

JVCKENWOOD

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Accounting Report for the Third Quarter of Fiscal Year Ending March 2020
(April 1, 2019 – December 31, 2019)

Consolidated Financial Highlights for the Third Quarter of Fiscal Year Ending March 2020
(April 1, 2019 – December 31, 2019)

Operating Results

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

	3rd Quarter of FYE 3/2019 April 1, 2018 to December 31, 2018	3rd Quarter of FYE 3/2020 April 1, 2019 to December 31, 2019
Revenue	226,681	219,370
Operating profit	6,359	4,203
Profit before income taxes	5,791	3,536
Profit attributable to owners of parent company	3,540	1,720
Comprehensive income	5,005	1,216
Basic net income per share	23.51 yen	10.50 yen

FYE: Fiscal year ended / ending

1. Qualitative Information on 3Q Financial Results

(1) Description of Operating Results

Overview of the Third Quarter of the Fiscal Year Under Review

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

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

		1st quarter	2nd quarter	3rd quarter
Profit-and-loss exchange rates	U.S. dollar	Approx. 110 yen	Approx. 107 yen	Approx. 109 yen
	Euro	Approx. 124 yen	Approx. 119 yen	Approx. 120 yen
FY2018 (for reference)	U.S. dollar	Approx. 109 yen	Approx. 111 yen	Approx. 113 yen
	Euro	Approx. 130 yen	Approx. 130 yen	Approx. 129 yen

Revenue

Revenue for the first nine months of the fiscal year under review declined approximately 7,300 million yen, or 3.2%, from the same period a year earlier to 219,370 million yen.

Revenue at the Automotive Sector decreased from the same period a year earlier due to a decrease in revenue at 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 in the Professional Systems Business centering on JVCKENWOOD Public & Industrial Systems Corporation (JKPI). Revenue at the Media Service Sector decreased from the same period a year earlier due to a decrease in revenue at the Media Business, reflecting lower sales of professional video cameras. Revenue at the Other segment increased significantly due to strong sales of telematics solutions and related products at 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 nine months of the fiscal year under review declined approximately 2,200 million yen, or 33.9%, from the same period a year earlier to 4,203 million yen, reflecting the decrease in revenue.

Operating performance by business segment for the first nine 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 nine months of the fiscal year under review declined approximately 2,000 million yen, or 31.5%, from the same period a year earlier to 4,269 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, turning around 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 lower sales of professional video cameras and a profit decrease at the Entertainment Business due to the effects of investments in new business fields. In Others, core operating income increased due to strong sales of telematics solutions and related products at the DX Business Division.

*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 income taxes

Profit before income taxes for the first nine months of the fiscal year under review declined approximately 2,300 million yen, or 38.9%, from the same period a year earlier to 3,536 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 nine months of the fiscal year under review declined approximately 1,800 million yen, or 51.4%, from the same period a year earlier to 1,720 million yen, reflecting the decrease in profit before income taxes.

Revenue and Core Operating Income (Loss) by Business Segment

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

3Q (1-3Q) of the Fiscal Year Ending March 2020 (from April 1, 2019 to December 31, 2019)		(Million yen)		
Segment		3Q (1-3Q) of FYE3/19	3Q (1-3Q) of FYE3/20	Year-on-year comparison
Automotive Sector	Revenue	127,862	115,049	-12,813
	Core operating income	6,031	2,079	-3,952
Public Service Sector	Revenue	49,622	50,349	+727
	Core operating income	-1,143	729	+1,872
Media Service Sector	Revenue	43,833	42,083	-1,750
	Core operating income	1,474	875	-599
Others	Revenue	5,363	11,888	+6,525
	Core operating income	-132	586	+718
Total	Revenue	226,681	219,370	-7,311
	Core operating income	6,230	4,269	-1,961
	Operating profit	6,359	4,203	-2,156
	Profit before income taxes	5,791	3,536	-2,255
	Profit attributable to owners of the parent company	3,540	1,720	-1,820

Automotive Sector

Revenue at the Automotive Sector for the first nine months of the fiscal year under review decreased approximately 12,800 million yen, or 10.0%, from the same period a year earlier to 115,049 million yen. Core operating income declined approximately 4,000 million yen, or 65.5%, from the same period a year earlier to 2,079 million yen.

