

# **JVC KENWOOD**

# **Results and Forecast Briefing**

**Second Quarter of Fiscal Year Ending March 2012**

JVC KENWOOD Corporation

## [Abbreviations]

**CE: Car Electronics (Business)**

**PS: Professional Systems (Business)**

**COM: Communications Equipment (Segment)**

**BS: Business Solutions (Segment)**

**HM: Home & Mobile Electronics (Business)**

**CAM: Camcorders (Segment)**

**HAV: Home Audio-Visual Equipment (Segment)**

**AVC: AV Accessories (Segment)**

**SE: Entertainment (Business)**

- 1. Financial Results Overview for 2Q of Fiscal Year Ending March 2012**
- 2. Status of and Responses to floods in Thailand**
- 3. Acquisition of Shares of Shinwa International Holdings Ltd.**
- 4. Business Forecast for Fiscal Year Ending March 2012**



**1. Financial Results Overview for 2Q of  
Fiscal Year Ending March 2012**

# Financial Results for 2Q FYE3/'12 - Summary

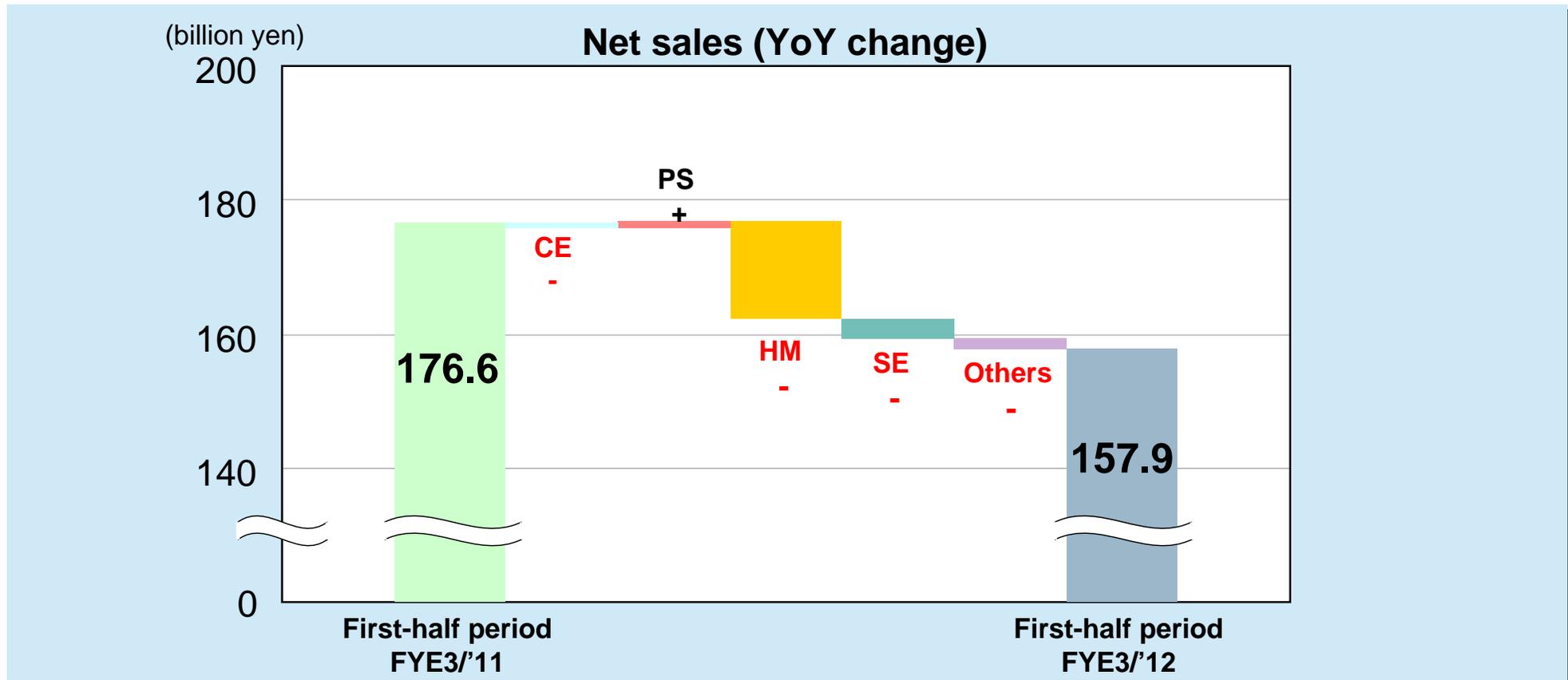
- \* Net sales declined due to the impact of the strong yen, the Great East Japan Earthquake (hereinafter, the “Earthquake”), and structural reforms (downsizing and transfer of businesses) implemented in the previous fiscal year.
- \* Operating profit and ordinary income increased as a result of the strong performance of CE and PS, the Company’s core businesses, the effect of cost reduction achieved through structural reforms, and improvement of non-operating profit.
- \* The Company, which returned to profitability at the bottom line level in 1QFYE3/'12, posted net income again in 2QFYE3/'12 due to a decrease in extraordinary loss, and
  - ▶ made a significant advance toward returning to the black on a full-year basis.

(billion yen)

	Net sales	Operating profit	Ordinary income	Net income	Exchange rate	
First-half period FYE3/'12	FYE3/'12	157.9	6.9	6.4	4.9	USD: JPY80 Euro: JPY114
	FYE3/'11	176.6	5.4	2.1	-3.2	USD: JPY89 Euro: JPY114
	YoY change	-18.7	+1.6	+4.3	+8.1	
	Forecast for FYE3/'12 as of Aug. 1, '11	162.0	6.0	3.5	1.6	

## Results for the first-half period of FYE3/'12: JPY157.9B (down 10.6% YoY)

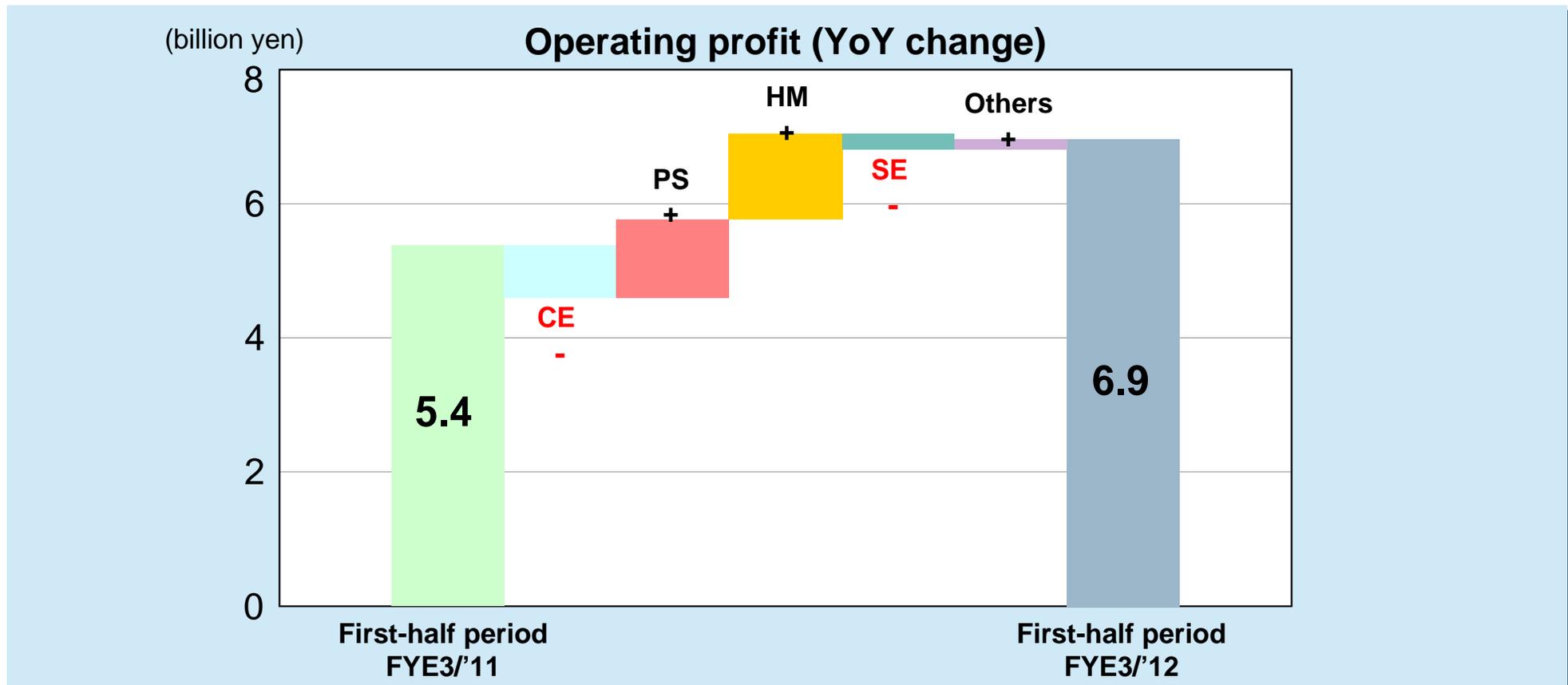
- \* Factors behind the decrease in net sales: the strong yen, the Earthquake, narrowing down of product lineups / sales areas of HM, and the transfer of SE's subsidiary.
- \* Sales in the core business of CE increased, excluding the effect of exchange rate fluctuations. This was due to the ongoing strong sales in after-market in Europe and the US, higher sales in the domestic market and launch of full-fledged shipments in OEM in 2Q FYE3/'12. Sales in PS increased because sales in COM continued to be robust.



