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**JVCKENWOOD**  
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# **JVCKENWOOD**

# **Results and Forecasts Briefing**

## **First Quarter of Fiscal Year Ending March 2015**

JVC KENWOOD Corporation

August 1, 2014

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JVCKENWOOD Corporation

## [Abbreviations]

CE:	Car Electronics (Segment) Consumer (Business) OEM (Business)
PS:	Professional Systems (Segment) COM: Communications (Business) Pro: Professional Systems (Business) Healthcare (Business) EFJT: EF Johnson Technologies Inc.
O&A:	Optical & Audio (Segment) Audio (Business) Imaging (Business) Image/Optical (Business)
SE:	Entertainment Software (Segment) Content (Business) OEM (Business)

- 1. Overview of financial results for the first quarter of the fiscal year ending March 2015**
- 2. Recognition of challenges and measures in the second quarter and beyond**
  - 1) Measures in FYE3/'15**
  - 2) Measures toward FYE3/'16 and beyond**
- 3. Full-year earnings forecast for FYE3/'15**

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## Financial Results for 1Q of FYE3/'15-Summary

- ❖ Although net sales declined by 5% from the same period of the previous year, the effects from the structural reform as well as the various business restructuring measures contributed to a boost in earnings and a return to operating income. Ordinary income significantly recovered compared with the previous period.
- ❖ A net loss increased due mainly to losses on business sales and an increase in taxes.

(Billion yen)

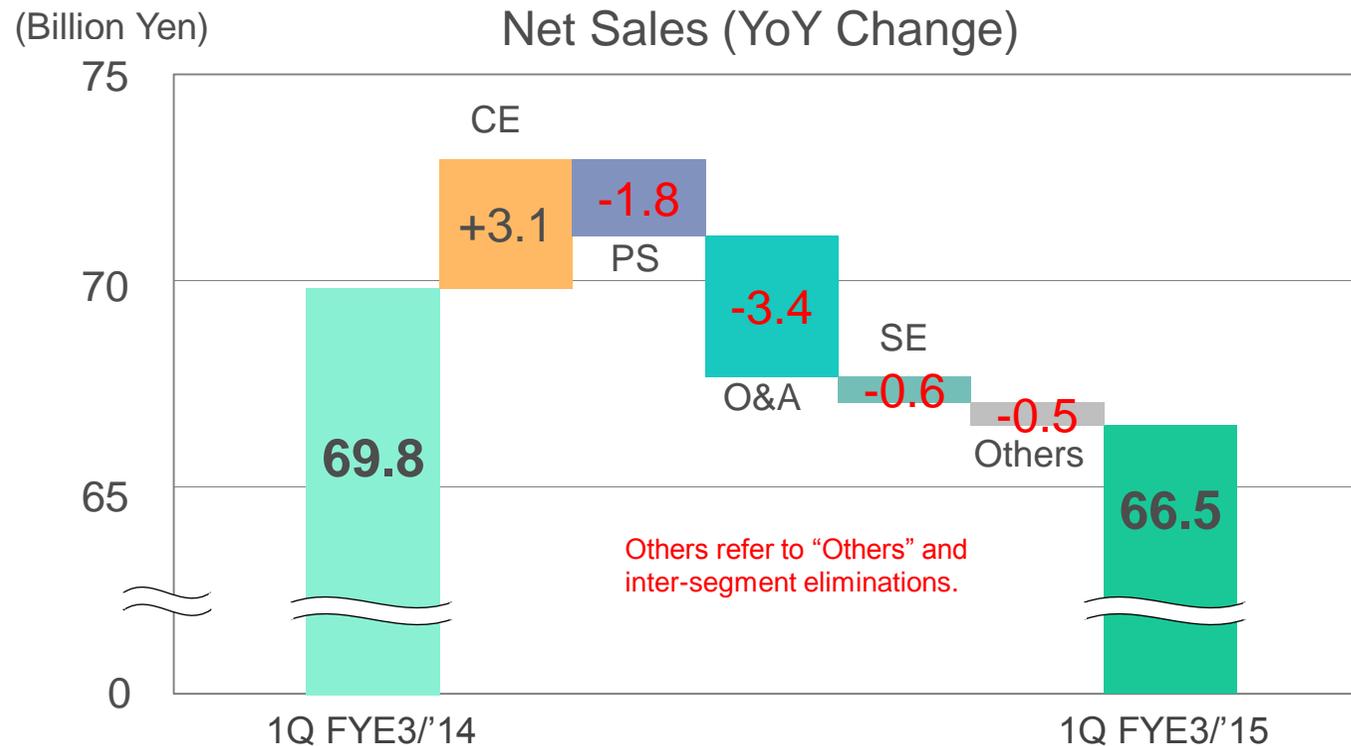
	Net Sales	Operating Income	Ordinary Income	Quarterly Net Income
1Q of FYE 3/'15	66.5	0.3	(0)	(2.7)
1Q of FYE 3/'14	69.8	(1.0)	(1.6)	(2.0)
YoY change	(3.3)	+1.4	+1.5	(0.7)

# Financial Results for 1Q of FYE 3/15

## - Consolidated Net Sales (By Segment)

### ❖ Results for 1Q: JPY 66.5 B (Down 4.7% YoY) [Sales decline]

- Solid overseas sales as well as the effect from the consolidation with Shinwa contributed to the sales boost in CE.
- PS sales declined due to the sale of Geobit Corporation.
- O&A sales significantly dropped due to the sales decline in imaging.
- SE sales were also down due mainly to a change in composition of work.

