

# **JVCKENWOOD**

# **Results and Forecast Briefing**

**Third Quarter of Fiscal Year Ending March 2014**

JVC KENWOOD Corporation

Car Ele:	Car Electronics (Segment) Consumer (Business) OEM (Business)
Pro:	Professional Systems (Segment) P&H: Professional and Healthcare (Business) COM: Communications (Business)
Optical Audio:	Optical & Audio (Segment) Audio (Business) Imaging (Business) Image & Optical Device (Business)
Soft:	Entertainment Software (Segment) Content (Business) OEM (Business)

- 1. Overview of financial results for the third quarter of the fiscal year ending March 31, 2014**
- 2. Progress of priority measures**
  - 1) Progress of business restructuring measures in FYE3/'14**
  - 2) Measures toward FYE3/'15 and beyond**
    - (i) Structural reform (Reduction in fixed costs totaling JPY 6.5B on a global basis)**
    - (ii) Expansion and upsurge of COM (professional radio system) business**
    - (iii) M&A and strategic alliances, investment & contribution to ventures**
- 3. Full-year earnings forecast for FYE3/'14**

- 1. Overview of financial results for the third quarter of the fiscal year ending March 31, 2014**
2. Progress of priority measures
  - 1) Progress of business restructuring measures in FYE3/'14
  - 2) Measures toward FYE3/'15 and beyond
    - (i) Structural reform (Reduction in fixed costs totaling roughly JPY 6.5B on a global basis)
    - (ii) Expansion and upsurge of COM (professional radio system) business
    - (iii) M&A and strategic alliances, investment & contribution to ventures
3. Full-year earnings forecast for FYE3/'14

# Financial Results for 3Q of FYE3/'14 - Income Statement Summary

\* In 3Q alone, net sales and income increased year on year and net income was posted due mainly to cost reforms although in terms of 1-3Q of the fiscal year, income declined despite higher year-on-year net sales. There are signs of recovery in performance.

(Billion Yen)

3Q		Net sales	Operating income	Ordinary income	Net income
	FYE3/'14	81.9	0.5	(0.3)	(0.6)
	FYE3/'13	75.2	0.4	(2.1)	(2.7)
	YoY change	+6.7	+0.1	+1.8	+2.1

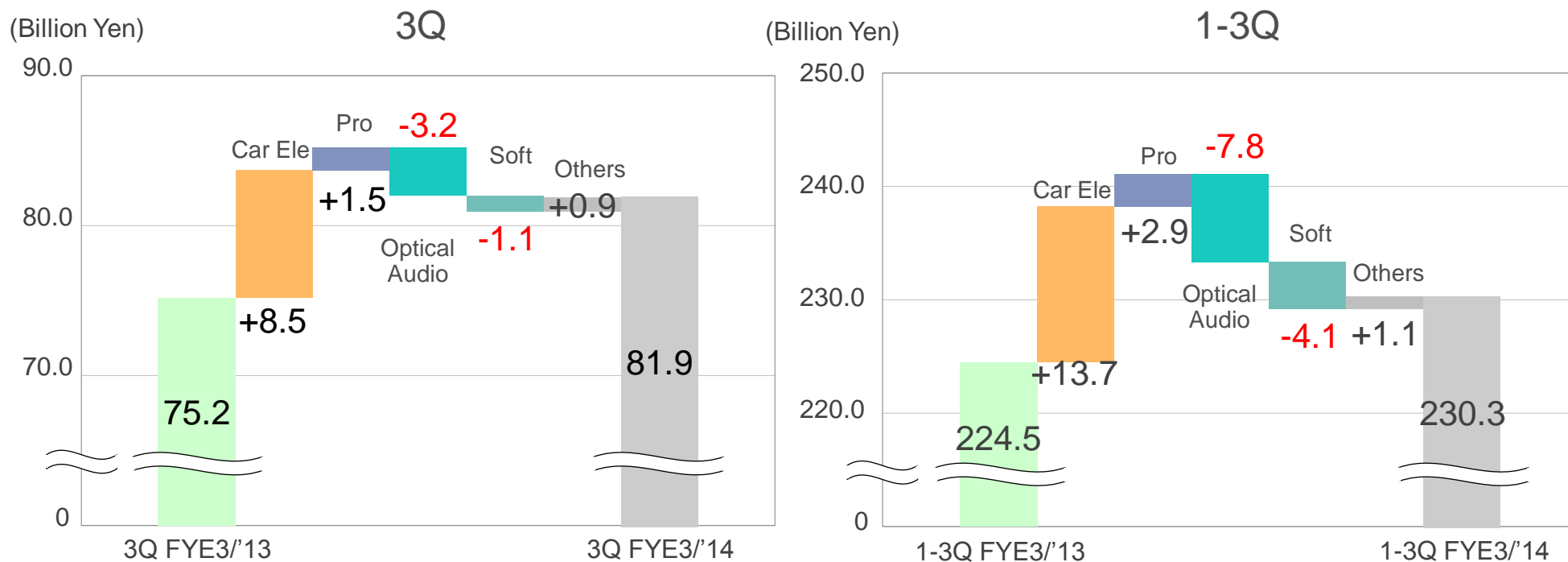
1-3Q (First nine months)		Net sales	Operating income	Ordinary income	Net income
	FYE3/'14	230.3	(1.7)	(4.5)	(5.7)
	FYE3/'13	224.5	4.8	0.8	(1.4)
	YoY change	+5.8	(6.5)	(5.4)	(4.3)

# Financial Results for 3Q of FYE3/'14 - Consolidated Net Sales (By Segment)

\* Consolidated net sales increased since the growth of net sales in Car Ele as a result of making Shinwa a consolidated subsidiary, thus covering the decline in net sales in Optical Audio caused by the curtailment of the imaging business.

- Results for 1-3Q : JPY 230.3B (Up 2.6% YoY)
- Results for 3Q : JPY 81.9B (Up 8.9% YoY)

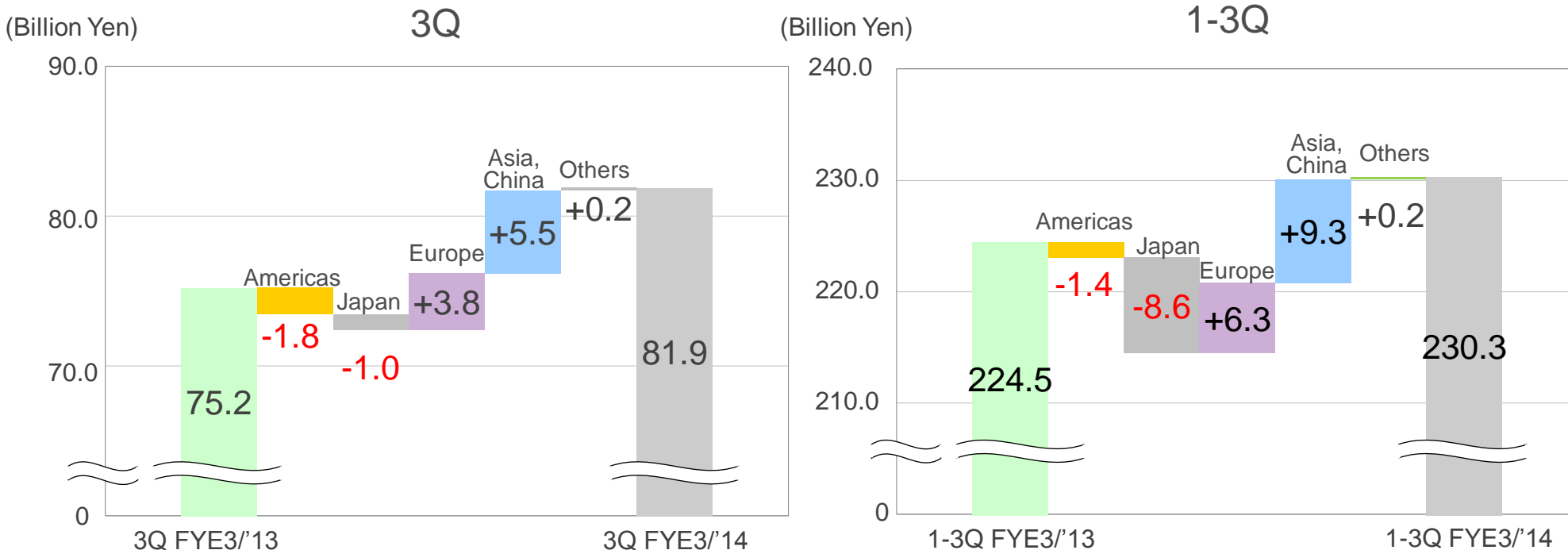
## Net sales (YoY change)



# Financial Results for 3Q of FYE3/'14 - Consolidated Net Sales (By Region)

\* Consolidated net sales increased due to the significant growth in Asia & China as a result of making Shinwa a consolidated subsidiary and the foreign currency translation effects in Europe, although net sales fell in the Americas due to sluggish results in Optical Audio and Pro and also in Japan due to weaker performance in Optical Audio and Soft.

