

**Translation for Reference Only**

**JVCKENWOOD**  
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# **JVCKENWOOD**

## **Results and Forecasts Briefing**

### **Second Quarter of Fiscal Year Ending March 2016**

JVCKENWOOD Corporation

November 4, 2015

## 【Abbreviations】

- AM**            **Automotive sector**  
Consumer (Business)  
Dealer-installed options (Business)  
Factory-installed options (Business)  
ASK:    ASK Industries S.p.A.
- PS**            **Public Service sector**  
COM:    Communication systems (Business)  
Pro:     Professional Systems (Business)  
Healthcare (Business)  
EFJT:    EF Johnson Technologies, Inc.
- MS**            **Media Service sector**  
Media (Business)  
Entertainment (Business)

- 1. Overview of financial results for the second quarter of the fiscal year ending March 2016**
- 2. Measures in the third quarter and beyond**
- 3. Full-year earnings forecast for FYE 3/'16**

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# Financial Results for 2Q(1-2Q) of FYE3/'16-Summary

- ❖ Net sales: Increased due to the effects of business acquisition, etc. (approx. JPY 7.1 billion)
- ❖ Operating income: Incurred a loss due to an increase in advanced development costs for AM dealer-installed and factory-installed products, which were not included in the plan set at the beginning of the term, in addition to other factors such as impact from foreign exchange fluctuations. Achieved a turnaround between July and September.
- ❖ Ordinary income: Loss increased due to decrease in operating income and wider non-operating loss.
- ❖ Net income: Loss increased due to bigger ordinary loss; however, extraordinary income/loss improved compared with the previous term when loss on sales of subsidiaries and affiliates' stocks was posted.

(Billion yen)

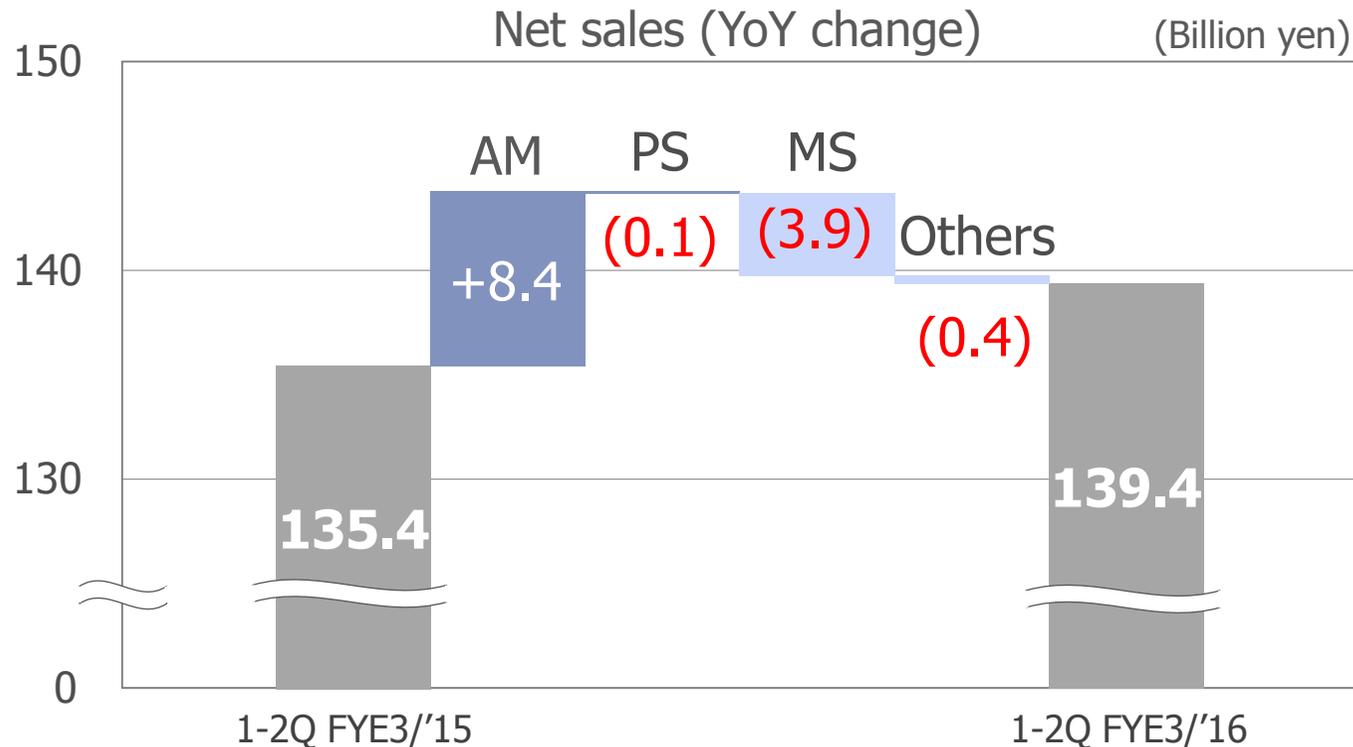
	Net sales	Operating income	Ordinary income	Net income attributable to owners of parent
1-2Q FYE3/'16	139.4	(1.0)	(3.1)	(4.8)
1-2Q FYE3/'15	135.4	1.1	(0.4)	(3.0)
YoY	+4.0	(2.1)	(2.7)	(1.7)
1-2Q FYE3/'16	72.1	0.1	(1.5)	(2.5)

Profit-and-loss exchange rates		1Q	2Q
FYE3/'16	USD	JPY121	JPY122
	Euro	JPY134	JPY136
FYE3/'15	USD	JPY102	JPY104
	Euro	JPY140	JPY138