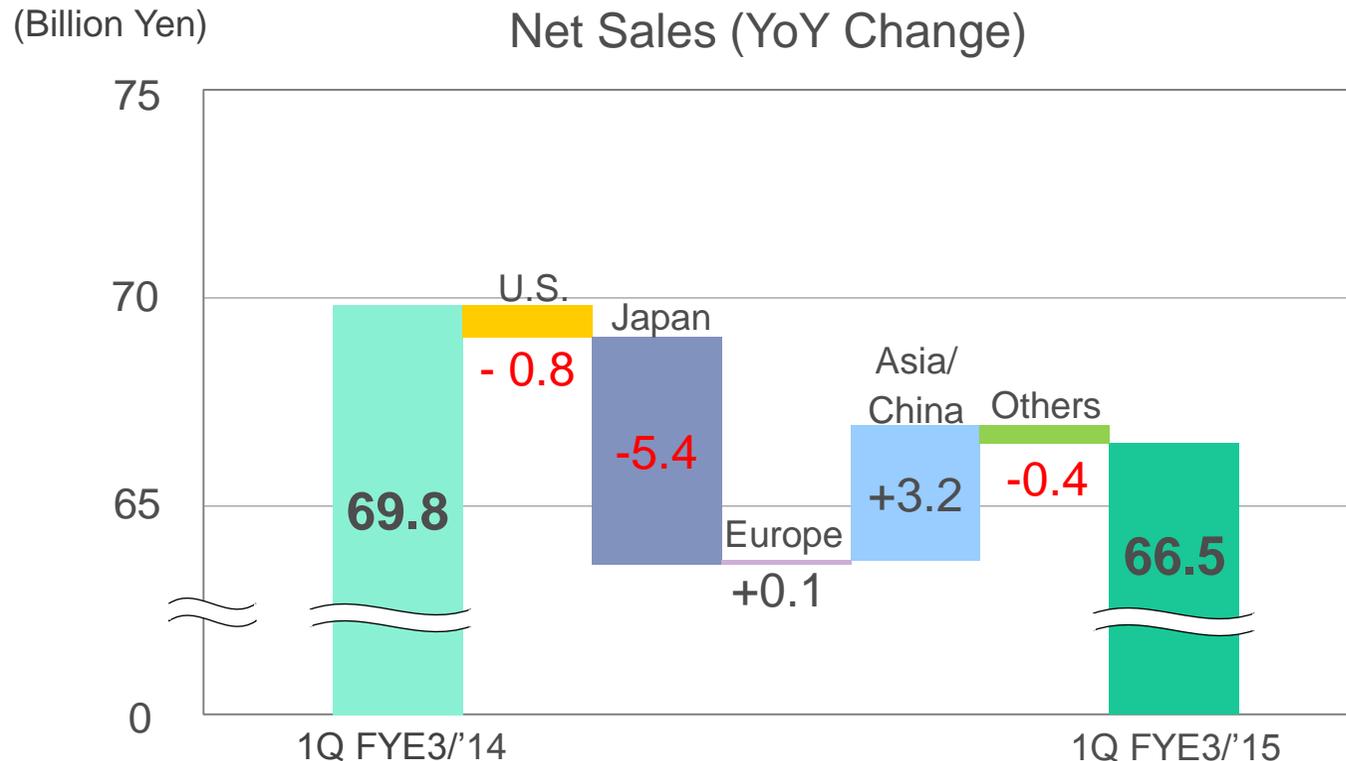


# Financial Results for 1Q of FYE 3/'15

## - Consolidated Net Sales (By Region)

### ❖ Results for 1Q: JPY 66.5 B (Down 4.7% YoY) [Sales decline]

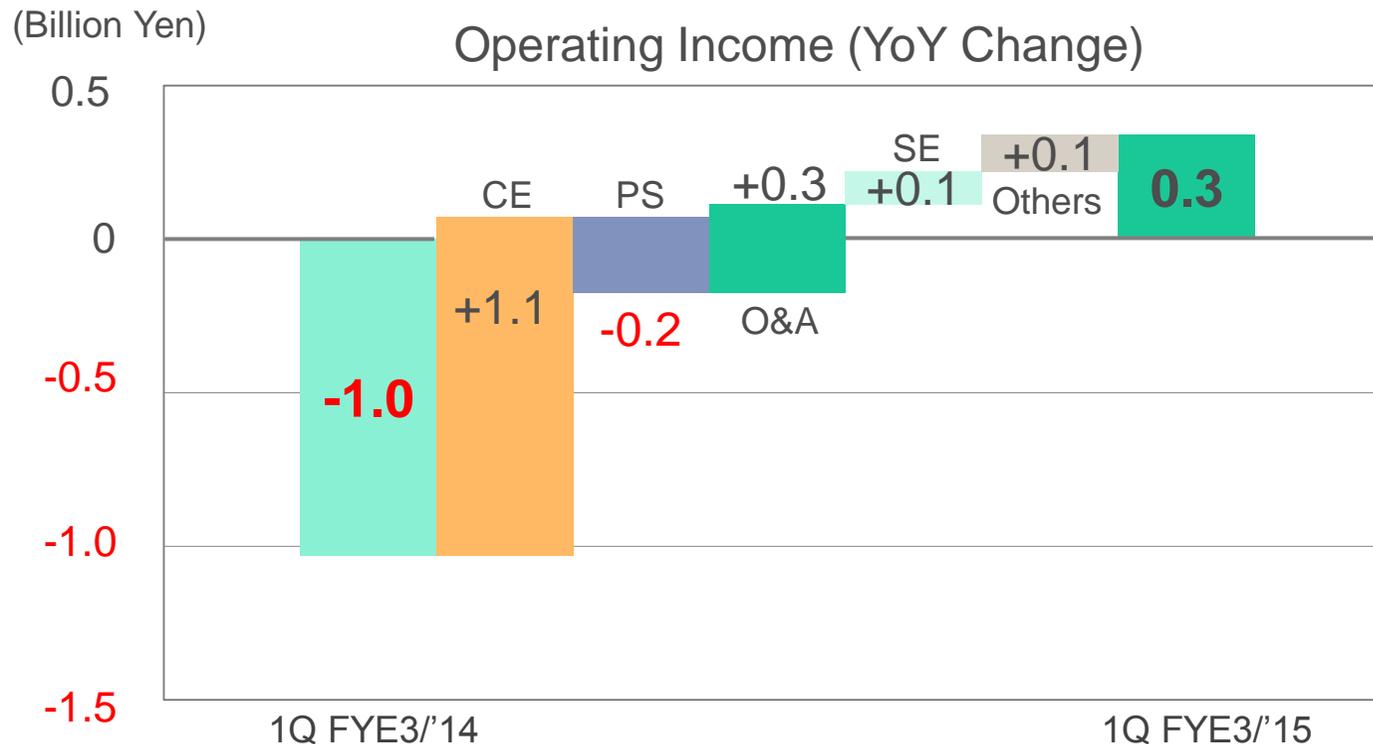
- Sales in Asia and China rose thanks to the effect from the consolidation of Shinwa.
- Sales in Japan dropped due to the sale of Kenwood Geobit Corp. and the contraction of the imaging business.
- Sales in the U.S. also declined due to the downturn in O&A.



## - Consolidated Operating Income (By Segment)

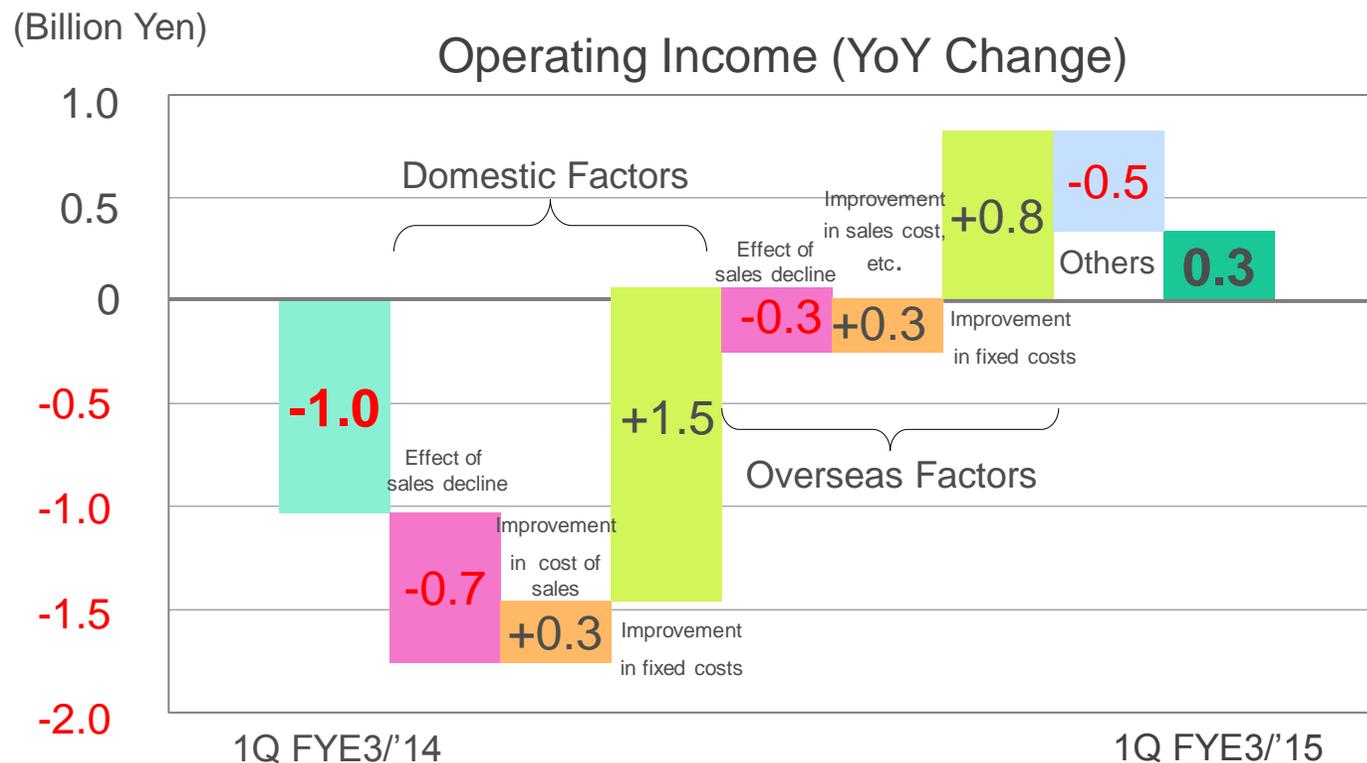
❖ Results for 1Q: JPY 0.3 B (Up JPY 1.4 B YoY) [Return to the black]

- CE returned to the black due to the effects of the overall cost reform, sales reform and other business restructuring measures.
- A significant decline in losses in the imaging business as well as the effect from the fixed costs reduction through the structural reform contributed to the improvement.



