

Translation for Reference Only

**JVCKENWOOD**  
*creates excitement & peace of mind*

# JVCKENWOOD

# Results and Forecast Briefing

## Fiscal Year Ended March 2015

JVC KENWOOD Corporation

April 30, 2015

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JVCKENWOOD Corporation

CE	Car Electronics (Segment) Consumer (Business) OEM (Business) HA (Home Audio) (Business)
PS	Professional Systems (Segment) COM: Communications (Business) Pro: Pro Systems (Business) Healthcare (Business) EFJT: EF Johnson Technologies, Inc. Zetron: Zetron, Inc.
O&A	Optical & Audio (Segment) AV Accessory (Business) Creation (Video Camera) (Business) Image & Optical (Business)
SE	Software & Entertainment (Segment) Content (Business) OEM (Business)

- 1. Overview of financial results for the fiscal year ended March, 2015**
  
- 2. Issues that should be solved and relevant measures**
  - 1) Factors of FYE 3/'15 earnings recovery**
  - 2) Prioritized measures for FYE 3/'16**
  - 3) Growth strategy**
  
- 3. Full-year earnings forecast for FYE 3/'16**

# 1. Overview of financial results for the fiscal year ended March, 2015

## 2. Issues that should be solved and relevant measures

- 1) Factors of FYE 3/'15 earnings recovery
- 2) Prioritized measures for FYE 3/'16
- 3) Growth strategy

## 3. Full-year earnings forecast for FYE 3/'16

# Financial Results for FYE3/'15 - Summary

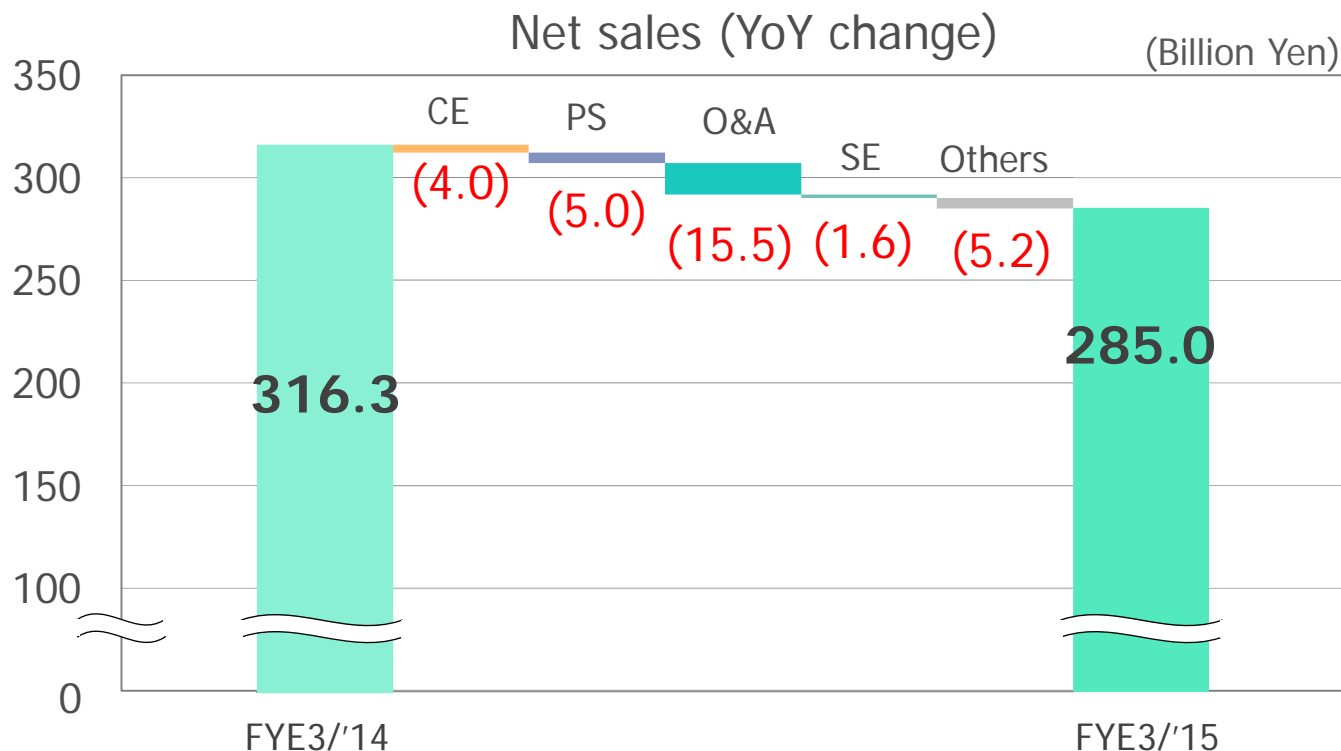
- ❖ Net sales: Decreased (90% YoY) due to the effects of business transfers, etc. (approx. JPY 17.2 billion).
- ❖ Operating income: Increased significantly due to structural and operational reforms.
- ❖ Ordinary income: Achieved a turnaround because operating income increased significantly and non-operating performance also improved.
- ❖ Net income: Improved significantly and achieved a turnaround, with gain on sales of property, plant and equipment and income tax - deferred, decreased costs of structural reforms, etc., in addition to increased ordinary income.
- ❖ Dividends: 5 yen per share (year-end) (Resumed dividend payment.)

		(Billion Yen)			
		Net sales	Operating income	Ordinary income	Net income
Full Year	FYE3/'15	285.0	6.6	3.2	4.7
	FYE3/'14	316.3	4.4	△0.1	△6.6
	YoY	△31.3	+2.1	+3.2	+11.2

\*Exchange rates for FYE 3/'15: JPY 110/USD, JPY 139/EUR  
Exchange rates for FYE 3/'14: JPY 100/USD, JPY 134/EUR

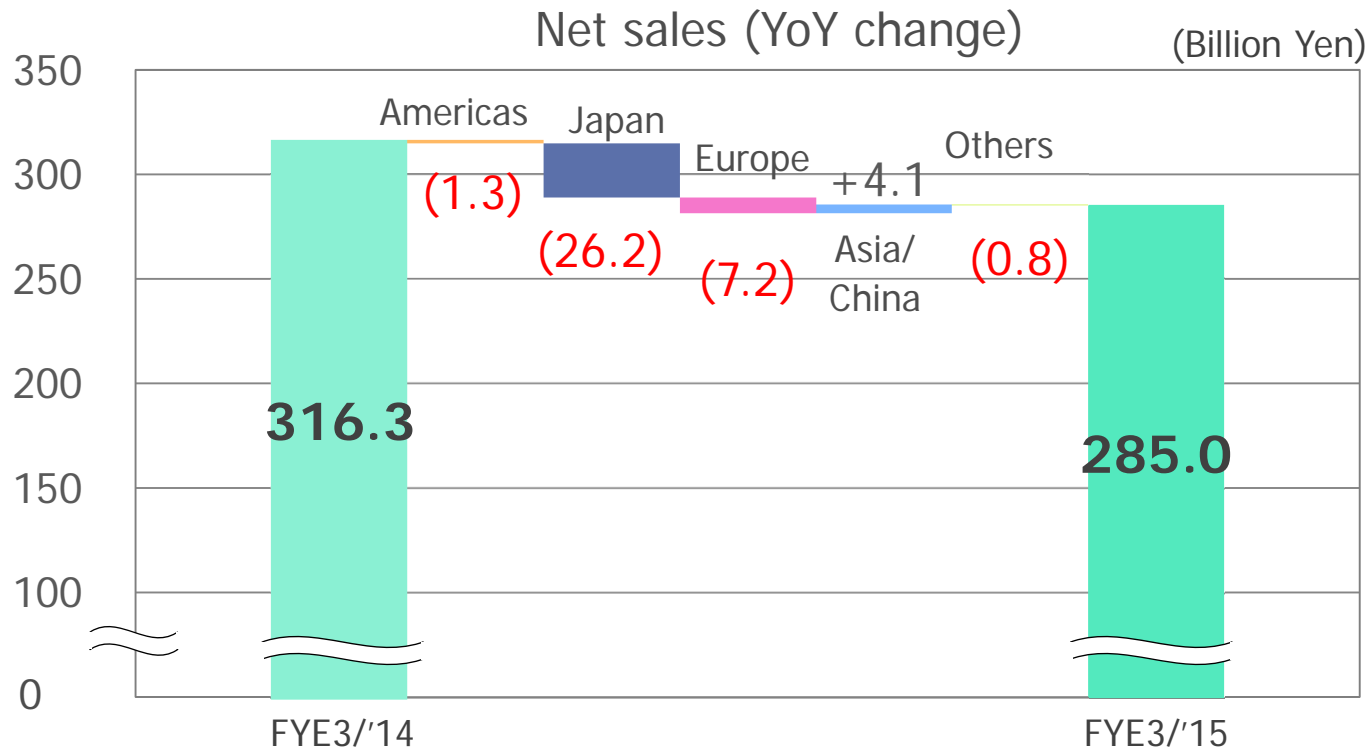
# Financial Results for FYE3/'15 - Consolidated Net Sales (By Segment)

- ❖ Full-year results: JPY 285 billion in total (a decrease of 9.9% YoY\*) [Decrease in sales] \*Half of the decrease due to business divested
  - CE: OEM sales rose due to increased product sales, etc., despite negative effects of a contraction of the HA product lineup.
  - PS: Effects of sale of Geobit (approx. JPY 13 billion) were covered by increased sales of COM terminals.
  - O&A: Substantial product cutbacks (focused on high-margin models)
  - SE: Affected by changes to composition of titles.
  - Others: Affected by sale of a U.S. subsidiary (OEM disc supplier) (approx. JPY 4.2 billion).



