

JVCKENWOOD

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Accounting Report for the First Half of Fiscal Year Ending March 2019 [IFRS] (April 1, 2018 – September 30, 2018)

Consolidated Financial Highlights for the First Half of Fiscal Year Ending March 2019
 (April 1, 2018 – September 30, 2018)

Operating Results

(JPY in Million, except Basic net income per share)

	First Half of FYE 3/2018 April 1, 2017 to September 30, 2017	First Half of FYE 3/2019 April 1, 2018 to September 30, 2018
Revenue	141,482	149,110
Operating income	2,357	3,516
Profit before tax	1,905	3,165
Profit attributable to owners of parent	835	1,771
Comprehensive income	3,760	6,419
Basic net income per share	6.01 yen	12.24 yen

FYE: Fiscal year ended / ending

Revenue and Core Operating Income by Customer industry sectors

(JPY in Million)

		First Half of FYE 3/2018	First Half of FYE 3/2019	Year-on-year comparison
Automotive Sector	Revenue	80,957	86,052	+5,095
	Core Operating income	3,183	4,182	+999
Public Service Sector	Revenue	29,788	32,091	+2,303
	Core Operating income	-1,804	-1,357	+447
Media Service Sector	Revenue	28,242	28,171	-71
	Core Operating income	-99	686	+785
Others	Revenue	2,493	2,794	+301
	Core Operating income	-67	-138	-71
Total	Revenue	141,482	149,110	+7,628
	Core Operating income	1,211	3,372	+2,161
	Operating income	2,357	3,516	+1,159
	Profit before tax	1,905	3,165	+1,260
	Profit attributable to owners of parent	835	1,771	+936

1. Qualitative Information on 2Q Financial Results

(1) Description of Operating Results

(Overview of the Second Quarter of the Fiscal Year Under Review)

Revenue of the Company and its consolidated subsidiaries for the first six months of the fiscal year under review increased from the same period a year earlier, due to increased revenue in the Automotive Sector and the Public Service Sector. Operating income of the Group as a whole increased from the same period a year earlier, due to the growth in revenue.

Profit-and-loss exchange rates used when preparing the financial statements for the first six months of the fiscal year under review are as follows.

		1st Quarter	2nd Quarter
Profit-and-Loss Exchange Rate	US Dollar	About 109 yen	About 111 yen
	Euro	About 130 yen	About 130 yen
FY2017 (For Reference)	US Dollar	About 111 yen	About 111 yen
	Euro	About 122 yen	About 130 yen

Revenue

Revenue for the first six months of the fiscal year under review increased approximately 7,600 million yen, or 5.4%, year-on-year to 149,110 million yen.

Revenue in the Automotive Sector increased from the same period a year earlier, due to an increase in revenue in the OEM Business, reflecting higher sales of factory-installed option products. Revenue in the Public Service Sector increased from the same period a year earlier, due to an increase in revenue in the Communication Systems Business, reflecting higher sales of the Group's US communication system subsidiaries. Revenue in the Media Service Sector was on the same level as the same period a year earlier, despite a decrease in revenue in the Media Business, due to an increase in revenue in the Entertainment Business.

Operating Income

Operating income for the first six months of the fiscal year under review increased approximately 1,200 million yen, or 49.1%, from the same period a year earlier to 3,516 million yen, despite a decrease in gains on sales of assets.

Operating performance by customer industry sector for the first six months of the fiscal year under review, as with the operating results for the first three months of the fiscal year under review, is explained using core operating income*, which is calculated by subtracting cost of sales and selling, general and administrative expenses from revenue.

Core operating income for the first six months of the fiscal year under review increased approximately 2,200 million yen, or 178.4%, from the same period a year earlier to 3,372 million yen, due to greater performance in all three operating segments—the Automotive Sector, the Public Service Sector, and the Media Service Sector.