## - Consolidated Operating Income (By Factor)

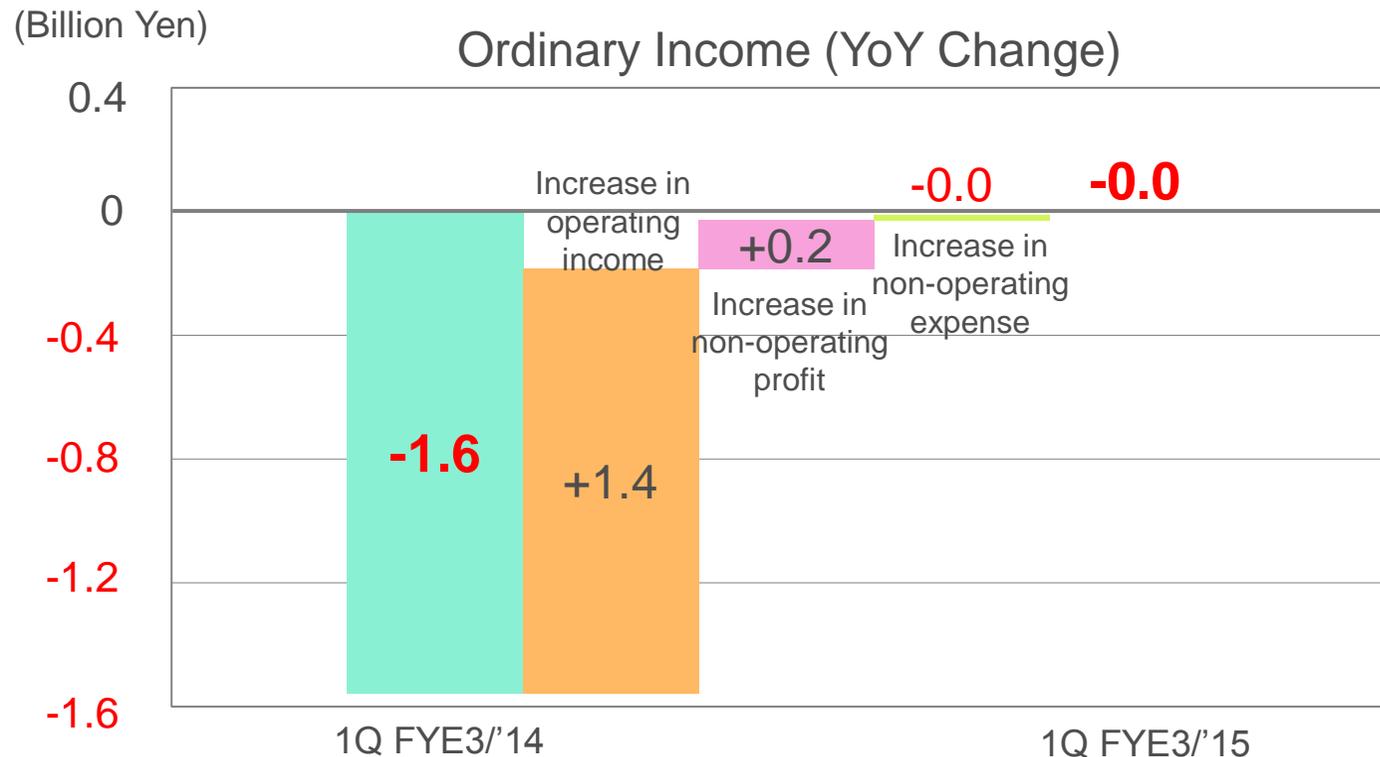
- ❖ The structural reform as well as various business restructuring measures contributed to improving the financial state with sound profitability.
- ❖ On the other hand, the sales decline in Japan and abroad left a number of issues.



## - Consolidated Ordinary Income

### ❖ Results for 1Q: Minus JPY 0.04B (Up JPY 1.5B YoY)

- The recovery in operating income boosted an increase in ordinary income.
- Non-operating income also rose JPY 0.1 billion due to a rise in dividends received.



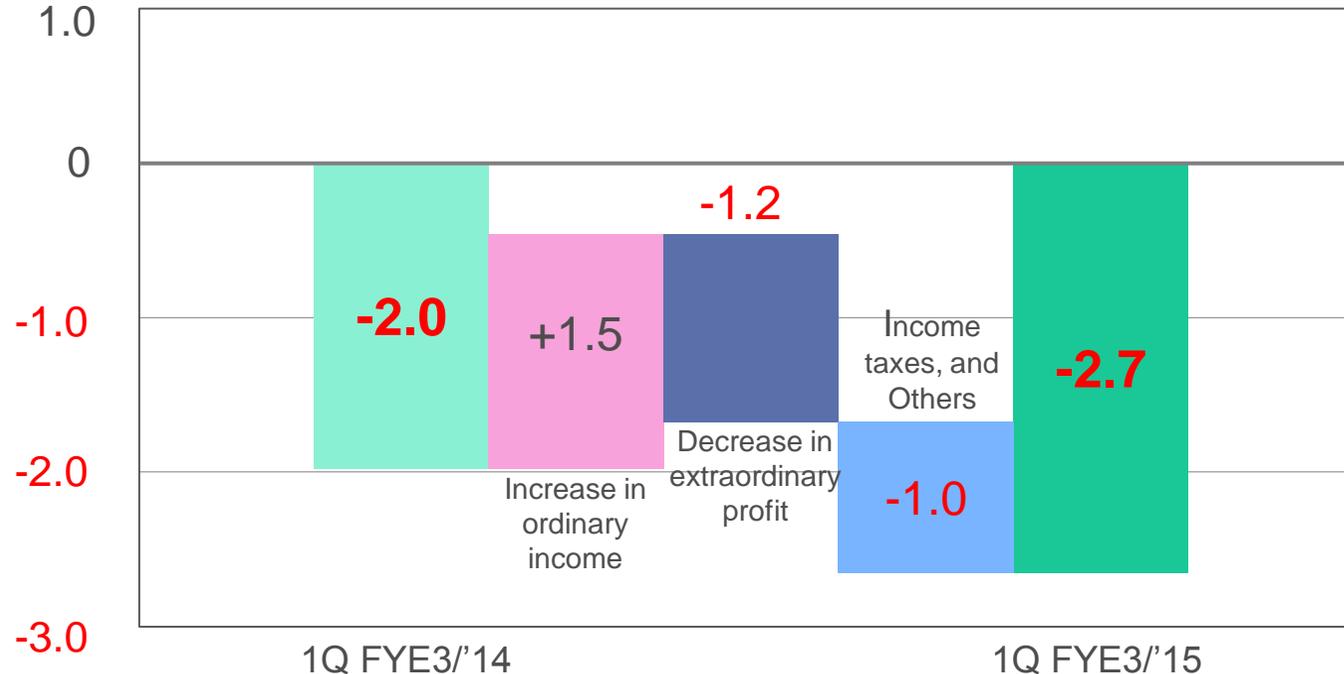
## - Consolidated Net Income

### ❖ Results for 1Q: Minus JPY 2.7B (Down JPY 0.7B YoY)

- In spite of a rebound in ordinary income, net loss was posted due mainly to the recognition of the one-time loss arising from the sale of the U.S. subsidiary's shares (roughly JPY 1.1 billion), a boost in income taxes (roughly JPY 0.7 billion), and an increase in minority interest income (roughly JPY 0.2 billion) associated with making Shinwa a consolidate subsidiary.

(Billion Yen)

Net Income (YoY Change)



## - Balance Sheet Summary

- ❖ Total assets declined by JPY 19.5B from the end of the previous fiscal year due to a decline in cash and deposits balance through repayments of borrowings and expenditures for the structural reform.
- ❖ Interest bearing debts (i.e. sum of borrowings and bonds payable) decreased by JPY 4.1B
- ❖ Shareholders' equity ratio rose 0.3 percentage points to 19.7%.

(Billion Yen)

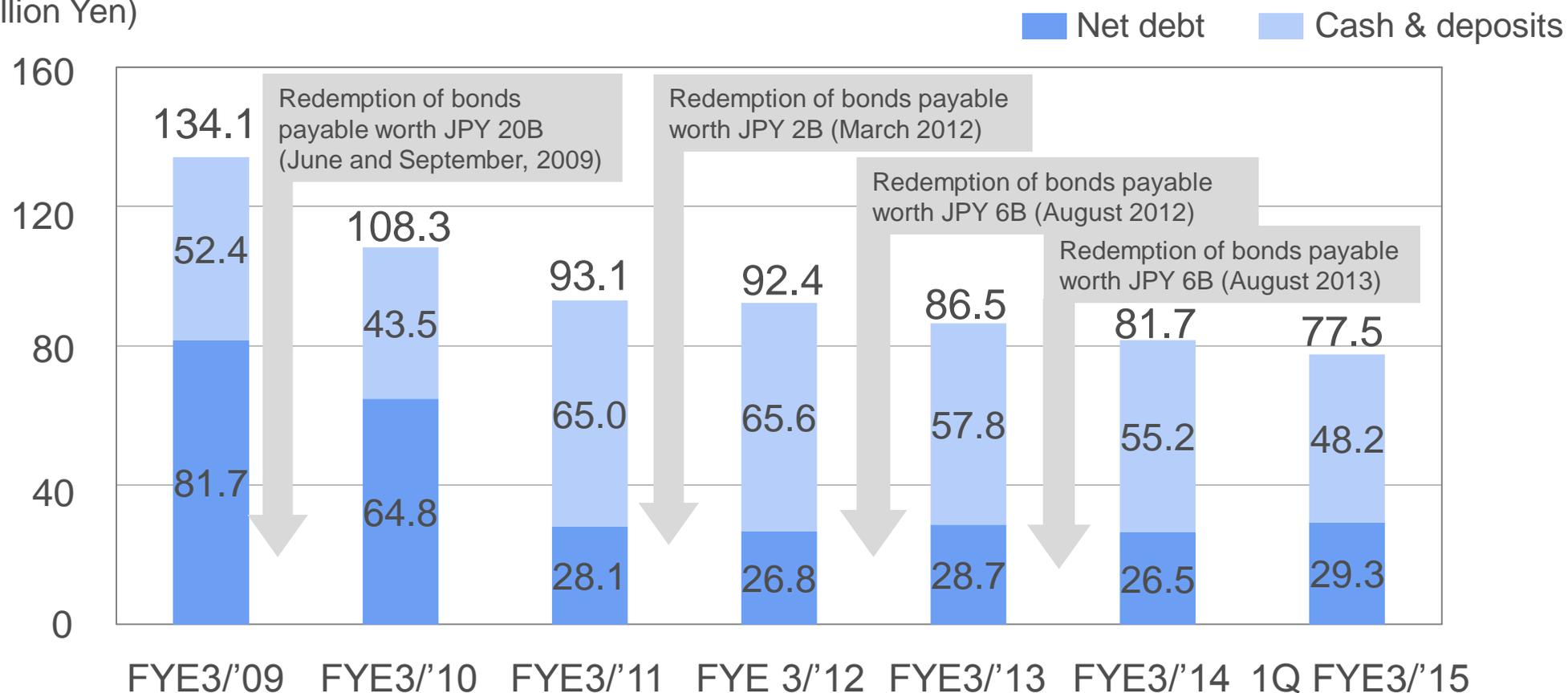
	End of FYE3/'14	End of 1Q- FYE3/'15	Change from the previous year-end
Total assets	267.2	<b>247.7</b>	<b>(19.5)</b>
Interest-bearing debts	81.7	<b>77.5</b>	<b>(4.1)</b>
Net debt	26.5	<b>29.3</b>	<b>+2.8</b>
Net debt/equity ratio (times)	0.51	<b>0.60</b>	<b>+0.09</b>
Capital surplus	45.9	<b>45.6</b>	<b>(0.3)</b>
Retained earnings	17.4	<b>14.9</b>	<b>(2.5)</b>
Net assets	59.8	<b>56.5</b>	<b>(3.3)</b>
Shareholders' equity	51.7	<b>48.8</b>	<b>(3.0)</b>
Shareholders' equity ratio (%)	19.4	<b>19.7</b>	<b>+0.3</b>

