

FOSTER

Sound to Life

**FY2020-FY2024
Medium-Term Business Plan**

Foster Electric Company, Limited
(Stock code: 6794, First Section, Tokyo Stock Exchange)
November 18, 2020

Medium-Term Business Plan (FY2020-FY2024)

Background of Medium-Term Business Plan

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Upon reviewing our business portfolio amid major changes in the operating environment, we decided to withdraw from the “headset business for a major customer” and make a major turn toward the “automotive business.”

Reasons for decision

- (1) Stagnation of demand in the smartphone market, increased business risk stemming from strategic shifts by a major customer
- (2) The large potential of the automotive business. The maximum utilization of the trade relationships with finished car manufacturers and automotive suppliers that our Group has fostered to this day, as well as our know-how in the automotive business

Key topics in the medium-term plan

- To put the finishing touches to the “shift to automotive business”
- To implement the full-scale commercialization of new businesses, such as MaaS, wearables, and wellness products, looking further ahead.

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Before going into a specific explanation of this medium-term management plan, I would like to discuss the background behind the formulation of this plan.

As you know, due to the major changes in the business environment in recent years, we have made a major review of our business portfolio, and decided to withdraw from the Headset Business for a major customer, which had previously accounted for nearly half of our sales and profits, and to steer the Company as a whole toward the Automotive Business.

Once again, the main reasons for this decision were that demand in the smartphone market was stagnant, and major cost cuts as well as a decline in orders were expected due to strategic changes at a major customer.

On the other hand, the elevate position to the Automotive Business was based on the belief that this is the area where we can maximize, in the transition period of once every 100 years, the future potential of the Automotive Business and the business relationships and know how we have cultivated with completed car manufacturers and automotive-related suppliers.

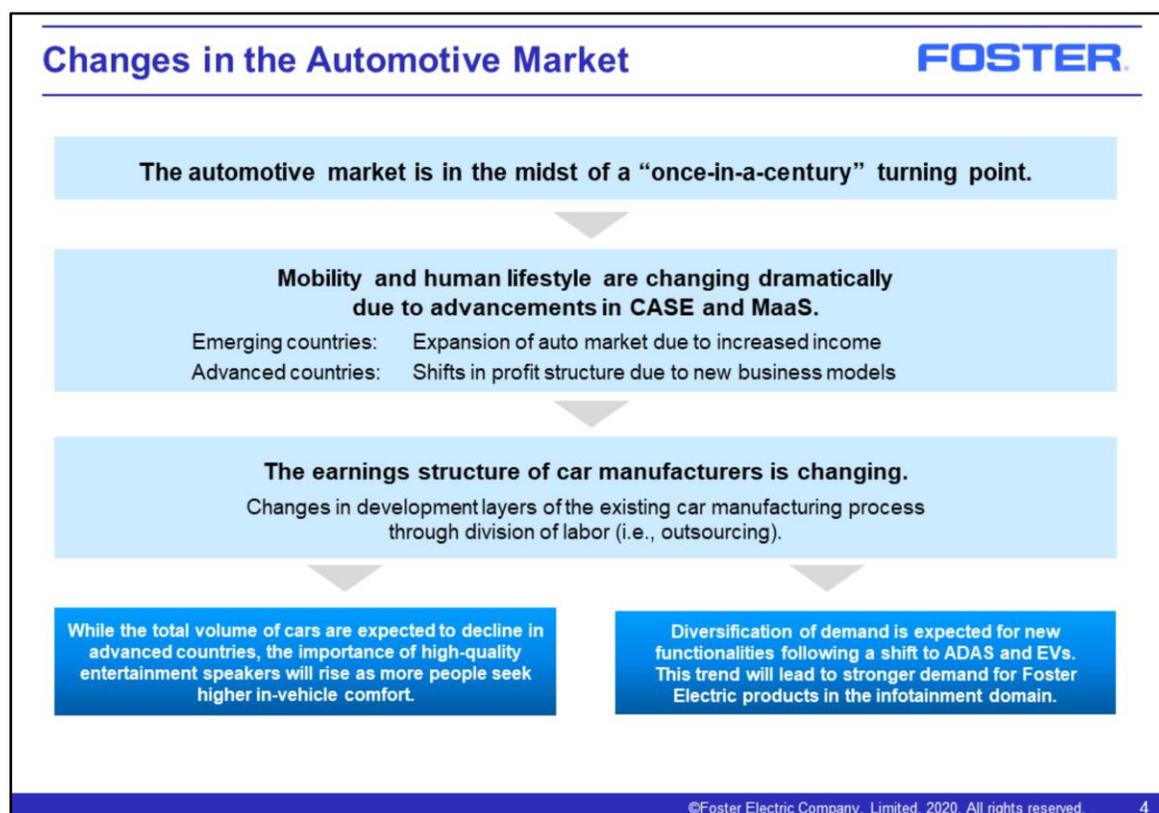
Although it was difficult to simultaneously implement strategies for withdrawal from the Smartphone Headset Business for a major customer and strategies for moving into the Automotive Business aggressively, we have steadily shifted personnel to strategic areas while reducing expenses by reducing personnel at factories and accelerating the disposal of equipment impairment with gaining the understanding of a major customer.

