MANAGEMENT SECTION

II. Management Strategy

Progress in First Year of the Medium-Term Management Plan and Preparations for the New Normal

I would like to begin by expressing our condolences for anyone who has lost loved ones to the global COVID-19 pandemic and by extending heartfelt thoughts and prayers to everyone who has been otherwise impacted by this catastrophe.

The Yamaha Group is placing the health and safety of its employees, customers, and suppliers above all else when responding to the COVID-19 pandemic. Acting in accordance with this policy, we have been following the instructions and requests of government agencies in the relevant countries, halting operations in some cases and continuing operations while utilizing teleworking in others.

Social and economic activities have resumed since the outbreak of the pandemic, but that does not mean the pandemic has come to an end. Forced to coexist with the virus for the time being, people continue to search for the proper response from a variety of angles.

Our ability to engage in music activities, learning, and other aspects of life is currently limited. At the Yamaha Group, we recognize that this adversity offers a chance to change. We will thus be accelerating our efforts to respond to the new normal while prioritizing resolution of the issues we face.

Operating Environment in Fiscal 2020

Fiscal 2020, the first year of our Make Waves 1.0 medium-term management plan, presented a challenging operating environment.

The trade friction between the United States and China caused a slowdown in the global economy. This slowdown became particularly pronounced in China and emerging countries, resulting in the depreciation of the currencies of emerging countries. The impacts of this deprecation along with the exchange rates for the euro seen throughout the fiscal year weighed heavily on our performance. In addition, the United States placed sanctions on Chinese products, temporarily disrupting the market. Japan, meanwhile, suffered from depressed consumption due to a consumption tax rate hike instituted in October 2019 and the impacts of natural disasters. Moreover, the COVID-19 pandemic brought swift and massive impacts as we approached the end of the fiscal year, further compounding the challenges faced throughout the year.

The pandemic impacted our ability to supply products as the Company's production plans were affected by government-imposed restrictions on operations in countries worldwide. Fortunately, we had previously developed a supply chain that included multiple sources for components and frameworks for utilizing substitute components based on our experience with the Great East Japan Earthquake in 2011. We were thus able to minimize the disruptions to our supply chain. We are also able to utilize the strength of our integrated factories to coordinate production line operation between factories and to flexibly utilize factory human resources in order to realize a high degree of responsiveness.

Impacts of the COVID-19 Pandemic

In fiscal 2020, the financial impact of the COVID-19 pandemic amounted to a reduction of ¥13.7 billion in revenue. The factors behind this impact are still ongoing, and it is clear that some time will need to pass before we see the conclusion of this pandemic. Fiscal 2021 will also be a challenging year. However, we see such adversity as an opportunity to accelerate the evolution of the Yamaha Group. Moreover, we recognize that the impacts of the pandemic have not been entirely negative.

We were forced to close our music schools until early June 2020. Meanwhile, as people stayed in their homes to prevent the spread of COVID-19, they had the opportunity to become reacquainted with the power of music. As a result, sales of entry-level musical instruments models have surpassed the period prior to the pandemic, with instruments that are easy to play at home, such as digital musical instruments and guitars, proving especially popular. Another factor behind this outcome was the ease of purchasing these instruments through e-commerce venues.

When one buys a piano or wind instrument, it is common for them to go to an instrument store to choose the specific instrument that they will be purchasing. With digital musical instruments and guitars, however, Yamaha's reputation for reliable quality gives customers the peace of mind needed to purchase these instruments online. This reputation has thus contributed to the growth of our market share.

Of course, our ability to cater to this demand was a result of the digital marketing initiatives we have been advancing since before the pandemic. Although e-commerce will probably never fully replace physical stores, we see potential for uncovering latent demand by generating synergies between these two venues.

At the same time, our new lifestyles are limiting the ability of people to play in ensembles, which generally require a number of people to assemble in a single place. Yamaha has long been engaged in the development of technologies for realizing remote ensemble performances powered by IT. We recently began distributing software for such performances for the purpose of running verification tests, and the number

Takuya Nakata
Director, President and
Representative Executive Officer

of downloads greatly exceeded our expectations. These efforts will not only help us address the issues placed before us, they also have the potential to lead to significant business opportunities in the future.

Progress in First Year of the Make Waves 1.0 Medium-Term Management Plan

We will be forced to live in the midst of the COVID-19 pandemic for the foreseeable future. The issues that have emerged as a result of the pandemic provide us with valuable hints as to the changes to social structures that will represent the new normal after the conclusion of the pandemic. Moreover, these issues are something that we can address by following the path we have walked thus far.

Looking at the themes of Yamaha's medium-term management plans after the 2008 global financial crisis, the theme of YMP125 (April 2010–March 2013) was "rebuild business platforms," the theme of YMP2016 (April 2013–March 2016) was "increase profitability," and the theme of NEXT STAGE 12 (April 2016–March 2019), the previous medium-term management plan, was "increase brand power," a theme aimed at taking the Company to a new growth stage. Based on the results achieved under these prior plans, the Make Waves 1.0 medium-term management plan positions the three-year period leading up to fiscal 2022 as the stage in which we should develop closer ties with customers and society, and boost value creation capabilities. To this end, the plan puts forth four key strategies (see below) for responding to the changes in industry structures and consumer attitudes accompanying progress in digital technologies.

This is the course we charted prior to the outbreak of the pandemic. The basic elements of this plan will be accelerated to prepare for the new normal. I would now like to look back at our progress in the plan's first year from the two perspectives of performance in our principal businesses and our initiatives based on the plan's four key strategies.

Performance in Business Segments

1. Musical Instruments Business—Growth in Digital Music Instrument and Guitar Sales as People Stay Home

Performance in the musical instruments business was generally strong up until the third quarter of fiscal 2020. In the fourth quarter, the performance of pianos suffered in China due to impacts of the pandemic, but was still relatively unchanged year on year.

Performance of digital music instruments, meanwhile, was strong, being driven by digital pianos. We are seeing robust sales of entry-level digital pianos that can easily be purchased via online venues in fiscal 2021. If we are to further capitalize on the opportunity this trend represents, it will be crucial for us to go beyond simply supporting e-commerce to ramp up efforts to solicit our products and propose means of enjoying these products in online environments via digital marketing.

The current conditions have also led to the expansion of the range of customers purchasing guitars. Yamaha has previously faced issues regarding its share of the market for mid-range and high-end guitar models in Europe and the United States. We sought to address this issue with the launch of the A Series of guitars for younger musicians in 2011, strengthening our lineup of mid-range models. The advancement of such measures in the United States and other major markets is contributing to improvements in profitability. In Asia, meanwhile, the image of Yamaha products is strong, causing product sales prices to rise in tandem with share growth.

In regard to wind instruments, competition with European rivals in the field of custom models is intense. Accordingly, we have been increasing engagement with professional performers in relation to high-level models to improve compatibility with the expected technical requirements. The benefits of these efforts have appeared for saxophones and trumpets. We therefore intend to advance similar initiatives for clarinets and other wind instruments going forward. Performance has been more or less smooth outside of Japan,

Basic Medium-Term Strategy

Develop closer ties with customers and society, and boost value creation capabilities

Make Waves 1.0

Yamaha value creation			Social value creation
Key strategy 1 Develop closer ties with customers	Key strategy 2 Create new value	Key strategy 3 Enhance productivity	Key strategy 4 Contribute to society through our businesses
			
Profitability = Customer value × Productivity			Reflect society's values in our own values over the medium to long term



which is being impacted by declining birthrates. However, the operating environment became exceptionally challenging after the outbreak of the COVID-19 pandemic due to the fundamental characteristics of wind instruments, namely that they must be blown into. For this reason, Yamaha is working to develop guidelines for the safe use of wind instruments based on scientific evidence, and we are seeking the aid of external specialists in this undertaking.

2. Audio Equipment Business—Path to Success through Response to Demand Arising from People Staying Home

AV products for consumers struggled amid the global contraction of the market for receivers. Yamaha refrained from responding to this contraction by engaging in price competition via discounts, a practice that can damage a company's brand value. Rather, our response has entailed shifting management resources toward new growth fields. Sound bars was one of these growth fields, and the demand arising as people stay at home due to the pandemic is benefiting operations in this field. In addition, our earphones equipped with Listening Care, a proprietary technology for reducing the burden placed on users' ears, have won a strong reputation in Japan, where they were released ahead of other markets, and we therefore have high anticipations for the future of products equipped with this technology.


In regard to commercial PA equipment, sales of music production products have held firm, despite the faltering growth of the concert market and of installation projects as a result of the pandemic. Conversely, the pandemic has contributed to sales growth for online conference systems in the information and communications technology (ICT) domain.

In May 2020, we conducted a verification test of Remote Cheerer powered by SoundUD™ remote cheering system. This system delivers the vocal support from spectators viewing sports broadcasts in their homes to stadiums. The system, which represents a new solution that utilizes Yamaha's proprietary acoustics insight and online conference system, internet, and router technologies, was well received by the audience. Rather than immediately transforming this solution into a business, we feel that it is important to actively propose use of this solution to address the social issues seen at the moment.

3. Industrial Machinery and Components Business—Ongoing Development of In-Vehicle Solutions Domain Foundations

The industrial machinery and components business was heavily impacted by macroeconomic conditions, placing the business as a whole in a difficult position. This is particularly true when it comes to factory automation (FA) equipment, which suffered from a massive slump in capital expenditure demand as the impacts of the dissipation of the special demand trend experienced in fiscal 2019 were compounded by the trade friction between the United States and China and the COVID-19 pandemic. Automobile interior wood components operations were impacted by delays in the launch of new automobiles scheduled to employ Yamaha components.

In electronic devices, smooth progress was made in relation to in-vehicle modules in line with our plans. We have won a fair amount of praise from customers through new initiatives in the in-vehicle audio domain, and are hopeful for the future of these initiatives.