## - Interest-bearing Debts

- ❖ While net debt rose due to more spending in cash and deposits for the structural reform, the reduction of interest-bearing debts is underway in phases.

### Change in Interest-bearing Debts (consolidated)

(Billion Yen)



Net debt/equity ratio(times)

1.13

1.41

0.54

0.48

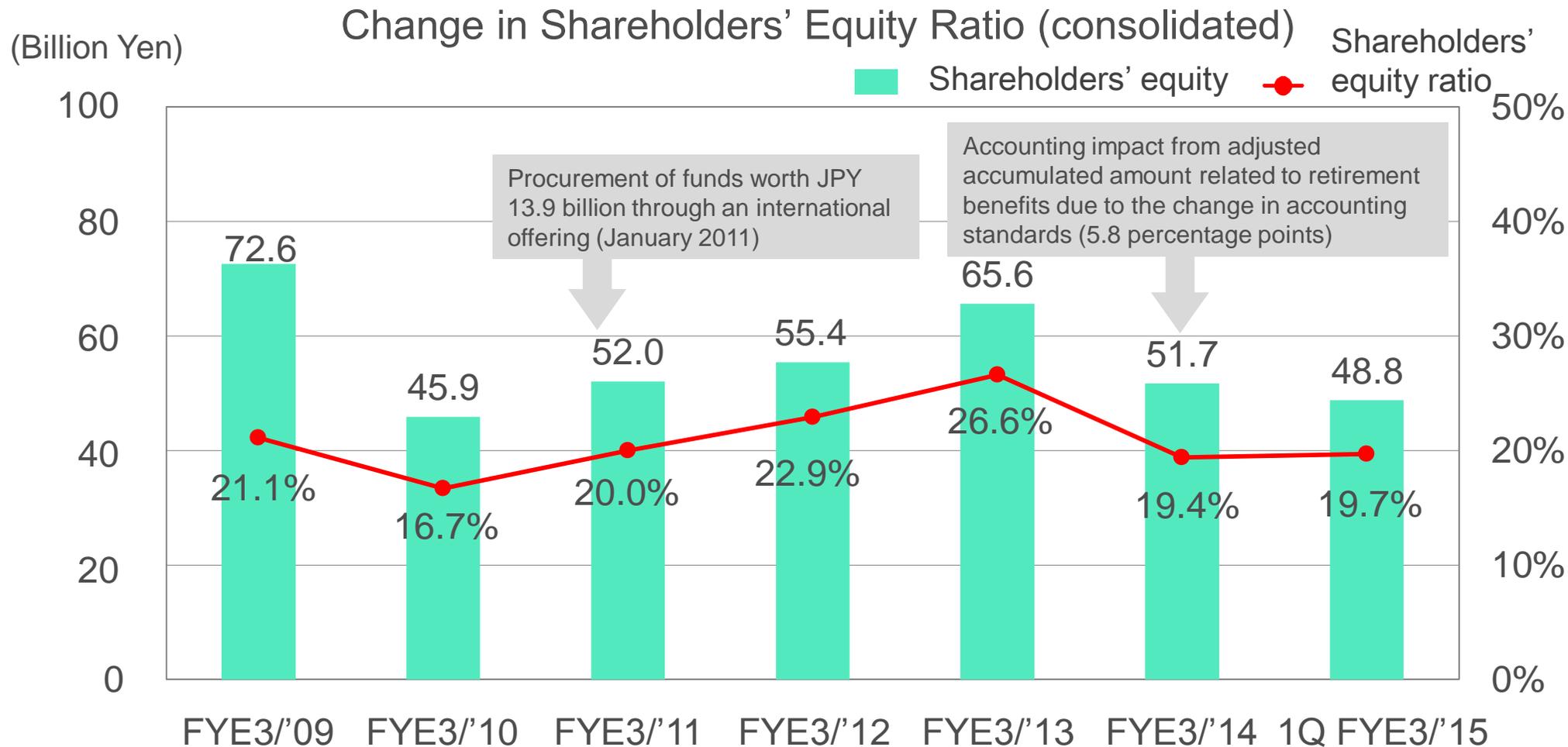
0.44

0.51

0.60

## - Shareholders' Equity Ratio

- ❖ Shareholders' Equity Ratio slightly rose due to the total asset compression. The ratio is almost in the 20% level.



\* Note: All of the first stock acquisition rights issued on August 25, 2011 are to be acquired and retired without compensation.

## - Cash Flow Summary

- ❖ Free Cash Flow plunged to negative figures mainly due to the increased outlay (roughly JPY 6.4 billion) for the reform to the employment structure which was carried out in the previous fiscal year.

(Billion Yen)

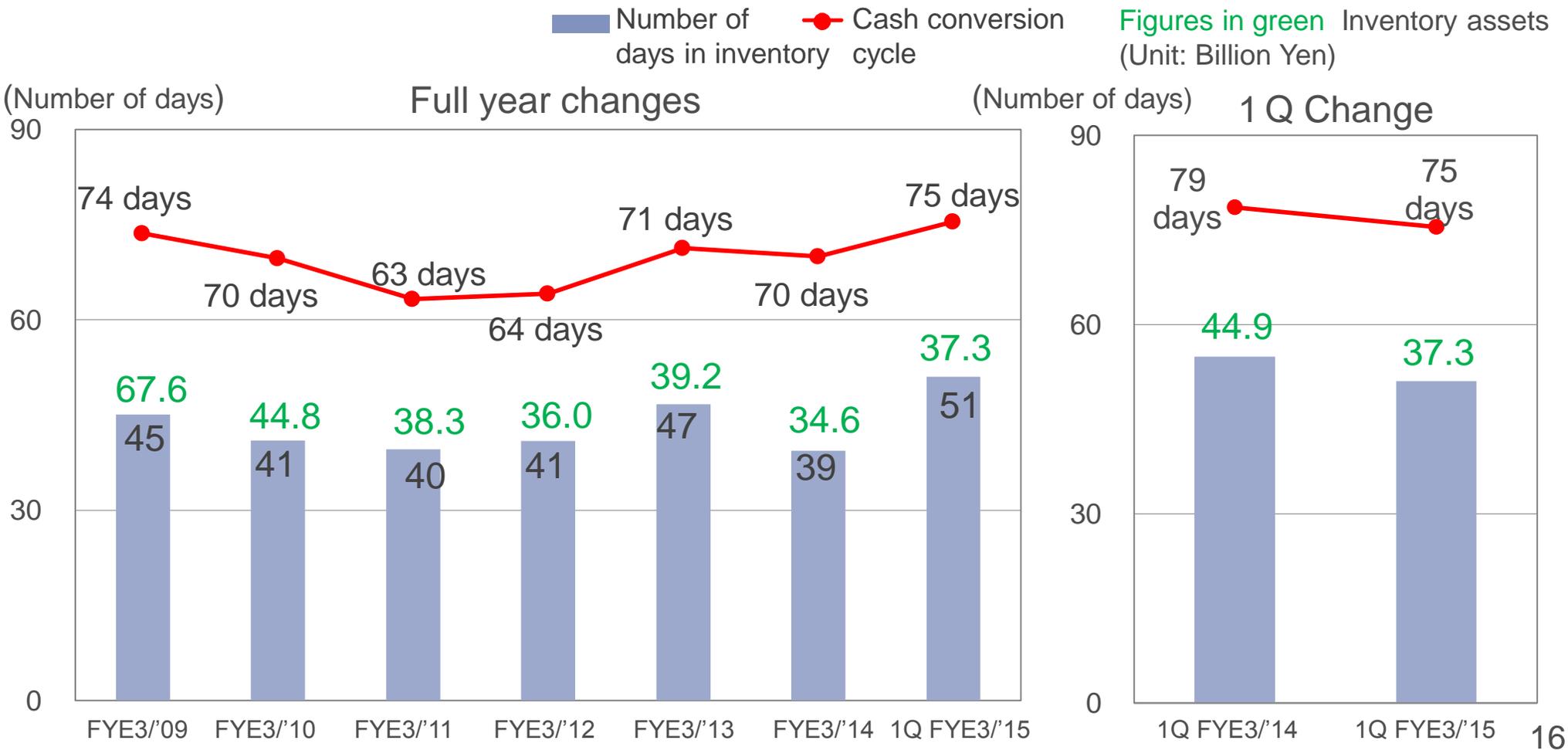
	FYE3/12	FYE3/13	FYE3/14	1Q FYE3/15	Reference 1Q FYE3/14
Cash flow from operating activities	8.9	9.8	14.9	(0.1)	2.7
Cash flow from investment activities	(6.5)	(13.4)	(10.7)	(2.2)	(1.2)
Cash flow from financing activities	(1.5)	(8.6)	(9.6)	(4.4)	(1.8)
Free cash flow	2.4	(3.6)	4.3	(2.3)	1.5