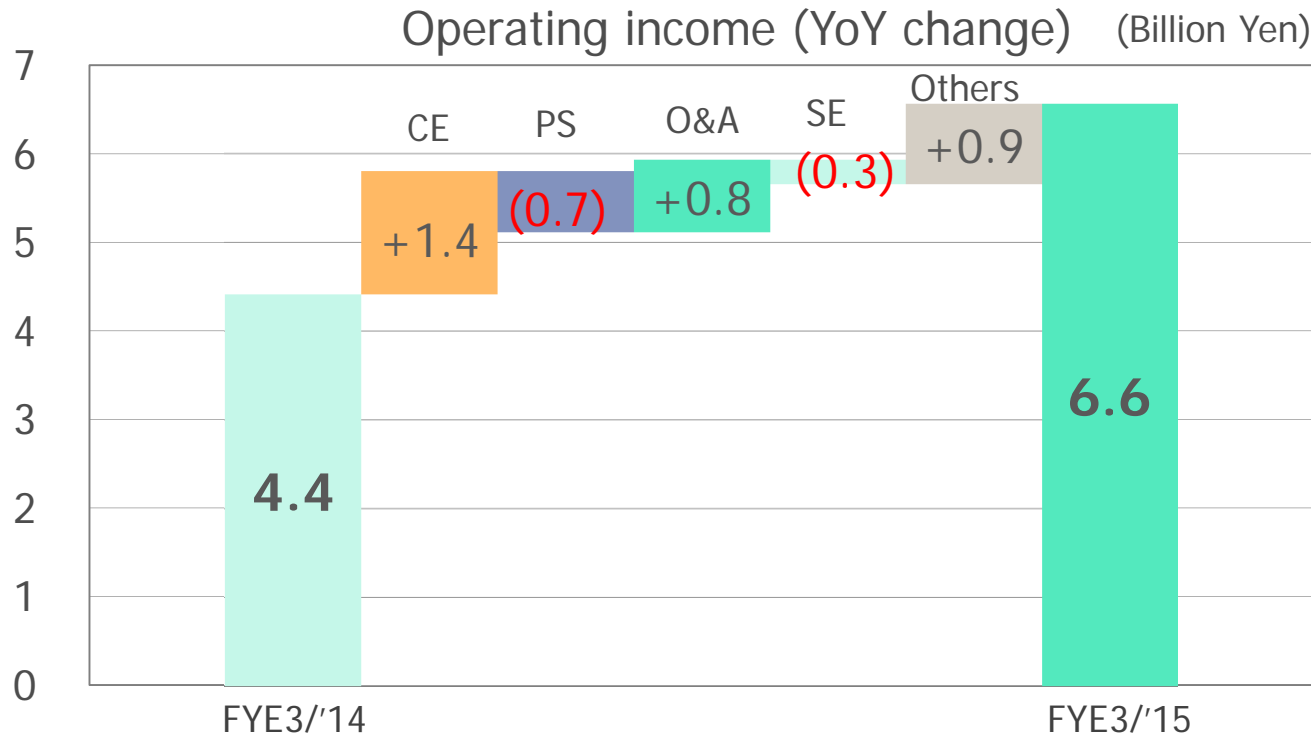
# Financial Results for FYE3/'15 - Consolidated Net Sales (By Region)

- ❖ Full-year results: JPY 285 billion in total (a decrease of 9.9% YoY) [Decrease in sales]
  - Asia/China: Sales increased due to continued strong product sales, consolidation of Shinwa, and other factors.
  - Japan: Sales decreased due to the sale of Geobit (approx. JPY 13 billion), contraction of consumer video camera market, etc.
  - Americas: Sales increased substantially due to strong sales of COM terminals and consumer CE products, although the sale of a subsidiary was a negative factor (approx. JPY 4.2 billion).
  - Europe: Poor market conditions continued. Sales declined due to decreased sales of O&A and CE products, etc.



# Financial Results for FYE3/'15 - Consolidated Operating Income (By Segment)

- ❖ Full-year results: JPY 6.6 billion in total (an increase of 48.6% YoY)  
[Achieved a turnaround]
  - CE: Achieved a turnaround due to business reforms (e.g. reforms of overall cost structure/sales structure)
  - O&A: Sales decreased, but Creation Business performance (video camera) improved significantly due to business reforms. Fixed costs decreased. As a result, operating income increased.

