

Translation

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Consolidated Financial Results for the Six Months Ended September 30, 2023 (Based on Japanese GAAP)

November 14, 2023

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, 2023
 Scheduled date to commence dividend payments: December 6, 2023
 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, 2023 (from April 1, 2023 to September 30, 2023)

(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, 2023	59,701	2.3	2,165	516.2	2,139	428.5	1,114	—
Six months ended September 30, 2022	58,385	32.8	351	—	404	—	(249)	—

Note: Comprehensive income: Six months ended September 30, 2023 ¥6,357 million [9.6%]
 Six months ended September 30, 2022 ¥5,797 million [-%]

	Earnings per share		Diluted earnings per share	
	Yen		Yen	
Six months ended September 30, 2023	50.17		—	
Six months ended September 30, 2022	(11.25)		—	

(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, 2023	97,280		62,684		58.3		2,547.67	
As of March 31, 2023	92,871		56,515		55.0		2,302.49	

Reference: Equity capital: As of September 30, 2023 ¥56,666 million
 As of March 31, 2023 ¥51,095 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, 2023	—	10.00	—	10.00	20.00
Year ending March 31, 2024	—	10.00			
Year ending March 31, 2024 (Forecast)			—	15.00	25.00

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

3. Forecast of consolidated financial results for the year ending March 31, 2024 (from April 1, 2023 to March 31, 2024)

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	(1.1)	4,000	63.5	3,500	50.3	2,000	135.7	90.05	

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, 2023
(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

Changes in accounting policies due to revisions to accounting standards and other regulations: No

Changes in accounting policies due to other reasons: No

Changes in accounting estimates: No

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, 2023	25,000,000 shares	As of March 31, 2023	25,000,000 shares
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Number of treasury shares at the end of the period

As of September 30, 2023	2,757,660 shares	As of March 31, 2023	2,808,421 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, 2023	22,210,437 shares	Six months ended September 30, 2022	22,186,310 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 3 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, 2023, the outlook for the global economy remained in a state of flux. The end of the over three-year-long COVID-19 pandemic triggered a full-fledged resumption of economic activities, but uncertainties increased amid intensified geopolitical tensions caused by the prolonged Russia-Ukraine war and Hamas' surprise attack on Israel. The situation is further exacerbated by ongoing inflation in developed countries that is showing no sign of easing, rapid interest hikes in the US and Europe, and concerns over an economic slowdown in China due to the country's real estate crisis.

The automotive market, the Foster Group (the "Group")'s focus, has been seeing a recovery in sales, owing to the easing of semiconductor shortages and the increase in production and sales of electric vehicles (EVs). Labor disputes in the US auto industry are coming to an end and are expected to have a limited impact on earnings.

Under these circumstances, the Group has pressed forward with its "partner strategy" set forth in the medium-term business plan, under which it has strived to establish an optimal production system by improving the accuracy of demand forecasts while maintaining appropriate inventory levels. The Group has also continued to advance cost reduction measures. Further, meaningful progress has been made in preparing for the launch of speaker production at our plant in Binh Duong Province, Vietnam to mitigate the potential impact of geopolitical risks and for the establishment of the Hungary plant with the goal of reducing CO2 emissions through local production and consumption and on the logistics front.

As a result, consolidated net sales for the six months ended September 30, 2023 amounted to ¥59,701 million (up 2.3% YoY). On the profit front, the Group posted operating profit of ¥2,165 million (up 516.2% YoY), ordinary profit of ¥2,139 million (up 428.5% YoY), and profit attributable to owners of parent of ¥1,114 million (in the previous year, loss attributable to owners of parent of ¥249 million). Net sales and profits grew compared with the same period of the previous year, when results were affected by a one-time increase in costs.

Results by segment were as follows.

