Message from the President

Achieving the Targets of the Medium-Term Management Plan and Reaching the Next Stage for Future Growth

Fiscal 2019 represents the last year of our current medium-term management plan NEXT STAGE 12. In this message, I will explain the actions we undertook and results we achieved during fiscal 2018 under the aim of strengthening our brand value and, by doing so, reaching our targets for improving profitability (operating income ratio of 12%, ROE at the 10% level, and EPS at the ¥200 level). I will also explain the policies and initiatives we will implement in the final year of the plan.

As well, I will give my opinions on the direction for which Yamaha should aim over the medium to long term, including in regard to the structure of the next medium-term management plan.

Creating Our Management and Business Strategies from the Perspective of Social Issues

Since its founding in 1887, the Yamaha Group has provided various products and services centered on sound and music and continued to meet a wide range of needs related to music, education, and culture. Music has the amazing power to warm people’s hearts and can transcend language barriers to inspire people around the world. We therefore believe that music has the potential to resolve various social issues. Our unshaken faith in the power of music acts as the core of the Company’s management. Conversely, products and businesses that do not help resolve social issues quickly become commoditized and are unable to establish a competitive position. Accordingly, companies with such products and businesses cease to grow. In addition, if a company is unable to offer a rewarding work experience to its employees, then in house motivation levels will fall, and in time this will lead to the decline of that company. We are aware that creating management and business strategies from the perspective of social issues is extremely important for achieving the sustainable growth of the Yamaha Group, and we formulated the medium-term management plan NEXT STAGE 12 under this awareness. If you look at the smooth progress we have made toward achieving our key indicators for operating income ratio, return on equity (ROE), and earnings per share (EPS), then you can gain a sense of how the resolution of social issues through sound and music and the Group’s profit growth are linked.

Based on our corporate slogan of “Sharing Passion & Performance,” we will draw on the technologies, know-how, and know-how that we have cultivated throughout our long history to provide products and services that exceed customer expectations. By doing so, we will realize growth together with customers and society as a whole.

Our Strengths as a Comprehensive Musical Instruments Manufacturer in a Highly Competitive Environment

As the world’s largest comprehensive musical instruments manufacturer, we handle a wide range of instruments such as keyboards, wind instruments, string instruments, and percussion instruments, which has enabled us to refine various kinds of technologies. One strength of ours that is particularly worth mentioning is the high level of technologies we possess in both the acoustic and electronic domains. In terms of musical instruments, there are acoustic instruments that make sound through the oscillations of such materials as strings and boards, and there are digital instruments that create oscillatory waves through electrical circuits and change these waves into sound. In 1959, we began the production of the Electone® electronic organ, which means we have over 60 years of history in the development of digital musical instruments. In recent years, we have created unique new hybrid products that combine and leverage the strengths of our acoustic instrument and digital instrument
Message from the President

Becoming an Indispensable, Brilliantly Individual Company

Boosting brand power to become an indispensable company is our top priority — by engaging our customers in the creation of new value, we aim to make it more enjoyable to sing karaoke through the use of the echo effect. By enhancing sound processing technologies, we can improve the sound quality of musical instruments and create new products in the audio equipment business. We possess an extensive range of technologies related to sound, and one of our strengths is our ability to combine these technologies to create new products and services.

In addition, since commencing organ classes in 1954, which were the predecessor to the Yamaha Music School, we have expanded music education businesses in over 40 countries and regions, bringing more people the joy and excitement that music creates. Without limiting ourselves to simply being a musical instruments manufacturer, our mission is to spread music culture and contribute to its development around the world. Our ability to do so is also one of our strengths.

Both of these factories will help us enhance our cost competitiveness through the reorganization of our production structure. In addition, as we expect further growth in the sales of all our products, these factories will help us prepare for future business opportunities by allowing us to raise our production capacity, which already has a tendency to tighten. In terms of product development, we have developed a great number of products that provide higher levels of added value by working to transcend the boundaries of specific business domains and encouraging our employees to motivate each other. In this way, we have naturally broadened our perspective, which has allowed us to come up with development ideas that involve even larger investment sizes. In addition, based on the Yamaha Philosophy, which was newly adopted after I became president, we have been developing highly unique products that have enthralled keywords essential to the customer experience, such as joy, beauty, confidence, and discovery. Our new product Venova™, which was developed as a casual wind instrument, is a symbolic example of these keywords. Starting with design, Venova™’s product concept and functionality have earned overwhelmingly high praise, with Venova™ receiving the highest award at the 2017 Good Design Awards—the Good Design Grand Award. Out of 4,494 products submitted to the competition, Venova™ was chosen to receive this prestigious award. I believe that winning this award is proof of our ability to develop unique products with high added value. By offering value from completely new perspectives, we are able to draw out latent needs and enhance our in-house motivation to take on the challenge of developing new products.

