

JVCKENWOOD

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Company	JVCKENWOOD Corporation
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**Accounting Report for the First Half of Fiscal Year Ending March 2021
(April 1, 2020 – September 30, 2020)**

Consolidated Financial Highlights for the Second Quarter of Fiscal Year Ending March 2021 (April 1, 2020 – September 30, 2020)

Operating Results

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

	2nd Quarter FYE 3/2020 (April 1, 2019 to September 30, 2019)	2nd Quarter FYE 3/2021 (April 1, 2020 to September 30, 2020)
Revenue	146,696	117,698
Operating profit	3,177	-3,352
Profit before tax	2,690	-3,605
Profit attributable to owners of the parent company	1,203	-4,292
Comprehensive income	-2,188	-2,406
Basic net income per share	7.34 yen	-26.18 yen

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 half of the fiscal year under review declined sharply from the same period a year earlier. This was due to a significant impact caused by the further spread of the novel coronavirus infection in the first quarter of the fiscal year under review, which began in the fourth quarter of the previous fiscal year. Operating profit of the JVCKENWOOD Group as a whole declined sharply from a year earlier due to the decrease in revenue. However, in the second quarter of the fiscal year under review, both revenue and operating profit increased sharply from the first three months of the fiscal year under review.

An overview of the impact of the spread of the novel coronavirus infection on consolidated earnings of the JVCKENWOOD Group for the first half of the fiscal year under review by sector is as provided below.

• **Automotive Sector**

In the Aftermarket Business, the domestic market was affected by the declaration of a state of emergency in the first quarter of the fiscal year under review caused by the spread of the novel coronavirus infection and subsequent requests for people to stay at home. However, sales of the Saisoku-Navi series car navigation systems remained robust and sales of dashcam products picked up due partly to the effects of the implementation of the revised Road Traffic Act in the second quarter of the fiscal year under review. In the overseas market, market conditions are on a gradual recovery trend primarily in the Americas and Europe following the resumption of economic activities. However, revenue was affected by a slowdown in sales activities caused by stay-at-home regulations in other regions. The OEM Business saw a recovery in sales attributed to the resumption of production by automobile manufacturers in and after May in the overseas market and a recovery trend of automobile sales in the domestic market in the second quarter of the fiscal year under review.

• **Public Service Sector**

The Communications Systems Business saw a contraction in sales due to the continued impact of a slowdown in sales activities in the second quarter of the fiscal year under review in addition to the impact of the shutdown of a plant in Malaysia, where one of the Company's main plants is located, from the end of March to the end of April. In the Professional Systems Business, JVCKENWOOD Public & Industrial Systems Corporation, which plays a central role in the business, saw a contraction in sales due to the continued impact of a decline in capital investment in the second quarter of the fiscal year under review caused by the declaration of a state of emergency in Japan.

• **Media Service Sector**

In the Media Business, the BtoB business was affected by the deterioration of market conditions, while sales of home audio and earphones remained strong in line with an increase in teleworking and demand for staying at home in Japan. The Entertainment Business was affected by cancellations, etc., of artists' events, including live performance events, due to the declaration of a state of emergency in Japan and subsequent initiatives to prevent the spread of infection.

• **Others**

Sales related to telematics solutions in the DX* Business remained strong.

*Digital Transformation

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

		1Q	2Q
Profit-and-loss exchange rate	U.S. dollar	Approx. 108 yen	Approx. 106 yen
	Euro	Approx. 119 yen	Approx. 124 yen
FY2019 (for reference)	U.S. dollar	Approx. 110 yen	Approx. 107 yen
	Euro	Approx. 124 yen	Approx. 119 yen

Revenue

Revenue for the first half of the fiscal year under review declined approximately 29,000 million yen, or 19.8%, from a year earlier to 117,698 million yen.

However, in the second quarter of the fiscal year under review, revenue was on a recovery trend in all sectors compared to the first three months of the fiscal year under review due to the mitigation of the impact of the spread of the novel coronavirus infection.

Operating Profit

Operating profit for the first half of the fiscal year under review declined approximately 6,500 million yen from a year earlier to a loss of 3,352 million yen, reflecting the decrease in revenue. However, there was a significant reduction in operating loss in the second quarter of the fiscal year under review from the first three months of the fiscal year under review attributed to a recovery of revenue. For the first half of the fiscal year under review, government subsidies for employing employees, etc., were recognized as net profit or loss and subtracted from cost of sales and selling, general and administrative expenses.

