



## Consolidated Financial Results for the First Quarter Ended June 30, 2019

August 5, 2019

Listed company name	Funai Electric Co., Ltd.		
Stock exchange listing	Tokyo first section		
Securities code	6839	URL	<a href="https://www2.funai.co.jp/en/">https://www2.funai.co.jp/en/</a>
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Scheduled date of Quarterly Report	August 8, 2019		
Scheduled date of Commencement of annual dividend payments -	-		
Quarterly Financial results supplementation	Yes		
Quarterly Financial results Seminar	No		

## 1. Consolidated Financial Results for the First Quarter Ended June 30, 2019 (April 1, 2019 – June 30, 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	%
1 <sup>st</sup> Quarter FY2019	15,644	(27.8)	(902)	—	(1,140)	—	(1,188)	—
1 <sup>st</sup> Quarter FY2018	21,663	(32.5)	(1,233)	—	(915)	—	(19)	—

(Note) Comprehensive Income 1<sup>st</sup> Quarter FY2019 ended June 30, 2019 (1,855) million yen (—%)  
 1<sup>st</sup> Quarter FY2018 ended June 30, 2018 494 million yen (—%)

	Net Income(loss) Per Share		Net Income Per Share on a Fully Diluted Basis	
	Yen		Yen	
1 <sup>st</sup> Quarter FY2019	(34.83)		—	
1 <sup>st</sup> Quarter FY2018	(0.56)		—	

## (2) Consolidated Financial Position

	Total Assets	Net Assets	Equity	Equity Ratio
	Million yen	Million yen	Million yen	%
As of June 30, 2019	79,477	52,204	52,169	65.6
As of March 31, 2019	83,293	54,057	54,025	64.9

## 2. Dividends

	Dividend per Share				
	1Q End	2Q End	3Q End	Year-End	Annual
	yen	yen	yen	yen	yen
Fiscal Year 2018	—	0.00	—	0.00	0.00
Fiscal Year 2019	—				
Fiscal Year 2019 (Forecast)		—	—	—	—

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

The dividend forecast for FY 2019 is undetermined; because the high impact stemmed from the recent fluctuations in exchange rates give to the consolidated net assets. The dividend forecast for FY 2019 will be announced as soon as it is determined.

3\_Consolidated Financial Forecast for the Fiscal Year Ended March 31, 2020 (April 1, 2019 - March 31, 2020)

(% shows year on year rates)

	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
The First Half	40,000	(14.4)	(1,900)	—	(1,900)	—	(1,900)	—	(55.69)
Full Year	85,000	(19.5)	(3,000)	—	(3,100)	—	(3,200)	—	(93.79)

(Note) Revision to consolidated financial Forecast : Yes

\*Note

(1) Changes in Consolidated Subsidiaries (Changes in Scope of Consolidation): No

In (Company name: —)

Out (Company name: —)

(2) Adoption of special accounting methods of Quarterly consolidated financial statements: Yes

(3) Changes in accounting policies and estimates

1. Changes in accounting policies from revision of accounting standards: Yes

2. Changes in accounting policies from other reason: No

3. Changes in accounting estimates: No

4. Restatement: No

(4) Number of Shares Outstanding (Ordinary Shares)

1. Number of shares outstanding (including treasury stock)	As of March 31, 2019	36,130,796
	As of June 30, 2019	36,130,796
2. Number of shares of treasury stock	As of March 31, 2019	2,011,830
	As of June 30, 2019	2,011,830
3. The Average number of outstanding shares	On June 30, 2018	34,118,967
	On June 30, 2019	34,118,966

Disclaimer;

This document contains forward-looking statements and projections regarding business performance which are not historical facts. Please note that these statements are based on information relating to factors that may impact future business performance that was available for analysis at the time this document was printed. These factors include industry trends relating to the business areas of Funai Electric Co., Ltd. or the Funai Group, such as audio-visual devices and information communication equipment, the economic conditions of both domestic and international markets, and fluctuations in currency exchange rates. Actual performance may greatly differ from projections included in this document because of the impacts of uncertainty in such areas as the competitive conditions of the electronics industry, market trends, currency exchange rate, introduction and success of new products, and various other global conditions that may affect the tax system and other systems.