➤ Revenue

In the Aftermarket Business, revenue was at the same level as the same period a year earlier due to strong sales of Saisoku-Navi series car navigation systems and dashcams in the domestic market, although revenue declined in the overseas market due to a shrinkage of the 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, lower sales of dealer-installed products resulting from a decrease in vehicle sales, 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, reflecting an improvement in the product mix due to strong domestic market conditions and cost reductions.

In the OEM Business, core operating income declined from the same period a year earlier because of the aforementioned decrease in revenue.

Public Service Sector

Revenue at the Public Service Sector for the first nine months of the fiscal year under review increased approximately 700 million yen, or 1.5%, from the same period a year earlier to 50,349 million yen. Core operating income increased approximately 1,900 million yen to 729 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 declined approximately 700 million yen from the same period a year earlier, reflecting exchange rate fluctuations. However, revenue 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 1,400 million yen from the same period a year earlier due to strong sales of video security systems at JKPI.

➤ Core Operating Income

In the Communications Systems Business, core operating income increased because of the positive effects of cost reductions, despite the decrease in revenue.

In the Professional Systems Business, income/loss improved due to the aforementioned increase in revenue and the effects of cost reductions.

Media Service Sector

Revenue at the Media Service Sector for the first nine months of the fiscal year under review declined approximately 1,800 million yen, or 4.0%, from the same period a year earlier to 42,083 million yen. Core operating income declined approximately 600 million yen, or 40.7%, from the same period a year earlier to 875 million yen.

➤ Revenue

In the Media Business, revenue decreased approximately 1,700 million yen from the same period a year earlier, despite solid sales of projectors and imaging devices, reflecting a decrease in sales of professional video cameras.

In the Entertainment Business, revenue was at the same level as the same period a year earlier, despite a decrease in sales in the Content Business, due to strong sales in the OEM Business.

➤ Core Operating Income

In the Media Business, core operating income decreased due to the aforementioned decrease in revenue.

In the Entertainment Business, core operating income declined 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 8,900 million yen from the end of the previous fiscal year to 259,509 million yen. This was due to an increase in inventories, as well as 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 10,100 million yen from the end of the previous fiscal year to 195,356 million yen, due to an increase in trade and other payables, as well as in other financial liabilities reflecting an increase in lease liabilities as a result of the application of IFRS 16 Leases. Current liabilities declined approximately 7,400 million yen as a result of refinancing part of the bank borrowings.

Equity

Total equity decreased approximately 1,200 million yen from the end of the previous fiscal year to 64,153 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 1.4 percentage points from the end of the previous fiscal year to 23.3%.

Cash Flow Analysis

Cash Flows from Operating Activities

Net cash provided by operating activities for the first nine months of the fiscal year under review was 17,121 million yen, which is an increase of approximately 3,100 million yen from the same period of the previous fiscal year. This was mainly attributable to an increase in depreciation and amortization expenses and cash inflows from working capital.

Cash Flows from Investing Activities

Net cash used in investing activities for the first nine months of the fiscal year under review was 14,669 million yen, which is a decrease of approximately 5,900 million yen from the same period of the previous fiscal year. This was mainly due to the absence of cash outflows for the investments accounted for using the equity method and the acquisition of subsidiaries.

Cash Flows from Financing Activities

Net cash used in financing activities for the first nine months of the fiscal year under review was 4,749 million yen, which is an increase of approximately 12,600 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 the repayments of lease liabilities.

Cash and cash equivalents at the end of the first nine months of the fiscal year under review decreased approximately 300 million yen from the same period of the previous fiscal year to 38,200 million yen.

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

During the first nine months of the fiscal year under review, revenue fell below the period-start projections due to factors including the effects of exchange rate fluctuations, but operating profit was in line with the period-start projections.

