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Outline of Yamaha's New Medium-Term Plan "Yamaha Management Plan 125"

Following the completion of its "Yamaha Growth Plan 2010 (YGP2010)" at the end of March 2010, Yamaha Corporation has formulated and begun to implement a new three-year plan. The new plan, which sets basic policies, key business strategies, and numerical targets, is entitled "Yamaha Management Plan 125 (YMP125)," and it will cover the period from FY2011.3 (the year ending March 31, 2011) through FY2013.3.

Under this plan, Yamaha has positioned the three-year period as a "phase for building the foundations for growth" and will focus its management resources in the "musical instruments, music, and audio" domains to structure a strong foundation for growth. In addition, Yamaha will continue and promote structural management reforms as it also nurtures new, budding growth areas.

In the final year of the new plan, ending March 31, 2013, Yamaha will aim for ¥427.0 billion in consolidated net sales (representing a real growth rate of 15% for the three-year period), ¥25.0 billion in operating income (representing a 6% ratio of operating income to net sales), and a return on equity (ROE) of 7%.

1. Review of the Previous Medium-Term Plan—YGP2010

Under the previous plan, Yamaha aimed for ¥590.0 billion in consolidated net sales, ¥45.0 billion in operating income, and an ROE of 10%. However, as announced on March 19 this year, Yamaha's performance is now forecast to be substantially below the initial targets, with net sales amounting to ¥413.0 billion (70% of the plan target), operating income standing at ¥6.0 billion (¥39.0 billion below target), and an ROE amounting to –2.0%. On the other hand, free cash flow will amount to ¥69.1 billion (¥14.1 billion above the planned target), in part because of a cash inflow from the sale of a portion of Yamaha's shares of Yamaha Motor Co., Ltd.

Amid these developments, however, as targeted in the plan, Yamaha was able to attain double-digit growth in sales in China. In addition, progress was made in implementing structural management reforms and in integrating and consolidating musical instrument manufacturing bases. Nevertheless, as a result of the delay in responding to the sharp decline in demand and changes in customer behavior, profitability declined, particularly in Yamaha's core musical instruments business, thus leaving issues to be addressed.

2. Management Directions

In preparing YMP125, consideration was given to the themes of Yamaha's management vision—"what Yamaha is aiming for"—and "redefining business domains" to clarify medium- to long-term management directions. Going forward, Yamaha will realign its businesses into two domains: the "core business domain," where Yamaha will concentrate its management resources to enhance its brand value, and the "related business domain," which will draw on Yamaha's core competencies developed in the core business domain. In addition, in parallel with its "product" businesses, which Yamaha will pursue as a manufacturer, Yamaha will also nurture its "service" businesses by offering systems and services as well as content in areas where it has strengths.

(1) What Yamaha Is Aiming For

Being "a brand that is trusted and admired"
Being a company with "operations centered on sound and music"
Attaining "growth driven by both products and services"

(2) Redefining Business Domains

Core Business Domain:
Businesses related to “music, musical instruments, and audio,” including musical instruments, professional audio equipment, audio products, music schools, and music entertainment

Related Business Domain:
Businesses utilizing “core competencies,” including sound networks, golf products, semiconductors, factory automation (FA), automobile interior wood components, English-language schools, and recreation

3. Outline of Yamaha’s New Medium-Term Plan

(1) Title: Yamaha Management Plan 125

Building the Foundations for Growth as We Approach FY2013, the 125th Anniversary of Yamaha’s Establishment

(2) Positioning:

A phase in Yamaha’s development for the creation of a strong foundation for growth in the domains of music, musical instruments, and audio

(3) Numerical Targets (for FY2013.3)

- Net Sales: ¥427.0 billion
  (representing a real growth rate of 15% after exclusion of the lifestyle-related products and magnesium molded parts businesses from net sales)
- Operating Income: ¥25.0 billion (6% of net sales)
- ROE: 7%
- Capital Investment: ¥38.0 billion (for three years)
- Free Cash Flow: ¥40.0 billion (for three years)

(4) Content of Key Strategies

(Figures for sales are comparisons of the forecasts for FY2010.3 with targets for FY2013.3.)

