

Translation

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Consolidated Financial Results for the Six Months Ended September 30, 2022 (Based on Japanese GAAP)

November 14, 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: November 14, 2022
 Scheduled date to commence dividend payments: December 6, 2022
 Preparation of supplementary material on quarterly financial results: Yes
 Holding of quarterly financial results meeting: Yes (for analysts and institutional investors)

(Amounts less than one million yen are rounded down)

1. Consolidated financial results for the six months ended September 30, 2022 (from April 1, 2022 to September 30, 2022)

(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	%
Six months ended September 30, 2022	58,385	32.8	351	–	404	–	(249)	–
Six months ended September 30, 2021	43,976	11.3	(1,568)	–	(1,433)	–	(2,093)	–

Note: Comprehensive income(loss):
 Six months ended September 30, 2022 ¥5,797 million [-%]
 Six months ended September 30, 2021 ¥(711) million [-%]

	Earnings per share		Diluted earnings per share	
	Yen		Yen	
Six months ended September 30, 2022	(11.25)		–	
Six months ended September 30, 2021	(94.08)		–	

(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, 2022	103,441	57,494	50.8	2,370.76
As of March 31, 2022	86,148	51,632	54.7	2,125.72

Reference: Equity capital:
 As of September 30, 2022 ¥52,599 million
 As of March 31, 2022 ¥47,163 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, 2022	–	10.00	–	0.00	10.00
Year ending March 31, 2023	–	10.00	–	–	–
Year ending March 31, 2023 (Forecast)	–	–	–	10.00	20.00

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

3. Forecast of consolidated financial results for the year ending March 31, 2023 (from April 1, 2022 to March 31, 2023)

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	120,000	31.7	2,000	–	2,000	–	1,500	–	67.60

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

4. Notes

- (1) Changes in significant subsidiaries during the six months ended September 30, 2022
(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: No
 - (ii) Changes in accounting policies due to other reasons: No
 - (iii) Changes in accounting estimates: No
 - (iv) Restatement of prior period financial statements: No

(4) Number of issued shares (common shares)

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

As of September 30, 2022	25,000,000 shares	As of March 31, 2022	25,000,000 shares
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Number of treasury shares at the end of the period

As of September 30, 2022	2,813,300 shares	As of March 31, 2022	2,812,993 shares
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Average number of shares during the period (cumulative from the beginning of the fiscal year)

Six months ended September 30, 2022	22,186,310 shares	Six months ended September 30, 2021	22,249,291 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 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, 2022, the impact of COVID-19 on the global economy gradually subsided, but the outlook for the global economy became increasingly uncertain due to factors such as soaring international commodity prices owing to Russia's prolonged invasion of Ukraine, turmoil in financial, capital, and foreign exchange markets caused by accelerating inflation in developed countries and rapid interest rate hikes in the US and Europe, and the soft Chinese economy.

The automotive market, on which the Foster Group (the "Group") focuses, remained unstable in terms of supply and demand, with car production and new car sales falling short of projections, because of factors such as the global economic slowdown caused by the conflict in Ukraine, China's zero-COVID policy, and rapid inflation in the US, in addition to ongoing semiconductor supply shortages. Under these circumstances, in our activities to win orders in the automotive business, we strengthened our proposal activities to our target customers and were able to secure approximately 90% of the order amount we were aiming to achieve upon completion of the medium-term business plan. We also worked closely with car manufacturers to improve the precision of demand forecasts and maintain an optimal production system. Amid soaring prices for raw materials, components, and international freight rates, we strove to improve profitability by continuously promoting cost improvement and fixed cost reductions, as well as by passing on higher costs to prices with the understanding of many of our customers. We expect most of the effects of the price pass-through to be reflected in the second half of the fiscal year.

As a result, consolidated net sales for the six months ended September 30, 2022 came to ¥58,385 million (up 32.8% YoY), operating profit to ¥351 million (in the previous year, operating loss of ¥1,568 million), and ordinary profit to ¥404 million (in the previous year, ordinary loss of ¥1,433 million). Meanwhile, the loss attributable to owners of parent amounted to ¥249 million (in the previous year, loss attributable to owners of parent of ¥2,093 million).

