Musical Instruments Business

The musical instruments business is the Yamaha Group’s core business in which it boasts the No. 1 share in the global musical instruments market. In this business, we aim to further increase profitability through technological development and marketing activities that take advantage of our business scale.

Kimiyasu Ito
Executive Senior Manager of Musical Instruments Business Unit

Business Overview

Since its establishment, the Yamaha Group’s core business has been the musical instruments business. In this business, we possess numerous core technologies related to sound and music that we have cultivated over many years. We focus on the development of acoustic instruments, such as traditional pianos and wind, string, and percussion instruments, and digital musical instruments that leverage electronic technologies. In addition, we also place emphasis on the development of hybrid instruments that meld both acoustic and digital technologies. In recent years, we have been utilizing AI, 3D printing, and additive-manufacturing simulation technologies to take on challenges in the digital network environment and other new domains. Through our product lineup and marketing activities that take advantage of our business scale, we have received a position as the world’s leading comprehensive musical instruments manufacturer.

Operating Environment

In terms of the market environment for the musical instrument business, although the Japanese market is stagnating as the population continues to decline, we are realizing stable growth on a continuous basis in the markets of Europe and the United States. In addition, we have recently been achieving a high rate of growth in the Chinese market. In emerging countries and other markets, we recognize a strong potential for growth despite uncertain factors such as the impact of the macro economy. By product, in addition to stable growth in pianos and wind instruments, we anticipate further growth in string and percussion instruments, centered on guitars, as well as digital musical instruments. While our competitors differ by instrument, we continue to compete against nearly the same competitors in our major product of keyboards, and we have been gradually expanding our market share for this product.

Major Product Conditions and Primary Competitors

<table>
<thead>
<tr>
<th>Major Products</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pianos</td>
</tr>
<tr>
<td>Digital musical instruments</td>
</tr>
<tr>
<td>Wind instruments</td>
</tr>
<tr>
<td>String and percussion instruments</td>
</tr>
</tbody>
</table>

Sales / Operating Income / Operating Income Ratio

Progress during Fiscal 2018

- New product sales are growing at a higher rate than for the last five years in all product categories
- Realized significant growth in China and emerging countries
- Developed and sold products with distinctive individuality such as the casual wind instrument Venova™
- Gained access to new customers in emerging countries
- Accelerated digital marketing activities (with major successes particularly in China)
- Deepened relationships with artists

Business Direction in Fiscal 2019

In fiscal 2019, we will steadily advance the development and launch of new product lines in line with the medium-term management plan. At the same time, we will continue to develop products with distinctive individuality by pursuing the essence of musical instruments. We will also continue efforts to adjust sales prices and reduce costs. By doing so, we will expand our top line and improve profitability.

Creating Added Value and Improving Product Competitiveness

Looking from a global perspective, the countries for which we have a significant understanding of market characteristics are still limited to a certain number of developed countries. In addition, as the consumption behavior and needs of our customers diversify, the key to further growth will be to understand these changes and at the same time leverage our strengths and technologies to create highly competitive and appealing products. In fiscal 2019, we will draw on the newly constructed Innovation Center in an MBD building that brings together our in-house expertise and technologies, to further pursue the essence of musical instruments and centralize our technologies and people. In these ways, we will work to create new customers.

Strengthening Marketing Activities

Although we have been promoting the development of new products that offer new value in each product category, there have been product-specific inconsistencies in our marketing efforts to promote the value of a product in each market. In regard to products for which we have yet to sufficiently reach the end users, we will work to discover potential needs and offer completely new customer experiences. In doing so, we will step up efforts to promote our unique added value and accelerate sales.

Supporting the Activities of Orchestras and Bands to Encourage Youth Development

In the countries of Latin America, genuine culture and heritage are becoming more serious. In response to this issue, local governments are working to provide music education as a free choice, and orchestras and bands have been formed to promote the healthy development of young people. For many years, we have supported the activities of these governments to ensure that an even greater number of young people can participate in these orchestras and bands. In 2015, we commended the "GAPD Project" to further strengthen these activities. Under this project, we will provide workshops to teach the young performers how to maintain their instruments in good condition by providing basic repairdong guides and improving sales. In addition, we will provide additional support for putting broken instruments back in working order, as we are helping to train repair technicians. Through these activities, we are working to create better environments where young people are able to continue to play music.