In the Automotive Sector, operating income increased from the same period a year earlier, due to profit growth in the OEM Business, reflecting higher sales of factory-installed option products. In the Public Service Sector, operating loss decreased, reflecting increases in both revenue and profit in the Communication Systems Business. In the Media Service Sector, operating income increased from the same period a year earlier and returned to positive profit, due to a reduction of the loss in the Media Business, with its return to profitability during the second quarter of the fiscal year under review, and increases in both revenue and profit in the Entertainment Business.

*Note: Core operating income does not include nonrecurring items that mainly occur temporarily, such as other income included in operating income, other expenses, and foreign exchange losses (gains).

Income Before Income Taxes

Income before income taxes for the first six months of the fiscal year under review increased approximately 1,300 million yen, or 66.1%, from the same period a year earlier to 3,165 million yen, reflecting the growth in operating income.

Profit Attributable to Owners of Parent

Profit attributable to owners of parent for the first six months of the fiscal year under review increased approximately 900 million yen, or 112.0%, from the same period a year earlier to 1,771 million yen, reflecting the growth in income before income taxes.

(Revenue and Core Operating Income by Customer Industry Sector)

Revenue and core operating income (loss) by customer industry sector are as follows.
Revenue by customer industry sector includes inter-segment revenue and transfers.

First six months of the fiscal year under review (from April 1, 2018 to September 30, 2018) (Million yen)

Customer Industry Sector		First Six Months of FYE3/18	First Six Months of FYE3/19	Year-on-Year Comparison
Automotive Sector	Revenue	80,957	86,052	+5,095
	Core Operating Income	3,183	4,182	+999
Public Service Sector	Revenue	29,788	32,091	+2,303
	Core Operating Income	-1,804	-1,357	+447
Media Service Sector	Revenue	28,242	28,171	-71
	Core Operating Income	-99	686	+785
Others	Revenue	2,493	2,794	+301
	Core Operating Income	-67	-138	-71
Total	Revenue	141,482	149,110	+7,628
	Core Operating Income	1,211	3,372	+2,161
	Operating Income	2,357	3,516	+1,159
	Income Before Income	1,905	3,165	+1,260
	Profit Attributable to Owners of Parent	835	1,771	+936

Automotive Sector

Revenue in the Automotive Sector for the first six months of the fiscal year under review increased approximately 5,100 million yen, or 6.3%, year-on-year to 86,052 million yen. Core operating income grew approximately 1,000 million yen, or 31.4%, year-on-year to 4,182 million yen.

(Revenue)

In the Aftermarket Business, sales of Saisoku-Navi series car navigation systems and dashcams remained strong in the domestic market, but sales in overseas markets were affected by decreases mainly in the Europe, Middle East, and Africa (EMEA) region. As a result, revenue in the Aftermarket Business as a whole decreased from the same period a year earlier.

In the OEM Business, revenue increased from the same period a year earlier, due mainly to a sharp increase in sales of factory-installed option products.

(Core Operating Income)

In the Aftermarket Business, core operating income declined from the same period a year earlier, due to the aforementioned decrease in revenue.

In the OEM Business, core operating income increased based on the aforementioned revenue growth.

Public Service Sector

Revenue in the Public Service Sector for the first six months of the fiscal year under review increased approximately 2,300 million yen, or 7.7%, year-on-year to 32,091 million yen. Core operating loss was 1,357 million yen, but this marked an improvement of approximately 400 million yen from the same period a year earlier.

(Revenue)

Revenue in the Communication Systems Business increased approximately 2,000 million yen from the same period a year earlier, due mainly to the growth in sales of the Group's US communication system subsidiaries.

Revenue in the Professional Systems Business decreased from the same period a year earlier, reflecting decreased sales of JVCKENWOOD Public & Industrial Systems Corporation in some markets. However, revenue in the Professional Systems Business as a whole increased approximately 300 million yen from the same period a year earlier, due mainly to the effects of the consolidation of Rein Medical GmbH, which became a Group subsidiary in the healthcare field in May.

(Core Operating Income)

In the Communication Systems Business, core operating income turned positive, due to the aforementioned revenue growth.

