

# JVC Kenwood Group Results and Forecast Briefing

Second Quarter of Fiscal Year Ending March 2010

JVC KENWOOD Holdings, Inc.  
October 29, 2009

# **Financial Results Overview for Second Quarter of Fiscal Year Ending March 2010**

Satoshi Fujita, General Executive,  
Strategic Finance & Accounting Division

# **Business Forecasts and Future Measures for Fiscal Year Ending March 2010**

Haruo Kawahara, President, Chairman and CEO

Abbreviations referred to in the materials

CE: Car Electronics H&M: Home & Mobile Electronics PS: Professional Systems ET: Entertainment  
FYE: Fiscal Year Ending / Ended

# **Financial Results Overview for Second Quarter of Fiscal Year Ending March 2010**

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## **Loss disposition accompanying reform of business structure** (announced on Oct. 23)

We have promoted the structural reform of the Home & Mobile Electronics (H&M) business centering on JVC's overseas sales corporations.



To reinforce the profit base of the H&M business of overseas sales corporations in Europe (including Russia) and China for the future.

- (1) Reviewed the joint sales promotion expenses mainly related to displays and re-evaluate the inventory.
- (2) Recorded the business structure reform expenses.

### Disposition of loss

(billion yen)

Operating expense	Non-operating expense	Extraordinary loss	Total
5.5	1.2	0.9	7.6

# 2Q - Business Results (Consolidated)

## Net sales

- \* Sales of Car Electronics (CE) business and Land Mobile Radio (LMR) business recovered as expected.

## Profit/loss

- \* As a result of structural reform, additional measures and management integration, the LMR business and CE business (consumer/OEM) recovered and existing businesses recorded a positive operating profit as expected.
- \* Due to a disposition of loss accompanying the reform of the business structure of JVC's overseas sales corporations in Europe (including Russia) and China, we finally recorded a loss that was much lower than expected.

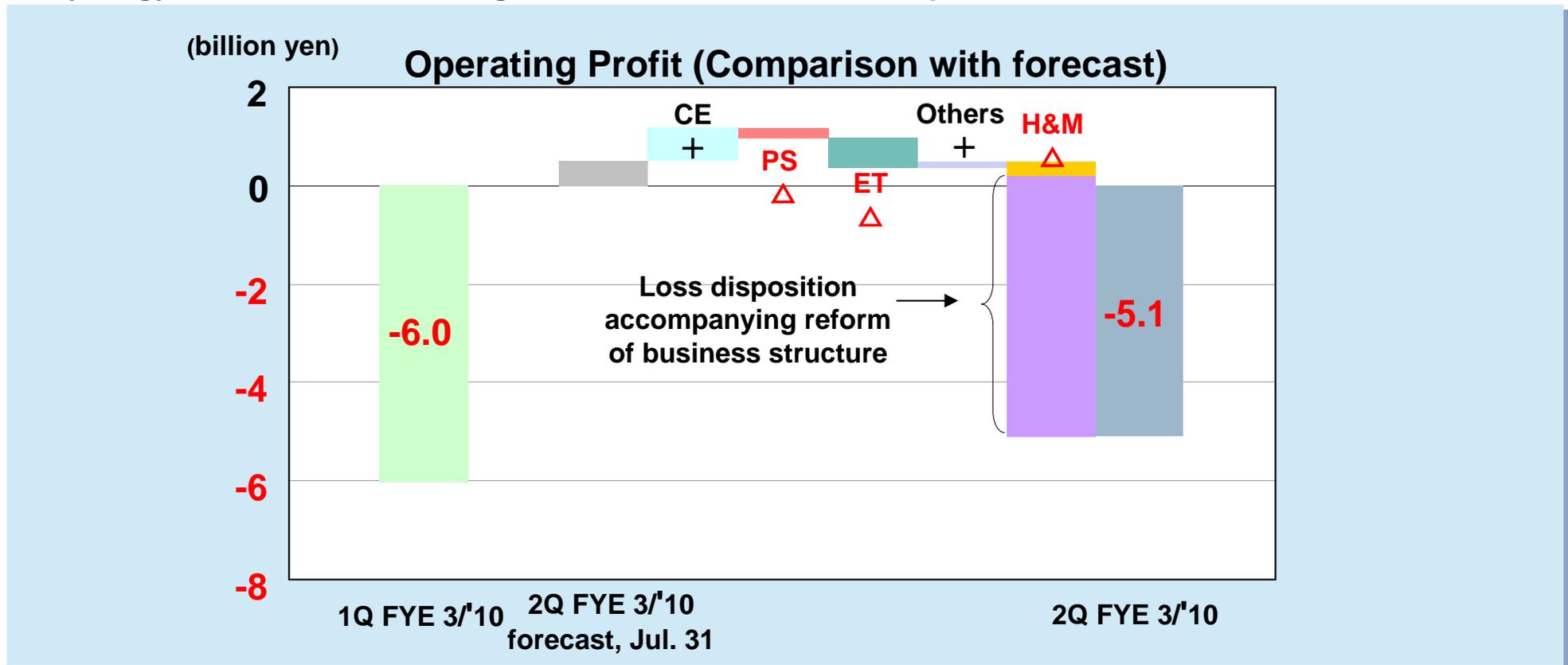
	(billion yen)				
	Net Sales	Operating Profit	Ordinary Income	Net Income	Exchange Rate
1Q	99.1	-6.0	-7.1	-8.0	US\$: JPY97 Euro: JPY133
2Q	104.8	-5.1	-7.6	-13.5	US\$: JPY94 Euro: JPY134
First half	204.0	-11.1	-14.6	-21.5	US\$: JPY96 Euro: JPY133



# 2Q - Financial Results - Operating Profit

## 2Q: JPY-5.1B (First half: JPY-11.1B)

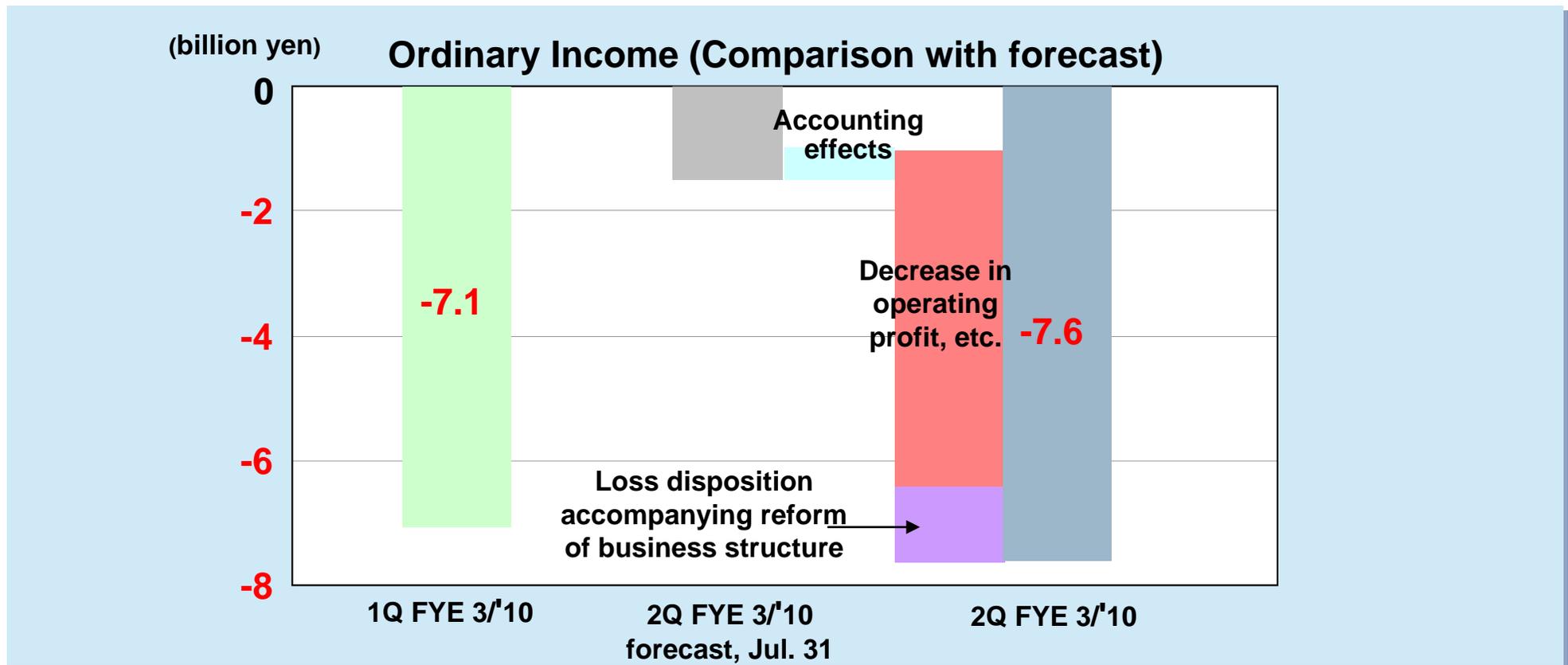
- \* With respect to the existing businesses, the LMR business recovered and recorded a profit and the CE business also recovered more than expected and recorded a profit for the first time after management integration; therefore, the entire company achieved a profit of JPY0.4B as expected.
- \* Final operating profit was much lower than expected because of a tentative disposition of loss due to the structural reform mentioned above (JPY5.5B), but compared with 1Q, it improved by JPY0.9B.
- \* The effects of cost reduction (JPY6.4B) and the effects of management integration (JPY2.5B), such as the cost synergy effect and accounting effect, were achieved as expected.