We also focused on investing in automation and labor saving for the future, while keeping investment within depreciation costs. We also focused on developing and commercializing new products related to shift to EVs, sound and vibrations compatible for ADAS, with a view to the future of the Automotive Business.

In recent years, amidst a challenging environment, we have focused on maintaining appropriate financial statements by disposing of idle assets that have unrealized gain financially. In the current medium-term management plan, we believe that key issues will be the completion of the transition to an Automotive Business that we have been working on in this way, and full commercialization of new businesses, such as MaaS, Wearables, and Wellness, in anticipation of the future.

- 1. Operating Environment**
2. Medium- to Long-Term Goals
3. Medium- to Long-Term Strategy
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 - *FY2020-FY2030 (Long Term)
4. Financial Targets (Medium Term) and ESG Initiatives

Now, let me explain our medium-term business plan.



As I mentioned earlier, the automotive market is said to be in a major turning point once every 100 years. The wave of connected, automated, sharing, and electrification expressed in CASE is about to change the automotive industry significantly. Moreover, the advancement of Mobility as a Service will greatly change not only automobiles, but also the mobility society as a whole and our lifestyles.

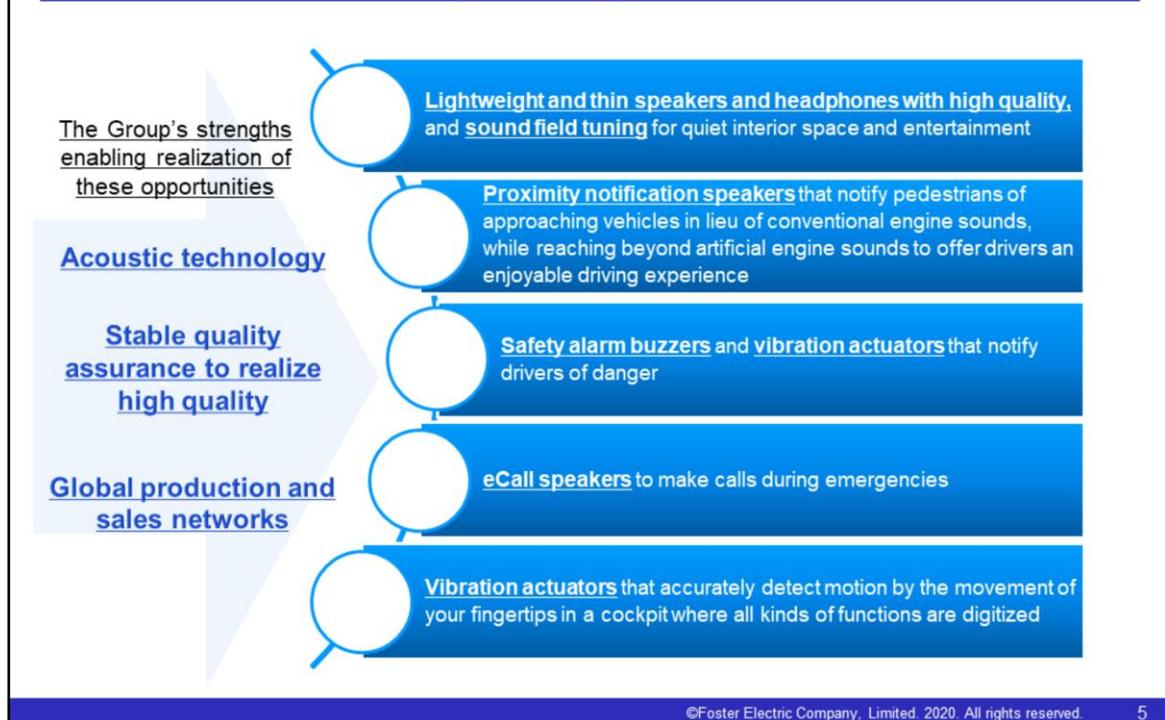
Amid these changes, the growth rate is expected to slow in emerging countries, but the automotive market is expected to continue expanding in line with rising incomes. In developed countries, the earnings structure is expected to change to a new format as CASE progresses and MaaS become fully fledged. Each automobile manufacturer will need to change its development layer that specializes in conventional automobile development, as the core of the development will shift to self-driving and connected.

While we have an opportunity here, we expect volume to decline overall in developed countries under these circumstances. However, among the Automotive Business, we believe that the importance of high-quality sound products seeking comfort in in-vehicle spaces will dramatically increase in the demand for in-vehicle speakers for entertainment purposes, which we have been focusing on until now.

