Financial Review

Fiscal 2018 Performance

Analysis of Overall Performance in Fiscal 2018

Looking back on the economic environment in fiscal 2018, the world economy continued on a moderate recovery trend. By country and region, the United States showed steady growth along with improvement in the employment environment and incomes. In Europe, personal consumption and capital investment increased, with the economy continuing to perform steadily. In China, although there was continued economic expansion, the rate of that expansion began to slow. In Japan, consumer spending continued to recover.

Amid such an operating environment, the Yamaha Group entered into the second year of its medium-term management plan NEXT STAGE 12. Guided by this plan, the Group continued to pursue the key strategies of “develop products with distinctive individuality,” “enhance customer interaction,” “continually reduce costs,” and “strengthen global business platforms.”

Under NEXT STAGE 12, we have set a target of achieving an operating income ratio of 12% by fiscal 2019, the final year of the plan. In fiscal 2018, the plan’s second year, operating income ratio was 11.3%, while ROE reached 14.3% and EPS came to ¥292, both exceeding the targets of the plan. In 2019, we forecast an operating income ratio of 12.4%.

In regard to “develop products with distinctive individuality,” in the musical instruments business, we introduced a new series of ClavinovaTM digital pianos and our Vena™ casual wind instrument, which won a Good Design Grand Award. In the audio equipment business, we released a new model of our AV sound bar, which has garnered high praise for its high quality and design. We also launched a compact speaker for background music (BGM) use in commercial facilities and an all-in-one camera/USB microphone speaker for use in corporate teleconferencing. These newly launched products allow customers to experience our new technologies and beautiful design.

For “enhance customer interaction,” in the musical instruments business, we took steps to upgrade our sales network and far exceeded our target for increasing our number of sales outlets, especially in emerging countries. Additionally, in such countries, we are implementing music education support activities under our “School Project” program, and the number of students participating in this program has reached an aggregate total of 124,000, centered on emerging countries in Asia. In the audio equipment business, we worked to expand the number of customers among audio contractors. In Europe, a major market for AV products, we moved forward with upgrades to our PremiumY Island in-store display corners, which feature MusicCast® compatible products. In the network domain, in addition to expanding LAN products, we made efforts to widen our customer base and attract different groups of customers, including educational institutions and retail stores. These efforts also included collaboration with surveillance camera manufacturers.

Turning to “continually reduce costs,” although there have been some increases in procurement costs mainly related to electronic devices, we are continuing to undertake initiatives such as redesigning our production processes, increasing production efficiency, and increasing productivity in administrative activities. Also, during the fiscal year under review, we began the construction of new production plants in Indonesia and India. At the same time, we made solid progress in boosting production capacity at existing factories.

As for “strengthen global business platforms,” we are promoting human resources activities that transcend national boundaries. We are also moving ahead with initiatives in line with our plans, including improving IT security; strengthening our business support base; by optimizing support functions globally, including the promotion of efficient logistics; and enhancing the efficiency of business processes.

Net Sales, Operating Income, and Net Income Attributable to Owners of Parent

Consolidated net sales were up 6.1% year on year, to ¥433.0 billion, as sales rose in all segments compared with the previous fiscal year (¥408.2 billion). By region, we achieved double-digit sales growth on a local basis in Asia, Oceania, and other areas, and other areas.

As a result of not only increases in operating income and ordinary income but also the recording of a gain on sales of investment securities (sale of a portion of shares in Yamaha Motor Co., Ltd) - sales profit of ¥25.8 billion before tax and ¥18.0 billion after), net income attributable to owners of parent was up 16.4%, to ¥44.3 billion.

In region, sales rose across all segments, with particular growth in China and the United States.

In the audio equipment business, net sales grew 10.4% year on year, to ¥36.7 billion, as sales of AV products were up 17.2%, driven by increased sales of all-in-one audio equipment and strong sales of MusicCast®-compatible products. In the network domain, net sales were up 2.0% year on year, to ¥32.1 billion, as sales of home audio products and other consumer products were up 6.4% and 5.1%, respectively. Under the “continually reduce costs” strategy, we focused on increasing efficiency of production and sales processes, resulting in increased labor costs overseas, higher SG&A expenses, and other temporary negative factors, contributing to double-digit growth in operating income.

In the musical instruments business, net sales were up 4.4% year on year, to ¥44.3 billion, driven by increased sales of products in the string and wind instrument categories, as well as increased sales of products in such areas as the recording of a gain on sales of investment securities (sale of a portion of shares in Yamaha Motor Co., Ltd) - sales profit of ¥25.8 billion before tax and ¥18.0 billion after). Net income attributable to owners of parent was up 16.4%, to ¥44.3 billion.