In the Professional Systems Business, core operating income/loss deteriorated, due mainly to an increase in upfront investments in the healthcare field.

Media Service Sector

Revenue in the Media Service Sector for the first six months of the fiscal year under review was on the same level as the same period a year earlier, declining approximately 100 million yen, or 0.2%, year-on-year to 28,171 million yen. Core operating income improved approximately 800 million yen and turned positive to record 686 million yen.

(Revenue)

In the Media Business, revenue decreased approximately 200 million yen from the same period a year earlier, despite solid sales of AV accessories, due to the effects of lower sales of commercial video cameras and other products.

In the Entertainment Business, revenue increased approximately 100 million yen from the same period a year earlier, reflecting strong sales in the Content Business.

(Core Operating Income)

In the Media Business, revenue decreased from the same period a year earlier. However, core operating income returned to profit during the second quarter of the fiscal year under review, due mainly to a change in sales mix and the effects of cost improvements, resulting in a decrease in the core operating loss.

In the Entertainment Business, core operating income increased, due to the effects of structural reforms in the OEM Business.

**(2) Description of Financial Position
(Analysis of Assets, Liabilities, and Equity, etc.)**

Assets

Total assets increased approximately 11,500 million yen from the end of the previous fiscal year to 251,412 million yen, despite a decrease in trade and other receivables as a result of seasonal factors, due to an increase in current assets, such as cash and cash equivalents and inventories.

Liabilities

Total liabilities increased approximately 500 million yen from the end of the previous fiscal year to 186,673 million yen, despite a decrease in trade and other payables, due mainly to an increase in borrowings.

Equity

Total equity attributable to owners of parent increased approximately 10,500 million yen from the end of the previous fiscal year to 61,133 million yen, due to an increase in capital stock and capital surplus resulting from the exercise of subscription rights to shares and an increase in retained earnings, as well as an increase in other components of equity.

Total equity increased approximately 11,000 million yen to 64,738 million yen, reflecting the increase in total equity attributable to owners of parent.

As a result, the ratio of equity attributable to owners of parent rose 3.2 percentage points from the end of the previous fiscal year to 24.3%.

(Cash Flow Analysis)

Cash Flow from Operating Activities

Net cash provided by operating activities for the first six months of the fiscal year under review was 11,662 million yen, which is an increase of approximately 1,100 million yen from the same period a year earlier. This is mainly attributable to an increase in income before income taxes.

Cash Flow from Investing Activities

Net cash used in investing activities for the first six months of the fiscal year under review was 12,241 million yen, which is an increase of approximately 6,200 million yen from the same period a year earlier. This is mainly attributable to an increase in cash outflows for the acquisition of intangible assets, the conversion of Rein Medical GmbH into a subsidiary, and a decrease in proceeds from the sales of non-current assets.

Cash Flow from Financing Activities

Net cash provided by financing activities for the first six months of the fiscal year under review was 6,262 million yen, which is an increase of approximately 9,000 million yen from the same period a year earlier. This is mainly attributable to proceeds from the exercise of subscription rights to shares.

Cash and cash equivalents at the end of the second quarter of the fiscal year under review was on the same level as the same period a year earlier at 43,467 million yen.

(3) Description of Forward-looking Information Such as Consolidated Earnings Forecast

Consolidated earnings for the first six months of the fiscal year under review were solid and exceeded the period-start projections, due to strong performance in the Automotive Sector, the Public Service Sector, and the Media Service Sector.

Regarding the outlook for the third quarter of the fiscal year under review and thereafter, we expect sales growth from the Group's US communication system subsidiaries in the Public Service Sector and an earnings improvement due to the launch of new products in the Media Business in the Media Service Sector. At this time, however, JVCKENWOOD is not revising its consolidated earnings forecast for the fiscal year ending March 31, 2019, announced on April 26, 2018, as described in the following, in the light of uncertainty over the impacts of changes in the external environment. The Company will promptly announce any revisions to its consolidated earnings forecast should any be deemed necessary in view of future market trends and its earnings trends.

