

JVCKENWOOD

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Company JVCKENWOOD Corporation
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Accounting Report for the Third Quarter of Fiscal Year Ending March 2019 (April 1, 2018 – December 31, 2018)

Consolidated Financial Highlights for the Third Quarter of Fiscal Year Ending March 2019
(April 1, 2018 – December 31, 2018)

Operating Results

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

	Third Quarter of FYE 3/2018 April 1, 2017 to December 31, 2017	Third Quarter of FYE 3/2019 April 1, 2018 to December 31, 2018
Revenue	216,994	226,681
Operating income	4,710	6,359
Profit before tax	3,992	5,791
Profit attributable to owners of the parent company	1,514	3,540
Comprehensive income	14,166	5,005
Basic net income per share	10.90 yen	23.51 yen

1. Qualitative Information on 3Q Financial Results

(1) Description of Operating Results

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

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

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

		1st Quarter	2nd Quarter	3rd Quarter
Profit-and-Loss	US Dollar	About 109 yen	About 111 yen	About 113 yen
Exchange Rate	Euro	About 130 yen	About 130 yen	About 129 yen
FY2017	US Dollar	About 111 yen	About 111 yen	About 113 yen
(For Reference)	Euro	About 122 yen	About 130 yen	About 133 yen

Revenue

Revenue for the first nine months of the fiscal year under review increased approximately 9,700 million yen, or 4.5%, from the same period a year earlier to 226,681 million yen.

Revenue in the Automotive Sector increased from the same period a year earlier, due to increased 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 increased revenue in the Communication Systems Business, reflecting higher sales of the Group's US communication system subsidiaries. Revenue in the Media Service Sector increased from the same period a year earlier, due to increased revenue in the Entertainment Business, reflecting higher sales in the Content Business.

Operating Income

Operating income for the first nine months of the fiscal year under review increased approximately 1,600 million yen, or 35.0%, from the same period a year earlier, to 6,359 million yen, despite a decrease in gains on sales of assets.

Operating performance by customer industry sector for the first nine months of the fiscal year under review, as with the operating results for the first six 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 nine months of the fiscal year under review soared approximately 3,800 million yen, or 156.1%, from the same period a year earlier to 6,230 million yen, due to profit increases in the Automotive Sector and the Media Service Sector and profit/loss improvements in the Public 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, profit/loss improved as the Communication Systems Business achieved a profit increase due to the revenue increase and returned to profitability. In the Media Service Sector, operating income increased from the same period a year earlier, with the Media Business returning to positive profit and the Entertainment Business achieving increases in both revenue and profit.

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

Income Before Income Taxes

Income before income taxes for the first nine months of the fiscal year under review increased approximately 1,800 million yen, or 45.0%, from the same period a year earlier, to 5,791 million yen, reflecting the growth in operating income.

Profit Attributable to Owners of the Parent Company

Profit attributable to owners of the parent company for the first nine months of the fiscal year under review surged approximately 2,000 million yen, or 133.7%, from the same period a year earlier to 3,540 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 nine months of the fiscal year under review (from April 1, 2018 to December 31, 2018) (Million yen)

Customer Industry Sector		First Nine Months of FYE3/18	First Nine Months of FYE3/19	Year-on-Year Comparison
Automotive Sector	Revenue	124,209	127,862	+3,653
	Core Operating Income	4,625	6,031	+1,406
Public Service Sector	Revenue	46,018	49,622	+3,604
	Core Operating Income	-2,106	-1,143	+963
Media Service Sector	Revenue	42,718	43,833	+1,115
	Core Operating Income	7	1,474	+1,467
Others	Revenue	4,047	5,363	+1,316
	Core Operating Income	-93	-132	-39
Total	Revenue	216,994	226,681	+9,687
	Core Operating Income	2,432	6,230	+3,798
	Operating Income	4,710	6,359	+1,649
	Income Before Income Taxes	3,992	5,791	+1,799
	Profit Attributable to Owners of the parent company	1,514	3,540	+2,026

Automotive Sector

Revenue in the Automotive Sector for the first nine months of the fiscal year under review increased approximately 3,700 million yen, or 2.9%, from the same period a year earlier to 127,862 million yen. Core operating income grew approximately 1,400 million yen, or 30.4%, from the same period a year earlier to 6,031 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 slightly 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 remained at the same level as the previous corresponding period, despite 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 nine months of the fiscal year under review increased approximately 3,600 million yen, or 7.8%, from the same period a year earlier to 49,622 million yen. Core operating income amounted to a loss of 1,143 million yen. However, core operating income returned to a positive profit during the third quarter of the fiscal year under review and achieved an improvement of approximately 1,000 million yen from the same period a year earlier.

(Revenue)

Revenue in the Communication Systems Business increased approximately 2,600 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 1,000 million yen from the

same period a year earlier, due mainly to the effects of the consolidation of Rein Medical GmbH (“Rein Medical”), 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 nine months of the fiscal year under review increased approximately 1,100 million yen, or 2.6%, from the same period a year earlier to 43,833 million yen. Core operating income increased approximately 1,500 million yen from the same period a year earlier to 1,474 million yen.