## - Consolidated Net Sales (By Sector)

### ❖ Results for 2Q: JPY 139.4 billion (increase of 2.9% YoY) [Increase in sales]

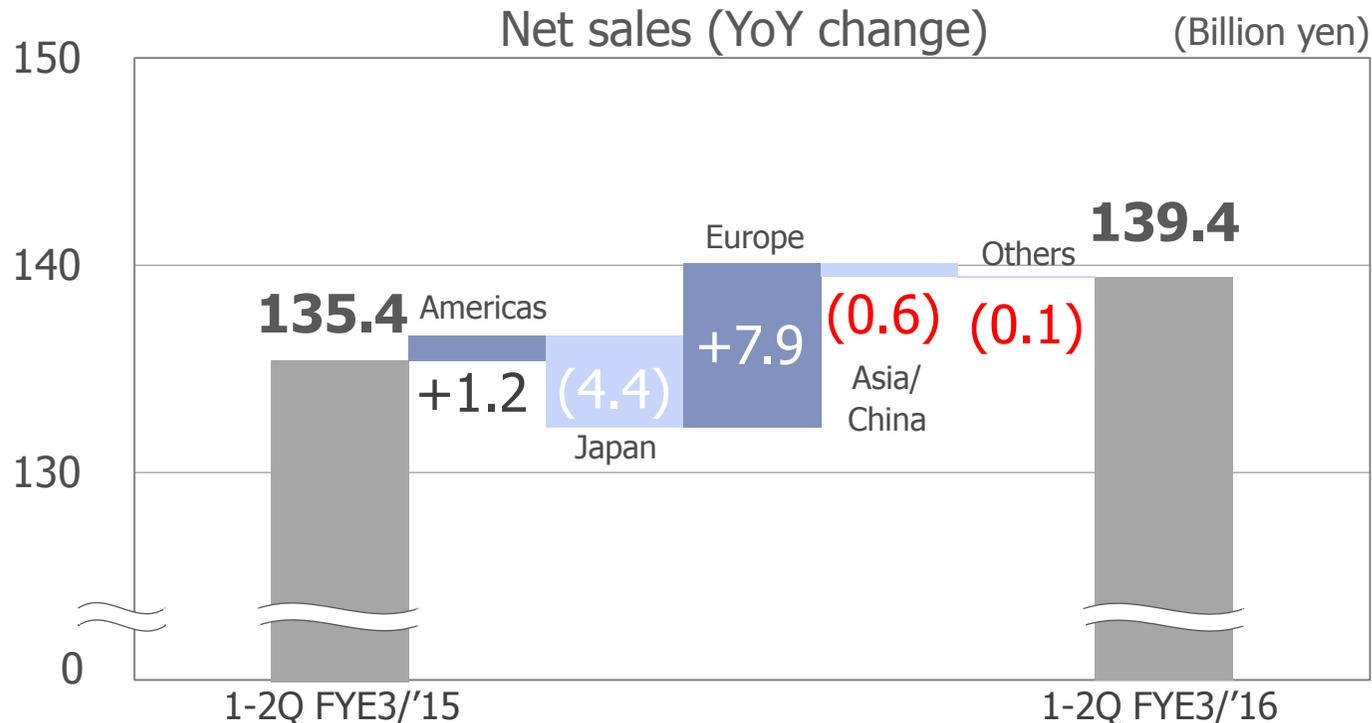
- **AM:** Sales increased owing to the effects of making ASK a subsidiary.
- **MS:** Sales decreased due to the transfer of all shares of Teichiku Entertainment, Inc. (Teichiku) (April 28, 2015).



## - Consolidated Net Sales (By Region)

### ❖ Results for 2Q: JPY 139.4 billion (increase of 2.9% YoY) [Increase in sales]

- **Americas:** Sales increased owing to such factors as the effects of launching new AM consumer products as well as improvements in business performance of the U.S. communication systems subsidiary in the PS communication systems business.
- **Japan:** Sales decreased due to the effects of transferring all shares of Teichiku and decreased sales of factory-installed options.
- **Europe:** Sales increased owing to the effects of making ASK a subsidiary.
- **Asia/China:** Sales decreased due to the adverse impact on sales of AM consumer products due to the economic downturn in the Middle and Near East.

