

Translation

Notice: This document is an excerpt translation of the original Japanese document and is only for reference purposes. In the event of any discrepancy between this translated document and the original Japanese document, the latter shall prevail.

Consolidated Financial Results for the Nine Months Ended December 31, 2022 (Based on Japanese GAAP)

February 14, 2023

Company name: Foster Electric Company, Limited
 Stock exchange listing: Tokyo
 Stock code: 6794 URL <https://www.foster-electric.com/>
 Representative: CEO Atsushi Narikawa
 Inquiries: General Manager, IR and Governance Yuzo Yamamoto TEL +81-42-546-2305
 Management Dept.
 Scheduled date to file Quarterly Securities Report: February 14, 2023
 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, 2022 (from April 1, 2022 to December 31, 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	%
Nine months ended December 31, 2022	88,612	35.1	723	–	1,219	–	(241)	–
Nine months ended December 31, 2021	65,571	5.5	(3,146)	–	(2,762)	–	(3,298)	–

Note: Comprehensive income(loss):
 Nine months ended December 31, 2022 ¥3,287 million [-%]
 Nine months ended December 31, 2021 ¥(1,324) million [-%]

	Earnings per share		Diluted earnings per share	
	Yen		Yen	
Nine months ended December 31, 2022	(10.91)		–	
Nine months ended December 31, 2021	(148.26)		–	

(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, 2022	98,232		54,774		50.4		2,232.51	
As of March 31, 2022	86,148		51,632		54.7		2,125.72	

Reference: Equity capital:
 As of December 31, 2022 ¥49,542 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				
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: None

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: None

4. Notes

- (1) Changes in significant subsidiaries during the nine months ended December 31, 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 December 31, 2022	25,000,000 shares	As of March 31, 2022	25,000,000 shares
-------------------------	-------------------	----------------------	-------------------

Number of treasury shares at the end of the period

As of December 31, 2022	2,808,421 shares	As of March 31, 2022	2,812,993 shares
-------------------------	------------------	----------------------	------------------

Average number of shares during the period (cumulative from the beginning of the fiscal year)

Nine months ended December 31, 2022	22,187,031 shares	Nine months ended December 31, 2021	22,250,412 shares
-------------------------------------	-------------------	-------------------------------------	-------------------

* 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 3 of the Attachment.

○ Contents of Attachment

1. Overview of operating results, etc.	2
(1) Operating results for the period under review	2
(2) Financial position for the period under review	2
(3) Explanation of forecast of consolidated financial results and other forward-looking information	3
(4) Significant events regarding going concern assumption, etc.	3
2. Quarterly consolidated financial statements	4
(1) Consolidated balance sheets	4
(2) Consolidated statements of income (cumulative) and consolidated statements of comprehensive income (cumulative)	6
(3) Consolidated statements of cash flows	8
(4) Notes to the quarterly consolidated financial statements	9
(Notes on going concern assumption).....	9
(Notes on significant changes in the amount of shareholders' equity).....	9
(Changes in accounting policies).....	9
(Segment information, etc.)	10

1. Overview of operating results, etc.

(1) Operating results for the period under review

During the nine months ended December 31, 2022, the global economic outlook became increasingly uncertain due to rising energy prices from 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 a weak Chinese economy. Regarding the impact of COVID-19, progress has been achieved in balancing disease control and economic activity. However, there were concerns about a sudden surge of infections with China's termination of its zero-COVID policy in December 2022.

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 secured orders for approximately 90% of the amount we were aiming to achieve upon completion of the medium-term business plan (in the fiscal year ending March 31, 2025). 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 are also continuing to work to optimize our inventory, which has increased during the COVID-19 outbreak.

As a result, consolidated net sales for the nine months ended December 31, 2022 came to ¥88,612 million (up 35.1% YoY), operating profit to ¥723 million (in the previous year, operating loss of ¥3,146 million), and ordinary profit to ¥1,219 million (in the previous year, ordinary loss of ¥2,762 million). Meanwhile, the loss attributable to owners of parent amounted to ¥241 million (in the previous year, loss attributable to owners of parent of ¥3,298 million).

Results by segment were as follows.

[Speaker Segment]

Despite the harsh environment surrounding the automotive market, net sales came to ¥72,037 million (up 47.0% 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 2022. However, by improving costs, reducing fixed expenses, and adjusting prices, overall profit returned to the black, with operating profit of ¥633 million (in the previous year, operating loss of ¥2,638 million).