## Net sales (YoY change)



# Financial Results for 3Q of FYE3/'14 - Consolidated Operating Income (By Segment)

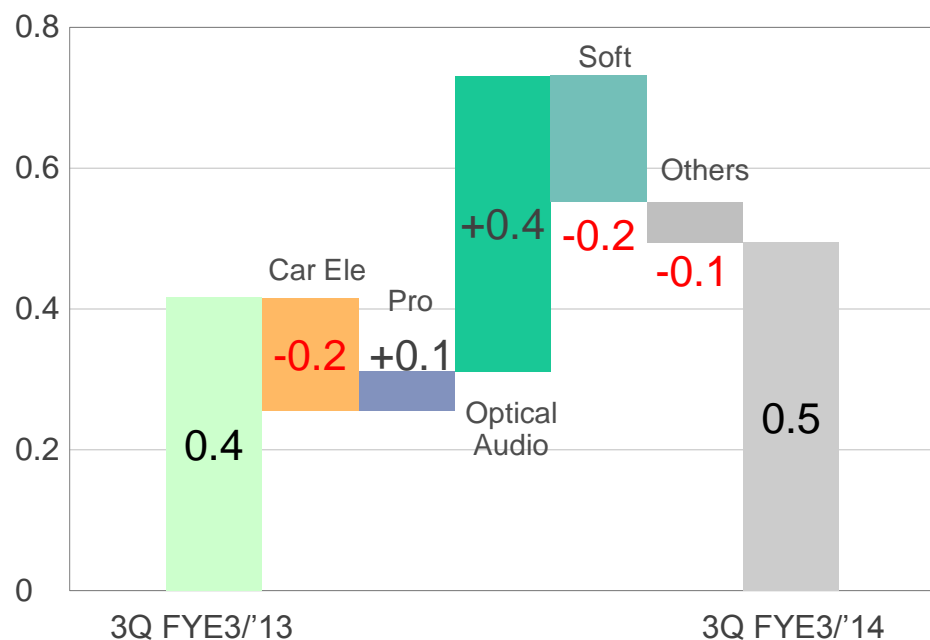
\* Consolidated operating income expanded year on year as each business segment secured income comparable to that of the year before for the 3Q, thanks to the cost restructuring efforts, although operating loss was posted for 1-3Q of the fiscal year.

- Results for 1-3Q : -JPY 1.7B (Down JPY 6.5B YoY)
- Results for 3Q : JPY 0.5B (Up JPY 0.1B YoY)

## Operating income (YoY change)

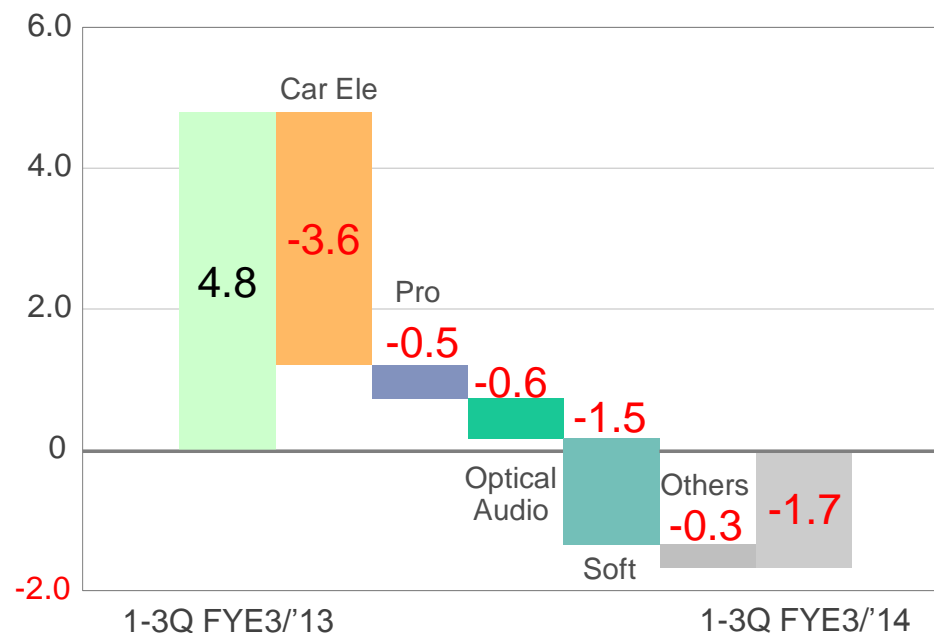
(Billion Yen)

3Q



(Billion Yen)

1-3Q

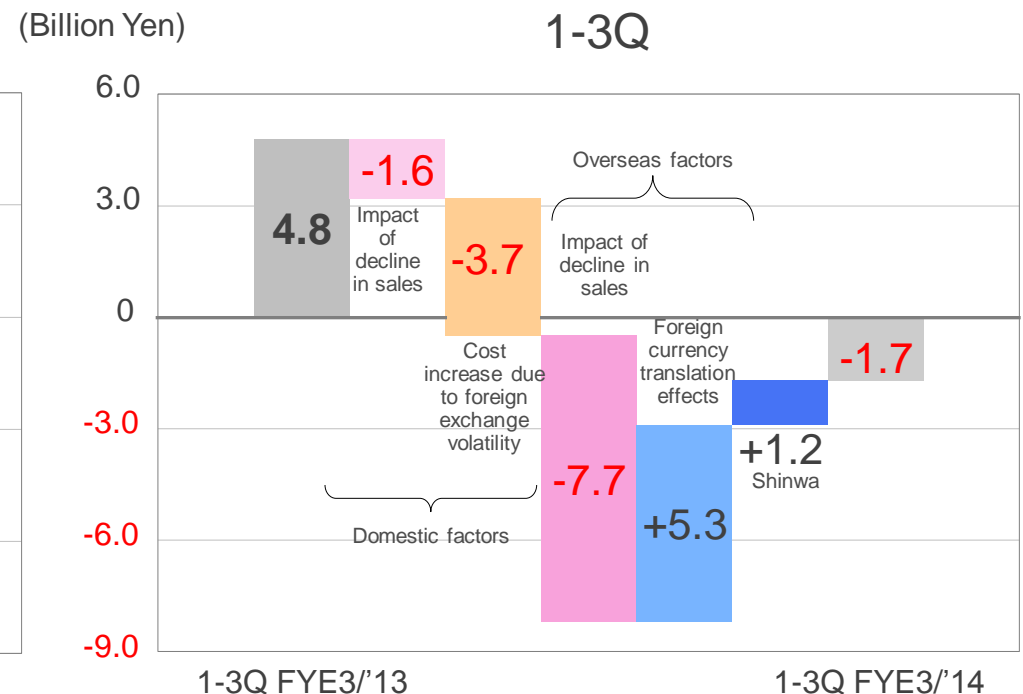
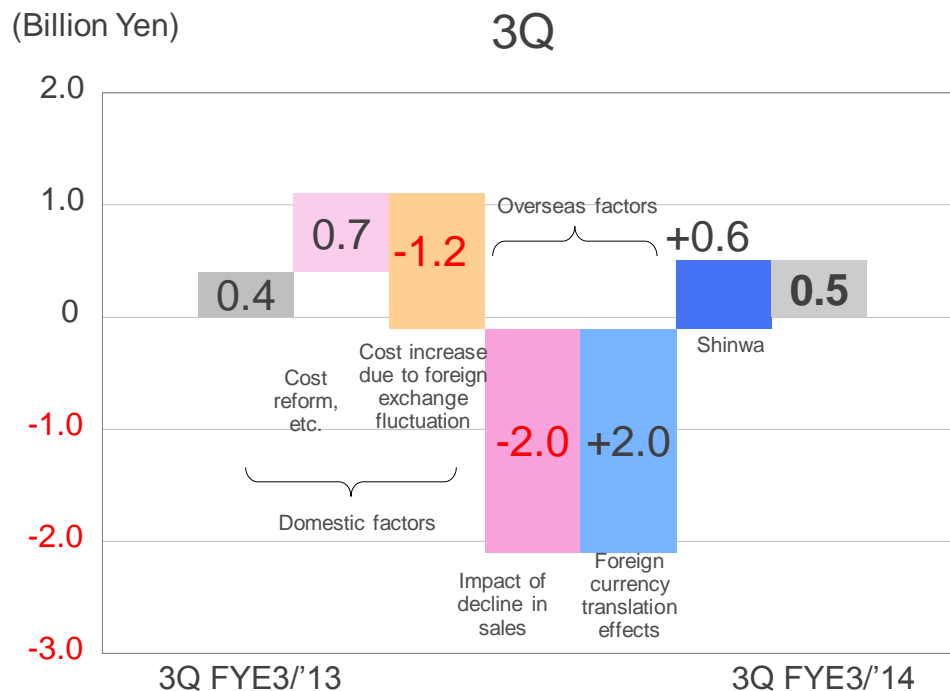




# Financial Results for 3Q of FYE3/'14 - Consolidated Operating Income (By Factor)

\* Since entering 3Q, the domestic market has been showing signs of improvement in issues associated with the weaker yen, mainly as a result of cost restructuring efforts, although lower sales caused by shrinking overseas markets continue to offset the effects of the yen's depreciation.

