TRANSLATION - FOR REFERENCE ONLY -

JVCKENWOOD

Oct. 31, 2019

Company	JVCKENWOOD Corporation
Representative	Shoichiro Eguchi, President and CEO (Code: 6632; First Section of the Tokyo Stock Exchange)
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Accounting Report for the Second Quarter of Fiscal Year Ending March 2020 (April 1, 2019 – September 30, 2019)

Consolidated Financial Highlights for the Second Quarter of Fiscal Year Ending March 2020
(April 1, 2019 – September 30, 2019)

Operating Results

(JPY in Million, except Basic net income per share)

	2nd Quarter of FYE 3/2019 April 1, 2018 to September 30, 2018	2nd Quarter of FYE 3/2020 April 1, 2019 to September 30, 2019
Revenue	149,110	146,696
Operating profit	3,505	3,177
Profit before tax	3,154	2,690
Profit attributable to owners of parent	1,764	1,203
Comprehensive income	6,404	-2,188
Basic net income per share	12.18 yen	7.34 yen

FYE: Fiscal year ended / ending

Revenue and Core Operating Income by Customer industry sectors

(JPY in Million)

		2nd Quarter of FYE 3/2019	2nd Quarter of FYE 3/2020	Year-on-year comparison
Automotive Sector	Revenue	86,052	78,321	-7,731
	Core Operating income	4,182	1,593	-2,589
Public Service Sector	Revenue	32,091	33,378	+1,287
	Core Operating income	-1,368	293	+1,661
Media Service Sector	Revenue	28,171	27,817	-354
	Core Operating income	686	436	-250
Others	Revenue	2,794	7,178	+4,384
	Core Operating income	-138	309	+447
Total	Revenue	149,110	146,696	-2,414
	Core Operating income	3,362	2,633	-729
	Operating profit	3,505	3,177	-328
	Profit before tax	3,154	2,690	-464
	Profit Attributable to Owners of the Parent Company	1,764	1,203	-561

1. Qualitative Information on 2Q Financial Results

(1) Description of Operating Results

Overview of the Second Quarter of the Fiscal Year Under Review

Revenue of JVCKENWOOD Corporation and its consolidated subsidiaries for the first six months of the fiscal year under review declined from the same period a year earlier, despite an increase in the revenue of the Public Service Sector and Others, due to a decrease in the revenue of the Automotive Sector and the Media Service Sector. Operating income of the Group as a whole declined from the same period a year earlier, due to lower revenue.

Profit-and-loss exchange rates used when preparing the financial statements for the first six months of the fiscal year under review are as follows.

		1st Quarter	2nd Quarter
Profit-and-loss exchange rates	U.S. dollar	Approx. 110 yen	Approx. 107 yen
	Euro	Approx. 124 yen	Approx. 119 yen
FY2018 (for reference)	U.S. dollar	Approx. 109 yen	Approx. 111 yen
	Euro	Approx. 130 yen	Approx. 130 yen

Revenue

Revenue for the first six months of the fiscal year under review declined approximately 2,400 million yen, or 1.6%, from the same period a year earlier to 146,696 million yen.

Revenue at the Automotive Sector decreased from the same period a year earlier, due to a decrease in the revenue of the OEM Business, reflecting lower sales of factory-installed products, and because JVCKENWOOD Hong Kong Holdings Ltd. (JKHL) was impacted by a slowdown in China's economy. Revenue at the Public Service Sector increased, due to strong sales of the Professional Systems Business centering on JVCKENWOOD Public & Industrial Systems Corporation (JKPI). Revenue at the Media Service Sector decreased slightly from the same period a year earlier, despite a decrease in the revenue of the Media Business, due to an increase in the revenue of the Entertainment Business. Revenue at the Others segment increased due to significant growth in sales of the DX* Business Division, which is a new business division established during the fiscal year under review.

* DX: Digital Transformation

Operating Profit

Operating profit for the first six months of the fiscal year under review declined approximately 300 million yen, or 9.4%, from the same period a year earlier to 3,177 million yen, despite an improvement in other profit/loss, reflecting the decrease in revenue. Operating performance by business segment for the first six months of the fiscal year under review is explained using core operating income*, which is calculated by subtracting cost of sales and selling, general and administrative expenses from revenue.