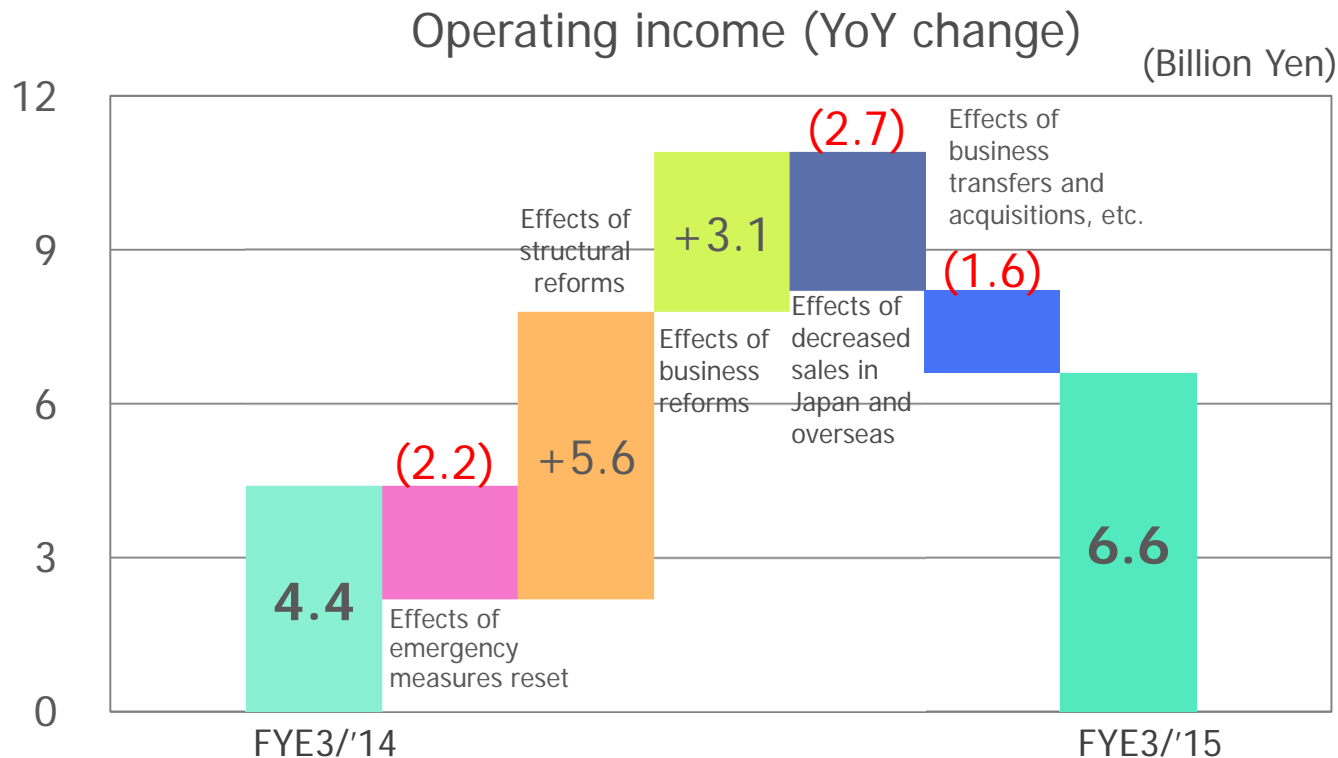




# Financial Results for FYE3/'15 - Consolidated Operating Income (By Factor)

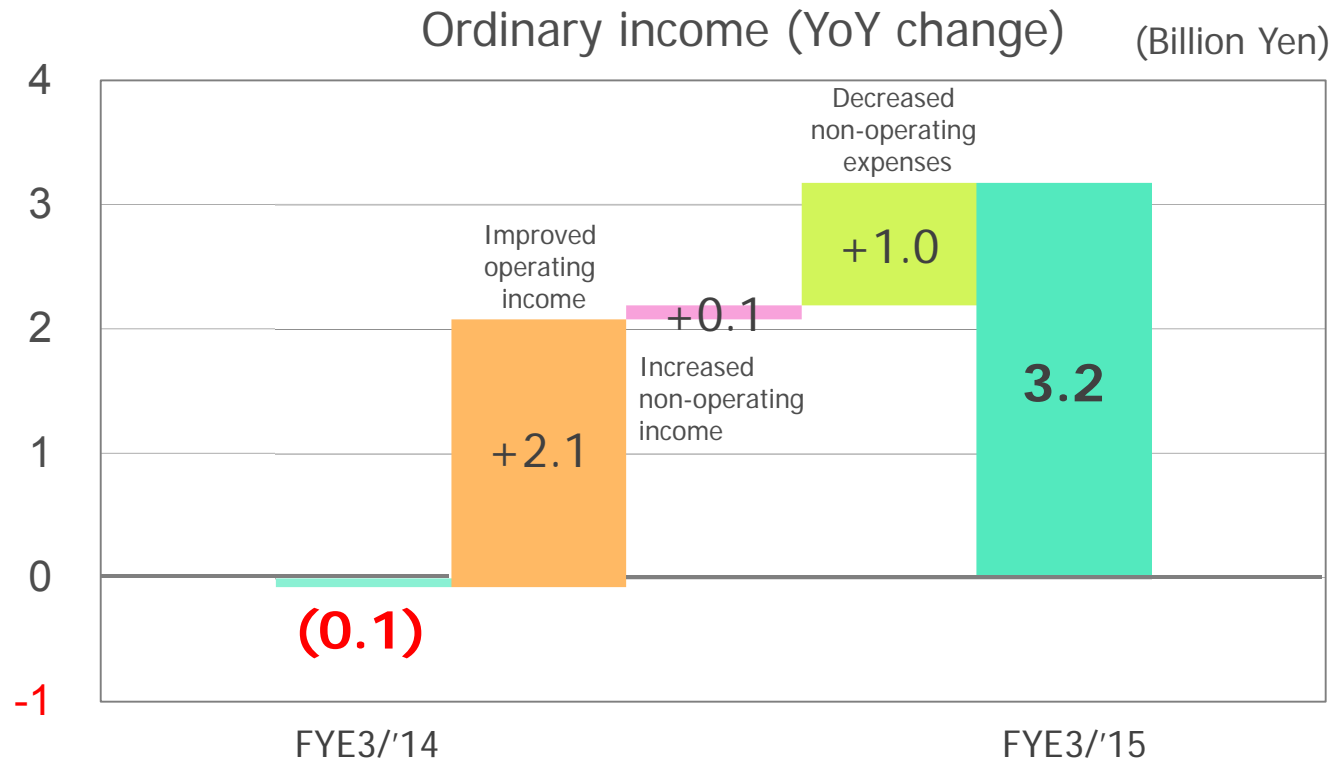
- ❖ Effects of structural reforms: +JPY 6.5 billion (initial estimate) ▪ +JPY 5.6 billion => A little lower than the initial estimate
- ❖ Effects of business reforms: +JPY 2.5 billion (initial estimate) ▪ +JPY 3.1 billion => Improved more than estimated.
- ❖ Effects of decreased sales in Japan and overseas: -JPY 2.9 billion (initial estimate) ▪ -JPY 2.7 billion => Almost on a par with the estimate, but deteriorated in 4Q.

\* Structural reforms: Reduced personnel costs accompanied by reforms to domestic and overseas employment structure  
 Business reforms: Cost improvements, sales reforms, and reduced fixed costs excluding personnel costs



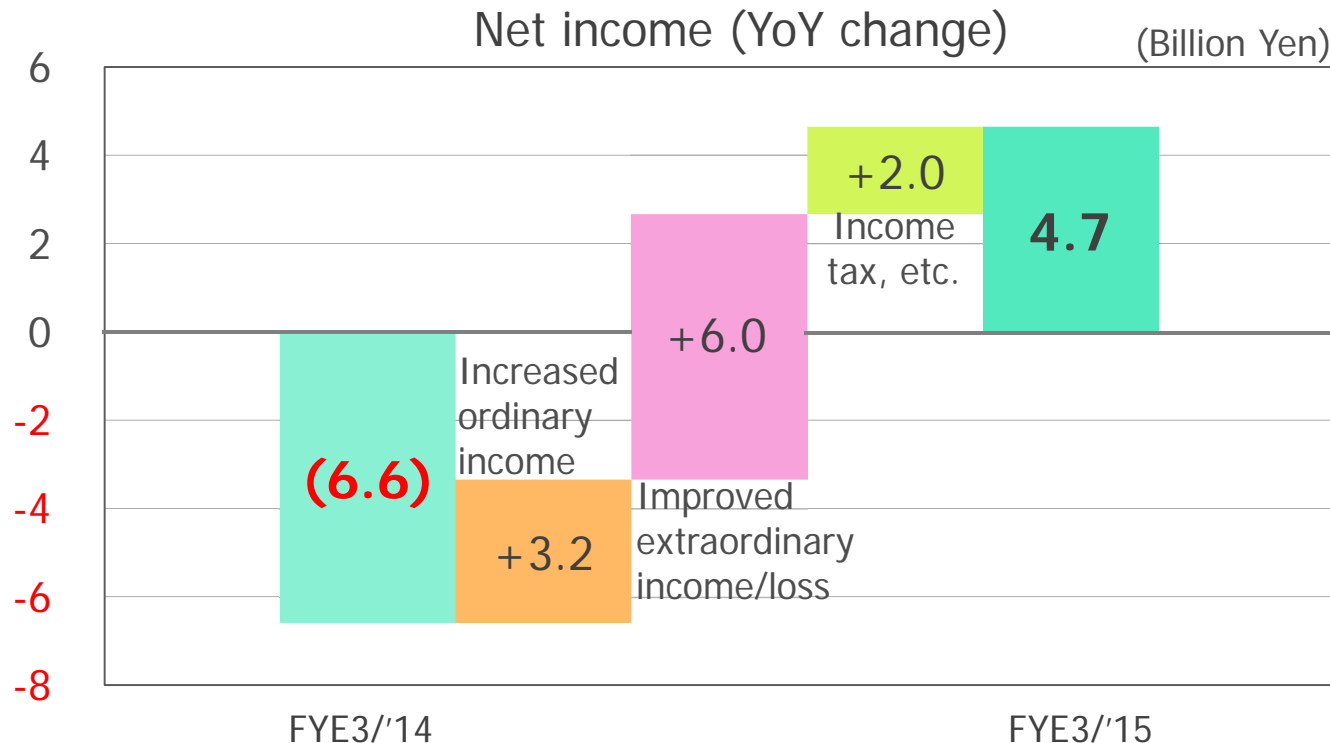
# Financial Results for FYE3/'15 - Consolidated Ordinary Income

- ❖ Full-year results: JPY 3.2 billion in total (an increase of JPY 3.2 billion YoY) [Achieved a turnaround]
  - In addition to significantly improved operating income, non-operating results improved by JPY 1.1 billion, due to decreased loan commissions, decreased interest expenses, etc. Achieved a turnaround.



# Financial Results for FYE3/'15 - Consolidated Net Income

- ❖ Full-year results: Net income of JPY 4.7 billion (an increase of JPY 11.2 billion YoY) [Achieved a turnaround]
  - Achieved a turnaround, with gain on sales of property, plant and equipment (JPY 5.4 billion) and income tax - deferred (JPY 1.5 billion (credited)), decreased costs of structural reforms, etc., as well as increased ordinary income, although a temporary loss was incurred as a result of the sale of a U.S. subsidiary in 1Q.



# Financial Results for FYE3/'15 - Balance Sheet Summary

- ❖ Total assets: Rose JPY 1.15 billion due to increased merchandise, finished goods, software, assets for retirement benefits (e.g. increased pension assets), etc.
- ❖ Interest-bearing debts (sum of borrowings and bonds payable): Decreased JPY 8.0 billion.
- ❖ Shareholders' equity ratio: Improved 6.4% pp to 25.8%.