# **1. Business Performance and Financial Position**

## **(1) Overview of Business Performance**

In the first quarter of the consolidated fiscal year ending March 31, 2020 (April 1, 2019 to June 30, 2019), the economy grew steadily in the United States, the Company's main market, due to an increase in private consumption and corporate capital investment. However, the economic prospects remained uncertain due to the development of trade disputes, impact of the future government policy and financial situation. In China, the economic expansion continued to slow down due to the worsening of consumer sentiment and a fall in corporate capital expenditures caused by the trade friction between the U.S. and China.

Meanwhile, in Japan, the economy modestly recovered owing to an improvement in employee and incomes, despite sluggish exports and production activities. However, there was a concern that the economy would lose momentum due to uncertainties, including the possible impact of trade conflicts between the U.S. and China on the global economy, the outlook for the Chinese economy, the trend of the global economy, and governments' policies.

Under these circumstances, the Funai Electric Group recorded net sales of ¥15,644 million, a decrease of 27.8% year on year. The decrease was attributable to the following reasons: sales of our LCD TVs were sluggish 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) and Chinese producers increased exports because demand for LCD TVs were weak in the Chinese market; and sales prices of LCD TVs decreased due to a fall in LCD panel prices. Meanwhile, the Group posted an operating loss of ¥902 million (versus an operating loss of ¥1,233 million in the previous year), since the increase of burdens, such as sales cooperation money due to the aforementioned fall in net sales and drop in sales prices, squeezed profits. Ordinary loss amounted to ¥1,140 million (versus an ordinary loss of ¥915 million in the previous year) due to foreign exchange losses and loss attributable to owners of the parent stood at ¥1,188 million (versus a ¥19 million loss attributable to owners of the parent in the previous year).

## **Results by region**

### **i) Japan**

Three years passed from the start of exclusive sales of the "FUNAI brand" products, such as flat TVs and BD recorders, through Yamada Denki. Our products, including high-end organic electroluminescent display (OLED) TVs, sold robustly. Furthermore, as we launched the sales of "CureNel," a nail art printer, in June 1, 2019, overall domestic sales were almost in line with our initial plan. Consequently, the Company posted net sales of ¥7,234 million, a decrease of 3.3% year on year, and segment loss (operating loss) of ¥833 million, versus a segment loss (operating loss) of ¥473 million a year earlier.

### **ii) Americas**

A huge amount of Chinese LCD TVs flowed into the U.S. market in the short term since shipments to the U.S. were frontloaded ahead of the imposition of additional tariffs on Chinese imports (4th round of tariffs)—"Made in China" LCD TVs were a subject to the tariffs—which was postponed in the end. Furthermore, Chinese producers increased exports because demand for LCD TVs decreased in the Chinese market. Consequently, imports of LCD TVs from China increased sharply. In addition, prices of LCD TVs plunged since LCD panel prices declined due to intensifying competition in the market caused by the oversupply of LCD panels (exceeding demand for LCD TVs) by Chinese manufacturers. These factors resulted in the pile-up of inventories, including LCD TVs, in the North American market, the Company's main market. As a result, our sales stagnated and sales prices declined, leading to a sharp decrease in sales. Consequently, net sales amounted to ¥8,373 million, a drop of 36.8% year on year, and segment income (operating income) was ¥97 million (versus a segment loss (operating loss) of ¥257 million a year earlier).

### **iii) Asia**

Net sales totaled ¥37 million, a decline of 96.0% year on year. This was decrease in component sales. Segment loss (operating loss) was ¥80 million (versus a segment loss (operating loss) of ¥129 million a year earlier.)

### **iv) Others**

As the Company did not have any sales of ink-cartridge in Europe, it did not record any sales in this segment. Accordingly, segment loss (operating loss) amounted to ¥5 million, versus a ¥5 million of segment loss (operating loss) in the previous year. Meanwhile, this segment had been categorized as Europe till the previous consolidated fiscal year. 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, sales of LCD TVs decreased due to excessive inventories in the North American market caused by the trade friction between the U.S. and China and due to the fall in sales prices caused by declining LCD panel prices. Furthermore, sales of BD related products declined at large mass merchandisers since the spread video streaming services have been cutting into sales of BD related products. Due to these reasons, overall sales fell in the segment. As a result, net sales amounted to ¥13,583 million, down 28.0% year on year.

