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JVCKENWOOD

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Company JVCKENWOOD Corporation
Representative Shoichiro Eguchi,
President and CEO
(Code: 6632; First Section of the Tokyo Stock Exchange)
Contact Masatoshi Miyamoto,
Senior Managing Executive Officer,
Chief Financial Officer (CFO)
(Tel: +81-45-444-5232)
(E-mail: prir@jvckenwood.com)

Accounting Report for the First Quarter of Fiscal Year Ending March 2020 (April 1, 2019 – June 30, 2019)

Consolidated Financial Highlights for the First Quarter of Fiscal Year Ending March 2020
(April 1, 2019 – June 30, 2019)

Operating Results

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

	1st Quarter of FYE 3/2019 April 1, 2018 to June 30, 2018	1st Quarter of FYE 3/2020 April 1, 2019 to June 30, 2019
Revenue	72,566	73,596
Operating income	995	1,771
Profit before tax	881	1,635
Profit attributable to owners of parent	269	882
Comprehensive income	2,714	-509
Basic net income per share	1.94 yen	5.39 yen

FYE: Fiscal year ended / ending

Revenue and Core Operating Income by Customer industry sectors

(JPY in Million)

		1st Quarter of FYE 3/2019	1st Quarter of FYE 3/2020	Year-on-year comparison
Automotive Sector	Revenue	43,015	40,066	-2,949
	Core Operating income	1,993	1,050	-943
Public Service Sector	Revenue	14,708	15,353	+645
	Core Operating income	-1,228	-625	+603
Media Service Sector	Revenue	13,557	14,200	+643
	Core Operating income	208	450	+242
Others	Revenue	1,284	3,976	+2,692
	Core Operating income	-113	325	+438
Total	Revenue	72,566	73,596	+1,030
	Core Operating income	860	1,200	+340
	Operating income	995	1,771	+776
	Profit before tax	881	1,635	+754
	Profit attributable to owners of the parent company	269	882	+613

1. Qualitative Information on 1Q Financial Results

(1) Description of Operating Results

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

Revenue of JVCKENWOOD Corporation and its consolidated subsidiaries (the JVCKENWOOD Group) for the first three months of the fiscal year under review increased from the same period a year earlier, despite a decrease in the revenue of the Automotive Sector, due to an increase in the revenue of the Public Service Sector, Media Service Sector, and Others. Operating income of the Group as a whole increased from the same period a year earlier, due to the impacts of revenue growth.

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

		1st Quarter
Profit-and-loss exchange rate	US dollar	Approx. 110 yen
	Euro	Approx. 124 yen
FY2018 (for reference)	US dollar	Approx. 109 yen
	Euro	Approx. 130 yen

*Revenue

Revenue for the first three months of the fiscal year under review increased approximately 1,000 million yen, or 1.4%, from the same period a year earlier to 73,596 million yen.

Revenue of the Automotive Sector decreased from the same period a year earlier, due to a decrease in the revenue of the OEM Business, reflecting lower sales of factory-installed products, and because JVCKENWOOD Hong Kong Holdings Ltd. (JKHL) continued to be impacted by a slowdown in China's economy from the fourth quarter of the previous fiscal year. Revenue of the Public Service Sector increased, due to strong sales of the Professional Systems Business centering on JVCKENWOOD Public & Industrial Systems Corporation (JKPI). Revenue of the Media Service Sector increased, due to strong sales of the Content Business in the Entertainment Business. Revenue of Others increased, due to a significant growth in sales of the DX* Business Division, which is a new business division established during the fiscal year under review.

* DX: Digital Transformation

*Operating Income

Operating income for the first three months of the fiscal year under review increased approximately 800 million yen, or 77.9%, from the same period a year earlier, to 1,771 million yen, reflecting the increase in revenue and an improvement in other profit/loss. Operating performance by business segment 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 three months of the fiscal year under review increased approximately 300 million yen, or 39.5%, from the same period a year earlier to 1,200 million yen, despite a profit decrease of the Automotive Sector, due to an improvement in the profit/loss of the Public Service Sector and profit growth of the Media Service Sector and Others.

In the Automotive Sector, core operating income declined from the same period a year earlier, due to a profit decrease of the OEM Business reflecting lower sales. In the Public Service Sector, profit/loss as a whole sector improved, with the Communications Systems Business returning to positive profit and the Professional Systems Business achieving a profit/loss improvement. In the Media Service Sector, core operating income increased, reflecting an improvement in profit/loss of the Media Business. In Others, core operating income increased, due to the growth in revenue.

*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).

*Profit before Income Taxes

Profit before income taxes for the first three months of the fiscal year under review increased approximately 800 million yen, or 85.5%, from the same period a year earlier to 1,635 million yen, reflecting growth in operating income.