\*Free Cash Flow = Cash flow from operating activities + Cash flow from investment activities

## Cash Conversion Cycle and Number of Days in Inventory

- ❖ The inventory balance significantly declined from the end of the first quarter of the previous fiscal year, although it increased from the end of the previous fiscal year because of the stock of new merchandise. Efforts for the reduction of inventory will continue.

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



(Reference) (Cumulative value) information for 1Q  
by Business Segment and Region

## - Summary

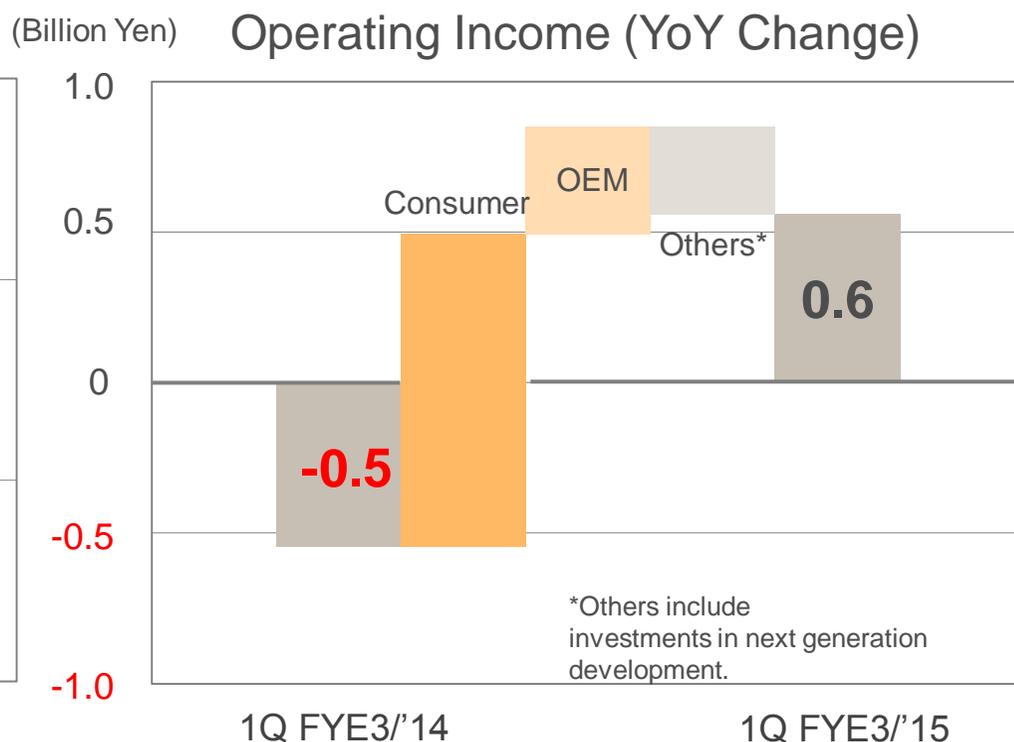
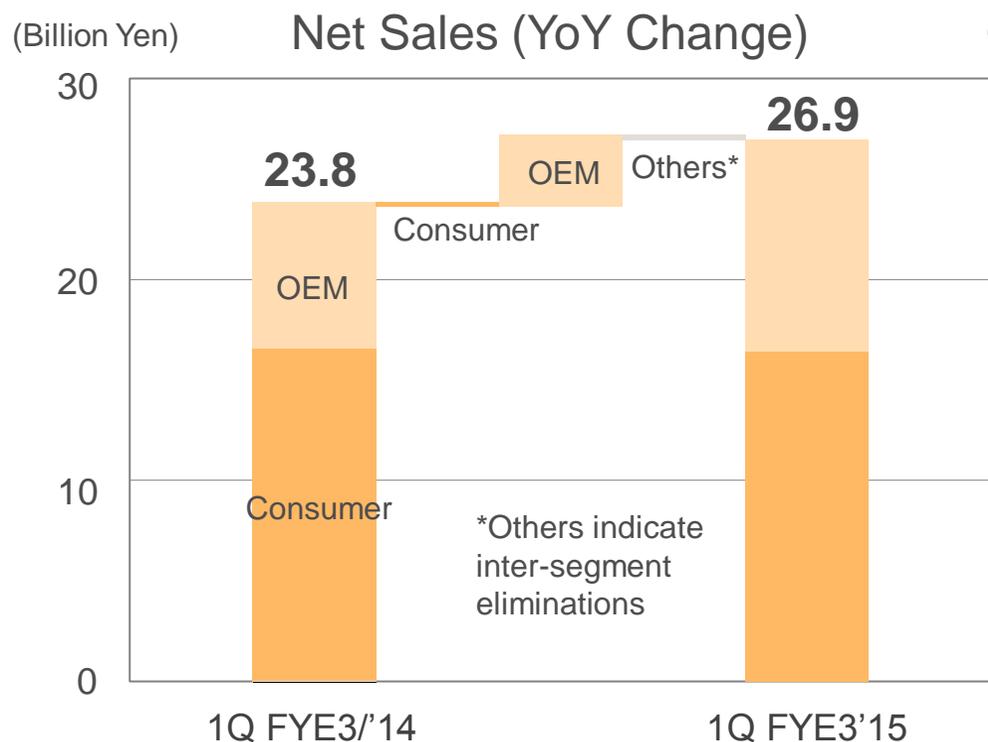
- ❖ Although structural reform effects and business restructuring measures were common across segments, the segments showed different results respectively.
  - CE posted increases in sales and operating income thanks to strong sales abroad and the effect from making Shinwa a subsidiary
  - PS marked declines in sales and operating income due to the sale of Kenwood Geobit Corp. and a slump in the subsidiary in North America.
  - O&A marked a sales decline, but an increase in operating profit backed by the effect from the business restructuring measures.
  - SE logged a sales decline due to changes in work composition, etc. but operating income rose as a result of the effect from the product composition improvement.