# 2Q - Financial Results - Ordinary Income

## 2Q: JPY-7.6B (First half: JPY-14.6B)

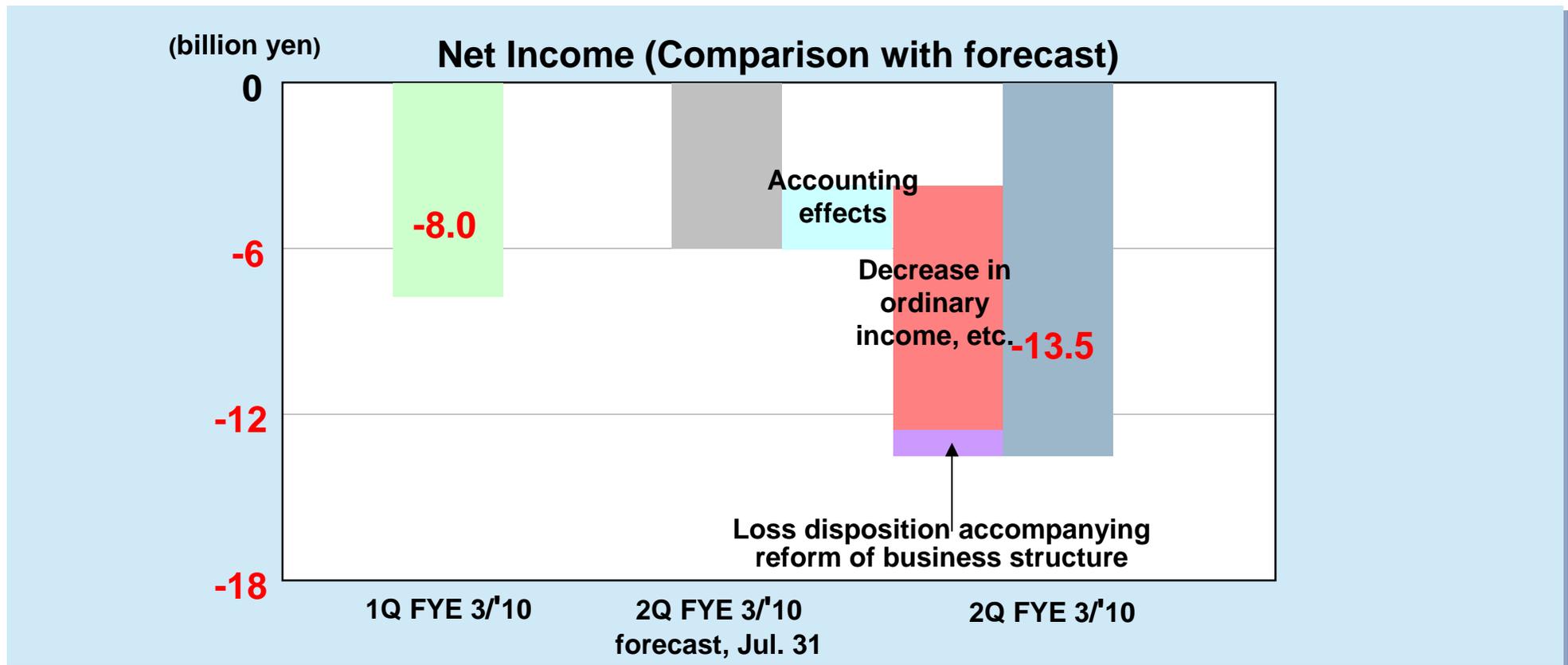
- \* Ordinary income was much lower than expected due to a decrease in operating profit and the abovementioned disposition of loss (JPY1.2B).
- \* Accounting effects (JPY0.5B) of amortizing “negative goodwill”, etc. were achieved as expected.
- \* Compared with 1Q, the ordinary income decreased by JPY0.5B.



# 2Q - Financial Results – Net income

## 2Q: JPY-13.5B (First half: JPY-21.5B)

- \* Net income was much lower than expected due to a decrease in ordinary income and the abovementioned disposition of loss (JPY0.9B).
- \* Accounting effects (JPY2.3B) by reserve for restructuring costs and application of the consolidated taxation system were higher than expected.
- \* Compared with 1Q, the net income decreased by JPY5.4B.



# 2Q - Comparison with Previous Period\* (Reference)

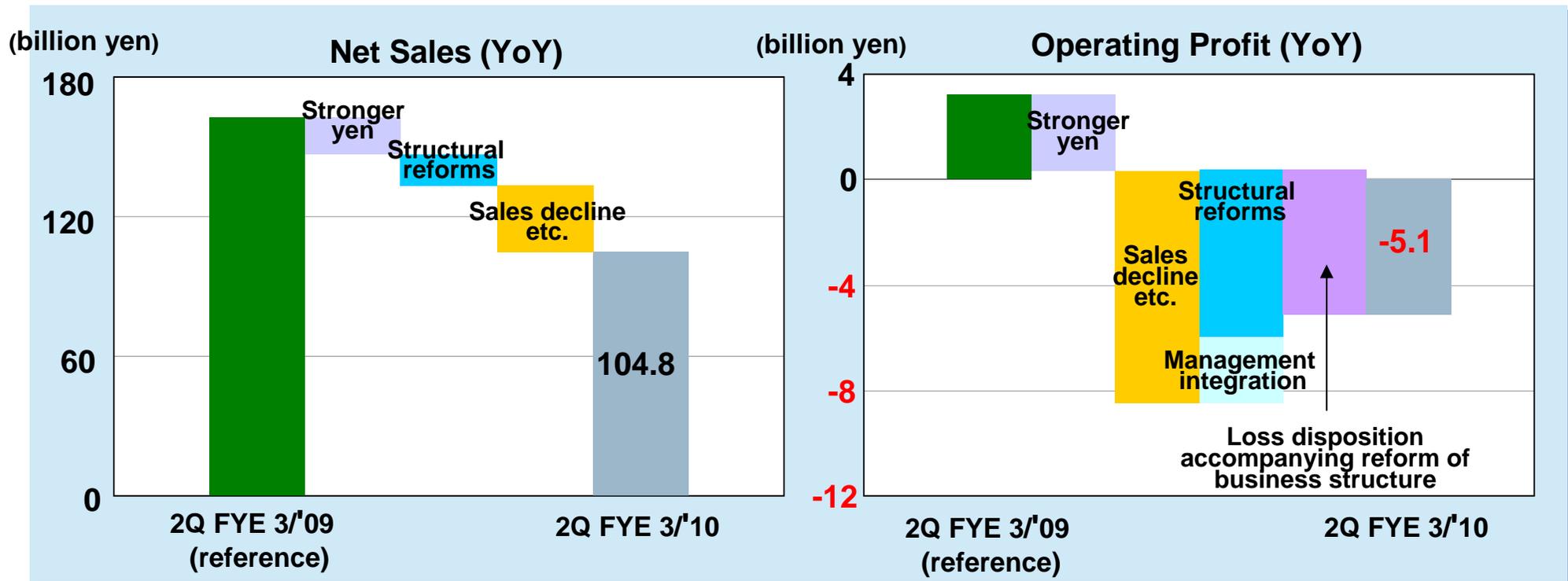
\* For the FYE 3/'09, the sum of results of JVC and Kenwood is stated (JVC's sales are converted using the net method).

## Net sales

Reflected the effects of a stronger yen (**JPY-15.6B**), structural reforms (**JPY-13.5B**), such as a reduction in Japanese consumer LCD TV and transfer of devices and recording media, and a decline in sales and price drops (**JPY-28.7B**).

