Consolidated Financial Results for the Second Quarter Ending September 30, 2019

November 11, 2019

Listed company name	Funai Electric Co., Ltd.		
Stock exchange listing	Tokyo first section		
Securities code	6839	URL https://www2.funai.co.jp/en/	
Representative	President and CEO	Hideaki Funakoshi	
Inquiries	Officer General Manager	Makoto Ueshima	TEL: +81-72- 870-4395

Scheduled date of Quarterly Report November 13, 2019
Scheduled date of Commencement of annual dividend payments -
Quarterly Financial results supplementation Yes
Quarterly Financial results Seminar Yes

1. Consolidated Financial Results for the Second Quarter Ending September 30, 2019 (April 1, 2019 – September 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	%
2nd Quarter FY2019	42,109	(9.9)	(1,905)	—	(1,811)	—	(1,866)	—
2nd Quarter FY2018	46,731	(35.2)	(1,645)	—	(181)	—	650	—

(Note) Comprehensive Income 2nd Quarter FY2019 ending September 30, 2019 (2,408) million yen (—%)
2nd Quarter FY2018 ending September 30, 2018 1,982 million yen (—%)

	Net Income(loss) Per Share	Net Income Per Share on a Fully Diluted Basis
	Yen	Yen
2nd Quarter FY2019	(54.71)	—
2nd Quarter FY2018	19.07	—

(2) Consolidated Financial Position

	Total Assets	Net Assets	Equity Ratio
	Million yen	Million yen	%
As of September 30,2019	77,037	51,653	67.0
As of March 31,2019	83,293	54,057	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	—	0.00			
Fiscal Year 2019 (Forecast)			—	—	—

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

The Company's articles of incorporation stipulate that Funai Electric can pay an interim dividend, with on September 30 as the record date. However, it decided not to pay any dividend for the 2nd Quarter of the fiscal year ending March 31, 2020. Furthermore, 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 the 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. Consolidated Financial Forecast for the Fiscal Year Ending 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
Full Year	85,000	(19.5)	(3,000)	—	(3,100)	—	(3,200)	—	(93.79)

(Note) Revision to consolidated financial Forecast : No

*Note

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

In (Company name: ー) Out (Company name: ー)

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

1. Business Performance and Financial Position

(1) Overview of Business Performance

In the second quarter of the consolidated fiscal year ending March 31, 2020 (April 1, 2019 to September 30, 2019), the personal consumption grew steadily in the United States, the Company's main market, on the back of a strong employment environment, etc. However, the U.S. central bank lowered its official interest rates three times in a row to prop up economic growth, since corporate capital investment and exports lost momentum caused by the trade disputes, such as imposition of tariff increase on Chinese imports (4th round of tariffs) in September 2019. The economic prospects depended on the development of trade disputes and remained uncertain. In China, the economic expansion continued to slow down, since the economic growth weighed down by the trade friction between the U.S, and China. However, the economy is expected to hit bottom within this year, supported by the Government stimulus measures.

Meanwhile, in Japan, the economy continued to recover modestly owing to strong consumer spending, although exports remained weak. Furthermore, there was a last-minute demand ahead of a hike in the consumption tax rate in October 2019. However, there was a concern that the economy would lose momentum due to f risks, such as the possible impact of trade conflicts between the U.S. and China on the global economy and uncertainty over the trend of the overseas economy including the Chinese economy, and governments' policies.

Under these circumstances, the Funai Electric Group recorded net sales of ¥42,109 million, a decrease of 9.9% year on year. The decrease was mainly attributable to the following factors: in the first quarter, sales of the Company's 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 the Company failed to make up the decrease in sales also in the second quarter. Furthermore, LCD panel prices declined since demand for LCD TVs didn't catch up with a high level of LCD panel supply by the Chinese LCD panel manufacturers and the product market prices continued to fall. This also affected the Group's sales. Meanwhile, the Group posted an operating loss of ¥1,905 million (versus an operating loss of ¥1,645 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 ¥1,811 million (versus an ordinary loss of ¥181 million in the previous year) and loss attributable to owners of the parent stood at ¥1,866 million (versus a ¥650 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, grew almost in line with the initial plan. 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 (OELD) TVs; the launch of *CureNel*, a nail art printer, in June 1, 2019; and contribution of the last-minute increase in demand ahead of a hike in the consumption tax rate in October 2019. Consequently, the Company posted net sales of ¥16,774 million, a decrease of 1.2% year on year, and segment loss (operating loss) of ¥2,181 million, versus a segment loss (operating loss) of ¥1,399 million a year earlier.

ii) Americas

In the first quarter, imports of LCD TVs from China increased sharply, since shipments 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. Furthermore, Chinese producers increased exports because demand for LCD TVs decreased in the Chinese market. This trend continued in the second quarter.

