

Summary of Q&A sessions at the earnings results briefing (Telephone conference) for 3Q of FYE3/'20

Q: Regarding the structural reform in the Automotive Sector, have you already taken all the measures necessary in 3Q? Or do you plan to implement measures other than those you have announced this time by the end of the fiscal year?

A: We started implementing measures for the structural reform around December last year with completion planned by the end of the current fiscal year, while we expensed all the structural reform costs in 3Q. In addition to these, there are other measures we plan to implement in 4Q, and we have factored the costs of such measures in the full-year earnings forecast.

Q: You have mentioned that operating profit for the full year is going in line with your expectations. Have you factored in the impact of the structural reform?

A: Operating profit was in line with our expectations including the impact of structural reform. In the meantime, the 3Q operating profit in the Automotive Sector was below our expectations due to lower sales of dealer-installed products, etc. resulting from a decrease in vehicle sales. It would have been better if we had been able to build some more operating profit before entering the 4Q.

Q: Regarding the trend of order intake in the OEM Business in the Automotive Sector for the next fiscal year, I assume that you have already secured orders for some products, while some factory-installed products were withdrawn during the current fiscal year. How do you see the risk of a decline in order intake in the next fiscal year?

A: Factory-installed products will be almost entirely withdrawn during the current fiscal year, as we have been explaining from the beginning of the period. Therefore, order intake in the OEM Business will certainly decrease in the next fiscal year. In addition, we expect that order intake in the device business will decline through the next fiscal year due to a greater-than-expected shrinkage of this business.

Q: You have just mentioned that the device business in the Automotive Sector will decline through the next fiscal year. In addition, the overseas market for the aftermarket business is shrinking, notably in Europe. How are you going to prop up the performance in the aftermarket business? You have mentioned that you will launch new products. Do you think that will lead to a better performance in this business?

A: Unlike the Japanese market, the overseas markets for the aftermarket business have been mainly for car audio systems. With the shrinkage of the car audio market, however, the focus is shifting to the multimedia receivers market, such as display audio systems that support Android Auto and Apple CarPlay. Assuming that the car audio market will shrink further in the future, we plan to cut down fixed costs in the audio systems business through structural reform, while working to boost sales of multimedia receivers with measures such as shifting development resources from audio systems. Through these measures, we believe we can expect a slight year-on-year growth in earnings in the entire aftermarket business for the next fiscal year.

Q: Regarding the DX Business in Others, how much revenue increase can we expect you to achieve in the future? With the increase in revenue from solutions, how do you expect the profit margin to improve?

A: We expect revenue of the order of approximately 10.0 billion yen in the DX Business for the current fiscal year. For the next fiscal year, we expect a revenue growth of 20–30% if things go smoothly. We do not expect the profit margin to change significantly in the next fiscal year.

Q: Regarding fixed costs in the DX Business, should we assume a cost increase associated with transfer of personnel from the AM Sector and start-up costs of new businesses, etc.?

A: The expenses of personnel transferred from the Automotive Sector will cause an increase in fixed costs in the DX Business. Therefore, an increase in revenue will not be translated directly into a profit increase.

Q: How is the business with Grab in the DX Business going?

A: Our business with Grab involves the supply of dashcams with communication capabilities and collection of monthly usage fees. The number of Grab vehicles equipped with our dashcams has increased to 8,000–9,000 at this time.

Q: Roughly speaking, how many Grab vehicles with JVCKENWOOD dashcams installed are required to reach the break-even point?

A: Excluding costs previously spent, the business has started to make a positive profit monthly with the current number of Grab vehicles that have our dashcams installed. We project that the business will turn profitable including the costs incurred in the past if the number of Grab vehicles with our dashcams installed increases to close to 30,000.

Q: You have mentioned about the impact of the pneumonia epidemic caused by a novel coronavirus as a risk factor. What are possible impacts, specifically, in terms of sales and production?

A: The Group's production bases in China are mainly in Shanghai and southern parts of mainland China, and therefore we do not anticipate any major direct impact from the coronavirus outbreak on our manufacturing plants at this time. That said, many of the parts we use are sourced from Chinese manufacturers. Therefore, we are concerned that production at our manufacturing plants all around the world will be affected depending on the situation regarding parts procurement. On the other hand, we have not been able to estimate the possible impact on sales at this time.

Q: Regarding the trend in operating profit for the current fiscal year, you are projecting a year-on-year increase in operating profit for 4Q. What are factors behind the turn of the profit trend? As I recall it, you recorded a temporary cost in the Automotive Sector in the previous fiscal year, and how much recovery do you expect for the current fiscal year?

A: The Automotive Sector recorded an operating loss of 400 million yen for 4Q of FYE3/19. We had negative factors, including a supplier's parts supply problem, in the previous fiscal year. However, such problem has been eliminated in the current fiscal year, so we expect a profit improvement of about 1.0–1.5 billion yen in the Automotive Sector for 4Q compared to the same period of the previous fiscal year. In the Public Service Sector, we have new projects, such as a contract from the California

Highway Patrol, and we expect a year on year profit improvement also in this sector. Accordingly, we project a profit increase for 4Q of the current fiscal year compared to 4Q of the previous fiscal year.

Q: Assuming that your profit is coming in line with your projections, can I take it that you will make projections for the next fiscal year taking into consideration the progress of the medium-term business plan and the possible impact of the pneumonia epidemic caused by a novel coronavirus in China? Are there any other positive factors or negative factors?

A: The next fiscal year is the final year of Vision 2020, and we believe we are making progress in line with the plan at this time. Our business performance is going above the plan in some sectors and below the plan in other sectors, but we believe we can carry out the plan as scheduled in our operating sectors as a whole. The possible impact of the outbreak of pneumonia caused by a novel coronavirus is not easy to predict, so we will pay close attention to the developments through March. Excluding such external factors, we are on track to achieve our targets under Vision 2020.