Operating performance by business segment 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 half of the fiscal year under review declined approximately 5,300 million yen from a year earlier to a loss of 2,693 million yen. This happened because, although the Others segment maintained profitability, profit fell in all other sectors. However, it returned to a profit of 430 million yen in the second quarter of the fiscal year under review.

*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 or gains.

Profit Before Income Taxes

Profit before income taxes for the first half of the fiscal year under review declined approximately 6,300 million yen from a year earlier to a loss of 3,605 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 first half of the fiscal year under review declined approximately 5,500 million yen from a year earlier to a loss of 4,292 million yen, reflecting a decline in profit before income taxes.

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Revenue and Core Operating Income (Loss) by Business Segment

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

First Half of the Fiscal Year Ending March 2021 (from April 1, 2020 to September 30, 2020) (Million yen)

Segment		First Half of FYE3/20	First Half of FYE3/21	Year-on-year Comparison
Automotive Sector	Revenue	78,321	60,563	-17,758
	Core operating income	1,593	-1,761	-3,354
Public Service Sector	Revenue	33,378	25,224	-8,154
	Core operating income	293	-1,873	-2,166
Media Service Sector	Revenue	27,817	22,349	-5,468
	Core operating income	436	-302	-738
Others*	Revenue	7,178	9,560	+2,382
	Core operating income	309	1,243	+934
Total	Revenue	146,696	117,698	-28,998
	Core operating income	2,633	-2,693	-5,326
	Operating profit	3,177	-3,352	-6,529
	Profit before income taxes	2,690	-3,605	-6,295
	Profit attributable to owners of the parent company	1,203	-4,292	-5,495

*Others mainly consist of DX Business.

Automotive Sector

Revenue of the Automotive Sector for the first half of the fiscal year under review decreased approximately 17,800 million yen, or 22.7%, from a year earlier to 60,563 million yen. Core operating income declined approximately 3,400 million yen from a year earlier to a loss of 1,761 million yen.

➤ Revenue

In the Aftermarket Business, revenue increased from a year earlier due to the recovery trend of sales in the second quarter of the fiscal year under review. In the domestic market, sales of Saisoku-Navi series car navigation systems remained solid, while sales of dashcams achieved year-on-year growth due partly to the effects of the implementation of the revised Road Traffic Act. In the overseas market, sales recovered primarily in the Americas and Europe following the resumption of economic activities. Sales increased year-on-year in the Americas. However, revenue in the first half of the fiscal year under review declined from the same period a year earlier due to the significant impacts of the stay-at-home order and closure of distribution outlets in the first quarter of the fiscal year under review caused by the spread of the novel coronavirus infection.

In the OEM Business, revenue in the first half of the fiscal year under review declined from the same period a year earlier. This was due to the impact of a decline in the number of new cars sold by automobile manufacturers caused by the spread of the novel coronavirus infection in the first quarter of the fiscal year under review, although sales of dealer-installed products in Japan and ASK Industries S.p.A., a subsidiary in Europe, returned to a recovery trend following a recovery in the number of new cars sold by automobile manufacturers in the second quarter of the fiscal year under review.

➤ Core Operating Income

In the Aftermarket Business and OEM Business, core operating income declined from a year earlier due to the aforementioned decrease in revenue. However, core operating income in the sector as a whole turned positive in the second quarter of the fiscal year under review.

Public Service Sector

Revenue of the Public Service Sector for the first half of the fiscal year under review decreased approximately 8,200 million yen, or 24.4%, from a year earlier to 25,224 million yen. Core operating income declined approximately 2,200 million yen from a year earlier to a loss of 1,873 million yen.

➤ Revenue

Revenue at the Communications Systems Business declined approximately 4,900 million yen from a year earlier. This primarily reflected the impact of a shutdown of a plant in Malaysia, where one of the Company's main plants is located, caused by the Malaysian government's movement control order in the first quarter of the fiscal year under review, in addition to sluggish orders received in the business industry market caused by the impacts of stay-at-home orders and closure of distribution outlets following the spread of the novel coronavirus infection around the world.

Revenue at the Professional Systems Business declined approximately 3,200 million yen from a year earlier due primarily to the continued impact of a decline in capital investment in the second quarter of the fiscal year under review caused by the declaration of a state of emergency in Japan in the first quarter of the fiscal year under review.