# Financial Results for 2Q - Operating Profit (First-half)

## Results for the first-half period of FYE3/'12: JPY6.9B (up 28.8% YoY)

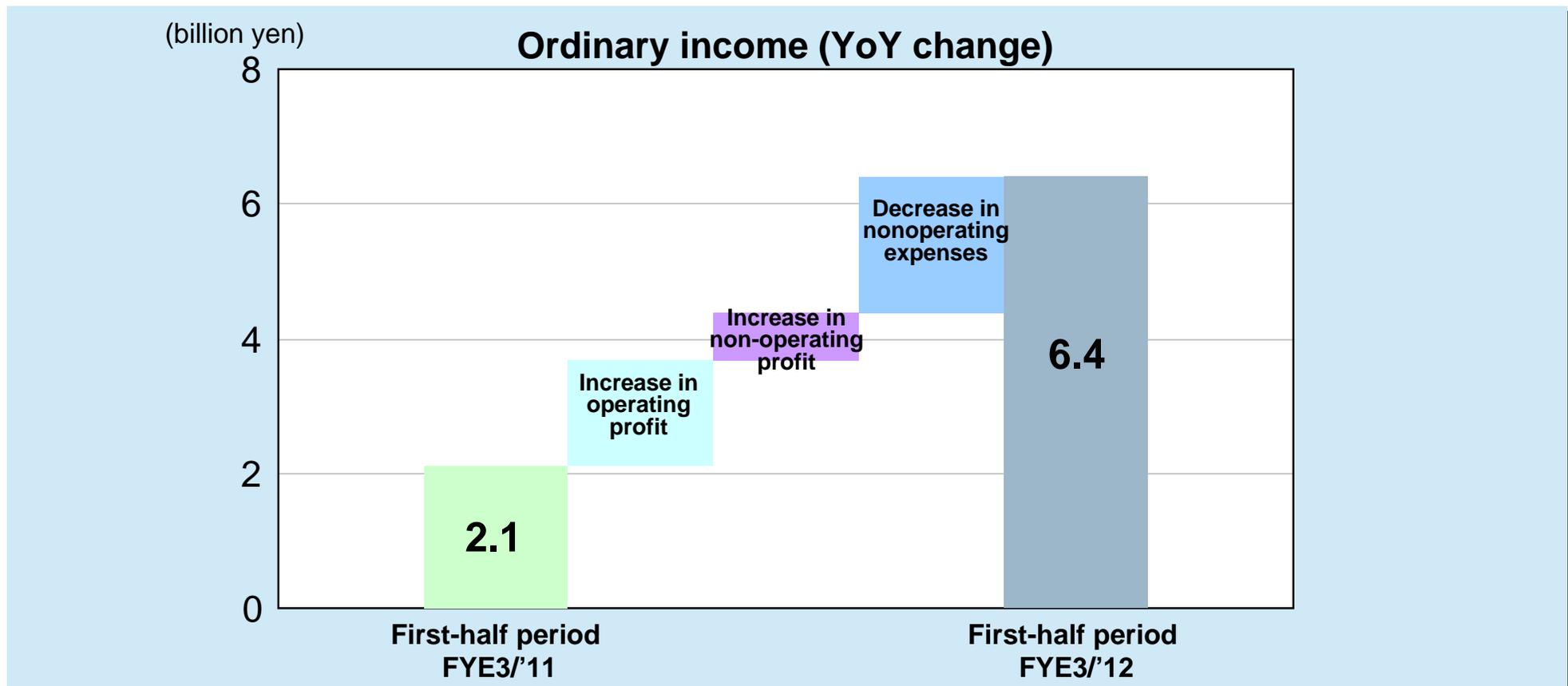
- \* CE absorbed the impact of the Earthquake and maintained strong earnings. Profit of PS increased due to the increased profit of COM and improvement in profit and loss of BS.
- \* HM returned to profitability due to the effect of structural reforms, robust performance of AVC and recovery of CAM. SE maintained profitability, despite the impact of the Earthquake, owing to a smash-hit product and the effect of cost reductions.



# Financial Results for 2Q - Ordinary Income (First-half)

## Results for the first-half period of FYE3/'12 : JPY6.4B (up 200.1% YoY)

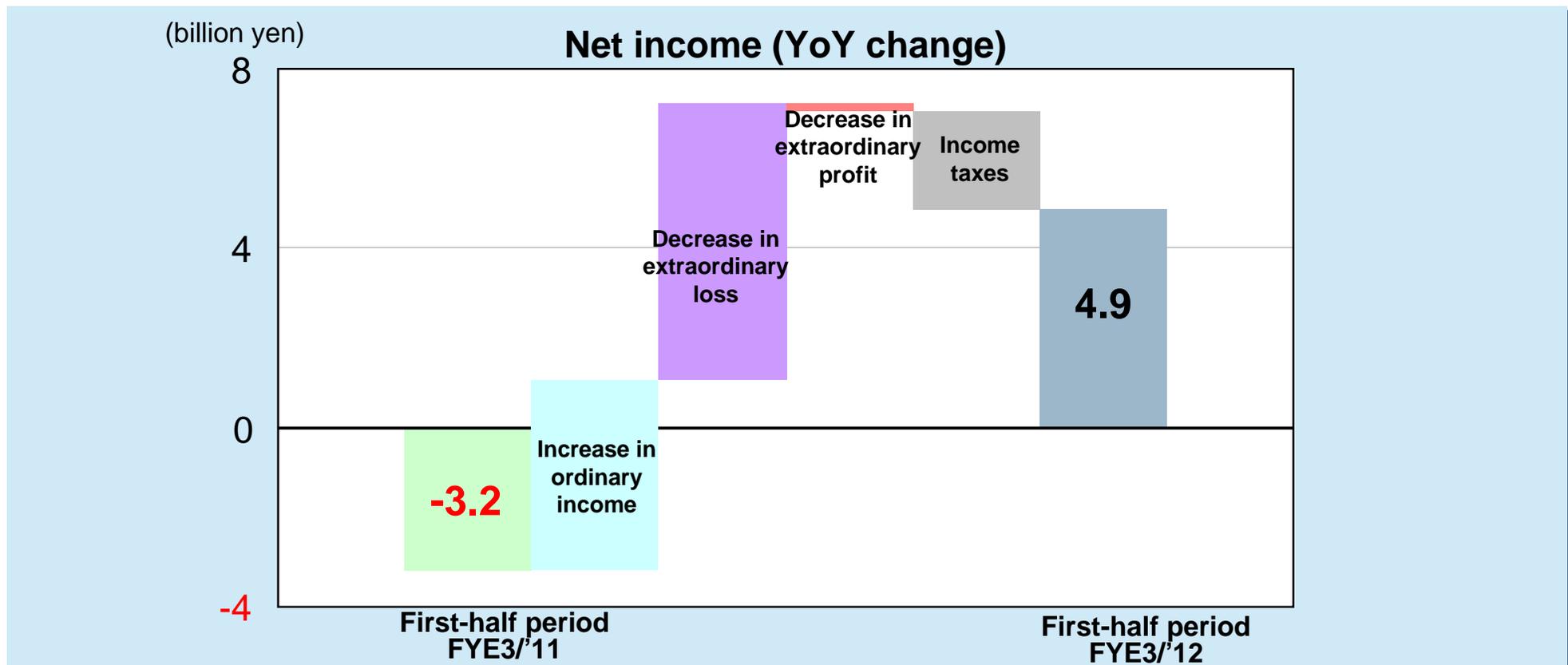
- \* Non-operating profit increased by JPY0.7B YoY due mainly to gains on foreign exchange.
- \* Non-operating expenses decreased by JPY2B YoY, although merger expenses were posted. This was due to decreases in interest expenses and borrowing fees, and a decline in provision for product warranties.