(Billion Yen)

Segment		First quarter			Full year
		FYE3/'15	FYE3/'14	YoY change	FYE3/'14
Car Electronics	Net sales	26.9	23.8	+3.1	114.0
	Operating income	0.6	(0.5)	+1.1	(0.6)
Professional Systems	Net sales	19.0	20.9	(1.8)	97.0
	Operating income	(0.3)	(0.1)	(0.2)	3.5
Optical & Audio	Net sales	13.7	17.1	(3.4)	74.7
	Operating income	(0.3)	(0.6)	+0.3	0.9
Entertainment Software	Net sales	7.5	8.1	(0.6)	36.4
	Operating income	0.6	0.5	+0.1	0.6
Others	Net sales	2.2	2.3	(0.2)	6.1
	Operating income	(0.2)	(0.3)	+0.1	0
Inter-segment eliminations	Net sales	(2.9)	(2.5)	(0.4)	(11.8)
Total	Net sales	66.5	69.8	(3.3)	316.3
	Operating income	0.3	(1.0)	+1.4	4.4

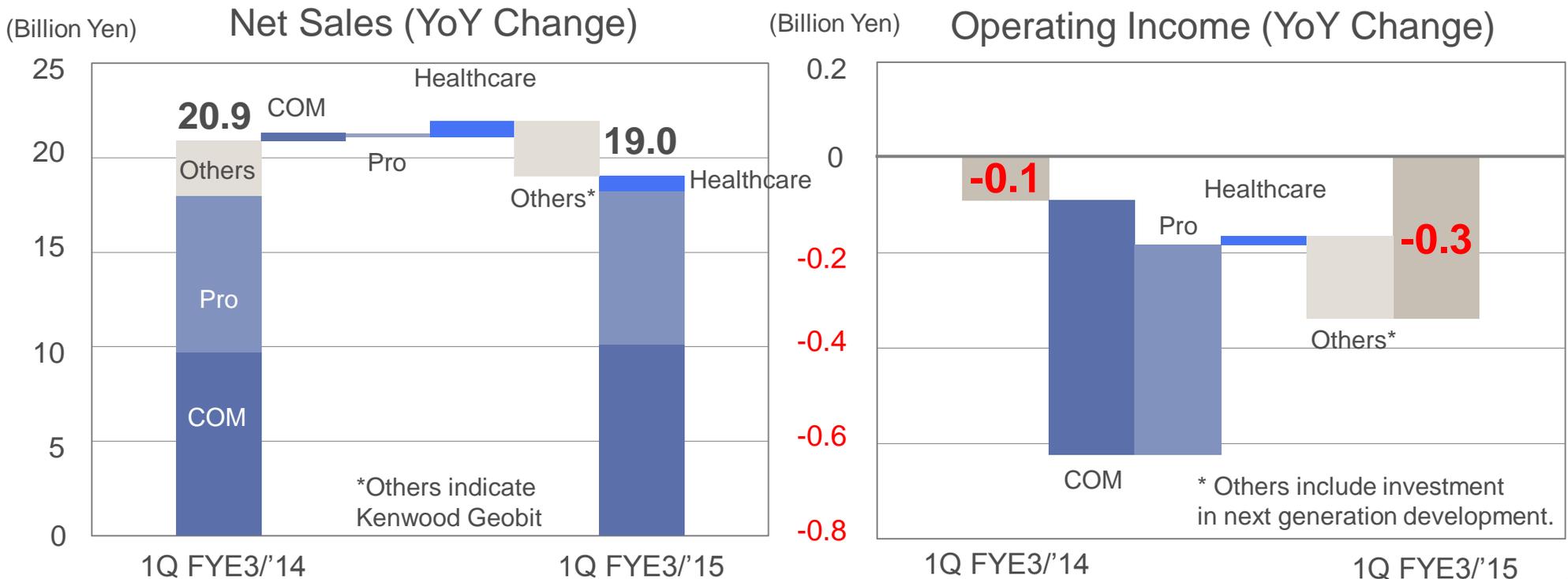
## - Car Electronics

- ❖ Net Sales: Consumer business in the domestic market was impacted adversely due to a reaction to the last-minute demand before the consumption tax hike, while overseas sales showed strong performance, contributing to attaining flat net sales compared with the previous year. OEM posted a sales increase due to the consolidation of Shinwa.
- ❖ Operating Income: Both Consumer and OEM reduced losses and turned to surplus as a result of effects from the overall cost reform, sales reform and other business restructuring measures.



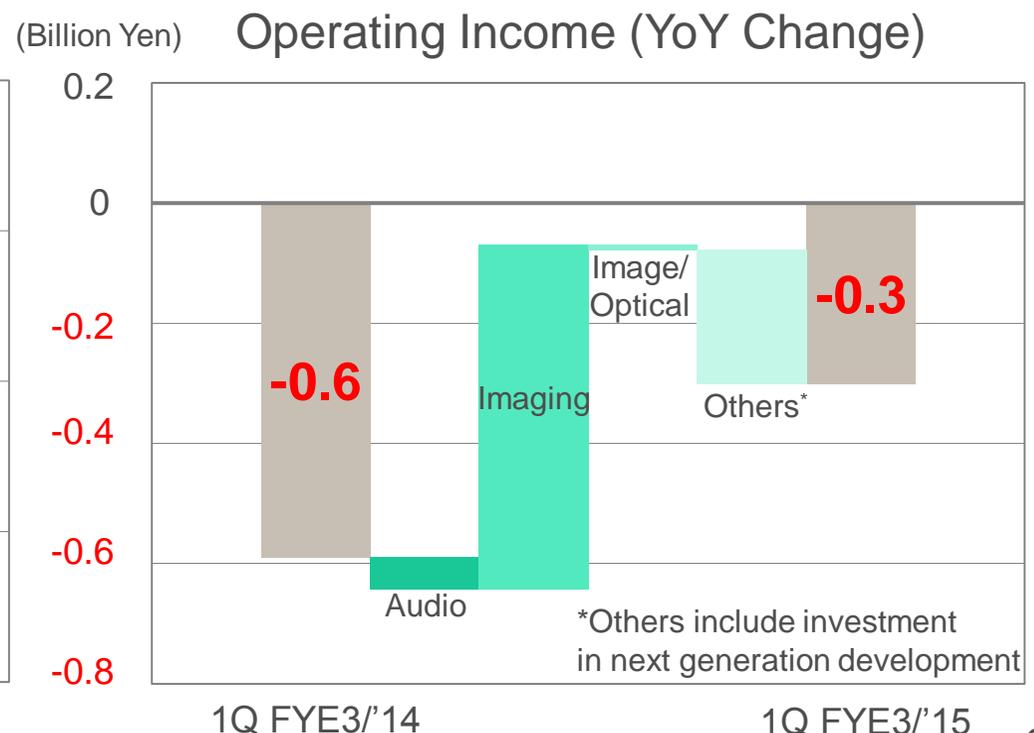
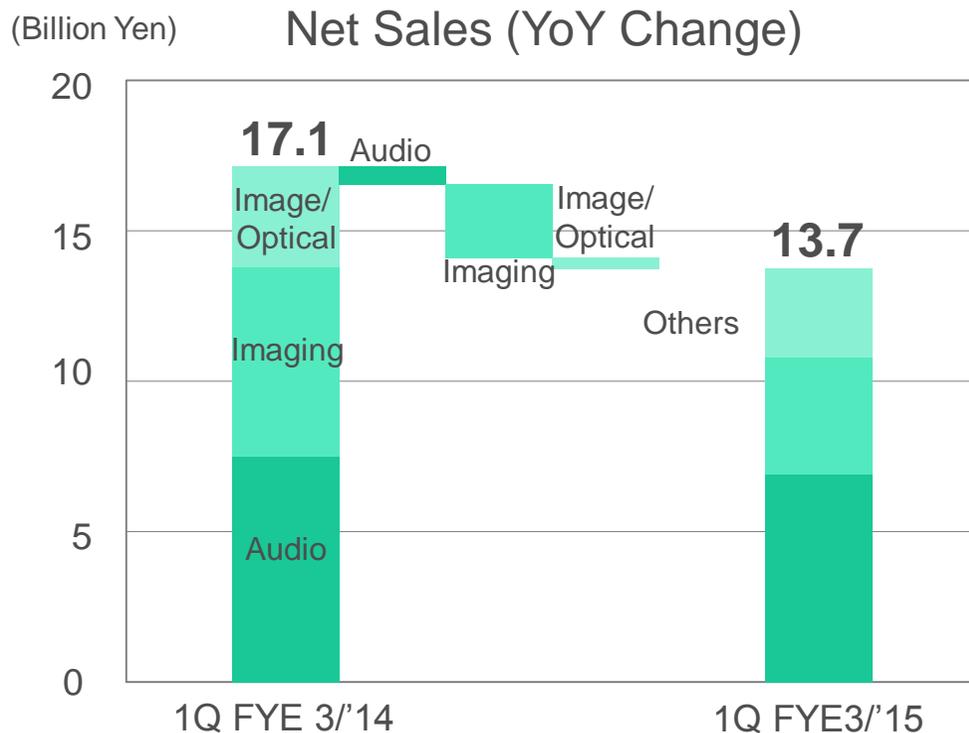
## - Professional System

- ❖ Net Sales: COM posted a sales increase, being backed by an upward trend in North America, the largest market, and the effect from making EFJT a subsidiary. Pro faced a sales decline overseas, but a boost in domestic sales offset the negative impact, making the total net sales increase. Healthcare started posting sales from this fiscal period.
- ❖ Operating Income: In spite of the business recovery in North America, COM marked a decline in operating income due to a temporary reduction in shipments at the subsidiary, Zetron, as well as the time lag in shipments affected on EFJT. Pro posted a rise in operating income thanks to the domestic business improvement.