➤ Core Operating Income

In the Communications Systems Business and Professional Systems Business, core operating income declined from a year earlier due to the aforementioned decrease in revenue. However, core operating income in the Communications Systems Business turned positive in the second quarter of the fiscal year under review.

Media Service Sector

Revenue of the Media Service Sector for the first half of the fiscal year under review decreased approximately 5,500 million yen, or 19.7%, from a year earlier to 22,349 million yen. Core operating income declined approximately 700 million yen from a year earlier to a loss of 302 million yen.

➤ Revenue

Revenue at the Media Business declined approximately 1,800 million yen from a year earlier. This reflected the impact of the deterioration in market conditions in the BtoB business following the spread of the novel coronavirus infection, although sales of portable power and home audio increased attributing to an increase in teleworking and demand for staying at home, and sales of imaging devices remained strong due to the wide spread use of 5G.

Revenue at the Entertainment Business declined approximately 3,700 million yen from a year earlier due primarily to the continued impact of the cancellation of artists' events, including live performance events, in the second quarter of the fiscal year under review from the first quarter.

➤ Core Operating Income

In the Media Business and Entertainment Business, core operating income declined from a year earlier due to the aforementioned decrease in revenue.

In the first quarter of the fiscal year under review, the JVCKENWOOD Group transferred the Contract Production Business, such as CDs/DVDs (packaged software), which had been included in the Entertainment Business, to the Media Business due to changes in its management scope. A year-on-year comparison of the Media Business and Entertainment Business above is stated based on the new business segments after changes in the scope of management, including year-on-year comparisons.

In the DX Business, which is included in Others, revenue achieved significant year-on-year growth and core operating income also increased significantly due to strong sales of telematics solutions despite the impact of the declaration of a state of emergency in Japan in the first quarter of the fiscal year under review.

(2) Description of Financial Position

Analysis of Assets, Liabilities, and Equity, etc.

Assets

Total assets declined approximately 3,900 million yen from the end of the previous fiscal year to 245,779 million yen. This was due to a decrease in trade and other receivables, as well as inventories, despite an increase in cash and cash equivalents.

Liabilities

Total liabilities declined approximately 400 million yen from the end of the previous fiscal year to 189,261 million yen, due to a decrease in trade and other payables, as well as net defined benefit liabilities caused by a shift of JVCKENWOOD Public & Industrial Systems to a defined contribution pension system, despite an increase in borrowings.

Equity

Total equity decreased approximately 3,500 million yen from the end of the previous fiscal year to 56,518 million yen. This was because of a decrease in retained earnings as a result of posting a quarterly loss.

The ratio of equity attributable to owners of the parent company declined 1.0 percentage point from the end of the previous fiscal year to 21.6% due to a decrease in equity attributable to owners of the parent company.

Cash Flow Analysis

Cash Flow from Operating Activities

Net cash provided by operating activities for the first half of the fiscal year under review was 13,699 million yen, which is a decrease of approximately 600 million yen from the same period of the previous fiscal year. This was mainly attributable to the posting of a quarterly loss before taxes despite an improvement due to a decrease in inventories.

Cash Flow from Investing Activities

Net cash used in investing activities for the first half of the fiscal year under review was 6,496 million yen, which is a decrease of approximately 2,700 million yen from the same period of the previous fiscal year. This was mainly due to a decrease in cash outflows for purchases of property, plant and equipment and intangible assets.

Cash Flow from Financing Activities

Net cash provided by financing activities for the first half of the fiscal year under review was 2,115 million yen, which is an increase of approximately 3,200 million yen from the same period of the previous fiscal year. This was mainly due to an increase in bank borrowings.

Cash and cash equivalents at the end of the first half of the fiscal year under review increased approximately 5,500 million yen from the same period of the previous fiscal year to 49,247 million yen.

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

Earning Forecast for FYE3/21

During the first half of the fiscal year under review, both revenue and operating profit experienced a sharp year-on-year decline due to the significant impact caused by the spread of the novel coronavirus infection.

However, core operating income turned positive in the second quarter of the fiscal year under review due to solid performance in the DX Business and the recovery trend in the Automotive Sector.

In the third quarter of the fiscal year under review and thereafter, in the Automotive Sector, we will expand sales of new car navigation that will be fully released in the third quarter of the fiscal year under review and thereafter as dealer installed products in the OEM Business, backed by earlier than expected recovery in the automobile market. We will also further boost sales of Saisoku-Navi, which has been robust in the domestic market, in the Aftermarket Business and dashcam products.