Results by segment were as follows.

[Speaker Segment]

Despite the harsh environment surrounding the automotive market, net sales came to ¥47,641 million (up 43.1% YoY) due to an increase in shipment volume and the effect of the weaker yen. On the profit front, a consolidated subsidiary in Korea (for the fiscal year ending December 31) posted a loss of approximately ¥700 million in the first quarter due to air freight charges at the beginning of the year. However, overall operating loss narrowed to ¥51 million (in the previous year, operating loss of ¥1,045 million) as a result of streamlining costs, reducing fixed costs, and progress in price pass-throughs. As noted above, we expect most of the price pass-through to be reflected in the second half of the fiscal year.

[Mobile Audio Segment]

Shipments of consumer actuators and car headphones proceeded as planned, despite some pessimistic forecasts due to the shortage of semiconductor chips. On the other hand, sales of headsets bundled with smartphones continued to decline, resulting in net sales of ¥6,841 million (down 4.1% YoY). On the profit front, operating profit amounted to ¥317 million (in the previous year, operating loss of ¥631 million) due to the introduction and promotion of R&D-oriented business in addition to the focus on high value-added products, keeping the segment in the black since the beginning of the current fiscal year.

[Other Segment]

In the Other segment, which includes micro acoustic components and FOSTEX brand products, net sales amounted to ¥5,286 million (up 36.2% YoY) due to an increase in component sales from a subsidiary (Fourstar; established last year in China) to the Group (eliminated on consolidation), but operating profit decreased to ¥85 million (down 21.1% YoY).

(2) Financial position for the period under review

As of September 30, 2022, total assets amounted to ¥103,441 million, up ¥17,292 million from their level on March 31, 2022, mainly because of an increase in trade receivables. Owing chiefly to an increase in borrowings, total liabilities increased ¥11,430 million to ¥45,947 million. Net assets came to ¥57,494 million, up ¥5,861 million, mainly as the result of an increase in foreign currency translation adjustment. The equity ratio was 50.8% as of September 30, 2022, down 3.9 percentage points from March 31, 2022.

(Cash flows for the period under review)

Cash and cash equivalents as of September 30, 2022 totaled ¥14,252 million, up ¥2,162 million from the level on March 31, 2022, as a result of the cash flows described below.

[Operating activities]

Net cash used in operating activities was ¥7,014 million, chiefly due to an increase in trade receivables.

[Investing activities]

Net cash used in investing activities totaled ¥818 million, mainly due to capital investments.

[Financing activities]

Net cash provided by financing activities totaled ¥8,825 million, due to an increase in short-term borrowings.

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

In light of recent trends in earnings performance, we revised our full-year financial results forecast announced on May 16, 2022 in the "Consolidated Financial Results for the Year Ended March 31, 2022." For details, please see the "Announcement on Revisions

to Full-Year Consolidated Financial Results Forecast and Year-End Dividend Forecast” separately disclosed. The exchange rate assumptions for the second half of the fiscal year were revised from ¥125 to ¥145 per US dollar and ¥135 to ¥140 per euro.

(4) Significant events regarding going concern assumption, etc.

In the fiscal year ended March 31, 2022, the Group reported a loss attributable to owners of parent of ¥7,017 million. As of March 31, 2022, net assets amounted to ¥51,632 million and net assets before foreign currency translation adjustment on the consolidated balance sheet amounted to ¥48,014 million. As a result, the Group was in breach of financial covenants stipulated in its commitment credit line agreements concluded with financial institutions. In the six months ended September 30, 2022, the Group reported a loss attributable to owners of parent of ¥249 million. As of September 30, 2022, net assets before foreign currency translation adjustment on the consolidated balance sheet amounted to ¥48,148 million.

These circumstances raise significant doubt about the going concern assumption for the period. However, regarding the breach of financial covenants for the fiscal year ended March 31, 2022, the Group has requested the financial institutions to continue to honor the agreements without the acceleration clause, and all financial institutions have agreed to waive any rights acquired by the lender against the Group as the contractual borrower upon the occurrence of an event that would require immediate repayment of loans. In terms of profits, we have made steady progress in responding to soaring raw material and component prices and rising logistics costs, such as by introducing a market-price-linked system, under which prices are determined based on market conditions, and this is expected to improve earnings in the future. Further, the equity ratio as of September 30, 2022 was 50.8%, a level generally considered as having no issue in financial stability.

