

Translation

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

August 12, 2022

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 Stock exchange listing: Tokyo
 Stock code: 6794 URL <https://www.foster-electric.com/>
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 Scheduled date to file Quarterly Securities Report: August 12, 2022
 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 three months ended June 30, 2022 (from April 1, 2022 to June 30, 2022)

(1) Consolidated operating results (cumulative)

Percentages indicate year-on-year changes

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
Three months ended June 30, 2022	27,894	27.6	139	–	102	–	(183)	–
Three months ended June 30, 2021	21,860	18.3	(511)	–	(345)	–	(857)	–

Note: Comprehensive income: Three months ended June 30, 2022 ¥3,322 million [1,545.0%]
 Three months ended June 30, 2021 ¥202 million [-%]

	Earnings per share		Diluted earnings per share	
	Yen		Yen	
Three months ended June 30, 2022	(8.26)		–	
Three months ended June 30, 2021	(38.53)		–	

(2) Consolidated financial position

	Total assets	Net assets	Equity ratio	Net assets per share
	Millions of yen	Millions of yen	%	Yen
As of June 30, 2022	95,793	54,965	52.7	2,277.13
As of March 31, 2022	86,148	51,632	54.7	2,125.72

Reference: Equity capital: As of June 30, 2022 ¥50,520 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	–	–	–	–	–
Year ending March 31, 2023 (Forecast)	–	10.00	–	–	–

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	100,000	9.8	500	–	500	–	300	–	13.52

Note: Changes in forecast of financial results subsequent to the most recent announcement: None

4. Notes

- (1) Changes in significant subsidiaries during the three months ended June 30, 2022
(changes in specified subsidiaries resulting in the change in scope of consolidation): No
- (2) Application of special accounting methods for preparing quarterly consolidated financial statements: No
- (3) Changes in accounting policies, changes in accounting estimates, and restatement of prior period financial statements
- (i) Changes in accounting policies due to revisions to accounting standards and other regulations: No
 - (ii) Changes in accounting policies due to other reasons: No
 - (iii) Changes in accounting estimates: No
 - (iv) Restatement of prior period financial statements: No

(4) Number of issued shares (common shares)

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

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

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

Three months ended June 30, 2022	22,186,109 shares	Three months ended June 30, 2021	22,246,553 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 Group regards as reasonable at the time of writing, and the Group 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 three months ended June 30, 2022, the outlook for the global economy remained uncertain due to a number of factors, including soaring international commodity prices due to the prolonged Russian invasion of Ukraine, turmoil in financial and capital markets and foreign exchange markets due to accelerating inflation in developed countries and rapid interest rate hikes in the US and Europe, and the impact of curbed economic activity in China.

The automotive market, on which the Foster Group (the "Group") focuses, continued to be unstable in terms of supply and demand with declining car production and new car sales due to such factors as the ongoing supply shortage of semiconductors, global economic slowdown caused by the conflict in Ukraine, China's zero-COVID policy, and rapid inflation in the US.

Under these circumstances, the Group worked to maintain an optimal production system by improving the accuracy of demand forecasts through closer cooperation with car manufacturers. In response to soaring prices of raw materials and components and elevated international freight rates, we continued our efforts to streamline costs, reduce fixed costs, and promote price pass-through. In particular, we received the understanding of many customers regarding the price pass-through.

As a result, consolidated net sales for the three months ended June 30, 2022 came to ¥27,894 million (up 27.6% YoY). On the profit front, the Group posted quarterly operating and ordinary profits for the first time since the third quarter of the fiscal year ended March 31, 2021, with operating profit of ¥139 million (in the previous year, operating loss of ¥511 million) and ordinary profit of ¥102 million (in the previous year, ordinary loss of ¥345 million). Meanwhile, the loss attributable to owners of parent amounted to ¥183 million (in the previous year, loss attributable to owners of parent of ¥857 million) due to the recording of extra retirement payments (¥253 million) as Foster Electric (Nanning) Co., Ltd. in China suspended operations following the production system optimization.

Results by segment were as follows.

[Speaker Segment]

Despite the harsh environment surrounding the automotive market, net sales came to ¥22,804 million (up 37.8% 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 ended December 31) posted a loss of approximately ¥700 million due to air freight charges at the beginning of the fiscal year. However, overall operating loss narrowed to ¥156 million (in the previous year, operating loss of ¥279 million) as a result of streamlining costs, reducing fixed costs, and promoting price pass-throughs.

*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 March 2022 is combined with that of the Group for the first quarter of the consolidated fiscal year.

[Mobile Audio Segment]

Although shipments of consumer actuators and car headphones proceeded as planned, a decline in sales of headsets bundled with smartphones resulted in net sales of ¥3,213 million (down 8.4% YoY). Operating profit, on the other hand, amounted to ¥113 million (in the previous year, operating loss of ¥323 million) due to the introduction and promotion of R&D-oriented business in addition to the focus on high value-added products.