## Consolidated operating income (YoY change)

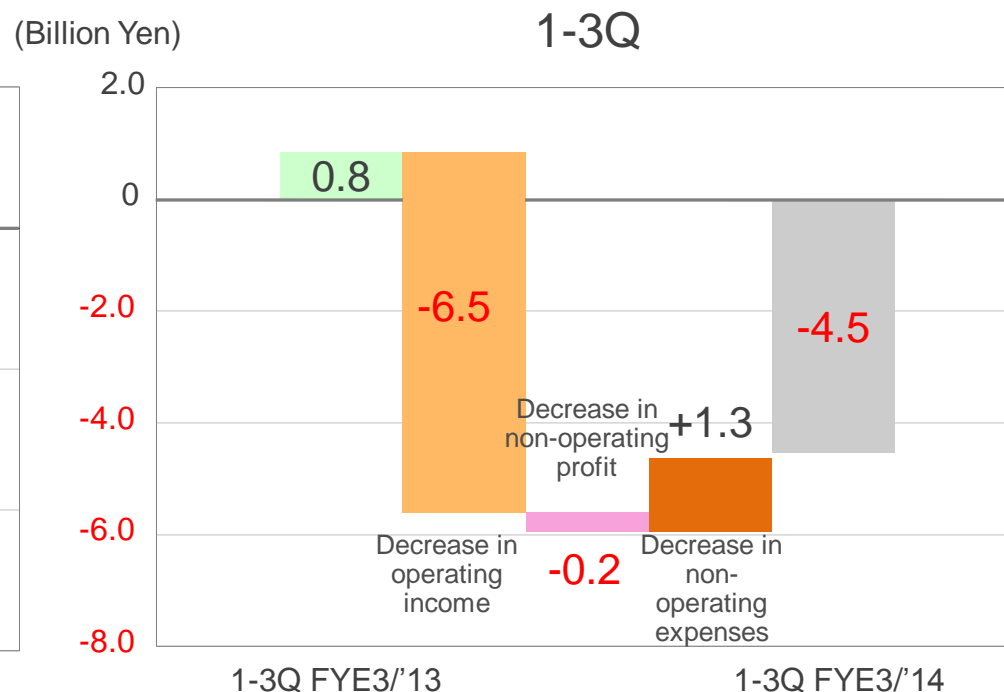
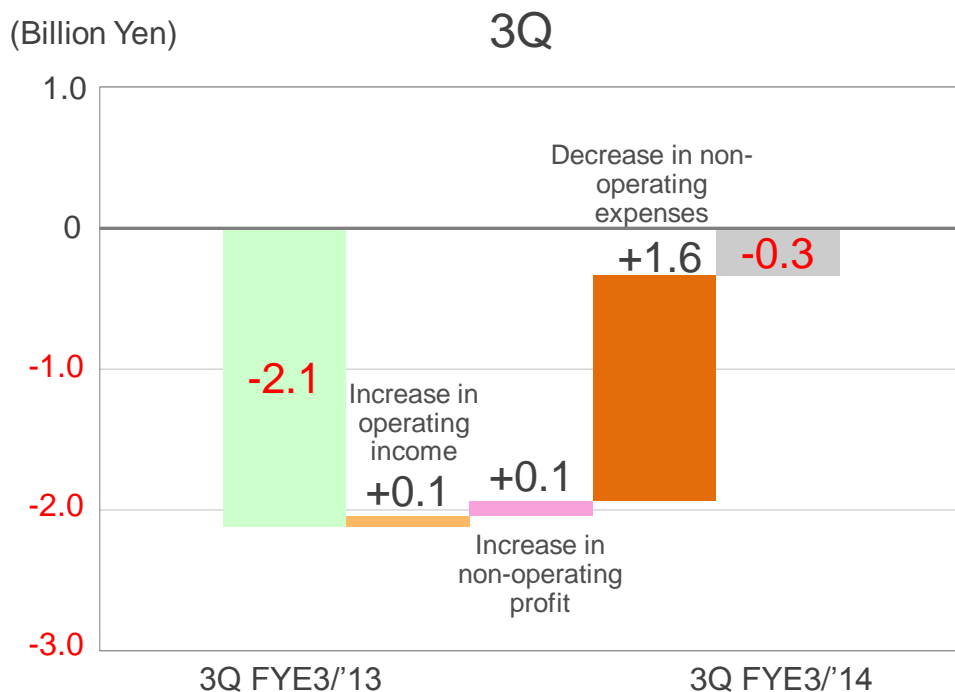


# Financial Results for 3Q of FYE3/'14 - Consolidated Ordinary Income

\* Foreign exchange losses (the portion of increase in the yen-equivalent values of foreign currency denominated borrowings) improved significantly, thanks to the foreign exchange control reform despite posting of ordinary loss for the 1-3Q of the period.

- Results for 1-3Q : -JPY 4.5B (Down JPY 5.4B YoY)
- Results for 3Q : -JPY 0.3B (Up JPY 1.8B YoY)

## Ordinary income (YoY change)

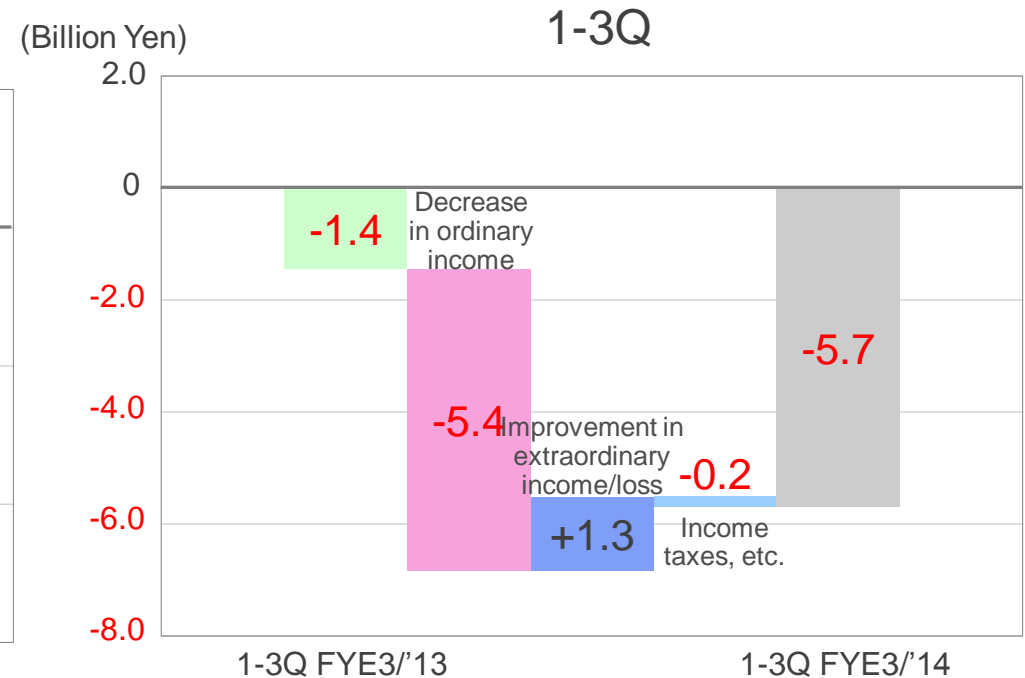
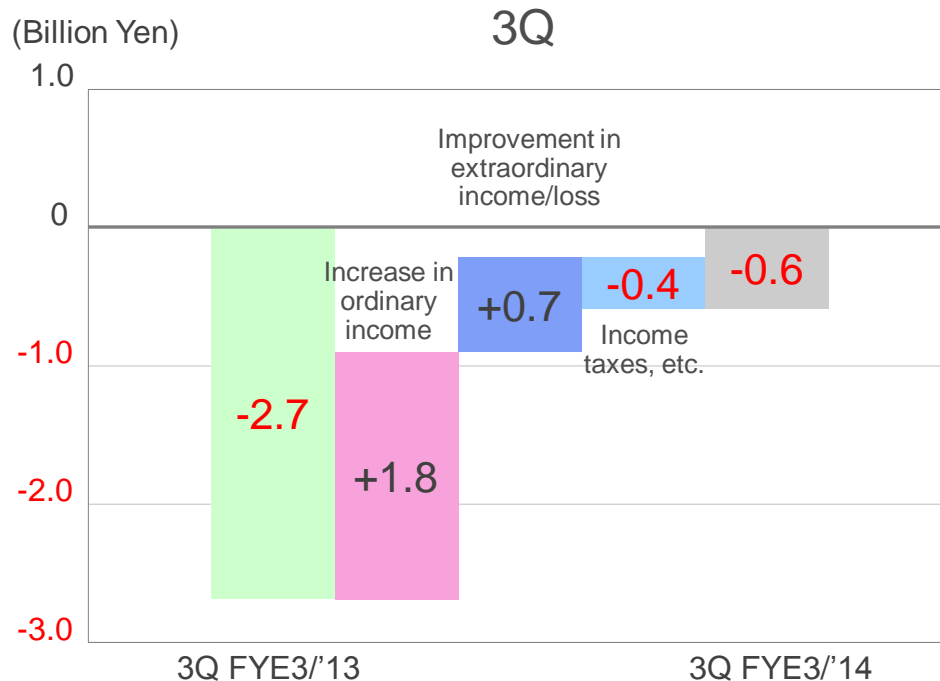


# Financial Results for 3Q of FYE3/'14 - Consolidated Net Income

\* Extraordinary income & loss improved for 3Q as a result of the improvement in ordinary income, posting of gain on negative goodwill associated with making Shinwa a consolidated subsidiary and other factors, although a net loss was posted in terms of 1-3Q.