# Financial Results for 2Q - Net Income (First-half)

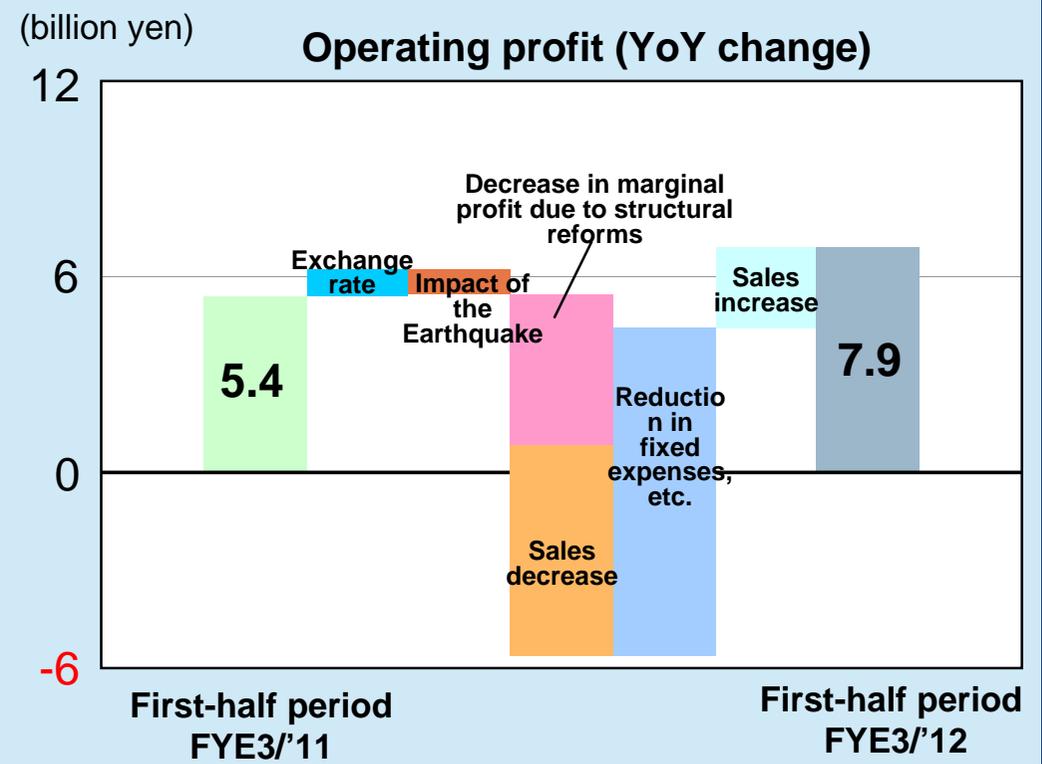
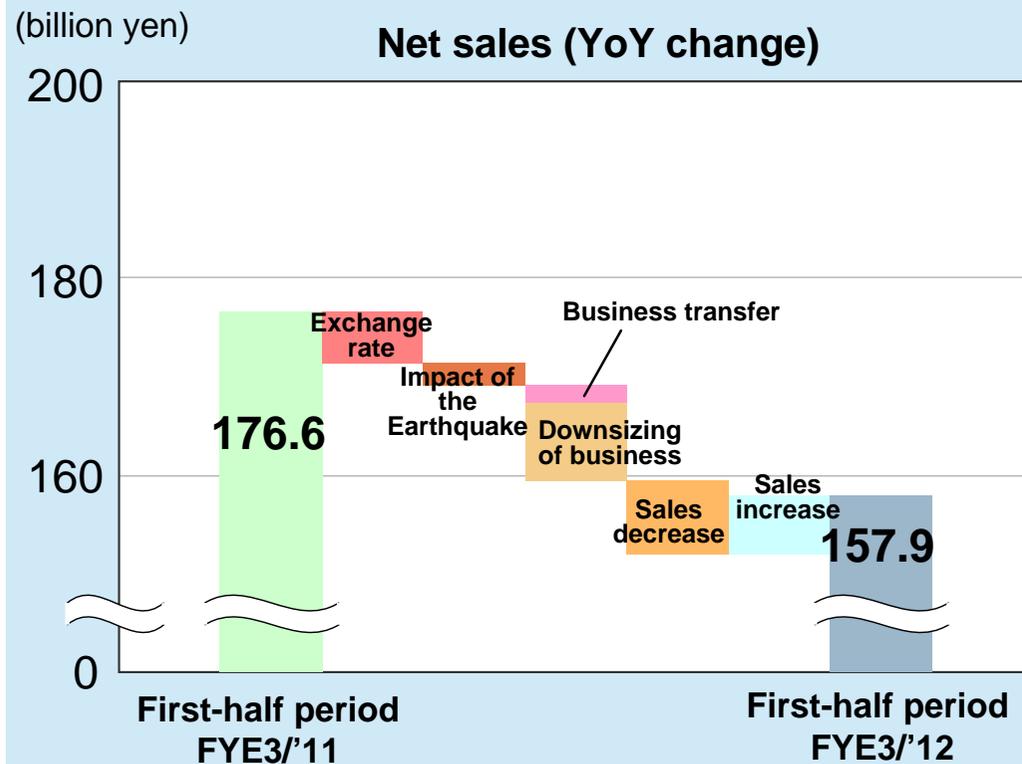
## Results for the first-half period of FYE3/'12: JPY4.9B (improved by JPY8.1B YoY)

- \* Extraordinary loss decreased by JPY6.2B YoY mainly because structural reforms were completed at the end of the previous fiscal year and loss on sale of tangible fixed assets declined substantially.
- \* Extraordinary profit dropped by JPY0.2B due chiefly to a decrease in gain on sale of tangible fixed assets.



# Financial Results for 2Q – Analysis of factors behind YoY increases/decreases

- \* Factors behind decreases in net sales: the impact of unfavorable exchange rates (the strong yen), the Earthquake and structural reforms (downsizing of some of businesses in HM and transfer of subsidiary in SE).
- \* Factors behind increases in profits: increases in sales in CE and PS (excluding the effects of exchange rate fluctuations) and improvements of profit and loss (mainly of HM and SE) due to a decrease in fixed expenses.



# Information by Business Segment

# Net sales, Profits and Losses by Business Segment

- \* All the Group's four business segments, which turned profitable in 1Q FYE3/'12, recorded operating profits again in 2Q FYE3/'12.
- \* CE maintained high profits despite the effects of the strong yen and the Earthquake.
- \* Both sales and profits increased in PS due to the ongoing strong performance in COM and improvement of profit and loss in BS.
- \* HM returned to profitability as a result of a significant improvement in profit and loss, although sales decreased due to the effects of structural reforms.
- \* SE maintained profitability although sales decreased due to the effects of transferring the subsidiary and the Earthquake.