## Operating profit

Reflected the effects of a stronger yen (**JPY-2.9B**), a decline in sales (**JPY-8.9B**), the effect of restructuring and additional measures (**JPY6.4B**), and the effect of management integration (**JPY2.5B**), Loss disposition accompanying reform of business structure (**JPY-5.5B**).



# 2Q - Comparison with Previous Period\* (Reference)

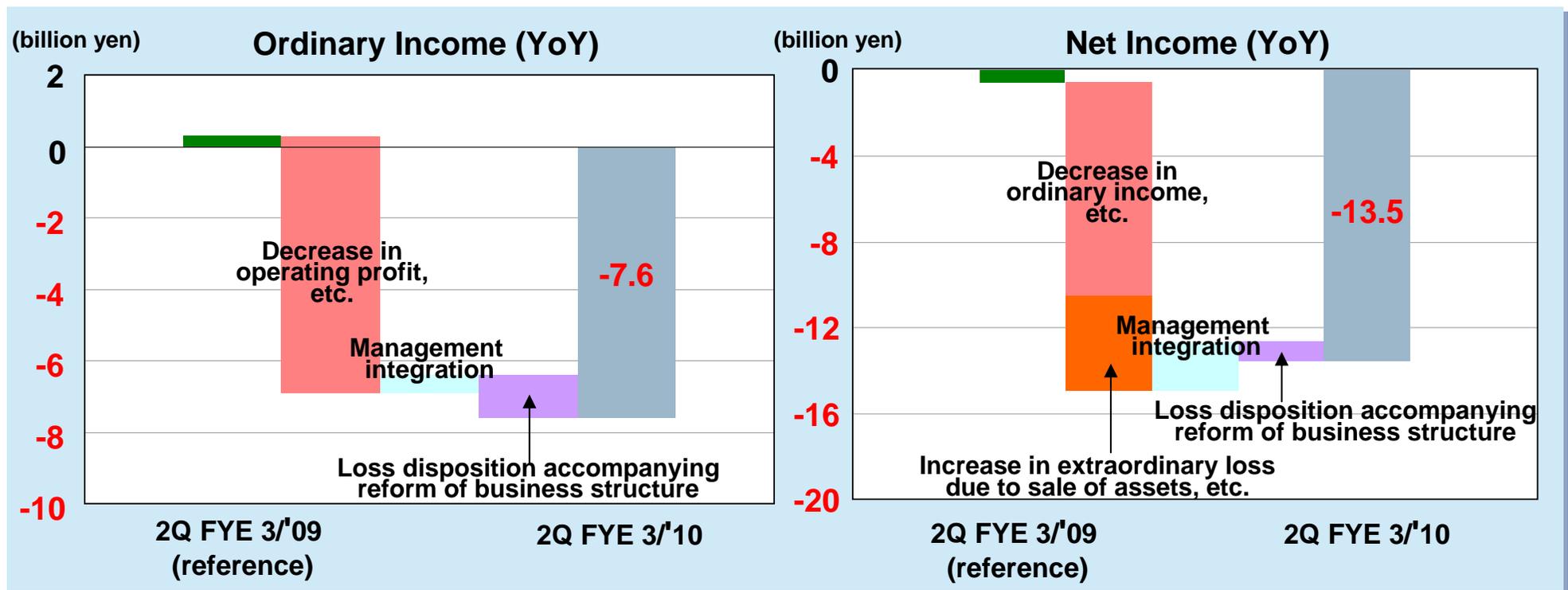
\* For the FYE 3/09, the sum of results of JVC and Kenwood is stated.

## Ordinary income

Reflected a decrease in operating profit, etc. (JPY-7.2B),  
Loss disposition accompanying reform of business structure (JPY-1.2B),  
and the effect of management integration (JPY0.5B).

## Net income

Reflected a decrease in ordinary income, etc. (JPY-9.9B),  
Loss disposition accompanying reform of business structure (JPY-0.9B),  
Increase in extraordinary loss due to sale of assets or other causes (JPY-4.4B),  
and the effect of management integration (JPY2.3B).



# 2Q - Effects of Structural reforms (additional measures) and management integration

## Effect of structural reforms (additional measures)

- \* Reform of business structure
- \* Reform of employment structure
- \* Emergency measures

## Effect of management integration

- \* Cost synergy (such as development, procurement and intellectual property)
- \* Accounting effects (purchase method and negative goodwill)
- \* Effect of consolidated taxation

(billion yen)

	Operating Profit	Non-operating Profit/Loss	Extraordinary Profit/Loss, Corporate tax, etc.	Total
Effect of additional measures (Annual target of JPY25.0B)	6.4	-	-	6.4
Management integration	2.5	0.5	2.3	5.3
<b>Total</b>	<b>8.9</b>	<b>0.5</b>	<b>2.3</b>	<b>11.7</b>

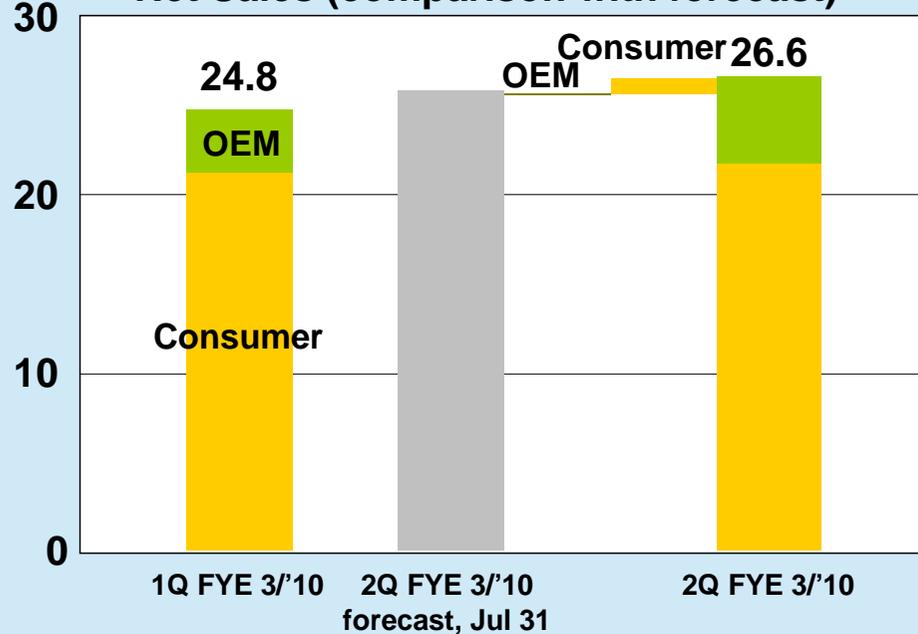
# 2Q - Car Electronics Business

**Net sales** 2Q: JPY26.6B (First half: JPY51.4B)

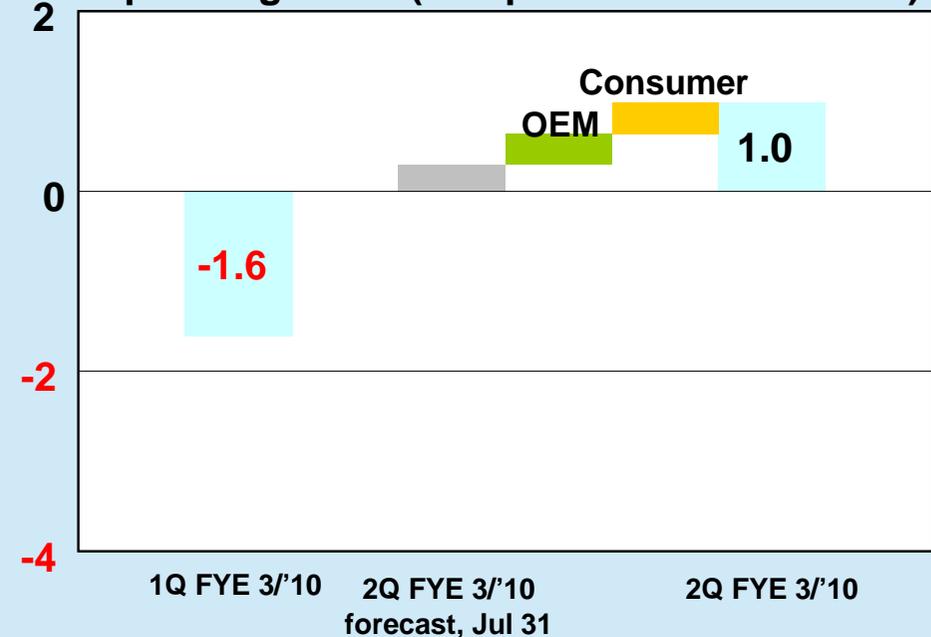
**Operating profit** 2Q: JPY1.0B (First half: JPY-0.6B)

- \* **Consumer:** Following 1Q, the sales continued to make a recovery and our market shares in the main areas significantly increased compared with the same period last fiscal year.
- \* **OEM:** Sales of navigation systems and CD/DVD mechanisms for Japanese and overseas markets increased because of incentive measures taken in various countries in addition to the effects of business structural reforms.
- \* Profit was recorded in both fields of consumer and OEM for the first time after management integration.
- \* Compared with 1Q, net sales increased by 7.0% and operating profit improved by JPY2.7B to return to profitability.

