Accelerating Growth of Musical Instruments Business

November 26, 2010
1. Positioning of musical instruments business within Yamaha

2. Musical instruments market and Yamaha's position

3. Yamaha's business strategy
   • Turning acoustic musical instruments business into profit
   • Growth in Chinese and emerging markets
Positioning of Musical Instruments Business within Yamaha
Musical Instruments Segment

Core Business Domain Focused on “Musical Instruments, Music, and Audio"

Products
- Musical instruments
- Professional audio equipment
- Audio products

Services
- Music school
- Music software
The musical instruments segment accounted for 67% of sales and 75% of operating income for the period ended March 31, 2010.
Musical Instruments Market and Yamaha’s Position
Size of Global Musical Instruments Market

Estimated size of global market by product
(unit: Billions of yen, at wholesale price)

- Piano: 120
- Digital keyboard: 130
- Guitar/Drum: 240
- Wind instruments: 150
- PA equipment: 370

Market size: Approx. ¥1,010 billion

Yamaha's share: 18%

*Based on our own estimation.
# Past Trend in Musical Instruments Market

## Trend in developed countries

- Sign of recovery from demand contraction following economic crisis
  - Increasingly low price
  - Reduced public expenditure
  - Cutbacks in capital expenditures by private sector
  - Slow recovery in economy

## Trend in emerging countries

- Steady increase in demand
  - Small impact of economic crisis
  - Growing BRICs market
  - Increasing middle-income population in Asia

## Changes in distribution

- Increasing sales through web shops
- Reducing number of specialty shops, rise of volume retailers
Projection of Musical Instruments Market Growth
(by product group)

Estimated growth for the next 5-year period: 11.2% (2.2% per annum)
Estimated market size in 2015: ¥1,130 billion

- PA equipment
- Digital keyboard
- Wind instruments
- Guitar/Drum
- Piano

represents impact of exchange rate attributable to yen appreciation. Figures do not reflect the impact of exchange rate.

US$ = $93
Euro = €131
US$ = $87
Euro = €112
China and Asia-Pacific countries will lead the growth, while Japan, U.S., Europe, and other developed countries will remain almost flat.
## Market Environment Recognition and Yamaha

<table>
<thead>
<tr>
<th>Category</th>
<th>Share (2010)</th>
<th>Market Condition and Outlook</th>
</tr>
</thead>
<tbody>
<tr>
<td>Piano</td>
<td>33%</td>
<td>The world-largest Chinese market will grow further. Sales in developed countries will gradually decrease in the future. Yamaha has the No.1 position in the global market.</td>
</tr>
<tr>
<td>Digital keyboard</td>
<td>49%</td>
<td>Demand is increasing mainly in emerging market. The electronic keyboard market is dominated by a small number of Japanese companies, incl. Casio, Roland, and Korg. Yamaha has the largest share in the world.</td>
</tr>
<tr>
<td>Guitar/Drum</td>
<td>7%</td>
<td>The market is stable in developed countries and expanding in emerging countries. Each product category is consisted of a few leading brands and many small-sized pure-play manufacturers. Yamaha aims to increase its share focusing on electric acoustic guitar.</td>
</tr>
<tr>
<td>Wind instruments</td>
<td>20%</td>
<td>Stable market. Further growth is expected in emerging countries. Chinese manufacturers are growing fast. Yamaha has a leading position in various product categories.</td>
</tr>
<tr>
<td>PA equipment</td>
<td>8%</td>
<td>The market is growing further. Yamaha has been challenged by fierce competitors in each product category, but has advantage in terms of input devices (mixers) over them.</td>
</tr>
</tbody>
</table>
Estimated 2010 market sizes and shares. Yamaha has a 23% share of the musical instruments market (excl. PA).
Yamaha's Business Strategy
Musical Instruments Business:
Medium-Term Sales & Operating Income Targets

Targeted sales growth for the next 3-year period: 12%
Achieve operating income margin of 6% in 3 years and 10% or higher in the future.
Breakdown of Changes in Sales for Medium-Term Plan

(unit: Billions of yen)

By business domain

- Piano/Digital piano: 10.1
- Digital keyboard: 2.1
- Guitar/Drum: 6.4
- Wind inst.: 3.5
- PA equipment: 10.6

276.3 (FY2010.3)

+32.7 (+12%)

309.0 (FY2013.3)

By region

- N. America/Europe/Japan: 16.6 (+8%)
- Asia Pacific: 8.8 (+21%)
- China: 7.3 (+50%)

+32.7 (+12%)
Turning Piano Business into Profit
Turning Piano Business into Profit

Structural reform of Piano Division

- Review of operations and functions
- Review of operation volume

Reduction in manufacturing cost

- Locally-sourced parts
- Review of wood procurement

Strengthening product competitiveness

- Premium pianos
- Prestige pianos
- Affordable pianos
- Pianos made in Indonesia

Premium pianos

Prestige pianos

Affordable pianos

Pianos made in Indonesia
Review of Piano Division functions
Achieve equidistance between Piano Division and three factories.

