Q&A session at the earnings results briefing for the Q1 of FYE3/’25

Q: Earnings from equity in earnings of affiliates were very high in the Q1. Is this inflated due to one-time factors? Or is it due to a strong performance of Tait International Limited (Tait) and can it be considered a real competence value?

A: Tait acquired RFI Technology Solutions in 2023, a company that installs cables and antennas for professional radio systems and infrastructure. The company is expanding the business significantly as a total solution supplier. Their sales in APAC and North America are growing particularly well. The company is generating a certain degree of stable, rather than transient, earnings, and is expected to generate a reasonable amount of equity in earnings from the Q2 onward. We believe this proves that companies operating in the professional radio systems business are doing very well globally, including Tait.

A: Tait closes its fiscal year in June and this Q1 was the end of its fiscal year. The 900 million yen in profit includes the one-time and year-end treatment of negative goodwill of acquired companies. There is no doubt that Tait has been doing well, but it does not mean that around 900 million yen of profit will always be recorded from the Q2 onward, as was the case this time. We have built a base to consistently post a profit of around 300 million yen per quarter for the Q2 and beyond.

Q: It has been some time since JVCKENWOOD invested in Tait, and it is a good impression that the investment has been paying off recently. Can we have updates, if any, on a collaboration with Tait when considering it as a coalition against the Company A?

A: Various development collaborations have been underway since the inception of investment. We have outsourced Tait to develop a repeater to our specifications based on the Digital Mobile Radio (DMR) standard, which is one of Tait’s strong points, and we plan to sell a system based on this repeater from this October. Since there is also the benefit of reducing each other's development costs by not duplicating development, we will continue to collaborate in such a manner in the future.

Q: Are the regions well segregated and managed between North America and APAC?

A: Yes. The repeater mentioned earlier is planned to be deployed in North America by JVCKENWOOD.

Q: Tait is currently an equity-method affiliate. Why is it not a consolidated subsidiary?

A: Tait is currently working on a project for a New Zealand government, and because of this, it is difficult for us to acquire a majority stake in the company at present. We have a longer-term perspective and will keep watching the situation.

Q: In the Entertainment Solutions (ES) Sector, more than half of the projected FY2024 core operating income of 1 billion yen was generated in the Q1. How should we interpret this progress?

A: In the ES Sector, the Entertainment Business has a high profit structure due to rights income in the Q1, but the Media Business performed even better during the period. New projectors and other products are scheduled to be released in FY2024. The certainty of 1 billion yen in core operating income for FY2024 has increased, but we will continue to look at the situation a little more before revising the earnings forecast.

Q: What is the outlook for the future domestic market in the Mobility & Telematics Services (M&T) Sector?

A: In the domestic OEM dealer-installed option business, our car navigation systems, in particular, are mainly for Japanese automakers’ light vehicles. The number of registered automobiles did not increase year-on-year until April and May, but was finally recovering in June. We expect our shipments to recover in July and beyond. On the other hand, the Telematics Service Business is expected to have difficulties during this fiscal year, as there is still a lot of inventory remaining at our partners.

Q: Regarding the sustainability of profit margins in the Safety & Security (S&S) Sector in the future: I remember you had expected a slight decline in this fiscal year's profit due to increases in fixed costs owing to development investments and an increase in personnel. I see these costs are recorded as expected in the Q1. Is it correct that these costs are covered by good performance in the business for the North American public safety market? Or do we have to worry about future increases due to delays in cost execution? Also, you mentioned that there was a periodic lag in shipments from the Q4 of the previous fiscal year to the Q1 of the current fiscal year. Isn't it possible that such lag made the Q1 results look stronger than they really are?

A: The increase in fixed costs in the S&S Sector has been recorded since the Q1. We initially forecasted that core operating income would drop a little due to such costs. However, sales in the North American public safety market grew more than expected, which covered the increase in fixed costs, and the core operating income ratio exceeded 20%. Although some of the Q1 sales were affected by the delayed shipments from the Q4 of the previous fiscal year, the orders themselves were very strong, and business deals for tri-band-compatible P25 digital radio equipment "VP8000"-only orders and orders for small- and medium-scale systems are progressing. We expect to achieve this level of sales in the Q2 and beyond based on our capability.

Q: Regarding the nature and sustainability of the strong overseas OEM Business in the M&T Sector: I believe there are factors such as the strong performance of ASK Industries S.p.A. (ASK) in Europe and JVCKENWOOD Hong Kong Holdings Limited (JKHL) in China may have performed well, but can you explain the background behind the good Q1 results even though neither the European auto market nor the Chinese economy has been doing very well? And how do you see its sustainability?