Regarding the outlook for the fourth quarter of the fiscal year under review, we anticipate risks, such as the deterioration of China's economy in the OEM Business and the effects of shrinkage of the device market in the Automotive Sector. However, in the Aftermarket Business in the Automotive Sector, we expect an increase in sales of Saisoku-Navi series car navigation systems and dashcams in the domestic market and sales growth due to launch of new products in the overseas market. In the Public Service Sector, we expect that sales will continue to increase at the Group's U.S. communication system subsidiaries and in the Professional Systems Business. In addition, sales in the Media Business in the Media Service Sector are expected to grow. Accordingly, JVCKENWOOD is not revising its consolidated earnings forecast for the fiscal year ending March 31, 2020, announced on April 26, 2019.

The impact of the outbreak of pneumonia caused by a novel corona virus is to be verified and is not reflected in the consolidated earnings forecast.

	Consolidated earnings forecast for the fiscal year ending March 2020
Revenue	310,000 million yen
Operating profit	7,400 million yen
Profit before income taxes	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 third quarter (as of Dec. 31, 2019)
Assets		
Current assets		
Cash and cash equivalents	40,844	38,200
Trade and other receivables	59,138	53,645
Contract assets	2,022	2,327
Other financial assets	1,517	1,014
Inventories	44,583	51,091
Right to recover products	349	283
Income taxes receivable	838	899
Other current assets	4,396	4,461
Sub total	153,690	151,922
Assets classified as held for sale	203	42
Total current assets	153,894	151,965
Non-current assets		
Property, plant and equipment	45,110	54,961
Goodwill	3,376	3,326
Intangible assets	19,809	20,671
Net defined benefit assets	4,237	3,567
Investment property	2,221	2,268
Investments accounted for using the equity method	4,293	4,032
Other financial assets	11,183	12,440
Deferred tax assets	5,267	5,144
Other non-current assets	1,222	1,131
Total non-current assets	96,723	107,543
Total assets	250,617	259,509

(JPY in Million)

	Previous Fiscal Year (as of Mar. 31, 2019)	End of current consolidated third quarter (as of Dec. 31, 2019)
Liabilities and equity		
Liabilities		
Current liabilities		
Trade and other payables	44,868	46,913
Contract liabilities	2,261	2,305
Refund liabilities	4,237	4,711
Short-term borrowings	24,447	13,527
Other financial liabilities	1,539	4,544
Income taxes payable	1,536	1,617
Provisions	1,784	1,469
Other current liabilities	23,410	21,601
Total current liabilities	104,085	96,689
Non-current liabilities		
Long-term borrowings	46,865	57,309
Other financial liabilities	1,595	9,255
Net defined benefit liabilities	28,236	27,760
Provisions	1,471	1,185
Deferred tax liabilities	1,843	1,741
Other non-current liabilities	1,196	1,414
Total non-current liabilities	81,210	98,667
Total liabilities	185,296	195,356
Equity		
Capital stock	13,645	13,645
Capital surplus	42,086	42,086
Retained earnings	6,634	6,062
Treasury stock	-38	-39
Other components of equity	-318	-1,229
Equity attributable to owners of the parent company	62,009	60,526
Non-controlling interests	3,311	3,627
Total equity	65,321	64,153
Total liabilities and equity	250,617	259,509

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

(JPY in Million)

	Accumulated period for previous consolidated third quarter (Apr. 1, 2018 – Dec. 31, 2018)	Accumulated period for current consolidated third quarter (Apr. 1, 2019 – Dec. 31, 2019)
Revenue	226,681	219,370
Cost of sales	164,178	160,333
Gross profit	62,503	59,037
Selling, general and administrative expenses	56,272	54,768
Other income	1,440	1,289
Other expenses	836	1,197
Foreign exchange losses	-475	-158
Operating profit	6,359	4,203
Finance income	225	251
Finance expenses	813	848
Share of profit (loss) of investments accounted for using the equity method	20	-69
Profit before income taxes	5,791	3,536
Income tax expenses	1,877	1,472
Profit	3,913	2,063
Profit attributable to:		
Owners of the parent company	3,540	1,720
Non-controlling interests	373	342
Profit	3,913	2,063
Earnings per share (attributable to owners of the parent company)		
Basic earnings per share	23.51 yen	10.50 yen
Diluted earnings per share	23.45 yen	— yen