(billion yen) Net Sales (comparison with forecast)



(billion yen) Operating Profit (comparison with forecast)

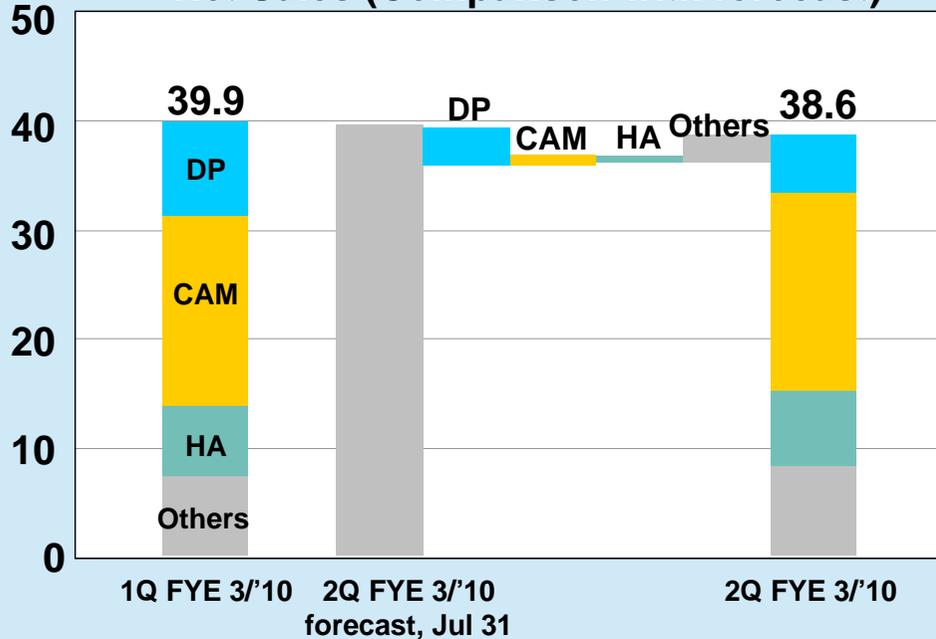


# 2Q - Home & Mobile Electronics Business

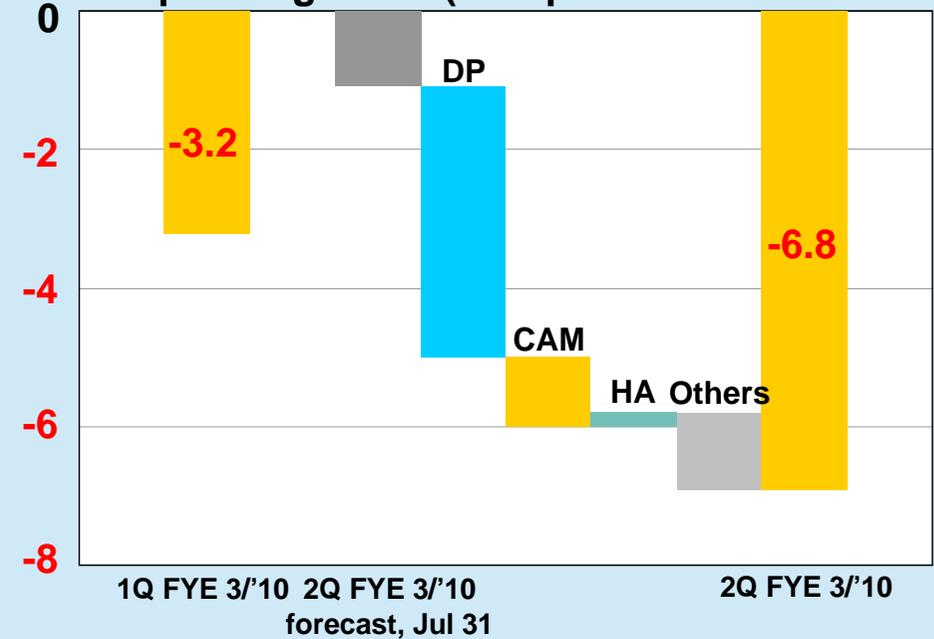
**Net sales**                      **2Q: JPY38.6B (First half: JPY78.5B)**  
**Operating profit**            **2Q: JPY-6.8B (First half: JPY-10.0B)**

- \* **Home Audio (HA):** Profit was recorded as a result of structural reforms.
- \* **Display (DP):** Significant deficit was recorded due to a delay in recovery in Europe, soaring panel costs and the abovementioned disposition of loss.
- \* **Camcorder (CAM):** Sales in the Japanese market were favorable but we did not manage to eliminate the deficit due to intensifying competition in Europe and other places and lower prices.
- \* Compared with 1Q, net sales decreased by 3.2% and operating profit decreased by JPY3.6B

(billion yen) **Net Sales (Comparison with forecast)**



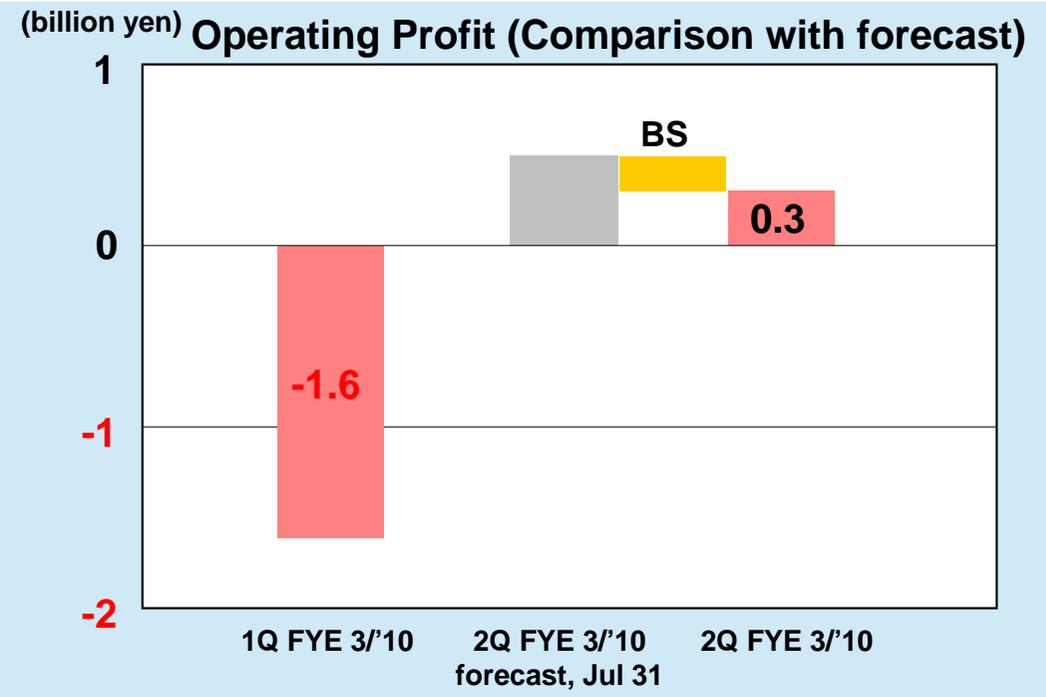
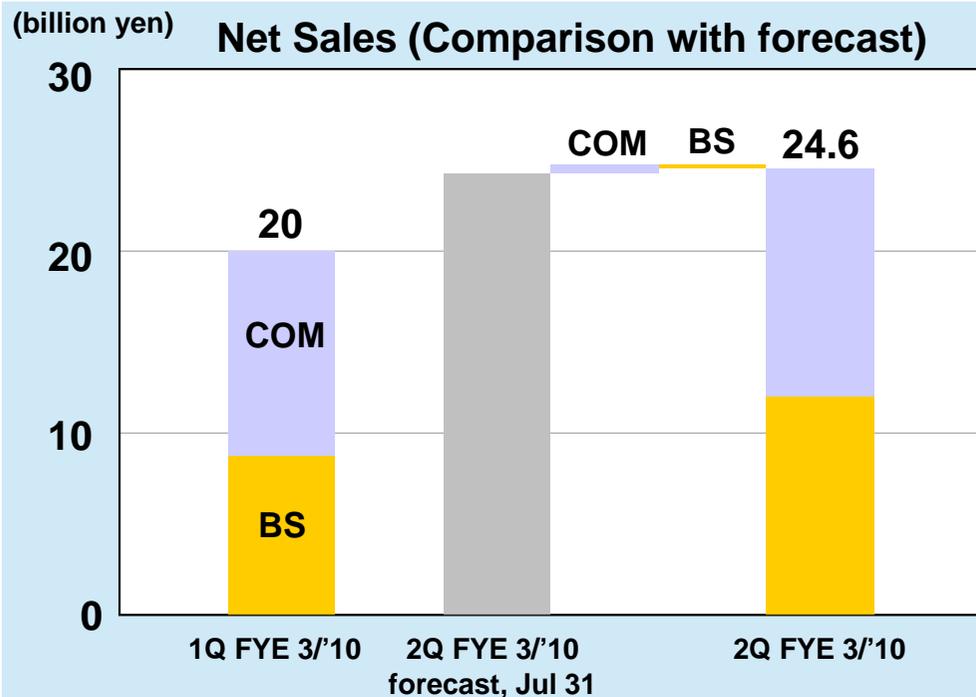
(billion yen) **Operating Profit (Comparison with forecast)**