[Speaker Segment]

While sales continued to recover in the automotive market, in the first three months ended June 30, 2023, some customers adjusted their inventory that was built up during periods of supply chain disruption, leading to a decrease in shipment volume. Consequently, net sales in the six months ended September 30, 2023 amounted to ¥47,372 million (down 0.6% YoY). On the profit front, the absence of over ¥700 million in air freight charges, which had been incurred by a consolidated subsidiary in South Korea at the beginning of the previous fiscal year (ended December 31*), along with reductions in sea freight costs and the successful implementation of ongoing cost improvement measures, contributed positively. As a result, operating profit increased to ¥1,984 million (in the previous year, operating loss of ¥51 million).

*Because the fiscal year end of the Korean consolidated subsidiary is December 31, the profit and loss of the subsidiary for the period from January to June 2023 is combined with that of the Group for the first half of the consolidated fiscal year.

[Mobile Audio Segment]

Shipments of consumer actuators and car headphones proceeded as planned. We also saw a contribution to sales from the R&D-oriented business that was introduced and promoted from the same period of the previous year. As a result, net sales increased to ¥8,255 million (up 20.7% YoY). On the profit front, buoyed by sales of headphone-related products, operating profit expanded to ¥362 million (up 14.0% YoY).

[Other Segment]

In the Other segment, which includes micro acoustic components and FOSTEX brand products, net sales increased to ¥5,574 million (up 5.4% YoY), owing in part to sales of proximity notification speakers. On the profit front, due to a decline in the profitability of the FOSTEX business, the impact of a weaker yen on the micro acoustic components business, and the effects of inventory adjustments by certain customers, the operating loss came to ¥181 million (in the previous year, operating profit of ¥85 million).

(2) Financial position for the period under review

As of September 30, 2023, total assets amounted to ¥97,280 million, up ¥4,409 million from their level on March 31, 2023, mainly because of increases in cash and deposits and property, plant and equipment, despite declines in inventories and advance payments to suppliers. Owing chiefly to a decrease in short-term borrowings, total liabilities fell ¥1,760 million to ¥34,595 million. Net assets came to ¥62,684 million, up ¥6,169 million, mainly as the result of increases in retained earnings and foreign currency translation adjustment. The equity ratio was 58.3% as of September 30, 2023, up 3.2 percentage points from March 31, 2023.

(Cash flows for the period under review)

Cash and cash equivalents as of September 30, 2023 totaled ¥16,882 million, up ¥3,235 million from the level on March 31, 2023, as a result of the cash flows described below.

[Operating activities]

Net cash provided by operating activities was ¥10,887 million, chiefly due to a decline in inventories.

[Investing activities]

Net cash used in investing activities totaled ¥1,337 million, mainly due to capital investments.

[Financing activities]

Net cash used in financing activities totaled ¥7,189 million, due to a decrease 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 and year-end dividend forecast announced on May 11, 2023, along with financial results for the fiscal year ended March 31, 2023. For details, please see the “Announcement on Revisions to Full-Year Consolidated Financial Results Forecast and Year-End Dividend Forecast” separately disclosed today.

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

(Millions of yen)

	As of March 31, 2023	As of September 30, 2023
Assets		
Current assets		
Cash and deposits	13,646	16,882
Notes and accounts receivable - trade	24,988	25,387
Electronically recorded monetary claims - operating	482	449
Finished goods	20,037	18,777
Raw materials	8,195	8,053
Work in process	1,492	1,387
Supplies	137	144
Accounts receivable - other	813	1,410
Advance payments to suppliers	3,096	1,238
Other	1,173	1,751
Allowance for doubtful accounts	(169)	(104)
Total current assets	73,893	75,378
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	6,718	8,385
Machinery, equipment and vehicles, net	4,122	4,562
Tools, furniture and fixtures, net	1,764	1,887
Land	1,575	1,687
Construction in progress	848	1,059
Total property, plant and equipment	15,030	17,582
Intangible assets		
Software	81	102
Other	132	149
Total intangible assets	214	252
Investments and other assets		
Investment securities	1,446	1,810
Long-term prepaid expenses	82	77
Retirement benefit asset	1,313	1,262
Deferred tax assets	669	649
Other	221	267
Total investments and other assets	3,732	4,067
Total non-current assets	18,977	21,902
Total assets	92,871	97,280

(Millions of yen)