Core operating income for the first six months of the fiscal year under review declined approximately 700 million yen, or 21.7%, from the same period a year earlier to 2,633 million yen. This happened because, although all business sectors returned to profit as a result of an improvement in the profit/loss of the Public Service Sector and Others, and returned to profitability, profit fell at the Automotive Sector and the Media Service Sector.

In the Automotive Sector, core operating income declined from the same period a year earlier, due to a profit decrease at the OEM Business reflecting lower sales. In the Public Service Sector, profit/loss as a whole sector improved significantly to return to profitability, with the Communications Systems Business recording profit growth and the Professional Systems Business achieving a significant profit/loss improvement. In the Media Service Sector, core operating income decreased, due to a profit decrease at the Media Business reflecting the revenue decline. In Others, core operating income returned to profitability, due to a profit/loss improvement reflecting the revenue increase.

*Note: Core operating income does not include nonrecurring items that mainly occur temporarily, such as other income included in operating profit, other expenses, and foreign exchange losses (gains).

Profit Before Tax

Profit before tax for the first six months of the fiscal year under review declined approximately 500 million yen, or 14.7%, from the same period a year earlier to 2,690 million yen, reflecting the decrease in operating profit.

Profit Attributable to Owners of the Parent Company

Profit attributable to owners of the parent company for the first six months of the fiscal year under review declined approximately 600 million yen, or 31.8%, from the same period a year earlier to 1,203 million yen, reflecting the decrease in profit before tax.

Revenue and Core Operating Income (loss) by Business Segment

Revenue and core operating income (loss) by business segment are as follows.

First Six Months of the Fiscal Year Ending March 2020 (from April 1, 2019 to September 30, 2019) (Million yen)

Segment		First Six Months of FYE3/'19	First Six Months of FYE3/'20	Year-on-Year Comparison
Automotive Sector	Revenue	86,052	78,321	-7,731
	Core operating income	4,182	1,593	-2,589
Public Service Sector	Revenue	32,091	33,378	+1,287
	Core operating income	-1,368	293	+1,661
Media Service Sector	Revenue	28,171	27,817	-354
	Core operating income	686	436	-250
Others	Revenue	2,794	7,178	+4,384
	Core operating income	-138	309	+447
Total	Revenue	149,110	146,696	-2,414
	Core operating income	3,362	2,633	-729
	Operating Profit	3,505	3,177	-328
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	Profit Attributable to Owners of the Parent Company	1,764	1,203	-561

Automotive Sector

Revenue at the Automotive Sector for the first six months of the fiscal year under review decreased approximately 7,700 million yen, or 9.0%, from the same period a year earlier to 78,321 million yen. Core operating income declined approximately 2,600 million yen, or 61.9%, from the same period a year earlier to 1,593 million yen.

➢ Revenue

In the Aftermarket Business, revenue increased from the same period a year earlier due to strong sales of Saisoku-Navi series car navigation systems and dashcams in the domestic market.

In the OEM Business, revenue decreased from the same period a year earlier. This was due to the impacts of lower sales of factory-installed products and JKHL being affected by the slowdown in China's economy.

➢ Core Operating Income

In the Aftermarket Business, core operating income increased from the same period a year earlier because of the aforementioned increase in revenue.

In the OEM Business, core operating income decreased from the same period a year earlier due to the impact of the parts supply problem at a supplier in the first quarter of the fiscal year under review that continued from the fourth quarter of the previous fiscal year.

Public Service Sector

Revenue at the Public Service Sector for the first six months of the fiscal year under review increased approximately 1,300 million yen, or 4.0%, from the same period a year earlier to 33,378 million yen. Core operating income increased approximately 1,700 million yen to 293 million yen, turning around from a loss in the same period a year earlier to a positive profit.