Supporting the Activities of Orchestras and Bands to Encourage Youth Development

In the countries of Latin America, genuine culture and heritage are becoming more serious. In response to this issue, local governments are working to provide music education as a free choice, and orchestras and bands have been formed to promote the healthy development of young people. For many years, we have supported the activities of these governments to ensure that an even greater number of young people can participate in these orchestras and bands. In 2015, we commended the "GAPD Project" to further strengthen these activities. Under this project, we will provide workshops to teach the young performers how to maintain their instruments in good condition by providing basic repairdong guides and improving sales. In addition, we will provide additional support for putting broken instruments back in working order, as we are helping to train repair technicians. Through these activities, we are working to create better environments where young people are able to continue to play music.
Audio Equipment Business

In the audio equipment business, we offer a wide range of products in both commercial and consumer domains. Going forward, we will expand our business domain and accelerate growth through the combination of technological innovation and enhanced customer support.

Akira Iizuka
Executive Officer
Executive Director, Manager of Audio Products Business Unit

Business Overview
The audio equipment business acts as the second business pillar of Yamaha, a company that develops business centered on sound and music, after the musical instruments business. In this business, we offer AV products for consumers and PA equipment for industrial and facility use as well as for use by music enthusiasts. In addition, we provide ICT devices such as network devices and voice communication equipment. By leveraging not only our strengths in terms of audio networks but also our ICT technologies, we position the audio equipment business as a growth domain, centered on professional audio equipment.

Operating Environment
In regard to AV products for consumers, there has been a rapid shift toward products that respond to streaming transmission, particularly in Europe and North America. Additionally, for PA equipment, the shift toward digitization has continued, and there has been a greater need for a high level of reliability with IT networks. In light of these circumstances, it is now more important than ever to maintain a high level of reliability and enhance customer support structures. Moreover, we expect a continued expansion in demand for equipment used for remote conferences at corporations and institutions. Going forward, to gradually extend the strength we have leveraged in the live show and concert hall business to cover various other settings, we intend to pursue new product development while strengthening our customer support structures and accelerating global growth.

Sales / Operating Income / Operating Income Ratio

Major Products Conditions and Primary Competitors

Business Issues to Address

While the business environment remains difficult, we will work to achieve business growth by enhancing our proposal-making capabilities.

Progress during Fiscal 2018
- Developed new products that respond to streaming transmission, particularly in Europe and North America. In this business, we also offer AV products for consumers, PA equipment for industrial and facility use as well as for use by music enthusiasts. In addition, we provide ICT devices such as network devices and voice communication equipment. By leveraging not only our strengths in terms of audio networks but also our ICT technologies, we position the audio equipment business as a growth domain, centered on professional audio equipment.

Business Direction in Fiscal 2019
In fiscal 2018, we will work on expanding settings where we offer professional audio equipment, which we position as a growth domain. At the same time, we aim to accelerate growth by boosting the recognition of the Yamaha brand in terms of reliability and peace of mind.

Expanding Settings by Leveraging the Strengths of Our Diverse Technologies
In the audio equipment business, we operate in three areas that vary in nature. While there are some areas where progress has been less than anticipated, we are steadily growing in all three areas. Particularly, to expand settings where we offer PA equipment, we will work on expanding our high level of fundamental technologies to enhance our product lineup and systems from the perspective of providing solutions that meet the needs of customers.

While the business environment remains difficult, we will work to achieve business growth by enhancing our proposal-making capabilities.

Business Opportunities
- Increasing demand in emerging countries following economic growth
- Expansion of sales channels through the introduction of new channels
- Growing demand for ICT and PA equipment and ICT devices in North America
- Utilization of small devices and IoT

Initiatives to Resolve Social Issues
- Improved listening styles based on consumer needs
- Increased sales of audio equipment
- Increased sales of ICT devices
- Implementation of various PA products

Boosting Brand Recognition
We understand that we have established a certain level of presence with our PA equipment both in Japan and overseas. On the other hand, when it comes to AV products and ICT devices, the Yamaha brand is not sufficiently known. We therefore need to foster a better awareness of the reliability and peace of mind our brand offers through not only initiatives to boost recognition by increasing our product volume but also through the reinforcement of customer support and provision of solutions. We will continue to focus our efforts on accomplishing this task as we work to capture new business opportunities.