	As of March 31, 2023	As of September 30, 2023
Liabilities		
Current liabilities		
Notes and accounts payable - trade	9,380	11,714
Short-term borrowings	17,156	11,782
Current portion of long-term borrowings	300	–
Accounts payable - other	2,909	2,799
Lease liabilities	137	398
Income taxes payable	839	725
Accrued expenses	2,274	2,147
Provision for bonuses	432	749
Other	1,369	1,535
Total current liabilities	34,799	31,854
Non-current liabilities		
Deferred tax liabilities	564	594
Lease liabilities	131	1,299
Retirement benefit liability	81	87
Provision for retirement benefits for directors (and other officers)	24	25
Provision for share awards	188	130
Asset retirement obligations	264	292
Other	302	311
Total non-current liabilities	1,556	2,741
Total liabilities	36,356	34,595
Net assets		
Shareholders' equity		
Share capital	6,770	6,770
Capital surplus	6,896	6,896
Retained earnings	34,531	35,421
Treasury shares	(4,152)	(4,077)
Total shareholders' equity	44,045	45,011
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	385	662
Foreign currency translation adjustment	6,687	11,012
Remeasurements of defined benefit plans	(22)	(20)
Total accumulated other comprehensive income	7,050	11,654
Non-controlling interests	5,419	6,018
Total net assets	56,515	62,684
Total liabilities and net assets	92,871	97,280

(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, 2022	Six months ended September 30, 2023
Net sales	58,385	59,701
Cost of sales	51,128	50,968
Gross profit	7,256	8,733
Selling, general and administrative expenses	6,904	6,567
Operating profit	351	2,165
Non-operating income		
Interest income	40	63
Dividend income	16	20
Subsidy income	48	0
Foreign exchange gains	47	232
Miscellaneous income	159	150
Total non-operating income	312	467
Non-operating expenses		
Interest expenses	162	388
Miscellaneous losses	97	104
Total non-operating expenses	259	493
Ordinary profit	404	2,139
Extraordinary losses		
Extra retirement payments	256	–
Total extraordinary losses	256	–
Profit before income taxes	148	2,139
Income taxes - current	546	674
Income taxes - deferred	(93)	(67)
Total income taxes	452	606
Profit (loss)	(304)	1,533
Profit (loss) attributable to non-controlling interests	(54)	419
Profit (loss) attributable to owners of parent	(249)	1,114

Consolidated statements of comprehensive income (cumulative)

(Millions of yen)

	Six months ended September 30, 2022	Six months ended September 30, 2023
Profit (loss)	(304)	1,533
Other comprehensive income		
Valuation difference on available-for-sale securities	(34)	277
Foreign currency translation adjustment	6,154	4,545
Remeasurements of defined benefit plans, net of tax	(17)	1
Total other comprehensive income	6,102	4,824
Comprehensive income	5,797	6,357
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	5,433	5,718
Comprehensive income attributable to non-controlling interests	364	639

(3) Consolidated statements of cash flows

(Millions of yen)