## - Optical & Audio

- ❖ Net Sales: Audio logged a sales decline due to the sluggish performance in AV accessories in Europe and overseas home audio, in spite of favorable results in home theaters (TV). Imaging marked a sales decline due to a downturn in camcorders, while Image/Optical also registered a sales decline as a result of weak sales in projectors.
- ❖ Operating Income: Operating income both in Audio and Image/Optical fell because of the sales declines respectively. Imaging posted operating losses, but the loss level showed significant improvement thanks to the business restructuring measures.

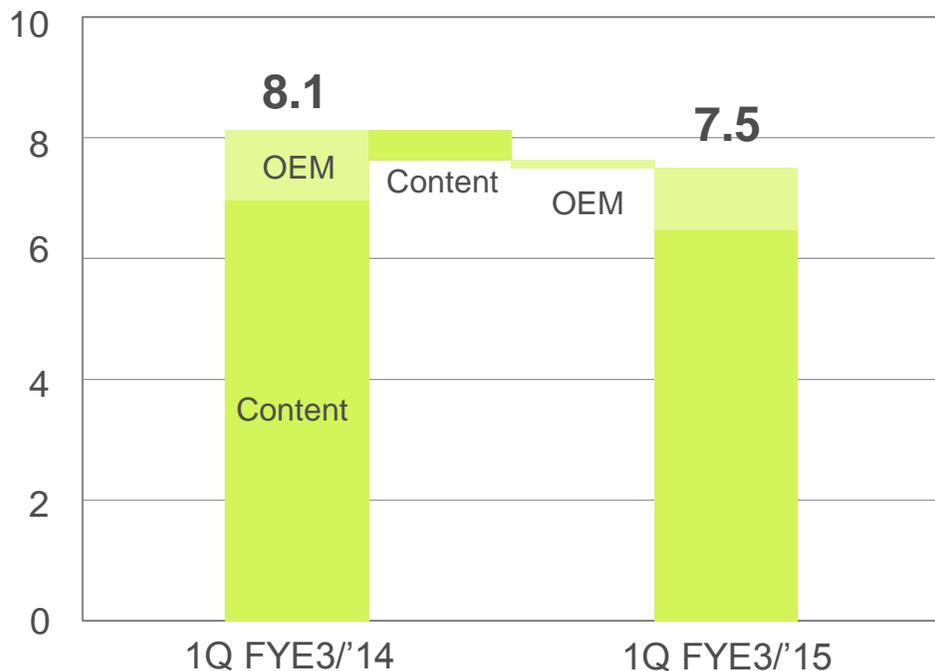


## - Software & Entertainment

- ❖ Net Sales: Content business posted a net sales decline due mainly to the change in work composition and the postponed release of a part of the major work, while net sales in OEM were also down due to the delayed launch of outsourced work as well as weak performance in old programs.
- ❖ Operating Income: Content logged an increase in operating income due to the effects from the improvement in composition of merchandise, while OEM posted a decline in operating income because of the sales decline.

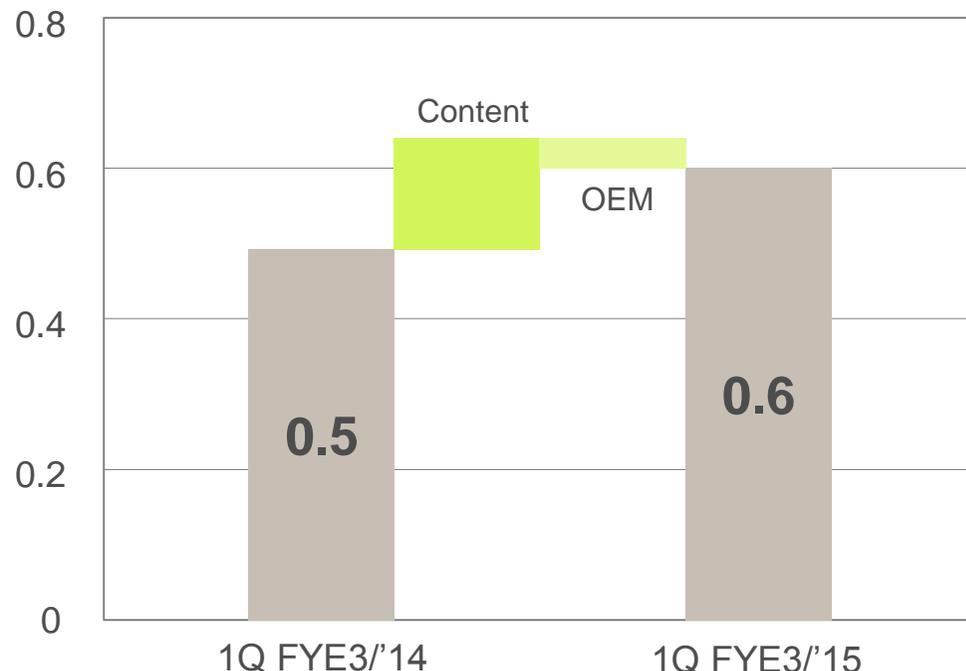
(Billion Yen)

### Net Sales (YoY Change)



(Billion Yen)

### Operating Income (YoY Change)



1. Overview of financial results for the first quarter of the fiscal year ending March 2015
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## General Overview of the 1Q of FYE 3/'15

### Financial Results for 1Q and Challenges:

- ❖ CE showed strong recovery
- ❖ COM sees an upward trend in North America, while being adversely impacted by the one-time deficit in the subsidiary.
- ❖ Consumer business posted a sharp decline in sales, but showed a significant improvement in earnings.
- ❖ SE boosted earnings in spite of the delayed release of the major work.
- ❖ The implementations of the structural reform and business restructuring measures produced solid effects.

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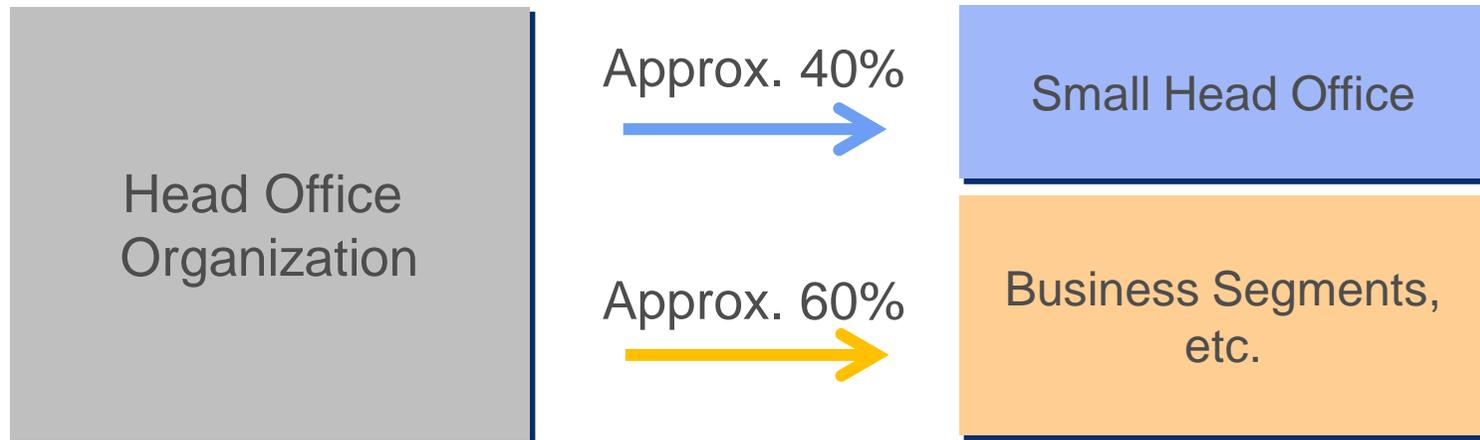
# 1) Measures in FYE3/'15 - Organizational restructuring

## ❖ Toward sales recovery

- Regional CEOs were established on May 14, 2014 and the new organization started full-fledged operations from the second quarter. Withdrawing from consumer product business has also been underway.
  - Regional CEOs were placed in Japan, U.S., Europe and Asia/Emerging countries. Business operations shifted to market-oriented structure.
- Changing to a Small Head Office (as of July 1, 2014)
  - Integration and reorganization of Head Office divisions (i.e. strategy divisions and support divisions), and transfer of staff to business divisions
  - Strengthening of business front lines such as Sales and Technology to assure achieving sales expansion in 2Q and beyond.
- Reorganization of sales companies