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.

These factors resulted in the pile-up of inventories in the distribution channel, including LCD TVs in the North American market. As a result, sales of new models stagnated and sales prices declined accordingly, leading to a sharp decrease in sales. In addition, prices of LCD TVs plunged, and expenses, such as sales cooperation money to cope with excessive inventory, increased. Consequently, the Company posted net sales of ¥25,285 million, a decrease of 12.6% year on year, and segment income (operating income) of ¥212 million, versus a segment loss (operating loss) of ¥166 million a year earlier.

iii) Asia

As sales of components continued to decrease, the Company posted net sales of ¥50 million, a decrease of 93.6% year on year, and segment loss (operating loss) of ¥236 million, versus a segment income (operating income) of ¥202 million a year earlier.

iv) Others

As the Company terminated sales of ink-cartridge in Europe, it did not record any sales in this segment. Accordingly, segment loss (operating loss) amounted to ¥7 million, versus a ¥9 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 a fall in sales prices caused by declining LCD panel prices.

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 ¥37,841 million (down 9.9% 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 and sales of label printers, although the launch of new products, such as nail art printers and CISS (large-capacity cartridge ink-jet printers), contributed to an increase in sales. As a result, net sales of information equipment amounted to ¥1,848 million (down 4.2% 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 ¥2,419 million, down 13.2% year on year.

(2) Overview of Business Performance

Total assets decreased by ¥6,256 million from the end of the previous consolidated fiscal year. This was mainly due to an increase of ¥4,606 million in notes and accounts receivable - trade and a rise of ¥1,939 million in raw materials and supplies and a decrease of ¥11,403 million in cash and deposits and a fall of ¥1,155 million in merchandise and finished goods.

Liabilities decreased by ¥3,852 million from the end of the previous consolidated fiscal year, mainly due to an increase of ¥597 million in accounts payable - other and a decrease of ¥3,547 million in notes and accounts payable - trade.

Net assets decreased by ¥2,403 million from the end of the previous consolidated fiscal year, mainly due to a decrease of ¥1,867 million in retained earnings and a fall of ¥482 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

(Units: Million Yen)

	Fiscal year 2018 (As of March 31, 2019)	2nd Quarter FY2019 (As of September 30, 2019)
ASSETS;		
Current Assets		
Cash and deposits	35,417	24,013
Notes and accounts receivable - trade	7,724	12,330
Merchandise and finished goods	13,517	12,361
Work in process	681	469
Raw materials and supplies	11,059	12,999
Other	2,276	2,449
Allowance for doubtful accounts	(718)	(676)
Total current assets	69,958	63,947
Noncurrent Assets		
Property, plant and equipment	8,159	8,077
Intangible assets	68	493
Investments and other assets		
Net defined benefit asset	1,881	1,866
Other	3,294	2,716
Allowance for doubtful accounts	(68)	(64)
Total investments and other assets	5,107	4,518
Total noncurrent assets	13,335	13,089
TOTAL ASSETS	83,293	77,037
LIABILITIES;		
Current Liabilities		
Notes and accounts payable - trade	15,618	12,071
Accounts payable included in other	8,287	8,885
Income taxes payable	126	168
Provision for product warranties	1,056	1,368
Other	3,033	1,967
Total current liabilities	28,121	24,461
Noncurrent Liabilities		
Provision for directors' retirement benefits	27	28
Net defined benefit liability	33	14
Other	1,053	879
Total noncurrent liabilities	1,114	922
TOTAL LIABILITIES	29,236	25,383