*Profit Attributable to Owners of the Parent Company

Profit attributable to owners of parent for the three months of the fiscal year under review surged approximately 600 million yen, or 227.6%, from the same period a year earlier to 882 million yen, reflecting the growth in profit before income taxes.

(Revenue and Core Operating Income (loss) by Business Segment

Revenue and core operating income (loss) by business segment are as follows.
Revenue by business segment includes inter-segment revenue or transfers.

First Three Months of the Fiscal Year Ending March 2020 (from April 1, 2019 to June 30, 2019)

(Million yen)

Segment		First Three Months of FYE3/'19	First Three Months of FYE3/'20	Year-on-Year Comparison
Automotive Sector	Revenue	43,015	40,066	-2,949
	Core Operating Income	1,993	1,050	-943
Public Service Sector	Revenue	14,708	15,353	+645
	Core Operating Income	-1,228	-625	+603
Media Service Sector	Revenue	13,557	14,200	+643
	Core Operating Income	208	450	+242
Others	Revenue	1,284	3,976	+2,692
	Core Operating Income	-113	325	+438
Total	Revenue	72,566	73,596	+1,030
	Core Operating Income	860	1,200	+340
	Operating Income	995	1,771	+776
	Profit before Tax	881	1,635	+754
	Profit Attributable to Owners of the Parent Company	269	882	+613

*Automotive Sector

Revenue of the Automotive Sector for the first three months of the fiscal year under review decreased approximately 2,900 million yen, or 6.9%, from the same period a year earlier to 40,066 million yen. Core operating income declined approximately 900 million yen, or 47.3%, from the same period a year earlier to 1,050 million yen.

(Revenue)
In the Aftermarket Business, revenue increased from the same period a year earlier, due to strong sales of Saisoku-Navi series car navigation systems and dashcams in the domestic market.

In the OEM Business, revenue decreased from the same period a year earlier, due to the impacts of lower sales of factory-installed products and JKHL continuing to be affected by the slowdown in China's economy from the fourth quarter of the previous fiscal year.

(Core Operating Income)
In the Aftermarket Business, core operating income increased from the same period a year earlier, due to the aforementioned increase in revenue.

In the OEM Business, core operating income decreased from the same period a year earlier, due to the increase in costs resulting from the parts supply problem at a supplier that continued from the fourth quarter of the previous fiscal year.

*Public Service Sector

Revenue of the Public Service Sector for the first three months of the fiscal year under review increased approximately 600 million yen, or 4.4%, from the same period a year earlier to 15,353 million yen. Core operating income was negative with a loss of 625 million yen, but this represented an improvement of approximately 600 million yen from the same period a year earlier.

(Revenue)
Revenue of the Communications Systems Business increased approximately 100 million yen from the same period a year earlier, reflecting the growth in sales of digital radio communications systems in Japan.

Revenue of the Professional Systems Business increased approximately 500 million yen from the same period a year earlier, due to strong sales of digital conference systems at JKPI.

(Core Operating Income)
In the Communications Systems Business, core operating income returned to a positive territory, due to the aforementioned revenue growth and the effects of cost reductions. The Communications Systems Business posted positive profit for the fourth consecutive quarter that began from the second quarter of the previous fiscal year,

showing that the positive profit trend is firmly in place.

In the Professional Systems Business, core operating income/loss improved, due to the aforementioned revenue growth.

*Media Service Sector

Revenue of the Media Service Sector for the first three months of the fiscal year under review increased approximately 600 million yen, or 4.7%, from the same period a year earlier to 14,200 million yen. Core operating income increased approximately 200 million yen, or 115.6%, from the same period a year earlier to 450 million yen.

(Revenue)
In the Media Business, revenue decreased approximately 200 million yen from the same period a year earlier, despite solid sales of projectors and imaging devices, due to a decrease in sales of professional-use and commercial video cameras.

In the Entertainment Business, revenue increased approximately 900 million yen from the same period a year earlier, due to strong sales of the Content Business and the OEM Business.

(Core Operating Income)
In the Media Business, income/loss improved, despite the decrease in revenue, due to the effects of cost improvements.

In the Entertainment Business, core operating income was roughly at the same level as the same period a year earlier, due to the effects of investments in new business fields despite the effect of an increase in revenue.

The DX Business Division, which is included in Others, achieved a significant growth in both revenue and core operating income, reflecting strong sales of telematics solutions and related products.

(2) Description of Financial Position

(Analysis of Assets, Liabilities, and Equity, etc.)

*Assets

Total assets increased approximately 4,100 million yen from the end of the previous fiscal year to 254,718 million yen. This was due to an increase in property, plant and equipment, reflecting an increase in right-of-use assets following the application of IFRS 16 Leases*, despite a decrease in trade and other receivables as a result of seasonal factors.