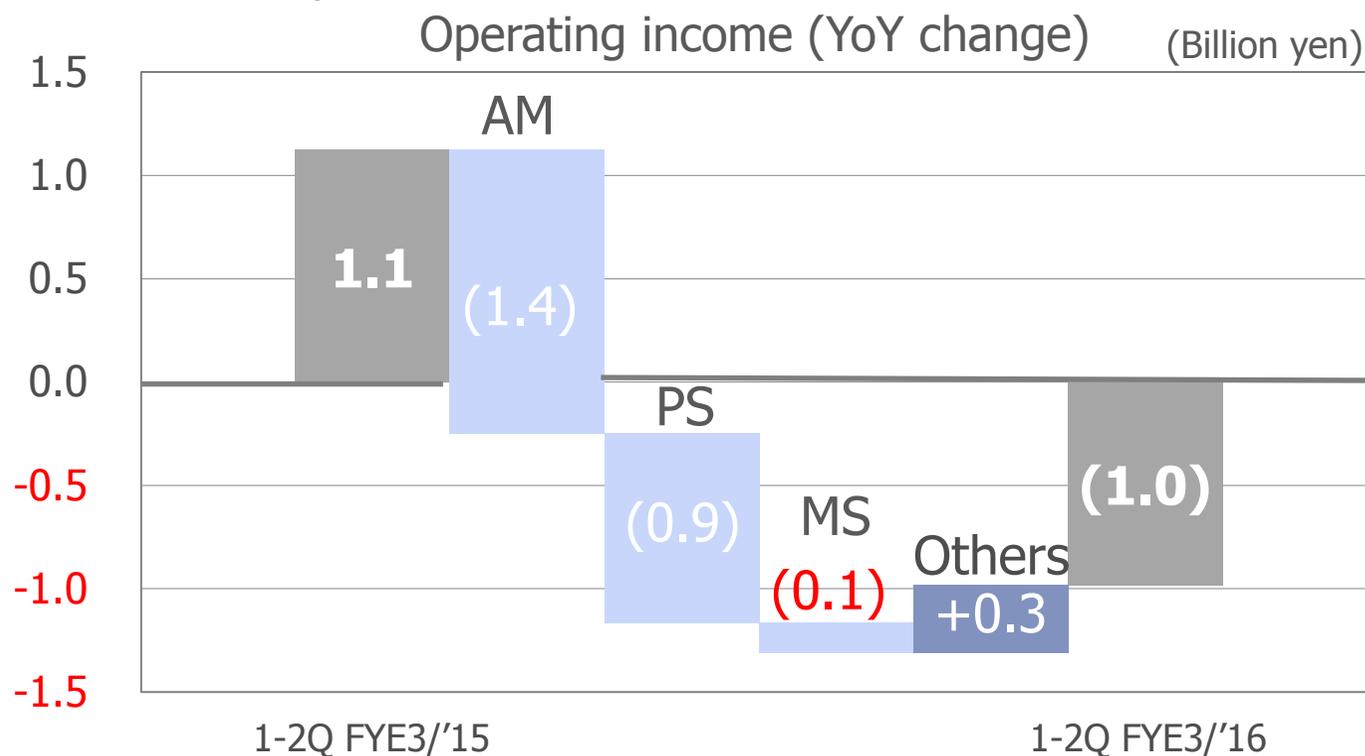


# Financial Results for 2Q (1-2Q) of FYE 3/'16

## - Consolidated Operating Income (By Sector)

### ❖ Results for 2Q: JPY -1.0 billion (decrease 2.1 billion YoY) [Decrease income]

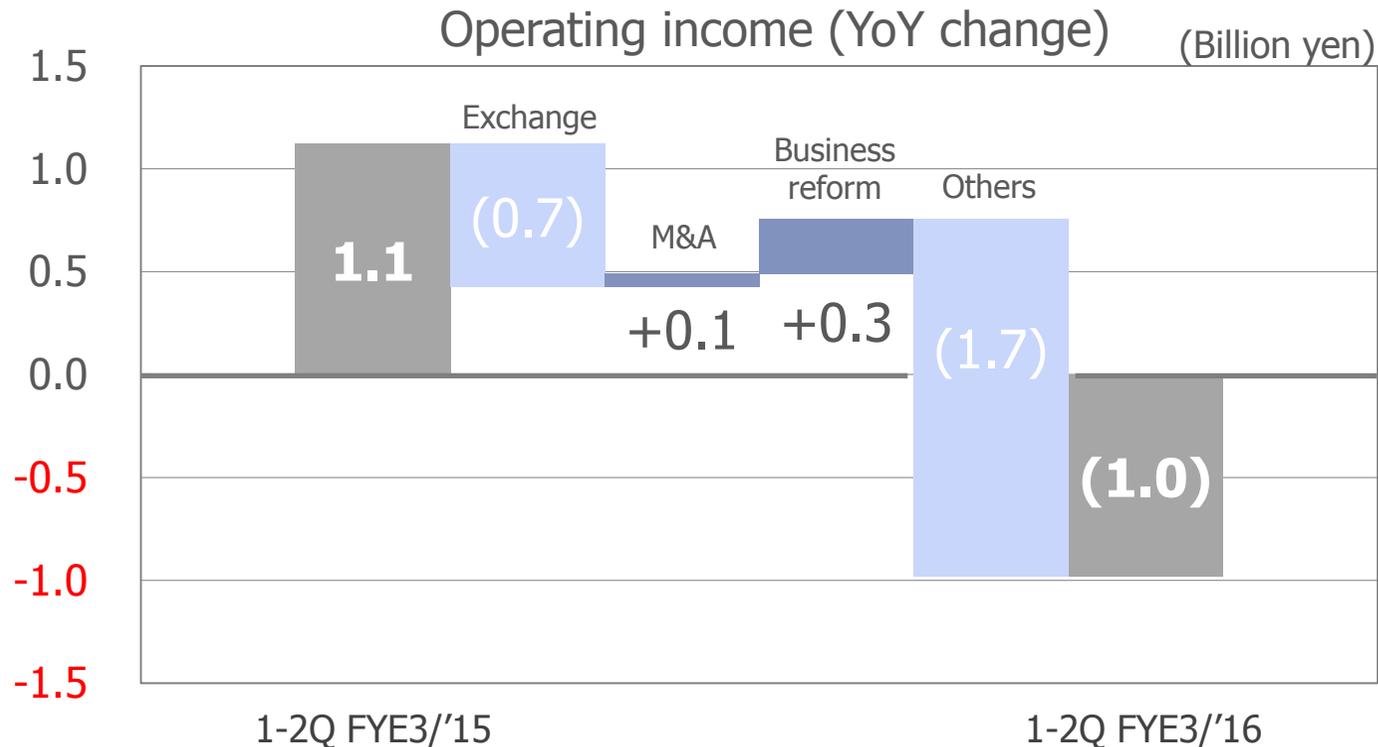
- **AM:** Income decreased due to such factors as a drop in consumer sales in the Middle and Near East and Europe as well as an increase in advanced development costs for dealer-installed and factory-installed options, which were not included in the plan set at the beginning of the term, and impact from foreign exchange fluctuations.
- **PS:** Income of the entire PS business decreased due to the decline in income of the communication systems, etc.



# Financial Results for 2Q (1-2Q) of FYE 3/'16

## - Consolidated Operating Income (By Factor)

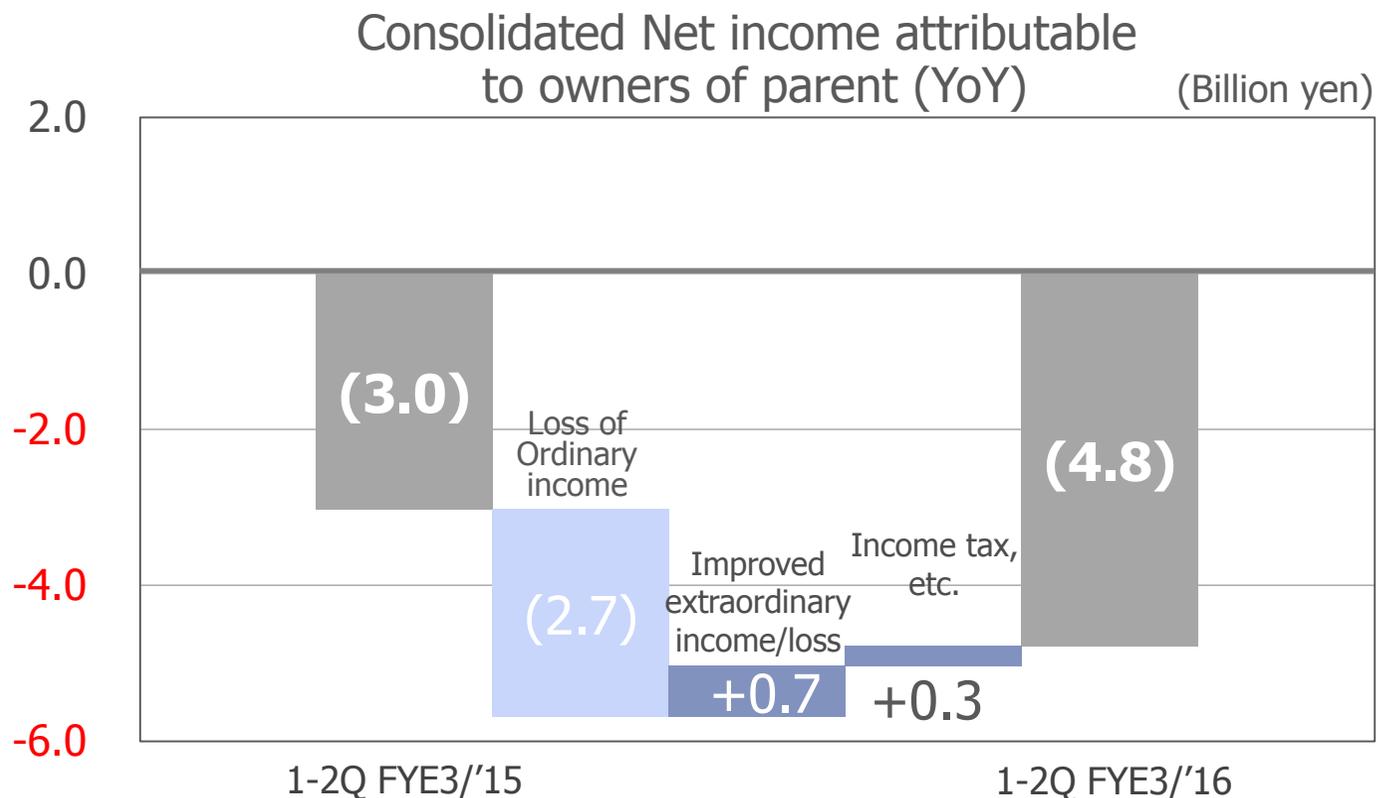
- ❖ Operating income decreased by approximately JPY 1.7 billion due to factors other than those included in the plan set at the beginning of the term such as effects of the foreign exchange fluctuations and M&As.
  - **AM:** Affected by the increased development costs for dealer-installed and factory-installed options as well as the weak market conditions of the light motor car
  - **PS:** Affected by ongoing realignment / reform of the communication systems business including the U.S. communication systems subsidiary





- Consolidated Net Income Attributable to Owners of Parent

- ❖ **Results for 2Q: JPY -4.7 billion (decrease of JPY 1.7 billion YoY)**
  - Extraordinary income/loss improved compared with the previous term when loss on sales of subsidiaries and affiliates' stocks was posted while net income decreased due to an increase in ordinary loss.