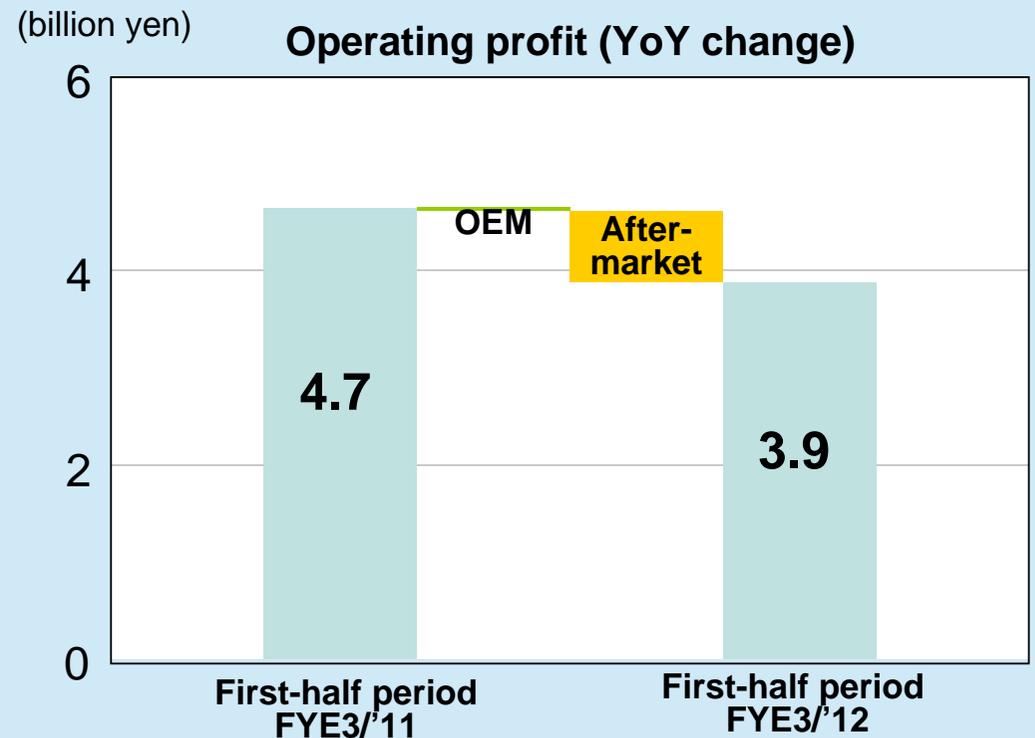
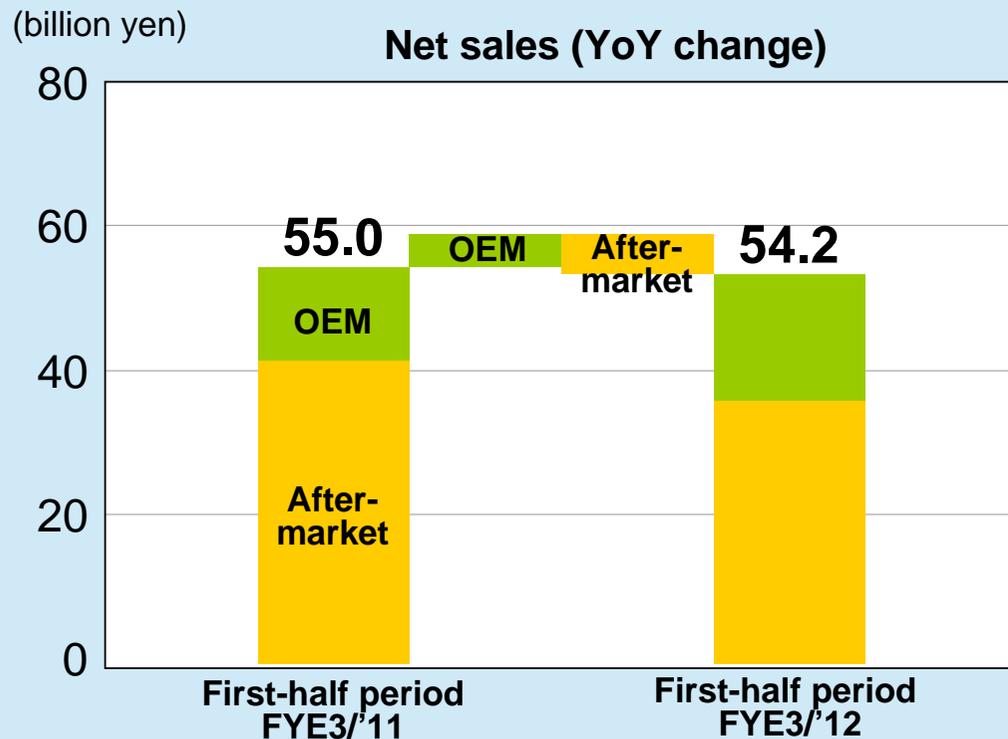
(million yen)

Segment		1Q			2Q			1H		
		FYE3/'12	FYE3/'11	YoY change	FYE3/'12	FYE3/'11	YoY change	FYE3/'12	FYE3/'11	YoY change
Car Electronics Business (CE)	Net sales	26,600	28,962	-2,362	27,599	26,030	+1,569	54,199	54,993	- 794
	Operating profit	1,745	2,776	-1,031	2,116	1,884	+246	3,861	4,661	- 800
Professional Systems Business (PS)	Net sales	21,563	20,343	+1,220	23,450	23,657	- 207	45,013	44,000	+1,013
	Operating profit	517	-714	+1,231	1,290	1,364	- 74	1,796	649	+1,147
Home & Mobile Entertainment (HM)	Net sales	18,701	27,141	- 8,440	19,298	25,399	- 6,101	37,999	52,541	- 14,542
	Operating profit	186	-288	+474	421	- 385	+806	598	- 674	+1,272
Entertainment Business (SE)	Net sales	8,993	10,255	-1,262	9,011	10,785	- 1,774	18,004	21,040	- 3,036
	Operating profit	462	530	- 68	172	330	- 153	634	860	- 226
Others	Net sales	1,335	2,045	-710	1,310	1,967	- 657	2,645	4,013	- 1,368
	Operating profit	107	82	+25	- 65	- 196	+131	42	- 113	+155
Total	Net sales	77,194	88,749	-11,555	80,667	87,840	- 7,172	157,861	176,589	- 18,728
	Operating profit	3,019	2,385	+634	3,914	2,998	+955	6,933	5,383	+1,550

## First-half period of FYE3/'12

**Net sales: JPY54.2B (down 1.4% YoY) Operating profit: JPY3.9B (down 17.2% YoY)**

- \* **After-market:** Maintained high market shares in Europe and the US although there were effects of the strong yen. In the Japanese market, sales grew as the market share of Saisoku Navi, an SSD-type of AV car navigation system, increased although there were effects of the Earthquake.
- \* **OEM:** Shipments recovered in June. Started shipments of AV car navigation systems for automobile manufacturers on a full-scale basis from July. Shipments of CD/DVD mechanisms remained strong.



# Financial Results for 2Q - Professional Systems Business

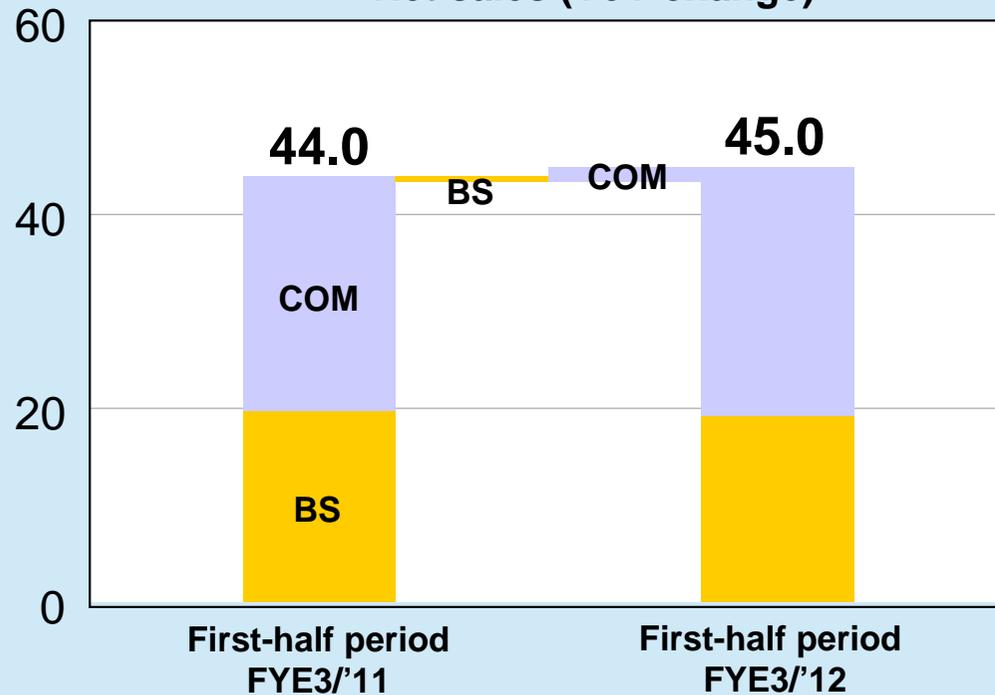
## First-half period of FYE3/12

**Net sales: JPY45.0B (up 2.3% YoY)      Operating profit: JPY1.8B (up 176.7%)**

- \* **COM:** Maintained robust performance as the effects of the strong yen were absorbed, and net sales and operating profit grew substantially.
- \* **BS:** Although there were fewer sales opportunities in Japan due to the impact of the Earthquake, net sales and operating loss remained unchanged YoY. This was because of robust sales of professional video cameras in overseas markets.