It will take some time for macroeconomic conditions to recover, but we still aim to begin generating results from these initiatives in fiscal 2022.

Initiatives Based on Four Key Strategies

1. Develop Closer Ties with Customers—Bolstering of Product Lineups and Enhancement of Remote Communication

Our efforts to develop closer, more direct ties with customers by establishing customer contact points centered on digital marketing entailed deploying a strategy aimed at lifetime value. Under this strategy, we have been developing customer data platforms, and are now ready to move on to the practical application stage. At the same time, we have been moving forward with digital marketing efforts, and have thereby been able to start directing some 140,000 customers toward the physical aspects of our business from the perspective of digitally communicating the product value. Meanwhile, we have been shifting toward a more experience-oriented approach in our directly owned stores. This move has led to the acceleration of renovations to transform directly owned stores in Japan, in Tokyo, Osaka, and Nagoya specifically, into brand shops, and stores in emerging countries into experience-oriented shops.

We are also expanding our sales networks in China, India, and the ASEAN region, laying the groundwork for developing nearly 3,000 stores in these areas through measures matched to each market.

Bolstering product lineups is another focus of our efforts to develop closer ties with customers, or, in other words, to expand customer contact points.

In digital keyboards, we revived the PSS Series of miniature keyboards in Japan for the first time in 16 years. Reintroducing this series in the domestic market, in addition to emerging markets, has won more praise than had been expected. As for guitars, the new STORIA™ series of stylish guitars helped us approach previously untapped demographics, earning customer support while being priced similarly to mid-range models.

As for the key strategy of develop closer ties with customers, the pandemic has caused this strategy to become even more crucial as the pillar of our efforts to improve lifetime value amid rapid growth in the need for remote solutions. For example, conventional music schools can make new proposals for heightening lifetime value while addressing unmet needs for increased freedom in choosing learning time and location by offering online lessons. Our various technologies for facilitating remote communication, which include providing opportunities for remote ensemble performances, music lessons, concerts, and cheering for sporting events, are incredibly meaningful for maximizing lifetime value.

2. Create New Value—Utilization of AI, Digital Transformation, and Human Resources

One of the greatest driving forces behind our efforts to enhance value by pursuing combination of authenticity and innovation was the utilization of AI. Capable of reproducing the performance of famous singers and pianists, the VOCALOID™ software and automated instruments have sparked a great deal of debate. This debate indicates that these items, which were created by Yamaha, are approaching the level in which they can rival the original performances. We will therefore be moving on to the stage of adapting such technologies to develop concrete businesses going forward.

Meanwhile, manufacturing sites have already embraced AI technologies. By transforming the wealth of experience and knowledge we have gained thus far into AIs, we are now able to instantly perform tasks that once required large amounts of time. AI also has the potential to transform production and development processes. This potential can be seen in how discoveries that previously no one would have imagined are beginning to be made at the R&D stage.

Meanwhile, we are currently at a stage in the development of business foundations for bolstering profitability at which we can begin incorporating Companywide discussions on digital transformation into action plans. In addition to these top-down initiatives, digitization and incorporation of the Internet of Things (IoT) are also advancing in regard to processes at factories. For example, manufacturing divisions are developing smart factories. Propelling our digital transformation strategies forward through the combination of these efforts will be crucial to our future efforts.

Even as we move ahead with digital transformation strategies, one thing that will never change is how human resources serve as the source of innovation. We recently completed our job grading system, which clearly identifies the core positions in each country. We have thus been able to commence implementation of a career development plan that facilitates the development of individual skills based on the skill requirements defined by the grading system. The identification and cultivation of human resources to fill management positions at the Company and its subsidiaries will be conducted through this framework going forward. We are also looking ahead with anticipation to the day that an employee hired overseas comes to serve as a member of a management team of the Company.

3. Enhance Productivity—Cost Reductions and Strategic Budget Execution

We have set the target of achieving cost reductions totaling ¥5.5 billion over the three-year period of the Make Waves 1.0 medium-term management plan. Costs reductions in fiscal 2020, the first year of the plan, came to ¥2.0 billion, representing smooth progress toward this target. This strong progress was accomplished as the rise in procurement prices that impeded cost reductions during the period of the previous plan have come under control. Other factors reflected in this reduction included the benefits of manufacturing process streamlining, selling price optimizations, and strategic incurring of costs.

Selling price optimizations were not limited to raising existing product prices; we also employed a pricing methodology for new products of reflecting the high, differentiated value of these products into selling prices. Strategic incurring of costs, meanwhile, involved shifting costs for set sources to strategic sources and spreading this approach to sales subsidiaries. These efforts lowered the ratio of selling, general and administrative (SG&A) expenses to revenue.

Employees have been instructed to incur strategic expenses in a phased manner in the midst of the COVID-19 pandemic. It is also important to assign expense budgets to uses that will contribute to future business development efforts with an eye to the period after the pandemic as well as to the improvement of brand value. Given the currently adverse environment, I believe that targeted allocation of resources can help accelerate Yamaha's transformation over the medium to long term.

4. Contribute to Society through Our Businesses—Contributions to the Ongoing Development of Musical Culture and Society

At the Yamaha Group, sustainability is positioned at the heart of business strategies based on the belief that the creation of social value will in turn generate corporate value.

Accordingly, we are working to help resolve various social issues while contributing to the accomplishment of the United Nations Sustainable Development Goals (SDGs). Moreover, we firmly believe that music culture is indispensable to humanity. Communicating the appeal of music culture therefore plants seeds for our future development while also helping shape a better society.

One specific example of our efforts to promote music culture is the School Project, a program for offering guidance and support for instrumental music education launched primarily in emerging countries in 2015. Under the current medium-term management plan, we are pursuing the target of providing opportunities to play musical instruments to a cumulative total of one million students in seven countries, and we had offered such opportunities to approximately 390,000 students in five countries as of March 31, 2020. This program may not begin generating profits immediately, but it is something that we will continue with into the future.

An effort to help overcome social challenges through business activities can be seen in the earphones equipped with Listening Care that I mentioned earlier. These earphones propose a solution to issues regarding earphone-induced hearing loss, which is something that the World Health Organization has raised the alarm on. The SYNCROOM online remote ensemble performance service launched recently also represents a promising business with the potential to address social issues stemming from the COVID-19 pandemic.

In regard to the current business environment, we expect to achieve a certified timber utilization rate of 46% as of March 31, 2021, compared with the rate of 28% for fiscal 2020, bringing us quite close to the medium-term management plan target rate of 50%. We have also made smooth progress with regard to the introduction of Eco-Products,*1 launching 46 such products in fiscal 2020, the first year of the plan, which moved us toward the plan's target of releasing a total of 120 Eco-Products over the three-year period.


Forest preservation project in Tanzania

Furthermore, Yamaha declared its endorsement of the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD)*2 in June 2019. Communicating this commitment and the results of related initiatives to external stakeholders will be important from the perspective of enhancing our brand image going forward.

*1 Environmentally friendly products certified as meeting standards established by Yamaha that boast industry-leading levels of performance
*2 A task force created by the Financial Stability Board, comprised of the central bank heads and financial ministers of various countries, that has released recommendations aimed at facilitating appropriate investment decisions through disclosure of the potential financial impacts of climate change

Strengthening of Corporate Governance Based on Internal and External Perspectives

Yamaha has consistently taken steps to strengthen corporate governance. In 2017, the Company transitioned to a Company with Three Committees (Nominating, Audit, and Compensation) structure in order to delegate a large degree of authority to the executive team, thereby enabling the Board of Directors to focus on discussing fundamental aspects of operations, such as management and business directives. Currently, the Board of Directors is comprised of seven directors, five of which are independent outside directors. Furthermore, executive officers attend meetings of the Board of Directors as observers to help add new dimensions to reports and discussions. Assembling members from both the executive and oversight sides of management in this manner enables more lively and practical discussions.

Moreover, we have achieved our long-pursued goal of having every member of the Audit Committee be an independent outside director. In addition, we have positioned the representatives of the Audit Committee's Office and of the Internal Auditing Division, which provides auditing functions encompassing Group companies, as audit officers ranked at the same level as executive officers to help augment complementary auditing functions. The Audit Committee performs audits of legal compliance as well as of the appropriateness of operations, thereby enabling us to strengthen systems for enhancing audit effectiveness.

With this large number of outside directors and thanks to our initially planning for the need to hold remote meetings, our response to the pandemic has so far been smooth. In such trying times, members of the Board of Directors endeavor to voice opinions from the overarching perspective of what Yamaha can do to serve society. This perspective has led outside directors to offer pinpointed instructions on how to revise business strategies to account for the pandemic. I feel that exposing the executive team to such outside opinions helps members of this team elevate the level of their own perspective.

Importance of Human Resources and Engagement

When talking about the key strategies of the medium-term management plan, I also spoke of the importance of human resources. Healthy corporate activities require a corporate culture emphasizing open communication. Compliance with all laws, including those prohibiting harassment, under all circumstances is also a must. If even just 1% of employees fail in terms of compliance, it means that compliance at the Company was not functioning.

Based on this recognition, we are reforming our corporate culture with a dedication to reshaping this culture from the ground up. Our first step will be to thoroughly entrench the basic understanding and recognition that prohibited actions are absolutely forbidden. We also aim to make the organization an emotional safe space in which employees feel comfortable quickly reaching out for help should they become the victim of misconduct. For this purpose, we are increasing our number of external compliance whistleblowing venues, strengthening dedicated compliance organizations, and enhancing harassment prevention training.

Of absolute importance to the fostering of a corporate culture emphasizing open communication is engagement. In fact, engagement is crucial in all processes. We are therefore increasing opportunities for engagement. These opportunities take various forms, and I am personally involved in a number of them. In this manner, we aim to enhance engagement from various perspectives throughout the organization.