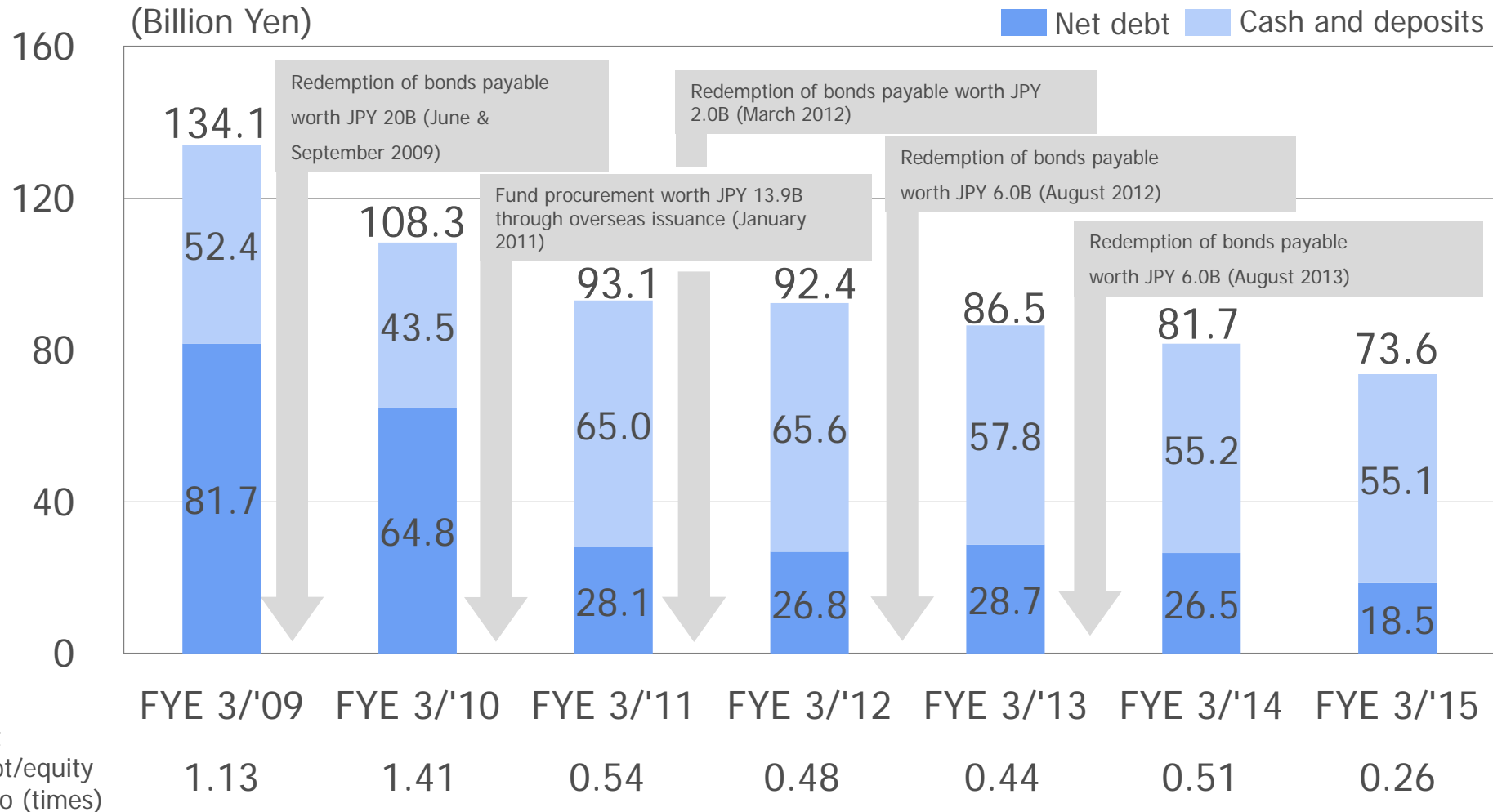
(Billion Yen)

	End of FYE3/'14	End of FYE3/'15	Change from the previous year-end
Total assets	267.2	<b>278.7</b>	<b>+1.15</b>
Interest-bearing debts	81.7	<b>73.6</b>	<b>(0.80)</b>
Net debt	26.5	<b>18.5</b>	<b>(0.79)</b>
Net debt/equity ratio (times)	0.51	<b>0.26</b>	<b>(0.25)</b>
Capital surplus	45.9	<b>45.6</b>	<b>(0.30)</b>
Retained earnings	17.4	<b>22.2</b>	<b>+0.48</b>
Net assets	59.8	<b>79.2</b>	<b>+1.94</b>
Shareholders' equity	51.7	<b>71.8</b>	<b>+2.01</b>
Shareholders' equity ratio (%)	19.4	<b>25.8</b>	<b>+6.4</b>

# Financial Results for FYE3/'15 - Interest-bearing Debts

- ❖ Both interest-bearing debts and net debt are decreasing on a step-by-step basis.

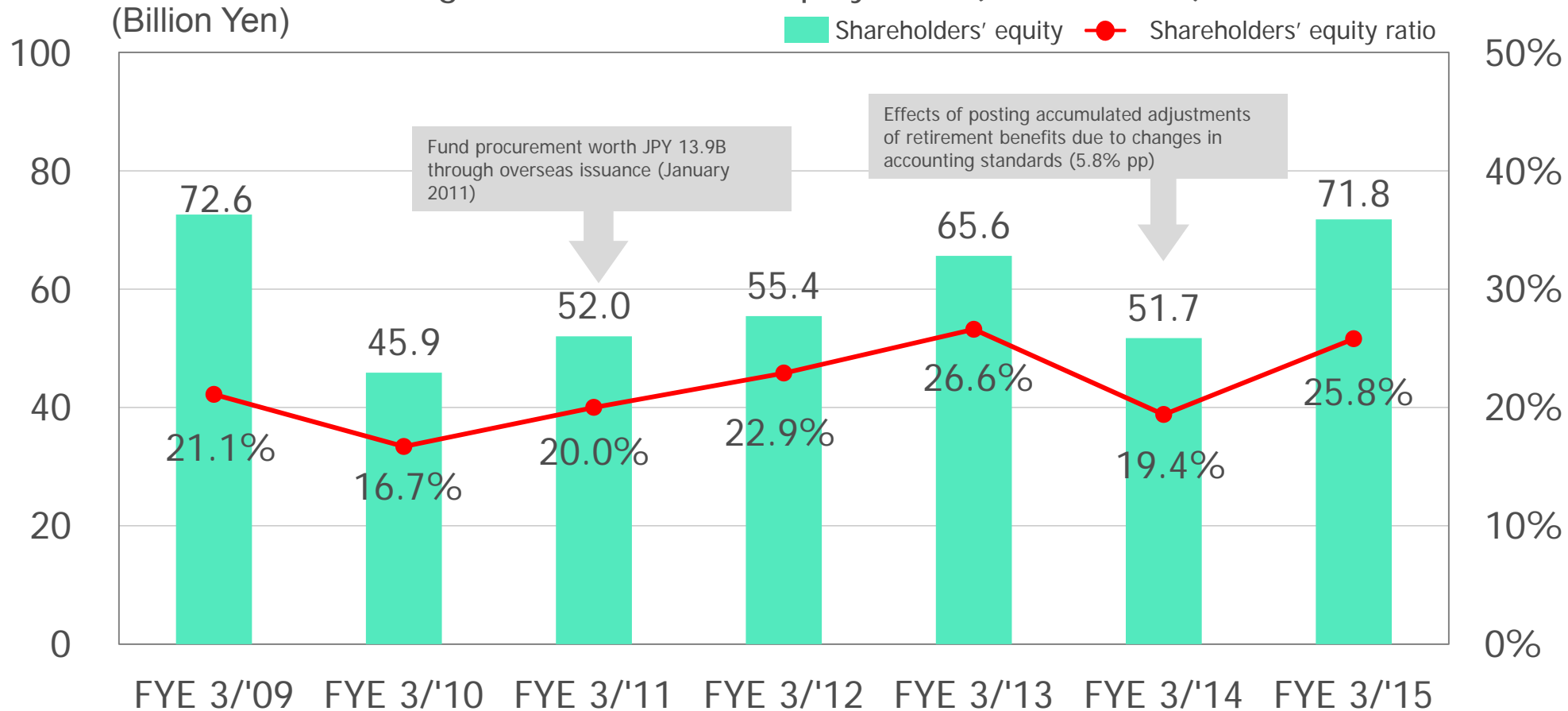
Changes in Interest-bearing debts (consolidated)



# Financial Results for FYE3/'15 - Shareholders' Equity Ratio

- ❖ Net assets rose partly because foreign currency translation adjustments increased as a result of the yen's depreciation against the USD and Asian currencies. Shareholders' equity ratio recovered to 25.8%.

Change in shareholders' equity ratio (consolidated)



\* 1st stock acquisition rights issued on August 25, 2011: Already acquired and canceled entirely without compensation.

# Financial Results for FYE3/'15 - Cash Flow Summary

❖ Increase in free cash flow

- Cash flows from operating activities decreased due to costs incurred in connection with structural reforms conducted last year (approx. JPY 6.4 billion), etc., but cash flows from investing activities increased due to a gain from the transfer of a subsidiary's assets.

