



Consolidated Financial Results for the Third Quarter Ended December 31, 2016

February 13, 2017

Listed company name	Funai Electric Co., Ltd.		
Stock exchange listing	Tokyo First Section		
Securities code	6839	URL	http://www.funai.jp/en
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Scheduled date of Quarterly Report	February 13, 2016		
Scheduled date of Commencement of Annual Dividend Payment	—		
Quarterly Financial Results Supplementation	Yes		
Quarterly Financial Results Seminar	No		

1. Consolidated Financial Results for the Third Quarter Ended December 31, 2016 (April 1, 2016 – December 31, 2016)

(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	%
3 rd Quarter FY2016	103,416	(22.4)	(4,609)	—	(4,861)	—	(5,319)	—
3 rd Quarter FY2015	133,325	(22.9)	(7,213)	—	(8,471)	—	(9,026)	—

(Reference) Comprehensive Income 3rd Quarter FY 2016 ended December 31, 2016 (3,548) million yen (—%)
 3rd Quarter FY 2015 ended December 31, 2015 (8,809) million yen(—%)

	Net Income(loss) Per Share		Net Income(loss) Per Share on a Fully Diluted Basis	
	Yen		Yen	
3 rd Quarter FY2016	(155.91)		—	
3 rd Quarter FY2015	(264.56)		—	

(2) Consolidated Financial Position

	Total Assets	Net Assets	Equity	Equity Ratio
	Million yen	Million yen	Million yen	%
As of December 31, 2016	123,238	79,575	78,959	64.1
As of March 31, 2016	154,191	84,439	83,328	54.0

2. Dividends

	Dividend per Share				
	1 st Quarter	2 nd Quarter	3 rd Quarter	Year-End	Annual
	yen	yen	yen	yen	yen
Fiscal Year 2015	—	0.00	—	30.00	30.00
Fiscal Year 2016	—				
Fiscal Year 2016 (Forecast)			—	—	—

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

The dividend for FY 2016 has been undecided. The company's dividend policy of DOE is unchanged. Because of the high impact stemmed from the recent fluctuations in exchange rates give to the consolidated net assets, the dividend is to be disclosed at the time disclosure has become possible to public.

3. Consolidated Financial Forecast for the Fiscal 2016 (April 1, 2016 - March 31, 2017)

(% 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	134,500	(20.9)	△6,900	—	△7,800	—	△6,900	—	△202.23	

(Note) Revision to consolidated financial forecast: Yes

Number of Shares Outstanding (Ordinary Shares)

1. Number of shares outstanding (including treasury stock)	As of September 31, 2016	36,130,796
	As of March 31, 2016	36,130,796
2. Number of shares of treasury stock	As of September 31, 2016	2,011,687
	As of March 31, 2016	2,011,687
3. The Average number of outstanding shares	On September 31, 2016	34,119,107
	On September 31, 2015	34,119,122

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. Qualitative Information

(1) Consolidated Financial Results

During the first nine months of the fiscal year ending March 31, 2017 (April 1, 2016 – December 31, 2016), the United States, the Company's main market, saw an improvement in consumer and corporate sentiment due to expectations toward policies of the Trump administration, amid a gradual expansion of the economy. In Europe, the economy has continued to recover, although price rises have put downward pressure on real income. In China, economic indicators such as in production, consumption and investment remained flat in general, due in part to the government's policy effects.

In Japan, personal consumption is bottoming out amid robust employment. The recovery of manufacturing is becoming clear on a global basis, with Japan's industrial production turning to a gradual recovery.

As a result of the above factors, net sales ended at ¥103,416 million, down 22.4% compared to the same quarter of the last fiscal year (year on year). Furthermore, the Group posted an operating loss of ¥4,609 million (an operating loss of ¥7,213 million in the same quarter of the last fiscal year), due to the drop in sales as well as a continued surge in liquid crystal panel prices, inventory adjustment of old models of LCD-TVs, and tougher price competition in Mexico.