[Other Segment]

In the Other segment, which includes micro acoustic components and FOSTEX brand products, net sales amounted to ¥2,545 million (up 30.7% YoY) due to an increase in component sales from a subsidiary (Fourstar; established last year in China) to the Group (eliminated on consolidation). Operating profit came to ¥182 million (up 98.3% YoY) due to the continued strong performance of micro acoustic components and a temporary rise in inventory valuation related to FOSTEX products.

(2) Financial position for the period under review

As of June 30, 2022, total assets amounted to ¥95,793 million, up ¥9,644 million from their level on March 31, 2022, mainly because of an increase in notes and accounts receivable-trade and inventories. Owing chiefly to an increase in short-term borrowings, total liabilities increased ¥6,311 million to ¥40,828 million. Net assets came to ¥54,965 million, up ¥3,333 million, mainly as the result of an increase in foreign currency translation adjustment. The equity ratio was 52.7% as of June 30, 2022, down 2.0 percentage points from March 31, 2022.

(Cash flows for the period under review)

Cash and cash equivalents as of June 30, 2022 totaled ¥11,308 million, down ¥781 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 ¥5,612 million, chiefly due to an increase in inventories.

[Investing activities]

Net cash used in investing activities totaled ¥824 million, mainly due to capital investments.

[Financing activities]

Net cash provided by financing activities totaled ¥4,964 million, primarily due to an increase in short-term borrowings.

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

At this time, we have not made changes to the full-year forecast announced in the consolidated financial results on May 16, 2022.

(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, shown 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 first quarter of the fiscal year ending March 31, 2023, the Group reported a loss attributable to owners of parent of ¥183 million. As of June 30, 2022, net assets before foreign currency translation adjustment on the consolidated balance sheet amounted to ¥47,723 million. These circumstances have raised 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, the Group is making steady progress in taking measures to cope with soaring prices of raw materials and components and rising logistics costs, including the introduction of a market-price-linked system, under which prices are determined based on market conditions, and this is expected to improve earnings in the future. Further, the equity ratio as of June 30, 2022 was 52.7%, a level generally considered as having no issue in financial stability.

As a result, the Group has determined that there is no significant doubt 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 June 30, 2022
Assets		
Current assets		
Cash and deposits	10,846	11,422
Notes and accounts receivable - trade	19,001	22,752
Electronically recorded monetary claims – operating	350	380
Securities	2,343	984
Finished goods	18,413	20,654
Raw materials	10,355	11,642
Work in process	1,578	1,648
Supplies	108	104
Accounts receivable - other	1,170	1,541
Advance payments to suppliers	859	2,563
Other	2,202	2,096
Allowance for doubtful accounts	(86)	(98)
Total current assets	67,143	75,694
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	6,863	7,222
Machinery, equipment and vehicles, net	4,655	4,970
Tools, furniture and fixtures, net	1,788	1,949
Land	1,521	1,627
Construction in progress	785	870
Total property, plant and equipment	15,614	16,640
Intangible assets		
Software	80	88
Other	122	127
Total intangible assets	203	216
Investments and other assets		
Investment securities	1,306	1,244
Long-term prepaid expenses	82	73
Retirement benefit asset	880	842
Deferred tax assets	637	752
Other	280	328
Total investments and other assets	3,187	3,241
Total non-current assets	19,005	20,098
Total assets	86,148	95,793

(Millions of yen)

	As of March 31, 2022	As of June 30, 2022
Liabilities		
Current liabilities		
Notes and accounts payable - trade	11,179	12,327
Short-term borrowings	12,247	18,935
Current portion of long-term borrowings	818	725
Accounts payable - other	3,861	3,111
Income taxes payable	630	430
Accrued expenses	2,848	2,214
Provision for bonuses	398	350
Other	903	1,238
Total current liabilities	32,889	39,332
Non-current liabilities		
Long-term borrowings	300	150
Deferred tax liabilities	475	469
Retirement benefit liability	60	70
Provision for retirement benefits for directors (and other officers)	20	21
Provision for share awards	163	171
Asset retirement obligations	281	282
Other	325	330
Total non-current liabilities	1,627	1,495
Total liabilities	34,516	40,828
Net assets		
Shareholders' equity		
Share capital	6,770	6,770
Capital surplus	6,896	6,896
Retained earnings	33,906	33,723
Treasury shares	(4,163)	(4,163)
Total shareholders' equity	43,409	43,226
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	323	245
Foreign currency translation adjustment	3,617	7,242
Remeasurements of defined benefit plans	(187)	(193)
Total accumulated other comprehensive income	3,753	7,293
Non-controlling interests	4,469	4,445
Total net assets	51,632	54,965
Total liabilities and net assets	86,148	95,793

(2) Consolidated statements of income (cumulative) and consolidated statements of comprehensive income (cumulative)
Consolidated statements of income (cumulative)
(Three months ended June 30, 2022)