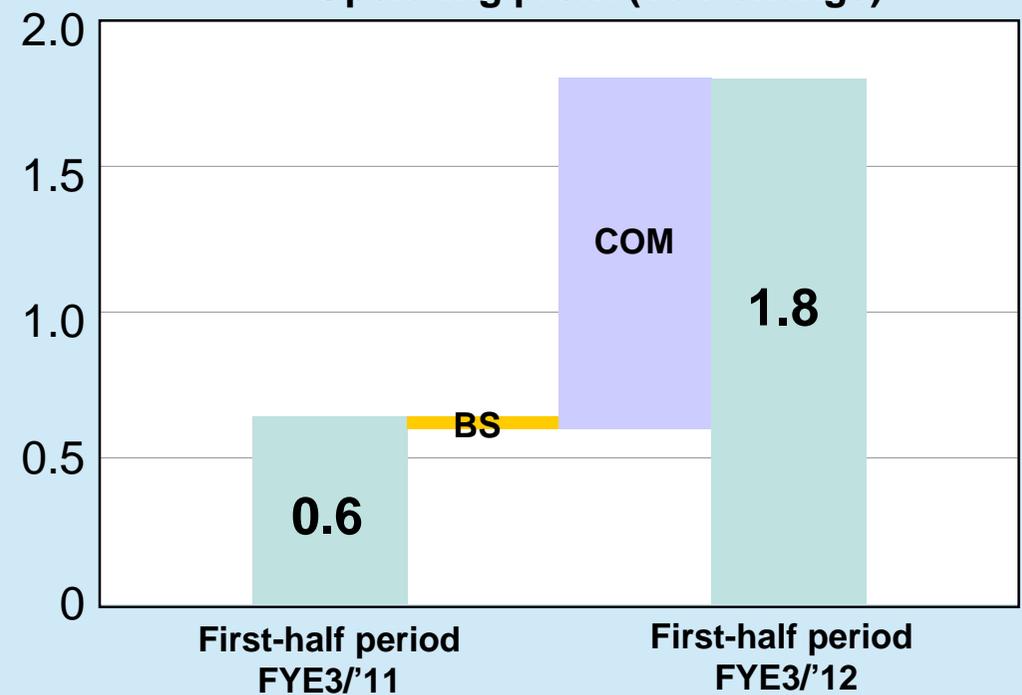
(billion yen)

Net sales (YoY change)



(billion yen)

Operating profit (YoY change)

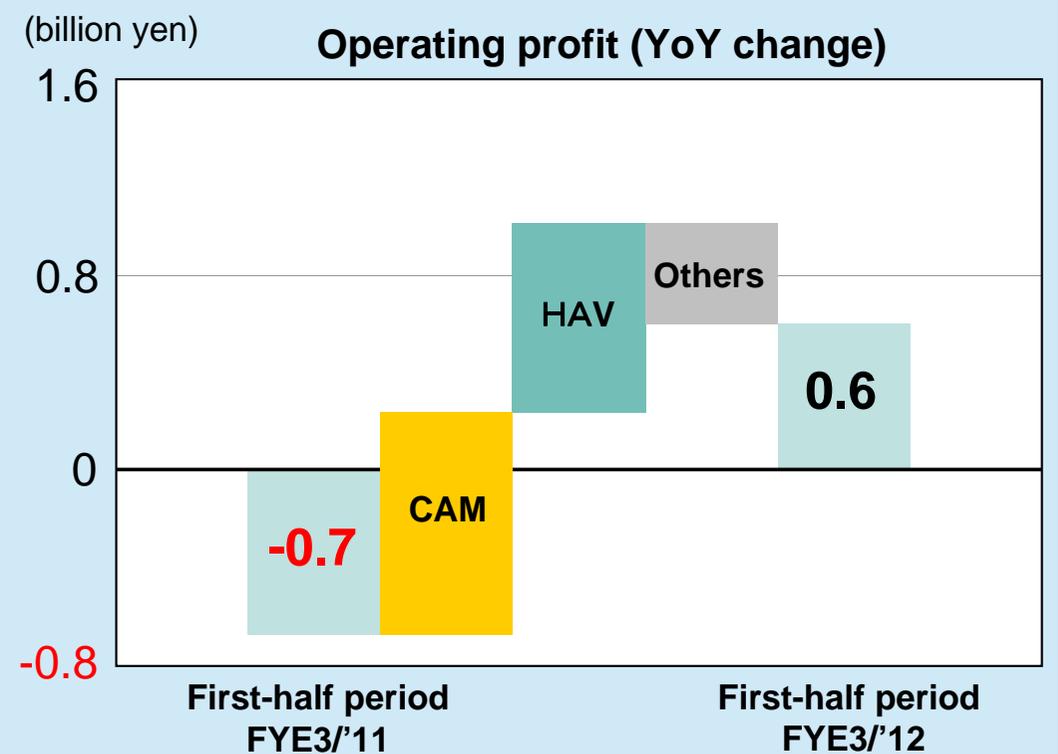
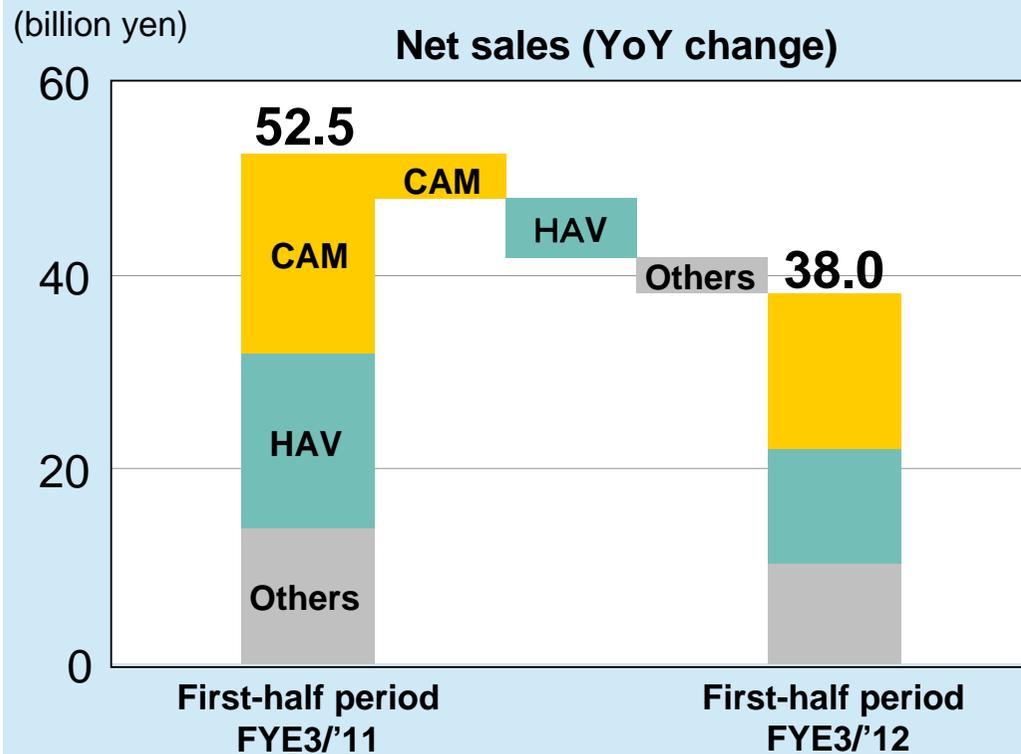


# Financial Results for 2Q - Home & Mobile Electronics Business

First-half period of FYE3/'12

Net sales: JPY38.0B (down 27.7% YoY)    Operating profit: JPY0.6B (improvement of JPY1.3B)

- \* **CAM:** Sales decreased due to changes in demand and the effects of the Earthquake. However, profit and loss improved substantially and operating profit was recorded in this segment, although net sales decreased. This was due to the introduction of a group of new products with enhanced added values.
- \* **HAV:** Although net sales declined YoY, profit and loss improved substantially due to a shift in business model of display systems and progress in fabless production structures for home audio-visual equipment.
- \* **Others:** AVC sustained high profitability and sales of projectors (PJ) that can handle 3D images. As a result, an operating profit was recorded in this segment.