Constructive Dialogue with Capital Markets

The current times represent a major turning point, prompting a number of discussions in the market regarding the future of companies and investors. However, no matter how the times may change, the relation between companies and shareholders and other investors will remain the same. Corporate activities are supported by a diverse range of stakeholders, including shareholders, other investors, customers, employees, suppliers, and communities, and these activities could not continue without all of these stakeholders. Developing win–win relationships with all of these stakeholders is imperative to sustainable corporate development. It is therefore crucial to continue to engage in constructive dialogue with capital markets.

Furthermore, corporate management requires a sense of balance. Rather than placing absolute emphasis on a specific indicator, it is important to decide the themes on which a company will focus at a given time based on contemporary trends. From this perspective, Yamaha's medium-term management plans delineate Group management policies for three-year periods that illustrate our commitments to stakeholders. It goes without saying that sustainable growth is the underlying assumption in the background of these plans.

Many of Yamaha's shareholders maintain their shareholdings in the Company over the long term. I am incredibly grateful of this support, and I hope to help Yamaha sustain the long-term support of as many shareholders as possible. I therefore aim to promote understanding with regard to the Yamaha Group at various opportunities, including through our investor relations (IR) activities and daily business activities.

Systematic Reinforcement of Risk Management

The systematic reinforcement of risk management has been a constant focus at Yamaha. The Risk Management Committee, which I chair, takes steps to identify and categorize all risks with the potential to materialize over the course of our corporate activities. This committee also quantitatively evaluates the Company's ability to respond to specific risks. Recognition regarding low-scoring items is shared within the committee, and remediation measures are developed and reflected in annual plans.

Positioned under the Risk Management Committee are currently five working groups based on specific themes. Of these, the Working Group for BCP and Disaster Prevention Management is playing a central role in formulating response measures to the COVID-19 pandemic, and I feel that this working group has been functioning effectively. If I were to raise an issue, it would be that we did not previously have specific guidelines for responding to pandemics; rather, our response guidelines only assumed the simple flow of disasters being followed by recovery efforts. However, pandemics differ from normal disasters, after which recovery will advance with time, as there is no telling when a pandemic will conclude or even if we are moving in a positive direction. Accordingly, effective pandemic response requires plans that assume the response effort will need to be conducted over an extended period of time. In light of this facet, we intend to develop a more effective business continuity plan (BCP) that includes pandemics under its risk factors.

Crucial Nature of Transparency and Information Sharing

Faced with the COVID-19 pandemic, one of the tasks to which I have devoted the most effort as a manager is maintaining the motivation of each and every employee.

I adhere to four policies in addressing this task. The first policy is to prioritize employee health and safety above all else. Rather that wasting time with discussing the effectiveness of teleworking, we were quick to implement a policy of teleworking whenever possible, which no doubt provided peace of mind to employees.

The second is to keep everyone at the Company up-to-date on our situation. Everyone has concern for their company. We are therefore sharing information on matters such as which factories are operating and whether Group employees have become infected by COVID-19 on practically a weekly basis. Employees have expressed how these efforts fostered a sense of peace of mind while also making them feel that Yamaha was truly "their company."

The third is to be receptive to various ideas and proposals. Yamaha has previously had an internal open application system for new business ideas and proposals that could be accessed via the Company intranet. After enhancing this system and asking employees to submit ideas and proposals for businesses after the conclusion of the pandemic, we quickly found ourselves with a substantial amount of input. As a manager, I found this proactiveness among employees incredibly reassuring.

The fourth and final policy is to clearly indicate the direction targeted by the Company. I issued a message to employees stating that, given the difficult times, we should devote our efforts to addressing social issues. Moreover, I made clear that our workstyle and other measures should not be temporary and rather that we should view this crisis as an opportunity to accelerate our own transformation. I hope that this experience has served to remind employees of exactly what type of company Yamaha is.

This undertaking reaffirmed in my mind the crucial nature of transparency and information sharing to raising employee motivation. Fiscal 2021 will also be a challenging year, but I hope to carefully nurture the seeds of future growth as we advance forward during this year. Adversity presents opportunities to transform and act ahead of the times. Looking ahead, the Yamaha Group will unite in its effort to ensure that the challenges we surmount in fiscal 2021 will benefit us in subsequent fiscal years.

I would like to ask our stakeholders, starting with our shareholders and other investors, for their continued support as we pursue these endeavors going forward.

October 2020

Takuya Nakata
Director, President and Representative Executive Officer

MAKE WAVES 1.0 MEDIUM-TERM MANAGEMENT PLAN

Make Waves 1.0

Yamaha is moving ahead with Make Waves 1.0, a three-year medium-term management plan that was launched in April 2019. In formulating this plan, we analyzed the rapid changes in the business environment and determined our future outlook, based on which we established a management vision for the Company over the medium to long term. We also unveiled a value creation story that will serve as our approach to realizing this vision. At the same time, we defined basic and key strategies along with corresponding management targets that comprise the three pillars of financial targets, non-financial targets, and shareholder returns. In this section, we will offer an overview of Make Waves 1.0 while also taking a look at the progress of this plan in fiscal 2020, its first year.

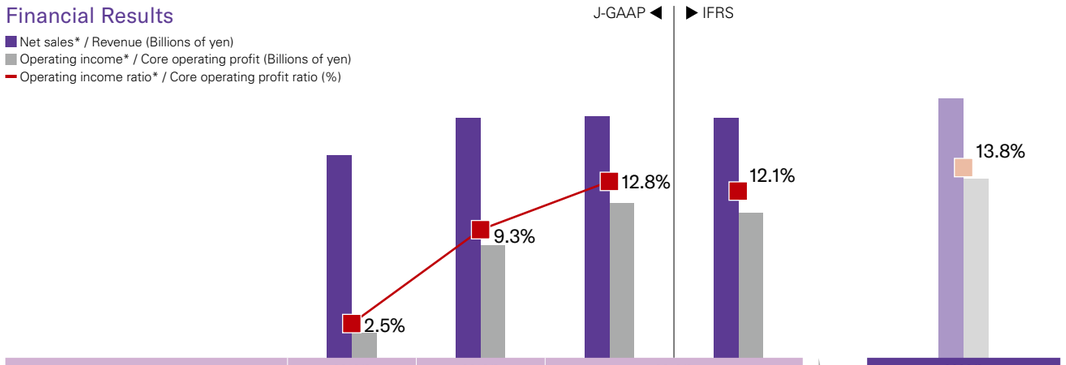
Positioning of the Make Waves 1.0 Medium-Term Management Plan

Looking back on our medium-term management plans to date, YMP125 was carried out in a period when our business faced tough conditions due to yen appreciation. The period of YMP125 was positioned as a phase for rebuilding our business platforms through such means as restructuring our core business and integrating our sales offices in Europe and plants. After completing that phase, we commenced YMP2016, under which we transitioned from a business-unit organizational structure to a function-specific one, promoted optimized pricing, and moved forward with selection and concentration from a multifaceted perspective to focus on core business. Through these efforts, we were able to achieve an operating income ratio of 9.3%.

With the previous medium-term management plan, NEXT STAGE 12, we established the management vision of "Becoming an Indispensable, Brilliantly Individual Company." Guided by this vision, we worked to boost our brand power in an effort to take the next step toward further growth as a company. As a result, we were able to raise our operating income ratio to 12.8% (J-GAAP).

Taking into account the achievements we have made thus far, we have positioned the three years of Make Waves 1.0 as a period in which we will aim to develop closer ties with customers and society, and boost value creation capabilities, and we have adopted that aim as the basic strategy of the plan. Based on this strategy, we will pursue a two-pronged approach of boosting profitability and reinforcing our growth foundation. By fiscal 2022, the final year of the plan, we aim to increase our core operating profit ratio to 13.8% as a step toward reaching our long-term target of 20%, which we adopted under our management vision.

Financial Results



	2013/3 YMP125 Final year	2016/3 YMP2016 Final year	2019/3 NEXT STAGE 12 Final year		2022/3 Make Waves 1.0 Final-year targets
Net sales* / Revenue (Billions of yen)	366.9	435.5	437.4	434.4	470.0
Operating income* / Core operating profit (Billions of yen)	9.2	40.7	56.0	52.7	65.0
Operating income ratio* / Core operating profit ratio	2.5%	9.3%	12.8%	12.1%	13.8%
ROE	1.9%	10.1%	11.4%	11.1%	11.5%
EPS	¥21	¥169	¥241	¥222	¥270

* The Company employed J-GAAP standards until fiscal 2019 and IFRS beginning in fiscal 2020.

Approach to Formulating the Medium-Term Management Plan

Amid the rapid changes occurring in the operating environment, the environment within the Company's business domains, which center on sound and music, is undergoing particularly dramatic changes. In light of these changes, we formulated our Makes Waves 1.0 medium-term management plan by making use of the backcasting method. Under this method, we established a long-term outlook for the future and analyzed how the changes in the operating environment would impact our business. We then examined which domains would allow us to realize further development as a company as well as the future growth opportunities and risks that may arise.

Assumptions of Our Outlook for the Future Business Environment (Megatrends)

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Analysis of Impacts on Operating Environment
(Examination of Development Domains, Growth Opportunities, and Risks)

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Environmental Changes That Majorly Impact Yamaha and Related Growth Factors and Strengths

As the industrial structure changes rapidly due to the acceleration of digitalization, we are now able to form closer ties with our customers. Additionally, with remarkably enhanced levels of convenience realized through AI and the IoT, we find ourselves entering an era where there will be a greater demand for emotional satisfaction and authenticity. We are also seeing an even greater social awareness of sustainability. These operating environment changes are indicative of wide-ranging growth areas in which Yamaha is primed to capitalize on the technologies and foundations it has developed thus far.