	Fiscal year 2018 (As of March 31, 2019)	2nd Quarter FY2019 (As of September 30, 2019)
NET ASSETS;		
Shareholders' equity		
Capital stock	31,307	31,307
Capital surplus	33,603	33,603
Retained earnings	24,583	22,716
Treasury shares	(24,341)	(24,341)
Total shareholders' equity	65,153	63,285
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	1	(12)
Foreign currency translation adjustment	(11,609)	(12,091)
Remeasurements of defined benefit plans	480	434
Total accumulated other comprehensive income	(11,127)	(11,669)
Subscription rights to shares	31	37
Total net asset	54,057	51,653
TOTAL LIABILITIES AND NET ASSETS	83,293	77,037

(2) Consolidated Quarterly Statements of Income and Comprehensive Income

(Consolidated Quarterly Statements of Income)

(Units: Million Yen)

	2nd Quarter FY2018 (from April 1, 2018 to September 30, 2018)	2nd Quarter FY2019 (from April 1, 2019 to September 30, 2019)
Net sales	46,731	42,109
Cost of sales	42,012	37,598
Gross profit	4,718	4,511
Selling, general and administrative expenses	6,363	6,416
Operating income (loss)	(1,645)	(1,905)
Non-operating income		
Interest income	203	136
Dividends income	7	3
Dividends received	—	187
Foreign exchange gains	1,247	—
Payment compensation reversal	—	110
Other	122	51
Total non-operating income	1,581	489
Non-operating expenses		
Interest expenses	11	3
Foreign exchange losses	—	145
Compensation expenses	12	233
Compensation for damage	51	—
Other	41	12
Total non-operating expenses	117	395
Ordinary income (loss)	(181)	(1,811)
Extraordinary income		
Gain on sales of non-current assets	11	104
Gain on reversal of subscription rights to shares	3	1
Other	—	1
Total extraordinary income	15	106
Extraordinary loss		
Loss on disposal of noncurrent assets	43	74
Total extraordinary loss	43	74
Income (loss) before income taxes	(210)	(1,778)
Income taxes	(860)	87
Income (loss) before minority interests	650	(1,866)
Net income (loss) attributable to owners of parent	650	(1,866)

(Consolidated Quarterly Statement of Comprehensive Income)

(Units: Million Yen)

	2nd Quarter FY2018 (from April 1, 2018 to September 30, 2018)	2nd Quarter FY2019 (from April 1, 2019 to September 30, 2019)
Income (loss) before minority interest adjustment	650	(1,866)
Other comprehensive Income		
Valuation difference on available-for-sale securities	(8)	(13)
Foreign currency translation adjustment	1,339	(482)
Remeasurements of defined benefit plans, net of tax	0	(46)
Total other comprehensive Income	1,331	(542)
Comprehensive income	1,982	(2,408)
(Comprehensive income attributable to)		
Comprehensive income attributable to owners of parent	1,982	(2,408)

(3) Consolidated Quarterly Statements of Cash Flows

(Units: Million Yen)

	2nd Quarter FY2018 (from April 1, 2018 to September 30, 2018)	2nd Quarter FY2019 (from April 1, 2019 to September 30, 2019)
Cash flows from operating activities		
Income (Loss) before income taxes and minority interests	(210)	(1,778)
Depreciation	377	570
Increase (decrease) in allowance for doubtful accounts	(299)	13
Increase (decrease) in net defined benefit liability	(0)	0
Interest and dividend income	(210)	(140)
Interest expenses	11	3
Loss on retirement of property, plant and equipment	0	74
Loss (gain) on sales of property, plant and equipment	31	(104)
Loss (gain) on sales of investment securities	—	(1)
Decrease (increase) in notes and accounts receivable - trade	2,163	(4,762)
Decrease (increase) in inventories	(578)	(1,226)
Increase (decrease) in notes and accounts payable - trade	5,811	(3,224)
Increase (decrease) in notes and accounts payable - other	(1,592)	698
Other, net	(1,534)	(1,148)
Subtotal	3,969	(11,026)
Interest and dividend income received	209	139
Interest expenses paid	(12)	(3)
Income taxes paid	(364)	(15)
Income taxes refund	235	203
Net cash provided by (used in) operating activities	4,037	(10,703)
Cash flows from investing activities		
Payments into time deposits	(891)	—
Proceeds from withdrawal of time deposits	382	1,176
Purchase of property, plant and equipment	(802)	(515)
Proceeds from sales of property, plant and equipment	502	137
Purchase of intangible assets	(3)	(66)
Proceeds from sales of investment securities	—	32
Other, net	20	30
Net cash provided by (used in) investment activities	(791)	793
Cash flows from financing activities		
Repayments of lease obligations	(120)	(127)
Purchase of treasury shares	(0)	—
Net cash provided by (used in) financing activities	(120)	(127)
Effect of exchange rate change on cash and cash equivalents	617	(145)
Net increase (decrease) in cash and cash equivalents	3,743	(10,182)
Cash and cash equivalents at beginning of period	30,650	33,544
Cash and cash equivalents at end of period	34,393	23,361

