

Consolidated Financial Results for the Third Quarter of the Fiscal Year Ending March 31, 2020 (JGAAP)

February 10, 2020

Listed company name Funai Electric Co., Ltd. Stock exchange listing Tokyo First Section
 Securities code 6839 URL <https://www2.funai.co.jp/>
 Representative President and CEO Hideaki Funakoshi
 Inquiries Director and Officer Makoto Ueshima TEL 072-870-4395
 Scheduled date of Quarterly Report : February 13, 2020
 Scheduled date of Commencement of Annual Dividend Payment : –
 Quarterly Financial Results Supplementation : Yes
 Quarterly Financial Results Seminar : No

(Any fraction less than one million yen is rounded down to the nearest million yen)

1. Consolidated Financial Results for the Third Quarter of the Fiscal Year Ending March 31, 2020 (April 1, 2019 to December 31, 2019)

(1) Consolidated Operating Results (% shows year on year rates)

	Net Sales		Operating Income(Loss)		Ordinary Income(Loss)		Net Income(Loss) attributable to owners of parent	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%
Q3 of FY ending March 31, 2020	70,241	(13.3)	(1,889)	–	(1,478)	–	(1,579)	–
Q3 of FY ended March 31, 2019	81,021	(25.5)	(484)	–	(96)	–	702	–

(Note) Comprehensive Income

Q3 of FY ending March 31, 2020: (¥1,815) million (–%); Q3 of FY ended March 31, 2019: ¥1,196 million (–%)

	Net Income(loss) Per Share	Net Income(loss) Per Share on a Fully Diluted Basis
	Yen	Yen
Q3 of FY ending March 31, 2020	(46.28)	–
Q3 of FY ended March 31, 2019	20.60	–

(2) Consolidated Financial Position

	Total Assets	Net Assets	Equity Ratio
	Million yen	Million yen	%
Q3 of FY ending March 31, 2020	74,294	52,251	70.3
FY ended March 31, 2019	83,293	54,057	64.9

(Reference) Shareholders' equity Q3 of FY ending March 31, 2020: ¥52,209 million FY ended March 31, 2019: ¥54,025 million

2. Dividends

	Dividend per Share				
	1st Quarter	2nd Quarter	3rd Quarter	Year-End	Annual
	Yen	Yen	Yen	Yen	Yen
FY ended March 31, 2019	–	0.00	–	0.00	0.00
FY ending March 31, 2020	–	0.00	–	–	–
FY ending March 31, 2020 (Forecast)	–	–	–	–	–

(Note) Revision of Annual Dividends Forecast in this 3rd Quarter: No

Funai Electric has not determined its dividend forecast for the fiscal year ending March 31, 2020, since fluctuations in exchange rates give great impact on its consolidated net assets. Management will announce its dividend forecast for the fiscal year ending March 31, 2020 immediately after the Company determines it.

3. Forecast of Consolidated Financial Results for the Fiscal Year Ending March 31, 2020 (April 1, 2019 to March 31, 2020)

	Net Sales		Operating Income(loss)		Ordinary Income(loss)		Net Income(loss) attributable to owners of parent		Net Income(loss) Per Share
	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Yen
Full Year	85,000	(19.5)	(3,000)	–	(3,100)	–	(3,200)	–	(93.79)

(Note) Revision to consolidated financial forecast: No

Attachment

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1. Qualitative Information

(1) Consolidated Financial Results

In the United States, the Company's main market, the economy entered its 11th year of expansion on the back of monetary measures, such as the cut of official interest rates by the US Federal Reserve Board ("FRB") three times in 2019. Household spending remained robust, supported by a healthy labor market, a rise in wages, and strong consumer confidence. Meanwhile, capital investment and exports were still sluggish due to impediments, such as slow overseas economic growth and negotiations with China over the imposition of tariff increase. However, as overall economy continued to grow moderately, the FRB put off its 4th interest rate cut at the end of 2019. In China, the economy was crawling along the bottom, buoyed by the Government stimulus measures. The U.S. and China phase 1 trade agreement at the end of 2019 is expected to give positive impact on the economy of the both countries.

Although the Japanese economy continued to be relatively solid, consumer spending and industrial production lost momentum due to a hike in the consumption tax rate in October 2019 and impact of typhoons. The agreement between the U.S. and China over trade tariffs at the end of 2019 was forecast to ease trade tensions and overseas economy showed some signs of recovery. However, there was a concern about risks associated with growing uncertainty arising from very strained situations in the Middle East.