On the other hand, the new functions required for ADAS and EVs have been incorporated to information devices centered on 5G, and in particular, the development of finished car manufacturers and component manufacturers in the infotainment field which we lead is being expanded globally.

Business Opportunities in the Automotive Market and Foster Electric Group's Strengths

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I would like to talk about our business opportunities and strengths in pursuing comfort, ADAS- and EV-enabled vehicles. The circles on the right side of the power point are business opportunities.

First one on the top is high sound-quality entertainment speaker headphones to create a peaceful in-vehicle atmosphere and the capability to perform sound-field tuning by one-stop operation.

Next one is the request we received to develop the sound, instead of conventional engine sounds, for proximity notification that is evolved into sounds that drivers feel the enjoyment of driving, not only to generate pseudo-engine sounds to notify proximity to walkers. For this, we actually received the request from customers in the shift to EV. This is where we have the potential to maximize our strengths.

We also propose a safety alarm buzzer and vibration actuator to inform drivers who are free from normal driving operation, such as during self-driving, of danger.

The other thing is the trend of the expansion due to legislation of eCall speakers for reporting in emergencies.

In addition, we are expanding the introduction of vibration actuators, which sense operation only by tactile sensation, in a cockpit in which all functions are computerized. We believe this is the area where we can fully demonstrate the three strengths we have been working on since our foundation.

First, that is sound-making technology that is required for comfort and every function. Second, that is stable quality assurance capabilities that realize high quality in mass production. Third, that is a production network that globally realizes Made-in-Japan's manufacturing DNA and a local sales network that boldly penetrates excellent customers in various regions such as Europe, the US, and Asia, where laws and regulations differ. We believe we can leverage these strengths.

As a Group, we want to build a solid foothold as a specialist in the field of sound and vibrations for automotive applications and make it a solid base for next-generation businesses.