*IFRS 16 Leases: New accounting standards on leases applied from the fiscal year beginning on or after January 1, 2019.

*Liabilities

Total liabilities increased approximately 7,100 million yen from the end of the previous fiscal year to 192,347 million yen, despite a decrease in trade and other payables and bank borrowings, due to an increase in other financial liabilities, reflecting an increase in lease liabilities as a result of the application of IFRS 16 Leases.

*Equity

Total equity decreased approximately 3,000 million yen from the end of the previous fiscal year to 62,370 million yen, despite posting of profit for the quarter, due to a decrease in retained earnings following the application of IFRS 16 Leases and a decrease in other components of equity, such as exchange differences arising on translation of foreign operations.

As a result, the ratio of equity attributable to owners of the parent company declined 1.5 percentage points from the end of the previous fiscal year to 23.2%.

(Cash Flow Analysis)

*Cash Flow from Operating Activities

Net cash provided by operating activities for the first three months of the fiscal year under review was 8,213 million yen, which is an increase of approximately 4,700 million yen from the same period of the previous fiscal year. This was mainly attributable to an increase in profit before income taxes and a higher cash inflow from working capital.

*Cash Flow from Investing Activities

Net cash used in investing activities for the first three months of the fiscal year under review was 5,067 million yen, which is a decrease of approximately 1,500 million yen from the same period of the previous fiscal year. This was mainly due to an absence of cash outflows for the acquisition of a subsidiary accompanied by a change in the scope of consolidation.

Meanwhile, cash outflows for the acquisition of property, plant and equipment and intangible assets increased approximately 400 million yen from the same period of the previous fiscal year.

*Cash Flow from Financing Activities

Net cash used in financing activities for the first three months of the fiscal year under review was 3,064 million yen, which is an increase of approximately 3,600 million yen from the same period of the previous fiscal year. This was mainly attributable to repayments of bank borrowings and lease liabilities.

Cash and cash equivalents at the end of the first three months of the fiscal year under review increased approximately 5,400 million yen from the same period of the previous fiscal year to 40,213 million yen.

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

During the first three months of the fiscal year under review, both revenue and operating income exceeded the period-start projections and results of the same period a year earlier.

Regarding the outlook for the second quarter of the fiscal year under review and thereafter, we expect that sales will remain strong in the domestic market for the Aftermarket Business in the Automotive Sector. In addition, we expect robust sales in the Public Service Sector and the Media Service Sector. However, there are risk factors, such as the impacts of the slowdown of China's economy. At this time, accordingly, JVCKENWOOD is not revising its consolidated earnings forecast for the fiscal year ending March 31, 2020, announced on April 26, 2019,

JVCKENWOOD 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 the fiscal year ending March 2020
Revenue	310,000 million yen
Operating income	7,400 million yen
Profit before income taxes	6,500 million yen
Profit attributable to owners of the parent company	4,000 million yen

2. Quarterly Consolidated Financial Statements

(1) Quarterly Consolidated statement of financial position

(JPY in Million)

	Previous Fiscal Year (as of Mar. 31, 2019)	End of current consolidated first quarter (as of June 31, 2019)
Assets		
Current assets		
Cash and cash equivalents	40,844	40,213
Trade and other receivables	59,138	52,726
Contract assets	2,022	1,947
Other financial assets	1,517	1,184
Inventories	44,583	45,867
Right to recover products	349	353
Income taxes receivable	838	1,194
Other current assets	4,396	4,310
Sub total	153,690	147,797
Assets classified as held for sale	203	—
Total current assets	153,894	147,797
Non-current assets		
Property, plant and equipment	45,110	54,956
Goodwill	3,376	3,304
Intangible assets	19,809	19,439
Net defined benefit assets	4,237	3,850
Investment property	2,221	2,192
Investments accounted for using the equity method	4,293	4,085
Other financial assets	11,183	13,053
Deferred tax assets	5,267	4,909
Other non-current assets	1,222	1,128
Total non-current assets	96,723	106,920
Total assets	250,617	254,718

(JPY in Million)

	Previous Fiscal Year (as of Mar. 31, 2019)	End of current consolidated first quarter (as of June 31, 2019)
Liabilities and equity		
Liabilities		
Current liabilities		
Trade and other payables	44,868	43,855
Contract liabilities	2,261	2,403
Refund liabilities	4,237	4,142
Short-term borrowings	24,447	25,038
Other financial liabilities	1,539	4,763
Income taxes payable	1,536	1,257
Provisions	1,784	1,568
Other current liabilities	23,410	22,096
Total current liabilities	104,085	105,125
Non-current liabilities		
Long-term borrowings	46,865	45,093
Other financial liabilities	1,595	10,234
Net defined benefit liabilities	28,236	27,877
Provisions	1,471	1,071
Deferred tax liabilities	1,843	1,834
Other non-current liabilities	1,196	1,111
Total non-current liabilities	81,210	87,222
Total liabilities	185,296	192,347
Equity		
Capital stock	13,645	13,645
Capital surplus	42,086	42,086
Retained earnings	6,634	5,202
Treasury stock	-38	-38
Other components of equity	-318	-1,815
Equity attributable to owners of the parent company	62,009	59,080
Non-controlling interests	3,311	3,290
Total equity	65,321	62,370
Total liabilities and equity	250,617	254,718