In emerging countries, including China, Yamaha will invest its management resources to accelerate growth and attain annual sales of ¥100 billion at the end of five years. In the advanced countries, where recovery is slower, Yamaha will focus on product categories where markets are large and will work to introduce new products as well as increase its market share. Also, Yamaha will monitor trends in demand and, to implement its strategies, structure optimal manufacturing systems. In its "service" businesses, Yamaha will enter new fields outside the music and English-language school businesses it has pursued thus far and structure new business models. On the other hand, in related businesses, especially the "sound" domain, Yamaha will implement initiatives to commercialize newly developed technologies.

Accelerating Growth in China and Other Emerging Markets

Yamaha will focus on developing and launching products suited to these markets and expanding its sales networks. Along with this, to expand the population of music performers, in addition to developing music schools, Yamaha will create and introduce local programs suited to customer preferences in these markets.

- China: Expansion in sales from ¥16.1 billion to ¥24.5 billion (growth of 52% in three years)

- Asia-Pacific Region: Expansion in sales from ¥49.5 billion to ¥59.0 billion (growth of 19% in three years)

Expanding Market Share in Advanced Country Markets through Product Strategy

Yamaha will move forward with the development of products that respond to the polarization of customer preferences toward performance-oriented spending on the one hand and price-driven spending on the other. Yamaha will draw on its original technologies and its sensitivities to develop innovative products to satisfy the diversity of values of customers preferences for performance-oriented spending . On the other hand, Yamaha will also offer moderately priced products that, first, satisfy requirements for quality, and, second, also provide customers with necessary basic features to enable them to meet their objectives.

- Total Piano Strategy: Increase sales from ¥69.4 billion to ¥80.0 billion (a

15% increase)

- Combo Instruments Strategy: Increase sales from ¥15.7 billion to ¥22.0 billion (a 40% rise)

- Professional Audio Equipment: Increase sales from ¥28.6 billion to ¥38.0 billion (a 33% rise)

- AV Products: Increase sales from ¥46.2 billion to ¥54.0 billion (growth of 17%)

Structuring Optimal Manufacturing Systems to Meet Market Trends

Yamaha will clarify the roles and functions of its core manufacturing bases in Japan, China, and Indonesia (as well as its base in Malaysia for AV product manufacturing), and then work to further strengthen its manufacturing capabilities. Especially for pianos and wind instruments, Yamaha will realign its manufacturing bases in Japan and move forward with the relocation of certain manufacturing activities overseas.

Structuring a Business Model for Service Businesses

In response to the needs of the times and various regions and societies, Yamaha will endeavor to expand the population of music performers by offering various opportunities and venues in addition to the Yamaha Music Schools that it has provided thus far. To indicate that this means developing business activities that go beyond music education, Yamaha has called this “music playing” business. In addition to demand from children and demand for “music lessons for adults” to satisfy their interest in music as a hobby, Yamaha will work to create demand in emerging countries. Also, in the music entertainment business, Yamaha will bring together the full capabilities of its affiliated companies to achieve further growth. In addition, since English-language instruction in primary schools will become obligatory in Japan beginning in FY2012.3, Yamaha will expand its English-language school network and broaden the scope of its education business drawing on the know-how it has accumulated thus far.

- Music playing: Raise income from this source to ¥2.0 billion in three years

- Music entertainment: Increase sales from ¥13.1 billion to ¥18.0 billion (an increase of 37%)

- Expansion further in the “education” domain: Increase sales from ¥4.7 billion to ¥5.8 billion (an increase of 23%)

Creating New Businesses in the Sound Domain

In the semiconductor business, Yamaha will work to develop original sound sources and imaging devices to differentiate its products from those of other companies, while also moving ahead with the development of its position in the Chinese market as a new area to be supplied. In addition, Yamaha will combine its sound field control business, including existing soundproofing systems, into its sound networks business. Yamaha will also develop the “environmental acoustics” and “acoustic space” businesses making use of new technology in the “sound” domain, which includes Yamaha’s Speech Privacy System, sound adjustment panels, and ultrathin, light, and flexible speakers.

- Semiconductors: Increase sales from ¥20.0 billion to ¥26.0 billion (a gain of 30%)

- Sound Networks: Increase sales from ¥7.3 billion to ¥13.0 billion (a gain of 78%)

- Creating New Businesses in the “Sound” Domain: Increase sales from ¥1.8 billion to ¥5.0 billion (a gain of 178%)