# 2Q - Professional System Business

**Net sales** 2Q: JPY24.6B (First half: JPY44.6B)  
**Operating profit** 2Q: JPY0.3B (First half: JPY-1.3B)

- \* **Communications Equipment (COM):** Orders for LMR improved because a U.S. policy on investment budgets for the public safety that had been postponed was implemented, and the LMR business returned to profitability.
- \* **Business Solution (BS):** There has been a delay in recovery due to decreasing demand as a result of reduced investments in plant and equipment and lower prices.
- \* Compared with 1Q, net sales increased by 23%, and operating profit increased by JPY1.9B and we posted a surplus.

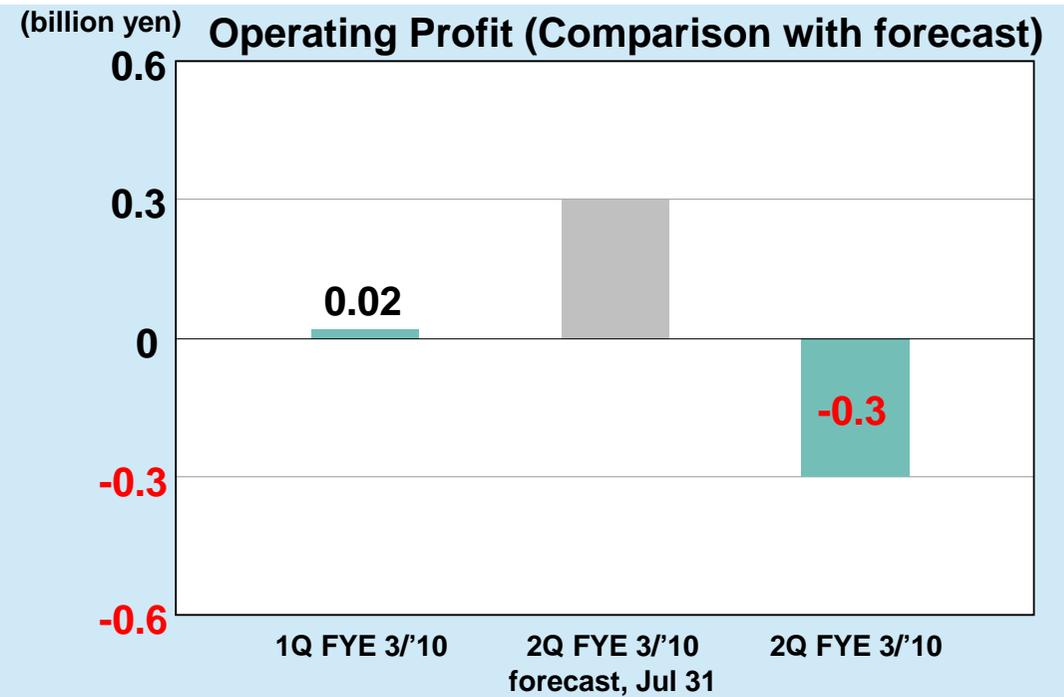
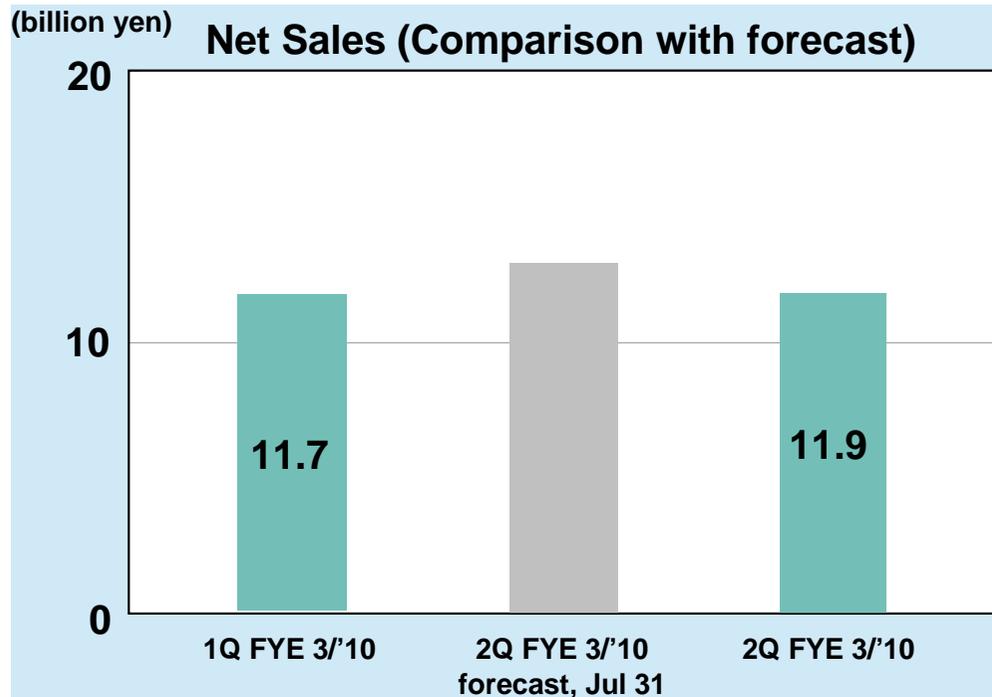


# 2Q - Entertainment Business

**Net sales** 2Q: JPY11.9B (First half: JPY23.6B)

**Operating profit** 2Q: JPY-0.3B (First half: JPY-0.2B)

- \* **Contents:** Despite the popularity of some releases related to blockbusters, other new releases and existing releases did not sell well.
- \* **Consignment:** Although there was an effect from the business alliance with Toppan Printing Co., Ltd., there was not so much hit music software and the number of consignments decreased.
- \* Compared with 1Q, net sales increased by 2%, and operating profit decreased by JPY0.3B.



## Balance Sheet

- \* Total assets decreased by JPY40.6B from the end of FYE 3/'09 due to declines in trades receivable and inventory assets and sale of tangible fixed assets.
- \* Interest-bearing debt decreased by JPY15.1B due to a decline in assets.  
Total debt declined by JPY16.7B and net debt decreased by JPY7.0B.
- \* Shareholders' equity fell by JPY21.3B due to a net loss for the First Half, and total net assets fell by JPY23.9B.

	At the time of JVC Kenwood's launch	End of FYE 3/'09	End of 2Q	(billion yen) Change from end of FYE 3/'09
Total assets	407.4	354.7	314.1	-40.6
Interest-bearing debt	123.1	132.7	117.6	-15.1
Net debts	74.8	80.2	73.2	-7.0
Capital stock	10.0	10.0	10.0	0
Shareholders' equity	120.9	102.1	80.8	-21.3
Net assets	113.9	85.6	61.7	-23.9
Equity ratio (%)	27.5	23.6	19.3	-4.3
Net assets per share (yen)	115.68	86.60	62.82	-23.78

## Cash Flow Key measure “Increase of Cash”

In the first half period, based on “Increase of Cash” as a key measure for the current period, we attempted to reduce assets such as accounts receivable, inventory assets, and properties. Consequently **debt with interest decreased by JPY15.1B** and while we recorded a net loss for 2Q, cash from **operating activities was a net inflow of JPY8.6B**.