	Six months ended September 30, 2022	Six months ended September 30, 2023
Cash flows from operating activities		
Profit before income taxes	148	2,139
Depreciation	1,788	1,523
Decrease (increase) in retirement benefit asset	84	75
Increase (decrease) in retirement benefit liability	10	1
Increase (decrease) in provision for retirement benefits for directors (and other officers)	1	1
Increase (decrease) in allowance for doubtful accounts	(20)	(81)
Increase (decrease) in provision for bonuses	246	301
Subsidy income	(48)	(0)
Extra retirement payments	256	–
Interest and dividend income	(56)	(83)
Interest expenses	162	388
Foreign exchange losses (gains)	1,382	353
Decrease (increase) in trade receivables	(4,000)	977
Decrease (increase) in inventories	(1,820)	3,449
Increase (decrease) in trade payables	(574)	1,573
Decrease (increase) in accounts receivable - other	(7)	(522)
Increase (decrease) in accounts payable - other	(1,031)	(290)
Decrease (increase) in advance payments to suppliers	(3,893)	2,098
Other, net	826	90
Subtotal	(6,545)	11,996
Interest and dividends received	56	83
Interest paid	(162)	(388)
Subsidies received	48	0
Extra retirement payments	(253)	–
Income taxes paid	(592)	(804)
Income taxes refund	433	–
Net cash provided by (used in) operating activities	(7,014)	10,887
Cash flows from investing activities		
Proceeds from redemption of securities	834	–
Purchase of investment securities	(0)	(0)
Purchase of property, plant and equipment	(1,468)	(1,298)
Purchase of intangible assets	(16)	(31)
Purchase of long-term prepaid expenses	(23)	(37)
Other, net	(143)	30
Net cash provided by (used in) investing activities	(818)	(1,337)
Cash flows from financing activities		
Net increase (decrease) in short-term borrowings	9,313	(6,434)
Repayments of long-term borrowings	(487)	(300)
Dividends paid	–	(223)
Dividends paid to non-controlling interests	–	(92)
Purchase of treasury shares	–	(0)
Other, net	–	(138)
Net cash provided by (used in) financing activities	8,825	(7,189)
Effect of exchange rate change on cash and cash equivalents	1,169	874
Net increase (decrease) in cash and cash equivalents	2,162	3,235
Cash and cash equivalents at beginning of period	12,089	13,646
Cash and cash equivalents at end of period	14,252	16,882

(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.

(Additional information)

(Change in presentation)

From the second quarter of the fiscal year ending March 31, 2024, "Lease liabilities," which were included in "Other" under "Current liabilities" and "Non-current liabilities" in the fiscal year ended March 31, 2023, will be reported as an independent item due to an increase in their monetary importance. To reflect this change in presentation, the Company has reconfigured its consolidated financial statements for the previous fiscal year.

As a result, in the consolidated balance sheet for the previous fiscal year, the Company has reclassified ¥137 million previously included in "Other" under "Current liabilities" and ¥131 million previously included in "Other" under "Non-current liabilities" as "Lease liabilities."

(Important subsequent events)

The procedures for the transfer of Foster Electric Co., (Nanning) Ltd., a consolidated subsidiary of the Foster Group, were completed on October 27, 2023, as outlined below.

(1) Overview of consolidated subsidiary

Trade name	Forster Electric Co., (Nanning) Ltd.
Address	NO.8,Keyuan East 11 Road Nanning New & High - Tech Industrial Development Zone, Nanning
Business	Undergoing liquidation proceedings (Operations ceased as of June 30, 2022)
Capital	CNY(¥)91,316,000
Date established	November 23, 2007
Stake	Foster Electric Co., (Hong Kong) Ltd., a wholly owned subsidiary of the Company, has a 100% stake

(2) Reason for transfer

The Group halted operations of the Nanning plant as of June 30, 2022, in efforts to optimize its production system amid changing demand for mobile audio products. The Group has subsequently decided to transfer the plant to effectively utilize its management resources.

(3) Overview of transferred assets

Assets	Site area: 19,550sqm, building area: 20,122sqm
Address	NO.8,Keyuan East 11 Road Nanning New & High - Tech Industrial Development Zone, Nanning
Transfer price	Approximately ¥700 million
Current status	Idle assets (Operations ceased as of June 30, 2022)

(4) Overview of transferee

Guangxi Xuxin Weiye Technology Co., Ltd. The Company has no capital, personal, or trade relationship with the transferee. Further, there are no related-party transactions involving the Company and the transferee.

(5) Impact (in value terms) of the transfer on consolidated profit/loss

As a result of the transfer of non-current assets, the Company expects to record extraordinary income of ¥700 million on sales of non-current assets, after deducting various costs related to the transfer, in consolidated accounting in the third quarter of the fiscal year under review.

(Segment information, etc.)

[Segment information]

I. 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.

II. Six months ended September 30, 2023 (from April 1, 2023 to September 30, 2023)

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	47,372	8,255	4,073	59,701	—	59,701
Inter-segment sales or transfers	—	—	1,501	1,501	(1,501)	—
Total	47,372	8,255	5,574	61,202	(1,501)	59,701
Segment profit (loss)	1,984	362	(181)	2,165	—	2,165

- 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.