Transformations caused by accelerated digital technologies		• Long-cultivated, cutting-edge digital technologies • Utilization of network technologies • Progression of direct digital marketing
Greater diversity in lifestyles and senses of value		• Scientific insight on sensibilities • Provision of emotional satisfaction through the unique strength of combining technologies and sensibilities • Progression of direct digital marketing
Heightened awareness of sustainability		• Utilization of advanced materials technologies • Initiatives toward sustainable timber procurement • Initiatives to help resolve social issues through sound and music

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Directives of the Medium-Term Management Plan

In the era in which there is greater demand for emotional satisfaction and authenticity, the need for emotional value will unquestionably surpass the need for functional value. Our business domains center on sound and music, which offer significant value in the form of sensibilities and emotional impact. In these fields, these changes in needs will no doubt provide a positive boost to the Yamaha Group, which has assessed sound and musical instruments as a part of culture itself and has striven to refine its technologies and sensibilities.

It is therefore imperative that we fully leverage our strengths to capitalize on this growth opportunity by enhancing our ties with customers and society as well as our connection to market growth and growth domains.

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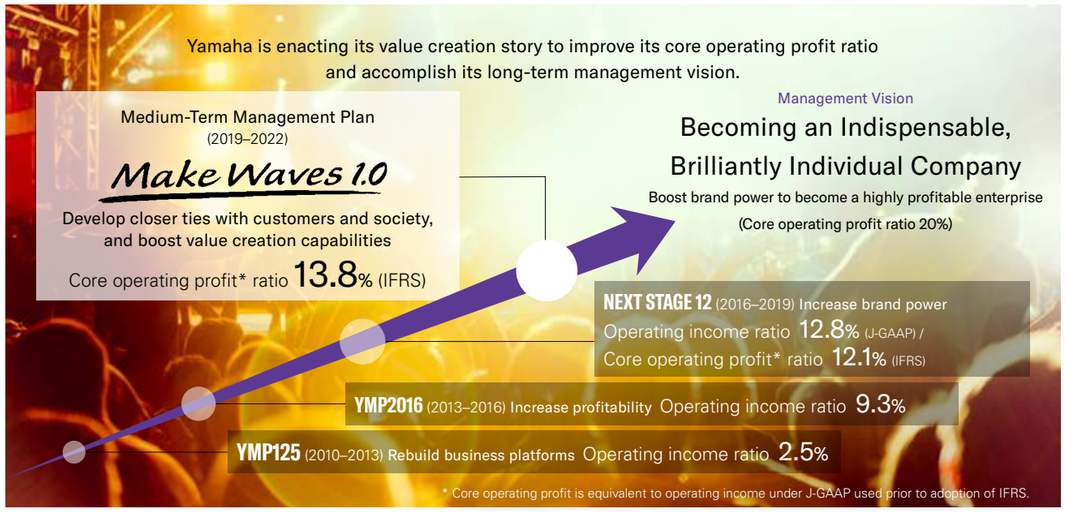
The world is undergoing major changes at a rapid pace due to accelerated digitalization and diversification of value systems.

➡ **Combining technologies and sensibilities** presents growth opportunities for Yamaha

Major Medium-Term Management Plan Measures for Accomplishing Our Management Vision



Management Vision and Value Creation Story

We established a new value creation story that serves as our approach to realizing the management vision (medium- to long-term vision) that we adopted under the previous medium-term management plan, NEXT STAGE 12.

Management Vision (Our future image in the medium to long term)	Becoming an Indispensable, Brilliantly Individual Company Boost brand power to become a highly profitable enterprise (Core operating profit ratio of 20%)
Value Creation Story	Enhance corporate value and realize vision by creating social value

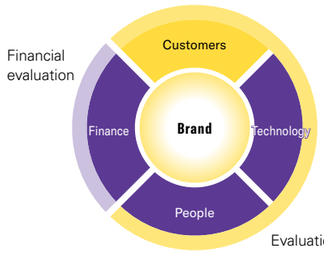
Basic Strategy

In a world undergoing major changes at a rapid pace,

we will develop closer ties with customers and society, and boost value creation capabilities.

Management Objectives

Financial targets (IFRS) Boost profitability while also building stronger business platforms for growth	Core operating profit ratio	13.8%
	ROE	11.5%
	EPS	¥270
Non-financial targets	Corporate brand value*	+30%
	Music popularization for learning musical instruments in emerging markets (cumulative total)	1 million people
	Certified timber use	50% of total use
Investment and shareholder returns Well-balanced allocation to investment in growth and returns to shareholders	Total return ratio	50%

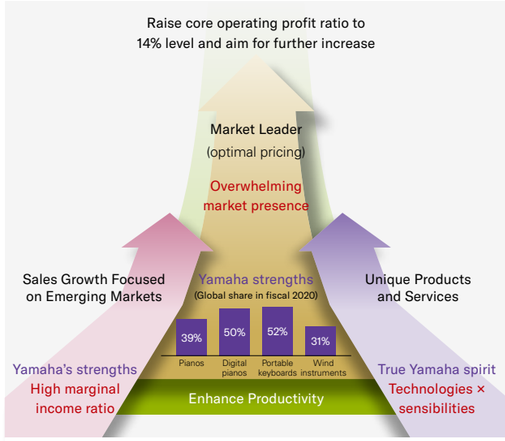


Evaluation of:
- Growth capacity
- ESG initiatives, etc.

Corporate value: ¥1 trillion +
(market capitalization)

* Combined brand value of Yamaha Corporation and Yamaha Motor Co., Ltd.: US$1.2 billion (Best Japan Brands 2019, issued by Interbrand Japan, Inc.)

Path to Improving Core Operating Profit Ratio



We will leverage our unique strengths to increase our core operating profit ratio to the 14% level over the three years of the plan, with the overall goal of becoming the highly profitable enterprise described in our management vision.

Focusing on reaching a core operating profit ratio of 20%, a target we adopted under our medium- to long-term vision, or management vision, we set a goal of increasing our core operating profit ratio to the 14% level over the three years of Make Waves 1.0. While providing unique products and services that cannot be imitated by our competitors, we will achieve a leading position in the market by leveraging our strengths such as our tremendous market presence and high market share. We will also work to optimize pricing. In these ways, we will enhance profitability.

In addition, our high marginal income ratio and sales growth centered on emerging countries are two strengths that will also help us boost profitability. Furthermore, increasing profitability through efforts to reduce costs will contribute significantly to improving our core operating profit ratio.

Progress in Fiscal 2020

In fiscal 2020, strong performance was seen centered on the musical instruments business up until the third quarter. Performance in the fourth quarter, however, was impacted by the spread of COVID-19. As a result, full-year financial performance fell below our targets.

Non-financial performance, however, represented strong performance toward targets. Moreover, steady progress was made with regard to the four key strategies of Make Waves 1.0—develop closer ties with customers, create new value, enhance productivity, and contribute to society through our businesses—in the plan's first year (see pages 36–43).

The environmental changes and impacts on the Company that were projected when formulating our operating environment outlook are accelerating, creating a need to expedite the implementation of key strategies to keep pace.

Financial Targets (See pages 18 and 44–47 for details)

	Core operating profit ratio	ROE	EPS
Fiscal 2020 results	11.2% (–0.9 pt)	10.1% (–1.0 pt)	¥195 (–¥27)
Fiscal 2022 targets	13.8%	11.5%	¥270

Note: Figures in parentheses represent year-on-year changes.

Non-Financial Targets (See pages 19–21 for details)

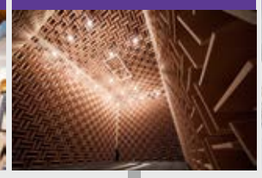
	Corporate brand value	Music popularization for learning musical instruments in emerging markets (cumulative total)	Certified timber use
Fiscal 2020 results	+15%	390,000	28%
Fiscal 2022 targets	+30%	1,000,000	50%

Four Key Strategies Progress Summary (See pages 36–43 for details)

1. Develop closer ties with customers

Progress in line with plans with regard to efforts to reinforce customer contact points, achieve growth in emerging markets, and expand business domains

2. Create new value



Launch of diverse products combining technology and sensibility, various technological successes achieved in the AI field

3. Enhance productivity

Cost reductions of ¥2.0 billion achieved, discussions regarding digital transformation, progress in automation and IoT initiatives

4. Contribute to society through our businesses

Cultural, social, and environmental initiatives progressing as planned, contributions to resolution of social issues

Four Key Strategies

Basic Medium-Term Strategy

Develop closer ties with customers and society, and boost value creation capabilities

Make Waves 1.0

Yamaha value creation			Social value creation
1. Develop closer ties with customers	**2.** Create new value	**3.** Enhance productivity	**4.** Contribute to society through our businesses




Profitability = Customer value × Productivity

Reflect society's values in our own values over the medium to long term

To promote our basic strategy of "develop closer ties with customers and society, and boost value creation capabilities," we established four key strategies. By steadily executing these key strategies, we will realize Yamaha value creation and social value creation.

We will create customer value by developing closer ties with customers and offering them new value. We will also increase our profitability by enhancing productivity. Furthermore, we strive to contribute to society through our business activities, which we believe will lead to improvement in corporate value over the medium to long term.

Key strategy 1

Develop Closer Ties with Customers

Develop Broader, Deeper, and Longer Ties with Customers

To develop broader, deeper, and longer ties with our customers, we will promote our brand through our new brand promise and develop digital and physical customer interfaces with a focus on digital marketing. We will also take steps to contribute to lifetime value enhancement. Additionally, in emerging countries centered on China and ASEAN, we will engage with middle-income earners and accelerate growth. For the audio equipment business and the industrial machinery and components business, we will achieve growth by expanding our business domains in growth markets.