### ii) Printing Solutions

In the information equipment segment, overall sales decreased due to a fall in sales of cartridges for ink-jet printers, a slowdown of sales of label printers, and a delay in the launch of CISS (large-capacity cartridge ink-jet printers), although the introduction of nail art printers, our new product, contributed to an increase in sales. As a result, net sales amounted to ¥760 million, down 25.2% year on year.

### iii) Other Products

In other equipment segment, sales of automotive backlight units and CT for dental clinics increased. Meanwhile, sales of medical and healthcare-related products and components, such as modules for the nursing care beds, decreased. As a result, net sales of other products amounted to ¥1,301 million, a decrease of 27.3% year on year.

## (2) Overview of Business Performance

Total assets decreased by ¥3,816 million compared to the end of the last fiscal year. The primary components of the change were as follows:

- ✓ Increase of ¥1,718 million in merchandise and finished goods, and ¥2,504 million in raw materials and inventory goods.
- ✓ Decrease of ¥6,234 million in cash and deposits, and ¥2,144 million in notes and accounts receivable-trade.

Total liabilities decreased by ¥1,963 million compared to the end of the last fiscal year. The primary components of the change were as follows:

- ✓ Increase of ¥410 million in accounts payable-other.
- ✓ Decrease of ¥1,898 million in notes and accounts payable-trade.

Net assets decreased by ¥1,852 million compared to the end of the last fiscal year. The primary components of the change were decrease of ¥1,189 million in retained earnings and increase of ¥633 million in the foreign currency translation adjustment.

## (3) Consolidated Financial Forecast

There is change in the consolidated financial results forecast for first half consolidated fiscal year and full year forecasts announced in "FY2018 Financial Report" on May 13, 2019. For details, please see the "Notice Regarding Revision of Consolidated Earnings Forecast" 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

(Units : Million Yen)

	Fiscal year 2018 (As of March 31, 2019)	Fiscal Year 2019 (As of June 30, 2019)
<b>ASSETS;</b>		
Current Assets		
Cash and deposits	35,417	29,182
Notes and accounts receivable - trade	7,724	5,580
Merchandise and finished goods	13,517	15,235
Work in process	681	478
Raw materials and supplies	11,059	13,564
Other	2,276	2,935
Allowance for doubtful accounts	(718)	(680)
Total current assets	69,958	66,295
Noncurrent Assets		
Property, plant and equipment	8,159	8,137
Intangible assets	68	490
Investments and other assets		
Net defined benefit asset	1,881	1,874
Other	3,294	2,748
Allowance for doubtful accounts	(68)	(68)
Total investments and other assets	5,107	4,554
Total noncurrent assets	13,335	13,182
<b>TOTAL ASSETS</b>	<b>83,293</b>	<b>79,477</b>
<b>LIABILITIES;</b>		
Current Liabilities		
Notes and accounts payable - trade	15,618	13,719
Accounts payable included in other	8,287	8,697
Income taxes payable	126	109
Provision for product warranties	1,056	922
Other	3,033	2,570
Total current liabilities	28,121	26,019
Noncurrent Liabilities		
Provision for directors' retirement benefits	27	25
Net defined benefit liability	33	9
Other	1,053	1,217
Total noncurrent liabilities	1,114	1,253
<b>TOTAL LIABILITIES</b>	<b>29,236</b>	<b>27,273</b>

	Fiscal year 2018 (As of March 31, 2019)	Fiscal Year 2019 (As of June 30, 2019)
NET ASSETS;		
Shareholders' equity		
Capital stock	31,307	31,307
Capital surplus	33,603	33,603
Retained earnings	24,583	23,394
Treasury shares	(24,341)	(24,341)
Total shareholders' equity	65,153	63,963
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	1	(9)
Foreign currency translation adjustment	(11,609)	(12,243)
Remeasurements of defined benefit plans	480	458
Total accumulated other comprehensive income	(11,127)	(11,794)
Subscription rights to shares	31	34
Total net asset	54,057	52,204
TOTAL LIABILITIES AND NET ASSETS	83,293	79,477