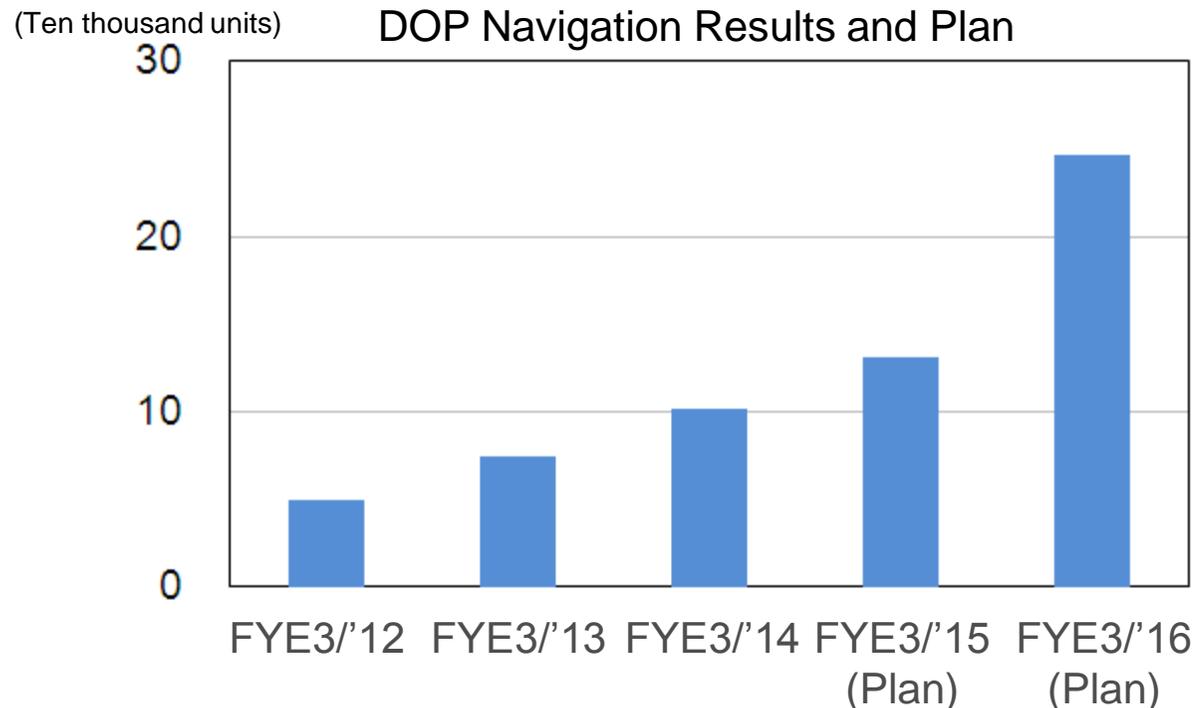
overseas and reform of production bases

< as of July 1, 2014 >



## Segment: (1) Car Electronics

- ❖ CE marked strong sales recovery in 1Q, swinging to surplus from the red posted in the previous year
  - Consumer business assured to reach flat net sales compared with the previous year
    - the Company holds a significant proportion of market share in navigation and audio products of Consumer business.
  - Consumer models converted into Dealer Option (DOP) Model
    - In Dealer Option (DOP) Model which was converted from Consumer Model, the past operating performance in the consumer markets has become a key. DOP is now showing strong growth.



## Segment: (1) Car Electronics

### Strong rebound in CE business

#### ❖ Consumer business

- Accelerating the timing of new products release in the second quarter and beyond
  - Release of new products toward the summer sales season

#### ❖ OEM Business

- Obtaining of large-sized orders for Dealer Option (DOP) navigation devices
  - Saisoku-Navi showing strong performance in consumer markets were adopted by Mazda Motor as a 2014 DOP Navigation Model. The shipments started from July, 2014.
  - The products were also adopted as a DOP 2014 Model by Company A, a domestic auto maker. The shipments are scheduled to commence from this fall.
  - Company B, a domestic auto maker, ordered the 2015 DOP Navigation Model.
  - Sales in FY2014 and 2015 are expected to reach approximately JPY 10 billion and JPY 13 billion respectively.

## Communications business sees solid performance

- ❖ Steady operation in COM terminal business. Zetron and EFJT to show rebound and growth in the second quarter and beyond.
- ❖ Speed-up of the EFJT integration effects
  - The 1Q operating deficit was an expected result. The integration effects started arising from June.
  - Transfer of production for major products to JVC Kenwood Yamagata Corporation from June
  - Kick-off of sales expansion with use of the Company's sales channel. Full-scale running from the second quarter.
- ❖ Zetron
  - Due to a quality issue found in part of system products, the shipments in the first quarter were held back. The issue was resolved in the second quarter.
  - Aggressive selling of new products started at the release.

## Segment: (3) Optical & Audio

Although consumer product business posted a sharp sales decline, it showed a significant improvement in earnings as a result of the structural reform.

### ❖ Imaging (video camera) business

- The deficit level in the first quarter declined by 60% year-on-year. Operating results are forecast to return to profit by the end of the second quarter.
- A large scale of resources transferred to car-mounted cameras and professional-use video cameras (4K/8K)
- Strong focus on selling models with high earnings toward the second quarter, the largest domestic sales period

### ❖ Audio business

- The home audio field finished the structural reform in the third and fourth quarters of FY2013.
  - The operating results achieved surplus in the latter half of FYE3/'14.
- The accessory field is moving upward with higher profitability ratios.
- The home theater (TV) field is to return to surplus in brand licensing supply business.

### ❖ Image/Optical business

- Sales expansion of 4K models through the packaged negotiation in the projector field

# 1) Measures in FYE3/'15 - Strategies by Area

## U.S.

- Professional-use digital radio solution through the alliance with Zetron and EFJT
- Expansion of product lineup with the release of new models in CE display audio devices.
- Sales expansion for high value-added products in headphone markets where JVC Kenwood holds the largest sales volume.

## Europe

- Expansion of B2B (i.e. professional-use digital radio solution, 4K projectors)
- Sales expansion of consumer products and DOP merchandise for new European car models
- Sales expansion of headphones through streamlining of sales channels in Eastern Europe and Russia.

Market-oriented sales expansion

- CE business through full use of operation bases in Thailand and Indonesia
- Deep penetration into digital radio systems markets for infrastructure related business
- Sales expansion of headphones to mass merchandise markets in emerging countries where demand for smartphone is rising.

## Asia/Emerging countries

- Sales expansion in professional-use market such as the area of rental cars with consumer navigation devices
- Strengthening of sales of high value-added audio merchandise (e.g. high resolution products, etc.)
- Further step-up of earnings in camcorder-related products.

## Japan

## 2) Measures toward FYE3/'16 and beyond - Strategy for Car Electronics

- ❖ Launch of information terminal devices
  - JVCKENWOOD became a member of “Open Automotive Alliance” of Google Inc.
    - JVCKENWOOD navigation devices started adopting Android OS from 2013, and the adaptation by most navigation devices will be complete by the end of 2015.
  - Release of models designed to accommodate “Car Play” of Apple Inc.
    - The release is scheduled for the early summer of FYE3/'16.
  - Strengthening of the lineup of models accommodated for smart phones
    - As a pioneer in the industry, the Company released models accommodated for MirrorLink in 2012.
- ❖ Launch of cloud through an alliance with ZMP Inc.
  - Efforts for Cartomo Inc.: development of models accommodated for cloud systems
    - Completion of development of system which stores the vehicle CAN data in cloud servers by using smartphones
    - Release of the model equipped with this system and capability to accommodate cloud computers is targeted by the end of FYE3/'15.

## 2) Measures toward FYE3/'16 and beyond - Strategy for Car Electronics

- ❖ Systemize advanced information and make alliance with other firms
  - Enhance development of digital cockpit (DiCI) systems
    - Accelerate the development of digital cockpit systems such as head-up display and megapixel camera, targeting launch in FY2017.
  - Strengthen the alliance with Garmin Ltd. in the U.S. for Consumer and OEM businesses.
- ❖ Car-mounted cameras
  - High-volume production started in Thailand from March 2014
    - The self-manufacture of in-car cameras started with the expectation that demand would increase on the back of the new regulatory requirement in North America of mounting rear cameras and a rising demand for digital cockpit systems. Roughly 50,000 units are expected to be shipped in FY2014, while shipments over one million units in FY2016 are targeted.
  - In-car camera business unit was established in Car Electronics segment in July 2014.
    - Development of the Group company's manufactured CMOS sensors and specially designed cameras with video engine for in-car use, and leverage of the world's best performance in consumer and professional-use cameras
    - Targeting to acquire a 20% share of the market which will be worth JPY 520 billion in 2018 (i.e. roughly 8 times the value in 2012)

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# Full-year Earnings Forecast for FYE 3/'15

## ❖ Full-year earnings forecast remains unchanged.

- The sound rebound in CE business is forecasted to continue and underpin operating income. In PS, collaborative manufacture and sales activities with EFJT, a wholly-owned subsidiary, are expected to produce favorable effects.
- The regional CEO system placed on May 14, 2014 will be fully operated with a focus on sales expansion in respective regions.
- Sales decline in O&A segment due to the market contraction in the second quarter and beyond has been already incorporated in the earnings forecast.

(Billion Yen)

	Net sales	Operating income	Ordinary income	Net income
FYE3/'15	300.0	7.5	4.5	0.5
FYE3/'14	316.3	4.4	-0.1	-6.6
YoY Change	(16.3)	+3.1	+4.6	+7.1

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*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.