Reinforce customer interface	Achieve growth in emerging markets	Expand business domains
Broader, Deeper, and Longer	Broader, Deeper, and Longer	Broader, Deeper, and Longer
■ Communicate brand appeal through brand promise ■ Develop direct ties with customers with a focus on digital marketing ■ Contribute to lifetime value enhancement (communicate value proposals suited to customer life stages)	■ Engage with middle-income earners and accelerate growth	■ Expand audio equipment business domain ■ Shift industrial machinery and components business domain into in-vehicle solutions

Sales = customer numbers (broad) × frequency (deep) × unit price (deep) × duration (long)

MAKE WAVES 1.0 MEDIUM-TERM MANAGEMENT PLAN

Reinforce Customer Interface
Deeper, Longer

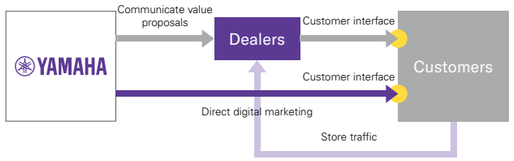
Communicating Brand Appeal through Brand Promise

To Make Waves with our customers, we will offer original products and services that exceed their expectations. We will also leverage our brand promise to engage in communication with customers around the world as we work to become a brand that customers admire and cherish. In these ways, we will aim to develop deeper and longer ties with our customers.

➡ Fiscal 2020 Initiatives
- Establishment of Companywide branding system, utilization of awareness-raising tools, and training
- Preparation and distribution of global content for effectively soliciting brand promise
- Development of frameworks for and gradual spread of implementation of branding activity plan–do–check–act (PDCA) cycle

Developing Direct Ties with Customers with a Focus on Digital Marketing

Yamaha is complementing its conventional in-store communication activities with digital marketing initiatives aimed at directly soliciting its value in order to effectively communicate the appeal of its products and services to as many customers as possible to create better experiences for customers.



➡ Fiscal 2020 Initiatives
- Practical training at 19 sales subsidiaries worldwide to improve digital marketing skills
- Efforts to direct customer traffic to Company websites and stores via social media advertisements, events, campaigns, and other online initiatives

Contributing to Lifetime Value Enhancement

Yamaha aspires to understand customers and make optimal proposals matched to their approach toward performances in order to help enrich their lives as musicians.

➡ Fiscal 2020 Initiatives
- Steady development of customer data platform that analyzes customer information and behavior patterns
- Customer support service through easy product registration applications (certain regions)
- Provision of solutions such as applications that support musical performances

Achieve Growth in Emerging Markets
Broader

By strengthening our ties with the growing middle class in emerging countries, starting with China and India, we will accelerate growth and expand our customer base.

Growth in China

Aiming for 25% Growth over the Next Three Years through Sales Network Expansion and Brand Promotion

Achieve Market Growth and Share Expansion

In the Chinese market, Yamaha is known as a brand admired by many, which has helped us attain a high market share and realize a high level of profitability. In addition, the growth rate of the market itself in China has been strong for many years. Going forward, we will achieve a sales growth rate that surpasses the rate of this strong market growth and further expand our market share through such initiatives as promoting the strength of our products and brand, expanding our sales networks, and pursuing digital marketing.

Boost Product Power

In the Chinese market, we will roll out China-specific models based on local needs, expand sales of high-value-added products made in Japan, and supply pianos made in Indonesia. In these ways, we will move forward with proposals that meet customer needs through a diverse product lineup.

➡ Fiscal 2020 Initiatives
- Expansion of sales networks centered on rural cities and increase in exhibitions of high-value-added products
- Strengthening and communication of brand power (300 videos receiving total of more than 12 million views, etc.)
- Information provision via social media to strengthen connections with customers

Left: Yamaha piano specialty shop in rural Chinese city
Right: Live broadcast sales promotion event at specialty shop

Realizing Growth in India, ASEAN, and Other Markets

Aiming for 50% Growth over the Next Three Years in the Indian Market by Engaging with Middle-Income Earners through the Expansion of Sales Networks and Introduction of Local Models

Expanding Sales Networks and Launching E-Commerce Sales (India)

The market in India is expected to continue to grow in the future. In this market, we will expand our sales networks primarily in cities with over one million people. Additionally, we will leverage e-commerce and individual delivery to cover areas where we do not have physical stores.

Unifying Manufacturing and Sales Systems and Offering Products Suited to Local Music Culture (India)

Our newly constructed Chennai Plant began shipping products in April 2019 and has been gradually increasing its production capacity since. Going forward, by realizing integrated manufacturing and sales operations,

we will promote the production and sale of products that incorporate the local needs of customers in the Indian market.

Focusing on Store-Based Measures and Use of E-Commerce

Following the rise in income levels in emerging countries, there has been a rapid increase in middle-income earners who are purchasing educational, hobby, and luxury products more frequently. In response to this trend, we will expand stores that emphasize hands-on experiences and communicate the high-quality value we offer. We will also utilize e-commerce to establish omnichannel sales that cater to local customers. In these ways, we will strengthen our approach to middle-income earners.

Developing Local Models Catered to Local Music Cultures

We will strive to expand our customer base through the development and sale of models equipped with local musical instrument sounds reflecting local music cultures in regions such as Asia, the Middle East, Africa, and Latin America.

Promoting Musical Instrument Education and Developing New Markets

As of March 31, 2020, we have provided a cumulative total of approximately 390,000 children with instrumental music education within their school education. Going forward, we will expand this provision to cover a cumulative total of one million children in seven countries. Through these activities, we will seek to understand and analyze the conditions of music-related activities in the markets of Asian and African countries, thereby developing new markets.

➡ Fiscal 2020 Initiatives

- India: Expansion of sales networks, improvement of solicitation capabilities through guitar wall displays in stores, beginning of shipments from factories of acoustic guitars manufactured locally for the India market

Guitar wall displays in store


Factory in India that has begun production and shipments for this market

- ASEAN region: On-schedule progress in developing sales networks, enhancement of existing stores, promotion of digital marketing, and redoubling of approach toward middle-income earners

Expand Business Domains
Broader

Expanding Business Domains into Growth Markets and Accelerating Growth

We will expand our domains in the audio equipment business and promote a shift in the industrial machinery and components business to focus on in-vehicle solutions. In these ways, we will expand sales in growth markets.

Commercial Audio Equipment: Realize 30% growth over three years

We will pursue a full-scale expansion into commercial audio equipment domains including not only live performances and music events but also in churches, concert halls, retail spaces, and corporate conference rooms.

	Live performances / music events	Churches / halls / broadcasting studios	Retail space background music / conference equipment
Market scale	¥200 billion	¥350 billion	¥500 billion
Market growth rate	+8%	+5%	+10%
Direction	Yamaha's existing strengths → Further expand domain		

➡ Fiscal 2020 Initiatives

Higher sales following increases in equipment installation projects in Japan and product sales in emerging countries

AV Products: Transform our business portfolio

We will realize growth by shifting product lineups toward the personal audio domain, such as wireless speakers, to accommodate changing lifestyles.

	Hi-Fi, AV receivers	Sound bars	Wireless speakers	Headphones
Market scale	¥250 billion	¥550 billion	¥1 trillion	¥1.5 trillion
Market growth rate	–8%	+12%	+12%	+40%
Direction	Yamaha's existing strengths → Further expand domain			

➡ Fiscal 2020 Initiatives

Launch of headphones and earphones designed to protect user hearing and progress in transforming business portfolio of sound bars and other equipment operations

In-Vehicle Components: Realize 30% growth over three years

Going beyond interior wood panels, we will leverage our strengths to expand into the comprehensive in-vehicle solutions domain, including integrated sound, voice, and noise control systems for vehicle interiors.

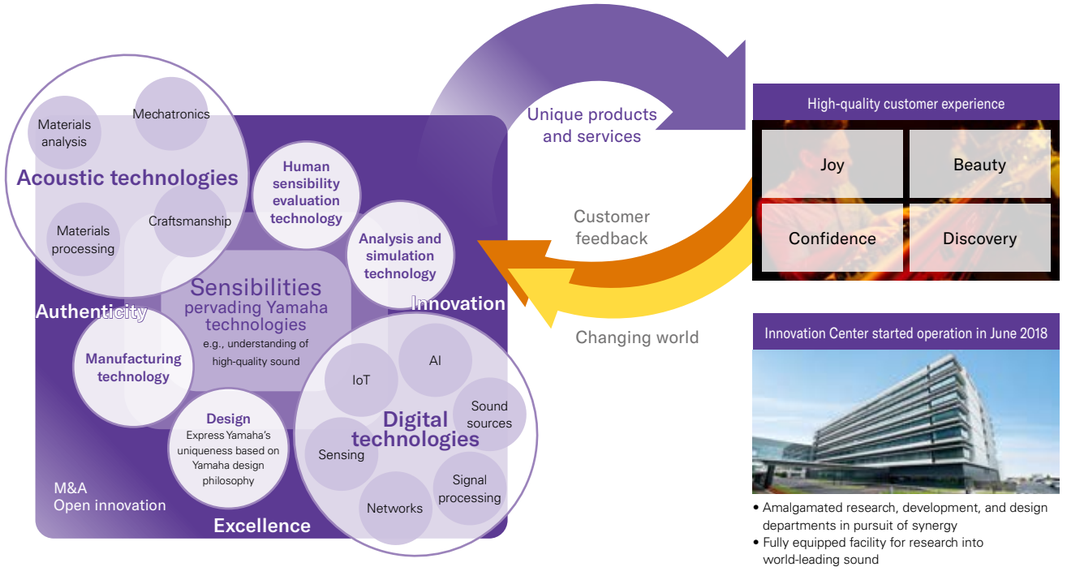
	Interior panels	Microphone modules	Audio systems
Market scale	¥100 billion	¥100 billion	¥600 billion
Market growth rate	+5%	+40%	+10%
Direction	Yamaha's existing strengths → Further expand domain		

➡ Fiscal 2020 Initiatives

Progress in deliveries of in-vehicle products in line with expectations

Create New Value
Create New Value by Combining Technologies and Sensibilities

We will create new value by leveraging our unique strength of combining technologies and sensibilities. Based on the changes occurring around the world and the feedback we have received from customers, we will provide unique products and services to our customers by making full use of our technologies for the scientific evaluation of assessing human sensibilities as well as our analysis and simulation technologies. We will also offer such products and services by melding the technologies we possess, including our acoustic and digital technologies.