(Billion Yen)

	FYE3/'12	FYE3/'13	FYE3/'14	FYE3/'15
Cash flow from operating activities	8.9	9.8	14.9	8.6
Cash flow from investing activities	(6.5)	(13.4)	(10.7)	(3.9)
Cash flow from financing activities	(1.5)	(8.6)	(9.6)	(7.5)
Free cash flow	2.4	(3.6)	4.3	4.7

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

# **(Reference) Information by Segment**

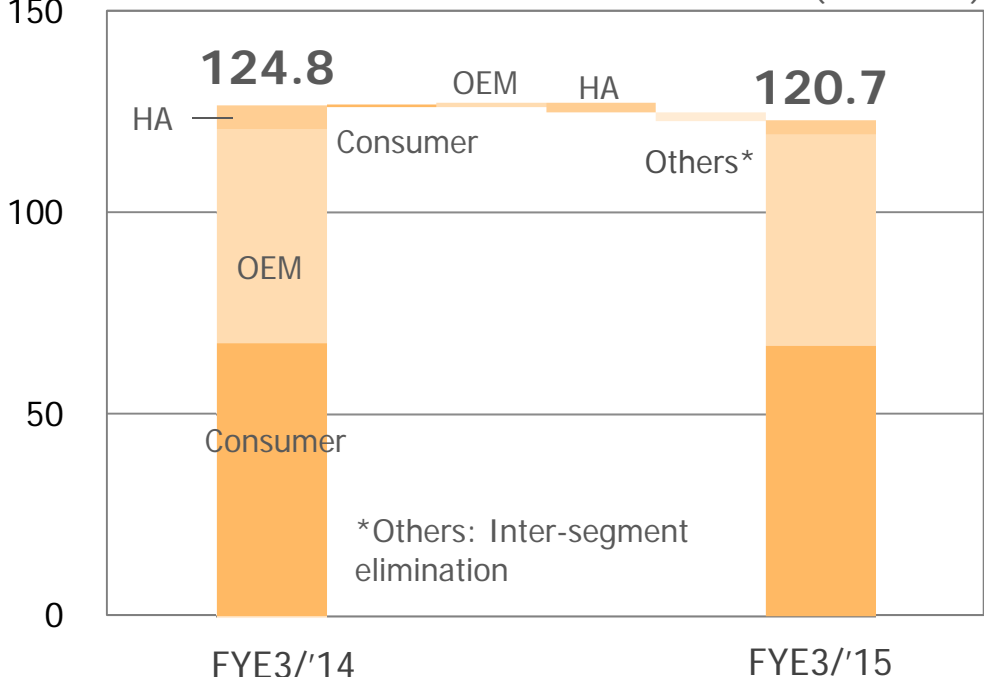


# Financial Results for FYE3/'15 - Car Electronics

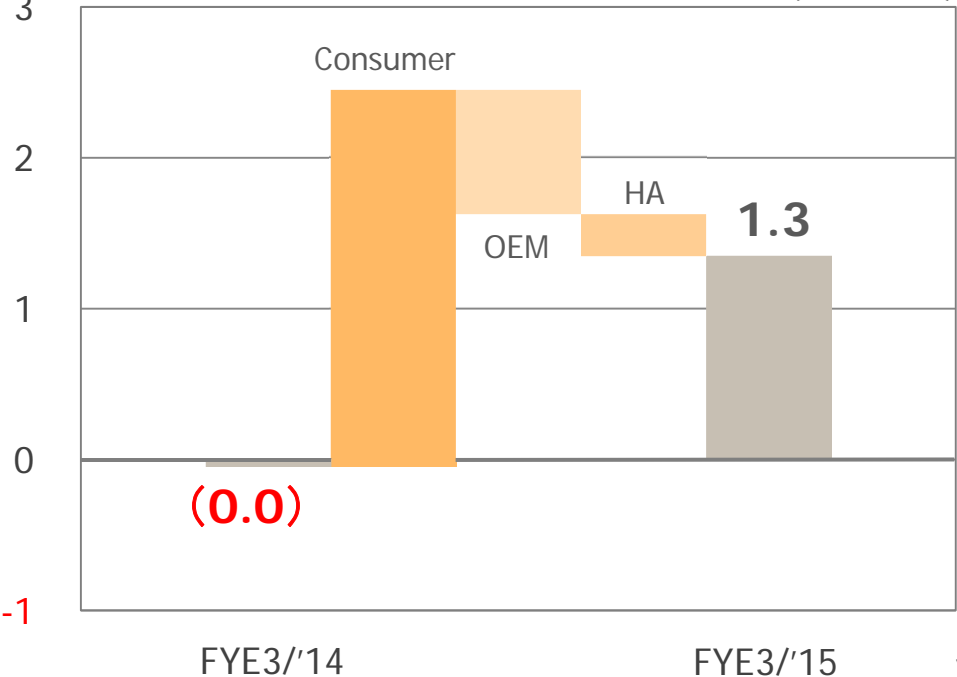
- ❖ Net sales: Consumer sales were on a par with last year due to strong sales in the Americas and Asia, despite the negative effects of a consumption tax hike, etc. in Japan. OEM sales increased due to strong product sales and consolidation of Shinwa. HA\* sales decreased due to deteriorating market conditions.
- ❖ Operating income: CE achieved a turnaround as a whole. OEM income decreased due to increased development costs for next-generation products, etc. HA's losses increased due to deteriorating market conditions. Consumer's income improved significantly due to the effects of business reforms.

\* HA...Home Audio

Net sales (YoY change) (Billion Yen)



Operating income (YoY change) (Billion Yen)

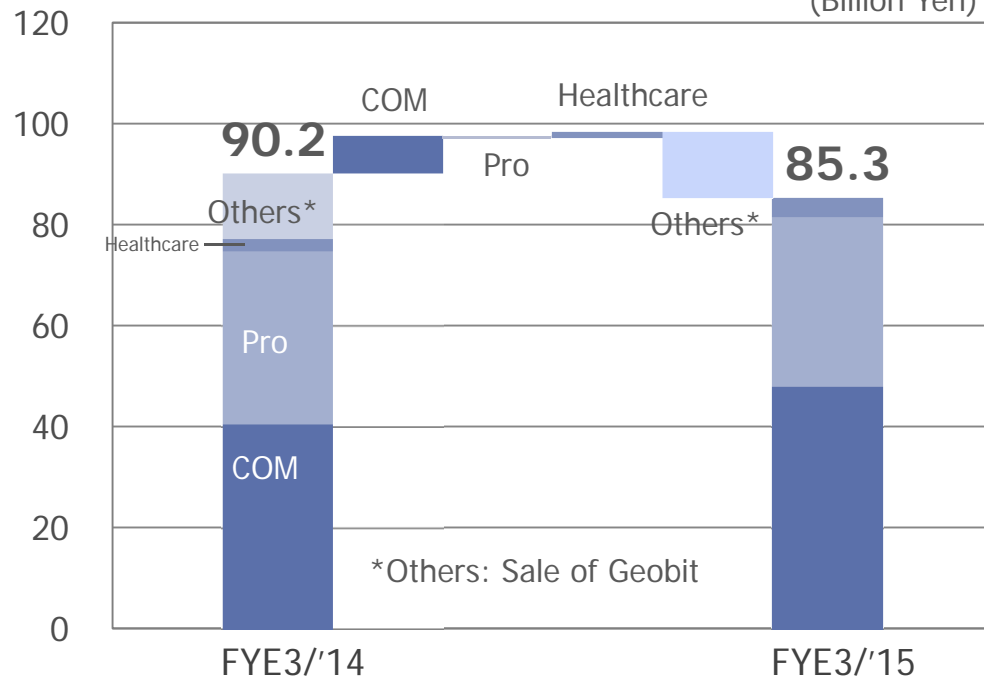


# Financial Results for FYE3/'15 - Professional Systems

- ❖ Net sales: COM sales increased due to a recovery in North America (the biggest market), effects of the acquisition of EFJT, and other factors. Pro sales were on a par with last year because Japan compensated for a fall in overseas sales. Healthcare sales increased due to strong sales of TOTOKU from the beginning of year.
- ❖ Operating income: COM decreased its income due to lower-than-expected sales synergies of EFJT and other factors, although sales of terminals recovered in North America. Pro increased its income due to the effects of various reforms implemented.

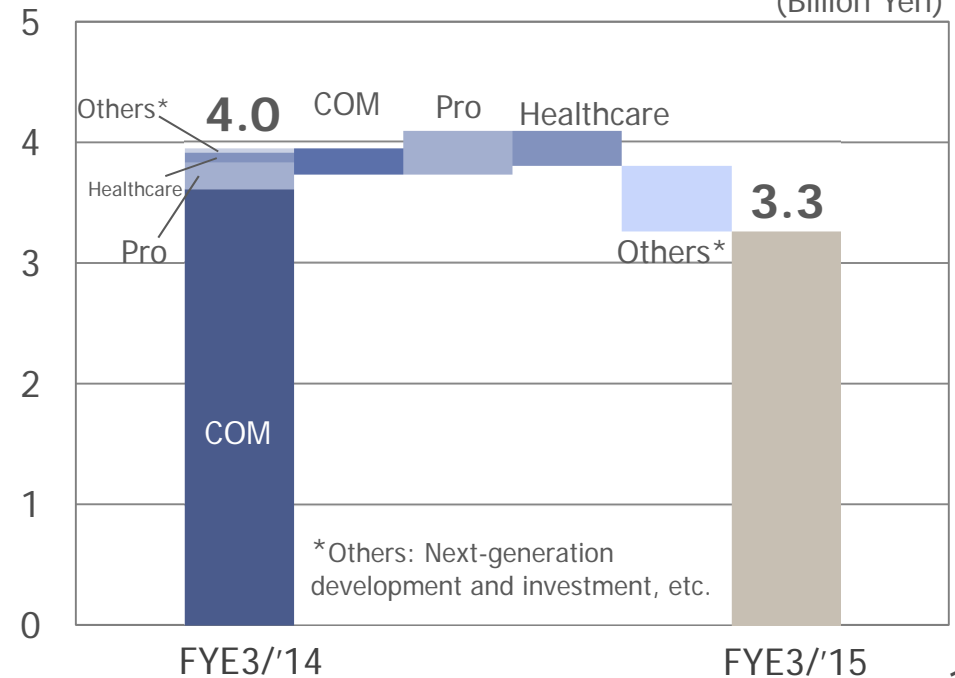
Net sales (YoY change)