- Results for 1-3Q : -JPY 5.7B (Down JPY 4.3B YoY)
- Results for 3Q : -JPY 0.6B (Up JPY 2.1 YoY)

## Net income (YoY change)



# Financial Results for 3Q of FYE3/'14 - Balance Sheet Summary

- \* Total assets increased approximately JPY 8.6 billion from the end of the previous fiscal year due to the effects of business acquisitions.
- \* Continued to maintain financial soundness.
  - Interest-bearing debts (sum of borrowings and bonds payable) decreased roughly JPY 0.6 billion from the end of the previous fiscal year.
  - Net debt (interest-bearing debts minus cash and deposits) decreased roughly JPY 0.4 billion from the end of the previous fiscal year.
  - Shareholders' equity ratio: 26%

(Billion Yen)

	End of FYE3/'13	End of 3Q FYE3/'14	Change from the previous year-end
Total assets	246.6	255.2	+8.6
Interest-bearing debts	86.5	85.9	(0.6)
Net debt	28.7	28.3	(0.4)
Net debt/equity ratio (times)	0.44	0.43	(0.01)
Capital surplus	45.9	45.9	+0
Retained earnings	24.7	18.3	(6.4)
Net assets	67.2	73.6	+6.4
Shareholder' equity ratio (%)	26.6	25.6	(1.0)

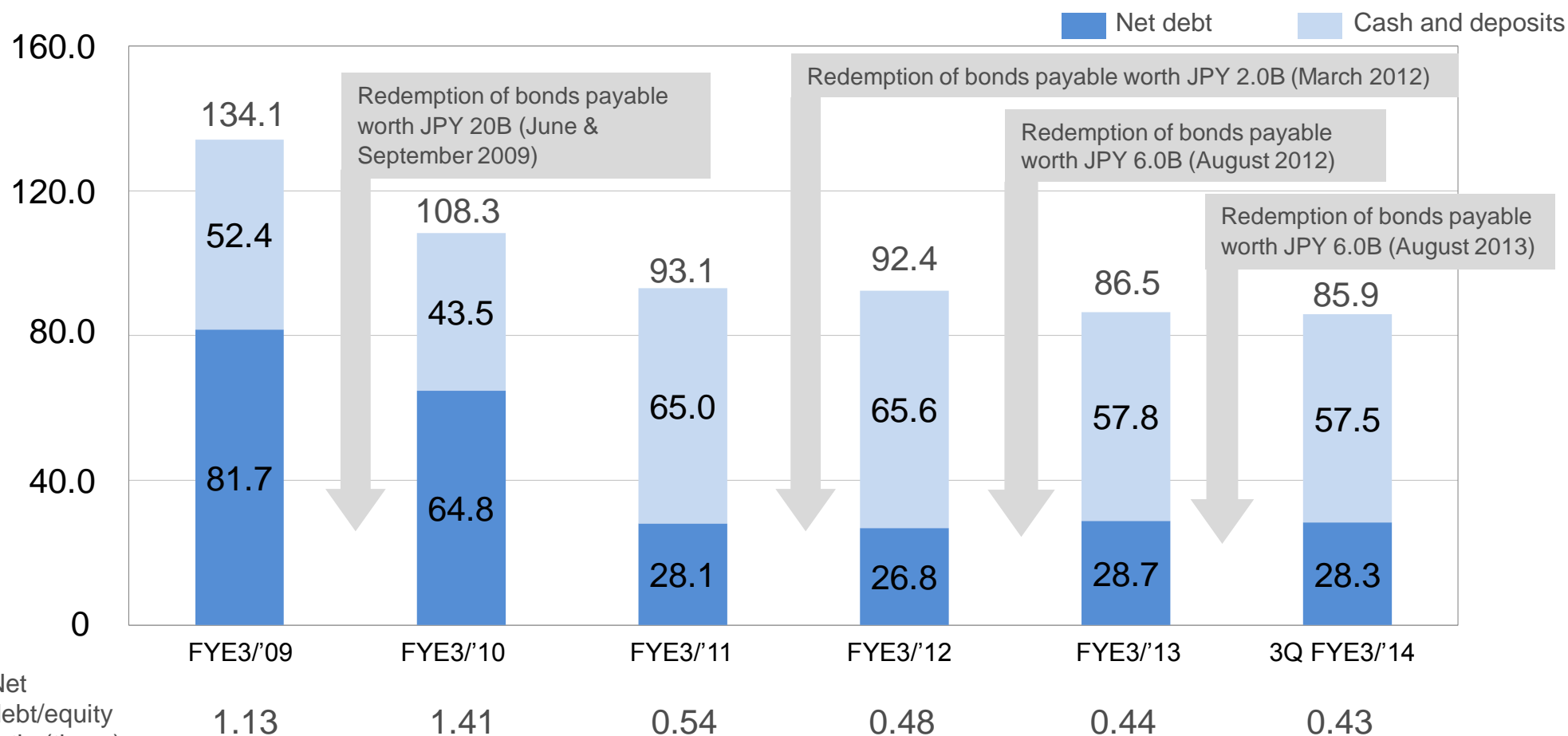
# Financial Results for 3Q of FYE3/'14 - Interest-bearing Debts

\* Reduction of interest-bearing debts is under way in phases through redemption of bonds.

■ Also managing to lengthen the period of borrowings

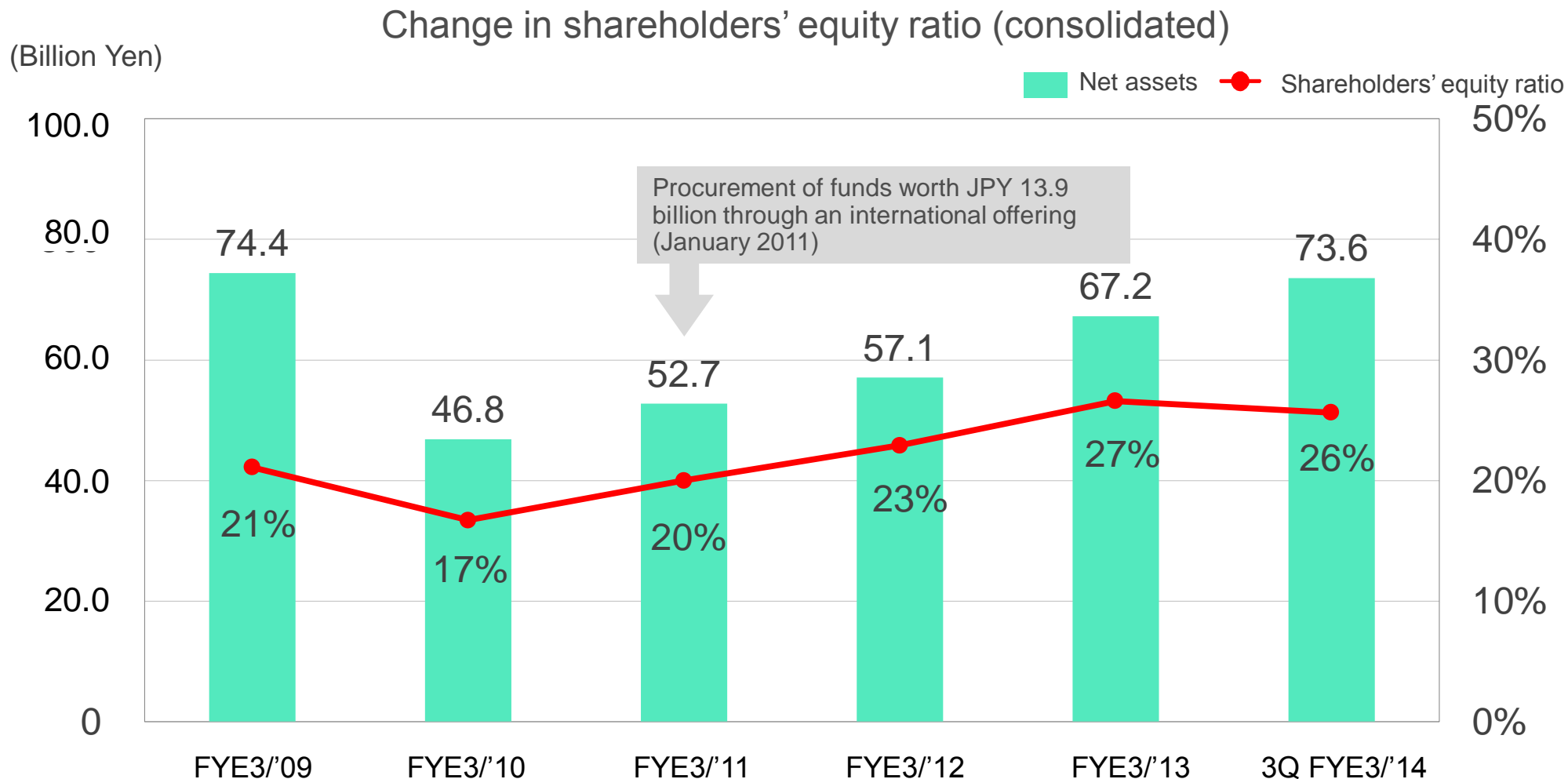
Change in Interest-bearing debts (consolidated)

(Billion Yen)



# Financial Results for 3Q of FYE3/'14 - Shareholders' Equity Ratio

\* Shareholders' equity ratio stood at 26% and continued to maintain financial soundness.