Business Opportunities Outside of Automotive Market **FOSTER**

Changes in business environment

Peripheral domains of 5G communication in the spotlight

- Services using 5G networks will become the infrastructure of next generations.
- Devices in the following fields will adopt IoT, resulting in further new applications.

Wearables, Wellness, Entertainment, Robotics, etc.

Business opportunities

We will actively engage in new markets as a leading partner for customers in acoustic solutions (reshaping our business portfolio).

Hearable devices equipped with biometric authentication technology	Game controllers that dramatically improve immersive experience
Wearable blood pressure monitors worn on the wrist	Smart glasses that realize AR/VR

Sound Hearing **Sound to Life** Vibration Tactile

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Next, I will explain the fields other than the automotive market.

We believe that 5G is vital in fields other than automotive. Services using 5G have the potential to dramatically evolve our lifestyles as next-generation infrastructures. Under the slogan "Sound to Life," we are rebuilding our business portfolio from the perspective of sound in lifestyles.

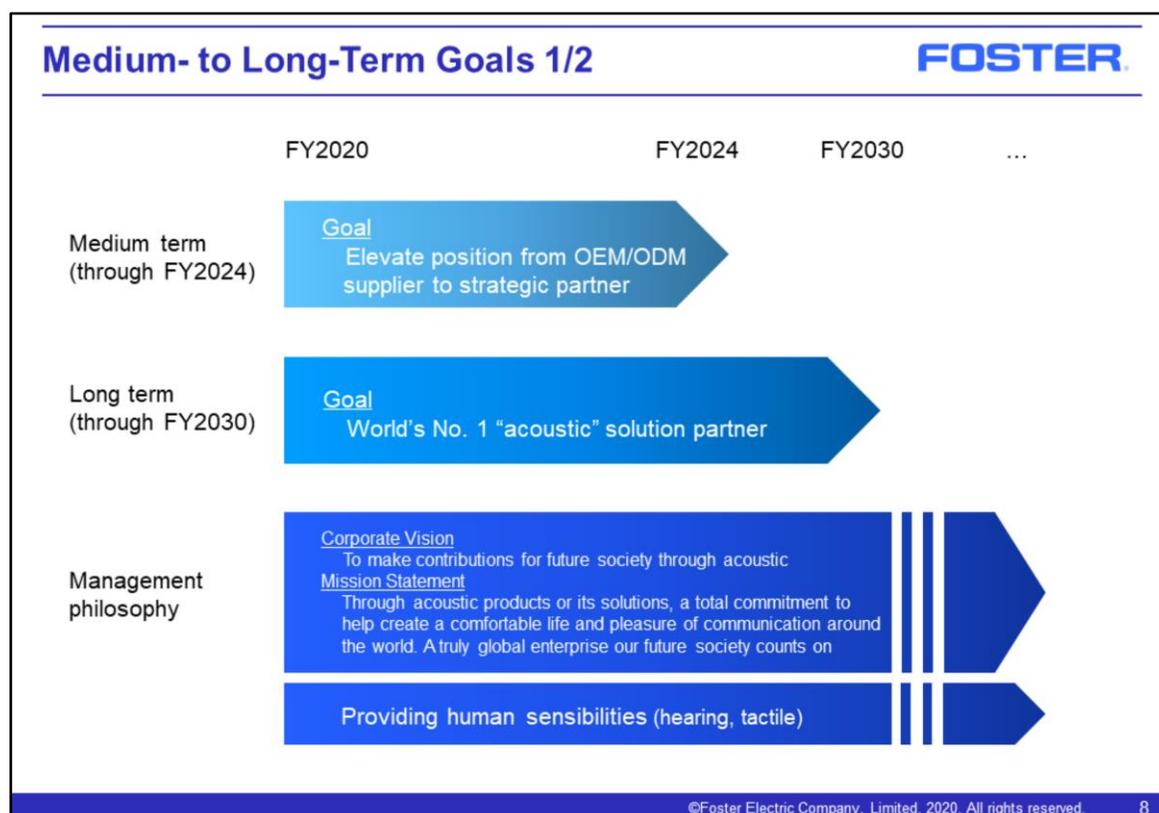
Accordingly, we believe that wearables, wellness, entertainment, robots, and other products will become IoT, and new applications will expand and become a promising market. Even in such a market, business opportunities will emerge for basic technology of vibration and functions that work on people's auditory and tactile sensation.

