



Consolidated Financial Results for the Six Months Ended September 30, 2018 (Japanese GAAP)

October 30, 2018
Tokyo Stock Exchange

Company name	Foster Electric Company, Limited	
Code Number	6794	
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Scheduled date of submitting Quarterly Securities Report		November 12, 2018
Scheduled date of commencing dividend payment		December 6, 2018
Preparation of supplementary materials on Quarterly Financial Results		Yes
Holding of a briefing on Quarterly Financial Results:		Yes (For analysts and institutional investors)

(Amounts less than one million yen are omitted)

1. Consolidated Financial Results for the Six Months Ended September 30, 2018 (From April 1, 2018 to September 30, 2018)

(1) Consolidated operating results (Percentage figures represent changes from the same period of the previous year)

	Net sales		Operating income		Ordinary income		Net income attributable to owners of the parent	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
Six months ended September 30, 2018	68,758	(14.4)	1,938	(51.7)	2,198	(44.7)	(1,776)	-
September 30, 2017	80,286	17.5	4,015	-	3,973	-	2,559	-

Note: Comprehensive income: Six months ended September 30, 2018 ¥(723) million [(-)%]
Six months ended September 30, 2017 ¥3,284 million [(-)%]

	Net income per share	Diluted net income per share
	Yen	Yen
Six months ended September 30, 2018	(69.21)	-
September 30, 2017	99.46	-

(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, 2018	97,346	63,714	60.7	2,373.52
March 31, 2018	100,870	66,792	61.5	2,412.06

Reference: Equity capital: As of September 30, 2018 ¥59,131 million
As of March 31, 2018 ¥62,061 million

2. Dividends

	Annual dividends				
	End of 1st quarter	End of 2nd quarter	End of 3rd quarter	Year-end	Total
	Yen	Yen	Yen	Yen	Yen
Fiscal year ended March 31, 2018	-	20.00	-	35.00	55.00
Fiscal year ending March 31, 2019	-	10.00			
Fiscal year ending March 31, 2019 (Forecast)			-	10.00	20.00

Note: Revisions to the forecast for dividends announced most recently: Yes

3. Forecast of Financial Results for the Fiscal Year Ending March 31, 2019 (From April 1, 2018 to March 31, 2019)

(Percentage figures represent changes from the previous year)

	Net sales		Operating income		Ordinary income		Net income attributable to owners of the parent		Net income per share
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%	Yen
Fiscal year ending March 31, 2019	140,000	(24.2)	3,000	(67.8)	2,500	(72.4)	(2,500)	—	(97.16)

Note: Revisions to the forecast for earnings announced most recently: No

* Notes

- (1) Changes in major subsidiaries during the six months ended September 30, 2018 (changes in specified subsidiaries accompanying changes in the scope of consolidation): No

Newly added: - subsidiaries (Company name) -
Excluded: - subsidiaries (Company name) -

- (2) Application of accounting procedures specific to the preparation of quarterly consolidated financial statements:
No

- (3) Changes in accounting policies, changes in accounting estimates and restatement

(i) Changes in accounting policies due to amendment of accounting standards, etc. : Yes
(ii) Changes in accounting policies other than (i) : No
(iii) Changes in accounting estimates : No
(iv) Restatement : No

- (4) Number of shares outstanding (common stock)

- (i) Number of shares outstanding at end of period (including treasury stock)

September 30, 2018: 26,931,051

March 31, 2018: 26,931,051

- (ii) Number of treasury stock at end of period

September 30, 2018: 2,018,192

March 31, 2018: 1,201,449

- (iii) Average number of shares outstanding for the period

Six months ended September 30, 2018: 25,662,296

Six months ended September 30, 2017: 25,729,744

- * This quarterly financial results report is not subject to quarterly review by a certified public accountant or an audit corporation.

- * Information on proper use of the projected financial results and other notes

(Note of caution 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 promise the achievement of the projections. Actual results may differ greatly 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 2 of the Attachment.

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1. Qualitative information on the financial results of the six months ended September 30, 2018

(1) Explanation of operating results

During the six months ended September 30, 2018 (from April 1 to September 30, 2018), the global economy generally followed a path of moderate recovery, despite concerns over the US-China trade disputes.

In the electronic components industry in which the Foster Group (“the Group”) operates, demand for automotive components remained strong, and the need to utilize electronic components in IoT and AI increased. However, growth in demand for smartphone parts slowed.