(Revenue)

In the Media Business, revenue decreased approximately 400 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 1,500 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, due mainly to a change in sales mix and the effects of cost improvements.

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 10,600 million yen from the end of the previous fiscal year to 250,505 million yen, despite a decrease in trade and other receivables as a result of seasonal factors, due to an increase in inventories, as well as an increase in non-current assets as a result of an investment in Tait International Ltd. (“Tait International”), a New Zealand-based manufacturer of critical communications products and systems.

Liabilities

Total liabilities decreased approximately 900 million yen from the end of the previous fiscal year to 185,228 million yen, due to a decrease in other payables, such as other accounts payable, supported by seasonal factors.

Equity

Total equity attributable to owners of the parent company increased approximately 11,000 million yen from the end of the previous fiscal year to 61,621 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.

Total equity increased approximately 11,500 million yen to 65,277 million yen, reflecting the increase in total equity attributable to owners of the parent company.

As a result, the ratio of equity attributable to owners of the parent company rose 3.5 percentage points from the end of the previous fiscal year to 24.6%.

(Cash Flow Analysis)

Cash Flow from Operating Activities

Net cash provided by operating activities for the first nine months of the fiscal year under review was 14,056 million yen, which is an increase of approximately 900 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 nine months of the fiscal year under review was 20,554 million yen, which is an increase of approximately 11,800 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 an investment in Tait International.

Cash Flow from Financing Activities

Net cash provided by financing activities for the first nine months of the fiscal year under review was 7,852 million yen, which is an increase of approximately 14,700 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 third quarter of the fiscal year under review decreased approximately 900 million yen from the same period a year earlier to 38,465 million yen.

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

Consolidated earnings for the first nine months of the fiscal year under review were solid and exceeded the period-start projections in all operating segments.

Regarding the outlook for the fourth quarter of the fiscal year under review, we continue to expect earnings improvements in the Public Service Sector and the Media Service Sector due to the launch of new products. 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 risks, such as the economic slowdown in China and uncertainty in the European market post-Brexit. 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 the Parent Company	2,700 million yen

2. Quarterly Consolidated Financial Statements

(1) Quarterly Consolidated statement of financial position

(JPY in Million)

	Previous Fiscal Year (as of Mar. 31, 2018)	End of current consolidated third quarter (as of Dec. 31, 2018)
Assets		
Current assets		
Cash and cash equivalents	37,162	38,465
Trade and other receivables	59,160	55,059
Contract assets	1,930	1,939
Other financial assets	861	1,942
Inventories	44,120	48,809
Right to recover products	536	431
Income taxes receivable	847	741
Other current assets	5,762	5,515
Sub total	150,381	152,904
Assets classified as held for sale	—	179
Total current assets	150,381	153,083
Non-current assets		
Property, plant and equipment	44,118	44,959
Goodwill	1,999	3,416
Intangible assets	18,818	20,131
Net defined benefit assets	4,120	3,736
Investment property	2,055	2,166
Investments accounted for using the equity method	1,157	4,243
Other financial assets	10,649	11,965
Deferred tax assets	5,417	5,507
Other non-current assets	1,215	1,294
Total non-current assets	89,551	97,422
Total assets	239,933	250,505

(JPY in Million)

	Previous Fiscal Year (as of Mar. 31, 2018)	End of current consolidated third quarter (as of Dec. 31, 2018)
Liabilities and equity		
Liabilities		
Current liabilities		
Trade and other payables	47,035	46,658
Contract liabilities	3,643	2,245
Refund liabilities	4,673	5,054
Short-term borrowings	29,642	30,167
Other financial liabilities	1,993	1,627
Income taxes payable	1,667	1,650
Provisions	2,143	1,844
Other current liabilities	23,622	20,920
Total current liabilities	114,422	110,169
Non-current liabilities		
Long-term borrowings	38,204	40,538
Other financial liabilities	995	1,731
Net defined benefit liabilities	28,239	28,323
Provisions	1,695	1,548
Deferred tax liabilities	1,623	1,911
Other non-current liabilities	964	1,005
Total non-current liabilities	71,722	75,059
Total liabilities	186,145	185,228
Equity		
Capital stock	10,000	13,645
Capital surplus	38,466	42,086
Retained earnings	2,913	6,036
Treasury stock	-38	-38
Other components of equity	-707	-109
Equity attributable to owners of the parent company	50,634	61,621
Non-controlling interests	3,153	3,655
Total equity	53,788	65,277
Total liabilities and equity	239,933	250,505

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

(JPY in Million)

