets	199	239
Other	234	199
Total investments and other assets	2,790	2,851
Total non-current assets	18,193	18,411
Total assets	77,233	81,150

(Millions of yen)

	As of March 31, 2021	As of December 31, 2021
Liabilities		
Current liabilities		
Notes and accounts payable - trade	8,735	7,705
Short-term borrowings	2,556	9,613
Current portion of long-term borrowings	1,528	912
Accounts payable - other	2,768	3,173
Income taxes payable	301	473
Accrued expenses	1,719	1,853
Provision for bonuses	362	462
Other	766	904
Total current liabilities	18,738	25,098
Non-current liabilities		
Long-term borrowings	1,118	450
Deferred tax liabilities	588	562
Retirement benefit liability	74	70
Provision for retirement benefits for directors (and other officers)	16	19
Provision for share awards	146	155
Asset retirement obligations	254	258
Other	301	312
Total non-current liabilities	2,501	1,829
Total liabilities	21,239	26,928
Net assets		
Shareholders' equity		
Share capital	6,770	6,770
Capital surplus	6,896	6,896
Retained earnings	41,299	37,625
Treasury shares	(4,129)	(4,115)
Total shareholders' equity	50,837	47,177
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	298	324
Foreign currency translation adjustment	(82)	1,540
Remeasurements of defined benefit plans	(414)	(294)
Total accumulated other comprehensive income	(198)	1,570
Non-controlling interests	5,354	5,474
Total net assets	55,993	54,222
Total liabilities and net assets	77,233	81,150

(2) Consolidated statements of income (cumulative) and consolidated statements of comprehensive income (cumulative)

Consolidated statements of income (cumulative)

(Nine months ended December 31, 2021)

	(Millions of yen)	
	Nine months ended December 31, 2020	Nine months ended December 31, 2021
Net sales	62,169	65,571
Cost of sales	54,181	58,764
Gross profit	7,988	6,807
Selling, general and administrative expenses	7,876	9,953
Operating profit (loss)	111	(3,146)
Non-operating income		
Interest income	103	64
Dividend income	19	24
Subsidy income	117	121
Foreign exchange gains	170	206
Miscellaneous income	196	232
Total non-operating income	607	649
Non-operating expenses		
Interest expenses	53	60
Miscellaneous losses	252	204
Total non-operating expenses	306	265
Ordinary profit (loss)	412	(2,762)
Extraordinary losses		
Impairment losses	891	-
Extra retirement payments	154	487
Total extraordinary losses	1,046	487
Loss before income taxes	(633)	(3,250)
Income taxes - current	341	142
Income taxes - deferred	(55)	(45)
Total income taxes	286	96
Loss	(920)	(3,346)
Profit (loss) attributable to non-controlling interests	281	(48)
Loss attributable to owners of parent	(1,202)	(3,298)

Consolidated statements of comprehensive income (cumulative)

(Nine months ended December 31, 2021)

	(Millions of yen)	
	Nine months ended December 31, 2020	Nine months ended December 31, 2021
Loss	(920)	(3,346)
Other comprehensive income		
Valuation difference on available-for-sale securities	91	26
Foreign currency translation adjustment	(1,143)	1,872
Remeasurements of defined benefit plans, net of tax	(60)	123
Total other comprehensive income	(1,112)	2,022
Comprehensive income	(2,032)	(1,324)
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	(2,125)	(1,529)
Comprehensive income attributable to non-controlling interests	92	205

(3) Consolidated statements of cash flows

(Millions of yen)