- Amalgamated research, development, and design departments in pursuit of synergy
- Fully equipped facility for research into world-leading sound

Yamaha Strength of Combining Technologies and Sensibilities

Evaluating sensibilities regarding what determines a good sound or a good sound environment is not something that can be done simply by analyzing quantitative data. The source of our competitiveness lies in our deep understanding and insight toward sensibility value cultivated through our long history, which started with the creation of musical instruments. Leveraging our core competency pertaining to this sensibility evaluation as our foundation, we are able to combine a wide variety of technologies, including acoustic and digital technologies, human sensibility evaluation technologies, and analysis and simulation technologies. This in turn enables us to provide unique products and services that cannot be imitated by competitors. In addition, by earnestly dealing with the changes occurring around the world and the feedback from our customers, we will draw on our diverse lineup of technologies to the greatest extent possible in order to provide new value, products, and services.

Products and Services
Enhance added value by pursuing combination of authenticity and innovation

Pursuing Authenticity

Tireless enhancement of expressive power: In the musical instruments domain, we will strengthen our ties with leading artists. At the same time, through a scientific approach, we will aim to develop products that pursue the highest levels of expressive power. In the audio equipment domain, we will pursue audio characteristics by leveraging various cutting-edge technologies, such as materials technology and analysis and simulation technology.

Scientific study of human sensibility: We will study human sensibility and tacit knowledge of accomplished players and forge ahead with development processes that pursue the essence of high-quality sound. By doing so, we will promote the development of products that cannot be imitated by competitors.

Pursuing Innovation

Efforts to spur innovation: In June 2018, we established the Innovation Center R&D building with equipment that handles leading-edge research and experiments at our headquarters, thereby bringing together all of our engineers. Leveraging the Innovation Center, we will meld various technologies in a manner that goes beyond business domains in order to create new value. In addition, we will use IoT to not only provide customer support but also accelerate the development of customer-driven products and services.

Harness AI for technological innovation: By promoting our long-cultivated strength of combining technologies and sensibilities together with AI technologies, we will personalize accompaniment and music lessons as well as automate and assist professional audio equipment operations. In these ways, we will pursue the development of products and services unique to Yamaha.

➡ Fiscal 2020 Initiatives

For more information, please refer to "Research and Development" on page 62.

Development of Products with Distinctive Individuality in Fiscal 2020

Numerous products with distinctive individuality were developed to match diverse needs by merging wide-ranging technologies through the combination of Yamaha's strengths in technologies and sensibilities.

Clavinova™ digital piano

THR-II guitar amplifier

TW-E7A truly wireless Bluetooth earphones

TOPICS: Synergies between Social Change and Unique Products and Services

Deployment of silent musical instruments to address growth in demand related to people staying at home as well as pianos, guitars, wind instruments, and various other instruments

Support for remote piano performances and entrance exams linking Japan and China to Germany (See page 14 for details)

SYNCROOM online remote ensemble performance service (See page 13 for details)

Business Platform to Drive Value Creation

Establish business platform to drive profitability

Profitability = customer value × productivity

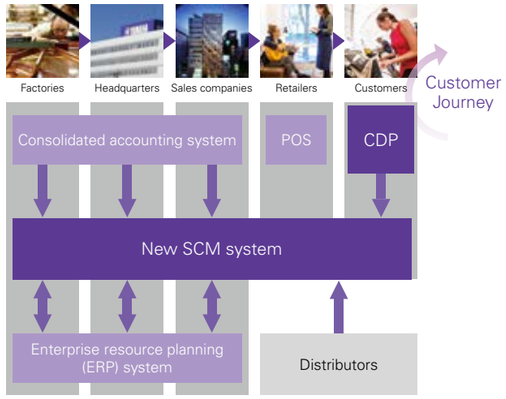
Promoting a Digital Transformation

To deepen our ties with customers, we will focus our efforts on reinforcing business platforms such as our customer data platform (CDP) and new supply chain management (SCM) systems. In addition, through the promotion of a digital transformation, we will transform our business processes themselves in an effort to promote productivity.

Establishing a Foundation for Global Human Resource Management

We will transition from region-specific human resource systems to a Groupwide, globally shared system. We will also promote the cross-border allocating of human resources and the discovery and development of managerial talent. Additionally, we will step up our efforts toward diversity and protecting human rights.

Goals of Digital Transformation (Customer Data Platforms, Next-Generation SCM, and Process Reforms)



Digital Transformation Initiatives

The Companywide Digital Transformation Strategy Committee was established in fiscal 2020, installing a structure for promoting digital transformation strategies, and progress was made in digital transformation in various business and operational fields.

Initiative	Aim	Implementation process
Establishment of CDP	Build CRM platform to develop closer customer ties	Digital Transformation Strategy Committee (New): Development and establishment of CDP → Full-scale start of operations and global rollout; Progress in the first year of Make Waves 1.0
Operation of next-generation SCM systems	Innovate SCM systems to optimize efficient operation with customer information	System trial → Full-scale start of operations and global rollout; Progress in the first year of Make Waves 1.0
Promotion of business process transformation	■ Reform all work processes through digital transformation initiatives ■ Expand introduction of agile methods to development process ■ Seamlessly connect accounting systems to frontline operations ■ Utilize robotic process automation (RPA) to automate routine work	Establishment of systems and frameworks → Advancement of digital transformation activities (optimization and reforms); Progress in the first year of Make Waves 1.0

2019/4 → 2022/3

Key strategy 3

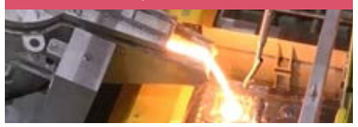
Enhance Productivity

Boosting Profitability by Improving Productivity

We will work to optimize pricing by enhancing added value and strengthening efforts to showcase our product value. At the same time, we will strive to continuously reduce production costs. In addition, we will perform a zero-based analysis of expenditures and promote a shift toward strategic spending aimed at improving customer value. In these ways, we will reinforce profitability going forward.

Optimize pricing

Reduce production costs



Use expenditures strategically

Optimize Pricing, Reduce Production Costs, and Use Expenditures Strategically

Optimizing Pricing

We will create new added value for our products and services and make concerted efforts to promote product value. By doing so, we will optimize our selling prices to reflect the increased amount of added value, thereby improving profitability.

Reducing Production Costs

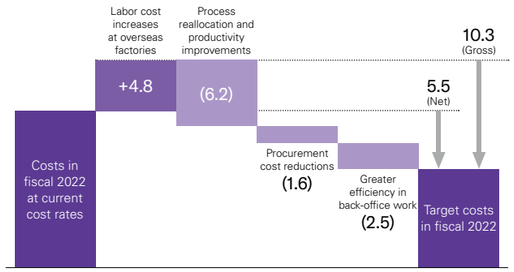
We will reduce production costs by reorganizing production processes on a global scale, including transferring production processes conventionally performed in Japan to our overseas plants. For procurement, we will transition from our conventional component procurement methods, which were previously conducted by each plant, to regional-specific procurement as well as comprehensive purchasing by our headquarters. In this way, we will work to lower procurement costs. Additionally, we will significantly reduce costs by expanding automated production lines used in Japan to overseas locations and promoting labor-saving activities through the use of IT. Through such efforts, we aim to achieve cost reductions totaling ¥5.5 billion over the three-year period of Make Waves 1.0.

Using Expenditures Strategically

We will perform a zero-based analysis of expenditures and promote a shift toward strategic spending aimed at improving future customer value, rather than simply pursuing cost reductions. This shift will be realized in such ways as transforming our business processes through a digital transformation.

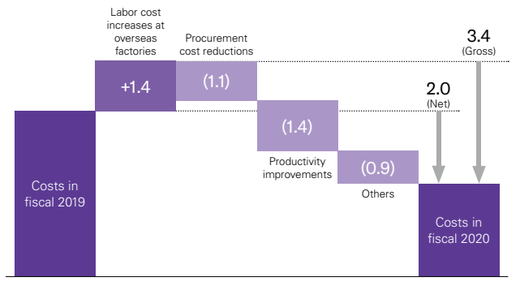
Analysis of Projected Cost Reductions over the Period of Make Waves 1.0 (Fiscal 2020–2022)

(Billions of yen)



Cost Reduction Analysis

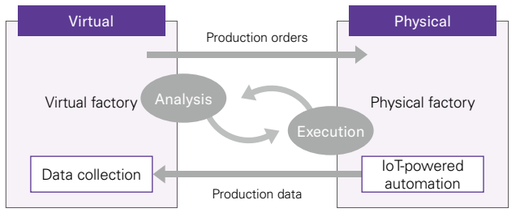
(Billions of yen)



➡ Fiscal 2020 Initiatives

In the first year of Make Waves 1.0, cost reductions amounted to ¥3.4 billion on a gross basis and ¥2.0 billion on a net basis adjusting for the increase in overseas labor costs. In addition, progress was made in transferring production processes, consistently procuring parts and materials through bulk purchasing, and equipment automation trials for improving productivity. We also advanced discussions on standardizing production management procedures for our diverse line of products through digital transformation along with digital twin production management initiatives implemented through an IoT-powered trial of a production data collection system.