### Cash flows from operating activities

- \* Although net income before tax was JPY-19.8B, the balance of necessary operating fund improved due to reductions of trades receivable and inventory assets and increase in accounts payable, and cash from operating activities was a net inflow of JPY8.6B.

### Cash flows from investing activities

- \* Despite the income by the sales of fixed assets, cash flow from investing activities was a net outflow of JPY0.9B due to the acquisition of tangible and intangible fixed assets.

### Cash flows from financing activities

- \* Cash flow from financing activities was a net outflow (decrease) of JPY15.7B due to a decrease in debt with interest through partial redemption of unsecured corporate bonds and the repayment of long-term borrowings.
- \* Cash and cash equivalents were JPY43.7B at the end of the 2Q.

# **Business Forecasts and Future Measures for Fiscal Year Ending March 2010**

Haruo Kawahara, President, Chairman and CEO

# Forecasts for FYE 3/2010 Consolidated Earnings Forecast for the Full Fiscal Year

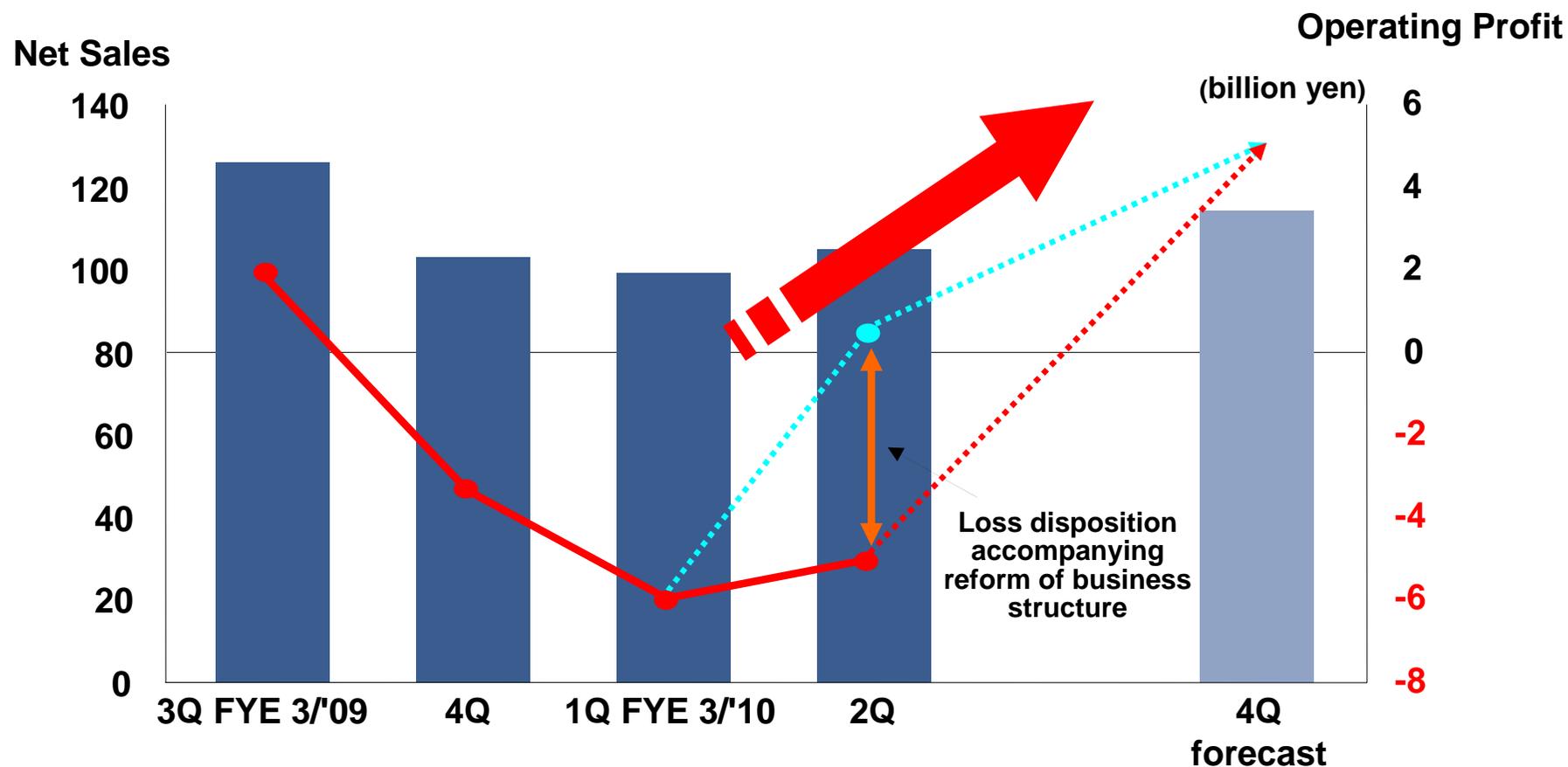
- \* We will restore the main businesses and also promote the improvement of earnings of the H&M business and Professional System (PS) business.
- \* We will concentrate on and shift to our area of specialty centered on the Digital Imaging business (such as video cameras) and the BS business (such as PS). JVC businesses will develop further.

(billion yen)

	Net Sales	Operating Profit	Ordinary Income	Net income
(Forecast, Jul 31)	435	2.0	-3.5	-10
(Revised forecast, Oct 23)	430	-3.5	-10.5	-20
(Changes)	-5.0	-5.5	-7.0	-10
(Reference) (Changes for 1Q-2Q, Oct 23)	-1.0	-5.6	-6.1	-7.5

# Forecasts for FYE 3/2010 Quarterly transition

- \* Profit of the main businesses such as the CE business and LMR business recovered.
- \* We will rebuild the financial and cost structures of the H&M business through loss disposition accompanying the reform of the business structure  
 >> Earning improvements will be promoted further by completing the reform of the business structure
- \* We will also implement a business structure reform of the BS business and rebuild the firm profit base of the PS business in addition to the LMR business.



The three current key measures that we established initially are as follows:

1. **Increase of cash**
2. Closing of **structural reform**
3. **Increase of sales** to earn profit



1. Details of **increase of cash** are as described above.
2. **Structural reform** will make a great stride in 2Q
3. Main businesses are getting better and we will focus on **increase of sales** in the future.

## 1. Business Structural Reform of Home & Mobile Electronics Business

### (i) Structural reform in Europe

- \* For 2Q, we recognized JPY7.6B in total including a disposition of loss resulting from a review of the contribution of joint sales promotion expenses with local dealers related to displays and re-evaluation of inventory and the expenses in connection with the business structural reforms (operating expense of JPY5.5B, non-operating expense of JPY1.2B and extraordinary loss of JPY0.9B) (announced on Oct. 23).
- \* We will concentrate on and shift to camcorders and PS businesses, reorganizing structures, and reducing and decreasing fixed expenses of sales corporations, logistics and service bases so that they are appropriate for the business size.  
>> We will reduce the total number of existing employees of sales corporations by about one-third by the end of March 2010.
- \* We will reinforce alliances and cooperation in the fields of sales, logistics and services of Kenwood. We will consolidate sales, logistics and services into the base in Europe and reorganize and concentrate back office work such as accounting and IT-related work.

### (ii) Structural reform in China

- \* We will strive to expand synergistic effects through a stronger alliance with Kenwood while further reducing the size of our sales corporations and improve profits and strengthen the growth strategy by further focusing on the PS business and the D-ILA projector business.
- \* Properties of Beijing JVC Electronics Co., Ltd. (which is now undergoing liquidation proceedings) will be sold to a state corporation in November.

# Key Measures for the Second Half Action Plan for Business Structure Reform (Announced on Oct. 23)

## 2. Business Structural Reform of Business Solution Business

### (i) Reorganization of Business Solution Staff and Consolidation to JVC Head Office (Yokohama)

- \* All the staff, approximately 700 in total, of the BS Division of JVC who were working for the Hachioji Plant and other offices and departments in various places such as the Sales Department, Technology Department, Service Department and Rearing Business Department including the B-to-B business team will be moved to the Head Office of JVC in Yokohama by December.

### (ii) Establishment of J&K Business Solution Co., Ltd. (tentative name) (Discussion between labor and management started.)

- \* Maintenance, construction and repair departments of Victor Service & Engineering Co., Ltd. and Kenwood Core Corporation will be integrated to establish a new business solution company called J&K Business Solution Co., Ltd. (tentative name) as of December 1 (holding about 250 employees in total).
- \* The Solution Sales department and Design department of JVC and the mobile maintenance team of Kenwood will be integrated into J&K Business Solution, which will result in enhanced sales capabilities in the business solution field. Victor Arcs Co., Ltd. and Video-tech Co., Ltd. will also be placed under J&K Business Solution.
- \* We are currently discussing an early consolidation of after-sale service companies of JVC and Kenwood.