The Group’s business environment was extremely harsh due to a decline in the volume of headsets sold to a major customer and their prices. The Group responded by restructuring an optimal production capacity, primarily by reviewing the human resource system and facilities. In response, the Group also reinforced organizational systems to make the automotive products business the core of our future business.

As a result of the above factors, consolidated net sales for the six months ended September 30, 2018 came to ¥68,758 million (down 14.4% y-o-y). Consolidated operating income was ¥1,938 million (down 51.7% y-o-y), while consolidated ordinary income came to ¥2,198 million (down 44.7% y-o-y), and net loss attributable to owners of the parent was ¥1,776 million (net income attributable to owners of the parent totaling ¥2,559 million in the same period in the previous year).

The performance of each segment is as follows:

[Speaker Segment]

As a result of a decline in the sales volume of premium brand products for some customers, net sales in the speaker segment were ¥34,450 million, down 6.8% over the previous year, and operating income was ¥2,050 million, down 20.5% over the previous year.

[Mobile audio Segment]

Net sales in the mobile audio segment were ¥31,407 million, down 22.3% over the previous year, and an operating loss of ¥254 million was posted (¥1,212 million operating income in the same period in the previous year). This was due to a decline in the volume of headsets sold to a major customer and their prices.

[Other Segment]

Sales for this segment, including micro acoustic component business and “FOSTEX” brand products, were ¥2,990 million (up 3.1% y-o-y), while operating income came in at ¥143 million (down 35.8% y-o-y).

(2) Explanation of financial position

Total assets decreased by ¥3,524 million from the end of the previous consolidated fiscal year to ¥97,346 million, primarily due to a decrease in property, plant and equipment. Total liabilities decreased by ¥446 million from the end of the previous consolidated fiscal year to ¥33,631 million, primarily due to a decrease in notes and accounts payable. Net assets decreased by ¥3,078 million from the end of the previous consolidated fiscal year to ¥63,714 million, primarily due to a decrease in retained earnings. The equity ratio decreased by 0.8 percentage points from the end of the previous consolidated fiscal year to 60.7%.

[Cash flow for the year under review]

The balance of cash and cash equivalents as of September 30, 2018 increased by ¥2,812 million from the end of the previous consolidated fiscal year to ¥12,962 million, mainly due to the following cash flows:

[Operating activities]

Net cash provided by operating activities totaled ¥3,617 million, due mainly to a decrease in trade notes and accounts receivable.

[Investing activities]

Net cash used in investing activities totaled ¥2,154 million, due mainly to capital expenditure.

[Financing activities]

Net cash provided by financing activities totaled ¥1,158 million, due mainly to an increase in loans.

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

At this point, there are no changes in full-year earnings forecasts.

2. Quarterly consolidated financial statements

(1) Quarterly consolidated balance sheet

(Millions of yen)

	As of March 31, 2018	As of September 30, 2018
Assets		
Current assets		
Cash and deposits	9,704	13,108
Notes and accounts receivable - trade	21,744	19,053
Electronically recorded monetary claims - operating	499	271
Securities	2,310	1,893
Finished goods	26,582	29,193
Raw materials	7,972	5,725
Work in process	2,075	1,379
Supplies	425	276
Short-term loans receivable	0	0
Accounts receivable - other	841	684
Other	1,473	1,453
Allowance for doubtful receivables	(15)	(27)
Total current assets	73,614	73,013
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	9,717	9,455
Machinery and equipment, net	6,515	5,366
Tools, furniture and fixtures, net	3,056	2,020
Land	1,151	1,147
Construction in progress	679	932
Net property, plant and equipment	21,120	18,922
Intangible assets		
Software	307	239
Leasehold rights	816	786
Other	176	156
Total intangible assets	1,300	1,182
Investments and other assets		
Investment securities	2,743	2,583
Long-term loans receivable	30	26
Long-term prepaid expenses	543	193
Asset for employees' retirement benefits	778	768
Deferred tax assets	439	345
Other	309	317
Allowance for doubtful accounts	(9)	(9)
Total investments and other assets	4,835	4,227
Total non-current assets	27,255	24,332
Total assets	100,870	97,346

(Millions of yen)