(Billion Yen)



Operating income (YoY change)

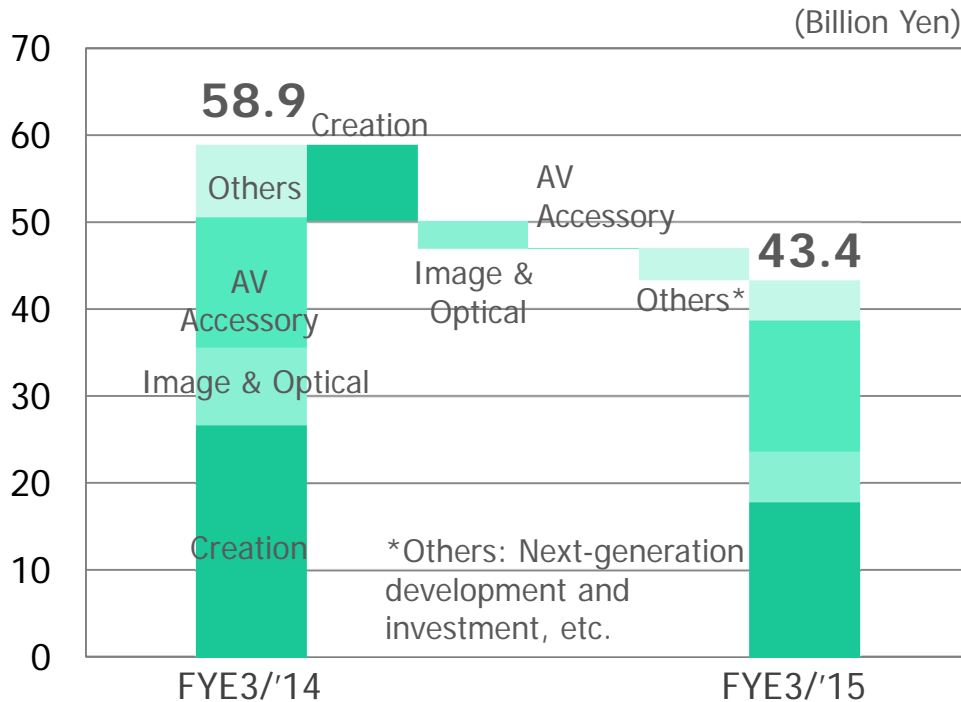
(Billion Yen)



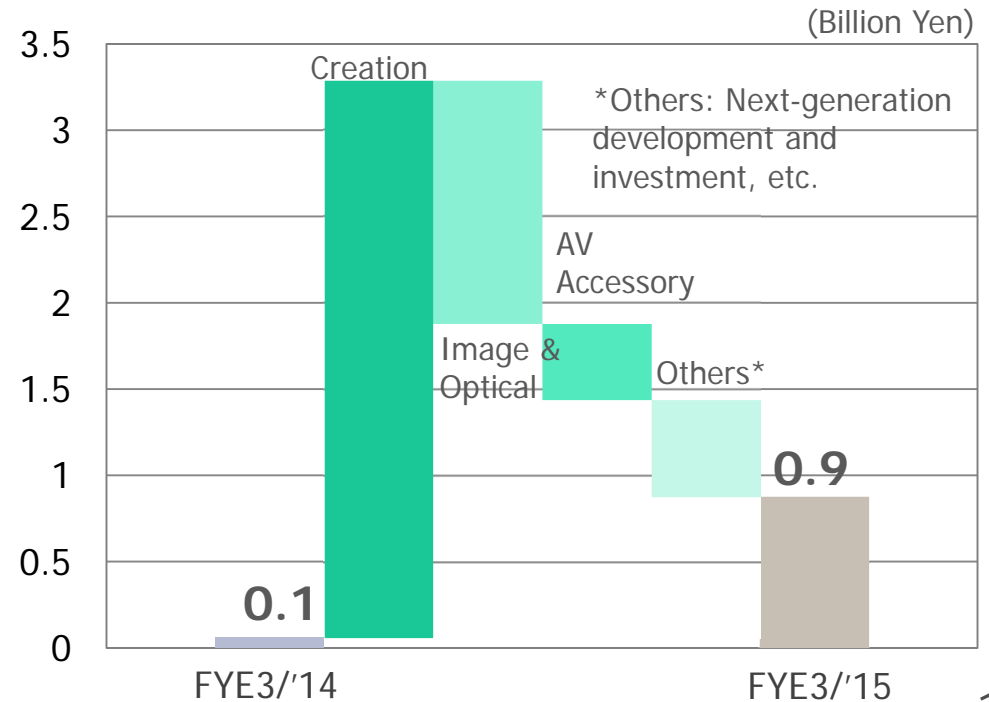
# Financial Results for FYE3/'15 - Optical & Audio

- ❖ Net sales: Creation sales decreased significantly due to the effects of reduced unit sales of consumer video camera products. Image & Optical business was affected by decreased projector sales. AV Accessory sales increased due to strong domestic sales, although overseas sales decreased.
- ❖ Operating income: O&A achieved a turnaround as a whole. Creation increased its income and achieved a turnaround due to successful business reforms. Image and Optical decreased its income due to decreased sales. AV Accessory also decreased its income due to product mix changes.

Net sales (YoY change)



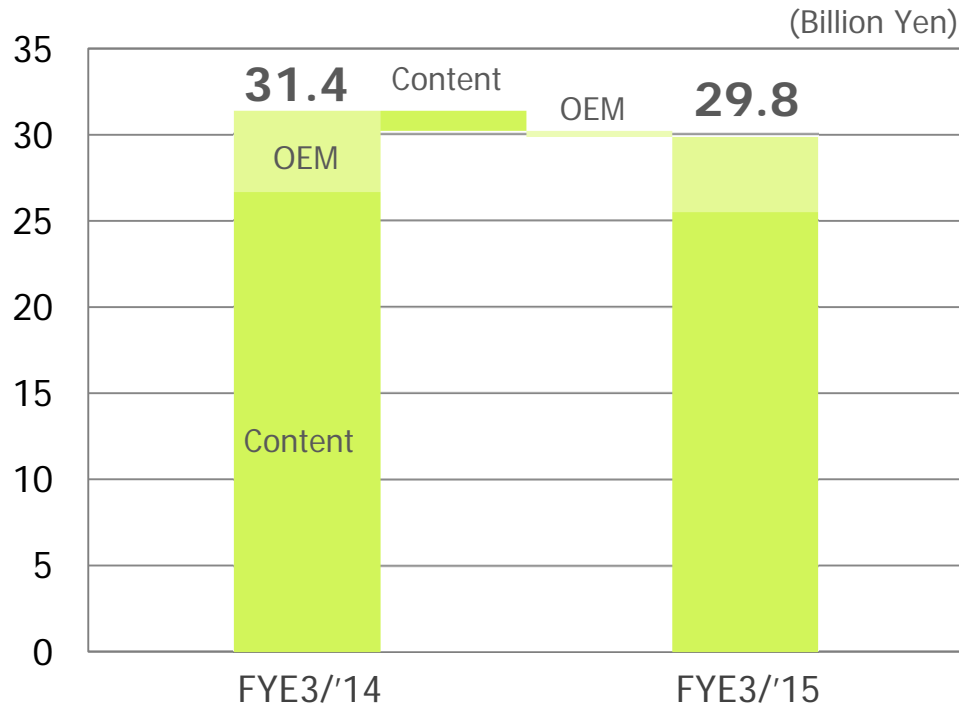
Operating income (YoY change)