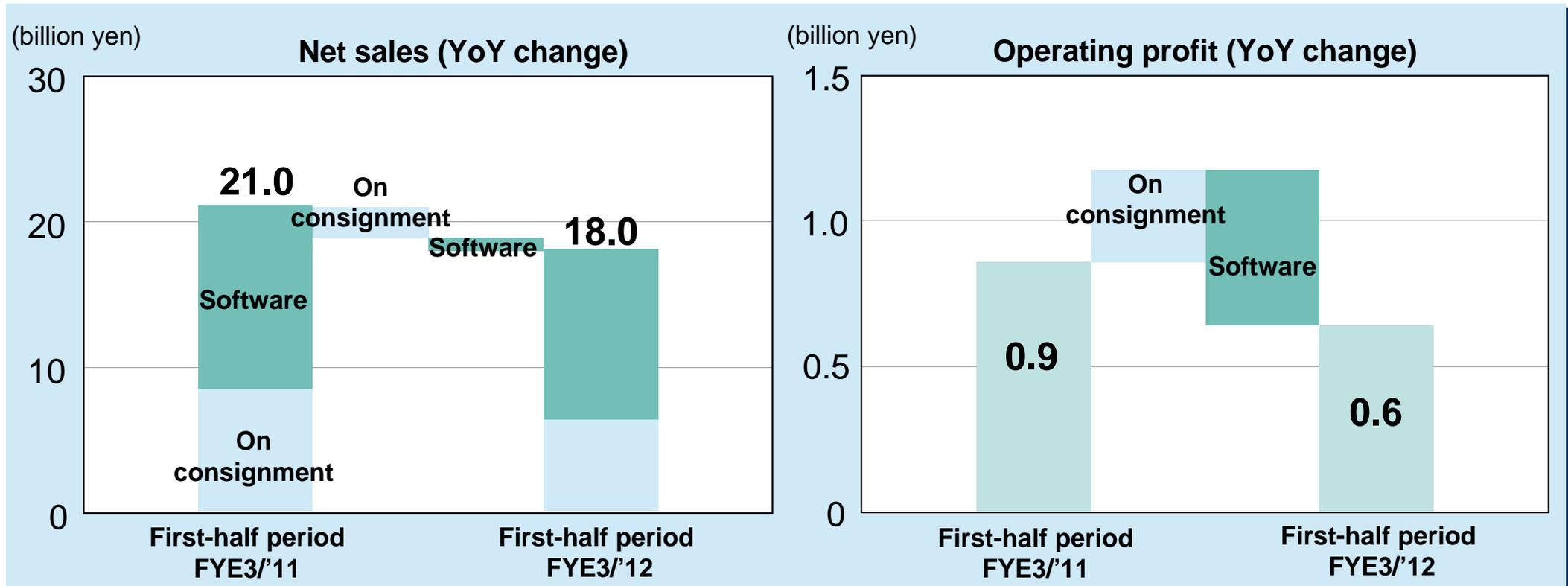


# Financial Results for 2Q - Entertainment Business

## First-half period of FYE3/'12

**Net sales: JPY18.0B (down 14.4% YoY) Operating profit: JPY0.6B (down 26.3% YoY)**

- \* **Software:** Net sales remained robust as a result of smash-hit music and animation works and earnings from music-related rights although there were effects of the Earthquake. In addition, internal reforms made progress.
- \* **On consignment (e.g. optical disk manufacturing):** Although net sales declined substantially due to the transfer of the subsidiary, consistent order-receiving for consignment of optical disk manufacturing was strong, and earnings improved due to the effect of reduction of fixed expenses.



# Financial Results for the First-half Period of FYE3/'12 - Sales by Region (Reference)

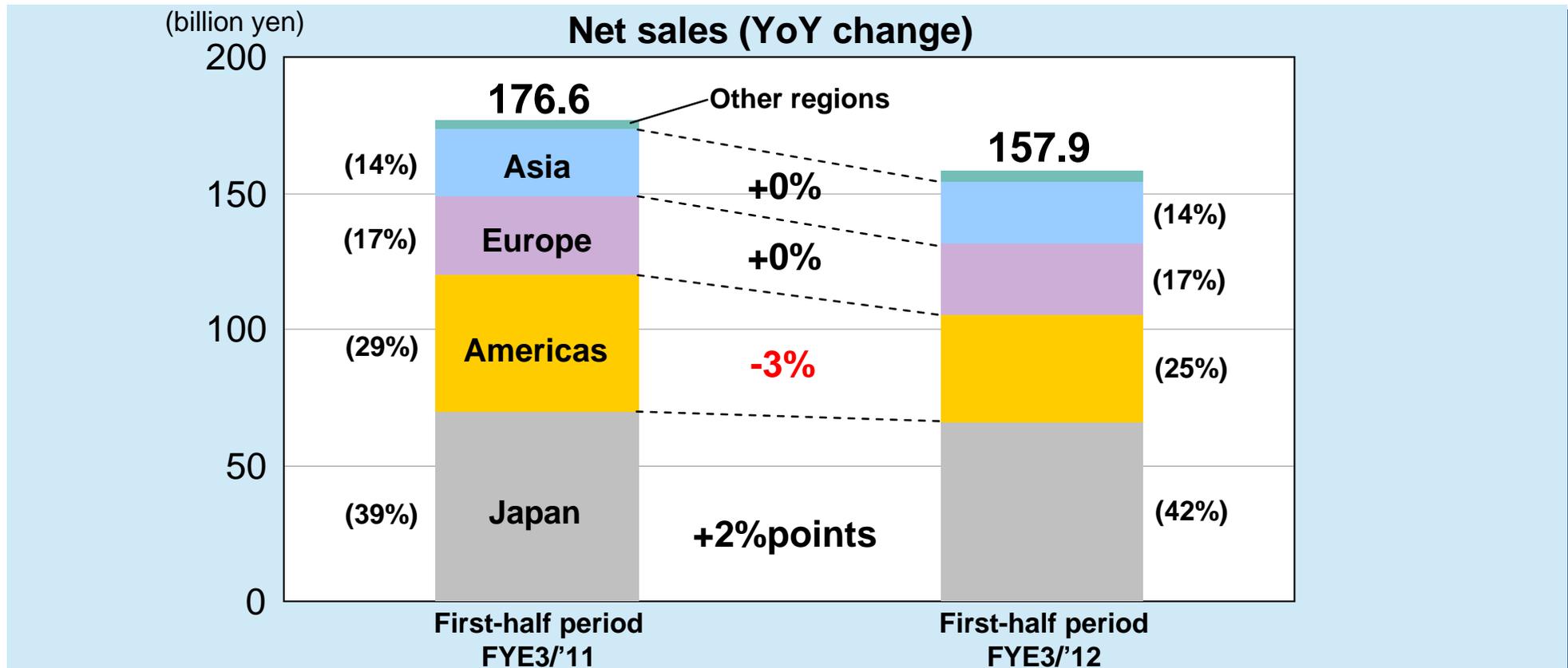
\* The strong yen caused a decrease of JPY5.3B in overseas sales.

**[Japan]** Sales in Japan remained unchanged as the increase in sales in CE absorbed the impact of the Earthquake.

**[Americas]** Sales in the Americas decreased because sales in HM declined amid the strong yen, although sales in PS increased.

**[Europe]** Sales in Europe declined due to decreases in sales in CE and HM while sales in PS were unchanged.

**[Asia]** Sales in Asia decreased due to reduction in sales in CE.



# Financial Results for 2Q - Financial Status

## Balance Sheets (First-half period of FYE3/'12)

- \* Total assets decreased by JPY21.2B from the end of the previous fiscal year due to a decrease in trade notes and accounts receivable, sale of tangible fixed assets and a decline in the yen-equivalent value of the asset portfolio.
- \* Liabilities decreased by JPY18.3B from the end of the previous fiscal year mainly owing to decreases in other accounts payable and accrued expenses.  
Interest-bearing debts (sum of loans payable and bonds payable) increased by JPY2.8B from the end of the previous fiscal year due to financing of unsecured short-term borrowings.  
The net debt (amount obtained by subtracting cash and deposits from interest-bearing debt) increased by JPY3.5B from the end of the previous fiscal year.
- \* As of August 25, 2011, the maturity date of 50% of JVC's No.7 Unsecured Bond (JPY12B) was extended by one year and the remaining 50% by three years. >> Present values were reviewed and reflected in the B/S.
- \* Retained earnings increased by JPY64.3B from the end of the previous fiscal year due to the transfer of other capital surplus to retained earnings.
- \* Total net assets decreased by JPY2.8B from the end of the previous fiscal year due mainly to the progress of the yen's appreciation and decline in foreign currency translation adjustments.  
Shareholders' ratio rose by 0.3 percentage points from the end of the previous fiscal year to 20.3%.

	End of FYE3/'11	End of 2Q FYE3/'12	(billion yen) Change from End of FYE3/'11
Total assets	260.7	239.5	-21.2
Interest-bearing debt	93.1	95.9	+2.8
Net debt	28.1	31.5	+3.5
Capital surplus	105.3	45.9	-59.5
Retained earnings	-41.3	23.0	+64.3
Shareholders' equity	73.5	78.4	+4.9
Net assets	52.7	49.9	-2.8
Equity ratio(%)	2.00	2.03	+0.03

# Financial Results for 2Q - Financial Status

## Cash Flows (First-half Period of FYE3/'12)

### Cash flows from operating activities:

**Net cash used in operating activities was JPY1.8B, down JPY9.8B on YoY.**

\* Mainly attributable to expenditures for employment structural reform expenses.

