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JVCKENWOOD

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Company	JVCKENWOOD Corporation
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Accounting Report for the Fiscal Year Ended March 2020
(April 1, 2019 – March 31, 2020)

Consolidated Financial Highlights for the Fiscal Year Ended March 2020
(April 1, 2019 – March 31, 2020)

Operating Results

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

	FYE 3/2019 April 1, 2018 to March 31, 2019	FYE 3/2020 April 1, 2019 to March 31, 2020
Revenue	307,627	291,304
Operating profit	7,263	4,080
Profit before tax	6,401	2,877
Profit attributable to owners of parent company	3,847	954
Comprehensive income	5,488	-2,823
Basic net income per share	25.00 yen	5.82 yen

FYE: Fiscal year ended / ending

1. Overview of Operating Results

(1) Overview of Operating Results for the Fiscal Year Under Review

Overview of Operating Results

The following is an overview of the financial position, operating results, and cash flows ("Operating Results") for the JVCKENWOOD Group (JVCKENWOOD and its consolidated subsidiaries and equity-method companies) for the fiscal year under review. Forward-looking statements in this document are based on the Company's judgment as of the publication date of this document.

Financial Position and Operating Results

As described in "Impact on Consolidated Earnings from the Outbreak of the Novel Coronavirus" announced on April 27, 2020, the novel coronavirus pandemic inflicted a significant impact on the Group's earnings for the fiscal year under review because it occurred in the fourth quarter, the biggest sales season for the Group. An overview of the impact of the novel coronavirus pandemic on consolidated earnings of JVCKENWOOD by sector is as provided below.

Automotive Sector

In the Aftermarket Business, revenue remained robust in the domestic market but declined mainly in the European and the U.S. markets, due to stagnant shipments of new products after a string of closures of distributors in the U.S. In the OEM Business, revenue decreased, reflecting sluggish sales of automobiles around the world as automobile manufacturers in various countries suspended plant operations. In addition, our production activities were also impacted adversely by plant shutdowns and delays in the supply of parts in China.

Public Service Sector

In the Communications Systems Business, sales in the public safety market, such as police and fire departments and emergency medical services, at the Company's communication systems subsidiary in the U.S. remained strong. However, we observed a negative impact on projects including airports for which contracts had been awarded, such as postponement of delivery of certain products to April or thereafter. In Malaysia, where one of the Company's main plants is located, the government introduced a movement control order. As a result, our Malaysia Plant has been shut down, and this has adversely impacted the production and sales of radio communication systems. In the Professional Systems Business, sales at JVCKENWOOD Public & Industrial Systems Corporation were roughly in line with the period-start projections. In the Healthcare Business, meanwhile, sales to domestic and overseas hospitals declined.

Media Service Sector

In the Media Business, sales of devices for communication systems remained robust in the Imaging Device Business. Sales of professional projectors in the flight simulator market were impacted only slightly. But sales in the BtoC market declined overall, as a result of closures of distributors due to restrictions on going out implemented by governments around the world. Regarding professional video cameras, both production and sales activities were impacted, due to stagnant supply of parts produced in China. In the Entertainment Business, on the other hand, our business performance remained robust, despite the impact of cancellation, etc. of events including live performance events.

Others

Sales of telematics solutions in the DX Business remained strong and achieved robust growth in revenue while achieving an improvement in profit and loss compared to the previous year.

Revenue for the fiscal year under review based on the above declined from a year earlier, despite an increase in the revenue at the DX Business in Other supported by strong sales. This was due to the impacts of the aforementioned the novel coronavirus pandemic and exchange rate fluctuations, coupled with the impacts of a decrease in revenue at the OEM Business in the Automotive Sector, reflecting lower sales of factory-installed products. Operating profit of the JVCKENWOOD Group as a whole declined from a year earlier due to the decrease in revenue.