As a result, the Group has determined that there is no significant uncertainty regarding its ability to continue as a going concern.

2. Quarterly consolidated financial statements

(1) Consolidated balance sheets

(Millions of yen)

	As of March 31, 2022	As of September 30, 2022
Assets		
Current assets		
Cash and deposits	10,846	14,366
Notes and accounts receivable - trade	19,001	24,555
Electronically recorded monetary claims - operating	350	520
Securities	2,343	201
Finished goods	18,413	21,861
Raw materials	10,355	11,609
Work in process	1,578	1,697
Supplies	108	162
Accounts receivable - other	1,170	1,278
Advance payments to suppliers	859	5,156
Other	2,202	1,767
Allowance for doubtful accounts	(86)	(80)
Total current assets	67,143	83,095
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	6,863	7,301
Machinery, equipment and vehicles, net	4,655	5,018
Tools, furniture and fixtures, net	1,788	1,935
Land	1,521	1,679
Construction in progress	785	875
Total property, plant and equipment	15,614	16,809
Intangible assets		
Software	80	85
Other	122	132
Total intangible assets	203	217
Investments and other assets		
Investment securities	1,306	1,307
Long-term prepaid expenses	82	71
Retirement benefit asset	880	806
Deferred tax assets	637	798
Other	280	335
Total investments and other assets	3,187	3,318
Total non-current assets	19,005	20,345
Total assets	86,148	103,441

	(Millions of yen)	
	As of March 31, 2022	As of September 30, 2022
Liabilities		
Current liabilities		
Notes and accounts payable - trade	11,179	11,881
Short-term borrowings	12,247	24,214
Current portion of long-term borrowings	818	631
Accounts payable - other	3,861	3,140
Income taxes payable	630	659
Accrued expenses	2,848	2,245
Provision for bonuses	398	674
Other	903	1,060
Total current liabilities	32,889	44,507
Non-current liabilities		
Long-term borrowings	300	-
Deferred tax liabilities	475	494
Retirement benefit liability	60	76
Provision for retirement benefits for directors (and other officers)	20	22
Provision for share awards	163	177
Asset retirement obligations	281	285
Other	325	382
Total non-current liabilities	1,627	1,439
Total liabilities	34,516	45,947
Net assets		
Shareholders' equity		
Share capital	6,770	6,770
Capital surplus	6,896	6,896
Retained earnings	33,906	33,656
Treasury shares	(4,163)	(4,160)
Total shareholders' equity	43,409	43,163
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	323	288
Foreign currency translation adjustment	3,617	9,346
Remeasurements of defined benefit plans	(187)	(198)
Total accumulated other comprehensive income	3,753	9,436
Non-controlling interests	4,469	4,894
Total net assets	51,632	57,494
Total liabilities and net assets	86,148	103,441

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

Consolidated statements of income (cumulative)

(Millions of yen)

	Six months ended September 30, 2021	Six months ended September 30, 2022
Net sales	43,976	58,385
Cost of sales	39,039	51,128
Gross profit	4,937	7,256
Selling, general and administrative expenses	6,506	6,904
Operating profit (loss)	(1,568)	351
Non-operating income		
Interest income	33	40
Dividend income	11	16
Subsidy income	91	48
Foreign exchange gains	60	47
Miscellaneous income	142	159
Total non-operating income	338	312
Non-operating expenses		
Interest expenses	34	162
Miscellaneous losses	168	97
Total non-operating expenses	203	259
Ordinary profit (loss)	(1,433)	404
Extraordinary losses		
Extra retirement payments	368	256
Total extraordinary losses	368	256
Profit (loss) before income taxes	(1,801)	148
Income taxes - current	222	546
Income taxes - deferred	(43)	(93)
Total income taxes	179	452
Loss	(1,981)	(304)
Profit (loss) attributable to non-controlling interests	111	(54)
Loss attributable to owners of parent	(2,093)	(249)

Consolidated statements of comprehensive income (cumulative)

(Millions of yen)