- Revenue

Revenue at the Communications Systems Business was at the same level as the same period a year earlier, due to a slight decrease in sales of wireless systems equipment. However, it increased on a local currency basis, reflecting growth in sales of the Group's U.S. communication system subsidiaries.
Revenue at the Professional Systems Business increased approximately 1,300 million yen from the same period a year earlier due to strong sales of digital conference systems at JKPI.

- Core Operating Income

In the Communications Systems Business, core operating income increased because of the positive effects of cost reductions.
In the Professional Systems Business, core operating income increased due to the aforementioned revenue growth and positive effects of cost reductions.

Media Service Sector

Revenue at the Media Service Sector for the first six months of the fiscal year under review declined approximately 400 million yen, or 1.3%, from the same period a year earlier to 27,817 million yen. Core operating income declined approximately 300 million yen, or 36.4%, from the same period a year earlier to 436 million yen.

- Revenue

In the Media Business, revenue decreased approximately 700 million yen from the same period a year earlier, despite solid sales of projectors and imaging devices, reflecting a decrease in sales of professional-use video cameras.
In the Entertainment Business, revenue increased approximately 300 million yen from the same period a year earlier due to strong sales of the Content Business and the OEM Business.

- Core Operating Income

In the Media Business, income/loss deteriorated, due to the effects of the aforementioned decrease in revenue.
In the Entertainment Business, core operating income was roughly at the same level as the same period a year earlier, despite the effects of an increase in revenue, due to the effects of investments in new business fields.

The DX Business Division, which is included in Others, achieved significant growth in both revenue and core operating income, reflecting strong sales of telematics solutions and related products.

(2) Description of Financial Position

Analysis of Assets, Liabilities, and Equity, Etc.

Assets

Total assets increased approximately 4,800 million yen from the end of the previous fiscal year to 255,401 million yen. This was due to an increase in property, plant and equipment, reflecting an increase in right-of-use assets following the application of IFRS 16 Leases*, despite a decrease in trade and other receivables as a result of seasonal factors.

* IFRS 16 Leases: New accounting standards on leases applied from the fiscal year beginning on or after January 1, 2019.

Liabilities

Total liabilities increased approximately 9,400 million yen from the end of the previous fiscal year to 194,653 million yen, despite a decrease in trade and other payables. This was due to an increase in other financial liabilities, reflecting an increase in lease liabilities as a result of the application of IFRS 16 Leases. Current liabilities declined approximately 9,100 million yen as a result of refinancing part of the bank borrowings.

Equity

Total equity decreased approximately 4,600 million yen from the end of the previous fiscal year to 60,748 million yen, despite posting profit for the quarter. This was because of a decrease in retained earnings following the application of IFRS 16 Leases and a decrease in other components of equity, such as exchange differences arising on translation of foreign operations. As a result, the ratio of equity attributable to owners of the parent company declined 2.3 percentage points from the end of the previous fiscal year to 22.4%.

Cash Flow Analysis

Cash Flows from Operating Activities

Net cash provided by operating activities for the first six months of the fiscal year under review was 14,335 million yen, which is an increase of approximately 2,700 million yen from the same period of the previous fiscal year. This was mainly attributable to an increase in depreciation and amortization expenses and an improvement in working capital.

Cash Flows from Investing Activities

Net cash used in investing activities for the first six months of the fiscal year under review was 9,240 million yen, which is a decrease of approximately 3,000 million yen from the same period of the previous fiscal year. This was mainly due to the absence of cash outflows for the acquisition of a subsidiary accompanied by a change in the scope of consolidation. Cash outflows for the purchase of property, plant and equipment and of intangible assets increased approximately 600 million yen from the same period of the previous fiscal year.

Cash Flows from Financing Activities

Net cash used in financing activities for the first six months of the fiscal year under review was 1,099 million yen, which is an increase of approximately 7,400 million yen from the same period of the previous fiscal year. This was mainly attributable to the absence of proceeds from new issuance of shares and to repayments of lease liabilities. Cash and cash equivalents at the end of the first six months of the fiscal year under review increased approximately 200 million yen from the same period of the previous fiscal year to 43,708 million yen.

(3) Description of Forward-Looking Information Such as Consolidated Earnings Forecast

During the first six months of the fiscal year under review, revenue was in line with the period-start projections and operating income exceeded the period-start projections due to the improvement in other profit/loss.