There are business opportunities with hearable devices equipped with biometric authentication technology, which I explained earlier, wearable blood pressure monitors for wrists and game controllers that dramatically increase the sense of presence and immersion. In addition, products using ultra-small-diameter thin diaphragms, which are used in smart glasses and other products that realize AR/VR, and small-sized vibration actuators have already been realized, and we have been continuously receiving many inquiries.

Our products that are safe and durable are also used in robots and industrial robots that are expected to be active in the last one mile. While focusing on automotive, we will continue to actively engage in new markets in the lifestyle scene as a leader in acoustic solutions.

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In light of these factors, I would like to explain our medium-to long-term goals.



Again, our vision and mission is as follows. Our vision is "To make contributions for future society through acoustics," and our mission is "Through acoustic products or its solutions, a total commitment to help create a comfortable life and pleasure of communication around the world. A truly global enterprise our future society counts on."

As you already know, the innovation in the automotive field can have a major impact on future society, as represented by MaaS and Woven City initiatives being developed by Toyota Motor Corporation. The same is true for new fields related to 5G. We are committed to contributing to this future society by providing human sensibilities, as described in the slide, using sound technologies, which are our original business, as well as vibration technologies that apply these technologies.

Based on this vision and mission, in the medium term we will elevate position from OEM/ODM suppliers to strategic partners in FY2024. This is the first stage. Our long-term goal is to become the world's largest acoustic solution partner in FY2030.

Medium-to Long-Term Goals 2/2		FOSTER
<p>Medium term Elevate position from OEM/ODM supplier to strategic partner</p>	<p>Long term World's No. 1 "acoustic" solution partner</p>	
<p>While OEM/ODMs only respond to customers after receiving orders, we aim to become a "strategic partner" that goes above and beyond that role, by partaking in the development and design of products together with customers.</p> <p>We will make active proposals to enhance the comfort of products through "sound field tuning" and "noise reduction," which were previously done internally by customers.</p> <p>By doing so, we will provide "comprehensive and more strategic products that feature high-quality sound and vibration."</p>	<p>We will serve as an "acoustic" solution specialist in areas related to promising industrial fields that contribute to future society, particularly in terms of hearing and touch.</p> <p>We aim to establish a brand profile where people instantly think of Foster Electric when it comes to matters related to sound or vibration.</p> <p>Areas of focus: MaaS, wearables, wellness, entertainment, measuring instruments, noise reduction and noise cancellation</p>	
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Let me now talk more specifically about our medium-to long-term goals.

Our medium-term goal is elevate position from OEM/ODM supplier to strategic partner in FY2024. This means that the medium-term target is to become an indispensable presence in the Automotive Business field, and to build a solid foundation for Foster Management. In addition to the role of an OEM, such as waiting for customer orders and responding, as in the past, or ODM, we would like to actively propose sound field tuning to enhance comfort that automakers have been conducting so far, as well as in-vehicle noise reduction technologies.

Accordingly, we believe we will be able to elevate position to a strategic partner that is involved in development and design closer to our customers. As a result, we intend to expand our business opportunities by advancing the development stage by one or two.

Our long-term goal is to become world's No.1 "acoustic" solution partner in FY2030.

As a specialist in acoustic solutions, we aim to be the world's most reliable acoustic solution partner, not only in automotive-related businesses, but also in promising industrial fields that contribute to the future society, such as robotics, wearable, and wellness, that involves auditory and tactile sensation, and supports and promotes a broader range of market needs, by becoming a position that is said to ask Foster for anything that is related to sound and vibration.

