Operating Income Ratio (J-GAAP)

*1. Operating income ratio of 12%, ROE at 10% level, and EPS at ¥200 level
*2. ROE of 11.4%, and EPS of ¥241, all of

FINANCIAL STRATEGIES

Steady Achievement of Management Targets under the Previous Medium-Term Management Plan

Consolidated results for fiscal 2019, the final fiscal year of medium-term management plan NEXT STAGE 12 (hereinafter, the previous plan), were net sales of ¥4,373.4 billion, operating income of ¥356.0 billion, and net income attributable to owners of parent of ¥43.8 billion, with operating income increasing for the seventh consecutive fiscal year and reaching its highest total to date.

Drawing from our new medium-term management plan, which incorporates integrated thinking, we will pursue even greater corporate growth from a financial perspective.

Satoshi Yamahata
Chairman and Managing Executive Officer
Executive General Manager of Corporate Management Unit and Executive General Manager of Operations Unit

Make Waves 1.0—A New Medium-Term Management Plan with Integrated Thinking

In April 2019, we launched our new Medium-Term Management Plan, Make Waves 1.0 (hereinafter, the new plan). Formulating this plan was a process spanning 1.5 years, beginning with internal SDG study groups and forecasts of future business environments, with considerable time given toward reaffirming Yamaha’s ideal vision for the future and sharing the policies needed to achieve that vision. After this step, we applied major Companywide policies to specific plans for each business. The result of this process is a new plan that hinges on integrated thinking to encompass financial and non-financial perspectives.

The special features of the plan in terms of depicting our story for improving corporate value creation are its approach toward enhancing our value as a company by improving our social value and the adoption of both financial and non-financial targets.

Market capitalization, an indicator of corporate value, can be calculated using the following formula:

EPS (earnings per share) \times \text{PER (price-to-earnings ratio)} = \text{the total number of issued shares}

While EPS is a financial figure, PER is a way to evaluate long-term effects related to future growth, brand, and the SDGs. In this regard, setting up non-financial targets in addition to financial targets to improve corporate value is a natural process.

Strengthening Profitability Together with Our Foundation for Growth

We are moving forward with efforts to both strengthen profitability and build a stronger foundation for growth as financial policies in the new plan. To increase our core operating profit ratio, we are promoting four efforts: 1) sales growth focused on emerging markets; 2) increased added value through unique products and services; 3) further enhancing productivity; and 4) establishing an overwhelming market presence with optimal pricing. Reaching our target core operating profit ratio of 13.8% is ultimately a step toward our long-term vision that not only pursues immediate results, but also incorporates strategic investments that will build a stronger growth foundation. In terms of each business unit, we will promote strategies to strengthen profitability in the musical instruments business unit while focusing on further growth in the audio equipment business unit and the IMC business unit.

Approach to Capital Efficiency and Shareholder Returns

Equity ratio at the end of March 2019 was at 34.1%, which reflects the success of our efforts to promote structural reforms starting from around the time of the global financial crisis. This result also shows that we have established an extremely robust financial base. Going forward, we will optimize Groupwide fund and asset efficiency, including promoting thorough inventory management and enhancing the efficiency of subsidiary financing.

We have also set a goal for ROE of 11.5% for fiscal 2022. This is indicative of our goal to improve capital efficiency and further exceed the cost of capital.

When looking at investments and shareholder returns, we maintain a careful balance between our growth investments and returns to shareholders. In fiscal 2019, we increased dividends by ¥4.0 compared to the previous year—our sixth consecutive year-on-year increase—for a total payout of ¥160.0 per share, and a dividend payout ratio of 24.9%. Our total return ratio was 52.1% as a result of acquiring treasury stock totaling ¥2 billion. In fiscal 2020, we plan to increase dividends by ¥6.0 for a total dividend of ¥246.0 per share, with a payout ratio of 237%.

Our previous approach to shareholder returns was to put forth goals in terms of our dividend payout ratio. However, the new plan marks the first time we are setting a target in terms of a total return ratio, with a target of 50% over a three-year period. Drawing from a principal amount of ¥160.0 billion of operating cash flow over three years, we plan to commit ¥40.0 billion to regular investment and ¥100.0 billion to strategic investment, while the remainder put toward dividends, flexible shareholder returns, and other purposes.

While continual and stable dividends remain the basis of our shareholder return policy, the policy will be

FINANCIAL STRATEGIES

Drawn from our new medium-term management plan, which incorporates integrated thinking, we will pursue even greater corporate growth from a financial perspective.

Satoshi Yamahata
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Executive General Manager of Corporate Management Unit and Executive General Manager of Operations Unit

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Driving these strong results was toning growth in the musical instruments business. Despite somewhat sluggish sales growth in Europe due to the impact of changing the terms and conditions for selling instruments and the macroeconomic situation, in addition to higher purchasing costs due to the weakness of currencies in emerging countries, the Company experienced strong development overall, with

Approach to Capital Efficiency and Shareholder Returns

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implemented in a flexible manner so as to enhance capital efficiency while considering a proper balance with retained earnings needed for investment in future growth.

Aiming to Further Increase Corporate Value

In order to increase the transparency of financial information for the global capital market, and to further increase our level of management, we have adopted the International Financial Reporting Standards (IFRS) from fiscal 2020. Accordingly, financial targets for the new plan** (core operating profit ratio of 13.8%, ROE of 11.5%, and EPS of ¥270) have been set based on IFRS standards.

We will pursue further increases in corporate value by aiming to achieve these financial targets alongside our non-financial targets. We are proud to be in a unique position that is unlike any other, as a Company with an overwhelming market presence that is contributing to the fundamentally human culture of music. We will remain committed to this unique position, while engaging with the capital market in good faith and fulfilling our responsibilities to shareholders and investors.

*4. Performance in fiscal 2019: core operating profit of 12.1%, ROE of 11.1%, and EPS of ¥222 (based on IFRS standards)

Returns to Shareholders

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<th>(Yen)</th>
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</table>

*2. Including the recording of deferred tax assets
*3. Including gain on sale of a portion of shares in Yamaha Motor Co., Ltd.

Conducting Constructive Dialogues with the Market

Engagement, comprising constructive dialogues and discussions with institutional investors, is a top priority to achieve the sustainable growth and medium- to long-term increases in corporate value required by the Japan Stewardship Code and Corporate Governance Code. To that end, we hold business briefings and facility tours throughout the year as needed, in addition to regular events such as financial results briefings.

Business briefings for institutional analysts and institutional investors

Operating cash flow

Flexible shareholder returns, etc.

Dividend

Total return ratio (CAGR)

Strategic investment ¥60 billion

Plant expansion, M&A, etc.

Regular investment ¥40 billion

Three-year plan (cumulative total from fiscal 2020 to fiscal 2022)