(Quarterly Consolidated Statement of Income)

(JPY in Million)

	Accumulated period for previous consolidated third quarter (Apr. 1, 2018 – Dec. 31, 2018)	Accumulated period for current consolidated third quarter (Apr. 1, 2019 – Dec. 31, 2019)
Profit	3,913	2,063
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	-606	532
Remeasurement of defined benefit plans	4	109
Share of OCI of investments accounted for using the equity method	1	0
Total of items that will not be reclassified subsequently to profit or loss	-599	642
Items that may be reclassified subsequently to profit or loss		
Exchange differences arising on translation of foreign operations	432	-1,017
Cash flow hedges	1,421	-392
Share of OCI of investments accounted for using the equity method	-162	-78
Total of items that may be reclassified subsequently to profit or loss	1,692	-1,488
OCI, net of income tax	1,092	-846
Comprehensive income	5,005	1,216
Total comprehensive income attributable to:		
Owners of the parent company	4,555	941
Non-controlling interests	450	274
Comprehensive income	5,005	1,216

(3) Quarterly Consolidated Statement of Cash Flows

(JPY in Million)

	Accumulated period for previous consolidated third quarter (Apr. 1, 2018 – Dec. 31, 2018)	Accumulated period for current consolidated third quarter (Apr. 1, 2019 – Dec. 31, 2019)
Cash flows from operating activities		
Profit before income taxes	5,791	3,536
Depreciation and amortization	13,023	14,868
Impairment losses	257	—
Increase (decrease) in net defined benefit liabilities	106	-135
Decrease in net defined benefit assets	369	429
Finance income	-225	-251
Finance expenses	813	848
Gain on revaluation of financial assets measured at fair value through profit and loss	-866	-398
Loss on disposal of property, plant and equipment	56	78
Decrease in trade and other receivables	5,157	5,135
Increase in inventories	-4,295	-6,815
Increase in trade and other payables	17	3,470
Decrease in other current liabilities	-4,261	-2,110
Other, net	97	282
Sub-total	16,042	18,938
Interest received	164	185
Dividend received	60	65
Interest paid	-647	-758
Income taxes paid	-1,563	-1,308
Net cash provided by operating activities	14,056	17,121
Cash flows from investing activities		
Placement of time deposit with original maturity of more than three months	-324	—
Withdrawal of time deposit with original maturity of more than three months	23	153
Purchases of property, plant and equipment	-5,968	-6,298
Proceeds from sales of property, plant and equipment	131	944
Purchases of intangible assets	-9,403	-9,487
Purchases of debt instruments	-401	—
Purchases of equity instruments	-692	-1
Purchases of investments accounted for using the equity method	-2,389	—
Payment for acquisition of control over subsidiaries	-1,240	—
Other, net	-289	20
Net cash used in investing activities	-20,554	-14,669
Cash flows from financing activities		
Proceeds from short-term borrowings	17,373	6,988
Repayment of short-term borrowings	-14,832	-6,287
Proceeds from long-term borrowings	7,897	16,264
Repayment of long-term borrowings	-7,979	-17,242
Repayment of lease liabilities	—	-2,833
Cash dividends paid	-833	-983
Proceeds from issuance of shares resulting from exercise of subscription rights to shares	7,258	—
Other, net	-1,030	-655
Net cash provided by (used in) financing activities	7,852	-4,749
Net increase (decrease) in cash and cash equivalents	1,303	-2,643
Cash and cash equivalents at beginning of year	37,162	40,844
Effect of exchange rate changes on cash and cash equivalents	-50	-346
Cash and cash equivalents at end of quarter	38,465	38,200