## (2) Consolidated Quarterly Statements of Income and Comprehensive Income

(Consolidated Quarterly Statements of Income)

(Units : Million Yen)

	Fiscal Year 2018 ( from April 1, 2018 to June 30, 2018)	Fiscal Year 2019 ( from April 1, 2019 to June 30, 2019)
Net sales	21,663	15,644
Cost of sales	20,113	13,632
Gross profit	1,550	2,012
Selling, general and administrative expenses	2,783	2,915
Operating income (loss)	(1,233)	(902)
Non-operating income		
Interest income	106	76
Dividends income	4	3
Foreign exchange gains	169	—
Payment compensation reversal	—	110
Other	63	27
Total non-operating income	343	217
Non-operating expenses		
Interest expenses	5	2
Foreign exchange losses	—	208
Compensation expenses	12	232
Other	6	11
Total non-operating expenses	25	454
Ordinary income (loss)	(915)	(1,140)
Extraordinary income		
Gain on sales of non-current assets	5	9
Other	0	1
Total extraordinary income	6	10
Extraordinary loss		
Loss on disposal of noncurrent assets	0	19
Total extraordinary loss	0	19
Income (loss) before income taxes	(910)	(1,148)
Income taxes	(890)	39
Income (loss) before minority interests	(19)	(1,188)
Net income (loss) attributable to owners of parent	(19)	(1,188)

(Consolidated Quarterly Statement of Comprehensive Income)

(Units : Million Yen)

	Fiscal Year 2018 ( from April 1, 2018 to June 30, 2018)	Fiscal Year 2019 ( from April 1, 2019 to June 30, 2019)
Income (loss) before minority interest adjustment	(19)	(1,188)
Other comprehensive Income		
Valuation difference on available-for-sale securities	(8)	(10)
Foreign currency translation adjustment	521	(633)
Remeasurements of defined benefit plans, net of tax	0	(22)
Total other comprehensive Income	513	(666)
Comprehensive income	494	(1,855)
(Comprehensive income attributable to)		
Comprehensive income attributable to owners of parent	494	(1,855)



### (3) Notes on Consolidated Financial Statements

(Notes on Going Concern Assumption)  
Not Applicable

(Notes on significant changes in the amount of shareholders' equity)  
Not Applicable

(Application of accounting methods specific to the preparation of quarterly consolidated financial statements)  
(Calculation of tax expense)

For tax expenses, rationally estimate the effective tax rate after applying tax effect accounting for the current net income before tax for the fiscal year including the first quarter of the current consolidated fiscal year, and multiply the quarterly net income before tax by the estimated effective tax rate. It is calculated.

(Changes in accounting policies)

(“Lease” (Application of International Financial Reporting Standards IFRS 16))

At overseas consolidated subsidiaries excluding the United States, “Lease” (International Financial Reporting Standards IFRS 16) has been applied since the first quarter of the current consolidated fiscal year. When adopting IFRS 16, the cumulative effect of adopting this standard, recognized as a transitional measure, is recognized on the date of initial application.

The impact of applying these accounting standards on the consolidated financial statements is immaterial.

(“Revenue from Contracts with Customers” (US GAAP Topic 606))

Overseas consolidated subsidiaries adopting US GAAP have adopted “Revenue from Contracts with Customers” (US GAAP Topic 606) from the current first quarter. In applying Topic606, the cumulative effect of applying this standard, recognized as a transitional measure, is recognized on the date of initial application.

As a result of the application of this accounting standard, notes and accounts receivable increased ¥ 777 million and other current liabilities increased ¥ 777 million on the quarterly consolidated balance sheet at the end of the first quarter. The effect of this change on profit and loss for the first quarter of the current fiscal year is immaterial.