Improving Working Styles by Offering a More Comfortable Environment for Remote Conferences
Since entering the online conference systems market in 2006, we have realized an expansive product lineup, strengthened customer support, and installed a large number of high-quality sound technologies, which we have cultivated over many years. These efforts have garnered a single level of praise from our customers, allowing us to secure the No. 1 share in the domestic market.* For example, the CS-700 video sound collaboration system for huddle rooms in offices, we have focused our attention on the expanded use of sales and online communication channels and cooperation with corporations and institutions as part of their efforts to improve working styles. Through the use of a USB device that integrates a high-quality microphone, speaker, and camera that is optimal for huddle rooms, the CS-700 can be connected to a PC by simply plugging in a USB cable to a PC. By doing so, the CS-700 makes it easy to speak and hear and realizes communication without difficulties or stress for the participants. The system also contributes to the reduction of CO₂ emissions as it reduces the need for business trips and enables people to work from any location.

* According to the JBAI Communications Related Marketing Comprehensive Survey conducted by Fujitsu Research Institute
Industrial Machinery and Components Business

In the industrial machinery and components business, we leverage the technologies we have acquired through the manufacturing process for musical instruments to provide comfortable, safe, and secure solutions. We will realize growth in existing businesses and take on challenges in new domains as we work to establish this business as our third business pillar.

Shigeki Fujii
Executive Officer, Executive Officer, Manager of RCS Business Unit and Technology Unit

Business Overview

The industrial machinery and components business covers a broad range of fields, such as electronic devices, which started with the development of voice and audio components, automobile interior wood components for luxury automobiles, which originated in our musical instruments manufacturing facilities. In these diverse areas, we offer comfortable, safe, and secure solutions.

Operating Environment

For electronic devices, we were able to pursue business expansion focused on product development following the transfer of manufacturing facilities, thereby making significant improvements on the existing model. Rather than simply supplying semiconductors, we promoted a shift toward component modules related to sound, an area in which the Company excels. We also promoted efforts to expand the application of our electronic devices in automobiles, and these efforts have begun to produce results. In the domain of electromechanical devices, which convert heat and electricity, we are developing not only products for ICT equipment but also products for automobiles. In these ways, we are focusing our efforts to establish a foundation to position the industrial machinery and components business as our third business pillar in the future, alongside the musical instruments and audio equipment businesses.

Progress during Fiscal 2018

- Recorded double-digit growth in the industrial machinery and components business, reflecting strong sales of automobile interior components and PA equipment.
- Increased overseas orders of automobile interior components, despite concentration on domestic manufacturing.
- Continued to perform well due to the expansion of shipments to overseas manufacturers, and PA equipment is also expected to continue its strong performance from the previous fiscal year.

Business Opportunities

- Modules for In-Vehicle Hands-Free Telephone Calls Geared Toward Emergency Alert Systems

Mass production of an in-vehicle communication module mandated in Russia and Europe began in the first quarter of fiscal 2019. The modules have been adopted by several manufacturers in recognition of the clear voice quality that is required in emergency situations. Since our voice communication technology can be used not only for emergency call systems but also for hands-free communication and voice recognition inside the car, we believe that it will be utilized by various products in the future.

Healthcare Product Development

We are continuing the development of healthcare products that capitalize on the strengths of the Company, including sound and vibration sensor technology and digital signal processing technology.

Business Strategies under the Medium-Term Management Plan

- Launch new products in the industrial machinery market
- Lay the foundation to position the industrial machinery and components business as our third business pillar
- Launch new products in the industrial machinery market

Major Products

- Electronic devices: High-quality, high-functionality equipment, semiconductors for sound generation, magnetic sensors, the semiconductor devices, modules for in-vehicle, cloud-based, and IoT environments, etc.
- Automobile interior wood components: Laminated wood products for luxury vehicles of high-quality and overseas car manufacturers that leverage the technology processing and car styling
- PA equipment: Flexible printed circuit manufacturing and detection equipment, printing, cutting, and heat reflection

Reducing Traffic Accident Casualties with Our In-Vehicle Communication Module

Yamaha has developed a module for in-vehicle hands-free telephone calls with an emergency call function for vehicles amid growing mandates in Europe and other regions for achieving this in the vehicle-related equipment market.

This emergency call system automatically contacts the fire department and other emergency services when the airbag triggers during an accident. This system contributes to DDS (target: 3) to "halve the number of global deaths and injuries from road traffic accidents by 2020." Our in-vehicle communication module features automatic notification in times of emergency, a hands-free mobile calling function, and an integrated microphone and speaker. This module also offers the benefit of being compatible with all types of vehicles. In addition, this module realizes differentiation from the products of other companies as it offers a quality of sound that only a musical instrument manufacturer such as Yamaha can provide.