	Nine months ended December 31, 2020	Nine months ended December 31, 2021
Cash flows from operating activities		
Loss before income taxes	(633)	(3,250)
Depreciation	2,357	2,370
Decrease (increase) in retirement benefit asset	71	(22)
Increase (decrease) in retirement benefit liability	3	(3)
Increase (decrease) in provision for retirement benefits for directors (and other officers)	(0)	2
Increase (decrease) in allowance for doubtful accounts	1	17
Increase (decrease) in provision for bonuses	(84)	100
Subsidy income	(117)	(121)
Impairment losses	891	–
Extra retirement payments	154	487
Interest and dividend income	(123)	(88)
Interest expenses	53	60
Foreign exchange losses (gains)	11	217
Decrease (increase) in trade receivables	(1,580)	938
Decrease (increase) in inventories	1,249	(8,519)
Increase (decrease) in trade payables	1,072	(1,046)
Decrease (increase) in accounts receivable - other	278	83
Increase (decrease) in accounts payable - other	(215)	408
Decrease (increase) in advance payments to suppliers	(98)	(1,399)
Other, net	(273)	680
Subtotal	3,018	(9,083)
Interest and dividends received	123	88
Interest paid	(53)	(60)
Subsidies received	117	121
Extra retirement payments	(101)	(385)
Income taxes paid	(825)	(284)
Income taxes refund	–	103
Net cash provided by (used in) operating activities	2,277	(9,500)
Cash flows from investing activities		
Purchase of securities	(760)	(984)
Proceeds from redemption of securities	634	629
Purchase of investment securities	(0)	(0)
Purchase of property, plant and equipment	(1,559)	(1,921)
Purchase of intangible assets	(33)	(84)
Purchase of long-term prepaid expenses	(35)	(20)
Other, net	13	11
Net cash provided by (used in) investing activities	(1,741)	(2,370)
Cash flows from financing activities		
Net increase (decrease) in short-term borrowings	158	7,098
Repayments of long-term borrowings	(1,507)	(731)
Dividends paid	(570)	(335)
Dividends paid to non-controlling interests	(159)	(116)
Net cash provided by (used in) financing activities	(2,079)	5,915
Effect of exchange rate change on cash and cash equivalents	(491)	231
Net increase (decrease) in cash and cash equivalents	(2,034)	(5,723)
Cash and cash equivalents at beginning of period	23,930	20,373
Cash and cash equivalents at end of period	21,895	14,650

(4) Notes to the quarterly 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)

(Application of Accounting Standard for Revenue Recognition, etc.)

The Group began applying the Accounting Standard for Revenue Recognition, etc. (ASBJ Statement No. 29, March 31, 2020; hereinafter referred to as "Accounting Standard for Revenue Recognition") at the beginning of the first quarter of the fiscal year ending March 31, 2022. Accordingly, the Group has decided to recognize revenue in the amount expected to be received in exchange for goods or services at the time when control of the promised goods or services is transferred to the customer.

The Group has applied the accounting standard in accordance with the transitional treatment prescribed in the proviso of Paragraph 84 of the Accounting Standard for Revenue Recognition. The cumulative effect of retroactively applying the new accounting policy prior to the beginning of the first quarter of the fiscal year ending March 31, 2022 was reflected in retained earnings at the beginning of the period. The new accounting policy has been applied starting from the relevant beginning balance, but there has been no impact on the relevant beginning balance.

Note that the effect of applying the accounting standard on the consolidated financial statements for the nine months ended December 31, 2021 is immaterial.

(Application of Accounting Standard for Fair Value Measurement, etc.)

The Group began applying the Accounting Standard for Fair Value Measurement, etc. (ASBJ Statement No. 30, July 4, 2019; hereinafter referred to as "Accounting Standard for Fair Value Measurement") at the beginning of the first quarter of the fiscal year ending March 31, 2022. The Group will prospectively apply the new accounting policy set forth in the Accounting Standard for Fair Value Measurement in accordance with the transitional treatment prescribed in Paragraph 19 of the Accounting Standard for Fair Value Measurement and Paragraph 44-2 of the Accounting Standard for Financial Instruments (ASBJ Statement No. 10, July 4, 2019).

Note that the application of the accounting standard has no effect on the consolidated financial statements for the nine months ended December 31, 2021.

(Segment information, etc.)

[Segment information]

I. Nine months ended December 31, 2020 (from April 1, 2020 to December 31, 2020)

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	39,694	17,502	4,972	62,169	—	62,169
Inter-segment sales or transfers	—	—	213	213	(213)	—
Total	39,694	17,502	5,186	62,382	(213)	62,169
Segment income (loss)	138	(41)	14	111	(0)	111

Notes: 1. Adjustments to segment income (loss) reflect the elimination of inter-segment transactions.
2. Total segment income (loss) matches the operating income (loss) 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, ¥682 million is recognized as impairment losses of non-current assets related to business assets.

In the Other segment, ¥209 million is recognized as impairment losses of non-current assets related to business assets.

II. Nine months ended December 31, 2021 (from April 1, 2021 to December 31, 2021)

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	48,997	11,181	5,392	65,571	—	65,571
Inter-segment sales or transfers	—	—	548	548	(548)	—
Total	48,997	11,181	5,941	66,120	(548)	65,571
Segment income (loss)	(2,638)	(670)	163	(3,146)	(0)	(3,146)

Notes: 1. Adjustments to segment income (loss) reflect the elimination of inter-segment transactions.
2. Total segment income (loss) matches the operating income (loss) 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)

Not applicable.