[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 ¥10,907 million (down 2.4% YoY). On the profit front, operating profit amounted to ¥608 million (in the previous year, operating loss of ¥670 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 ¥7,653 million (up 28.8% YoY) due to an increase in component sales from a subsidiary (Fourstar; established in China in September 2021) to the Group (eliminated on consolidation). On the profit front, however, we posted an operating loss of ¥518 million (in the previous year, operating profit of ¥163 million) due to stagnant sales of FOSTEX brand products, inventory write-downs, and higher costs of products for domestic sales due to the sharp depreciation of the yen.

(2) Financial position for the period under review

As of December 31, 2022, total assets amounted to ¥98,232 million, up ¥12,083 million from their level on March 31, 2022, mainly because of an increase in trade receivables. Owing chiefly to an increase in short-term borrowings, total liabilities increased ¥8,941 million to ¥43,457 million. Net assets came to ¥54,774 million, up ¥3,142 million, mainly as the result of an increase in foreign currency translation adjustment. The equity ratio was 50.4% as of December 31, 2022, down 4.3 percentage points from March 31, 2022.

(Cash flows for the period under review)

Cash and cash equivalents as of December 31, 2022 totaled ¥13,525 million, up ¥1,435 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 ¥4,055 million, chiefly due to an increase in trade receivables.

[Investing activities]

Net cash used in investing activities totaled ¥1,261 million, mainly due to capital investments.

[Financing activities]

Net cash provided by financing activities totaled ¥6,262 million, due to an increase in short-term borrowings.

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

Our full-year forecast remains unchanged at this time.

(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 nine months ended December 31, 2022, the Group reported a loss attributable to owners of parent of ¥241 million. As of December 31, 2022, net assets before foreign currency translation adjustment on the consolidated balance sheet amounted to ¥48,339 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-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 December 31, 2022 was 50.4%, 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 December 31, 2022
Assets		
Current assets		
Cash and deposits	10,846	13,525
Notes and accounts receivable - trade	19,001	23,583
Electronically recorded monetary claims - operating	350	435
Securities	2,343	193
Finished goods	18,413	22,434
Raw materials	10,355	9,848
Work in process	1,578	1,782
Supplies	108	171
Accounts receivable - other	1,170	1,360
Advance payments to suppliers	859	3,921
Other	2,202	1,751
Allowance for doubtful accounts	(86)	(76)
Total current assets	67,143	78,930
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	6,863	6,945
Machinery, equipment and vehicles, net	4,655	4,529
Tools, furniture and fixtures, net	1,788	1,799
Land	1,521	1,595
Construction in progress	785	831
Total property, plant and equipment	15,614	15,702
Intangible assets		
Software	80	79
Other	122	127
Total intangible assets	203	207
Investments and other assets		
Investment securities	1,306	1,385
Long-term prepaid expenses	82	83
Retirement benefit asset	880	749
Deferred tax assets	637	843
Other	280	329
Total investments and other assets	3,187	3,391
Total non-current assets	19,005	19,301
Total assets	86,148	98,232

(Millions of yen)

	As of March 31, 2022	As of December 31, 2022
Liabilities		
Current liabilities		
Notes and accounts payable - trade	11,179	11,342
Short-term borrowings	12,247	21,529
Current portion of long-term borrowings	818	450
Accounts payable - other	3,861	3,047
Income taxes payable	630	1,023
Accrued expenses	2,848	2,206
Provision for bonuses	398	547
Other	903	1,840
Total current liabilities	32,889	41,988
Non-current liabilities		
Long-term borrowings	300	–
Deferred tax liabilities	475	514
Retirement benefit liability	60	74
Provision for retirement benefits for directors (and other officers)	20	23
Provision for share awards	163	178
Asset retirement obligations	281	286
Other	325	391
Total non-current liabilities	1,627	1,469
Total liabilities	34,516	43,457
Net assets		
Shareholders' equity		
Share capital	6,770	6,770
Capital surplus	6,896	6,896
Retained earnings	33,906	33,441
Treasury shares	(4,163)	(4,152)
Total shareholders' equity	43,409	42,955
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	323	343
Foreign currency translation adjustment	3,617	6,435
Remeasurements of defined benefit plans	(187)	(191)
Total accumulated other comprehensive income	3,753	6,587
Non-controlling interests	4,469	5,231
Total net assets	51,632	54,774
Total liabilities and net assets	86,148	98,232

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

Consolidated statements of income (cumulative)

(Millions of yen)