### (iii) Disposition of Plant, Reorganization and Reinforcement of Structure

- \* We sold our Hachioji Plant at the end of September, and integrated its manufacturing equipment in our Yokosuka Plant.
- \* We will reorganize and consolidate the production division of the Digital Imaging business of the Yokosuka Plant in November to reinforce functions of the plant as the parent plant for subsidiaries around the world.

## 3. Strengthening of Consolidated Management System (as of November 1)

In order to relaunch the business of JVC on a new path of recovery as soon as possible, we will encourage a united and consolidated management system.

- \* Mr. Haruo Kawahara, who is the current representative director, chairman, president and CEO of JVC Kenwood, will be appointed as president of JVC. He will manage both JVC and JVC Kenwood.
- \* Mr. Hidetoshi Yoshida, who is the current representative director and president of JVC, will focus on the growth strategy for the entire company as a director of JVC Kenwood.
- \* Mr. Ryuhei Nakazawa, who is the current representative director and vice president of JVC, will assume the office of director of J&K Car Electronics and focus on the enforcement of consolidated operation of the car electronics business.

## 4. Increase of Cash through Substantial Reduction of Assets

- \* Further reduction of inventory assets
- \* Sale of assets - properties of Beijing JVC Electronics (to be scheduled in November) for JPY1.0B.
- \* Others

# Key Measures for the Second Half

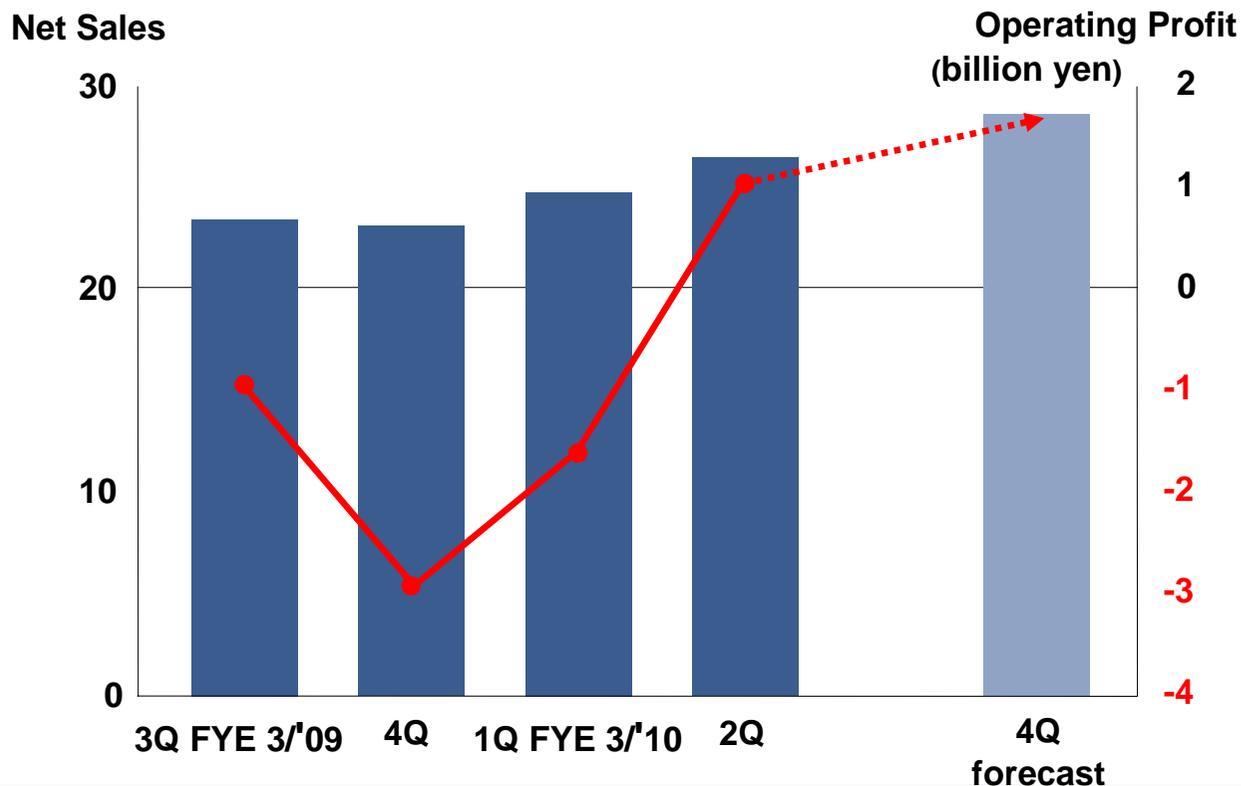
## Car Electronics Business

### Consumer

- \* New products having a common platform will be introduced (audio).
- \* Profit structure for multimedia will be reformed and the first jointly-developed navigation systems will be released.

### OEM

- \* We will expand the dealer option business and reinforce the business base by obtaining new businesses.
- \* We will improve a profit by expanding mechanisms business.



Memory navigation systems for overseas consumers developed in cooperation with Garmin

HDD car navigation systems for Japanese consumers



Unit navigation systems for Honda Access

# Key Measures for the Second Half

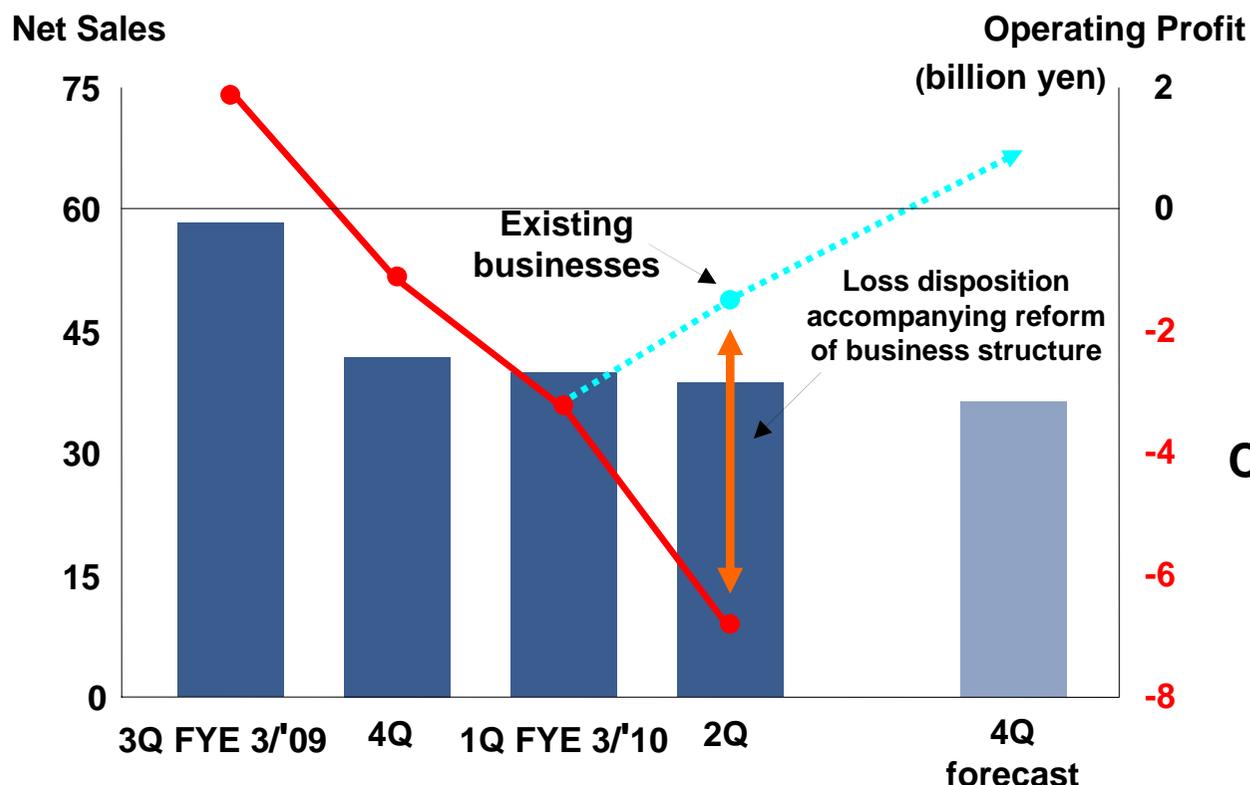
## Home & Mobile Electronics Business

### Home Entertainment (such as displays and home audio)

- \* We will reform the structure of the display business including by reviewing the sales, logistics and after-sale service systems.
- \* We will maximize the effects of management integration in the home audio and expand the AV accessories.