	Six months ended September 30, 2021	Six months ended September 30, 2022
Loss	(1,981)	(304)
Other comprehensive income		
Valuation difference on available-for-sale securities	45	(34)
Foreign currency translation adjustment	1,124	6,154
Remeasurements of defined benefit plans, net of tax	99	(17)
Total other comprehensive income	1,270	6,102
Comprehensive income	(711)	5,797
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	(1,106)	5,433
Comprehensive income attributable to non-controlling interests	395	364

(3) Consolidated statements of cash flows

(Millions of yen)

	Six months ended September 30, 2021	Six months ended September 30, 2022
Cash flows from operating activities		
Profit (loss) before income taxes	(1,801)	148
Depreciation	1,552	1,788
Decrease (increase) in retirement benefit asset	(7)	84
Increase (decrease) in retirement benefit liability	(45)	10
Increase (decrease) in provision for retirement benefits for directors (and other officers)	1	1
Increase (decrease) in allowance for doubtful accounts	13	(20)
Increase (decrease) in provision for bonuses	204	246
Subsidy income	(91)	(48)
Extra retirement payments	368	256
Interest and dividend income	(44)	(56)
Interest expenses	34	162
Foreign exchange losses (gains)	30	1,382
Decrease (increase) in trade receivables	(242)	(4,000)
Decrease (increase) in inventories	(7,113)	(1,820)
Increase (decrease) in trade payables	564	(574)
Decrease (increase) in accounts receivable - other	1	(7)
Increase (decrease) in accounts payable - other	187	(1,031)
Decrease (increase) in advance payments to suppliers	(227)	(3,893)
Other, net	677	826
Subtotal	(5,935)	(6,545)
Interest and dividends received	44	56
Interest paid	(34)	(162)
Subsidies received	91	48
Extra retirement payments	(330)	(253)
Income taxes paid	(130)	(592)
Income taxes refund	103	433
Net cash provided by (used in) operating activities	(6,191)	(7,014)
Cash flows from investing activities		
Purchase of securities	(944)	–
Proceeds from redemption of securities	634	834
Purchase of investment securities	(0)	(0)
Purchase of property, plant and equipment	(1,069)	(1,468)
Purchase of intangible assets	(77)	(16)
Purchase of long-term prepaid expenses	(10)	(23)
Other, net	67	(143)
Net cash provided by (used in) investing activities	(1,400)	(818)
Cash flows from financing activities		
Net increase (decrease) in short-term borrowings	4,082	9,313
Repayments of long-term borrowings	(487)	(487)
Dividends paid	(111)	–
Dividends paid to non-controlling interests	(116)	–
Net cash provided by (used in) financing activities	3,367	8,825
Effect of exchange rate change on cash and cash equivalents	243	1,169
Net increase (decrease) in cash and cash equivalents	(3,980)	2,162
Cash and cash equivalents at beginning of period	20,373	12,089
Cash and cash equivalents at end of period	16,392	14,252

**(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)

Not applicable.

(Segment information, etc.)

[Segment information]

I. Six months ended September 30, 2021 (from April 1, 2021 to September 30, 2021)

1. Information on amount of net sales and profit (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	33,294	7,137	3,545	43,976	—	43,976
Inter-segment sales or transfers	—	—	335	335	(335)	—
Total	33,294	7,137	3,880	44,312	(335)	43,976
Segment profit (loss)	(1,045)	(631)	108	(1,568)	(0)	(1,568)

Notes: 1. Adjustments to segment profit (loss) reflect the elimination of inter-segment transactions.
2. Total segment profit (loss) is adjusted with the operating 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.

II. Six months ended September 30, 2022 (from April 1, 2022 to September 30, 2022)

1. Information on amount of net sales and profit (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	47,641	6,841	3,901	58,385	—	58,385
Inter-segment sales or transfers	—	—	1,385	1,385	(1,385)	—
Total	47,641	6,841	5,286	59,770	(1,385)	58,385
Segment profit (loss)	(51)	317	85	351	(0)	351

Notes: 1. Adjustments to segment profit (loss) reflect the elimination of inter-segment transactions.
2. Total segment profit (loss) is adjusted with the operating profit 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.