	(Millions of yen)	
	Three months ended June 30, 2021	Three months ended June 30, 2022
Net sales	21,860	27,894
Cost of sales	19,213	24,141
Gross profit	2,647	3,752
Selling, general and administrative expenses	3,158	3,612
Operating profit (loss)	(511)	139
Non-operating income		
Interest income	16	22
Dividend income	8	13
Subsidy income	61	27
Foreign exchange gains	82	-
Miscellaneous income	59	53
Total non-operating income	228	116
Non-operating expenses		
Interest expenses	20	62
Foreign exchange losses	-	47
Miscellaneous losses	42	44
Total non-operating expenses	63	153
Ordinary profit (loss)	(345)	102
Extraordinary losses		
Extra retirement payments	324	253
Total extraordinary losses	324	253
Loss before income taxes	(669)	(150)
Income taxes - current	106	312
Income taxes - deferred	(29)	(63)
Total income taxes	76	249
Loss	(746)	(399)
Profit (loss) attributable to non-controlling interests	110	(216)
Loss attributable to owners of parent	(857)	(183)

Consolidated statements of comprehensive income (cumulative)
(Three months ended June 30, 2022)

	(Millions of yen)	
	Three months ended June 30, 2021	Three months ended June 30, 2022
Loss	(746)	(399)
Other comprehensive income		
Valuation difference on available-for-sale securities	5	(77)
Foreign currency translation adjustment	855	3,810
Remeasurements of defined benefit plans, net of tax	87	(9)
Total other comprehensive income	948	3,722
Comprehensive income	202	3,322
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	(185)	3,357
Comprehensive income attributable to non-controlling interests	387	(34)

(3) Consolidated statements of cash flows

(Millions of yen)

	Three months ended June 30, 2021	Three months ended June 30, 2022
Cash flows from operating activities		
Loss before income taxes	(669)	(150)
Depreciation	763	875
Decrease (increase) in retirement benefit asset	(85)	42
Increase (decrease) in retirement benefit liability	4	5
Increase (decrease) in provision for retirement benefits for directors (and other officers)	0	0
Increase (decrease) in allowance for doubtful accounts	6	2
Increase (decrease) in provision for bonuses	(59)	(59)
Subsidy income	(61)	(27)
Extra retirement payments	324	253
Interest and dividend income	(25)	(36)
Interest expenses	20	62
Foreign exchange losses (gains)	51	705
Decrease (increase) in trade receivables	391	(2,681)
Decrease (increase) in inventories	(3,348)	(1,557)
Increase (decrease) in trade payables	232	324
Decrease (increase) in accounts receivable - other	97	(306)
Increase (decrease) in accounts payable - other	(204)	(951)
Decrease (increase) in advance payments to suppliers	(235)	(1,552)
Other, net	631	103
Subtotal	(2,165)	(4,947)
Interest and dividends received	25	36
Interest paid	(20)	(62)
Subsidies received	61	27
Extra retirement payments	(181)	(85)
Income taxes paid	(71)	(581)
Net cash provided by (used in) operating activities	(2,351)	(5,612)
Cash flows from investing activities		
Purchase of securities	(186)	-
Proceeds from redemption of securities	624	48
Purchase of investment securities	(0)	(0)
Purchase of property, plant and equipment	(575)	(808)
Purchase of intangible assets	(73)	(9)
Purchase of long-term prepaid expenses	(6)	(12)
Other, net	(11)	(42)
Net cash provided by (used in) investing activities	(228)	(824)
Cash flows from financing activities		
Net increase (decrease) in short-term borrowings	1,129	5,208
Repayments of long-term borrowings	(243)	(243)
Dividends paid	(111)	-
Dividends paid to non-controlling interests	(116)	-
Net cash provided by (used in) financing activities	658	4,964
Effect of exchange rate change on cash and cash equivalents	201	691
Net increase (decrease) in cash and cash equivalents	(1,720)	(781)
Cash and cash equivalents at beginning of period	20,373	12,089
Cash and cash equivalents at end of period	18,653	11,308

(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. Three months ended June 30, 2021 (from April 1, 2021 to June 30, 2021)

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

(Millions of yen)

	Reportable segments			Total	Adjustments * Note 1	Amounts on consolidated statement of income * Note 2
	Speaker	Mobile Audio	Other			
Net sales						
Sales to external customers	16,553	3,508	1,798	21,860	—	21,860
Inter-segment sales or transfers	—	—	149	149	(149)	—
Total	16,553	3,508	1,947	22,009	(149)	21,860
Segment profit (loss)	(279)	(323)	91	(511)	(0)	(511)

- 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. Three months ended June 30, 2022 (from April 1, 2022 to June 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	22,804	3,213	1,875	27,894	—	27,894
Inter-segment sales or transfers	—	—	669	669	(669)	—
Total	22,804	3,213	2,545	28,564	(669)	27,894
Segment profit (loss)	(156)	113	182	139	(0)	139

- 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.