In July 2018, we commenced operations at our Innovation Center (see page 62), which brings together all of our research and development staff at one location in our head office. By shortening the physical distance between our researchers, we will further accelerate technological integration to create products and services that offer more value than ever before.

Maximizing Earning Power from Both the Top Line and the Bottom Line

In fiscal 2018, we continued to realize top-line growth by revising our selling prices and expanding our customer base while improving bottom-line growth by thoroughly reducing costs. During the fiscal year under review, our efforts to revise selling prices did not improve profitability as much as we anticipated due to the impact of changing the terms and conditions for selling instruments in Europe in the musical instruments business and the inventory adjustments we carried out in the United States. With that said, when speaking with those involved in our frontline production operations regarding selling price adjustments of the current medium-term management plan, we were able to realize year-on-year increases in terms of both sales and profits, with operating income reaching a record high. Also, our operating income ratio steadily improved, up 0.4 of a percentage point, to 11.3%, with ROE and EPS reaching 14.5% and ¥2722, respectively. All of these results exceeded our targets under the medium-term management plan. In fiscal 2019, the final year of the plan, we anticipate that growth in sales will be held to the single digits. However, as we will focus our efforts more sharply on revising selling prices and reducing costs, especially in the musical instruments and audio equipment businesses, where profitability did not improve as much as we expected, we aim to achieve an operating income ratio of 12.0% and operating income of ¥55.0 billion.
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2019 was a year that placed a heavy burden on the Group’s continued efforts to improve sales and profits amidst various challenges, including the effects of the US-China trade friction, the situation in the automotive industry, and uncertainty about the global economy. In this business environment, I am proud of the achievements we have made as a result of the Group’s endeavors which have earned us the trust of customers and stakeholders alike. And I would like to sincerely express my gratitude to all Yamaha Group employees, as well as our investors, suppliers, business partners, and all other stakeholders who have supported and contributed to our efforts. We will continue to strive to deliver values to our stakeholders, and to contribute to the improvement of our society and the advancement of global cultures.

Our Vision and Value Creation

Our vision as a Group is to create values that are useful to customers, and our value creation is characterized by strong profitability that adds value to our shareholders. We strive to achieve this vision through three business pillars, namely, Steadily Building a Profit Base for Our Third Business Pillar, Enhance Customer Interaction, and Continually Reduce Costs.

Steadily Building a Profit Base for Our Third Business Pillar

We have positioned the three-year period of the medium-term management plan as a time in which we will lay the foundation for turning the industrial machinery and components business into our third business pillar. We planned on using the first two years to lay the groundwork for this foundation and aimed for this business to contribute to profits starting from the third year. However, we were able to establish a profit base in this business earlier than we anticipated. In all our other businesses, which include industrial machinery and components, we have seen growth in net sales and operating income ratios at a rate greater than expected. In particular, the operating income ratio in other businesses has risen significantly, up by 6.5 points, to 9.5%.

Regarding Risk as We Aim to Achieve the Targets of the Medium-Term Management Plan

As Hans previously stated, in fiscal 2019 we will steadily implement a broad range of initiatives. In this section, I would like to briefly comment on the risks that could impact our ability to reach the targets of the medium-term management plan.

The Yamaha Group carries out its operations on a global scale, with production bases and sales offices in countries and regions around the world. Out of the Group’s 59 consolidated subsidiaries, 44 are based overseas, and 21 of these overseas subsidiaries are manufacturing and production companies primarily located in China, Indonesia, and Malaysia. Furthermore, overseas sales account for 63% of our overall sales, which means we are significantly affected by the macro economy and market conditions in each country and region around the world. Additionally, we use electronic components, metals, timber, routes, and other materials as components for our products. While one of the key strategies in our medium-term management plan is to continually reduce costs, there is a risk that increased manufacturing costs due to soaring material prices and procurement-related difficulties going forward may impact our progress in terms of profits under the plan. To respond to this risk, we are spearheading efforts at our head office to optimize suppliers and procurement processes at each factory on a global basis. By doing so, we are working to mitigate procurement-related risks. Moreover, we have further formulated risk maps and determined major risks Group-wide. We have also worked to visualize our activities to reduce risks and promote the establishment of PDCA cycles to improve our risk response capabilities. By continuing such efforts during fiscal 2019, we aim to steadily achieve our targets for the final year of the medium-term management plan.