Digital Twin Production Management



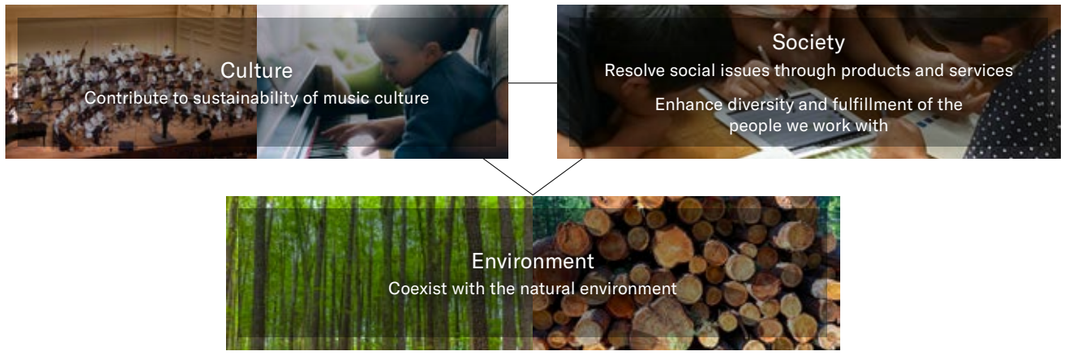
MAKE WAVES 1.0 MEDIUM-TERM MANAGEMENT PLAN

Key strategy 4

Contribute to Society through Our Businesses

Contributing to the Sustainable Development of Music Culture and Society

We will contribute to the global music scene through the provision of diverse musical instruments. We will work to spread musical instrument education in emerging countries. In this manner, we will not only contribute to the sustainability of music culture but also work to resolve social issues through our products and services. Also, we will realize a peaceful coexistence with the natural environment through such efforts as promoting the sustainable procurement of timber and developing environmentally friendly products.



Culture
Contribute to sustainability of music culture

Contributing to the Sustainability of Music Culture

By offering a diverse lineup of musical instruments, we will contribute to the global music scene. In addition, through such initiatives as globally expanding Yamaha Music Schools and promoting activities to spread musical instrument education at schools in emerging countries (see page 17), we will extensively convey the joy of music across the globe.


Spreading musical instrument education in emerging markets


Supporting education in the schools for children of migrant workers in China


Overseas music school lesson


Recorder lesson in South Africa

Contribute to global music scene by supplying a diverse range of musical instruments

Launch approximately 800 models (over 3 years)

Spread the joy of music through music school business

30% growth in students at overseas music schools (over 3 years)

Promote musical instrument education in school music lessons in emerging markets

3,000 schools in 7 countries, cumulative total of 1 million students

Support education in schools for children of migrant workers in China by donating musical instruments

Support 18 schools (over 3 years)

➡ Fiscal 2020 Initiatives

- Provision of opportunities for musical instrument performance experiences to an aggregate total of roughly 390,000 children at approximately 1,500 schools in five countries (Malaysia, Indonesia, Russia, Vietnam, and India) as of March 31, 2020
- Decision to conduct the School Project in Egypt starting from fiscal 2021

Society
Resolve social issues through products and services
Enhance diversity and fulfillment of the people we work with

Resolving Social Issues through Our Products and Services

We will support the healthy development of youth through music popularization activities in Latin America. We will also work to revitalize communities through the *Oto-Machi* Project, which aims to create communities filled with music in Japan. By doing so, we will carry out continuous efforts to leverage our products and services with the aim of resolving the various social issues facing each country and region of operation.

Enhancing Diversity and Fulfillment among All Employees

We will take steps to create an environment where diverse personnel can make full use of their individuality and creativity. Also, with the aim of preventing human rights violations, we will promote human rights due diligence across our entire supply chain.


I'm a HERO Program in Colombia


Shibuya Zunchaka! *Oto-Machi* Project in Japan


Promoting flexible workstyles such as teleworking


Establishment of an in-house childcare facility (August 2019)

➡ Fiscal 2020 Initiatives

- Identification and specification of important human rights issues and supplementation of Group regulations and rules with necessary elements from human rights perspective to facilitate promotion of human rights due diligence; comprehensive human rights assessments to be advanced through monitoring of compliance status going forward
- Launch of earphones equipped with proprietary Listening Care technology for reducing burden placed on listener's ears as new product proposing solutions to social issues; provision of new value to fulfill social mission as a company with a business model centered on sound and music through the development of products that allow users to enjoy high-quality sound while also protecting their hearing

For more information on progress with regard to these and other themes, please refer to "Sustainability Priorities and Progress" on pages 20–21.

Environment
Coexist with the natural environment

Utilizing Sustainable Timber

We will promote due diligence to avoid the purchase of timber from illegal sources. Additionally, we will aim to expand our utilization rate of certified timber (target of 50%), which is produced from sustainable forests. Furthermore, we will promote the sustainable use of timber through a broad range of efforts, such as undertaking activities to sustainably conserve scarce timber resources in collaboration with local communities and promoting collaborative research with academia including Kyoto University.


Activities to conserve scarce timber resources in Tanzania


Yamaha Eco-Products (environmentally friendly material)

Developing Environmentally Friendly Products

We will create environmentally friendly products through the Yamaha Eco-Products Program*1 (deployment of 120 models over three years) and promote the development of sustainable resources that can be used in place of scarce timber.

Reducing GHG Emissions

We will work to meet our Science Based Target (SBT)*2 through such means as installing highly energy-efficient equipment and shifting toward renewable energy sources. Also, we will work to reduce GHG emissions throughout our entire value chain through the development of energy-saving products and the streamlining of distribution, among other initiatives.

*1 Environmentally friendly products certified as meeting standards established by Yamaha

*2 A Science Based Target to achieve the 2°C GHG emission reduction goal set in the Paris Agreement (32% reduction by fiscal 2031)

➡ Fiscal 2020 Initiatives

- Confirmation that 98.8% (volume ratio) of procured timber was low risk by assessing the place of origin, the legality of harvesting, and the sustainability of relevant resources for all suppliers of timber
- Certified timber projected to constitute 46% (by volume, compared with 28% in fiscal 2020) of timber purchases anticipated in fiscal 2021, representing smooth progress toward goal of achieving a 50% purchasing ratio of certified timber over the period of Make Waves 1.0

Satoshi Yamahata
Director and Managing Executive Officer
Executive General Manager of
Corporate Management Unit
Executive General Manager of
Human Resources and
General Administration Unit

Yamaha will seize the opportunity to accelerate its evolution presented by the current adversity in its ongoing quest to improve corporate value.

Review of the First Year of Make Waves 1.0

In fiscal 2020, the first year of the Make Waves 1.0 medium-term management plan, Yamaha posted year-on-year declines in revenue and profit, despite the strong performance seen centered on musical instruments leading up to the third quarter, as a result of impacts of the spread of COVID-19 in the fourth quarter.

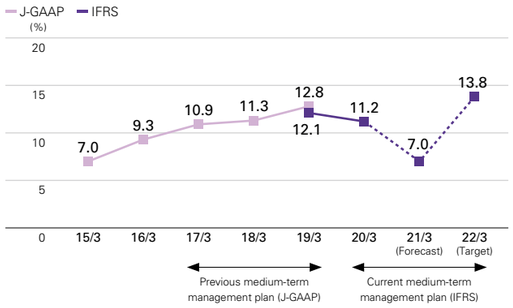
Revenue was down ¥20.1 billion, or 4.6%, year on year, to ¥414.2 billion. Factors behind this decline included reductions of ¥13.7 billion as a result of COVID-19 and ¥13.1 billion from foreign exchange influences as well as the impacts of stagnancy in the industrial machinery and components business.

Core operating profit decreased ¥6.4 billion, or 12.1%, to ¥46.4 billion, following the impact of COVID-19 and a reduction of ¥6.5 billion attributable to the foreign exchange influences as well as to the deterioration in performance of the industrial machinery and components business. Similarly, profit attributable to owners of parent declined ¥5.7 billion, or 14.2%, to ¥34.6 billion. Factors behind this decline included the decrease in core operating profit as well as a ¥1.4 billion loss from suspension of operations attributable to closures of directly operated stores and music schools stemming from the spread of COVID-19 and halts to factory operations and a ¥3.3 billion impairment loss on fixed assets. Both of these losses were recorded under other expenses.*3

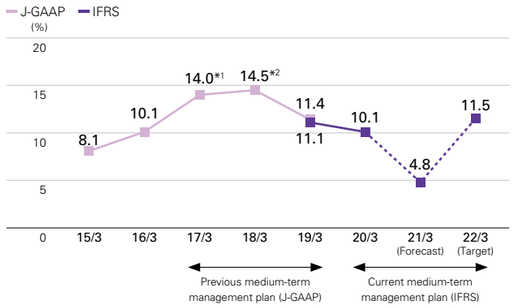
As a result, the core operating profit ratio was 11.2%, ROE was 10.1%, and EPS was ¥195. The figures for all of these key performance indicators (KPIs), for which financial targets were set in the medium-term management plan, were down year on year.

*3 Equivalent to extraordinary loss under J-GAAP standards

Core Operating Profit Ratio (Operating Income Ratio)

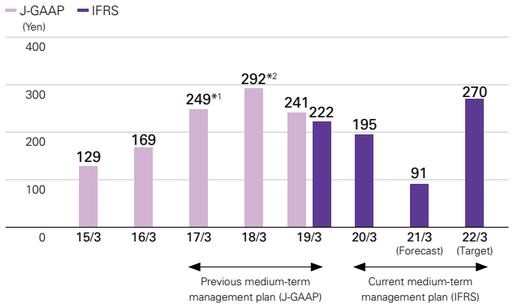


ROE



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

EPS



Core operating profit is forecast to decline ¥21.4 billion, or 46.1%, year on year, to ¥25.0 billion, and profit attributable to owners of parent is projected to decrease ¥18.6 billion, or 53.8%, to ¥16.0 billion. While we will strive to reduce fixed costs, we will not be able to avert the massive drop in revenue projected to occur due to the aforementioned factors and to be concentrated largely in the first half of the fiscal year.