- Transfer indirect functions (incl. product development) from Piano Division (HQ) to three factories.
- Piano Division should perform minimum-necessary functions.
- Enhance independence and operational efficiency of manufacturing bases.
Review of Piano Division functions

Achieve equidistance between Piano Division and three factories.

- Transfer indirect functions (incl. product development) from Piano Division (HQ) to three factories.
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Turning Piano Business into Profit – Manufacturing Cost Reduction

Kakegawa Factory

Overseas Factories (China/Indonesia)

Supply of knock down parts

- Reduce cost and strengthen price competitiveness by using parts and components made in Chinese and Indonesian factories.
- Increase Kakegawa Factory's overseas parts procurement ratio from the current 3% to 15% in 3 years.

- Accelerate in-house manufacturing and local procurement of parts
- Transfer wood processing (preprocess) to the two overseas factories

Reduce cost by increasing productivity and local procurement ratio

Increase profitability
Enhancing Product Competitiveness and Increasing Profitability of Kakegawa Factory

Respond to polarizing demand for “individual preferences-oriented” and “price-oriented”

- Flagship model "CFX" → Premium Piano series
- Development of new products with attributes inherited from CFX → Prestige Piano series
- Use of low-cost parts made in overseas factories → Affordable Piano
Turning Piano Business into Profitability – Manufacturing Base Strategy

Partial review of the medium-term plan – Change in the production volume at Kakegawa from 18,000 units to 20,000 units in March 2013.

Increase the ratio of overseas production (primarily China) → 130,000 units
Keep the production volume of Kakegawa at 20,000 units in 5 years
Increasing Piano Business Profitability

Improve the Operating Income by ¥5 billion from FY2010.3 to FY2013.3

Effect of consolidating Japanese Factories: ¥0.8 billion

Logistics cost
Energy cost

Lowering Kakegawa's breakeven point: ¥2.6 billion

Greater use of overseas manufactured parts
Disposition of unprofitable models
Improvement of productivity

Effect of production increase: ¥1.6 billion

Increase production in China/Indonesia
(In-house manufacturing of parts at overseas factories)
Increase production of high-grade GPs
## Piano Business – Numerical Targets

<table>
<thead>
<tr>
<th></th>
<th>FY2010.3 Result</th>
<th>FY2013.3 Target</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales (Billions of yen)</td>
<td>40.3</td>
<td>45.0</td>
</tr>
<tr>
<td>Operating income</td>
<td>negative</td>
<td>+0</td>
</tr>
</tbody>
</table>

**Target for the 5th year**
- Operating income margin: 5%
Strengthening Profitability of Wind Instruments Business
Strengthening Profitability of Wind Instruments Business

Implement manufacturing reform ahead of the original schedule

Accelerate cost reduction efforts
- Consolidate domestic manufacturing bases (To be completed in FY03/2012)
- Transfer processes to overseas production bases
- Increase the number of material sources (Increase use of overseas materials)

Increase market competitiveness & profitability
- Drastically boost sales in China
- Regain share in the U.S & European markets
- Introduce lower-cost models

New Xiaoshan Factory
Wind Instruments Business – Manufacturing Base Strategy

Increase overseas production to achieve 400 k units/year in 5 years

Indonesia
- Woodwind instruments production base
- Full production of woodwind instrument parts

China
- Brass instruments production base for all markets except for Japan
- Local material procurement functions

Toyooka
- High value-added products
- Skill transfer

Increase overseas production to achieve 400 k units/year in 5 years
## Wind Instruments Business – Numerical Targets

<table>
<thead>
<tr>
<th></th>
<th>FY2010.3 Results</th>
<th>FY2013.3 Plan</th>
<th>Target for the 5th year</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales (Billion of yen)</td>
<td>31.0</td>
<td>34.5</td>
<td>36.0</td>
</tr>
<tr>
<td>Operating income margin</td>
<td>3%</td>
<td>10%</td>
<td>&gt;10%</td>
</tr>
</tbody>
</table>
Growth in Chinese Market
Musical Instruments Segment Sales Plan for China and Emerging Countries

Achieve a 30% growth in 3 years and a 60% growth in 5 years.

- Mature Market: S. Korea, Taiwan, Australia, Singapore, etc.
- Growth Market: Russia, CIS, India, ASEAN, Latin America, Middle East, and Africa
- China

Billions of yen

FY2010.3  FY2011.3  FY2013.3  5 years later

52  57  68  85
The market is led by piano products: As of 2010, 40% of the market is accounted for by piano products.