Meanwhile, there was a concern about a new type of pneumonia occurring in China at the end of 2019 that might spread globally. There was a possibility that the new disease would not only drive down the domestic demand in China, but also affect the global economy including Japan. Furthermore, there was a concern that production activities by the Company's business partners in China might be affected by the spread of novel coronavirus pneumonia. The Company was carefully monitoring the development of the situation to minimize the subsequent impact of the coronavirus outbreak.

Under these circumstances, the Funai Electric Group recorded net sales of ¥70,241 million, a decrease of 13.3% year on year. The decrease was mainly attributable to the following factors: from the first quarter to the first half of the second quarter, sales of the Company's LCD TVs decreased due to the impact of a rise in imports of LCD TVs from China, since Chinese manufacturers rushed to frontload shipments to the U.S. because LCD TVs became a subject to a tariff increase by the Trump administration (4th round); Chinese producers increased exports because demand for LCD TVs were weak in the Chinese market; and demand for LCD TVs didn't catch up with a high level of LCD panel supply by the Chinese LCD panel manufacturers, causing the LCD panel prices to decline, and consequently, product market prices fell. Although sales in the third quarter were almost in line with the plan, the Company failed to make up the decrease in sales up to the second quarter. Meanwhile, the Group posted an operating loss of ¥1,889 million (versus an operating loss of ¥484 million in the previous year) due to the aforementioned fall in net sales and drop in sales prices as well as the increase in expenses, such as sales cooperation money to cope with excessive inventory in the distribution channel. Ordinary loss amounted to ¥1,478 million (versus an ordinary loss of ¥96 million in the previous year) and loss attributable to owners of the parent stood at ¥1,579 million (versus a ¥702 million profit attributable to owners of the parent in the previous year).

Results by region

i) Japan

Sales of the *FUNAI brand* products, such as flat TVs and BD recorders, also grew steadily in the year-end holiday shopping season. This was mainly due to the following reasons: the Company's efforts to renew and expand a lineup of its high-end products including organic electroluminescent display (OLED) TVs; and the launch of *CureNel*, a nail art printer, in June 1, 2019. However, the decline in the unit price of LCD TVs gave negative impact on the Company's results. Consequently, the Company posted net sales of ¥26,002 million, a decrease of 5.1% year on year, and segment loss (operating loss) of ¥2,446 million, versus a segment loss (operating loss) of ¥68 million a year earlier.

ii) Americas

From the first quarter to the first half of the second quarter, imports of LCD TVs from China increased sharply. This was because shipments of LCD TVs to the U.S. were frontloaded ahead of the imposition of additional tariffs on Chinese imports—Made in China LCD TVs were a subject to the tariffs; and Chinese producers increased exports to the U.S. because demand for LCD TVs decreased in the Chinese market. In addition, as demand for LCD TVs didn't catch up with a high level of LCD panel supply by the Chinese LCD panel manufacturers, LCD panel prices declined, causing the product market prices to fall further. In the third quarter, LCD TV prices stopped falling and their inventory returned to the almost normal level. The Company saw sales grow steadily in the year-end holiday shopping season, including the Black Friday sales. Consequently, the Company posted net sales of ¥43,251 million, a decrease of 18.1% year on year, and segment income (operating income) of ¥269 million, an increase of 244.9% year on year.

iii) Asia

Although sales of components decreased, sales of LCD TVs increased. As a result, the Company posted net sales of ¥989 million, a rise of 23.2% year on year, and segment income (operating income) of ¥141 million, a fall of 76.6% year on year.

iv) Other

As the Company terminated sales of ink-cartridge in Europe, it did not record any sales in this segment. Accordingly, segment income (operating income) amounted to ¥98 million, versus a ¥18 million of segment loss (operating loss) in the previous year. Meanwhile, this segment had been categorized as Europe till the consolidated fiscal year ended March 31, 2019. However, as its importance decreased, the segment has been excluded from the reportable segment and classified as Other since the first quarter of the consolidated fiscal year ending March 31, 2020.

Results by product Segment

i) Audiovisual Equipment

In the audiovisual equipment segment, net sales decreased due to a fall in sales of LCD TVs. This was owing to excessive inventories in the North American market caused by the trade friction between the U.S. and China and a drop in sales prices caused by declining LCD panel prices from the first quarter to the first half of the second quarter.