Ordinary loss amounted to ¥4,861 million due to foreign exchange losses in accounts receivable from the depreciation of the Mexican Peso against the U.S. dollar (an ordinary loss of ¥8,471 million in the same quarter of the last fiscal year). Net loss attributable to owners of parent ended at ¥5,319 million (a net loss attributable to owners of parent of ¥9,026 million in the same quarter of the last fiscal year).

Results by region

i) Japan

Although BD-recorders and ink cartridges increased due to strong sales, LCD-TVs and electronic reception devices decreased. As a result, net sales were ¥22,313 million (down 12.7% year on year) and segment loss (operating loss) resulted in ¥4,001 million (the same quarter of the last fiscal year: segment loss of ¥1,582 million).

ii) Americas

Although BD-players and ink cartridges increased due to strong sales, LCD-TVs decreased due to sluggish sales in regional mass merchandisers in the U.S. market and tougher price competition in the Mexican market. As a result, net sales ended at ¥80,440 million (down 22.9% year on year) and segment loss (operating loss) amounted to ¥205 million (a segment loss of ¥4,139 million in the same quarter of the last fiscal year).

iii) Asia

Net sales were ¥193 million, down 91.6% year on year due to decrease on ink cartridges. Segment income (operating income) ended at ¥10 million, down 97.6% year on year.

iv) Europe

Ink-jet printers launched in the last quarter increased; however, total sales decreased, due to the end of LCD-TV sales. As a result, net sales dropped to ¥469 million, down 58.4% year on year, while segment loss (operating loss) ended at ¥19 million (a segment loss of ¥346 million in the same quarter of the last fiscal year).

Results by product Segment

i) Audiovisual Equipment

BD-players increased due to strong sales. However, LCD-TVs decreased due to sluggish sales in regional mass merchandisers in the U.S. market and tougher price competition in the Mexican market. As a result, net sales ended at ¥89,931 million, down 22.1% year on year).

ii) Information Equipment

Although ink-jet printers increased, total sales decreased since the increase was not enough to make up for the decline in sales caused by sluggish sales of ink cartridges for OEM. As a result, net sales of information equipment ended at ¥3,531 million, down 15.4% year on year.

iii) Other Products

Net sales of other products resulted in ¥9,954 million, down 27.6% year on year, due to the end of sales of audio accessories, whose contract terminated in the last quarter.

(2) Consolidated Financial Position

Total assets decreased by ¥30,952 million compared to the end of the last fiscal year. The primary components of the change were as follows:

Decrease of ¥12,865 million in cash and deposits, ¥6,361 million in notes and accounts receivable, ¥3,387 million in merchandise and finished goods, and ¥6,718 million in raw materials and supplies.

Total liabilities decreased by ¥26,088 million compared to the end of the last fiscal year. The primary components of the change were as follows:

Decrease of ¥1,544 million in note and accounts payable-trade, ¥2,453 million in short-term loans payable, ¥23,326 million in accounts payable included in other and ¥2,218 million in long-term loans.

Net assets decreased by ¥4,863 million compared to the end of the last fiscal year. The primary components of the change were decrease of ¥6,343 million in retained earnings and increase of ¥1,693 million in the foreign currency translation adjustment.

(3) Consolidated Financial Forecast

The Group has revised consolidated financial results forecast announced on October 17, 2016. For details, please refer to the release announced today (February 13, 2017).

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. Important Information about Going Concern Assumption

Since the Group recorded a significant operating loss, ordinary loss, net loss attributable to owners of the parent, and negative operating cash flow during the first quarter ended June 30, 2016, events or circumstances that cast significant doubt on the going concern assumption exist now.