	Accumulated period for previous consolidated second quarter (Apr.1, 2017 - Dec.31, 2017)	Accumulated period for current consolidated second quarter (Apr.1, 2018 - Dec.31, 2018)
Revenue	216,994	226,681
Cost of sales	159,701	164,178
Gross profit	57,293	62,503
Selling, general and administrative expenses	54,860	56,272
Other income	2,933	1,440
Other expenses	508	836
Foreign exchange losses	-147	-475
Operating profit	4,710	6,359
Finance income	211	225
Finance expenses	1,007	813
Share of profit of investments accounted for using the equity method	78	20
Profit before income taxes	3,992	5,791
Income tax expenses	1,801	1,877
Profit	2,191	3,913
Profit attributable to:		
Owners of the parent company	1,514	3,540
Non-controlling interests	676	373
Profit	2,191	3,913
Earnings per share (attributable to owners of the parent company)		
Basic earnings per share	10.90 yen	23.51 yen
Diluted earnings per share	— yen	23.45 yen

(Quarterly Consolidated Statement of Income)
【Accumulated period for consolidated second quarter】

(JPY in Million)

	Accumulated period for previous consolidated second quarter (Apr.1, 2017 - Dec.31, 2017)	Accumulated period for current consolidated second quarter (Apr.1, 2018 - Dec.31, 2018)
Profit	2,191	3,913
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	—	-606
Remeasurement of defined benefit plans	9,110	4
Share of OCI of investments accounted for using the equity method	—	1
Total of items that will not be reclassified subsequently to profit or loss	9,110	-599
Items that may be reclassified subsequently to profit or loss		
Fair value gain on financial assets available for sale	473	—
Exchange differences arising on translation of foreign operations	2,803	432
Cash flow hedges	-412	1,421
Share of OCI of investments accounted for using the equity method	0	-162
Total of items that may be reclassified subsequently to profit or loss	2,864	1,692
OCI, net of income tax	11,975	1,092
Comprehensive income	14,166	5,005
Total comprehensive income attributable to:		
Owners of the parent company	13,394	4,555
Non-controlling interests	772	450
Comprehensive income	14,166	5,005

(3) Quarterly Consolidated Statement of Cash Flows

(JPY in Million)

	Accumulated period for previous consolidated third quarter (Apr.1, 2017 - Dec.31, 2017)	Accumulated period for current consolidated third quarter (Apr.1, 2018 - Dec.31, 2018)
Cash flows from operating activities		
Profit before income taxes	3,992	5,791
Depreciation and amortization	12,243	13,023
Impairment losses	—	257
Increase in net defined benefit liabilities	130	106
Decrease in net defined benefit assets	340	369
Finance income	-211	-225
Finance expenses	1,007	813
Gain on sales of financial assets available for sale	-674	—
Gain on investments in partnership	-234	—
Gain on revaluation of financial assets measured at fair value through profit and loss	—	-866
Loss on disposal of property, plant and equipment	92	56
Decrease in trade and other receivables	4,337	5,157
Increase in inventories	-7,052	-4,295
Increase in trade and other payables	5,861	17
Decrease in other current liabilities	-3,637	-4,261
Other, net	-942	97
Sub-total	15,253	16,042
Interest received	135	164
Dividend received	75	60
Interest paid	-655	-647
Income taxes paid	-1,606	-1,563
Net cash provided by operating activities	13,203	14,056
Cash flows from investing activities		
Placement of time deposit with original maturity of more than three months	-106	-324
Withdrawal of time deposit with original maturity of more than three months	943	23
Purchases of property, plant and equipment	-5,537	-5,968
Proceeds from sales of property, plant and equipment	2,561	131
Purchases of intangible assets	-7,487	-9,403
Purchases of financial assets available for sale	-307	—
Proceeds from sales of financial assets available for sale	781	—
Purchases of debt instruments	—	-401
Purchases of equity instruments	—	-692
Purchases of investments accounted for using the equity method	—	-2,389
Payment for acquisition of control over subsidiaries	—	-1,240
Other, net	372	-289
Net cash used in investing activities	-8,780	-20,554
Cash flows from financing activities		
Proceeds from short-term borrowings	9,965	17,373
Repayment of short-term borrowings	-9,956	-14,832
Proceeds from long-term borrowings	5,536	7,897
Repayment of long-term borrowings	-9,174	-7,979
Cash dividends paid	-694	-833
Proceeds from issuance of shares resulting from exercise of subscription rights to shares	—	7,258

(JPY in Million)

	Accumulated period for previous consolidated third quarter (Apr.1, 2017 - Dec.31, 2017)	Accumulated period for current consolidated third quarter (Apr.1, 2018 - Dec.31, 2018)
Payments from changes in ownership interests in subsidiaries without loss of control	-1,770	—
Other, net	-769	-1,030
Net cash used in financing activities	-6,863	7,852
Net increase in cash and cash equivalents	-1,405	1,303
Cash and cash equivalents at beginning of year	40,798	37,162
Effect of exchange rate changes on cash and cash equivalents	1,034	-50
Cash and cash equivalents at end of quarter	39,392	38,465