(4) 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)
(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 current consolidated fiscal year. 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 current consolidated fiscal year. 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 ¥804 million and other in current liabilities increased ¥804 million on the quarterly consolidated balance sheet at the end of the second quarter of the current consolidated fiscal year. The adoption of this accounting standard had an immaterial impact on earnings for the second quarter of the current consolidated fiscal year.

(Segment Information)

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

(Units: Million Yen)

	Japan	Americas	Asia	Total	Others (Note1)	Total	Adjustments (Note2)	Consolidated (Note3)
Net Sales								
(1) Outside customers	16,974	28,943	788	46,706	24	46,731	—	46,731
(2) Inter-segment sales	23,010	891	25,239	49,141	—	49,141	(49,141)	—
Total	39,984	29,834	26,028	95,848	24	95,873	(49,141)	46,731
Segment Income (Loss)	(1,399)	(166)	202	(1,364)	(9)	(1,373)	(271)	(1,645)

Note:
1. The “Others” category is a business segment not included in the reportable segment and is Europe.
2. Adjustment of (¥271 million) in segment loss includes the elimination of inter-segment transactions of ¥3 million, corporate expenses of ¥233 million that are not allocated to each reportable segment, and adjustment of (¥508 million) for inventories. Corporate expenses are mainly general and administrative expenses that are not attributable to reportable segments.
3. Segment income has been adjusted to operating income noted on the third quarter consolidated income statement.

II. Second Quarter of this fiscal year (April 1, 2019 to September 30, 2019)
1. Information Regarding Net Sales and Profit/Loss Conditions by Reporting Segment

(Units: Million Yen)

	Japan	Americas	Asia	Total	Others (Note1)	Total	Adjustments (Note2)	Consolidated (Note3)
Net Sales								
(1) Outside customers	16,774	25,285	50	42,109	—	42,109	—	42,109
(2) Inter-segment sales	22,632	4,581	25,764	52,978	—	52,978	(52,978)	—
Total	39,407	29,867	25,814	95,088	—	95,088	(52,978)	42,109
Segment Income (Loss)	(2,181)	212	(236)	(2,205)	(7)	(2,212)	307	(1,905)

Note:
1. The “Others” category is a business segment not included in the reportable segment and is Europe.
2. Adjustment of (¥307 million) in segment loss includes the elimination of inter-segment transactions of (¥3 million), corporate expenses of (¥399 million) that are not allocated to each reportable segment, and adjustment of ¥710 million for inventories. Corporate expenses are mainly general and administrative expenses that are not attributable to reportable segments.
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 second quarter of the previous fiscal year is based on the reportable segment classification for the second quarter of the current fiscal year.

3. <u>Others</u>

(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 ending 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 ending March 31, 2018 and posted operating loss, ordinary loss, loss attributable to owners of the parent and negative operating cash flow also in the second quarter of this fiscal year. Therefore, at the present moment, there are events or circumstances where significant doubt arises as to the going concern assumption.

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.

Furthermore, basing on its medium-term management policy formulated in the previous consolidated fiscal year, 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.
- Strengthen cooperation with OEM suppliers in the Japanese market and expand the lineup of FUNAI brand products.

(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 label printers and large-capacity inkjet printers
- Expand sales by launching derivative products that employ microfluidics (trace fluid control technology)

(4) New businesses

- Expand sales by 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.

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 2nd quarter of this fiscal year under review.