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

Since the Group is already implementing the following countermeasures in stages, the Group believes that a resolution of the matter can be achieved.

i) Sales expansion

Increase sales and obtain orders for LCD-TVs for the year-end sales season mainly in U.S. market by offering UHD models and multiple models developed for individual customers. Begin selling a multi-model line of inkjet printers and open up new customers.

ii) Securing of profits from the LCD-TVs business

Reduce inventory through rigorous control of purchasing, sales, and inventories (PSI) between production subsidiaries, sales subsidiaries, and corporate divisions and reduce expenses through integration of U.S. subsidiaries.

iii) Improvement of the rate of return from the Information Equipment Business

Improve the rate of return by reducing R&D expenses through selection and concentration in product development, improve plant utilization rates through sales expansion, and sell high-value-added products.

Accordingly, Funai judges that there is no significant uncertainty related to the going concern assumption as of December 31, 2016 and has omitted the Notes on Going Concern Assumption from the consolidated financial statements.

(Information by Segment)
[Segment Information]

I. Third Quarter of the last fiscal year (April 1, 2015 to December 31, 2015)
Information Regarding Net Sales and Profit/Loss Conditions by Reporting Segment

(Units: Million Yen)

	Japan	Americas	Asia	Europe	Total	Adjustments (Note 1)	Consolidated (Note 2)
Net Sales							
(1) Outside customers	25,557	104,329	2,308	1,130	133,325	—	133,325
(2) Inter-segment sales	101,888	869	81,821	-	184,579	(184,579)	—
Total	127,446	105,198	84,129	1,130	317,905	(184,579)	133,325
Segment Income (Loss)	(1,582)	(4,139)	419	(346)	(5,649)	(1,564)	(7,213)

Note:

1. ¥-1,564 million adjustment amount under segment loss includes items such as ¥ 2million relating to the cancellation of inter-segment transactions, ¥ -571 million of overall Group expenses that are not apportioned to each reporting segment, and ¥ 995 million adjustment relating to inventory assets. Overall Group expenses are comprised of general administrative expenses that do not belong to a specific reporting segment.
2. Segment loss has been adjusted to operating income noted on the third quarter consolidated income statement.

II. Third Quarter of this fiscal year (April 1, 2016 to December 31, 2016)
Information Regarding Net Sales and Profit/Loss Conditions by Reporting Segment

(Units: Million Yen)

	Japan	Americas	Asia	Europe	Total	Adjustments (Note 1)	Consolidated (Note 2)
Net Sales							
(1) Outside customers	22,313	80,440	193	469	103,416	—	103,416
(2) Inter-segment sales	67,024	868	68,829	—	136,722	(136,722)	—
Total	89,338	81,308	69,022	469	240,138	(136,722)	103,416
Segment Income (Loss)	(4,001)	(205)	(10)	(19)	(4,216)	(392)	(4,609)

Note:

1. ¥-392 million adjustment amount under segment loss includes items such as the ¥2 million relating to the cancellation of inter-segment transactions, ¥584 million of overall Group expenses that are not apportioned to each reporting segment, and the ¥195 million adjustments relating to inventory assets. Overall Group expenses are comprised of general administrative expenses that do not belong to a specific reporting segment.
2. Segment loss has been adjusted to operating income noted on the third quarter consolidated income statement.

3. Consolidated Financial Statements

(1) Consolidated Statement of Financial Position

(Units : Million Yen)