(2) Quarterly Consolidated statement of financial position
(Quarterly Consolidated Statement of Income)

(JPY in Million)

	Accumulated period for previous consolidated first quarter (Apr.1, 2018 – June 31, 2018)	Accumulated period for current consolidated first quarter (Apr.1, 2019 – June 31, 2019)
Revenue	72,566	73,596
Cost of sales	53,320	54,197
Gross profit	19,246	19,398
Selling, general and administrative expenses	18,386	18,197
Other income	514	700
Other expenses	142	112
Foreign exchange losses	-237	-18
Operating profit	995	1,771
Finance income	89	112
Finance expenses	228	267
Share of profit of investments accounted for using the equity method	24	20
Profit before income taxes	881	1,635
Income tax expenses	474	644
Profit	406	991
Profit attributable to:		
Owners of the parent company	269	882
Non-controlling interests	137	108
Profit	406	991
Earnings per share (attributable to owners of the parent company)		
Basic earnings per share	1.94 yen	5.39 yen
Diluted earnings per share	1.93 yen	－yen

(Quarterly Consolidated Statement of Income)

(JPY in Million)

	Accumulated period for previous consolidated first quarter (Apr.1, 2018 – June 31, 2018)	Accumulated period for current consolidated first quarter (Apr.1, 2019 – June 31, 2019)
Profit	406	991
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	117	1,132
Remeasurement of defined benefit plans	4	109
Share of OCI of investments accounted for using the equity method	0	0
Total of items that will not be reclassified subsequently to profit or loss	122	1,242
Items that may be reclassified subsequently to profit or loss		
Exchange differences arising on translation of foreign operations	712	-1,970
Cash flow hedges	1,472	-652
Share of OCI of investments accounted for using the equity method	—	-119
Total of items that may be reclassified subsequently to profit or loss	2,185	-2,742
OCI, net of income tax	2,307	-1,500
Comprehensive income	2,714	-509
Total comprehensive income attributable to:		
Owners of the parent company	2,492	-504
Non-controlling interests	222	-4
Comprehensive income	2,714	-509

(3) Quarterly Consolidated Statement of Cash Flows

(JPY in Million)

	Accumulated period for previous consolidated first quarter (Apr.1, 2018 – June 31, 2018)	Accumulated period for current consolidated first quarter (Apr.1, 2019 – June 31, 2019)
Cash flows from operating activities		
Profit before income taxes	881	1,635
Depreciation and amortization	4,287	4,979
(Decrease) increase in net defined benefit liabilities	25	-8
Decrease in net defined benefit assets	133	149
Finance income	-89	-112
Finance expenses	228	267
Gain on revaluation of financial assets measured at fair value through profit and loss	-285	-427
Loss on disposal of property, plant and equipment	25	4
Decrease in trade and other receivables	5,377	5,655
Increase (decrease) in inventories	691	-2,088
Increase (decrease) in trade and other payables	-3,164	344
Decrease in other current liabilities	-4,139	-742
Other, net	215	-778
Sub-total	4,186	8,878
Interest received	46	67
Dividend received	42	44
Interest paid	-194	-236
Income taxes paid	-556	-540
Net cash provided by operating activities	3,524	8,213
Cash flows from investing activities		
Withdrawal of time deposit with original maturity of more than three months	23	-
Purchases of property, plant and equipment	-2,015	-2,145
Proceeds from sales of property, plant and equipment	33	247
Purchases of intangible assets	-2,913	-3,153
Purchases of debt instruments	-401	-
Payment for acquisition of control over subsidiaries	-1,240	-
Other, net	-2	-15
Net cash used in investing activities	-6,517	-5,067
Cash flows from financing activities		
Proceeds from short-term borrowings	7,790	2,820
Repayment of short-term borrowings	-3,913	-1,381
Repayment of long-term borrowings	-2,934	-2,489
Repayment of lease liabilities	—	-969
Cash dividends paid	-833	-983
Proceeds from issuance of shares resulting from exercise of subscription rights to shares	586	-
Other, net	-179	-61
Net cash used in financing activities	515	-3,064
Net decrease in cash and cash equivalents	-2,346	-631
Cash and cash equivalents at beginning of year	37,162	40,844
Effect of exchange rate changes on cash and cash equivalents	131	-713
Cash and cash equivalents at end of quarter	34,815	40,213