	As of March 31, 2018	As of September 30, 2018
Liabilities		
Current liabilities		
Notes and accounts payable - trade	13,053	9,535
Electronically recorded obligations - operating	60	—
Short-term bank loans	3,353	3,839
Current portion of long-term debt	1,250	3,113
Accounts payable - other	4,316	3,036
Income taxes payable	627	681
Accrued expenses	1,946	1,924
Reserve for bonuses	693	901
Other	651	1,306
Total current liabilities	25,953	24,338
Non-current liabilities		
Long-term debt	7,098	8,243
Deferred tax liabilities	422	356
Liability for employees' retirement benefits	140	201
Liability for directors' retirement benefits	8	10
Provisions for stock benefit program	46	68
Asset retirement obligations	240	242
Other	169	169
Total non-current liabilities	8,124	9,293
Total liabilities	34,077	33,631
Net assets		
Shareholders' equity		
Common stock	6,770	6,770
Capital surplus	9,394	9,394
Retained earnings	48,068	45,313
Treasury stock	(2,156)	(3,323)
Total shareholders' equity	62,077	58,155
Accumulated other comprehensive income		
Unrealized gain on investment securities	776	744
Foreign currency translation adjustment	(410)	596
Remeasurements of defined benefit plans	(382)	(365)
Total accumulated other comprehensive income	(15)	975
Non-controlling interests	4,731	4,583
Total net assets	66,792	63,714
Total liabilities and net assets	100,870	97,346

(2) Quarterly consolidated statement of income and quarterly consolidated statement of comprehensive income
(Quarterly Consolidated statement of income)
 (Six months ended September 30)

(Millions of yen)

	Six months ended September 30, 2017	Six months ended September 30, 2018
Net sales	80,286	68,758
Cost of sales	69,143	59,998
Gross profit	11,143	8,760
Selling, general and administrative expenses	7,127	6,821
Operating income	4,015	1,938
Non-operating income		
Interest income	45	64
Dividend income	16	20
Foreign currency exchange gain	95	255
Miscellaneous income	233	180
Total non-operating income	391	520
Non-operating expenses		
Interest expense	98	102
Miscellaneous loss	335	158
Total non-operating expenses	433	260
Ordinary income	3,973	2,198
Extraordinary income		
Total extraordinary income	—	—
Extraordinary losses		
Impairment losses	165	2,088
Special retirement payments	—	969
Total extraordinary losses	165	3,057
Income (loss) before income taxes	3,807	(859)
Income taxes – current	1,006	597
Income taxes – deferred	52	55
Total income taxes	1,059	652
Net income (loss)	2,748	(1,511)
Net income attributable to non-controlling interests	189	264
Net income (loss) attributable to owners of the parent	2,559	(1,776)

(Quarterly consolidated statement of comprehensive income)
(Six months ended September 30)

(Millions of yen)

	Six months ended September 30, 2017	Six months ended September 30, 2018
Net income (loss)	2,748	(1,511)
Other comprehensive income		
Unrealized gain on investment securities	133	(32)
Foreign currency translation adjustment	395	801
Remeasurements of defined benefit plans	7	19
Total accumulated other comprehensive income	535	788
Comprehensive income	3,284	(723)
(Breakdown)		
Total comprehensive income attributable to owners of the parent	3,168	(785)
Total comprehensive income attributable to non-controlling interests	115	62

(3) Quarterly consolidated statement of cash flows

(Millions of yen)

