

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 Six Months Ended September 30, 2021 (Based on Japanese GAAP)

October 28, 2021

Company name: Foster Electric Company, Limited
 Stock exchange listing: Tokyo
 Stock code: 6794 URL <https://www.foster-electric.com/>
 Representative: COO Atsushi Narikawa
 Inquiries: Department Manager, IR and Legal Affairs Yuzo Yamamoto TEL +81-42-546-2305
 Scheduled date to file Quarterly Securities Report: November 11, 2021
 Scheduled date to commence dividend payments: December 6, 2021
 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, 2021 (from April 1, 2021 to September 30, 2021)

(1) Consolidated operating results (cumulative)

Percentages indicate year-on-year changes

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
Six months ended September 30, 2021	43,976	11.3	(1,568)	–	(1,433)	–	(2,093)	–
Six months ended September 30, 2020	39,528	(28.5)	(688)	–	(488)	–	(829)	–

Note: Comprehensive income (loss):
 Six months ended September 30, 2021 ¥(711) million [-%]
 Six months ended September 30, 2020 ¥(1,505) million [-%]

	Earnings per share		Diluted earnings per share	
	Yen		Yen	
Six months ended September 30, 2021	(94.08)		–	
Six months ended September 30, 2020	(36.55)		–	

(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, 2021	81,062	55,063	61.0	2,221.47
As of March 31, 2021	77,233	55,993	65.6	2,276.20

Reference: Equity capital: As of September 30, 2021 ¥49,435 million
 As of March 31, 2021 ¥50,638 million

2. Cash dividends

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

Percentages indicate year-on-year changes

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent		Earnings per share
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%	Yen
Full year	90,000	5.6	(3,500)	–	(3,500)	–	(3,500)	–	(157.28)

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, 2021
(changes in specified subsidiaries resulting in the change in scope of consolidation): No

(2) Application of special accounting methods for preparing quarterly consolidated financial statements: No

(3) Changes in accounting policies, changes in accounting estimates, and restatement of prior period financial statements

(i) Changes in accounting policies due to revisions to accounting standards and other regulations: Yes

(ii) Changes in accounting policies due to other reasons: No

(iii) Changes in accounting estimates: No

(iv) Restatement of prior period financial statements: No

Note: For details, please refer to “2. Quarterly consolidated financial statements (4) Notes to the quarterly consolidated financial statements (Changes in accounting policies)” on page 9 of the Attachment.

(4) Number of issued shares (common shares)

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

As of September 30, 2021	25,000,000 shares	As of March 31, 2021	25,000,000 shares
--------------------------	-------------------	----------------------	-------------------

Number of treasury shares at the end of the period

As of September 30, 2021	2,746,593 shares	As of March 31, 2021	2,752,847 shares
--------------------------	------------------	----------------------	------------------

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

Six months ended September 30, 2021	22,249,291 shares	Six months ended September 30, 2020	22,693,965 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
(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.

○ 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
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 six months ended September 30, 2021, the global economy showed increasing resilience, especially in developed countries thanks to the spread of vaccinations and government measures. However, the situation remained murky in some countries and regions where vaccinations are lagging, as the spread of COVID-19 variants have prompted them to restrict certain activities.

In the electronic components industry, particularly in the automobile market where the Foster Group (the “Group”) focuses, shortages in the supply of components from Southeast Asia (where the spread of COVID-19 continues) in addition to the shortage of semiconductors heavily affected the supply chain, including automobile production. On the other hand, expectations for medium- to long-term demand for electronic components have risen, as decarbonization efforts are being made in earnest worldwide and EVs are being developed at an accelerated pace.

The Group’s net sales increased year on year in line with the recovery in automobile sales, but profits were negatively affected by the following factors: a drop in automobile production compared to the initial forecast due to shortages of semiconductors and other components; a further rise in transportation costs from the previous fiscal year; a surge in raw material and component costs owing to higher crude oil prices; and a decline in plant operating rates due to the spread of COVID-19 in Southeast Asia (particularly in the Vietnam region).