*Digital Transformation

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

		1st Quarter	2nd Quarter	3rd Quarter	4th Quarter	Full Year
Profit-and-loss exchange rate	U.S. dollar	Approx. 110 yen	Approx. 107 yen	Approx. 109 yen	Approx. 109 yen	Approx. 109 yen
	Euro	Approx. 124 yen	Approx. 119 yen	Approx. 120 yen	Approx. 120 yen	Approx. 121 yen
FY2018 (for reference)	U.S. dollar	Approx. 109 yen	Approx. 111 yen	Approx. 113 yen	Approx. 110 yen	Approx. 111 yen
	Euro	Approx. 130 yen	Approx. 130 yen	Approx. 129 yen	Approx. 125 yen	Approx. 128 yen

Revenue

Revenue for the fiscal year under review declined approximately 16,300 million yen, or 5.3%, from a year earlier to 291,304 million yen.

Revenue at the Automotive Sector decreased from 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 in addition to the impacts of the novel coronavirus pandemic. Revenue at the Public Service Sector was at the same level as a year earlier due to the impacts of the novel coronavirus pandemic, despite strong sales in the Professional Systems Business centering on JVCKENWOOD Public & Industrial Systems Corporation (“JKPI”) and the Group’s U.S. communication system subsidiaries. However, revenue increased on a local currency basis excluding exchange rate fluctuations. Revenue at the Media Service Sector decreased from a year earlier due to a decrease in revenue at the Media Business, reflecting lower sales of video cameras, in addition to the impacts of the novel coronavirus pandemic. 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.

Operating Profit

Operating profit for the fiscal year under review declined approximately 3,200 million yen, or 43.8%, from a year earlier to 4,080 million yen, reflecting the aforementioned decrease in revenue as well as recording an impairment loss of approximately 1,400 million yen as stated in “Recording of Impairment Loss” announced on May 20.

Operating performance by business segment for 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 fiscal year under review declined approximately 2,900 million yen, or 33.6%, from a year earlier to 5,684 million yen. This happened because, although the Public Service Sector and Others achieved an increase in profit, profit fell at the Automotive Sector and the Media Service Sector.

In the Automotive Sector, core operating income declined from a year earlier due to a profit decrease at the OEM Business, reflecting lower sales of factory-installed products. In the Public Service Sector, revenue of the sector as a whole increased sharply. This was due to the Communications Systems Business recording profit growth reflecting strong sales in the Group’s U.S. communication system subsidiaries and the effects of cost reductions as well as the Professional Systems Business returning to profitability with strong sales by JKPI, which plays a central role. 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 upfront investments in new business fields. Revenue at the Other segment 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 fiscal year under review declined approximately 3,500 million yen, or 55.0%, from a year earlier to 2,877 million yen, reflecting a decline in operating profit.

Profit attributable to owners of the parent company

Profit attributable to owners of the parent company for the fiscal year under review declined approximately 2,900 million yen, or 75.2%, from a year earlier to 954 million yen, reflecting a decline 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.

Fiscal Year Ended March 2020 (from April 1, 2019 to March 31, 2020) (Million yen)

Segment		FYE3/'19	FYE3/'20	Year-on-Year Comparison
Automotive Sector	Revenue	169,532	149,790	-19,742
	Core Operating Income	5,607	1,190	-4,417
Public Service Sector	Revenue	70,944	70,676	-268
	Core Operating Income	628	2,928	+2,300
Media Service Sector	Revenue	58,795	55,402	-3,393
	Core Operating Income	2,217	841	-1,376
Others	Revenue	8,354	15,434	+7,080
	Core Operating Income	109	724	+615
Total	Revenue	307,627	291,304	-16,323
	Core Operating Income	8,562	5,684	-2,878
	Operating Profit	7,263	4,080	-3,183
	Profit before income taxes	6,401	2,877	-3,524
	Profit attributable to owners of the parent company	3,847	954	-2,893

Automotive Sector

Revenue of the Automotive Sector for the fiscal year under review decreased approximately 19,700 million yen, or 11.6%, from a year earlier to 149,790 million yen. This was due to the impacts of the novel coronavirus pandemic. Core operating income declined approximately 4,400 million yen, or 78.8%, from a year earlier to 1,190 million yen.

➢ Revenue

In the Aftermarket Business, revenue decreased from a year earlier due to the impacts of a shrinkage of overseas market and the novel coronavirus pandemic, although sales of Saisoku-Navi series car navigation systems and dashcams in the domestic market were strong.