Furthermore, overall sales of audiovisual equipment decreased, since the market of DVD and BD related products became smaller due to the spread of video streaming services and sales fell at power center retailers. As a result, net sales of audiovisual equipment amounted to ¥63,624 million (a decrease of 14.5% year on year).

ii) Information Equipment

In the information equipment segment, sales of new products, such as nail art printers and CISS (large-capacity cartridge ink-jet printers), increased, making up a fall in sales of cartridges for ink-jet printers and sales of label printers. As a result, net sales of information equipment amounted to ¥3,013 million (an increase of 14.9% year on year).

iii) Other Products

In other equipment segment, overall sales decreased due to a fall in sales of components, although sales of automotive backlight units and medical and healthcare-related products, including CT for dental clinics and modules for the nursing care beds, increased. As a result, net sales of other products amounted to ¥3,603 million, a fall of 9.3% year on year.

(2) Consolidated Financial Position

Financial conditions as of the end of the third quarter are as follows:

Total assets decreased by ¥8,998 million from the end of the consolidated fiscal year ended March 31, 2019. This was mainly due to an increase of ¥3,658 million in notes and accounts receivable - trade and a decrease of ¥3,909 million in cash and deposits, a decline of ¥6,942 in merchandise and finished goods, and a fall of ¥1,381 million in raw materials and supplies.

Liabilities decreased by ¥7,192 million from the end of the consolidated fiscal year ended March 31, 2019, mainly due to a decline of ¥6,916 million in notes and accounts payable - trade.

Net assets decreased by ¥1,805 million from the end of the consolidated fiscal year ended March 31, 2019, mainly due to a decrease of ¥1,580 million in retained earnings and a fall of ¥159 million in foreign currency translation adjustment.

(3) Consolidated Financial Forecast

The Group did not revise its forecast for consolidated financial results for the fiscal year ending March 31, 2020, which it announced on August 5, 2019.

Note: The above forecasts are based on information currently available to the Group and contain risk and uncertainty. Actual results may differ from these forecasts due to various factors including changes in the economic conditions of overseas markets such as the United States, and significant fluctuations in product prices and foreign exchange.

2. Consolidated Financial Statements and Notes

(1) Consolidated Statement of Financial Position

(Unit: Million yen)

	Fiscal year 2018 (March 31, 2019)	3rd Quarter FY2019 (December 31, 2019)
ASSETS		
Current Assets		
Cash and deposits	35,417	31,507
Notes and accounts receivable - trade	7,724	11,383
Merchandise and finished goods	13,517	6,574
Work in process	681	438
Raw materials and supplies	11,059	9,678
Other	2,276	1,908
Allowance for doubtful accounts	(718)	(538)
Total current assets	69,958	60,951
Noncurrent Assets		
Property, plant and equipment	8,159	8,341
Intangible assets	68	491
Investments and other assets		
Net defined benefit asset	1,881	1,859
Other	3,294	2,718
Allowance for doubtful accounts	(68)	(68)
Total investments and other assets	5,107	4,509
Total noncurrent assets	13,335	13,343
TOTAL ASSETS	83,293	74,294
LIABILITIES		
Current Liabilities		
Notes and accounts payable - trade	15,618	8,701
Accounts payable included in other	8,287	8,670
Income taxes payable	126	157
Provision for product warranties	1,056	1,596
Other	3,033	1,987
Total current liabilities	28,121	21,113
Noncurrent Liabilities		
Provision	27	30
Net defined benefit liability	33	19
Other	1,053	879
Total noncurrent liabilities	1,114	929
TOTAL LIABILITIES	29,236	22,043

(Unit: Million yen)

	Fiscal year 2018 (March 31, 2019)	3rd Quarter FY2019 (December 31, 2019)
NET ASSETS		
Shareholders' equity		
Capital stock	31,307	31,307
Capital surplus	33,603	33,603
Retained earnings	24,583	23,003
Treasury shares	(24,341)	(24,341)
Total shareholders' equity	65,153	63,573
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	1	(4)
Foreign currency translation adjustment	(11,609)	(11,768)
Remeasurements of defined benefit plans	480	409
Total accumulated other comprehensive income	(11,127)	(11,363)
Subscription rights to shares	31	41
Total net asset	54,057	52,251
TOTAL LIABILITIES AND NET ASSETS	83,293	74,294

Funai Electric Co., Ltd. (6839) Consolidated Financial Results for Q3 of FY Ending March 31, 2020
(2) Consolidated Quarterly Statements of Income and Comprehensive Income

(Consolidated Quarterly Statements of Income)

(3rd Quarter FY2019 (April 1, 2019 to December 31, 2019))

(Unit: Million yen)