## - Balance Sheet Summary

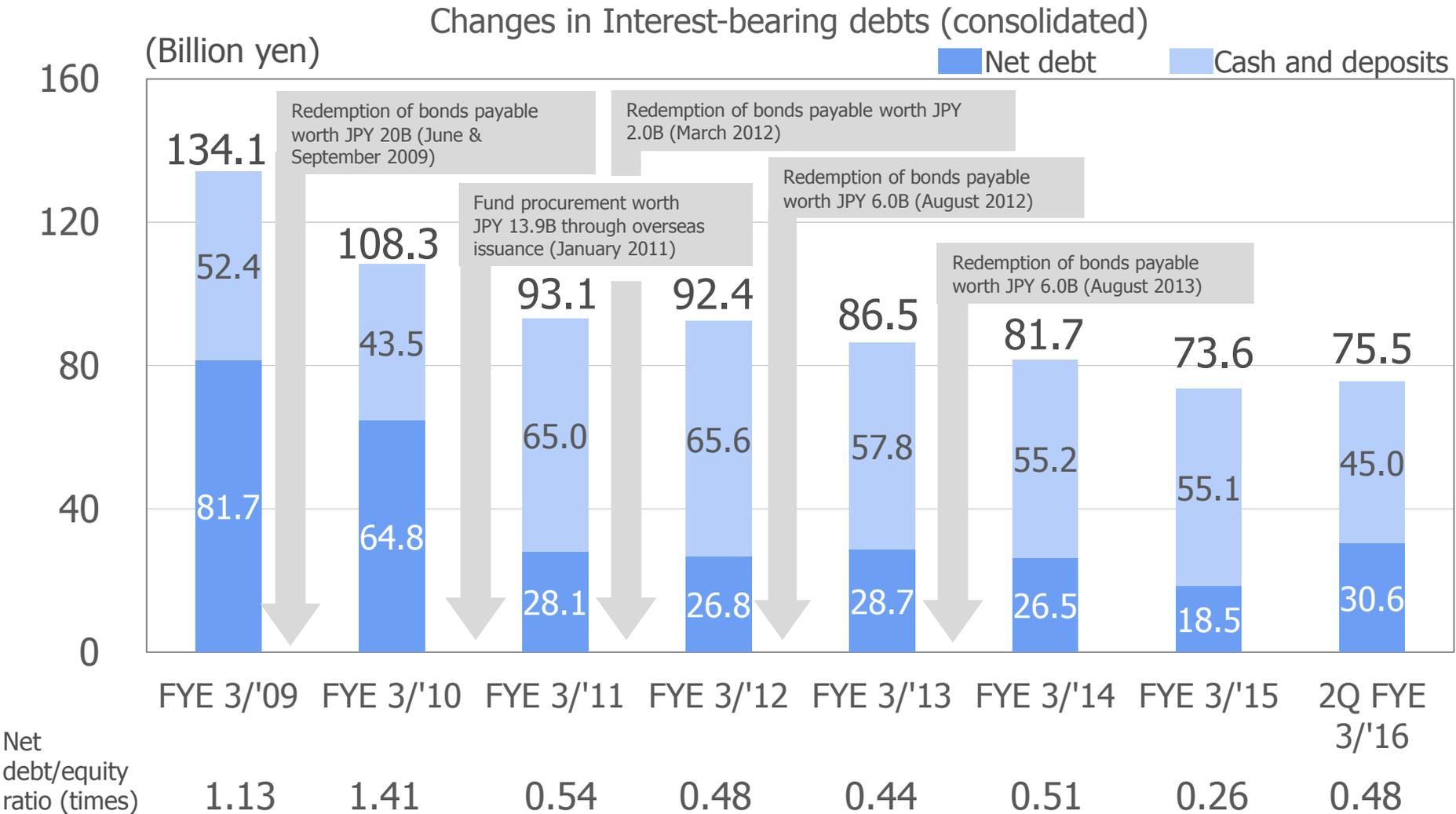
- ❖ **Total assets:** Merchandise and finished products as well as property, plant and equipment increased as a result of making ASK a subsidiary. Cash and deposits decreased due to a decline in notes and accounts receivable – trade as well as repayment of loans payable, acquisition of ASK shares and additional acquisition of Shinwa shares.
- ❖ **Interest-bearing debts (sum of borrowings and bonds payable):** Increase of JPY 1.9 billion
- ❖ **Shareholders' equity ratio:** Dropped 2.5 percentage points to 23.3%

(Billion yen)

	End of FYE3/'15	End of 2Q FYE3/'16	Change from the previous year-end
Total assets	278.7	<b>271.5</b>	<b>(7.1)</b>
Interest-bearing debts	73.6	<b>75.5</b>	<b>+1.9</b>
Net debt	18.5	<b>30.6</b>	<b>+12.0</b>
Net debt/equity ratio (times)	0.26	<b>0.48</b>	<b>+0.22</b>
Capital surplus	45.6	<b>45.3</b>	<b>(0.3)</b>
Retained earnings	22.2	<b>16.7</b>	<b>(5.5)</b>
Net assets	79.2	<b>68.9</b>	<b>(10.3)</b>
Shareholders' equity	71.8	<b>63.2</b>	<b>(8.6)</b>
Shareholders' equity ratio (%)	25.8	<b>23.3</b>	<b>(2.5)</b>