	Nine months ended December 31, 2021	Nine months ended December 31, 2022
Net sales	65,571	88,612
Cost of sales	58,764	77,615
Gross profit	6,807	10,996
Selling, general and administrative expenses	9,953	10,273
Operating profit (loss)	(3,146)	723
Non-operating income		
Interest income	64	67
Dividend income	24	30
Subsidy income	121	66
Foreign exchange gains	206	561
Miscellaneous income	232	251
Total non-operating income	649	978
Non-operating expenses		
Interest expenses	60	333
Miscellaneous losses	204	148
Total non-operating expenses	265	481
Ordinary profit (loss)	(2,762)	1,219
Extraordinary losses		
Extra retirement payments	487	254
Total extraordinary losses	487	254
Profit (loss) before income taxes	(3,250)	964
Income taxes - current	142	993
Income taxes - deferred	(45)	(120)
Total income taxes	96	872
Profit (loss)	(3,346)	92
Profit (loss) attributable to non-controlling interests	(48)	334
Loss attributable to owners of parent	(3,298)	(241)

Consolidated statements of comprehensive income (cumulative)

(Millions of yen)

	Nine months ended December 31, 2021	Nine months ended December 31, 2022
Profit (loss)	(3,346)	92
Other comprehensive income		
Valuation difference on available-for-sale securities	26	19
Foreign currency translation adjustment	1,872	3,180
Remeasurements of defined benefit plans, net of tax	123	(5)
Total other comprehensive income	2,022	3,194
Comprehensive income	(1,324)	3,287
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	(1,529)	2,592
Comprehensive income attributable to non-controlling interests	205	694

(3) Consolidated statements of cash flows

(Millions of yen)

	Nine months ended December 31, 2021	Nine months ended December 31, 2022
Cash flows from operating activities		
Profit (loss) before income taxes	(3,250)	964
Depreciation	2,370	2,729
Decrease (increase) in retirement benefit asset	(22)	139
Increase (decrease) in retirement benefit liability	(3)	10
Increase (decrease) in provision for retirement benefits for directors (and other officers)	2	2
Increase (decrease) in allowance for doubtful accounts	17	(17)
Increase (decrease) in provision for bonuses	100	150
Subsidy income	(121)	(66)
Extra retirement payments	487	254
Interest and dividend income	(88)	(98)
Interest expenses	60	333
Foreign exchange losses (gains)	217	1,492
Decrease (increase) in trade receivables	938	(3,940)
Decrease (increase) in inventories	(8,519)	(2,421)
Increase (decrease) in trade payables	(1,046)	(477)
Decrease (increase) in accounts receivable - other	83	(150)
Increase (decrease) in accounts payable - other	408	(968)
Decrease (increase) in advance payments to suppliers	(1,399)	(3,078)
Other, net	680	1,714
Subtotal	(9,083)	(3,428)
Interest and dividends received	88	98
Interest paid	(60)	(333)
Subsidies received	121	66
Extra retirement payments	(385)	(254)
Income taxes paid	(284)	(642)
Income taxes refund	103	438
Net cash provided by (used in) operating activities	(9,500)	(4,055)
Cash flows from investing activities		
Purchase of securities	(984)	–
Proceeds from redemption of securities	629	839
Purchase of investment securities	(0)	(0)
Purchase of property, plant and equipment	(1,921)	(1,974)
Purchase of intangible assets	(84)	(19)
Purchase of long-term prepaid expenses	(20)	(56)
Decrease (increase) in time deposits	–	112
Other, net	11	(161)
Net cash provided by (used in) investing activities	(2,370)	(1,261)
Cash flows from financing activities		
Net increase (decrease) in short-term borrowings	7,098	7,154
Repayments of long-term borrowings	(731)	(668)
Dividends paid	(335)	(223)
Dividends paid to non-controlling interests	(116)	–
Net cash provided by (used in) financing activities	5,915	6,262
Effect of exchange rate change on cash and cash equivalents	231	489
Net increase (decrease) in cash and cash equivalents	(5,723)	1,435
Cash and cash equivalents at beginning of period	20,373	12,089
Cash and cash equivalents at end of period	14,650	13,525

(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. Nine months ended December 31, 2021 (from April 1, 2021 to December 31, 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	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 profit (loss)	(2,638)	(670)	163	(3,146)	(0)	(3,146)

- 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. Nine months ended December 31, 2022 (from April 1, 2022 to December 31, 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	72,037	10,907	5,667	88,612	—	88,612
Inter-segment sales or transfers	—	—	1,985	1,985	(1,985)	—
Total	72,037	10,907	7,653	90,598	(1,985)	88,612
Segment profit (loss)	633	608	(518)	723	(0)	723

- 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.