	3rd Quarter FY2018 (April 1, 2018 to December 31, 2018)	3rd Quarter FY2019 (April 1, 2019 to December 31, 2019)
Net sales	81,021	70,241
Cost of sales	70,955	62,979
Gross profit	10,066	7,262
Selling, general and administrative expenses	10,550	9,151
Operating income (loss)	(484)	(1,889)
Non-operating income		
Interest income	307	183
Dividends income	7	3
Dividends received	-	187
Foreign exchange gains	280	109
Other	177	187
Total non-operating income	772	672
Non-operating expenses		
Interest expenses	16	8
Compensation expenses	247	233
Other	120	19
Total non-operating expenses	385	261
Ordinary income (loss)	(96)	(1,478)
Extraordinary income		
Gain on sales of non-current assets	35	112
Other	3	2
Total extraordinary income	39	114
Extraordinary loss		
Loss on disposal of noncurrent assets	43	75
Total extraordinary loss	43	75
Income (loss) before income taxes	(101)	(1,439)
Income taxes	(804)	139
Income (loss) before minority interests	702	(1,579)
Net income (loss) attributable to owners of parent	702	(1,579)

Funai Electric Co., Ltd. (6839) Consolidated Financial Results for Q3 of FY Ending March 31, 2020
 (Consolidated Quarterly Statement of Comprehensive Income)
 (3rd Quarter FY2019 (April 1, 2019 to December 31, 2019))

(Unit: Million yen)

	3rd Quarter FY2018 (April 1, 2018 to December 31, 2018)	3rd Quarter FY2019 (April 1, 2019 to December 31, 2019)
Income (loss) before minority interest adjustment	702	(1,579)
Other comprehensive Income		
Valuation difference on available-for-sale securities	(13)	(5)
Foreign currency translation adjustment	504	(159)
Remeasurements of defined benefit plans, net of tax	2	(71)
Total other comprehensive Income	493	(236)
Comprehensive income	1,196	(1,815)
(Comprehensive income attributable to)		
Comprehensive income attributable to owners of parent	1,196	(1,815)

(3) Consolidated Quarterly Statements of Income

(Notes for Continuing Enterprises)

Not Applicable

(Notes of remarkable changes in Shareholders Equity)

Not Applicable

(Adoption of special accounting methods of Quarterly consolidated financial statements)

(Calculate tax expense)

Tax expenses are calculated by multiplying income before income taxes by a reasonably estimated effective tax rate for income before income taxes after application of deferred tax accounting.

(Changes in accounting policies)

(Adoption of *Lease* (IFRS 16))

The Company's overseas consolidated subsidiaries, excluding the United States, have adopted *Lease*, International Financial Reporting Standards (IFRS) 16, from the first quarter of the consolidated fiscal year ending March 31, 2020. For the adoption of IFRS 16, the Company employed the method of recognizing the cumulative impact due to the adoption of the standard on the commencement date of adoption, which is permitted as an interim measure.

The adoption of this accounting standard had an immaterial impact on the consolidated quarterly financial statements.

(Adoption of *Revenue from Contracts with Customers* (US GAAP Topic 606))

The Company's overseas consolidated subsidiaries that apply US GAAP have adopted *Revenue from Contracts with Customers* (US GAAP Topic 606) from the first quarter of the consolidated fiscal year ending March 31, 2020. For the adoption of Topic 606, the Company employed the method of recognizing the cumulative impact due to the adoption of the standard on the commencement date of adoption, which is permitted as an interim measure.

As a result of the adoption of this accounting standard, notes and accounts receivable - trade increased ¥1,412 million and other in current liabilities increased ¥1,412 million on the quarterly consolidated balance sheet at the end of the third quarter of the current consolidated fiscal year. The adoption of this accounting standard had an immaterial impact on earnings for the third quarter of the consolidated fiscal year ending March 31, 2020.

(Segment Information)

I. 3rd Quarter of the last fiscal year (April 1, 2018 to December 31, 2018)

Information Regarding Net Sales and Profit/Loss Conditions by Reporting Segment

(Units: Million Yen)

	Reportable segment				Other (Note 1)	Total	Adjustments (Note 2)	Consolidated (Note 3)
	Japan	Americas	Asia	Total				
Net Sales								
(1) Outside customers	27,391	52,803	803	80,998	23	81,021	–	81,021
(2) Inter-segment sales	48,187	3,063	47,378	98,630	–	98,630	(98,630)	–
Total	75,579	55,867	48,181	179,628	23	179,651	(98,630)	81,021
Segment income (loss)	(68)	78	605	615	(18)	597	(1,081)	(484)

(Note) 1. The *Other* segment includes business segments that are not included in reportable segments, such as Europe.

2. Adjustment of (¥1,081 million) in segment loss includes the elimination of inter-segment transactions of ¥7 million, corporate expenses of ¥52 million that are not allocated to each reportable segment, and adjustment of (¥1,140 million) for inventories. Overall Group expenses are comprised of general administrative expenses that do not belong to a specific reporting segment.