Regarding the outlook for the third quarter of the fiscal year under review and thereafter, we expect that sales will remain strong in the domestic market for the Aftermarket Business in the Automotive Sector. In addition, we expect an increase in sales of the Group's U.S. communication system subsidiaries in the Public Service Sector and an increase in sales due to launch of new products in Media Business in the Media Service Sector. However, there are risk factors in the OEM Business in Automotive Sector, such as the impacts of the slowdown in China's economy and shrinkage of the market. At this time, accordingly, JVCKENWOOD is not revising its consolidated earnings forecast for the fiscal year ending March 31, 2020, announced on April 26, 2019.

	Consolidated earnings forecast for the fiscal year ending March 2020
Revenue	310,000 million yen
Operating Income	7,400 million yen
Profit before tax	6,500 million yen
Profit attributable to owners of the parent company	4,000 million yen

2. Quarterly Consolidated Financial Statements

(1) Quarterly Consolidated statement of financial position

(JPY in Million)

	Previous Fiscal Year (as of Mar. 31, 2019)	End of current consolidated second quarter (as of September 30, 2019)
Assets		
Current assets		
Cash and cash equivalents	40,844	43,708
Trade and other receivables	59,138	52,167
Contract assets	2,022	1,735
Other financial assets	1,517	973
Inventories	44,583	45,777
Right to recover products	349	321
Income taxes receivable	838	859
Other current assets	4,396	4,260
Sub total	153,690	149,804
Assets classified as held for sale	203	249
Total current assets	153,894	150,054
Non-current assets		
Property, plant and equipment	45,110	54,571
Goodwill	3,376	3,232
Intangible assets	19,809	20,047
Net defined benefit assets	4,237	3,723
Investment property	2,221	2,197
Investments accounted for using the equity method	4,293	3,762
Other financial assets	11,183	11,684
Deferred tax assets	5,267	4,978
Other non-current assets	1,222	1,148
Total non-current assets	96,723	105,347
Total assets	250,617	255,401

(JPY in Million)

	Previous Fiscal Year (as of Mar. 31, 2019)	End of current consolidated second quarter (as of September 30, 2019)
Liabilities and equity		
Liabilities		
Current liabilities		
Trade and other payables	44,868	42,383
Contract liabilities	2,261	2,302
Refund liabilities	4,237	4,289
Short-term borrowings	24,447	15,030
Other financial liabilities	1,539	4,621
Income taxes payable	1,536	1,623
Provisions	1,784	1,489
Other current liabilities	23,410	23,276
Total current liabilities	104,085	95,016
Non-current liabilities		
Long-term borrowings	46,865	58,232
Other financial liabilities	1,595	9,459
Net defined benefit liabilities	28,236	27,628
Provisions	1,471	1,183
Deferred tax liabilities	1,843	1,776
Other non-current liabilities	1,196	1,355
Total non-current liabilities	81,210	99,636
Total liabilities	185,296	194,653
Equity		
Capital stock	13,645	13,645
Capital surplus	42,086	42,086
Retained earnings	6,634	5,545
Treasury stock	-38	-38
Other components of equity	-318	-3,938
Equity attributable to owners of the parent company	62,009	57,300
Non-controlling interests	3,311	3,447
Total equity	65,321	60,748
Total liabilities and equity	250,617	255,401

(2) Quarterly Consolidated statement of financial position
(Quarterly Consolidated Statement of Income)

(JPY in Million)

	Accumulated period for previous consolidated second quarter (Apr.1, 2018 – Sep. 30, 2018)	Accumulated period for current consolidated second quarter (Apr.1, 2019 – Sep. 30, 2019)
Revenue	149,110	146,696
Cost of sales	108,595	107,750
Gross profit	40,514	38,945
Selling, general and administrative expenses	37,152	36,312
Other income	1,230	857
Other expenses	487	252
Foreign exchange losses	-599	-60
Operating profit	3,505	3,177
Finance income	143	171
Finance expenses	537	561
Share of profit (loss) of investments accounted for using the equity method	43	-96
Profit before income taxes	3,154	2,690
Income tax expenses	1,137	1,258
Profit	2,017	1,432
Profit attributable to:		
Owners of the parent company	1,764	1,203
Non-controlling interests	253	229
Profit	2,017	1,432
Earnings per share (attributable to owners of the parent company)		
Basic earnings per share	12.18 yen	7.34 yen
Diluted earnings per share	12.14 yen	— yen