### Cash flows from investing activities:

**Net cash used in investing activities was JPY3.4B, down JPY10.6B on YoY.**

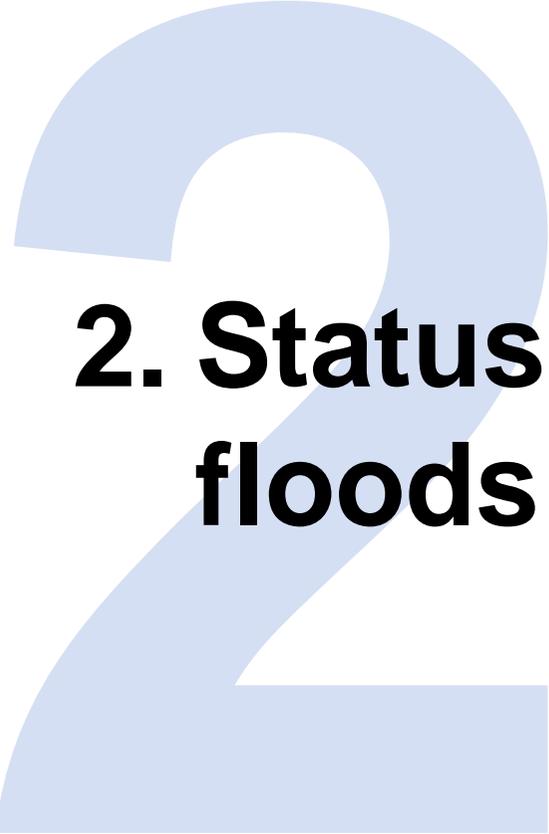
\* Mainly attributable to an increase in expenditures for the acquisition of tangible fixed assets and such like, and a decrease in income from sale of tangible fixed assets.

### Cash flows from financing activities:

**Net cash used in financing activities was JPY3.4B, down JPY11.3B on YoY.**

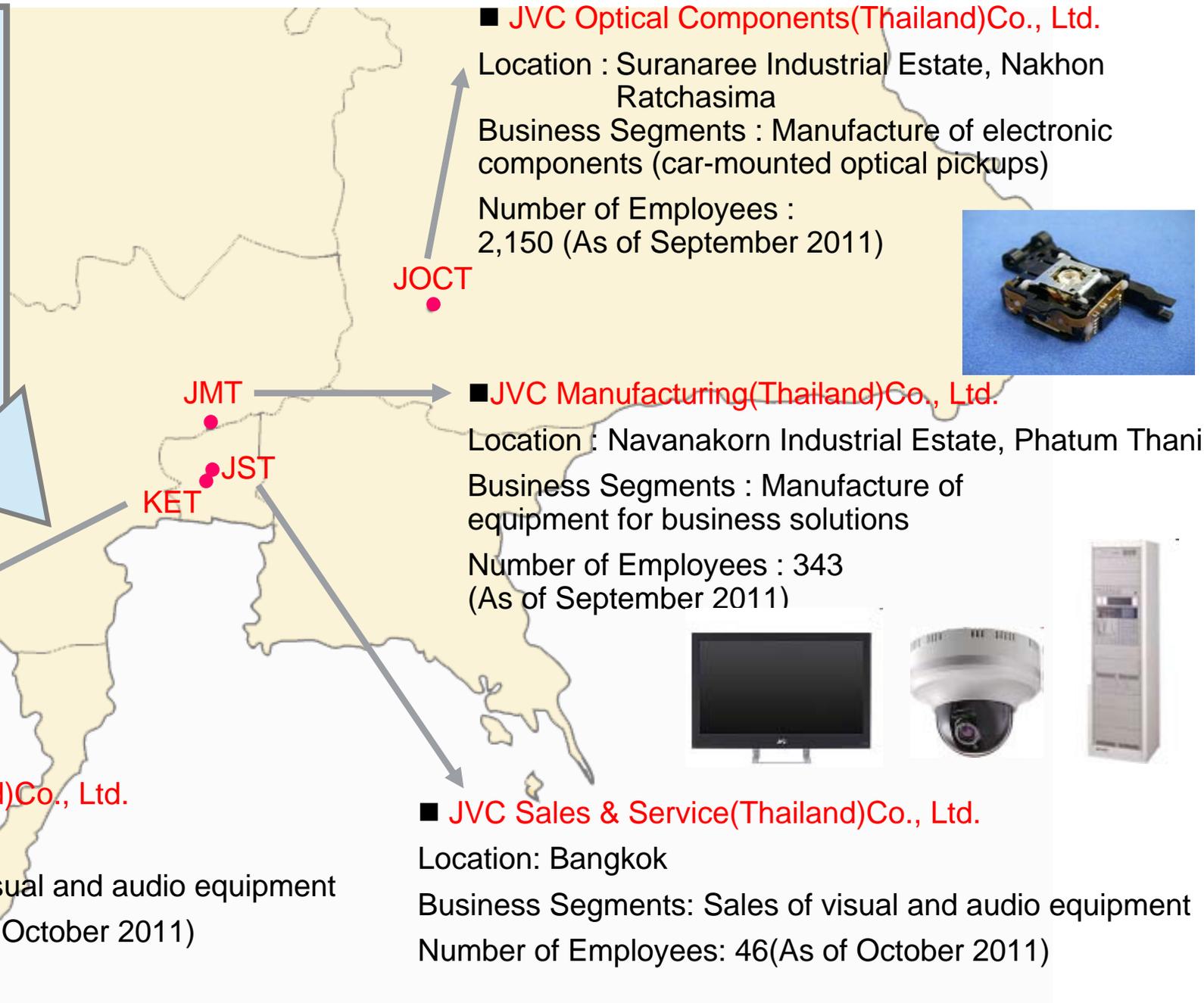
\* Mainly attributable to a net increase in short-term loans payable and a decrease in expenditure due to repayment of long-term loans payable.

**As of the end of the second quarter under review, cash and cash equivalents totaled: JPY64.0B.**



## **2. Status of and Responses to floods in Thailand**

# Status of and Responses to floods in Thailand - Overview of Operation Bases in Thailand



■ **JVC Optical Components(Thailand)Co., Ltd.**  
 Location : Suranaree Industrial Estate, Nakhon Ratchasima  
 Business Segments : Manufacture of electronic components (car-mounted optical pickups)  
 Number of Employees : 2,150 (As of September 2011)



■ **JVC Manufacturing(Thailand)Co., Ltd.**  
 Location : Navanakorn Industrial Estate, Phatum Thani  
 Business Segments : Manufacture of equipment for business solutions  
 Number of Employees : 343 (As of September 2011)



■ **Kenwood Electronics(Thailand)Co., Ltd.**  
 Location: Bangkok  
 Business Segments: Sales of visual and audio equipment  
 Number of Employees: 36(As of October 2011)

■ **JVC Sales & Service(Thailand)Co., Ltd.**  
 Location: Bangkok  
 Business Segments: Sales of visual and audio equipment  
 Number of Employees: 46(As of October 2011)

- \* None of the employees were injured.
- \* JMT stopped operating completely from October 17.  
The company is expected to suffer damage to part of its equipment and facilities because water entered its first floor.
- \* JOCT, JST and KET suffered no damage to their equipment and facilities.

- \* We have assumed that it will take a certain amount of time before production at JMT can recover completely. Hence, we are preparing to conduct alternate production at the Yokosuka Office temporarily.
- \* Some of our customer parts makers have suffered damage, and we are responding to the situation by producing items using parts inventory and substitute parts.
- \* Some of our customers have also suffered damage, and we are responding to the situation by front-loading or postponing delivery dates at their request.



# **3. Acquisition of Shares of Shinwa International Holdings Ltd.**

## Company Profile

<b>Company name:</b>	Shinwa International Holdings Limited (Chinese) 信昇國際控股有限公司
<b>Foundation:</b>	1959
<b>Name of representative:</b>	Yoshifumi Naito (Chairman)
<b>Capitalization:</b>	US\$ 29,090,910 (JPY2,327M) * Calculated at USD1 = JPY80
<b>Accounting term:</b>	December
<b>Number of employees:</b>	9,462 (total of the entire Group, as of March 2011)
<b>Address:</b>	1903, 19/F., CCT Telecom Building, 11 Wo Shing St., Fo Tan, Shatin, N.T., Hong Kong.
<b>Shareholders:</b>	Yoshifumi Naito (55%), CITIC Capital Japan Fund (45%)
<b>Business segments:</b>	<ol style="list-style-type: none"><li>1.Manufacturing and sale of CD/DVD mechanisms for vehicles</li><li>2.Manufacturing and sale of in-vehicle parts for automobiles</li><li>3.OEM, substrate mounting, assembly of finished goods</li></ol>



Challenge  
Age to the  
Creation



# Acquisition of Shares of Shinwa International Holdings Ltd. - **Capital and Business Alliance**

## Scheme

- \* In February 2012, 45% of the shares of Shinwa International Holdings Ltd. will be transferred from CITIC Capital Japan Fund to JVC Kenwood.
  - >> JVC Kenwood will form a capital and business alliance with Shinwa and convert Shinwa into an equity-method affiliate.
- \* JVC Kenwood will receive 31% of Shinwa's shares from Mr. Yoshifumi Naito within three years from the closing date of the share transfer agreement. Consequently, we will hold 76% of the shares of Shinwa.
  - >> Shinwa will be converted into a subsidiary at this stage.