In the OEM Business, revenue decreased from a year earlier. This was due to the impacts of lower sales of factory-installed products, JKHL being affected by the slowdown in China's economy, and lower sales of dealer-installed products resulting from a decrease in vehicle sales, in addition to the impacts of the novel coronavirus pandemic.

➢ Core Operating Income

In the Aftermarket Business, core operating income increased from 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 decreased from a year earlier, due to the aforementioned decrease in revenue.

Public Service Sector

Revenue at the Public Service Sector for the fiscal year under review declined approximately 300 million yen, or 0.4%, from a year earlier to 70,676 million yen. However, revenue increased on a local currency basis excluding exchange rate fluctuations, despite the impacts of the novel coronavirus pandemic. Core operating income increased sharply by approximately 2,300 million yen, or 366.1%, from a year earlier to 2,928 million yen.

➢ Revenue

Revenue at the Communications Systems Business declined approximately 1,600 million yen from a year earlier, reflecting exchange rate fluctuations and the impacts of the novel coronavirus pandemic, despite 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 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 sharply because of the positive effects of cost reductions, in addition to growth in sales of the Group's U.S. communication system subsidiaries.
In the Professional Systems Business, core operating income/loss of the business as a whole improved significantly due to the aforementioned increase in revenue and because JKPI, which plays a central role, returned to positive territory with the effects of cost reductions.

Media Service Sector

Revenue of the Media Service Sector for the fiscal year under review decreased approximately 3,400 million yen, or 5.8%, from a year earlier to 55,402 million yen due to the impacts of the novel coronavirus pandemic. Core operating income declined approximately 1,400 million yen, or 62.0%, from a year earlier to 841 million yen.

➢ Revenue

In the Media Business, revenue decreased approximately 3,400 million yen from a year earlier, despite solid sales of communication imaging devices, reflecting lower sales of video cameras and the impacts of the novel coronavirus pandemic.
In the Entertainment Business, revenue was at the same level as a year earlier, due to strong sales in the OEM Business reflecting an increase in orders from U.S. entertainment companies, despite the impacts of the novel coronavirus pandemic and the fact there were sales increases last year due to release of major works.

➢ Core Operating Income

In the Media Business, core operating income decreased from a year earlier, due to the aforementioned decrease in revenue.
In the Entertainment Business, core operating income declined due to the effects of upfront investments in new business fields, although revenue was at the same level as a year earlier.

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) Overview of Financial Position for the Fiscal Year under Review

Assets

Total assets declined approximately 1,000 million yen from the end of the previous fiscal year to 249,660 million yen. This was due to a decrease in trade and other receivables caused by a decrease in revenue, reflecting the impacts of the novel coronavirus pandemic, despite an increase in property, plant and equipment, reflecting an increase in right-of-use assets following the application of IFRS 16 Leases*.

* 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 4,400 million yen from the end of the previous fiscal year to 189,661 million yen, due to an increase in other financial liabilities reflecting an increase in lease liabilities as a result of the application of IFRS 16 Leases, despite a decrease in trade and other payables.

Equity

Total equity decreased approximately 5,300 million yen from the end of the previous fiscal year to 59,999 million yen, despite posting profit. 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 fell 2.1 percentage points from the end of the previous fiscal year to 22.6%.

(3) Overview of Cash Flows for the Fiscal Year under Review

Cash Flow Analysis

Cash Flow from Operating Activities

Net cash provided by operating activities for the fiscal year under review was 21,642 million yen, which is an increase of approximately 700 million yen from the previous fiscal year. This was mainly attributable to an increase in depreciation and amortization expenses and cash inflows from working capital.

Cash Flow from Investing Activities

Net cash used in investing activities for the fiscal year under review was 19,675 million yen, which is a decrease of approximately 6,100 million yen from the end 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 Flow from Financing Activities

Net cash used in financing activities for the fiscal year under review was 1,665 million yen, which is an increase of approximately 10,100 million yen from the end 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 fiscal year under review decreased approximately 900 million yen from the end of the previous fiscal year to 39,933 million yen.