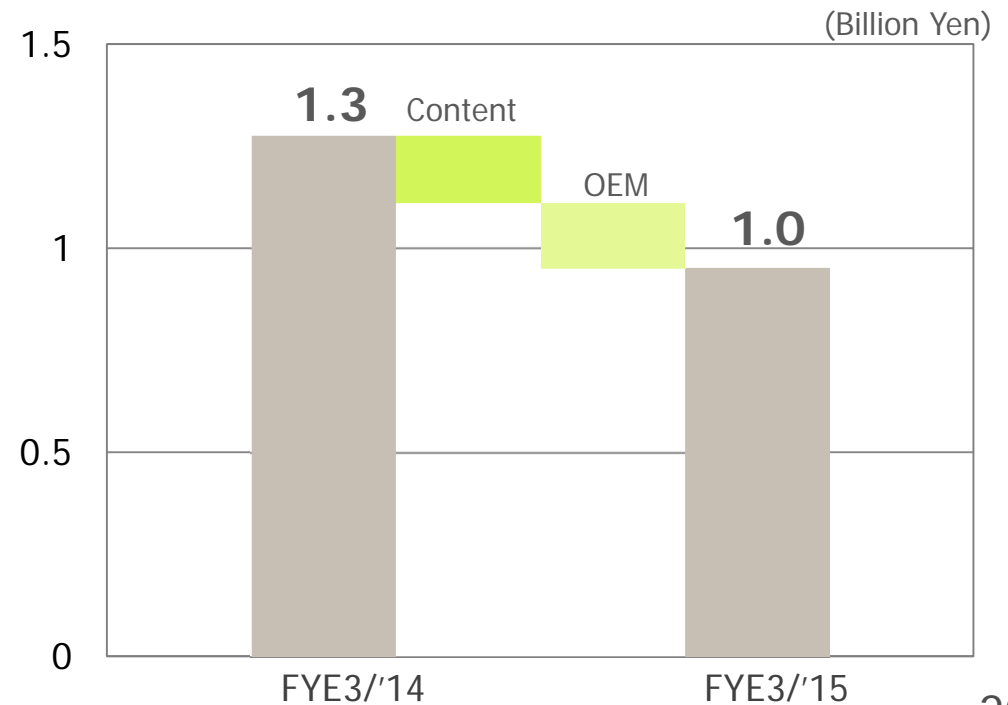
# Financial Results for FYE3/'15 - Software & Entertainment

- ❖ Net sales: Content sales decreased due to a shrinking market and the effects of changes in the composition of titles. OEM sales decreased due to a decline in the number of OEM products, as a result of changes in the market environment, etc.
- ❖ Operating income: Decreased due to the effects of decreased sales of both Content and OEM.

Net sales (YoY change)



Operating income (YoY change)



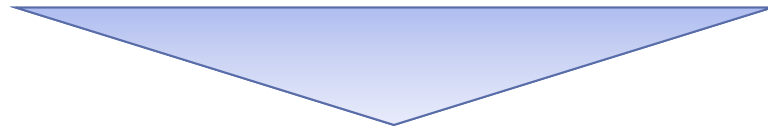
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  - 3) Growth strategy**
3. Full-year earnings forecast for FYE 3/'16

# 1) Main factors behind recovery of FYE 3/'15 earnings, and prospects for FYE 3/'16

(1) Structural reforms  
(e.g. employment and facility reforms)

(2) Business reforms  
(e.g. overall cost reform)

(3) Organizational reforms/Reorganization



**“From recovery to growth” in FYE 3/'16 and beyond**

# 1) Review of Financial Results for FYE 3/'15 (1): Structural reforms (e.g. employment and facility reforms)

- ❖ Structural reforms for domestic employment
  - Solicitation of voluntary early retirement (368 persons): Implemented in March 2014.
  
- ❖ Production facility reforms
  - CE: Shifted main production functions from Malaysia to Indonesia (during and after October 2013).
  - PS (COM): Closed the EMS factory in Indonesia and transferred production to the factory in Malaysia (integration completed in June 2013).
  - O&A: Transferred professional video camera production from Malaysia to Thailand (completed in June 2014).
  
- ❖ Restructuring of overseas sales companies
  - Integration of sales companies in North America (2 companies -> 1): Completed in October 2014.
  - Integration of sales companies in Canada (3 companies -> 1): Completed in April 2015.
  - Integration of sales companies in U.K. (3 companies -> 1): Completed in March 2015.
  - Integration of sales companies in Germany (2 companies -> 1): Completed in November 2014.
  - Reorganization/integration of sales companies in Eastern Europe: Completed in April 2015.

## 1) Review of Financial Results for FYE 3/'15 (2): Business reforms (e.g. overall cost reform)

- ❖ Certainly captured the effects of the following measures implemented in FYE 3/'14.
- CE (domestic consumer navigation)
  - Released six models earlier than schedule.
  - Maximum cost reduction of about 24% for 2014 models in comparison with 2013 models.
- PS (Pro)
  - Achieved a cost reduction of about 10% in 2H by standardizing all parts, changing the designs of current models, reducing costs, and other means.
  - Discontinued less profitable models such as overseas analog surveillance cameras.
- O&A (Creation = Video camera)
  - Released one model earlier than schedule.
  - Review of sales prices of unprofitable models, reform of the sales structure, and others



# 1) Review of Financial Results for FYE 3/'15 (3): Organizational reforms/Reorganization

- ❖ Created regional CEO positions to establish a market-driven organization.
  - Created a CEO position in China in April 1, 2015, aiming for new business development in China (Automotive/Professional)
- ❖ Smaller head office functions
  - Integrated and reorganized divisions of the head office (strategic and support divisions).
  - Shifted sales, technological, and other resources to frontline offices.
- ❖ Completed reforms to home audio business
  - Discontinued unprofitable models, and shifted resources.
    - Creation (video camera): Achieved a turnaround, and transferred camera engineers to the in-car or professional camera section.
    - Home audio: Completed reforms, and transferred this business to CE Segment.

❖ EFJT: Significant recovery of earnings

■ Strengthen sales structure.

- Recruit a sales manager who is well acquainted with government-related business, and significantly increase the number of sales persons.

■ Further cost reductions

- Transfer production of main products to a domestic site during 1H, and achieve cost reductions of about 30%.  
Reduce costs further to enhance cost competitiveness throughout the year.

■ Strengthen structure (sales/cost reduction/joint development) by dispatching employees from JVCKENWOOD.

❖ Zetron: Continue recovery

■ Continued recovery from 2Q of FYE 3/'14.

■ Entered the security control room solution business this year, expanding business area.

## 2) Prioritized measures for FYE 3/'16: Overall cost reforms, strengthened direct sales by business units, and foreign exchange measures

### ❖ Overall cost reforms

- Cost reductions (short-term) by reducing number of models, changing design concepts and parts procurement systems, and other means, and execution of comprehensive cost cutting measures through production innovations (mid-term) including exploration of next-generation production systems.

### ❖ Strengthened direct sales by business units

- Implement a structure in which business coordinators support direct sales teams under the control of regional CEOs for Professional Systems, OEM Business of CE, etc., and strengthen activities to increase new order intake.

### ❖ Foreign exchange measures

- Reduce short-term foreign exchange risks by making foreign exchange contracts. Also reduce mid-term foreign exchange risks related to production costs by pursuing local production for local consumption.

### 3) Growth strategy: Strategic investment and selection

- ❖ ASK (European car parts company) became a subsidiary (in April 2015)
  - Expand genuine products operations to supply parts to leading auto makers in Europe.
  - Acquire opportunities to propose integrated systems covering car navigation systems, audios, speakers, and amplifiers.
  - Acquire opportunities to commercialize advanced digital cockpit systems.



- ❖ Acquired additional shares of Shinwa, a company engaged in in-car equipment business (in April 2015)
  - Increased the shareholding ratio from 61% to 76%, as initially planned.
  - Continue to deepen collaboration focusing on CD/DVD mechanisms for vehicles.



- ❖ Sale of Teichiku Entertainment, Inc. (in April 2015)
  - Sold the company today to XING Inc., which mainly engages in the Karaoke business.
  - Focus on core businesses to reform business operations.



### 3) Growth strategy: Strategic investment and selection

	Date	Purpose
AltaSens (a U.S. corporation) became a subsidiary.	August 2012	CMOS sensors
Shinwa became a subsidiary.	June 2013	Mechanisms for vehicles
Succession of TOTOKU Electric's information equipment business	July 2013	Healthcare business
Established Cartomo as a joint venture with ZMP INC.	July 2013	Car telematics business
Capital contribution to ZMP INC.	Dec. 2013	
Capital contribution to WiL Fund, a venture capital firm.	Jan. 2014	Collaboration with a promising venture capital firm
EF Johnson (a U.S. corporation) became a subsidiary.	March 2014	Strengthen North American P25 professional wireless equipment business.
Sold of Kenwood Geobit	March 2014	Development of next-generation businesses and corporate transformation
Sold of JVC America, Inc.	June 2014	Focus on core businesses.
ASK (European car parts company) became a subsidiary.	April 2015	Strengthen genuine products operations.
Additionally acquired shares of Shinwa.	April 2015	Shareholding ratio increased from 61% to 76%.
Sold Teichiku Entertainment.	April 2015	Focus on core businesses.