# Financial Results for 3Q of FYE3/'14 - Cash Flow Summary

\* Free cash flow recovered to a positive level.

- Cash flow from investment activities improved due to a decrease in business acquisition expenses, although cash flow from operating activities slightly declined.

(Billion Yen)

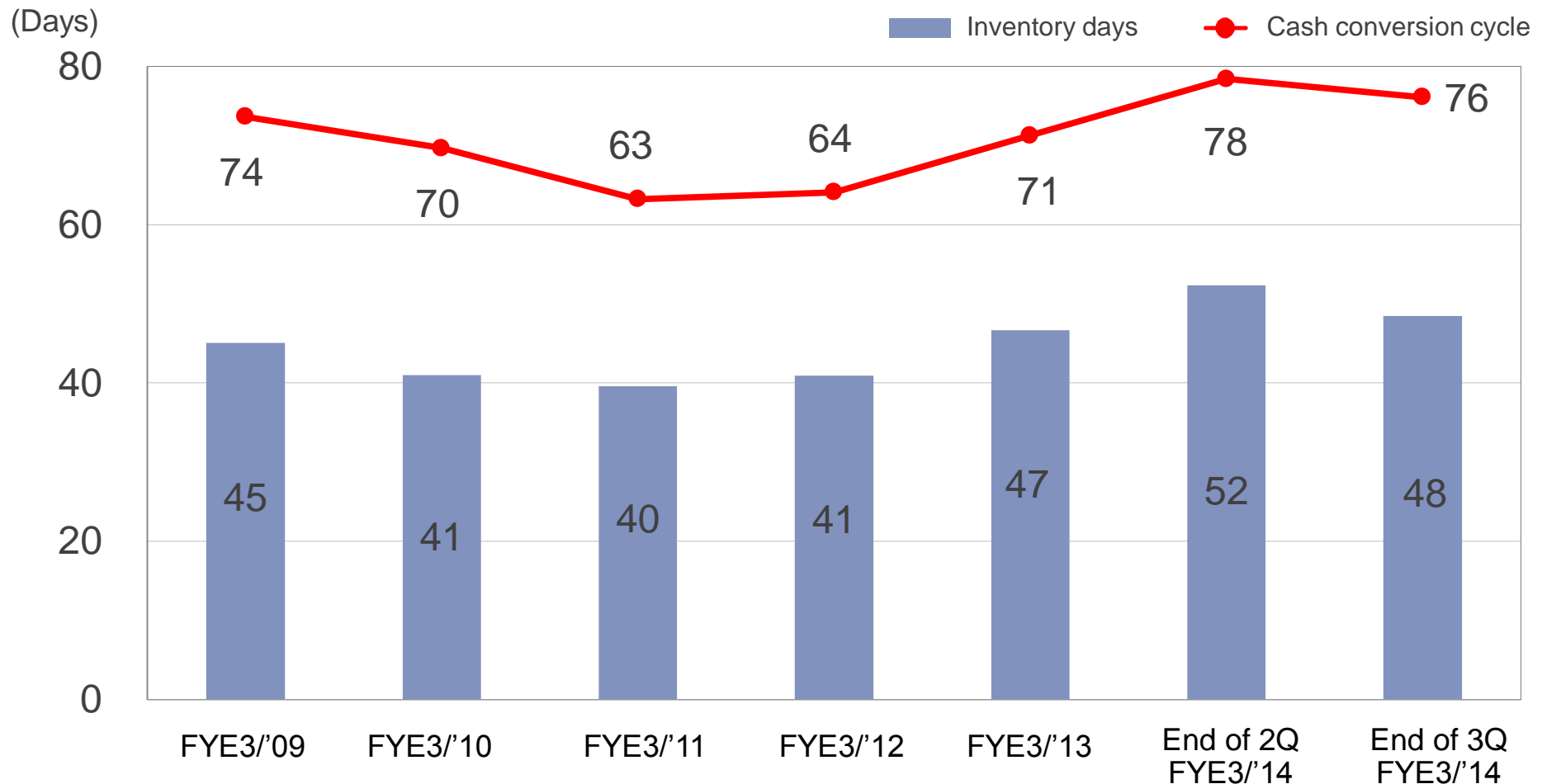
	FYE3/'11	FYE3/'12	FYE3/'13	1-3Q FYE3/'14
Cash from operating activities	20.0	8.9	9.8	7.2
Cash flow from investment activities	5.4	(6.5)	(13.4)	(6.1)
Cash flow from financing activities	(2.3)	(1.5)	(8.6)	(5.0)
Free cash flow	25.3	2.4	(3.6)	1.0

\* Free cash flow = Cash flow from operating activities + Cash flow from investing activities

## Cash Conversion Cycle and Number of Days in Inventory

\* Cash conversion cycle and number of days in inventory are improving resulting from increased sales and reduction of inventory.

Changes in cash conversion cycle and number of days in inventory (consolidated)





# **(Reference) Information by Segment**

# Net Sales and Profits & Losses by Business Segment -JVCKENWOOD

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## Summary

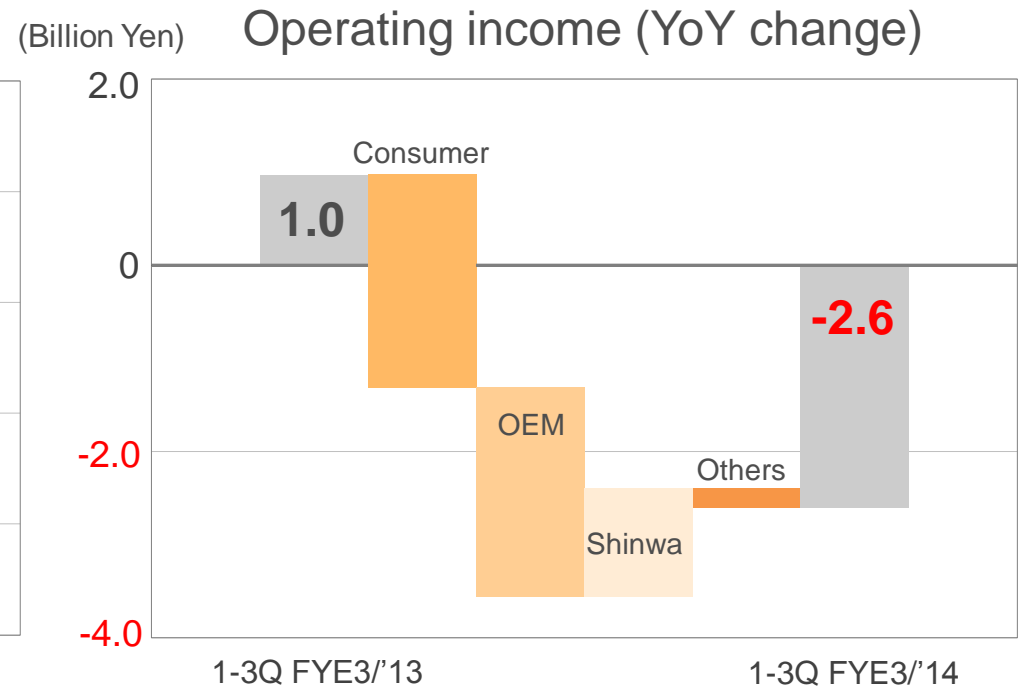
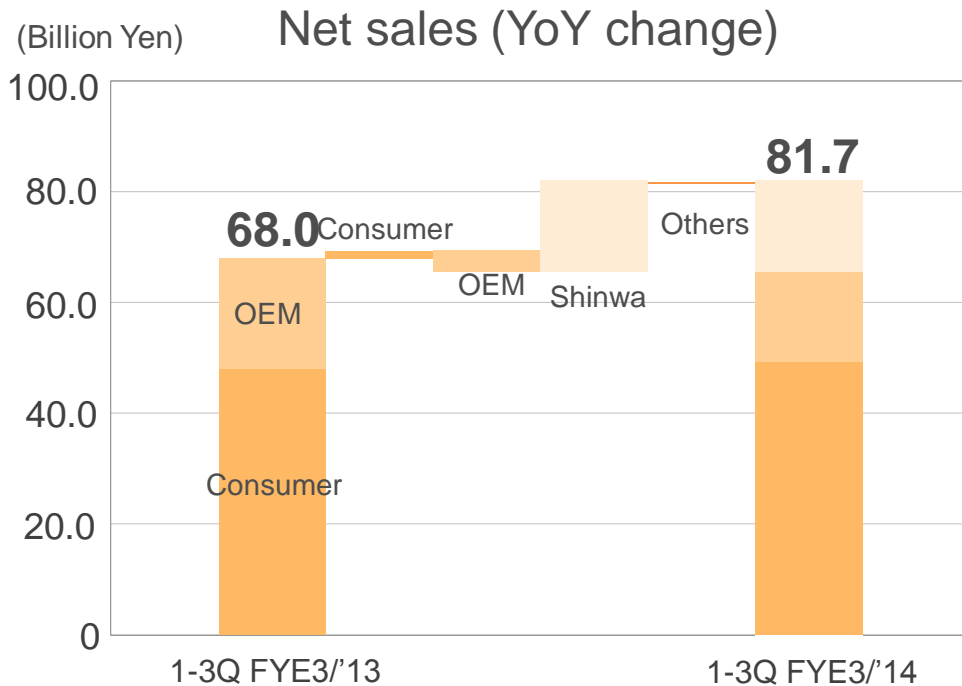
\* In the 3Q alone, net sales and operating income increased in Pro and operating income rose in Optical Audio, driving the overall consolidated performance upward to achieve the black for the quarter, while decreased profit of the first half in Car Ele and Soft still affect in terms of 3Q accumulated.  
(Refer to the following pages for details by segment.)