In the Public Service Sector, we will expand sales at the Group's U.S. communication system subsidiaries in the public safety market where demand has been relatively stable amid the novel coronavirus pandemic in the Communications Systems Business. We will also expand orders for digital radio systems in the North American business industry market, which is recovering gradually. In the Professional Systems Business, we will strive

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to receive orders for short lead time projects through proposals for products and systems to support BCP, which ensures continuation of business activities amid the novel coronavirus pandemic.

In the Media Service Sector, we will expand product lines such as portable power whose sales have been robust in the Media Business, as well as home audio and earphones that respond to an increase in demand for staying at home. In the Entertainment Business, we will secure sales through such measures as online distribution and proposing new operation of live music clubs with an eye to the world after COVID-19.

In the Other segment, we will promote the new “Space & Service” solution business for stores and plants in addition to the launch of new projects related to automotive telematics solutions, which have been robust in the DX Business.

Although the impact of the novel coronavirus infection is gradually easing with the peak in the first quarter of the fiscal year under review, the outlook remains uncertain, including the second wave of infections overseas. Therefore, we will not revise our consolidated earnings forecast for the fiscal year ending March 2021 announced on August 3, 2020.

	Consolidated earnings forecast for the fiscal year ending March 2021
Revenue	260,000 million yen
Operating profit	2,000 million yen
Profit before income taxes	850 million yen
Profit attributable to owners of the parent company	-1,400 million yen

Profit-and-loss exchange rates used as assumptions in the aforementioned earning forecast are: USD 1=JPY 107 and EUR 1=JPY 120.

The aforementioned earning forecast was prepared by the JVCKENWOOD Group based on information available at the time of announcement of this document. Actual business results may differ from the forecast values due to various factors.

2. Quarterly Consolidated Financial Statements**(1) Quarterly Consolidated statement of financial position**

(JPY in Million)

	Previous Fiscal Year (as of Mar. 31, 2020)	End of current consolidated second quarter (as of Sep. 30, 2020)
Assets		
Current assets		
Cash and cash equivalents	39,933	49,247
Trade and other receivables	51,892	45,939
Contract assets	1,617	1,694
Other financial assets	861	437
Inventories	46,194	41,995
Right to recover products	255	283
Income taxes receivable	1,089	915
Other current assets	3,985	4,947
Total current assets	145,830	145,461
Non-current assets		
Property, plant and equipment	53,993	51,475
Goodwill	3,268	3,307
Intangible assets	20,149	19,221
Net defined benefit assets	3,229	2,977
Investment property	2,274	2,231
Investments accounted for using the equity method	3,330	3,891
Other financial assets	11,406	11,200
Deferred tax assets	5,178	5,036
Other non-current assets	997	975
Total non-current assets	103,830	100,317
Total assets	249,660	245,779

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(JPY in Million)

	Previous Fiscal Year (as of Mar. 31, 2020)	End of current consolidated second quarter (as of Sep. 30, 2020)
Liabilities and equity		
Liabilities		
Current liabilities		
Trade and other payables	39,086	35,428
Contract liabilities	2,489	2,968
Refund liabilities	4,179	4,308
Short-term borrowings	24,460	28,906
Other financial liabilities	5,091	4,931
Income taxes payable	1,303	1,227
Provisions	1,309	1,210
Other current liabilities	23,123	23,221
Total current liabilities	101,043	102,202
Non-current liabilities		
Long-term borrowings	50,144	51,430
Other financial liabilities	7,983	7,374
Net defined benefit liabilities	26,008	23,728
Provisions	1,187	1,193
Deferred tax liabilities	1,878	1,848
Other non-current liabilities	1,415	1,482
Total non-current liabilities	88,617	87,058
Total liabilities	189,661	189,261
Equity		
Capital stock	13,645	13,645
Capital surplus	42,086	42,086
Retained earnings	5,547	2,232
Treasury stock	-39	-39
Other components of equity	-4,755	-4,890
Equity attributable to owners of the parent company	56,485	53,034
Non-controlling interests	3,513	3,483
Total equity	59,999	56,518
Total liabilities and equity	249,660	245,779

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

(JPY in Million)