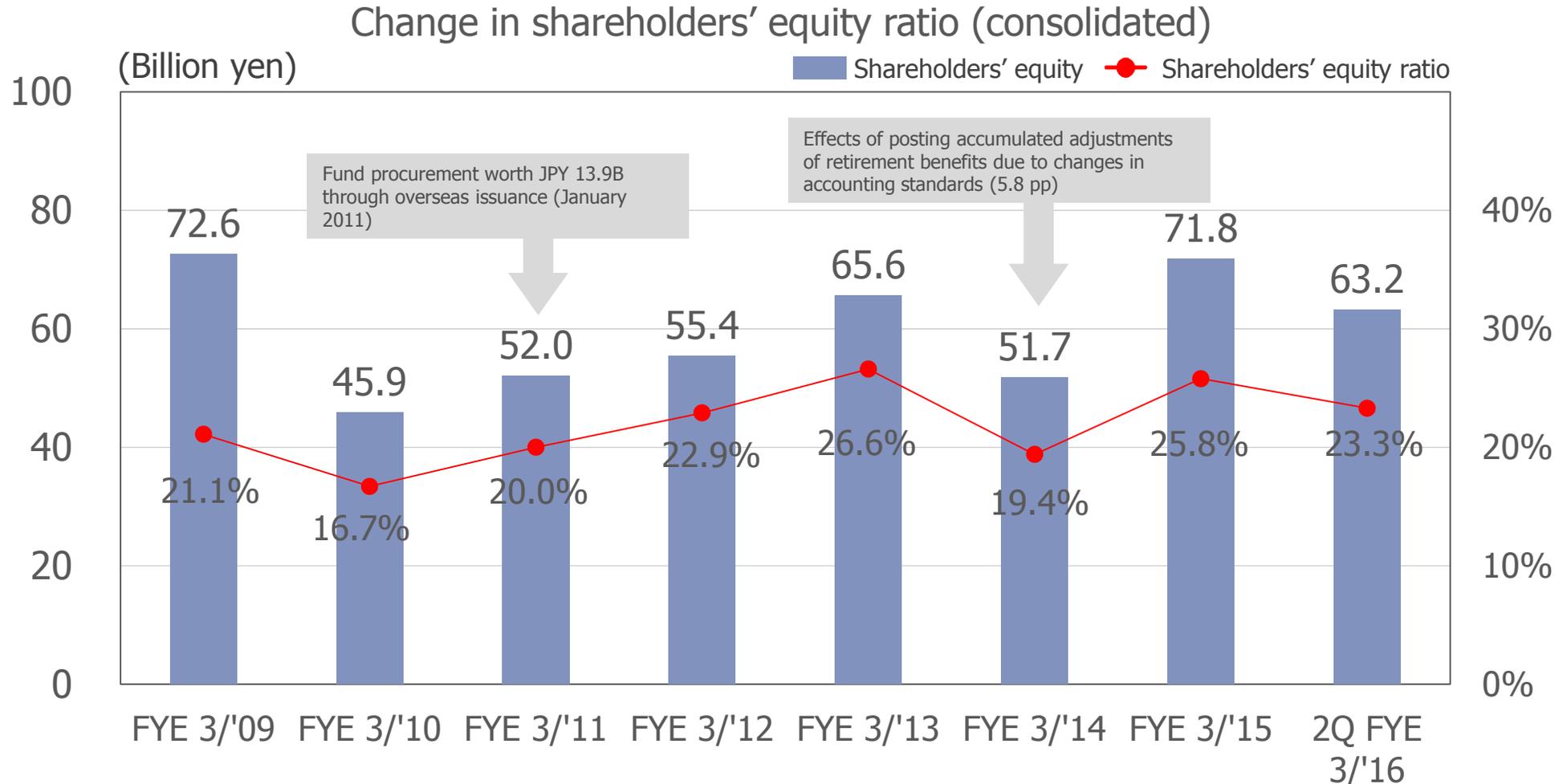
## - Interest-bearing Debts

- ❖ Net debt increased as a result of increased interest-bearing debts due to strategic investment (ASK's conversion into a subsidiary).



## - Shareholders' Equity Ratio

- ❖ Retained earnings decreased due to the posting of a net loss and other factors, and shareholders' equity also declined. Furthermore, net assets decreased due to the additional acquisition of Shinwa shares. Shareholders' equity ratio dropped 2.5 percentage points to 23.3%.



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

## - Cash Flow Summary

- ❖ Cash flows from operating activities increased while cash flows from investing activities decreased due to increases in purchases of property, plant and equipment and purchase of intangible assets in addition to making ASK a subsidiary.

(Billion yen)

	FYE 3/'14	FYE 3/'15	1-2Q FYE 3/'16	Reference 1-2Q FYE 3/'15
Cash flow from operating activities	14.9	8.6	5.9	3.4
Cash flow from investing activities	(10.7)	(3.9)	(7.6)	(4.0)
Cash flow from financing activities	(9.6)	(7.5)	(7.5)	(8.5)
Free cash flow	4.3	4.7	(1.7)	(0.6)

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

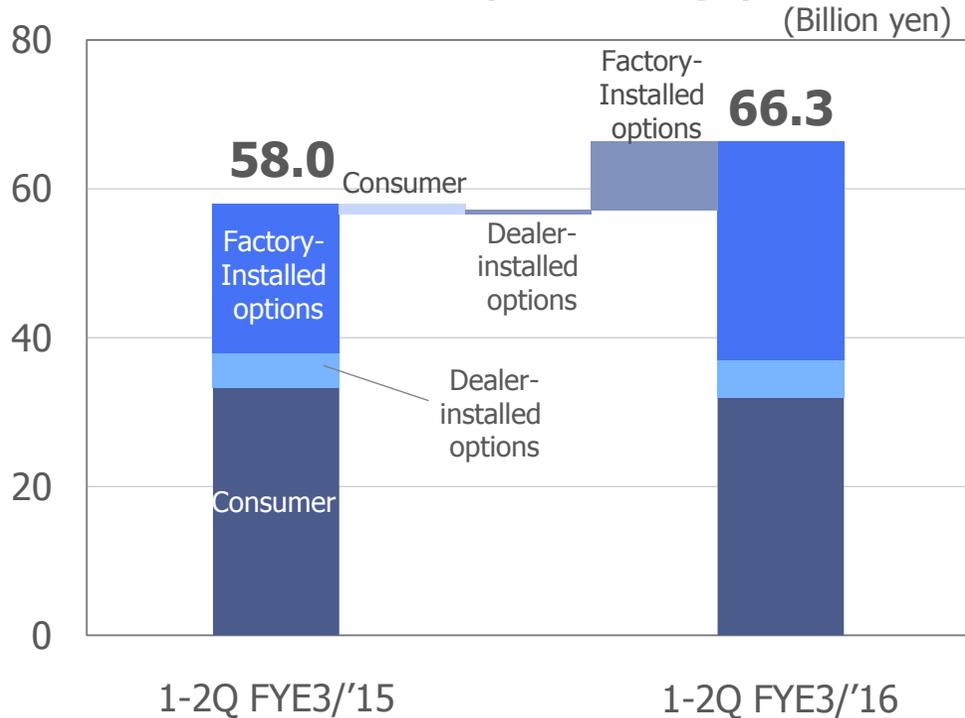
(Reference)