## Purposes

- \* Advantages of JVC Kenwood: Basic design capability for mechanisms for vehicles and electronics parts procurement capability.
- \* Advantages of Shinwa: Cost competitiveness, product design capability, mechanical parts procurement capability, low-cost production capability, high product quality, business relationships with Chinese customers and marketing capability.
  - >> We will pursue collaboration by combining the advantages of the two companies. This collaboration will take forms such as developing strategic products that are high quality and cost competitive and enhancing the initiative for expanding sales by expanding product line-ups targeting the Chinese market. In addition, we will strive to expand CE-related businesses and maximize synergistic effects of the two companies.

# Acquisition of Shares of Shinwa International Holdings Ltd. - Capital and Business Alliance

## Themes under review

### (1) Expansion of the business of mechanisms for vehicles

We will jointly develop mechanisms for vehicles that are high quality and cost competitive and expand the business by utilizing the sales networks of the two companies.

### (2) Expansion of the business of equipment for vehicles

We will acquire additional investment stakes in Shinwa Mechatronics (Shenzhen) Ltd. (SMZ), Shinwa's subsidiary. The aim is to further ensure expansion of the business of equipment for vehicles, and pursue business expansion to the Chinese market and emerging markets including a technology transfer of SMZ's business of equipment for vehicles.

### (3) Expansion of panel forming and coating business

We are investigating the possibility of establishing a joint venture of a panel forming and coating business between JVC Kenwood and Shinwa. We could do this by utilizing Shinwa's advantage in water base coating technology and operating the business in Chinese market as joint venture, or operating Shinwa's or JVC Kenwood's business.

### (4) Maximizing synergistic effects in production, procurement and logistics, etc.

We will consider establishing an optimal location production system by effectively utilizing the production bases of the two companies.



# **4. Business Forecast for Fiscal Year Ending March 2012**

# Business Forecast for Fiscal Year Ending March 2012

The fundamentals in the first-half period of FYE3/'12 will be maintained in 3Q FYE3/'12 and beyond. This is because we expect to see stable earnings from the after-market in CE in Europe and the US, growth in the after-market and OEM in Japan, and stable growth of COM in PS.

- \* We expect operating profit to exceed the previous forecast slightly (recording a YoY increase) even after the impact of floods in Thailand (decreases in net sales by JPY8B and operating profit by JPY2B) is factored in.
- \* Merger-related expenses and the impact of capital and business alliance with Shinwa are factored into ordinary income and net income on the assumption that there will be no foreign exchange gain or loss.

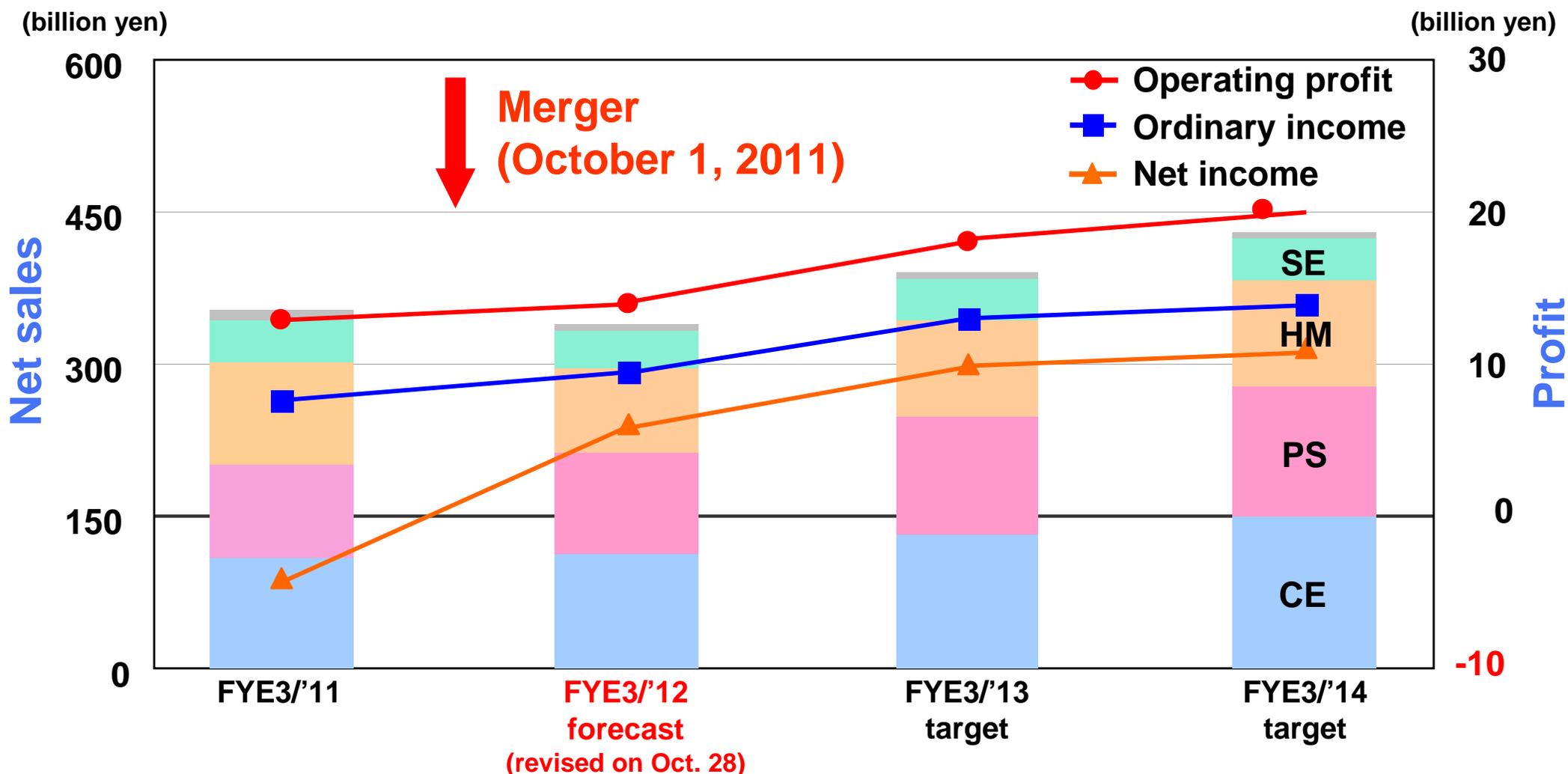
(billion yen)

	Net sales	Operating profit	Ordinary income	Net income	Exchange rate
Forecast as of April 27	360.0	13.5	8.0	4.0	USD: JPY85 Euro: JPY113
Revised forecast as of October 28	333.0	14.0	10.0	6.5	USD: JPY77 Euro: JPY104
Revisions	-27.0	+0.5	+2.0	+2.5	* Forecast exchange rates for 3Q and beyond.
Results for FYE3/'11	352.7	13.0	7.6	-4.0	USD: JPY86 Euro: JPY113

# Mid-term business Plan (Announced on September 16)

## Mid-term business targets (Forecasted exchange rate .... USD: JPY80; Euro: JPY110)

- \* Net sales: JPY430B; Operating profit: JPY20B; Ordinary income: JPY14B; Net income: JPY11B
- \* Equity ratio: 26%; Net D/E ratio: 0.5 times or less
- \* Net income per share: JPY79; Net assets per share: JPY490



# JVC KENWOOD

Expressions contained in this presentation referring to the Company's future plans, intentions and expectations are categorized as future forecast statements. Such statements reflect management expectations of future events, and accordingly, they are inherently susceptible to risk, uncertainty and other factors, whether known or unknown, and may be significantly different from future performance. These statements represent management targets as of the time of issuing of these presentation materials, and the Company is under no obligation and expressly disclaims any such obligation, to update, alter and publicize its future forecast statements in the event of changes in the economic climate and market conditions affecting performance of the Company. Risk factors and other uncertainty which may affect the Company's actual performance include: (1) violent fluctuations in economic circumstances and supply and demand systems in major markets (in Japan, the U.S, the EU and Asia); (2) restrictions including trade regulations applicable to major markets including Japan and other foreign countries; (3) sharp fluctuations in the exchange rate of the dollar, euro, etc. against the yen; (4) marked fluctuations in exchange rates in capital markets; and (5) change in social infrastructure due to short term changes in technology, etc.; provided, however, that above is not a comprehensive list of all the factors which may exert a significant influence on the Company's performance.