### Digital imaging (such as video cameras)

- \* We will become the main player in the market by providing high-end and middle HD models and create new demand by introducing a new concept "PICSIO".
- \* We will reform the cost structure to correspond to lower prices.



Hi-Vision Memory Movie "Everio" GZ-HM400

HD Memory Camera "PICSIO" GC-FM1



# Key Measures for the Second Half

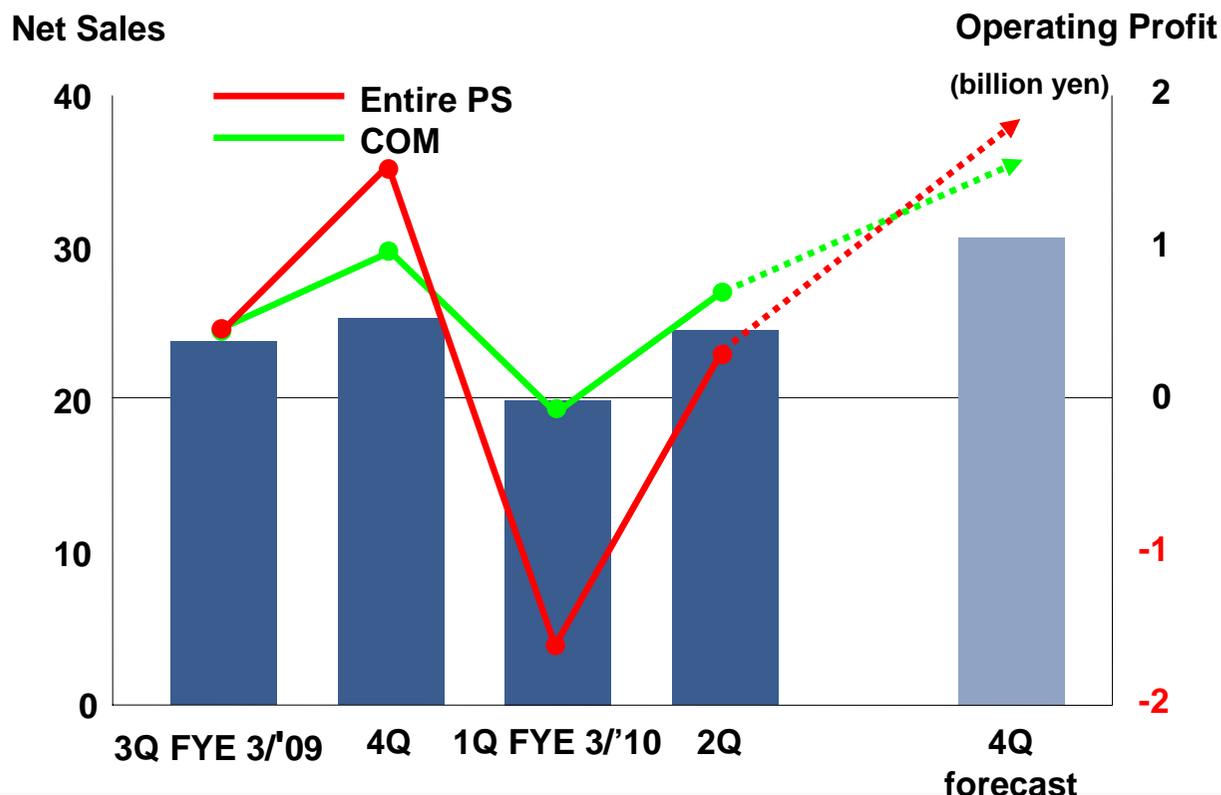
## Professional System Business

### Communications Equipment

- \* Sales will be increased by developing “NEXEDGE”, new products and the market.
- \* We will expand the system business and reinforce the businesses in Japan.

### Business Solutions

- \* We will complete the business structural reform including reorganization and consolidation of bases.
- \* We will enhance the lineup of security cameras and improve the cost competitiveness.



Digital Land Mobile Radio  
“NEXEDGE” series



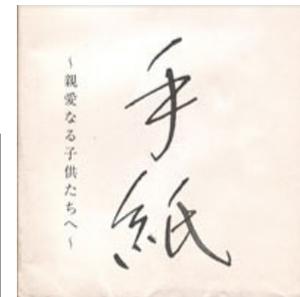
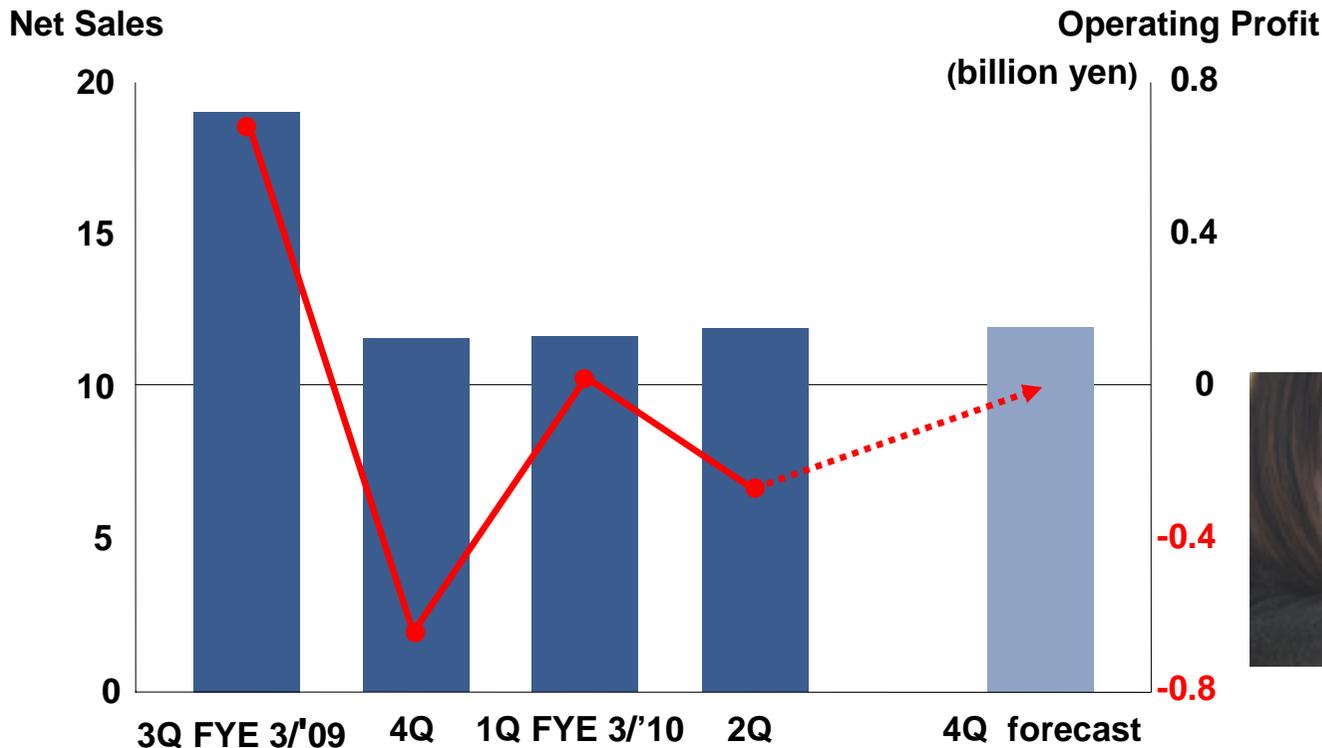
Lineup of New Security Cameras  
VJ series (32 models in total)

# Key Measures for the Second Half

## - Entertainment Business

- \* We will select products and concentrate on certain products to create a blockbuster.
- \* We will improve our capabilities to respond to a change in demand by expanding the network and distribution businesses.

### <Up-and-coming Projects for Second Half>



# Key Measures for the Second Half

## Promotion of Growth Strategy

### New Business — Medium- to Long-term Perspective

First unconventional, new products and new services will be released (announced their development on Sep. 30).

We will revive peoples' audio experiences and depart from such business practices as just selling products.

- \* We will promote a repurchase demand by offering new hardware called "RYOMA", which combines audio, video and communications functions.
- \* We will create a new demand by offering "M-LinX" which is a new service in the digital network era.

Combination of audio and video  
Home AVC

# RYOMA



M-LinX Tuner Box



New service in digital network era  
M-LinX



# JVC KENWOOD HOLDINGS

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