A: The economic outlook in Europe was said to be severe, but the Q1 results were solid. The Chinese market for in-vehicle products was strong in the Q1, leading to our solid profit. However, there are expectations that the in-vehicle product market will become more difficult from June to July, especially in China, as a result of the real estate downturn. We will carefully assess the situation in the Q2 and clarify our outlook for the second half of the year.

Q: Can we have a slightly more detailed explanation on what led to the strong performance in Europe? Also, what is the outlook for Europe?

A: In Europe, our main business is amplifiers, speakers, cables, and other products for European automobile manufacturers.
The Q1 results varied depending on each automaker, but overall, sales were largely achieved as planned. We hear there will not be much change with the Q2 forecast. So far, we believe we can achieve sales and core operating income as planned.

Q: Regarding the impact of foreign exchange: There could be a different impact depending on the business sectors. Can you explain the impact on sales and profits for each of them? Also, please tell us the status of foreign exchange risk hedging. We also want to know about the impact of foreign exchange on procurement.

A: Our performance will be adversely affected by the yen's depreciation. This is because we have more payments than sales in U.S. dollars. To reduce the negative impact, we have been working to reorganize production bases and do other measures for the past several years. The U.S. dollar import excess in the current fiscal year is about $160 million, compared with about $280 million in FY2023. As indicated in the earnings forecast at the beginning of this fiscal year, the annual negative impact from currency heading from the last fiscal year to this fiscal year is expected to be approx. 900 million yen. However, it appears the impact varies from sector to sector. In the M&T Sector, as domestic sales are quite high and many of the parts are imported from overseas, the adverse impact of the yen’s depreciation remains significantly. On the other hand, the Communications Systems Business in the S&S Sector is more profitable when the Japanese yen is weak because the business is centered on North America and products for the North American public safety market are manufactured at the Yamagata Factory and exported to the market. Although the Japanese yen has been appreciating in the past two or three days, we view the move as a correction of the yen’s excessive depreciation, as the assumed foreign exchange rate at the beginning of FY2024 was 147 yen to the U.S. dollar. To manage the foreign exchange risk, we have concluded forward exchange contracts covering approximately a year from now. Although there could be either positive or negative impacts depending on the sector, we have made forward exchange contracts aiming to offset such impacts at the entire company level. Therefore, we do not expect a large impact on our earnings in this fiscal year, even if there are significant foreign exchange fluctuations.

Q: Was the positive impact of 300 million yen on a foreign exchange hedging in the Q1 within your expectations? What is the impact on sales?

A: In the Q1, we had expected a very low volume of imports in dollar terms compared with the same period last year due to a difficult outlook for sales in the domestic OEM dealer-installed option business and the Telematics Service Business in the M&T Sector. But there was a slight positive effect because of higher-than-expected sales growth in the S&S Sector. For the Q2 and beyond, as shipments in the domestic OEM dealer-installed option business recover, we expect dollar-denominated component imports to increase. As a result, there will be a large excess of imports from the Q2 and onward, and a weaker yen would bring a negative impact. We consider the positive impact of 300 million yen as a special situation only in the Q1.

We see the foreign exchange impact on sales is considerable. However, the initial earnings is based on an exchange rate of 147 yen to the dollar, and the most recent exchange rate situation will have little impact on the initial earnings forecast.

Q: You explained earlier that business denominated in foreign currency are almost fully hedged. Is it correct to understand that the only impact on core operating income would be changes in hedging costs?

A: The rates in forward exchange contracts are determined including hedging costs. They have already been factored into the forecast and will not have a significant impact.

Q: How should I understand the “increase in fixed costs/increase due to foreign currency translation” in the factors influencing core operating income?

A: They are increases in personnel and other expenses at overseas subsidiaries when converted from their local currencies to the Japanese yen.

Q: Do they increase or decrease regardless of hedging for foreign exchange risk?

A: Both sales and profits of overseas subsidiaries can increase or decrease depending on exchange rate fluctuations. Even if fixed costs increase, the marginal profit will also increase, so the impact will not be significant.

Q: So, is it correct to understand that, without minus 1.9 billion yen, the Q1 core operating income would not have necessarily been 7.9 billion yen?

A: No. The “Increased revenue/Improved profit margin” part of the factors influencing operating profit includes the positive impact of foreign exchange rates.

Q: I understand that the increase in personnel in the Communications Systems Business in the S&S Sector was to strengthen the development division. Are you already seeing a positive effect? Or is the effect yet to come?

A: We will increase the number of employees by approx. 70 in Japan, as a critical addition to augment our new development lineup. Some are undertaking training and others with sufficient skills are already participating in the development. The development roadmap originally planned is proceeding as scheduled.

Q: Is it correct to say that the greater headcount did not affect the increase in revenue in the Q1?

A: No, it did not affect.