As a result, consolidated net sales for the six months ended September 30, 2021 came to ¥43,976 million (up 11.3% YoY). Losses amounted to an operating loss of ¥1,568 million (in the previous year, operating loss of ¥688 million), an ordinary loss of ¥1,433 million (in the previous year, ordinary loss of ¥488 million), and a net loss attributable to owners of the parent of ¥2,093 million (in the previous year, net loss attributable to owners of the parent of ¥829 million).

In the second half of the fiscal year under review, we expect a gradual recovery despite the impact of the decline in automobile production volume due to the shortage of semiconductors. As for the rise in transportation and material costs, the main reason for losses in the first half of the fiscal year, we aim to recover profits by implementing various measures with a focus on passing costs onto prices. Although the business environment is challenging, many customers have showed understanding toward price increases.

The situation is expected to remain uncertain for the time being, but we are making steady progress toward achieving the goals of our medium-term business plan for orders in the automotive business. We have already secured roughly 70% of the orders we aim to receive by the end of the medium-term plan. Demand for micro acoustic components, such as proximity alerts and alarm buzzers, has increased significantly, buoyed by their uptake in EVs, and we expect sales and profits in this field to expand in the current fiscal year. In addition to the automotive business, we are making progress in commercializing new businesses in the fields of wearables and wellness. However, new businesses have been relatively stagnant due to the impact of COVID-19, and we plan to take strong measures for commercialization at an early stage.

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

The Group has been promoting ESG management for some time, and for the first time, we have been selected as a constituent of the “FTSE Blossom Japan Index”, an ESG investment index by FTSE Russell, a global index provider, in recognition of our outstanding efforts in meeting various evaluation criteria related to environment (E), society (S), and governance (G).

Results by segment were as follows.

[Speaker Segment]

Against the backdrop of a recovery in automobile sales from the COVID-19 pandemic, net sales came to ¥33,294 million (up 39.4% YoY). The operating loss amounted to ¥1,045 million (in the previous year, operating loss of ¥584 million), mainly attributable to the following factors: a continued increase in transportation costs (mainly container freight rates), soaring raw material and component costs, and lower operating rates due to COVID-19’s impact on production bases.

[Mobile Audio Segment]

Despite strong shipments of new actuator products, sales of headsets bundled with smartphones were nearing an end. As a result, net sales came to ¥7,137 million (down 43.3% YoY) and the operating loss amounted to ¥631 million (in the previous year, operating income of ¥5 million).

[Other Segment]

In the Other Segment, which includes FOSTEX brand products, net sales were ¥3,880 million (up 22.2% YoY) and operating income was ¥108 million (in the previous year, operating loss of ¥109 million), due to the steady growth in the micro acoustic components business as automobile sales recovered.

(2) Financial position for the period under review

As of September 30, 2021, total assets amounted to ¥81,062 million, up ¥3,828 million from their level on March 31, 2021, mainly because of an increase in inventories. Owing chiefly to an increase in debt, total liabilities increased ¥4,758 million to ¥25,998 million. Net assets came to ¥55,063 million, down ¥929 million, mainly as the result of a decrease in retained earnings.

The equity ratio was 61.0% as of September 30, 2021, down 4.6 percentage points from March 31, 2021.

(Cash flows for the period under review)

Cash and cash equivalents as of September 30, 2021 totaled ¥16,392 million, down ¥3,980 million from the level on March 31, 2021, as a result of the cash flows described below.

[Operating activities]

Net cash used in operating activities was ¥6,191 million, chiefly due to an increase in inventories.

[Investing activities]

Net cash used in investing activities totaled ¥1,400 million, mainly due to capital investments.

[Financing activities]

Net cash provided by financing activities totaled ¥3,367 million, primarily due to an increase in short-term bank loans.

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

In light of recent business trends, we revised our full-year financial forecast announced in the Consolidated Financial Results for the Fiscal Year Ended March 31, 2021 on May 17, 2021. For details, please refer to the “Announcement on Revisions to Full-Year Consolidated Financial Results Forecast” separately disclosed on October 29.