3. Segment income has been adjusted to operating income noted on the third quarter consolidated income statement.

II. 3rd Quarter of this fiscal year (April 1, 2019 to December 31, 2019)

1. Information Regarding Net Sales and Profit/Loss Conditions by Reporting Segment

(Units: Million Yen)

	Reportable segment				Other (Note 1)	Total	Adjustments (Note 2)	Consolidated (Note 3)
	Japan	Americas	Asia	Total				
Net Sales								
(1) Outside customers	26,002	43,251	989	70,241	–	70,241	–	70,241
(2) Inter-segment sales	32,781	10,814	36,714	80,310	–	80,310	(80,310)	–
Total	58,784	54,066	37,703	150,552	–	150,552	(80,310)	70,241
Segment Income (Loss)	(2,446)	269	141	(2,035)	98	(1,937)	47	(1,889)

(Note) 1. The *Other* segment includes business segments that are not included in reportable segments, such as Europe.

2. Adjustment of ¥47 million in segment loss includes the elimination of inter-segment transactions of (¥9 million), corporate expenses of (¥585 million) that are not allocated to each reportable segment, and adjustment of ¥642 million for inventories. Overall Group expenses are comprised of general administrative expenses that do not belong to a specific reporting segment.

3. Segment income has been adjusted to operating income noted on the third quarter consolidated income statement.

2. Item concerning changes in reportable segment

From the first quarter of the consolidated fiscal year ending March 31, 2020, *Europe*, which was previously classified as a reportable segment, has been excluded from a reportable segment and included in *Other*, since its importance has decreased.

Meanwhile, the segment information for the third quarter of the consolidated fiscal year ended March 31, 2019 is prepared based on the reportable segment classification for the third quarter of the consolidated fiscal year ending March 31, 2020.

3. Others

Important Information about Going Concern Assumption

The Funai Electric Group posted operating income, ordinary income, income attributable to owners of the parent and positive operating cash flow in the consolidated fiscal year ended March 31, 2019. However, the Group recorded a significant operating loss, ordinary loss, loss attributable to owners of the parent and negative operating cash flow in the consolidated fiscal year ended March 31, 2018 and posted operating loss, ordinary loss, and loss attributable to owners of the parent also in the third quarter of the consolidated fiscal year ending March 31, 2020. Therefore, at the present moment, there are events or circumstances where significant doubt arises as to the going concern assumption.

Since the Group's balance of cash and deposits is sufficient to cover working capital for some time, there is no significant concern about fundraising.

Furthermore, basing on its medium-term management policy formulated in the consolidated fiscal year ended March 31, 2019, the Group has implemented the below-mentioned measures in stages in line with each business unit's policy. Thus, the Group believes that we will be able to eliminate the above-mentioned events or circumstances.

① Display Business (LCD-TVs)

- Further increase its market share at new power center retailers and enhance its overall competitiveness in terms of quality and cost.
- Reduce returns and disposals by strengthening its efforts to boost sales during the Christmas shopping season in North America and improving its business processes for services in Japan and overseas.
- Recover its market share by focusing on sales of advanced BS broadcast-compatible TVs in Japan and restructuring its business model in Mexico.

② Digital Media Business (DVD and BD-related equipment)

- Capture market share by pursuing a niche strategy with BD players in the North America market where competitors withdrew from the business.
- Expand the lineup of FUNAI brand products and strengthen cooperation with OEM suppliers in the Japanese market.

③ Printing Solution business (Printer-related equipment)

- Improve profitability by expanding sales of nail art printers under OEM brands and own brand.
- Expand sales of large-capacity inkjet printers and label printers.
- Expand sales by launching derivative products that employ microfluidics (trace fluid control technology)

④ New Business

- Expand sales by broadening the lineup of vehicle-mounted products, such as backlights for automotive applications (edge type and direct type).
- Expand sales of medical and healthcare-related modules as well as dental CTs and secure revenue base.
- Strengthen its alliance strategy through EV business and begin mass production and sales of new display-related products for business use.

Accordingly, Funai judges that there is no significant uncertainty related to the going concern assumption as of the end of the third quarter consolidated accounting period and has omitted the Notes on Going Concern Assumption from the consolidated financial statements.



Contact information:

IR/Public Relations Office, Funai Electric Co., Ltd.

7-1, Nakagaito 7-chome, Daito City, Osaka, 574-0013

TEL 072 (870) 4395 · FAX 072 (870) 2706