(Quarterly Consolidated Statement of Income)

(JPY in Million)

	Accumulated period for previous consolidated second quarter (Apr.1, 2018 – Sep. 30, 2018)	Accumulated period for current consolidated second quarter (Apr.1, 2019 – Sep. 30, 2019)
Profit	2,017	1,432
Other comprehensive income (“OCI”)		
Items that will not be reclassified subsequently to profit or loss		
Net changes in financial assets measured at fair value through OCI	-20	25
Remeasurement of defined benefit plans	4	109
Share of OCI of investments accounted for using the equity method	5	-1
Total of items that will not be reclassified subsequently to profit or loss	-10	133
Items that may be reclassified subsequently to profit or loss		
Exchange differences arising on translation of foreign operations	2,666	-2,926
Cash flow hedges	1,731	-506
Share of OCI of investments accounted for using the equity method	—	-322
Total of items that may be reclassified subsequently to profit or loss	4,397	-3,754
OCI, net of income tax	4,387	-3,621
Comprehensive income	6,404	-2,188
Total comprehensive income attributable to:		
Owners of the parent company	6,004	-2,284
Non-controlling interests	400	95
Comprehensive income	6,404	-2,188

(3) Quarterly Consolidated Statement of Cash Flows

(JPY in Million)

	Accumulated period for previous consolidated second quarter (Apr.1, 2018 – Sep. 30, 2018)	Accumulated period for current consolidated second quarter (Apr.1, 2019 – Sep. 30, 2019)
Cash flows from operating activities		
Profit before income taxes	3,154	2,690
Depreciation and amortization	8,538	9,840
Impairment losses	214	—
Decrease in net defined benefit liabilities	-27	-138
Decrease in net defined benefit assets	359	266
Finance income	-143	-171
Finance expenses	537	561
Gain on revaluation of financial assets measured at fair value through profit and loss	-851	-403
Loss on disposal of property, plant and equipment	44	24
Decrease in trade and other receivables	6,306	5,817
Increase in inventories	-1,781	-2,418
Decrease in trade and other payables	-1,571	-977
Decrease in other current liabilities	-1,907	-73
Other, net	344	591
Sub-total	13,218	15,610
Interest received	100	125
Dividend received	42	45
Interest paid	-421	-500
Income taxes paid	-1,278	-945
Net cash provided by operating activities	11,662	14,335
Cash flows from investing activities		
Placement of time deposit with original maturity of more than three months	-323	—
Withdrawal of time deposit with original maturity of more than three months	23	151
Purchases of property, plant and equipment	-3,685	-3,879
Proceeds from sales of property, plant and equipment	108	349
Purchases of intangible assets	-6,023	-6,426
Purchases of debt instruments	-401	—
Purchases of equity instruments	-581	-1
Payment for acquisition of control over subsidiaries	-1,240	—
Other, net	-117	565
Net cash used in investing activities	-12,241	-9,240
Cash flows from financing activities		
Proceeds from short-term borrowings	11,583	5,465
Repayment of short-term borrowings	-8,807	-3,020
Proceeds from long-term borrowings	5,500	16,070
Repayment of long-term borrowings	-5,571	-15,938
Repayment of lease liabilities	—	-2,037
Cash dividends paid	-833	-983
Proceeds from issuance of shares resulting from exercise of subscription rights to shares	5,312	—
Other, net	-921	-655
Net cash used in financing activities	6,262	-1,099
Net increase in cash and cash equivalents	6,305	2,864
Cash and cash equivalents at beginning of year	37,162	
Effect of exchange rate changes on cash and cash equivalents	622	-1,131
Cash and cash equivalents at end of quarter	43,467	43,708