(Million Yen)

Segment		First quarter		Second quarter		Third quarter			First nine months		
		FYE3/'14	FYE3/'13	FYE3/'14	FYE3/'13	FYE3/'14	FYE3/'13	YoY change	FYE3/'14	FYE3/'13	YoY change
Car Electronics	Net sales	23,828	25,383	29,849	23,053	28,029	19,540	+8,489	81,707	67,977	+13,730
	Operating income	(545)	1,420	(1,020)	429	(1,038)	(879)	(159)	(2,604)	970	(3,574)
Professional Systems	Net sales	20,886	20,015	23,097	22,544	24,083	22,580	+1,503	68,067	65,139	+2,928
	Operating income	(90)	(329)	249	1,015	615	560	+55	774	1,247	(473)
Optical & Audio	Net sales	17,126	20,244	19,387	20,874	20,740	23,919	(3,179)	57,254	65,038	(7,784)
	Operating income	(590)	62	(123)	220	585	165	+42	(128)	447	(575)
Entertainment Software	Net sales	9,057	8,917	7,978	11,186	10,102	11,152	(1,050)	27,137	31,255	(4,118)
	Operating income	264	702	(270)	608	379	558	(179)	373	1,869	(1,496)
Others	Net sales	1,383	1,397	1,642	1,545	1,583	1,527	+56	4,609	4,469	+140
	Operating income	(69)	133	27	104	(47)	11	(58)	(90)	248	(338)
Inter-segment eliminations	Net sales	(2,471)	(2,832)	(3,352)	(3,062)	(2,656)	(3,534)	+878	(8,480)	(9,428)	+948
Total	Net sales	69,809	73,124	78,604	76,142	81,883	75,186	+6,697	230,296	224,452	+5,844
	Operating income	(1,030)	1,987	(1,138)	2,379	494	416	+78	(1,674)	4,783	(6,457)

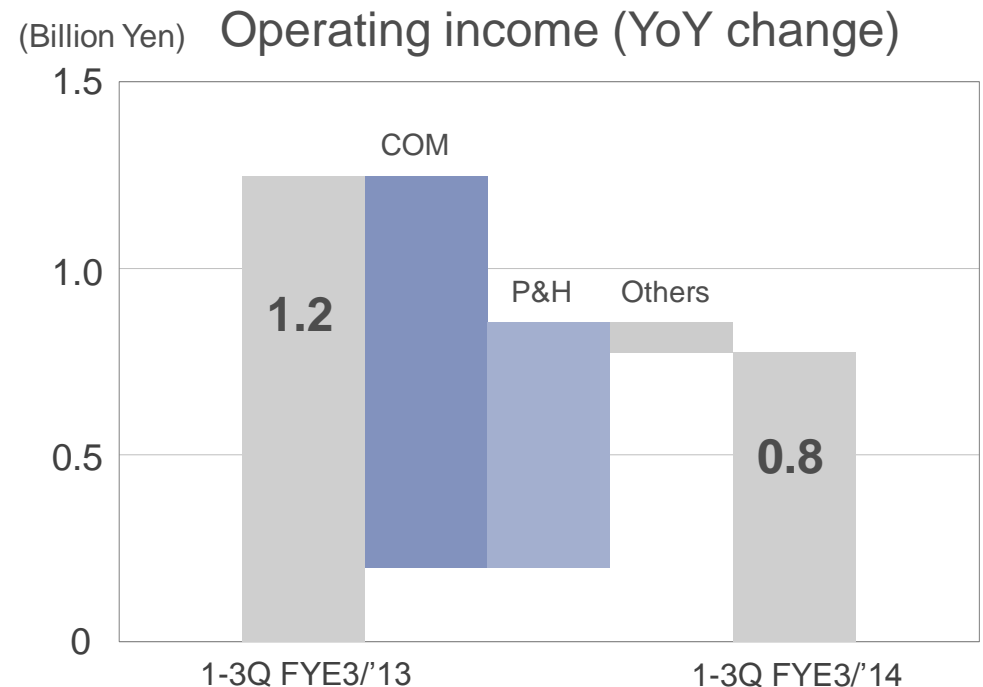
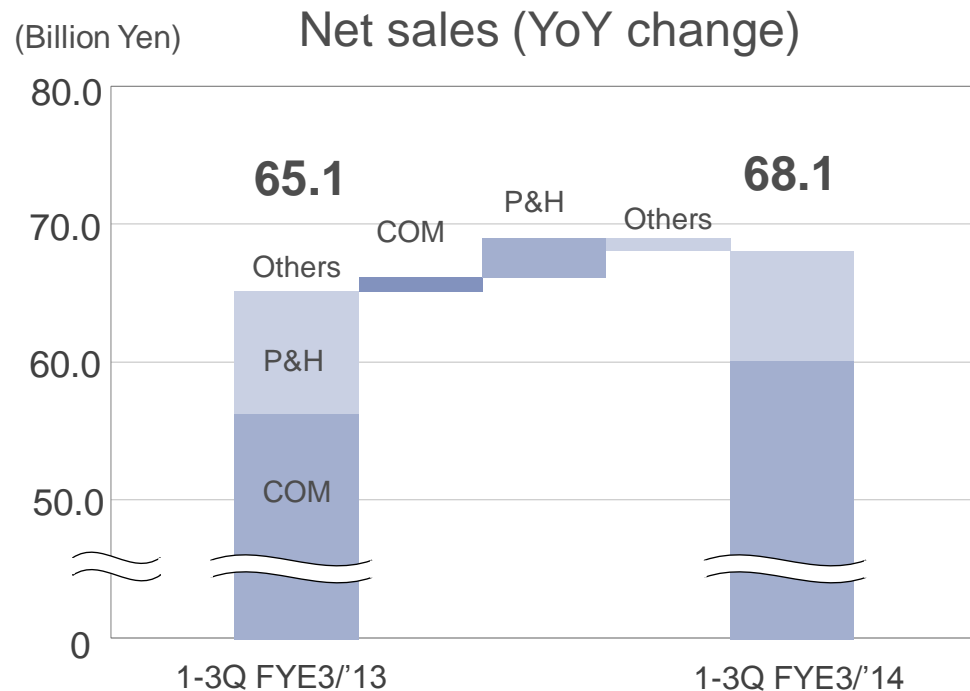
# Car Electronics - Results for 1-3Q

- \* Consolidation of Shinwa pushed the sales and income upwards, while the result in after-market and OEM fell significantly due to the rise in yen-equivalent costs caused by the yen depreciation against the dollar. The overall segment marked an increase in net sales, but a decrease in operating income.