2. Quarterly consolidated financial statements

(1) Consolidated balance sheets

(Millions of yen)

	As of March 31, 2021	As of September 30, 2021
Assets		
Current assets		
Cash and deposits	15,470	15,499
Notes and accounts receivable - trade	16,768	16,823
Electronically recorded monetary claims - operating	177	373
Securities	5,622	1,946
Finished goods	11,517	15,747
Raw materials	5,656	7,978
Work in process	1,159	1,663
Supplies	147	167
Accounts receivable - other	831	829
Other	1,721	1,831
Allowance for doubtful accounts	(32)	(46)
Total current assets	59,040	62,814
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	6,758	6,727
Machinery, equipment and vehicles, net	4,594	4,369
Tools, furniture and fixtures, net	1,533	1,650
Land	1,442	1,454
Construction in progress	883	988
Total property, plant and equipment	15,213	15,190
Intangible assets		
Software	69	68
Other	119	125
Total intangible assets	189	194
Investments and other assets		
Investment securities	1,482	1,556
Long-term prepaid expenses	83	60
Retirement benefit asset	791	801
Deferred tax assets	199	220
Other	234	225
Total investments and other assets	2,790	2,863
Total non-current assets	18,193	18,247
Total assets	77,233	81,062

(Millions of yen)

	As of March 31, 2021	As of September 30, 2021
Liabilities		
Current liabilities		
Notes and accounts payable - trade	8,735	9,300
Short-term borrowings	2,556	6,674
Current portion of long-term borrowings	1,528	1,534
Accounts payable - other	2,768	2,954
Income taxes payable	301	453
Accrued expenses	1,719	1,744
Provision for bonuses	362	568
Other	766	701
Total current liabilities	18,738	23,931
Non-current liabilities		
Long-term borrowings	1,118	631
Deferred tax liabilities	588	624
Retirement benefit liability	74	26
Provision for retirement benefits for directors (and other officers)	16	18
Provision for share awards	146	148
Asset retirement obligations	254	256
Other	301	360
Total non-current liabilities	2,501	2,067
Total liabilities	21,239	25,998
Net assets		
Shareholders' equity		
Share capital	6,770	6,770
Capital surplus	6,896	6,896
Retained earnings	41,299	39,094
Treasury shares	(4,129)	(4,115)
Total shareholders' equity	50,837	48,646
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	298	344
Foreign currency translation adjustment	(82)	757
Remeasurements of defined benefit plans	(414)	(312)
Total accumulated other comprehensive income	(198)	788
Non-controlling interests	5,354	5,628
Total net assets	55,993	55,063
Total liabilities and net assets	77,233	81,062

(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, 2020	Six months ended September 30, 2021
Net sales	39,528	43,976
Cost of sales	35,076	39,039
Gross profit	4,452	4,937
Selling, general and administrative expenses	5,141	6,506
Operating loss	(688)	(1,568)
Non-operating income		
Interest income	77	33
Dividend income	12	11
Subsidy income	57	91
Foreign exchange gains	106	60
Miscellaneous income	127	142
Total non-operating income	380	338
Non-operating expenses		
Interest expenses	41	34
Foreign exchange losses	–	–
Miscellaneous losses	138	168
Total non-operating expenses	180	203
Ordinary loss	(488)	(1,433)
Extraordinary losses		
Extra retirement payments	100	368
Total extraordinary losses	100	368
Loss before income taxes	(588)	(1,801)
Income taxes - current	207	222
Income taxes - deferred	(35)	(43)
Total income taxes	172	179
Loss	(760)	(1,981)
Profit attributable to non-controlling interests	68	111
Loss attributable to owners of parent	(829)	(2,093)

Consolidated statements of comprehensive income (cumulative)

(Millions of yen)

	Six months ended September 30, 2020	Six months ended September 30, 2021
Loss	(760)	(1,981)
Other comprehensive income		
Valuation difference on available-for-sale securities	72	45
Foreign currency translation adjustment	(734)	1,124
Remeasurements of defined benefit plans, net of tax	(83)	99
Total other comprehensive income	(745)	1,270
Comprehensive income	(1,505)	(711)
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	(1,398)	(1,106)
Comprehensive income attributable to non-controlling interests	(107)	395

(3) Consolidated statements of cash flows

(Millions of yen)