(Segment Information)

I. First Quarter of the last fiscal year (April 1, 2018 to June 30, 2018)  
Information Regarding Net Sales and Profit/Loss Conditions by Reporting Segment

(Units: Million Yen)

	Japan	Americas	Asia	Others (Note 1)	Total	Adjustments (Note 2)	Consolidated (Note 2)
Net Sales							
(1) Outside customers	7,478	13,254	922	7	21,663	—	21,663
(2) Inter-segment sales	9,705	502	11,520	-	21,728	(21,728)	—
Total	17,184	13,757	12,443	7	43,392	(21,728)	21,663
Segment Income (Loss)	(473)	(257)	(129)	(5)	(865)	(367)	(1,233)

Note:

1. The "Others" category is a business segment not included in the reportable segment and is Europe.
2. ¥ -367 million adjustment amount under segment income includes items such as ¥ -9 million relating to the cancellation of inter-segment transactions, ¥ -204 million of overall Group expenses that are not apportioned to each reporting segment, and ¥ -153 million adjustment relating to inventory assets. 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. First Quarter of this fiscal year (April 1, 2019 to June 30, 2019)  
1. Information Regarding Net Sales and Profit/Loss Conditions by Reporting Segment

(Units: Million Yen)

	Japan	Americas	Asia	Others (Note 1)	Total	Adjustments (Note 2)	Consolidated (Note 3)
Net Sales							
(1) Outside customers	7,234	8,373	37	—	15,644	—	15,644
(2) Inter-segment sales	10,089	1,887	12,246	—	24,223	(24,223)	—
Total	17,323	10,260	12,283	—	39,868	(24,223)	15,644
Segment Income (Loss)	(833)	97	(80)	(5)	(821)	(81)	(902)

Note:

1. The "Others" category is a business segment not included in the reportable segment and is Europe.
2. ¥ -81 million adjustment amount under segment income includes items such as ¥ -7 million relating to the cancellation of inter-segment transactions, ¥ -206 million of overall Group expenses that are not apportioned to each reporting segment, and ¥ 132 million adjustment relating to inventory assets. 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. Matters concerning report segment changes

From the first quarter of the current consolidated fiscal year, "Europe", which was previously classified as a reportable segment, has become insignificant.

The segment information for the first quarter of the previous fiscal year is based on the reportable segment classification for the first quarter of the current fiscal year.

### **3. Others**

(Important Information about Going Concern Assumption)

Given the Group recorded operating income, ordinary income, income attributable to owners of the parent and positive operating cash flow in FY2018 but a significant operating loss, ordinary loss, loss attributable to owners of the parent and negative operating cash flow in FY 2017. The Group recorded operating loss, ordinary loss, loss attributable to owners of the parent and negative operating cash flow in the First Quarter of this fiscal year too, at this stage there are events and circumstances that cast significant doubt on the Company's viability as a going concern.

There are no significant concerns about fundraising as the current balance of cash and deposits will sufficiently satisfy working capital needs for the time being. In addition, the Group formulated a medium-term management policy, for which FY2018 is the first year of implementation. Moreover, the Company aims to gradually implement measures in line with the following policies for each of its businesses going forward. In light of this, the Group believes that a resolution of the matter can be achieved.

#### (1) Display business (LCD-TV business)

- Further expand market share at new mass retailers and enhance total competitiveness such as quality and cost
- Reduce returns and discards by strengthening efforts to the North American Christmas sales battle and improving internal and external service business processes
- The Japanese market sells TVs with built-in advanced BS tuners, and gains market share in the Mexican market by restructuring business models

#### (2) Digital media business (DVD and BD business)

- Develop a niche strategy with BD players that other companies withdrew in the North American market and capture market share
- Strengthen cooperation with OEMs in the Japanese market and strengthen lineup of FUNAI brand products

#### (3) Printing solution business (Printer equipment-related business)

- Improve profitability by expanding sales of OEM and own brand of nail art printer
- Expand sales of label printers and high-capacity inkjet printers
- Expand sales by bringing to market derivative products that make use of microfluidics (microflow control technology)

#### (4) New businesses

- Expanded sales channels for automotive backlights (existing edge type and new direct type)
- Sales expansion of medical and healthcare related module products in addition to dental CT and securing of revenue base
- Strengthen alliance strategy through EV business and start mass production and sales of new products for commercial display

As a result of the foregoing, it has been determined that significant uncertainty concerning the assumptions of the going concern is not deemed to exist as of the end of the 1st quarter of this fiscal year under review.