(4) Outlook for the Future

Outlook for the Next Fiscal Year

The global economy is expected to remain uncertain due to the spread of the novel coronavirus pandemic, which has caused stagnant consumer spending and corporate business activities as well as restrictions on going out and moving around in many countries.

Under these circumstances, the Group is working to minimize the impact on business activities. However, it is difficult to reasonably calculate the impacts of the novel coronavirus pandemic at the moment. Therefore, the consolidated earnings forecast for the next fiscal year (fiscal year ending March 2021) is undecided. It will be disclosed promptly when it becomes possible to calculate it in the future.

Policy for Profit Distribution and Dividends for the Current and the Next Fiscal Year

JVCKENWOOD's most important management priorities include stable distribution of profits and ensuring the necessary management resources for future growth. The amount of the dividend of surplus and other amounts appropriated are determined by giving comprehensive consideration to the Group's profitability and financial position.

For the fiscal year under review (fiscal year ended March 2020), JVCKENWOOD is scheduled to distribute a year-end dividend of 5 yen per share based on its profit performance and above-mentioned dividend policy, as announced in "Notice Regarding Appropriation of Surplus" on May 20.

The dividend for the next fiscal year (fiscal year ending March 2021) is undecided at the moment.

2. Consolidated Financial Statements

(1) Consolidated statement of financial position

(JPY in Million)

	Previous Fiscal Year (as of Mar. 31, 2019)	Current Fiscal Year (as of Mar. 31, 2020)
Assets		
Current assets		
Cash and cash equivalents	40,844	39,933
Trade and other receivables	59,138	51,892
Contract assets	2,022	1,617
Other financial assets	1,517	861
Inventories	44,583	46,194
Right to recover products	349	255
Income taxes receivable	838	1,089
Other current assets	4,396	3,985
Sub total	153,690	145,830
Assets classified as held for sale	203	-
Total current assets	153,894	145,830
Non-current assets		
Property, plant and equipment	45,110	53,993
Goodwill	3,376	3,268
Intangible assets	19,809	20,149
Net defined benefit assets	4,237	3,229
Investment property	2,221	2,274
Investments accounted for using the equity method	4,293	3,330
Other financial assets	11,183	11,406
Deferred tax assets	5,267	5,178
Other non-current assets	1,222	997
Total non-current assets	96,723	103,830
Total assets	250,617	249,660

(JPY in Million)

	Previous Fiscal Year (as of Mar. 31, 2019)	Current Fiscal Year (as of Mar. 31, 2020)
Liabilities and equity		
Liabilities		
Current liabilities		
Trade and other payables	44,868	39,086
Contract liabilities	2,261	2,489
Refund liabilities	4,237	4,179
Short-term borrowings	24,447	24,460
Other financial liabilities	1,539	5,091
Income taxes payable	1,536	1,303
Provisions	1,784	1,309
Other current liabilities	23,410	23,123
Total current liabilities	104,085	101,043
Non-current liabilities		
Long-term borrowings	46,865	50,144
Other financial liabilities	1,595	7,983
Net defined benefit liabilities	28,236	26,008
Provisions	1,471	1,187
Deferred tax liabilities	1,843	1,878
Other non-current liabilities	1,196	1,415
Total non-current liabilities	81,210	88,617
Total liabilities	185,296	189,661
Equity		
Capital stock	13,645	13,645
Capital surplus	42,086	42,086
Retained earnings	6,634	5,547
Treasury stock	-38	-39
Other components of equity	-318	-4,755
Equity attributable to owners of the parent company	62,009	56,485
Non-controlling interests	3,311	3,513
Total equity	65,321	59,999
Total liabilities and equity	250,617	249,660

(2) Consolidated statement of financial position

(Consolidated Statement of Income)

(JPY in Million)