For “enhance customer interaction,” in the musical instruments business, we focused on expanding the customer base and attracting different types of customers, including educational institutions and retail stores. These efforts included cooperation with surveillance camera manufacturers.

Under NEXT STAGE 12, we continued to pursue the key strategies of “develop products with distinctive individuality,” “enhance customer interaction,” “continually reduce costs,” and “strengthen global business platforms.”

In the audio equipment business, we released a new model of our AV sound bar, which has garnered high praise for its high quality and design. We also launched a compact speaker for background music (BGM) use in commercial facilities and an all-in-one camera/USB microphone speaker for use in corporate teleconferencing. These newly launched products allow customers to experience our new technologies and beautiful design.

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Results by Segment

Audio Equipment
Sales in the audio equipment segment increased 5.5% to ¥121.8 billion, with total sales of ¥121.8 billion, and operating income rose 2.6% to ¥10.7 billion. By product, sales were up across all product categories. For AV products, sales remained steady in North America and Europe as we continued to penetrate the market for connected audio. As a result, sales of AV products were up in all regions. In regard to PA equipment, sales of the upgraded RIVAGE™ PM18, our flagship model for digital mixers, and new products such as RIVAGE™ PM7 were steady. In addition, we enhanced our personnel structure for supporting corporate and B2B cli- ents and steadily increased our number of accounts with audio contractors. By region, PA equipment saw double-digit sales growth in China and emerging countries.

For ICT devices, sales of voice communication equipment in Japan were held. For IT services, sales increased in the cloud business, and sales in emerging countries continued to grow. By product, sales of ICT devices were up in all product categories. We continued to strengthen the sales network and promoted a variety of marketing initiatives.

Net cash provided by investment activities amounted to ¥4.8 billion, compared with net cash used in investment activities of ¥9.7 billion in the previous fiscal year. This result was due mainly to proceeds from sales and redemption of investment securities.

Net cash used in financing activities was ¥15.8 billion, compared with ¥13.6 billion used in the previous fiscal year, owing in part to proceeds from the purchase of treasury stock and cash dividends paid (restatement).

While gradual economic recovery is expected to continue in the overall global economy, the future outlook remains uncertain due to government policy trends in the United States and Europe as well as the state of affairs in such regions as North Korea and the Middle East. For the business environment in which Yamaha is involved, the Company is expecting gradual growth to continue in emerging markets. In the Japanese market, the Company expects to once again realize record-high performance in fiscal 2019, due mainly to the contribution of income before income taxes.

Our Vision and Value Creation

The Company anticipates consolidated net sales of ¥442.0 billion, up ¥9.7 billion, or 2.3%, following sales increase in all segments. By region, the Company expects continued double-digit sales growth in China and a solid sales performance in emerging countries. In such countries, the Company forecasts year-on-year sales growth on an actual basis that excludes the impact of foreign exchange rates. The Company expects to once again realize record-high operating income due to the anticipated increase in both sales and profit in the musical instruments and audio equipment segments. Specifically, the Company forecasts double-digit growth in operating income, as negative factors such as increase in overseas labor costs, a rise in SG&A expenses, and foreign exchange rates will likely be offset by increases in sales and production and higher profits due to efforts to reduce costs.

Analysis of Financial Position

Total assets as of March 31, 2018, came to ¥560.2 billion, an increase of ¥16.7 billion compared with an increase of ¥15.7 billion in the previous fiscal year. Net cash provided by operating activities in fiscal 2018 was ¥47.5 billion, compared with net cash of ¥39.1 billion provided in the previous fiscal year, due mainly to the contribution of income before income taxes.

The Company anticipates consolidated net sales of ¥442.0 billion, up ¥9.7 billion, or 2.3%, following sales increase in all segments. By region, the Company expects continued double-digit sales growth in China and a solid sales performance in emerging countries. In such countries, the Company forecasts year-on-year sales growth on an actual basis that excludes the impact of foreign exchange rates. The Company expects to once again realize record-high operating income due to the anticipated increase in both sales and profit in the musical instruments and audio equipment segments. Specifically, the Company forecasts double-digit growth in operating income, as negative factors such as increase in overseas labor costs, a rise in SG&A expenses, and foreign exchange rates will likely be offset by increases in sales and production and higher profits due to efforts to reduce costs.

Analysis of Cash Flows

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