	Consolidated Earnings Forecast for FYE3/19
Revenue	310,000 million yen
Operating Income	7,100 million yen
Income Before Income Taxes	6,000 million yen
Profit Attributable to Owners of Parent	2,700 million yen

2. Quarterly Consolidated Financial Statements

(1) Quarterly Consolidated statement of financial position

(JPY in Million)

	Note	Previous Fiscal Year (as of Mar. 31, 2018)	End of current consolidated second quarter (as of Sep. 30, 2018)
Assets			
Current assets			
Cash and cash equivalents		37,162	43,467
Trade and other receivables		59,160	54,832
Contract assets		1,930	1,679
Other financial assets		861	2,228
Inventories		44,120	47,390
Right to recover products		536	434
Income taxes receivable		847	750
Other current assets		5,762	6,441
Total current assets		150,381	157,225
Non-current assets			
Property, plant and equipment		44,118	44,626
Goodwill		1,999	3,759
Intangible assets		18,818	19,354
Net defined benefit assets		4,120	3,751
Investment property		2,055	2,117
Investments accounted for using the equity method		1,157	1,194
Other financial assets		10,649	12,760
Deferred tax assets		5,417	5,426
Other non-current assets		1,215	1,195
Total non-current assets		89,551	94,186
Total assets		239,933	251,412

(JPY in Million)

	Note	Previous Fiscal Year (as of Mar. 31, 2018)	End of current consolidated second quarter (as of Sep. 30, 2018)
Liabilities and equity			
Liabilities			
Current liabilities			
Trade and other payables		47,035	45,818
Contract liabilities		3,643	2,215
Refund liabilities		4,673	4,731
Short-term borrowings		29,642	31,791
Other financial liabilities		1,993	1,702
Income taxes payable		1,667	1,453
Provisions		2,143	2,043
Other current liabilities		23,622	23,654
Total current liabilities		114,422	113,411
Non-current liabilities			
Long-term borrowings		38,204	39,517
Other financial liabilities		995	688
Net defined benefit liabilities		28,239	28,342
Provisions		1,695	1,648
Deferred tax liabilities		1,623	2,003
Other non-current liabilities		964	1,060
Total non-current liabilities		71,722	73,261
Total liabilities		186,145	186,673
Equity			
Capital stock		10,000	12,666
Capital surplus		38,466	41,113
Retained earnings		2,913	4,271
Treasury stock		-38	-38
Other components of equity		-707	3,120
Equity attributable to owners of the parent company		50,634	61,133
Non-controlling interests		3,153	3,605
Total equity		53,788	64,738
Total liabilities and equity		239,933	251,412

(2) Quarterly Consolidated statement of financial position
 (Quarterly Consolidated Statement of Income)
 【Accumulated period for consolidated second quarter】

(JPY in Million)

	Note	Accumulated period for previous consolidated second quarter (Apr.1, 2017 - Sep.30, 2017)	Accumulated period for current consolidated second quarter (Apr.1, 2018 - Sep.30, 2018)
Revenue		141,482	149,110
Cost of sales		104,232	108,595
Gross profit		37,249	40,514
Selling, general and administrative expenses		36,038	37,141
Other income		1,668	1,230
Other expenses		378	487
Foreign exchange losses		144	599
Operating profit		2,357	3,516
Finance income		154	143
Finance expenses		708	537
Share of profit of investments accounted for using the equity method		102	43
Profit before income taxes		1,905	3,165
Income tax expenses		566	1,140
Profit		1,339	2,024
Profit attributable to:			
Owners of the parent company		835	1,771
Non-controlling interests		503	253
Net income		1,339	2,024
Earnings per share (attributable to owners of the parent)			
Basic earnings per share		6.01yen	12.24yen
Diluted earnings per share		—yen	12.19yen

TRANSLATION - FOR REFERENCE ONLY -

(Quarterly Consolidated Statement of Comprehensive Income)

【Accumulated period for consolidated second quarter】

(JPY in Million)