### 3) Growth strategy: Car Electronics

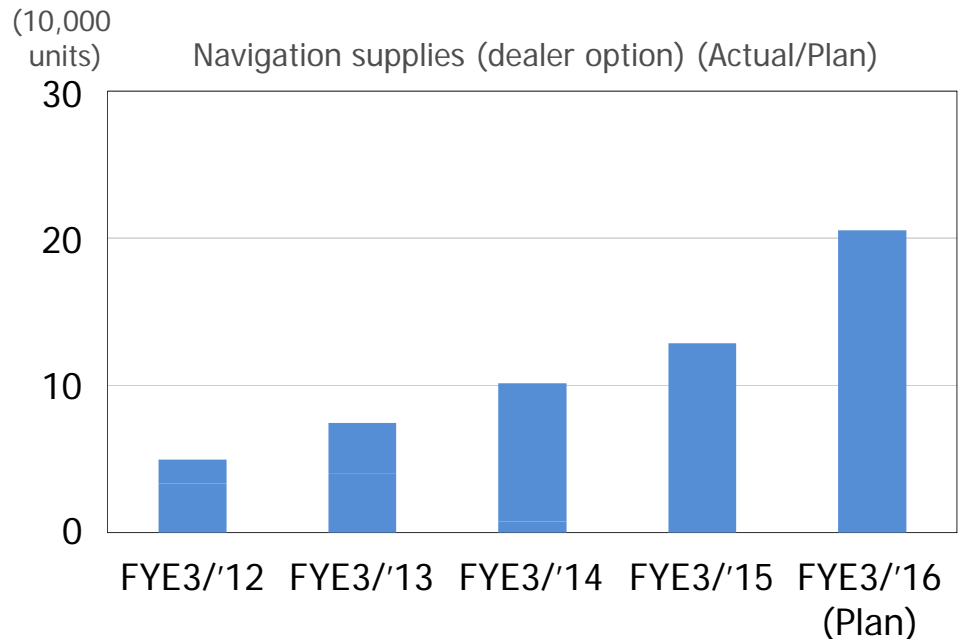
- ❖ Short- to mid-term strategy: Strengthen competitiveness in consumer markets, and expand business for dealer option products.
  - Strengthen competitiveness of consumer models.
  - Actively promote activities to increase large order intake for dealer option navigation products.
    - Diversion of consumer models
  
- ❖ Mid- to long-term strategy: Strategy to expand genuine products operations
  - Aggressive M&As to acquire sales channels
    - Made a European car parts company (ASK) a subsidiary.
  - Development of advanced digital cockpit systems
    - Third leap forward with Optronics (e.g. image, optical, and image compression)

# Car Electronics (short- to mid-term strategy): Expansion of dealer option products business

- ❖ Make a huge leap forward by diverting consumer models and increasing large order intake for dealer option navigation products, leveraging our experience in consumer markets.
  - Strengthen competitiveness of consumer navigation and audio systems, and achieve cost cuts.
  - Mazda decided to use Saisoku Navigation series (popular series in the consumer market) for its 2014 car models. We began shipping them in July 2014.
  - Received orders for 2015 navigation models from Company A in Japan.

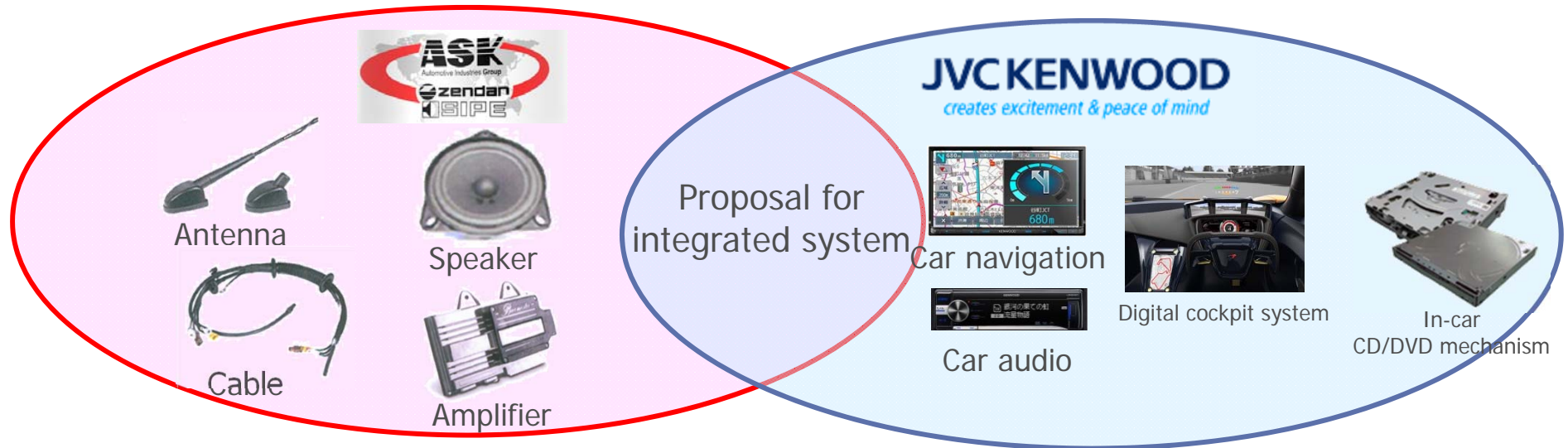


2014 navigation model for Mazda



# Car Electronics (mid- to long-term strategy): Business expansion for genuine products (1)

- ❖ Aggressive M&As to acquire sales channels
  - Made ASK Industries S.p.A. (ASK) a subsidiary.
    - Ensure solid partnerships with leading auto makers in Europe.
    - Acquire bases in Europe and Brazil, including factories and R&D centers.
  - Forecasted effects of integration
    - Expand genuine products operations for car navigation and audio systems targeting leading auto makers in Europe.
    - Acquire opportunities to propose integrated systems covering car navigation systems, audios, speakers, and amplifiers.
    - Acquire opportunities to commercialize advanced digital cockpit systems.



Ranked second by market share for speakers in Europe.



# Car Electronics (mid- to long-term strategy): Business expansion for genuine products (2)

- ❖ Development of digital cockpit systems
  - Showcased and exhibited a concept model at CES 2015.
    - Mass production starts in 2017.
  - JVCKENWOOD is one of a few specialized makers having various core technologies.
    - Promote development using strengths of group companies' various core technologies ranging from sensing devices and Advanced Driving Assistant System (ADAS) to displays that transmit information to drivers.



McLaren 650S Spider featuring the model at CES



Image of digital cockpit system

# 3) Growth strategy: Professional wireless equipment business

- ❖ Short- to mid-term strategy: Capture demand for switching from analog to digital equipment, focusing on **NXDN** and **P25**.
  - Capture demand for commercial digital wireless equipment by offering in-house developed NXDN.
  - Sales expansion (P25) by acquiring EF Johnson Technologies (U.S. corporation) (in March 2014).
- ❖ Mid- to long-term strategy: Accelerate development and commercialization of next-generation businesses in the North American and European **professional wireless broadband market** for public safety.
  - Business collaboration with the AIRBUS Group companies (French corporation) (January 2014).
  - Development of broadband multimedia solutions with Zetron (U.S. corporation).



### 3) Growth strategy:

## Next-generation imaging (camera) business

- ❖ Apply technologies developed in the consumer product business to in-car cameras whose market is growing rapidly.
  - Started mass production at a factory in Thailand in March 2014.
    - Construction of a new factory is scheduled to be completed in July 2015.
  - In July 2014, the CE Segment set up an in-car camera business unit.
- ❖ Accelerate development and commercialization of new professional video camera products.
  - Develop high-quality cameras (4K/8K) targeting the Tokyo Olympics in 2020.
  - Develop semi-professional cameras (e.g. CoachingCAM).

### ❖ In-house production of key devices

- Acquired AltaSens, a U.S. corporation engaged in design and development of CMOS image sensors, in August 2012.
  - Mass production of large-sized sensors and in-car sensors
- Acquire CMOS image sensor technologies (core technologies of optical equipment) to create differentiation.

**ALTASENS**  
ISO 9001:2008 Certified Quality Management System



Professional video camera featuring newly developed CMOS sensor (4K compatible) (announced in February 2015)

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# Full-year earnings forecast for FYE 3/'16

- ❖ Sales and income are expected to increase due to an increase in new order intake for OEM products, effects of the acquisition of ASK (became a subsidiary), and anticipated earnings recovery of EFJT, as well as the effects of global cost reductions executed together with the restructuring of overseas bases.
- ❖ Ordinary income is expected to increase due to increased operating income, but net income attributable to shareholders of the parent company is expected to decrease due to the equalization of extraordinary profit or loss.
- ❖ An annual dividend of 5 yen per share (year-end) is expected to be distributed.

	(Billion Yen)			
	Net sales	Operating income	Ordinary income	Net income attributable to shareholders of the parent company
FYE3/'16	300.0	8.0	4.5	2.0
FYE3/'15	285.0	6.6	3.2	4.7
YoY	+15.0	+1.4	+1.3	(2.7)

\* Assumed FX rate for FYE 3/'16: 1 USD = JPY 120, 1 Euro = JPY 128  
Actual FX rate for FYE 3/'15: 1 USD = JPY 110, 1 Euro = JPY 139

# JVC KENWOOD

*creates excitement & peace of mind*

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