information for 1-2Q by Sector

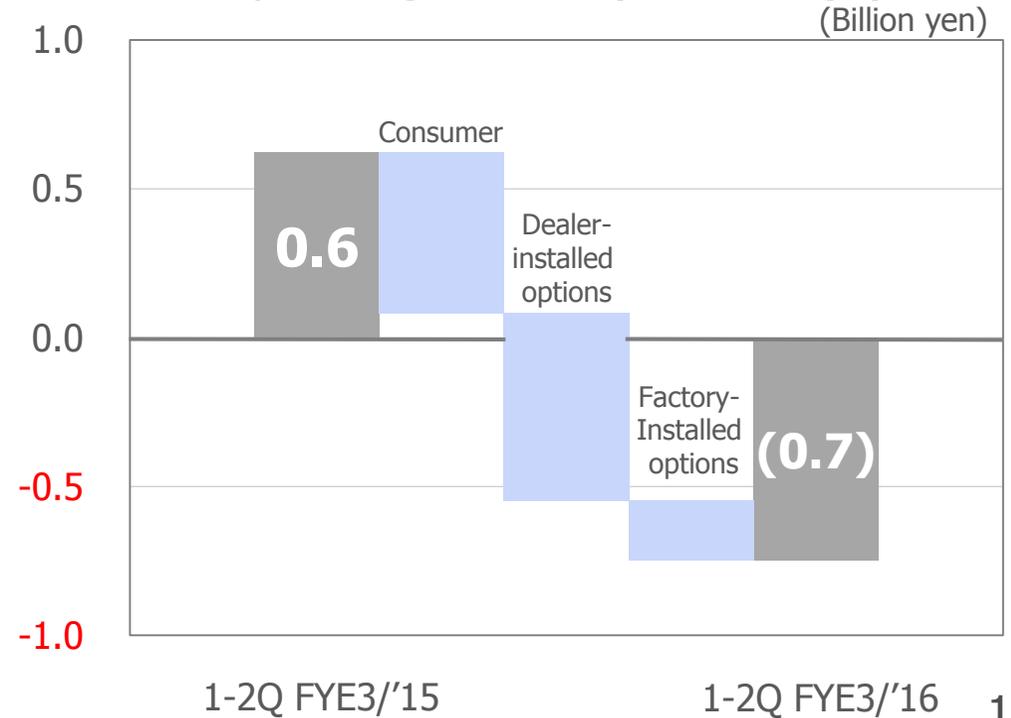
## - Automotive sector

- ❖ **Net sales:** Sales of factory-installed products increased owing to making ASK into a consolidated subsidiary.
- ❖ **Operating income:** Overall income from consumer business decreased due to lower sales in the Middle and Near East and Europe, though income from consumer business increased in Japan. Income from dealer-installed products decreased due to an increase in advanced development costs. Income from factory-installed products decreased due to increased development costs for next-generation businesses and new orders. Operating income from the entire AM business turned a profit between July and September.

Net sales (YoY change)



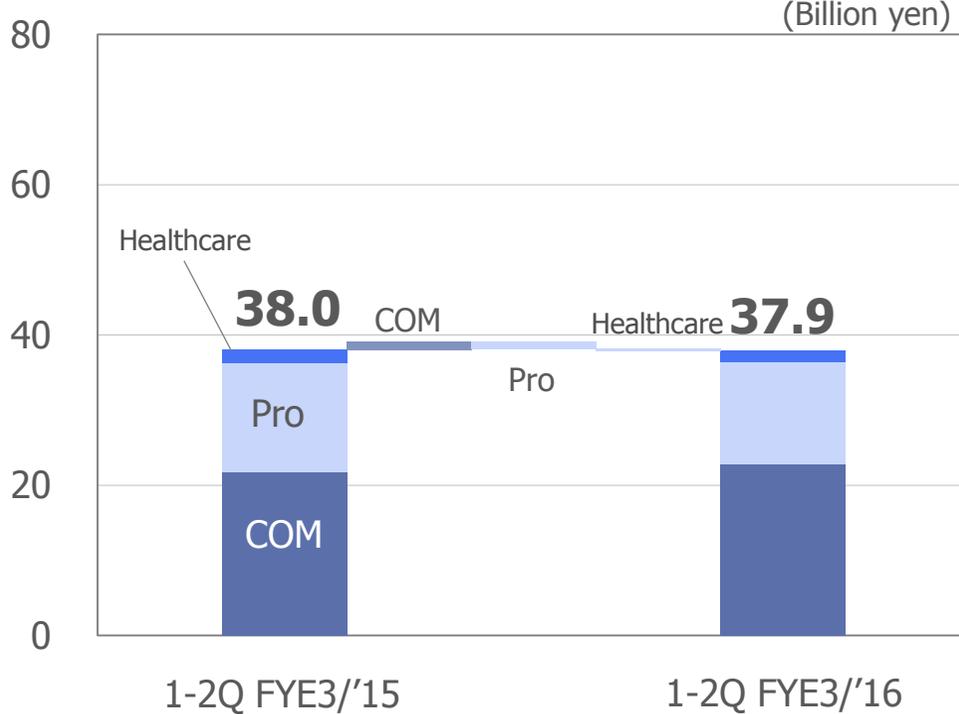
Operating income (YoY change)



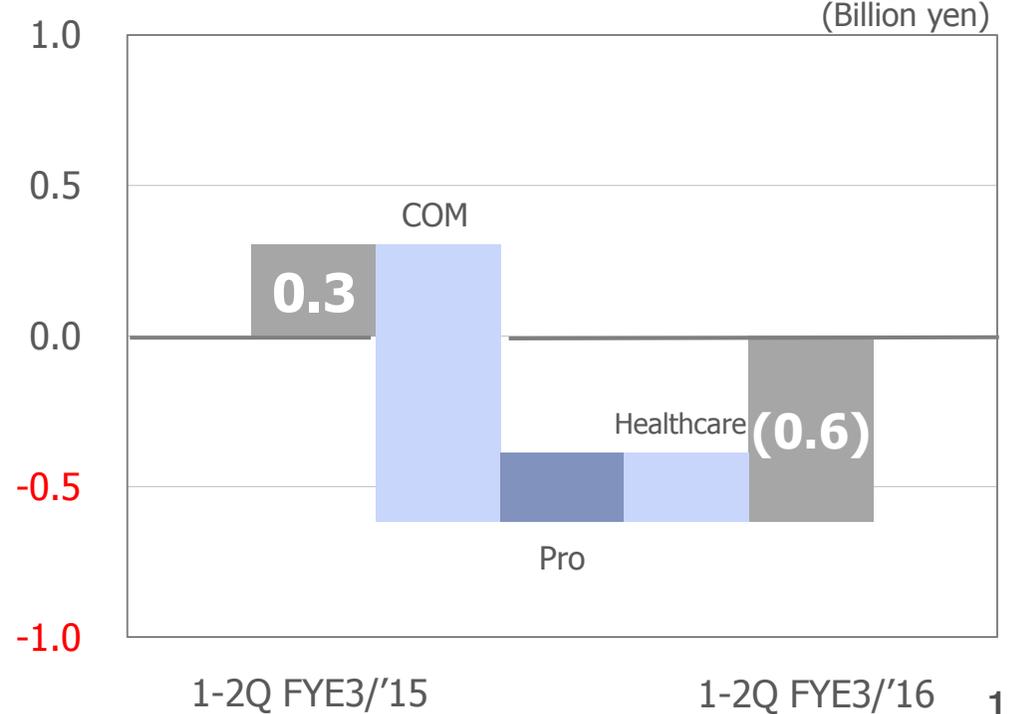
## - Public Service sector

- ❖ **Net sales:** Sales from communication systems rose slightly owing to the recovery at U.S. communication systems subsidiary. The overall sales remained at about the same level as in the previous fiscal year
- ❖ **Operating income:** Income from communication systems decreased due to the effects from ongoing realignment / reform of the business including the U.S. communication systems subsidiary.