	Note	Accumulated period for previous consolidated second quarter (Apr.1, 2017 - Sep.30, 2017)	Accumulated period for current consolidated second quarter (Apr.1, 2018 - Sep.30, 2018)
Net income (loss)		1,339	2,024
Other comprehensive income (“OCI”)			
Items that will not be reclassified subsequently to profit or loss			
Net changes in financial assets measured at fair value through OCI		—	-20
Remeasurement of defined benefit plans		—	4
Share of OCI of investments accounted for using the equity method		—	5
Total of items that will not be reclassified subsequently to profit or loss		—	-10
Items that may be reclassified subsequently to profit or loss			
Fair value gain on financial assets available for sale		907	—
Exchange differences arising on translation of foreign operations		2,124	2,673
Cash flow hedges		-612	1,731
Share of OCI of investments accounted for using the equity method		0	—
Total of items that may be reclassified subsequently to profit or loss		2,421	4,404
OCI, net of income tax		2,421	4,394
Comprehensive income		3,760	6,419
Total comprehensive income attributable to:			
Owners of the parent company		3,189	6,019
Non-controlling interests		570	400
Comprehensive income		3,760	6,419

TRANSLATION - FOR REFERENCE ONLY -

(3) Quarterly Consolidated Statement of Cash Flows

(JPY in Million)

	Note	Accumulated period for previous consolidated second quarter (Apr.1, 2017 - Sep.30, 2017)	Accumulated period for current consolidated second quarter (Apr.1, 2018 - Sep.30, 2018)
Cash flows from operating activities			
Profit before income taxes		1,905	3,165
Depreciation and amortization		8,019	8,527
Impairment losses		—	214
Reversal of impairment losses		-392	—
Decrease in net defined benefit liabilities		-114	-27
Decrease in net defined benefit assets		234	359
Finance income		-154	-143
Finance expenses		708	537
Gain on sales of financial assets available for sale		-674	—
Gain on revaluation of financial assets measured at fair value through profit and loss		—	-851
Loss on disposal of property, plant and equipment		36	44
Decrease in trade and other receivables		5,412	6,306
Increase in inventories		-4,179	-1,781
(Decrease) increase in trade and other payables		1,806	-1,571
Decrease in other current liabilities		-1,451	-1,907
Other, net		756	344
Sub-total		11,913	13,218
Interest received		91	100
Dividend received		63	42
Interest paid		-456	-421
Income taxes paid		-1,004	^1,278
Net cash provided by operating activities		10,606	11,662
Cash flows from investing activities			
Placement of time deposit with original maturity of more than three months		-24	-323
Withdrawal of time deposit with original maturity of more than three months		943	23
Purchases of property, plant and equipment		-3,331	-3,685
Proceeds from sales of property, plant and equipment		522	108
Purchase of intangible assets		-4,872	-6,023
Proceeds from sales of financial assets available for sale		769	—
Purchases of debt instruments		—	-401
Purchases of equity instruments		—	-581
Payment for acquisition of control over subsidiaries		—	-1,240
Other, net		-17	-117
Net cash used in investing activities		-6,010	-12,241
Cash flows from financing activities			
Proceeds from short-term borrowings		6,361	11,583
Repayment of short-term borrowings		-7,242	-8,807
Proceeds from long-term borrowings		4,536	5,500
Repayment of long-term borrowings		-5,166	-5,571
Cash dividends paid		-694	-833

TRANSLATION - FOR REFERENCE ONLY -

	Note	Accumulated period for previous consolidated second quarter (Apr.1, 2017 - Sep.30, 2017)	Accumulated period for current consolidated second quarter (Apr.1, 2018 - Sep.30, 2018)
Proceeds from issuance of shares resulting from exercise of subscription rights to shares		—	5,312
Other, net		-502	-921
Net cash used in financing activities		-2,708	6,262
Net increase in cash and cash equivalents		2,673	6,305
Cash and cash equivalents at beginning of year		40,798	37,162
Effect of exchange rate changes on cash and cash equivalents		785	622
Cash and cash equivalents at end of quarter		43,471	43,467