Given this outlook, we will take steps to minimize the impact on free cash flows including cutting fixed costs, reducing inventories and accounts receivable, and revising investment plans. At the same time, Yamaha will continue to invest in growth under the new normal while also drastically revising expenses previously thought to be matter of course in order to better focus our expenses. The operating environment may be challenging, but we see this adversity as a prime opportunity to improve our corporate constitution.

Forecast for the Second Year of Make Wave 1.0

When announcing first-quarter financial results for fiscal 2021, the Company presented the forecast for revenue of ¥355.0 billion in fiscal 2021, a decrease of ¥59.2 billion, or 14.3%, year on year. Demand remains solid for products that can be sold online and that are supported by the demand created by people staying at home to prevent the spread of COVID-19, such as digital pianos, guitars, and AV products. However, we are facing issues in securing supply to meet this demand due to decreased factory operation as a result of the pandemic. Conversely, market conditions are rough for acoustic pianos and wind instruments, which are primarily sold in stores, and professional audio equipment, which are being impacted as concerts and other live music events are curtailed.

Balance between Financial Health and Capital Efficiency

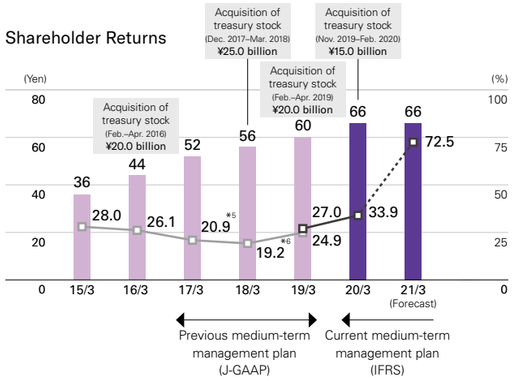
Performance is expected to continue to suffer due to the COVID-19 pandemic. Regardless, we chose not to deviate from our initial dividend forecast for fiscal 2020, issuing dividend payments of ¥66 per share, making for a year-on-year increase of ¥6 per share and a dividend payout ratio of 33.9%, a move that won much praise from shareholders and investors. We will adhere to our policy of issuing steady and continuous dividends in fiscal 2021 as well, despite the massive projected decreases in revenue and profit, by once again issuing dividend payments of ¥66 per share for a forecast dividend payout ratio of 72.5%.

On June 30, 2020, cash and deposits totaled ¥90.0 billion and the equity ratio*4 climbed above 70%. This level of cash reserves and financial health is no doubt a source of peace of mind with regard to Yamaha's ability to respond to emergency conditions.

For our capital measures, we have put forth the target of achieving a total return ratio of 50% on an aggregate basis over the period of the medium-term management plan. In addition to issuing dividend payments of ¥66 per share in fiscal 2020, we also conducted share buybacks totaling

Financial Strategy

Shareholder Returns



Annual per-share dividend — Dividend payout ratio (right)

*5 Including the recording of deferred tax assets

*6 Including gain on sales of a portion of shares in Yamaha Motor Co., Ltd.

¥15.0 billion with the aim of improving capital efficiency. Going forward, we will continue to issue shareholder returns in line with the policies of the medium-term management plan.

I am confident that balanced capital measures entailing proactive shareholder returns emphasizing capital efficiency together with a focus on financial health will contribute to improved shareholder value over the medium to long term.

*4 Equity ratio attributable to owners of parent under IFRS

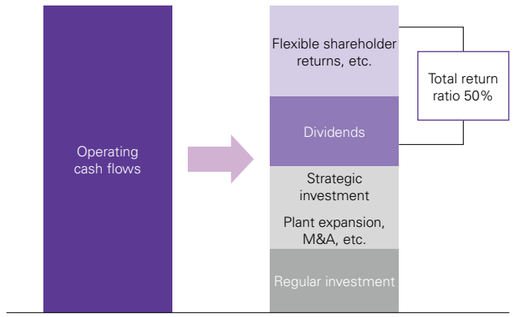
Enhancement of Internal Controls for Financial Reporting

In fiscal 2020, the Company began preparing its financial statements based on International Financial Reporting Standards (IFRS) in order to raise the transparency of financial information disclosed to the global capital market and enhance management of financial information.

We were able to successfully transition to IFRS, but the impacts of the spread of COVID-19 during the period when we were preparing the financial statements for fiscal 2020 made the work of our accounting team quite taxing. In mid-March 2020, lockdowns were instituted in various countries. We responded by shifting to teleworking, but we had to delay the announcement of our financial results for fiscal 2020, originally scheduled for May 7, by about three weeks. Although this situation caused great inconvenience to shareholders and other investors, we were still able to announce financial results on May 26, a timing that prevented any impediments to holding the General Meeting of Shareholders. Prior to the delayed announcement of the financial results, we endeavored to supply shareholders and investors with all information possible. The financial results announcement was thus preceded by disclosure on the operating status of Group companies in April 2020 and of business- and region-specific revenue forecasts in early May. This diligent disclosure earned praise from the Tokyo Stock Exchange, among others.

At the same time, this experience brought to light other issues. For example, processes were impeded, at least a little, by the dependence on paper and ink stamps in Japan. Accordingly, Yamaha is accelerating its shift toward paperless operations and electronic approval out of consideration for the projected second and third waves of COVID-19 infections.

Plans for Cash Flows



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

Improvement of Profitability and Optimization of Inventories

Although we will have to weather the temporary impacts of the pandemic, there will be no change to the basic direction of the strategies put forth in the medium-term management plan. Accomplishing the financial targets for the three defined KPIs (core operating profit ratio, ROE, and EPS) will hinge on the improvement of the core operating profit ratio. The following four initiatives will be advanced side by side with the aim of achieving these goals going forward.

The first initiative will be to achieve top-line growth. The high marginal profit ratio of Yamaha products means that growth in sales will drive improvements in the core operating profit ratio. The expansion of sales centered on emerging countries will thus be key to achieving such improvements. The pursuit of such sales growth has therefore been positioned as a key strategy, despite the unfavorable macroeconomic conditions and currency depreciation trends projected.

The second initiative will be to deliver greater levels of value through the launch of unique and differentiated products. Yamaha has proceeded to build the reputation of its musical instrument business through the ongoing release of high-value-added products. Similarly, we are launching unique and differentiated high-value-added products in our audio equipment business, such as wireless earphones equipped with our proprietary Listening Care technology. Going forward, we will continue to enhance our audio equipment business product portfolio.

The third initiative will be the ongoing reduction of costs. We are targeting a net cost reduction of ¥5.5 billion over the three-year period of the medium-term management plan. Cost reductions amounted to ¥2.0 billion in the first year of the plan. In the second year, we will be forced to prioritize efforts for improving the operating ratios of factories in response to the pandemic, which will slow reductions in costs. However, this does not change the fact that reducing costs will be a key strategy going forward.

The fourth and final initiative will be to leverage our dominating market presence to optimize product selling prices. Steady progress was made with this regard during the first year of the plan, contributing to improvements in the core operating profit ratio.

Meanwhile, a financial task that will be important over the medium to long term will be maintaining inventories at the optimal level. We have been ramping up monitoring based on indicators such as the cash conversion cycle, but these efforts have been ineffective in curbing increases in inventories stemming from the physiological fear of missing out on sales opportunities. Accordingly, we will be approaching the optimization of inventories from the perspectives of digital transformation and frontline awareness improvement going forward.

Further Improvement of Corporate Value

The current medium-term management plan, launched in April 2019, illustrates a narrative for improving corporate value centered on the concept of integrated thinking. Corporate value is a reflection of the evaluation of various factors, including financial performance, future growth potential, brand power, and initiatives for contributing to the accomplishment of the United Nations SDGs.

Based on this recognition, the medium-term management plan includes three non-financial targets that stand alongside its financial targets. Performance with regard to these non-financial targets in the first year of the plan met or exceeded our expectations. Corporate brand value*7 was up 15% year on year, compared with the three-year target of achieving a 30% improvement. Efforts to promote music popularization for learning musical instruments in emerging markets saw us offering support to an aggregate total of 390,000 children, making progress toward the target of one million. In addition, we are expecting a ratio of certified timber use of 46% on March 31, 2021, close to the target of 50%.

In addition to pursuing these three non-financial targets, we also carried out environmental, social, and governance (ESG) initiatives. In environmental initiatives, we implemented the Yamaha Eco-Products Program*8 and moved forward with other efforts for reducing CO_2 emissions. As for governance, having transitioned to a Company with Three Committees (Nominating, Audit, and Compensation committees) in 2017 to enhance the Board of Directors' oversight function and expedite execution, we sought to further increase the functionality of this structure. Specifically, we established the new position of audit officer in fiscal 2020 to augment audit functions.

For risk management, Yamaha classifies risks into 32 risk categories (nine business strategy risks to consider taking and 23 fundamental risks to be avoided) and 121 sub-categories. Risks maps are then prepared based on the frequency of materialization and scope of damages upon materialization, and the Company's response capabilities are assessed and quantified. The risk maps are designated as an important item to be reported to the Board of Directors, and the accuracy of risk maps is improved based on the feedback received from the Board. In addition, shared Group rules are in place for individual countries, and a PDCA cycle based on uniform standards is implemented on an ongoing basis.

*7 Combined brand value of Yamaha Corporation and Yamaha Motor Co., Ltd., based on Best Japan Brands 2020, issued by Interbrand Japan, Inc.

*8 Environmentally friendly products certified as meeting standards established by Yamaha

Adversity as an Opportunity for Evolution

Yamaha will have to take various measures to respond to extreme circumstances in fiscal 2021. However, we have chosen not to view this year merely as a time for responding to negative conditions, rather viewing the adversity as presenting an opportunity for implementing various reforms. This year will be a prime opportunity to enact or accelerate reforms that may have been neglected previously. For example, we look to ramp up digital transformation strategies in a wide range of fields and expand teleworking and other work-style reforms. Capitalizing on adversity as an opportunity to further its evolution, Yamaha will march forward on its ongoing quest for improved corporate value.