	Previous Fiscal Year (Apr.1, 2018 - Mar.31, 2019)	Current Fiscal Year (Apr.1, 2019 - Mar.31, 2020)
Revenue	307,627	291,304
Cost of sales	223,332	212,217
Gross profit	84,294	79,087
Selling, general and administrative expenses	75,732	73,402
Other income	1,775	1,741
Other expenses	2,688	2,934
Foreign exchange losses	-386	-410
Operating profit	7,263	4,080
Finance income	304	308
Finance expenses	1,076	1,163
Share of loss of investments accounted for using the equity method	-90	-348
Profit before income taxes	6,401	2,877
Income tax expenses	2,099	1,540
Profit	4,301	1,337
Profit attributable to:		
Owners of the parent company	3,847	954
Non-controlling interests	454	382
Profit	4,301	1,337
Earnings per share (attributable to owners of the parent company)		
Basic earnings per share	25.00 yen	5.82 yen
Diluted earnings per share	24.96 yen	— yen

(Consolidated Statement of Comprehensive Income)

(JPY in Million)

	Previous Fiscal Year (Apr.1, 2018 - Mar.31, 2019)	Current Fiscal Year (Apr.1, 2019 – Mar.31, 2020)
Profit	4,301	1,337
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	-861	-482
Remeasurement of defined benefit plans	146	414
Fair value gain on investment property	16	—
Share of OCI of investments accounted for using the equity method	4	-1
Total of items that will not be reclassified subsequently to profit or loss	-694	-68
Items that may be reclassified subsequently to profit or loss		
Exchange differences arising on translation of foreign operations	575	-3,540
Cash flow hedges	1,272	-53
Share of OCI of investments accounted for using the equity method	33	-498
Total of items that may be reclassified subsequently to profit or loss	1,881	-4,092
OCI, net of income tax	1,187	-4,161
Comprehensive income	5,488	-2,823
Total comprehensive income attributable to:		
Owners of the parent company	4,943	-3,098
Non-controlling interests	545	274
Comprehensive income	5,488	-2,823

(3) Consolidated Statement of Cash Flows

(JPY in Million)

	Previous Fiscal Year (Apr.1, 2018 - Mar.31, 2019)	Current Fiscal Year (Apr.1, 2019 – Mar.31, 2020)
Cash flows from operating activities		
Profit before income taxes	6,401	2,877
Depreciation and amortization	17,794	20,199
Impairment losses	1,012	1,425
Decrease in net defined benefit liabilities	-212	-1,560
Decrease in net defined benefit assets	497	990
Finance income	-304	-308
Finance expenses	1,076	1,163
Gain on revaluation of financial assets measured at fair value through profit and loss	-491	-352
Gain on sales of property, plant and equipment	-69	-348
Loss on disposal of property, plant and equipment	401	86
Decrease in trade and other receivables	1,000	6,101
Increase in inventories	-17	-2,882
Decrease in trade and other payables	-2,197	-3,938
Decrease in other current liabilities	-1,756	-174
Other, net	492	757
Sub-total	23,626	24,038
Interest received	229	243
Dividend received	74	65
Interest paid	-863	-1,035
Income taxes paid	-2,083	-1,669
Net cash provided by operating activities	20,983	21,642
Cash flows from investing activities		
Placement of time deposit with original maturity of more than three months	-324	-0
Withdrawal of time deposit with original maturity of more than three months	23	412
Purchases of property, plant and equipment	-7,860	-8,170
Proceeds from sales of property, plant and	171	1,051
Purchases of intangible assets	-12,757	-12,945
Purchases of debt instruments	-401	—
Purchases of equity instruments	-693	-2
Purchases of investments accounted for using the equity method	-2,389	—
Payment for acquisition of control over subsidiaries	-1,240	—
Other, net	-295	-21
Net cash used in investing activities	-25,768	-19,675
Cash flows from financing activities		
Proceeds from short-term borrowings	18,296	9,552
Repayment of short-term borrowings	-17,335	-8,586
Proceeds from long-term borrowings	16,210	21,964
Repayment of long-term borrowings	-13,905	-19,197
Repayment of lease liabilities	—	-3,714
Cash dividends paid	-833	-983
Proceeds from issuance of shares resulting from exercise of subscription rights to shares	7,258	—
Other, net	-1,211	-700
Net cash provided by (used in) financing activities	8,479	-1,665
Net increase (decrease) in cash and cash equivalents	3,682	-910
Cash and cash equivalents at beginning of year	37,162	40,844
Effect of exchange rate changes on cash and cash equivalents	-12	-1,211
Cash and cash equivalents at end of year	40,844	39,933