	Fiscal year 2015 (As of March 31, 2016)	3rd Quarter FY2016 (As of December 31, 2016)
ASSETS;		
Current Assets		
Cash and deposits	57,609	44,743
Notes and accounts receivable - trade	24,092	17,730
Merchandise and finished goods	22,768	19,381
Work in process	1,196	1,005
Raw materials and supplies	13,212	6,493
Other	4,735	4,698
Allowance for doubtful accounts	(400)	(831)
Total current assets	123,214	93,222
Noncurrent Assets		
Property, plant and equipment	18,203	17,958
Intangible assets	4,860	4,050
Investments and other assets		
Net defined benefit asset	1,555	1,551
Other	6,627	6,791
Allowance for doubtful accounts	(271)	(334)
Total investments and other assets	7,912	8,008
Total noncurrent assets	30,976	30,016
TOTAL ASSETS	154,191	123,238
LIABILITIES;		
Current Liabilities		
Notes and accounts payable - trade	15,604	17,149
Short-term loans payable	5,118	2,664
Accounts payable included in other	34,149	10,823
Income taxes payable	783	1,180
Provision	925	864
Other	3,241	3,468
Total current liabilities	59,823	36,150
Noncurrent Liabilities		
Long-term loans payable	6,009	3,790
Provision	1,106	1,077
Net defined benefit liability	395	447
Other	2,416	2,197
Total noncurrent liabilities	9,927	7,512
TOTAL LIABILITIES	69,751	43,662

	Fiscal year 2015 (As of March 31, 2016)	3rd Quarter FY2016 (As of December 31, 2016)
NET ASSETS;		
Shareholders' equity		
Capital stock	31,307	31,307
Capital surplus	33,301	33,603
Retained earnings	54,789	48,446
Treasury shares	(24,341)	(24,341)
Total shareholders' equity	95,058	89,016
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	160	134
Foreign currency translation adjustment	(12,204)	(10,511)
Remeasurements of defined benefit plans	314	320
Total accumulated other comprehensive income	(11,729)	(10,056)
Subscription rights to shares	145	146
Minority interests	965	469
Total net asset	84,439	79,575
TOTAL LIABILITIES AND NET ASSETS	154,191	123,238

(2) Consolidated Quarterly Statements of Income

(Units : Million Yen)

	3rd Quarter FY2015 (from April 1, 2015 to December 31, 2015)	3rd Quarter FY2016 (from April 1, 2016 to December 31, 2016)
Net sales	133,325	103,416
Cost of sales	111,140	87,514
Gross profit	22,185	15,901
Selling, general and administrative expenses	29,399	20,511
Operating income (loss)	(7,213)	(4,609)
Non-operating income		
Interest income	165	155
Dividends income	23	18
Fixed assets rent income	164	92
Gain on investments in partnership	218	—
Other	26	49
Total non-operating income	599	316
Non-operating expenses		
Interest expenses	208	124
Equity in losses of affiliates	3	1
Foreign exchange loss	1,391	361
Other	252	82
Total non-operating expenses	1,856	568
Ordinary income (loss)	(8,471)	(4,861)
Extraordinary income		
Gain on sale of fixed assets	—	217
Gain on sale of investment securities	95	127
Settlement received	902	—
Other	163	28
Total extraordinary income	1,161	372
Extraordinary loss		
Loss on disposal of noncurrent assets	349	47
Impairment loss	—	60
Expenses incurred on business restructuring	434	—
Other	14	—
Total extraordinary loss	797	107
Income (loss) before income taxes	(8,107)	(4,595)
Income taxes	937	721
Income (loss) before minority interests	(9,044)	(5,316)
Minority interests in income (loss)	(17)	3
Net income (loss) attributable to owners of parent	(9,026)	(5,319)

(3) Consolidated Quarterly Statement of Comprehensive Income

(Units : Million Yen)

	3rd Quarter FY2015 (from April 1, 2015 to December 31, 2015)	3rd Quarter FY2016 (from April 1, 2016 to December 31, 2016)
Income (loss) before minority interest adjustment	(9,044)	(5,316)
Other comprehensive Income		
Valuation difference on available-for-sale securities	(195)	(25)
Foreign currency translation adjustment	416	1,821
Share of other comprehensive income of entities accounted for using equity method	34	0
Remeasurements of defined benefit plans, net of tax	(20)	(27)
Total other comprehensive Income	234	1,767
Comprehensive income	(8,809)	(3,548)
(Comprehensive income attributable to)		
Comprehensive income attributable to owners of parent	(8,794)	(3,645)
Comprehensive income attributable to minority interests	(15)	97