	Six months ended September 30, 2017	Six months ended September 30, 2018
Operating activities		
Income (loss) before income taxes	3,807	(859)
Depreciation and amortization	4,102	2,631
(Increase) decrease in asset for employees' retirement benefits	(10)	7
Increase (decrease) in liability for employees' retirement benefits	87	55
Increase (decrease) in directors' retirement benefits	(44)	2
Increase (decrease) in allowance for doubtful receivables	(26)	10
Increase (decrease) in reserve for bonuses	490	191
Impairment losses	165	2,088
Special retirement payments	—	969
Interest and dividend income	(61)	(85)
Interest expense	98	102
Foreign exchange loss (gain)	7	104
Decrease (increase) in trade notes and accounts receivable	(703)	2,822
Decrease (increase) in inventories	(9,484)	1,114
Increase (decrease) in trade notes and accounts payable	451	(3,908)
Decrease (increase) in other accounts receivable	197	130
Increase (decrease) in other accounts payable	229	(574)
Other	547	352
Subtotal	(146)	5,158
Interest and dividend income received	61	85
Interest expenses paid	(98)	(102)
Payments for special retirement expenses	—	(969)
Income taxes - paid	(1,175)	(717)
Income taxes refund	—	162
Net cash provided by (used in) operating activities	(1,359)	3,617
Investing activities		
Purchases of securities	(295)	(1,526)
Proceeds from redemption of securities	—	1,341
Purchases of investment securities	(0)	(0)
Purchases of property, plant and equipment	(3,175)	(1,714)
Purchases of intangible assets	(91)	(71)
Decrease (increase) in time deposits	—	(186)
Decrease (increase) in short-term loans receivable	1	0
Payments of long-term loans receivable	(1)	(0)
Collection of long-term loans receivable	5	4
Payment for long-term prepaid expenses	(109)	(8)
Other	(0)	8
Net cash used in investing activities	(3,665)	(2,154)
Financing activities		
Increase (decrease) in short-term bank loans payable, net	2,781	468
Proceeds from long-term debt	367	3,665
Repayments of long-term debt	(694)	(754)
Dividends paid	(643)	(904)
Dividends paid to non-controlling interests	(150)	(149)
Purchase of treasury stock	(0)	(1,167)
Net cash provided by financing activities	1,660	1,158
Effect of exchange rate changes on cash and cash equivalents	(280)	190
Net increase (decrease) in cash and cash equivalents	(3,645)	2,812

Cash and cash equivalents, beginning of period	12,037	10,150
Cash and cash equivalents, end of period	8,392	12,962

(4) Notes to the consolidated financial statements

(Notes on going concern assumption)

Not applicable.

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

Not applicable.

(Change in accounting policy)

Subsidiary companies, which are applicable to IFRS, have adopted IFRS 15 "Revenue from Contracts with Customers" since the first quarter of the current consolidated fiscal year.

The effect of this change on income or loss of the consolidated cumulative second quarter is immaterial.

In applying this standard, they adopt the method recognizing the cumulative effect of the application of this standard on the date of initial application, which is permitted as a transitional measure.

(Additional information)

The Company has adopted the "Partial Amendments to Accounting Standard for Tax Effect Accounting" (Accounting Standard Boards of Japan [ASBJ] Statement No. 28 of February 16, 2018), etc. since the beginning of the first quarter of the current consolidated fiscal year. Deferred tax assets are presented in "Investments and other assets," and deferred tax liabilities are presented in "Non-current liabilities."

(Segment information)

Segment information

I. Six months ended September 30, 2017 (from April 1, 2017 to September 30, 2017)

1. Information on sales and income/loss according to reportable segments

(Millions of yen)

	Reportable segments			Total	Adjustments * Note 1	Amount reported on the consolidated income statement * Note 2
	Speaker	Mobile audio	Other			
Net sales						
Sales to external customers	36,946	40,440	2,900	80,286	—	80,286
Inter-segment sales or transfers	—	—	—	—	—	—
Total	36,946	40,440	2,900	80,286	—	80,286
Segment income	2,579	1,212	223	4,015	—	4,015

Notes: 1. There are no segment adjustments.

2. Total segment income coincides with the value of operating income of the quarterly consolidated statement of income.

2. Information on impairment losses for non-current assets or goodwill, etc. by reportable segment (Significant impairment losses related to non-current assets)

In the Mobile audio segment, an impairment loss on non-current assets of ¥165 million relating to idle assets was posted.

II. Six months ended September 30, 2018 (from April 1, 2018 to September 30, 2018)

1. Information on sales and income/loss according to reportable segments

(Millions of yen)

	Reportable segments			Total	Adjustments * Note 1	Amount reported on the consolidated income statement * Note 2
	Speaker	Mobile audio	Other			
Net sales						
Sales to external customers	34,450	31,407	2,900	68,758	—	68,758
Inter-segment sales or transfers	—	—	89	89	(89)	—
Total	34,450	31,407	2,990	68,848	(89)	68,758
Segment income	2,050	(254)	143	1,938	0	1,938

Notes: 1. The segment adjustment refers to the elimination of inter-segment transactions.

2. Total segment income coincides with the value of operating income of the quarterly consolidated statement of income.

2. Information on impairment losses for non-current assets or goodwill, etc. by reportable segment (Significant impairment losses related to non-current assets)

In the Mobile audio segment, an impairment loss on non-current assets of ¥2,088 million relating to business assets was posted.