Development of the Four Key Strategies of the Current Medium-Term Management Plan

1. Develop Products with Distinctive Individuality

a. Plan for a new generation of continuous evolution
b. Distinctive new product lineup that integrates a wide range of technologies

2. Enhance Customer Interaction

a. Expansion of Sales Network
b. Strengthening Marketing Activities

3. Continually Reduce Costs

a. Over the three-year period of the medium-term management plan, we intend to reduce net costs by ¥8.0 billion by realizing a decrease in manufacturing costs through such means as reestablishing production processes, reducing procurement costs, and determining new manufacturing methods. Over the past two years, while improved productivity led to a ¥6.7 billion cost reduction, the soaring price of materials such as electronic components and resins hindered our ability to reach our cost reduction targets for procurement. As a result, net cost reductions were held to ¥0.6 billion, which is ¥2.4 billion behind our two-year target for net cost reduction of ¥2.5 billion. In the third year of the plan, we aim to realize a net cost reduction of ¥2.5 billion by further promoting global procurement led by our head office and improving productivity.

4. Strengthen Global Business Platforms

a. Introducing IFRS* (from the first quarter of the fiscal year ending March 31, 2020)

Note: Available for use in media services, etc.

* Amazon Echo and Alexa are registered trademarks of Amazon.com, Inc. and its affiliates.
Policies and Efforts to Achieve Growth Going Forward

Examining the Direction of the Next Medium-Term Management Plan Based on Three Guiding Principles

We are currently holding repeated discussions on the formulation of the next medium-term management plan based on three principles: making deeper connections with customers, creating new value, and contributing to society through our business. For making connections with customers, we are incorporating the general idea of "time" into our current strategy of "enhancing customer interaction." With this in mind, we will aim to deliver value to our customers at each life stage. In addition to expanding and deepening customer interaction, we view the perspective of lifetime value (page 38) itself as a type of contact point with our customers. By providing lifetime value, we will be able to further reinforce our existing businesses and create new businesses.

In regard to creating new value, we will strive to create new value by combining a wide range of technologies, primarily at our new Guitar Center, based on various needs. For technologies that are currently lacking from the perspectives of customer and social needs, we will either create them in-house or work to complement existing technologies through M&A and open innovation. These efforts will be carried out in a well-balanced manner between these two options. We have currently passed the stage where we can simply enhance and apply our technology. Rather, now is the time to bring about chemical reactions through the combination of multiple technologies to expand value. We envision this process to be similar to how an amoeba moves to fill the stage where we can simply enhance and apply our technology. Rather, now is the time to bring about chemical reactions through the combination of multiple technologies to expand value. We envision this process to be similar to how an amoeba moves to fill the

Finally, for contributing to society through our business, as I stated at the beginning of my message, we are fully aware of how the resolution of social issues through our business is linked to our growth as a corporate group, and we will make this awareness clearer as we move forward with specific strategies. To address the issues pointed out by the Sustainable Development Goals (SDGs) (see page 49), which represent shared sustainability targets adopted by the international community, we will work to pursue unique products and value as one of the key strategies of our next medium-term management plan. In the same manner as making connections with customers, accelerating our efforts to respond to the SDGs has the potential to give rise to a fourth business pillar, which will be positioned after the industrial machinery and components business. It will also help us reinforce our existing three businesses.

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revise investment securities held by the Company. Furthermore, in addition to Groupwide efforts to improve profitability and capital efficiency, the top executives in each business have pursued business management focused on return on invested capital (ROIC). By doing so, we have engaged in managerial efforts to raise profitability to a level higher than the weighted average cost of capital (WACC).

In the final year of the medium-term management plan, we have set a Companywide target of reaching the 10% level for ROE. While we as management must give first priority to improving profit rate and increasing profits, we are continuing to promote balance sheet management through such means as improving our asset turnover ratio, reducing inventories, and streamlining assets, including securities. The cash flow that we generate through these efforts will be set aside for allocation to our existing businesses and new businesses in order to enhance our earning power. This cash flow will also be utilized to continuously carry out stable shareholder returns. Furthermore, we will promote the appropriate disclosure of corporate information and increase the number of constructive dialogues we hold with investors.

In closing, during the second year of the medium-term management plan NEXT STAGE 12, we once again achieved a steady performance from both a financial and non-financial perspective. However, not being satisfied with these results, we will continue to leverage our cultivated and acquired strengths to their full potential as we take on a broad range of challenges with the aim of “Becoming an Indispensable, Brilliantly Individual Company.” I would like to ask our stakeholders for their continued support as we pursue these endeavors going forward.

October 2018