Net sales (YoY change)

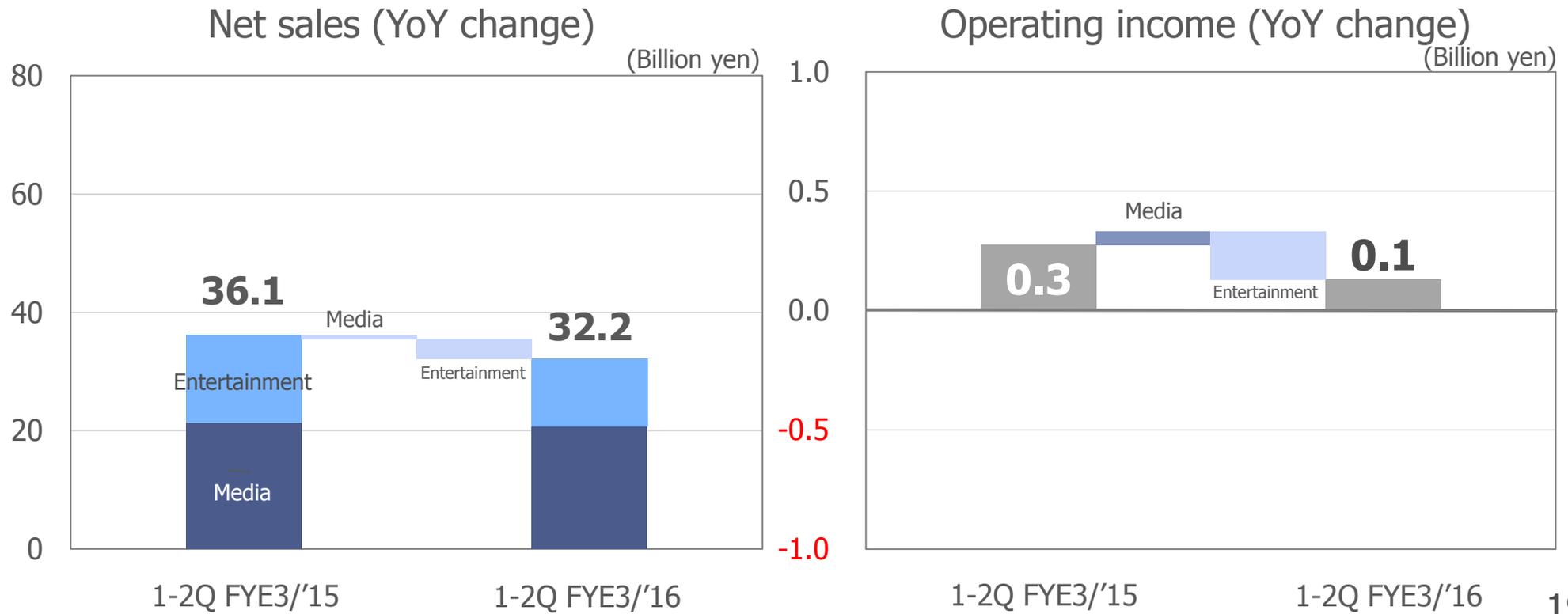


Operating income (YoY change)



## - Media Service sector

- ❖ Both sales and income decreased in the Entertainment segment due to the transfer of all shares of Teichiku.



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## ❖ Results

- Favorable effects from launch of new AM consumer products in the Americas and continued upward trend in navigation systems and drive recorders businesses in Japan.
- Obtained new orders for AM dealer-installed and factory-installed options exceeding the initial plans. Expansion of sales can be expected for the next fiscal year and beyond. Business performance of ASK remained favorable.
- Order backlog continued to increase as a result of the enhanced sales system under the direction of the new CEO at the U.S. communication systems subsidiary in the PS communications systems business.

## ❖ Challenges

- Response to the increased development costs in the AM dealer-installed and factory-installed options and cost reductions
- Reconstruction of merchandise, areas and sales strategy for PS communications systems.

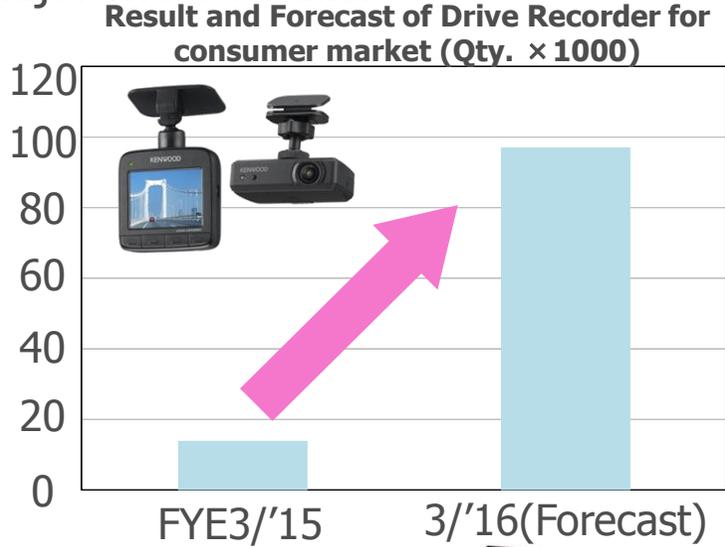
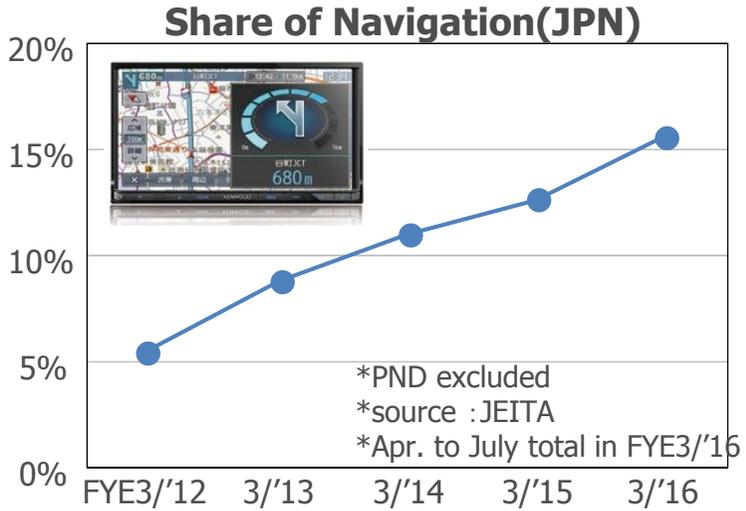
# Result of 1<sup>st</sup> half ~ Automotive sector

❖ Consumer navigation system was well received both in Japan and overseas

- Increased share in the sales of domestic navigation systems owing to the industry's first high-resolution navigation as well as by expanding product lineup for specific sales channels

❖ Sales of domestic consumer drive recorders remained strong

- Became the best-selling product in a major mass retailer



❖ Display Audio "stronger" in the north America

- Apple CarPlay & Android Auto adopted Its increase market share from Jun. (20 >> 25%)