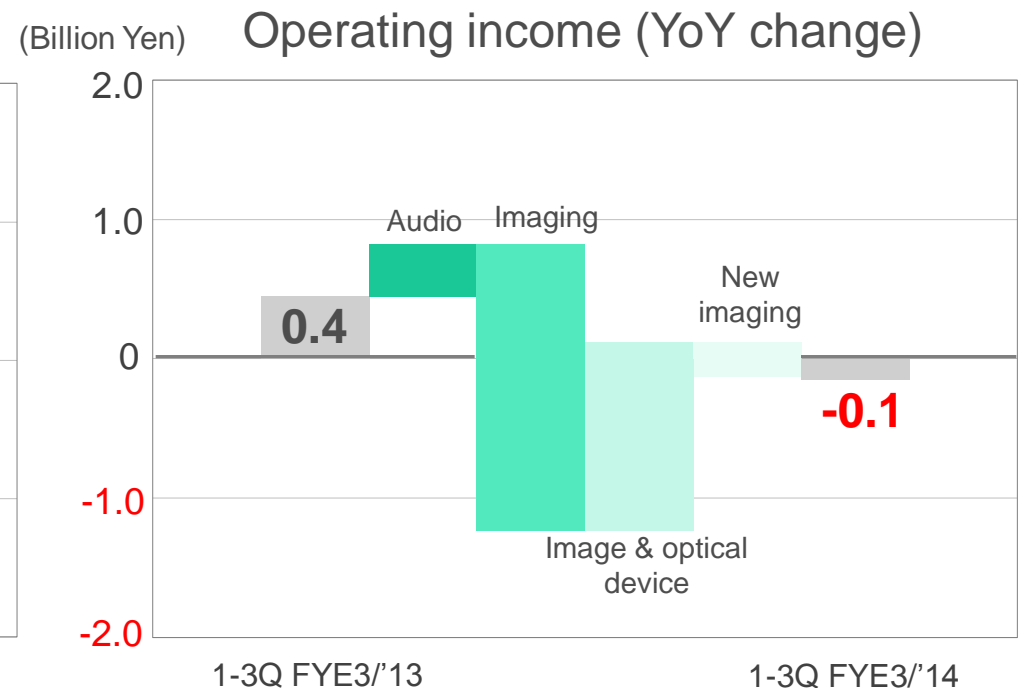
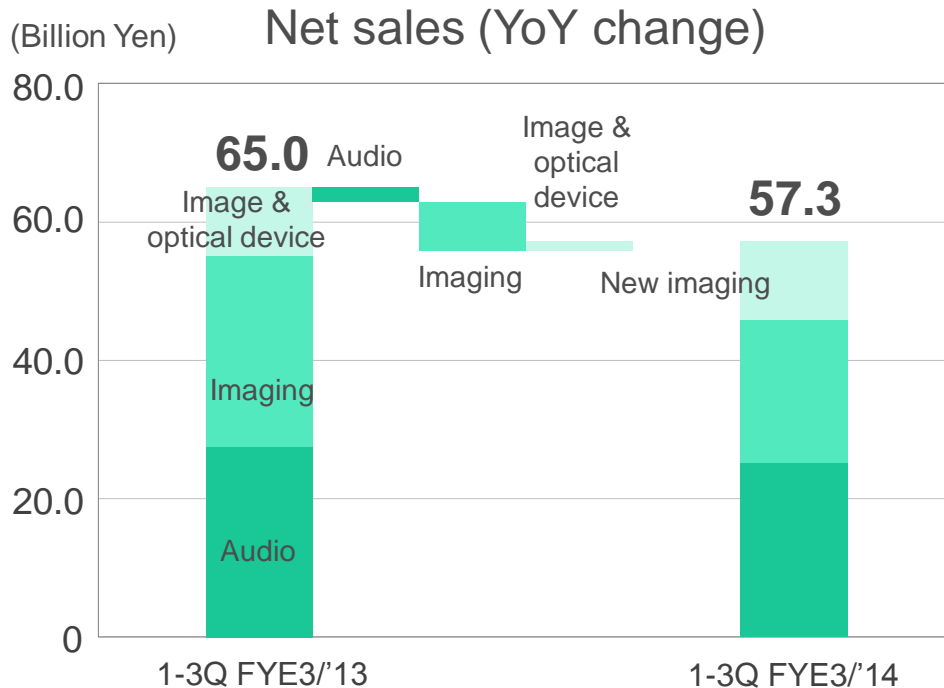
# Professional Systems - Results for 1-3Q

- While net sales increased mainly due to the rise in the yen-equivalent value caused by foreign exchange fluctuations in COM, succession of TOTOKU's medical business in P&H and increased orders in Japan, operating income in COM fell due primarily to the impact of fiscal retrenchment by the U.S. government. As a result, the overall segment marked an increase in net sales but a decrease in operating income.



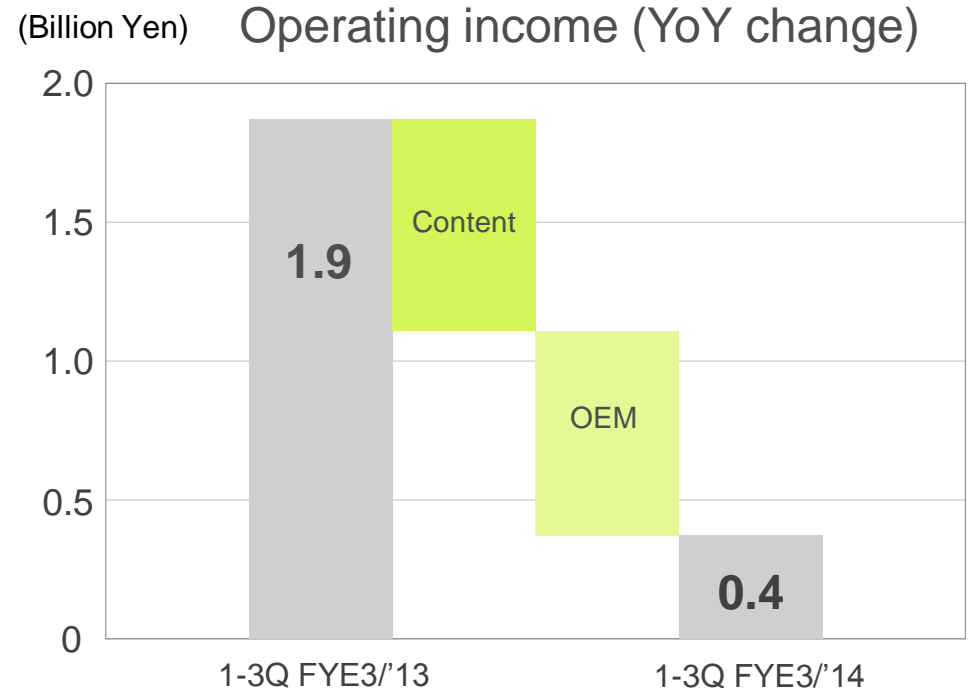
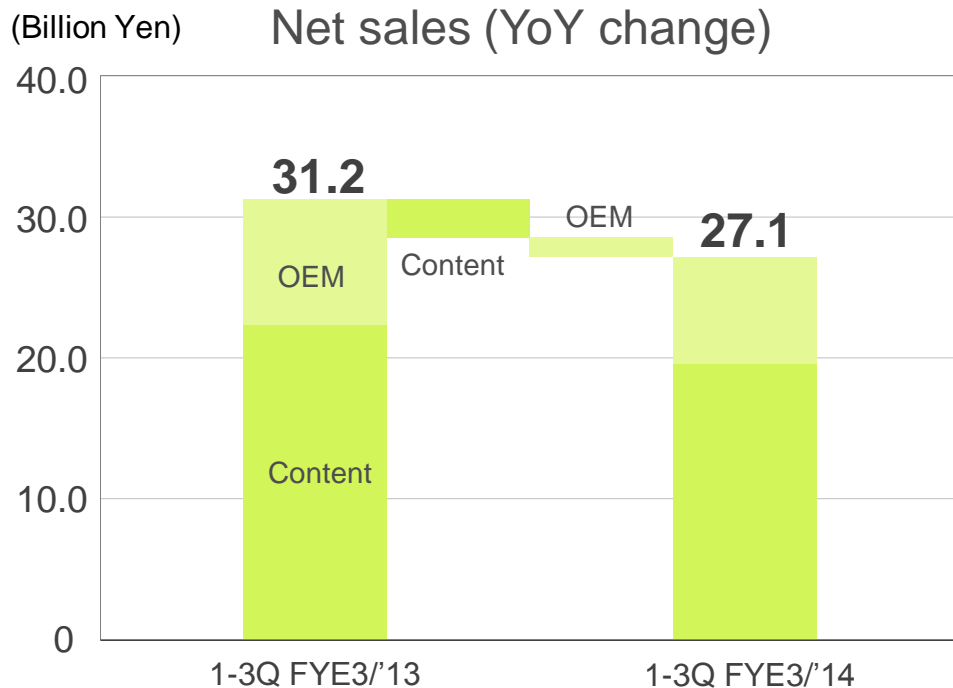
# Optical & Audio - Results for 1-3Q

\* Net sales and operating income in overall segment both decreased, due to a significant drop in sales and income in the imaging business caused by the curtailment of the camcorder market and streamlining of audio products, despite earning recovery in audio and sales increase of projectors in the image & optical device business.



# Software & Entertainment - Results for 1-3Q

\* Net sales and operating income in overall segment decreased year on year, due to a decline of net sales in the content business caused by postponing of releases of major titles to the 4Q, as well as a decrease of net sales and operating income in the oem business caused by the shrinkage of overseas package media markets.



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3. Full-year earnings forecast for FYE3/'14

# 1) Progress of business restructuring measures in FYE3/'14: (i) Total Cost Reform

Achieving being in the black for the 3Q: signs of recovery in performance.

\* Bring forward the launch of 2014 models that accommodate yen's depreciation.

- Two domestic navigation system models: Bring forward the launch from February 2014 to December 2013
- Three domestic navigation system models: Bring forward the launch from June 2014 to March 2014 (planned)
- One domestic camcorder model: Bring forward the launch from January 2014 to December 2013

\* Executed various cost reduction measures.