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Next, I would like to talk about our medium-to long-term priority strategies.

FY2020-2024 Medium-Term Priority Strategies

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1. One-stop sales strategy for automotive products and services in the sound and vibration domains

- We aim to increase the number of Foster products installed per vehicle by providing a comprehensive lineup of automotive products such as ADAS-compatible vibration actuators, AVAS/eCall speakers, and car headphones, in addition to audio devices in which we already have a solid track record.
- To realize this, we will enhance services that cater to human sensibilities, such as proposals on tactile solutions applying in-vehicle sound field design and various vibration pattern designs.

2. Regional strategy

- Japan, North America, Europe: We will strengthen our sales capabilities by shifting from the previous divisional sales framework to a regional sales framework, which enables one-stop management of all products.
- China: We will strengthen our sales capabilities by leveraging our brand strength and high-quality local production system.

3. M&A strategy

- In-house production of rare core components, and acquisition of businesses that can complement our lack of expertise in certain technological fields.

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In addition to the in-house production of core components, standardization activities, and quality improvement activities that we have been working, we will focus on the following measures to achieve our goal:

First, in terms of our medium-term priority strategies, we will develop the following three measures in order to become a strategic partner:

The first is a one-stop sales strategy for automotive products and services in the areas related to sound and vibrations.

In addition to the audio devices we have cultivated, we will establish a structure that can provide a one-stop supply of all in-vehicle products, such as actuators compatible with ADAS, sounds for proximity notification called AVAS, speakers for eCall, and headphones for automobiles, with the aim of increasing the number of our products installed per vehicle. To achieve this, we will strengthen collaboration within the Group and with partners both inside and outside the Group, and enhance services that appeal to sensitivity, such as designing in-vehicle sound fields and proposing auditory and tactile sensation through a variety of vibration patterns.

The second is our regional strategy.

While keeping an eye on automobile laws and environmental regulations in each country, in Japan, the US, and Europe, which had been our mainstay in the past, we will stop using the approach by each business and handle all product groups in a unified manner by region in an effort to efficiently strengthen our sales capabilities.

The Chinese market is changing to a market that is important for us in terms of price and quality as the market expands and matures. We have received more inquiries than ever before, so we would like to focus on this. In this market, we will enhance our market presence through leveraging our brand power and high-quality local production systems while enhancing our local sales capabilities.

The third is our M&A strategy.

We will consider strategic M&A from time to time with the aim of making production of highly rare core component in-house and acquiring technologies that we do not have in place, which will be necessary to become a strategic partner.

FY2020-2030 Long-Term Priority Strategies FOSTER.

Provide solutions that leverage the Group's strengths while focusing on cultivating new business areas

MaaS	<ul style="list-style-type: none"> Highly durable products with robust safety aimed at use for robotics and the last mile market
Wearables	<ul style="list-style-type: none"> Voice device for AR/VR smart glasses Biometric authentication devices headed for broad adoption in the social infrastructure
Wellness	<ul style="list-style-type: none"> Biological monitoring device Hearing aid device
Entertainment	<ul style="list-style-type: none"> High sound quality and vibration devices that provide a new aesthetic value
Noise reduction / Noise cancellation	<ul style="list-style-type: none"> Solution of social issues by utilizing our expertise in sound and sound field

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Next, this is long-term priority strategy.

I will mainly discuss new business-related areas. We will focus on developing the following five market areas and aim to become the world's largest acoustic solution partner in FY2030, which I have just mentioned.