	Accumulated period for previous consolidated second quarter (Apr.1, 2019 – Sep. 30, 2019)	Accumulated period for current consolidated second quarter (Apr.1, 2020 – Sep. 30, 2020)
Revenue	146,696	117,698
Cost of sales	107,750	88,720
Gross profit	38,945	28,978
Selling, general and administrative expenses	36,312	31,671
Other income	857	559
Other expenses	252	1,181
Foreign exchange losses	-60	-36
Operating profit (loss)	3,177	-3,352
Finance income	171	113
Finance expenses	561	550
Share of profit (loss) of investments accounted for using the equity method	-96	184
Profit (loss) before income taxes	2,690	-3,605
Income tax expenses	1,258	405
Profit (loss)	1,432	-4,010
Profit (loss) attributable to:		
Owners of the parent company	1,203	-4,292
Non-controlling interests	229	281
Profit (loss)	1,432	-4,010
Earnings per share (attributable to owners of the parent company)		
Basic earnings (loss) per share	7.34 yen	-26.18 yen
Diluted earnings per share	—yen	—yen

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(Quarterly Consolidated Statement of Income)

(JPY in Million)

	Accumulated period for previous consolidated second quarter (Apr.1, 2019 – Sep. 30, 2019)	Accumulated period for current consolidated second quarter (Apr.1, 2020 – Sep. 30, 2020)
Profit (loss)	1,432	-4,010
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	25	505
Remeasurement of defined benefit plans	109	1,796
Share of OCI of investments accounted for using the equity method	-1	2
Total of items that will not be reclassified subsequently to profit or loss	133	2,303
Items that may be reclassified subsequently to profit or loss		
Exchange differences arising on translation of foreign operations	-2,926	-288
Cash flow hedges	-506	-687
Share of OCI of investments accounted for using the equity method	-322	276
Total of items that may be reclassified subsequently to profit or loss	-3,754	-699
OCI, net of income tax	-3,621	1,604
Comprehensive income	-2,188	-2,406
Total comprehensive income attributable to:		
Owners of the parent company	-2,284	-2,631
Non-controlling interests	95	225
Comprehensive income	-2,188	-2,406

(3) Quarterly Consolidated Statement of Cash Flows

(JPY in Million)

	Accumulated period for previous consolidated second quarter (Apr.1, 2019 – Sep. 30, 2019)	Accumulated period for current consolidated second quarter (Apr.1, 2020 – Sep. 30, 2020)
Cash flows from operating activities		
Profit (loss) before income taxes	2,690	-3,605
Depreciation and amortization	9,840	9,545
Decrease in net defined benefit liabilities	-138	-337
Decrease in net defined benefit assets	266	247
Finance income	-171	-113
Finance expenses	561	550
Gain on revaluation of financial assets measured at fair value through profit and loss	-403	-79
Loss on disposal of property, plant and equipment	24	796
Decrease in trade and other receivables	5,817	5,965
Decrease (increase) in inventories	-2,418	4,255
Decrease in trade and other payables	-977	-2,953
Decrease (increase) in other current liabilities	-73	627
Other, net	591	-179
Sub-total	15,610	14,719
Interest received	125	58
Dividend received	45	55
Interest paid	-500	-492
Income taxes paid	-945	-642
Net cash provided by operating activities	14,335	13,699
Cash flows from investing activities		
Withdrawal of time deposit with original maturity of more than three months	151	9
Purchases of property, plant and equipment	-3,879	-2,542
Proceeds from sales of property, plant and equipment	349	20
Purchases of intangible assets	-6,426	-4,503
Distribution from debt instruments	-	622
Purchases of equity instruments	-1	-1
Other, net	565	-101
Net cash used in investing activities	-9,240	-6,496
Cash flows from financing activities		
Proceeds from short-term borrowings	5,465	4,516
Repayment of short-term borrowings	-3,020	-3,990
Proceeds from long-term borrowings	16,070	8,633
Repayment of long-term borrowings	-15,938	-3,863
Repayment of lease liabilities	-2,037	-2,000
Cash dividends paid	-983	-819
Other, net	-655	-360
Net cash provided by (used in) financing activities	-1,099	2,115
Net increase in cash and cash equivalents	2,864	9,313
Cash and cash equivalents at beginning of year	40,844	39,933
Effect of exchange rate changes on cash and cash equivalents	-1,131	-5
Cash and cash equivalents at end of quarter	43,708	49,247