- Examples in Car Ele (consumer):
  - Cost cuts for memory and other key parts; measures against yen's depreciation
  - Reduction of parts in number
  - Reduction of investment by adopting global designs
- Examples in Optical Audio:
  - Reduction of parts in number through design revisions; productivity improvement
  - Reduction of transportation expenses (revision of transportation mode, cuts in packaging and capacity)



# 1) Progress of business restructuring measures in FYE3/'14: (ii) Various Other Restructuring Measures

\* Steady implementation of restructuring measures is under way to generate short-term effects.

- Carry out thorough cost reduction and overall review of investments
- Reinforcement of the forefront of sales
- Return of directors' remuneration; cuts in officers' salaries & bonuses
- Cash flow improvement including inventory reduction
- Efficiency in the Group's fund management and such

## 2) Measures Toward FYE3/'15 and Beyond:

### (i) Structural Reform (1/2)

- \* Domestic employment structural reform: Solicitation of applicants for early retirement
  - Date of retirement: March 31, 2014
  - Number of applicants to solicit: About 400
  - Solicitation period: February 6, 2014 through March 3, 2014 (planned)
  - Eligibility: Persons in managerial positions aged 45 or above as of the date of retirement
  - Eligible units: JVCKENWOOD and a part of domestic affiliates
  - Preferential treatment:
    - 1) Additional retirement benefit payment,
    - 2) Reemployment support
- ➔ Anticipated effects in FYE3/'15: Reduction in fixed costs worth roughly JPY 4.5 billion

## 2) Measures Toward FYE3/'15 and Beyond:

### (i) Structural Reform (2/2)

- \* Restructuring of overseas sales companies: Execution of restructuring, organizational consolidation and manpower reallocation
  - Americas: Promote integration of two sales companies in the U.S. and three sales companies in Canada.
  - Europe: Promote integration of sales companies in the U.K., France, etc., and reduce overall fixed cost.
  - Asia: Expand business with Car Ele at the core through integrating two sales companies in Thailand, establishing a sales company in Indonesia, etc.
  - China: Respond to increasing social infrastructure investment activities; expand the BtoB business.
  
- \* Restructuring of overseas production plants: Consolidation & reorganization of key 7 sites to 6, and drive improvement of operation rate
  - COM: Close the EMS plant in Indonesia and transfer & consolidate the function into the plant in Malaysia. (Completed)
  - Car Ele: Transfer production from the plant in Malaysia to that in Indonesia. (Underway)
  - P&H: Transfer production from the plant in Malaysia to that in Thailand. (Underway)
  
- ➔ Anticipated effects in FYE3/'15: Combined reduction of fixed costs worth roughly JPY 2.0 billion

## 2) Measures Toward FYE3/'15 and Beyond:

### (ii) Expansion & Upsurge of COM (Professional Communications) Business (1/4)

\* Concentration and selection focusing on expansion & upsurge of the professional radio system business, which is the core source of revenue

- **Acquisition of a U.S. firm, EF Johnson Technologies, Inc. (EFJT)**

Acquire (and make as a subsidiary) a firm which focuses on digital P25 wireless radio solutions in the North American market, in order to accelerate growth of the Group's digital radio system business for public safety in North America, a market that contributes to the majority of sales and is expected to grow at a rate of about 10% per annum going forward.

- **Business alliance with the Airbus Group company of France**

Accelerate development and commercialization of the next-generation business in the markets for the professional broadband radio system for public safety sector in the U.S. and Europe.

- **Sale of domestic mobile phone sales company (Kenwood Geobit Corporation)**

## 2) Measures Toward FYE3/'15 and Beyond:

### (ii) Expansion & Upsurge of COM (Professional Communications) Business (2/4)

- \* Acquisition of a U.S. firm, EF Johnson Technologies, Inc. (EFJT)
  - Acquire P25 multiband terminal devices and base stations, and fully shift from a terminal device to a total system business.
  - Expect to generate integration effects worth roughly JPY 4.0 billion in the next three years.

#### Anticipated integration effects

- Reduction in manufacturing costs by shifting to domestic manufacturing of EFJT's core products
- Sale of multiband terminal devices and systems via JVCKENWOOD's sales channels
- Sale of JVCKENWOOD's terminal devices and systems (NEXEDGE) via EFJT's sales channels



## 2) Measures Toward FYE3/'15 and Beyond:

### (ii) Expansion & Upsurge of COM (Professional Communications) Business (3/4)

- \* Conclusion of a business alliance contract with Airbus Defence & Space of the Airbus Group regarding the development and commercialization of broadband wireless systems for public safety (Announced on January 16, 2014)



- Eyeing business expansion into fire-fighting and police markets and the cyber hospital (remote medicine) business by having in place this infrastructure at the base for high-density data communication including images, etc.

## 2) Measures Toward FYE3/'15 and Beyond:

### (ii) Expansion & Upsurge of COM (Professional Communications) Business (4/4)

- \* Transfer of all shares of Kenwood Geobit Corporation, a wholly-owned subsidiary that primarily engages in sales agency operations of mobile phones, leading to speed up concentration in the core business area

Name of company: Kenwood Geobit Corporation

Business activities:

- Sales agency business for mobile phones
- Operation of Softbank-exclusive sales shops
- Operation of WILLCOM-exclusive sales shops

(Total number of shops: 30 directly managed shops, 37 franchise shops)

Net sales: JPY 13,632 million (FYE3/'13)

Capital: JPY 445.5 million

## 2) Measures Toward FYE3/'15 and Beyond:

### (iii) M&A, Alliances with Ventures

- \* Continuing aggressive investment for next-generation initiatives to promote business content reforms and speedy innovation

	Timing	Purpose	Segment
Made a U.S. firm, AltaSens, Inc. into a subsidiary.	August 2012	To capture COMS imaging sensor technologies.	Optical Audio
Formed strategic alliance with a U.S. firm, Syndiant, Inc.	October 2012	To reinforce development and production of LCOS module related products.	Car Ele Optical Audio
Made Shinwa into a subsidiary.	June 2013	To expand and enhance businesses related to in-vehicle mechanisms and devices.	Car Ele
Succeeded the information equipment business of TOTOKU Electric Co., Ltd.	July 2013	To make a full entry into the healthcare business.	Pro
Established CarTomo, a joint venture with ZMP Inc.	July 2013	To promote the car telematics and other businesses	Car Ele
Invested in ZMP Inc.	December 2013		
Invested in a venture capital, WiL Fund.	January 2014	To reinforce alliances with potential ventures in Japan and overseas.	Company-wide
Conversion of a U.S. firm, EF Johnson, into a subsidiary.	March 2014 (planned)	To reinforce the P25 professional wireless systems business.	Pro
Sale of Kenwood Geobit Corporation.	March 2014 (planned)	To develop next-generation business activities and reform the Company's structure.	Pro




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### **3. Full-year earnings forecast for FYE3/'14**

# Full-year Earnings Forecast for FYE3/'14

- \* Forecasts for operating income and ordinary income remain unchanged.
- \* Full-year forecast for net income is revised to -JPY 7.0 billion to reflect extraordinary income/loss associated mainly with the early retirement plan, structural reforms in Japan and overseas, and business sales.

(Billion Yen)

		Net sales	Operating income	Ordinary income	Net income
	a Revised forecast for FYE3/'14 (Announced on January 31, 2014)	310.0	1.0	(3.0)	(7.0)
	b Previous forecast for FYE3/'14 (Announced on November 6, 2013)	310.0	1.0	(3.0)	(5.5)
	a-b Difference	0	0	0	(1.5)
	(Reference) FYE3/'13	306.6	9.6	3.1	1.1

Foreign exchange rates (approximate)		1Q	2Q	3Q	4Q*
FYE3/'14	USD	JPY 99	JPY 99	JPY 100	JPY 100
	Euro	JPY 129	JPY 131	JPY 137	JPY 128
FYE3/'13	USD	JPY 80	JPY 79	JPY 81	JPY 92
	Euro	JPY 103	JPY 98	JPY 105	JPY 122

\* Rates for 4Q FYE3/'14 are assumed rates.

# JVC KENWOOD

*creates excitement & peace of mind*

Expressions contained in this presentation referring to the Company's future plans, intentions and expectations are categorized as future forecast statements. Such statements reflect management expectations of future events, and accordingly, are inherently susceptible to risk, uncertainty and other factors, whether known or unknown, and may be significantly different from future performance. These statements represent management's targets as of the time of issuance of these presentation materials, and the Company is under no obligation, and expressly disclaims any such obligation, to update, alter or publicize its future forecast statements in the event there are changes in the economic climate and market conditions affecting performance of the Company. Risk factors and other uncertainty which may affect the Company's actual performance include: (1) violent fluctuations in economic circumstances and supply and demand systems in major markets (in Japan, the U.S, the EU and Asia); (2) restrictions including trade regulations applicable to major markets including Japan and other foreign countries; (3) sharp fluctuations in the exchange rate of the dollar, euro, and such against the yen; (4) marked fluctuations in exchange rates in capital markets; and (5) changes in social infrastructure due to short term changes in technology and such. Please note however, that the above is not a comprehensive list of all the factors which may exert a significant influence on the Company's performance.