The market has a pyramid structure with a wide base. The bottom part is dominated by Chinese local manufacturer.
Increase sales of musical instruments segment to 1.5 billion yuan in 3 years and 2.3 billion yuan in 5 years.

Up to 2008, Yamaha’s lowest price was set at 20,000 yuan. In 2009, a 17,800 yuan model was introduced. The target price level for the next period will be 15,000 yuan.

There is a plan to introduce China-exclusive models by making use of local manufacturing bases.
Growth Strategy: Expansion of Sales Network

<table>
<thead>
<tr>
<th></th>
<th>2010</th>
<th>2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>Piano</td>
<td>350</td>
<td>500</td>
</tr>
<tr>
<td>Wind instruments</td>
<td>170</td>
<td>260</td>
</tr>
<tr>
<td>Digital keyboard</td>
<td>250</td>
<td>500</td>
</tr>
<tr>
<td>Others</td>
<td>230</td>
<td>240</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>1,000</td>
<td>1,500</td>
</tr>
</tbody>
</table>

In local cities, Yamaha aims to open a general musical instruments store as a starting point. In large cities, Yamaha will expand and upgrade specialty stores.
### Yamaha in Growing Chinese Market

Projection of market growth (number of units)

<table>
<thead>
<tr>
<th>Market</th>
<th>2010</th>
<th>2013</th>
<th>5 years later</th>
</tr>
</thead>
<tbody>
<tr>
<td>Piano</td>
<td>250</td>
<td>280</td>
<td>300</td>
</tr>
<tr>
<td>Digital piano</td>
<td>100</td>
<td>140</td>
<td>160</td>
</tr>
<tr>
<td>Portable keyboard</td>
<td>370</td>
<td>460</td>
<td>530</td>
</tr>
<tr>
<td>Guitar</td>
<td>500</td>
<td>670</td>
<td>800</td>
</tr>
<tr>
<td>Wind instruments</td>
<td>310</td>
<td>370</td>
<td>430</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Yamaha</th>
<th>2010</th>
<th>2013</th>
<th>5 years later</th>
</tr>
</thead>
<tbody>
<tr>
<td>Piano</td>
<td>32</td>
<td>50</td>
<td>65</td>
</tr>
<tr>
<td>Digital piano</td>
<td>22</td>
<td>40</td>
<td>60</td>
</tr>
<tr>
<td>Portable keyboard</td>
<td>112</td>
<td>180</td>
<td>300</td>
</tr>
<tr>
<td>Guitar</td>
<td>13</td>
<td>50</td>
<td>100</td>
</tr>
<tr>
<td>Wind instruments</td>
<td>17</td>
<td>30</td>
<td>50</td>
</tr>
</tbody>
</table>
Growth in Other Emerging Countries
In the next 5 years, "emerging market" will account for 48% of total sales in the Asia-Pacific region.
In emerging markets, achieve a growth rate of 40% in 3 years and 66% in 5 years.
Increasing Middle-Income Population

Middle-income population is rising in rapidly-growing emerging countries.

- **Upper-income population: 1-5%**
- **Middle-income population: 10-35%**

Increase sales by introducing low-priced products

- Local-taste models
  - Low-priced keyboard
- Low-priced electric guitar
  - FG/Nylon string guitar
- CIS-compliant PA equipment
- Low-priced digital piano
Yamaha's Presence in Emerging Markets

Completion of operational base establishment in every emerging market ⇒ Shift to the full profit-maximization phase

Russia and India: Establish operational bases and shift to the sales network expansion phase.

- Increase the number of sales base in emerging countries from 2,000 sites in 2010 to 3,400 in 2013 to 4,400 in 5 years.
- Strengthen music promotion activities by increasing the number of music school students from 130,000 in 2010 to 180,000 in 2013 to 200,000 in 5 years.
- Support various music activities for the youth.
Key Points of Strategies for China and Emerging Countries – Wrap up

● Introduce strategic products to the expanding middle-income population
  – Shift the primary target of product development from developed countries to China and emerging markets.
    • Develop new piano models that target most selling price range in China.
    • Low-price guitars and local-taste PKs for emerging countries
    • Wind instruments that can compete with Chinese products

● Expand sales network

● Increase the number of people who play music, using Yamaha music schools
  – Attract middle-income population by deploying the Yamaha Business Model
In this report, the figures forecast for the Company’s future performance have been calculated on the basis of information currently available to Yamaha and the Yamaha Group. Forecasts are, therefore, subject to risks and uncertainties.

Accordingly, actual performance may differ greatly from our predictions depending on changes in the economic conditions surrounding our business, demand trends, and the value of key currencies, such as the U.S. dollar and the euro.