- ① In MaaS, we will develop safe and durable products that we have cultivated with automotive speakers into the robotics or last mile markets as one of our MaaS.
- ② In wearables, we see audio devices for smart glasses using AR/VR and biometric authentication devices as promising markets. In the future, it may become popular as a social infrastructure, and we will provide new products based on our strengths of the micro, high sound quality, and low distortions that we have cultivated.
- ③ In the third area of wellness, we will shift to devices for bio-monitoring for health maintenance and promotion, which will become increasingly of interest in the future as the aging society progresses. We will leverage our product track record already used in blood pressure monitors and other products. We will also work on devices to supplement hearing.
- ④ In the fourth entertainment field, including the game market, there is a need for new sensitivity value as well as high-quality sound products. We will provide devices that appeal to the user's sensibility with acoustic components and vibrating components that apply them.
- ⑤ In measuring instruments and quiet sound and noise reduction, even as the world advances, the importance of hearing, which is one of the human senses, remains unchanged. In addition to sound reproduction, we aim to be an expert of technology to control sound and quality of sound in society overall by leveraging our technological capabilities, which we have refined for 70 years specializing only in the area of acoustic sound.

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Finally, I will explain our financial targets and ESG initiatives based on these priority measures.

Financial Targets and ESG Initiatives

Financial Targets
(FY2024)

Net sales: 120 billion yen

Operating income: 5 billion yen

Income ratio: 4.2%

We will further expand net sales, operating income, and the income ratio by steadily implementing the medium-term business plan based on a commitment to absolutely achieve the financial targets.

We will make active investment to realize the strategy. Simultaneously, we will establish a lean corporate structure through labor-saving, automation, and standardization while maintaining a sound financial base.

ESG Initiatives

Be Happy 80%

2050 environment/quality targets

The promotion of ESG hinges on the happiness of all employees. We will put "Employees Be Happy 80%" at the center of all ESG activities.

Along with enhanced products that comply with environmental standards, we aim to achieve "zero emissions" as our environmental target, and "zero defects" as our quality target.

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We will continue to actively invest in realizing this strategy. On the other hand, while maintaining a sound financial position, the company will build a lean corporate structure through labor saving, automation, standardization, et cetera. Unfortunately, due to the impact of COVID-19, new orders in the Automotive Business have been postponed for more than a year. Accordingly, we have set our minimum targets for FY2024 at JPY120 billion in net sales, JPY5 billion in operating income, and an operating income margin of 4.2%.

Finally, as for ESG initiatives, I would like to talk about the slogan "Be Happy 80%," which is used within the company.

Our ESG initiatives are based on our Corporate Policy of "Sincerity." We always communicate the truth, make it friendly to people and the earth, and provide services with sincerity.

We believe that employees are at the heart of our ESG activities. Employees are the starting point for all corporate activities, and I believe that ESG cannot be promoted for companies whose employees do not become happy. On top of this, ESG-related activities are centered on "Be Happy 80% of employees".

There are 20,000 Foster employees around the world now. Together with these employees, we aim to achieve the following goals: Harmonious coexistence with society and the global environment. An exciting way of working in line with life stage and life goals. A truly diverse and inclusive organization that eliminates all forms of discrimination, including age, gender, nationality, and beliefs. A true specialist who is trusted by customers and business partners. And "Be Happy 80%." You may wonder why it is not 100%, but we consider 80% as the standard for happiness. In addition to the satisfaction of our own company and ourselves, there is still room for the satisfaction of other stakeholders.

Finally, in terms of the environmental and quality targets for 2050, we will enhance our environmentally-conscious products and establish a system to stay ahead of our competitors with the goal of "zero emissions" in our manufacturing system and with "zero defects" in terms of quality.

That is all. Thank you very much.

[Precautionary Statement]

All forward-looking statements contained in this material, including forecasts, plans, and outlooks on current or future earnings, are based on currently available information and assumptions on risks and uncertainties that may affect future earnings. Actual results may differ from forecasts or estimates due to a range of factors, including economic conditions surrounding the Group's operations, business conditions of related markets and at OEM customers, the competitive environment and pricing competition in Japan and overseas, raw material prices, foreign exchange rates, risks affecting overseas business, regulations in Japan and overseas, disasters or accidents, and share prices.

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