	Six months ended September 30, 2020	Six months ended September 30, 2021
Cash flows from operating activities		
Loss before income taxes	(588)	(1,801)
Depreciation	1,560	1,552
Decrease (increase) in retirement benefit asset	54	(7)
Increase (decrease) in retirement benefit liability	0	(45)
Increase (decrease) in provision for retirement benefits for directors (and other officers)	(1)	1
Increase (decrease) in allowance for doubtful accounts	(0)	13
Increase (decrease) in provision for bonuses	144	204
Subsidy income	(57)	(91)
Extra retirement payments	100	368
Interest and dividend income	(89)	(44)
Interest expenses	41	34
Foreign exchange losses (gains)	26	30
Decrease (increase) in trade receivables	(839)	(242)
Decrease (increase) in inventories	2,982	(7,113)
Increase (decrease) in trade payables	(1,031)	564
Decrease (increase) in accounts receivable - other	333	1
Increase (decrease) in accounts payable - other	(330)	187
Other, net	(408)	450
Subtotal	1,895	(5,935)
Interest and dividends received	89	44
Interest paid	(41)	(34)
Subsidies received	57	91
Extra retirement payments	(100)	(330)
Income taxes paid	(582)	(130)
Income taxes refund	—	103
Net cash provided by (used in) operating activities	1,317	(6,191)
Cash flows from investing activities		
Purchase of securities	(761)	(944)
Proceeds from redemption of securities	458	634
Purchase of investment securities	(0)	(0)
Purchase of property, plant and equipment	(1,256)	(1,069)
Purchase of intangible assets	(6)	(77)
Purchase of long-term prepaid expenses	(26)	(10)
Other, net	(3)	67
Net cash provided by (used in) investing activities	(1,597)	(1,400)
Cash flows from financing activities		
Net increase (decrease) in short-term borrowings	16	4,082
Repayments of long-term borrowings	(1,210)	(487)
Dividends paid	(342)	(111)
Dividends paid to non-controlling interests	(159)	(116)
Net cash provided by (used in) financing activities	(1,695)	3,367
Effect of exchange rate change on cash and cash equivalents	(415)	243
Net increase (decrease) in cash and cash equivalents	(2,391)	(3,980)
Cash and cash equivalents at beginning of period	23,930	20,373
Cash and cash equivalents at end of period	21,539	16,392

(4) Notes to the quarterly consolidated financial statements

(Notes on going concern assumption)

Not applicable.

(Notes on significant changes in the amount of shareholders' equity)

Not applicable.

(Changes in accounting policies)

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

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

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

Note that the effect of applying the accounting standard on the consolidated financial statements for the six months ended September 30, 2021 is immaterial.

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

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

Note that the application of the accounting standard has no effect on the consolidated financial statements for the six months ended September 30, 2021.

(Segment information, etc.)

[Segment information]

I. Six months ended September 30, 2020 (from April 1, 2020 to September 30, 2020)

1. Information on amount of net sales and income (loss) for each reportable segment

(Millions of yen)

	Reportable segments			Total	Adjustments * Note 1	Amounts on consolidated statement of income * Note 2
	Speaker	Mobile Audio	Other			
Net sales						
Sales to external customers	23,892	12,593	3,042	39,528	—	39,528
Inter-segment sales or transfers	—	—	133	133	(133)	—
Total	23,892	12,593	3,176	39,662	(133)	39,528
Segment income (loss)	(584)	5	(109)	(688)	(0)	(688)

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

2. Information on impairment losses of non-current assets or goodwill, etc. for each reportable segment

(Important impairment losses of non-current assets)

Not applicable.

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

1. Information on amount of net sales and income (loss) for each reportable segment

(Millions of yen)

	Reportable segments			Total	Adjustments * Note 1	Amounts on consolidated statement of income * Note 2
	Speaker	Mobile Audio	Other			
Net sales						
Sales to external customers	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 income (loss)	(1,045)	(631)	108	(1,568)	(0)	(1,568)

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

2. Information on impairment losses of non-current assets or goodwill, etc. for each reportable segment

(Important impairment losses of non-current assets)

Not applicable.