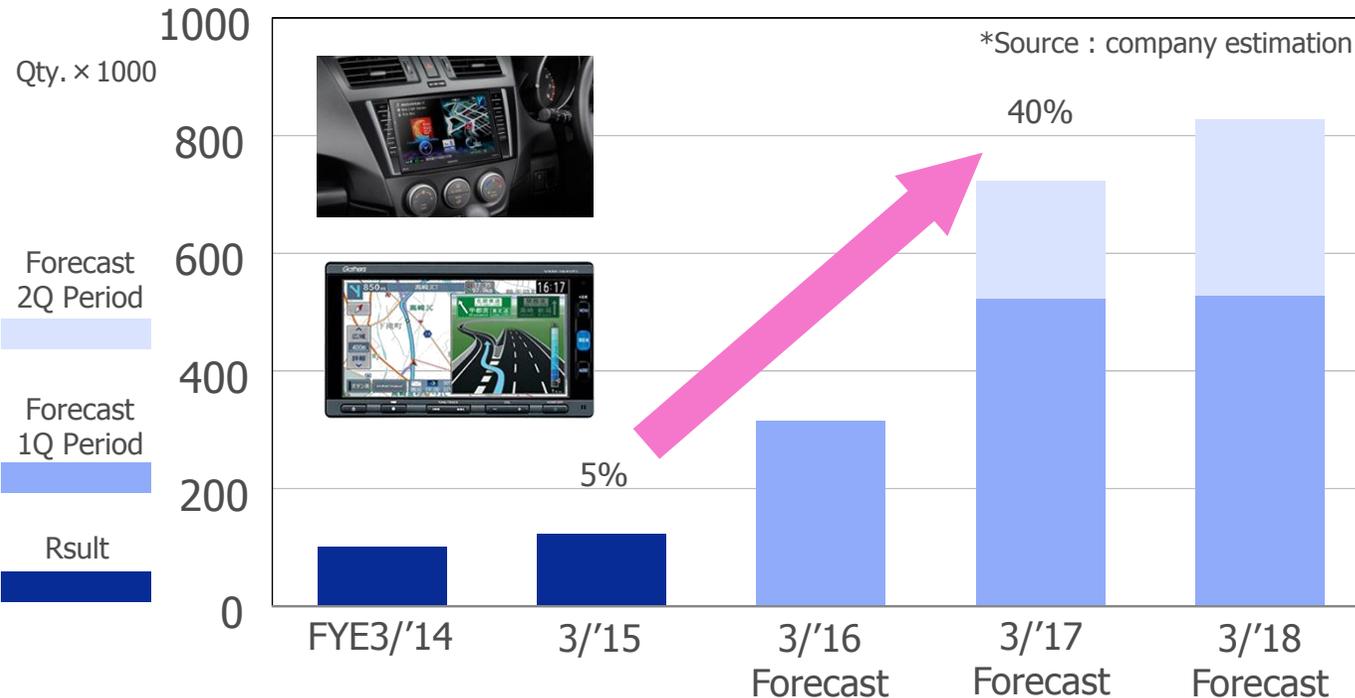


# Result of 1<sup>st</sup> half ~ Automotive sector

## ❖ Increase orders in the dealer-installed option business by leveraging the good reputation in the consumer market

- Dealer-installed navigation systems: Obtain 40% of the market share by increasing new orders
- Dealer-installed drive recorders: Shipments are scheduled to start in August 2016
- Dealer-installed car-mounted cameras: Shipments are scheduled to start in September 2016

Navigation market share "Result and Forecast" Dealer-installed Option



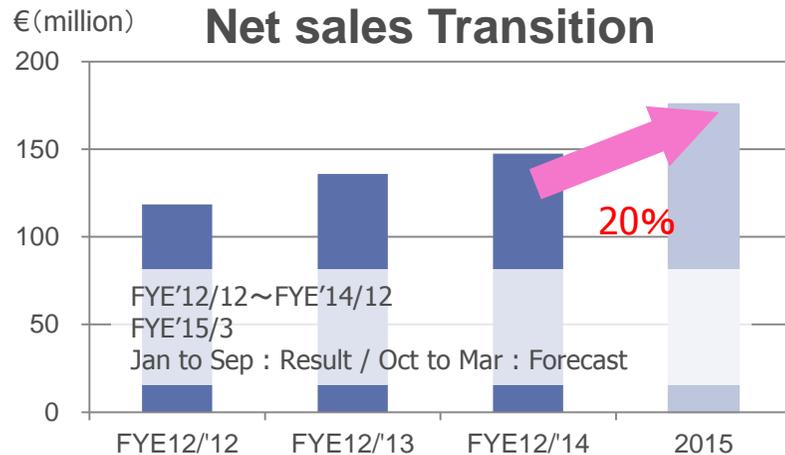
Ref. Vehicle camera



# Result of 1<sup>st</sup> half ~ Automotive sector

❖ ASK continued to be steady. To make a full-scale entry into factory-installed business through cooperation

- Sum total in the 2Q exceeded the level of that in the previous year and is expected to remain strong in the 3Q onward
- Obtained opportunities to make proposals for integrated system



- Intelligent Antenna
- Network tuner and amplifier
- HQ Sound system ...etc.,

❖ Commenced deliveries of display audio systems to domestic automotive companies.

- Delivery of 300,000 units expected over approximately seven years

❖ Won orders for CD player model from a European automotive company

- 200,000 units expected over approximately three year

# Measures in the 2<sup>nd</sup> half ~ Automotive sector

- ❖ Challenge: Response to the increased development costs in the AM dealer-installed and factory-installed options and cost reductions
- ❖ Measure (1): Respond to new orders and review development structure
  - Enhance management system by project
  - Strengthen competitiveness by constructing a common platform including consumer business as well as reducing costs
- ❖ Measure (2): Factory reforms and response to Industry 4.0
  - Transfer some production of navigation systems (consumer and dealer-installed) for Japan to Nagano
  - Consider production in consumption areas for other countries/regions in future
  - Promote response to Industry 4.0 as a certified factory of automotive makers



Indonesia Plant



Products for JPN  
(Consumer & Dealer-installed options)



Nagano Plant

## ❖ Challenge: Reorganization of the communications systems business

## ❖ Measures

- Rebuild the sales structure of professional digital radio systems for the public safety sector (P25). U.S. sales company and EFJT to specialize in sales of devices and systems, respectively
- Enhance activities to increase orders through a full-scale introduction of second-generation network system of the digital radio system for the private sector (NEXEDGE) to North America and Central and South America
- Make a full-scale entry into mobile/car-mounted digital equipment area by introducing general-use digital mobile radio (DMR) devices
- EFJT to create sales plan for the current fiscal year based on the sales system enhanced under the direction of the new CEO appointed in May

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

- ❖ Full-year earnings forecast has been revised based on the unexpected factors and effects of the worsening market conditions in respective regions, etc.
  - Unexpected increase in advanced development costs associated with new orders for AM-dealer-installed and factory-installed products exceeding the original plans. Sales from the dealer-installed option business are expected to increase owing to the start of shipments of dealer option products for new customers.
  - Sales decreased in PS professional wireless equipment business during 2Q. Business performance of U.S. communication systems subsidiary is expected to recover during the second half.
  - Extraordinary income/loss improved as a result of selling real estate and other factors

	(Billion yen)			
	Net sales	Operating income	Ordinary income	Net income attributable to owners of parent
Revised forecast for FYE3/'16 (Announced on Oct. 30, 2015)	295.0	4.5	1.0	1.5
Previous forecast for FYE3/'16 (Announced on Apr. 28, 2015)	300.0	8.0	4.5	2.0
YoY	(5.0)	(3.5)	(3.5)	(0.5)
FYE3/'15	285.0	6.6	3.2	4.7

\* Assumed FX rate for FYE 3/'16:  
Actual FX rate for FYE 3/'15:

1 USD = JPY 120, 1 Euro = JPY 128  
1 USD = JPY 110, 1 Euro = JPY 139

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