Risk Factors

Among the matters covered in this annual report, items that may have a material impact on the decisions of investors include those listed and described below. In addition, information related to future events as described in the text is based on judgments made by the Yamaha Group at the end of the fiscal year under review.

1 Economic Conditions

The Yamaha Group has a global business presence and therefore is subject to the influence of economic conditions in Japan and other countries. Recessions in world markets and accompanying declines in demand may have a negative effect on the Group’s business results and the development of its business.

2 Price Competition

The Yamaha Group confronts severe competition in each of its business segments. For example, in the musical instruments segment, the Company is a comprehensive manufacturer of musical instruments and sells high-quality, high-performance instruments covering a broad price spectrum. However, the Company confronts competitors in each musical instruments segment, and competition in the lower price segments has become more intense, especially in recent years.

Also, in the audio equipment segment, the Yamaha Group is subject to competition from low-priced products. Changes in logistics and distribution and new technology trends could expose this business to even greater price competition, which could have an impact on the Group’s current strong position.

3 New Technology Development

The Yamaha Group will focus its management resources on the core business domains of sound and music. The Group will firmly establish itself as the world’s leading comprehensive musical instruments manufacturer. The audio equipment segment has been expanded, with a focus on the AV products category and PA equipment. The other segments have also been expanded, mainly in the areas of onboard devices, amusement equipment, and industrial parts and machinery.

Differentiating the Group’s technologies in the fields of sound, music, networks, and devices is essential for the Group’s further development and growth. In developing these technologies, if the Group does not continue to correctly forecast future market needs and adequately meet them, the added value of its products in the musical instruments segment will decline, which may lead to price competition. As a result, the Group may be unable to stimulate new demand for its products and may find it difficult to sustain the audio equipment and others businesses.

4 Business Investment

The Group makes business investments including capital investments to promote business growth. However, when making investment decisions, even though the Group monitors investment return and risk both qualitatively and quantitatively and makes careful, considered judgments, depending on circumstances, the Group may be unable to recover a portion or the full amount of its investments, or may decide to withdraw from a business, thereby resulting in additional losses. In such cases, the value of assets invested in such businesses may be subject to impairment.

5 Business Alliances

In recent years, partnership strategies, including alliances, joint ventures, and investments in other companies, have increased in importance for the Group. In some cases, the anticipated effects of such alliances and investments may not materialize because of conflicts of interest, or changes in the business strategies of the partner, or other reasons.

6 Dependence on Customers in Materials and Parts Business

The semiconductors, automobile interior wood components, and materials and parts that the Group manufactures and sells are affected by the business performance of the manufacturers who buy them.

When the bonds of trust between such customers and Group companies are impaired by delivery, quality, or other issues, this may have a negative impact on future orders. Moreover, customers may ask Group companies to compensate them for quality problems or other defects.

7 International Business and Overseas Expansion

The Yamaha Group has established a global presence, with production and sales bases in various parts of the world. Of the Group’s 66 consolidated subsidiaries, 46 are foreign corporations, of which 24 are manufacturing and production companies, with principal bases of operation in China, Indonesia, and Malaysia. Overseas sales comprise 66.1% of the Group’s net sales.
Various risks, including those listed below, are inherent to the expansion of business overseas. If such risks materialize, including adverse effects caused by an over-concentration of manufacturing facilities in a particular region, the Group may not be able to provide stable supplies of its products. Such risks include:
(a) Political and economic turmoil, terrorism, and war
(b) Introduction of adverse policies or imposition of, or changes in regulations
(c) Unexpected changes in laws or regulations
(d) Difficulty in recruiting personnel
(e) Sharp rises in personnel expenses and commodity prices
(f) Difficulty in procuring raw materials and parts as well as issues related to the level of technology
(g) Interruption of distribution due to harbor strikes, etc.
(h) Imposition of taxes under transfer pricing regulations
(i) Labor disputes including strikes

8 Raw Material Prices, Raw Material Supplies, and Logistics Costs

To manufacture its products, the Group uses raw materials, including lumber, metals such as copper, and plastics, for parts. Increases in the prices of these materials raise manufacturing costs. In addition, specific suppliers supply the Group with different raw materials. Supply conditions for those materials could have an impact on the Group's manufacturing activities.

In addition, when logistics costs increase due to sharply rising crude oil prices, the ratio of manufacturing costs and cost of sales to net sales may increase.

9 Declining Birthrates

In the Yamaha Group's core business of musical instruments, schools constitute an important sales channel, in addition to the Group's music schools and English language schools, whose students are primarily children. Declining birthrates, particularly in Japan, could lead to decreasing sales through these channels.

10 Recruitment and Training of Personnel

The average age of the Company's employees is relatively high, with a significant number in the upper age brackets and many approaching the set retirement age. Therefore, an important challenge for the Company is to address the changing composition of the workforce by passing on musical instrument manufacturing know-how and recruiting and training a new generation of employees. If the Company is unable to respond sufficiently to changes in the composition of its workforce, this could interfere with its business activities and future growth.

11 Protection and Use of Intellectual Property

The Group possesses intellectual property rights, including patents based on its proprietary technologies, and accumulated business know-how. Some of this intellectual property cannot be fully protected, or can only be partially protected because of legal constraints in certain regions. Therefore, the Group may not be able to effectively prevent third parties from using its intellectual property. As a result, some products of other companies may appear on the market that are similar to, or copies of, those of Group companies, thus interfering with Group sales.

In addition, third parties may claim that Group products infringe on their own intellectual property rights. As a result, sales of Group products that employ said intellectual property may be delayed or suspended.

In some cases, the Group licenses the intellectual property of third parties to produce key components for its products. Any increases in royalties paid for such intellectual property may result in higher manufacturing costs, which could affect price-competitiveness. Moreover, if the Group is unable to obtain a license, it may have to suspend manufacturing of the relevant product.

12 Defects in Products and Services

The Yamaha Group controls the quality of its products based on corporate quality assurance and product quality rules and regulations. However, there is no guarantee that all products will be free of defects. The Group is insured against product liability claims, as well as damages resulting from defects in certain products, but there is no guarantee that this insurance will be sufficient to cover any potential payments for damages. If product liability issues arise or a major recall is carried out, insurance rates are likely to increase. In that case, the cost to change the design of a product could increase significantly, or the Group's business reputation could be tarnished, which could cause sales to decline, and adversely affect the Group's performance and financial position.

Also, although the Group is very careful about safety and sanitation at the retail shops, music schools, recreation, and other facilities that it operates, in the event of an accident, the stores, schools, or facilities may have to temporarily suspend operation, which could damage the Group's reputation and lead to declining sales.

13 Legal Regulations

The Group's business operations throughout the world are subject to the laws and regulations of the countries and regions in which they operate. These laws and regulations include those pertaining to foreign investment, restrictions on exports and imports that may affect national security, commerce, anti-trust issues, consumer protection, tax systems, and environmental protection. In addition, the Group has an obligation to securely manage the personal information of its customers. The Yamaha Group takes every measure to implement compliance, but, if for some unexpected reason, it is unable to comply with laws and regulations, the Group's activities could be restricted and costs could increase as a result.
b. Unrealized Losses on Land Valuation

As of March 31, 2017, the market value of the Group’s land, revaluated in accordance with the Law Concerning Revaluation of Land, was ¥7.2 billion below the book value of said land after revaluation. In the event of the sale or disposal of said land, this unrealized loss may be recognized.

c. Retirement Benefit Obligations and Expenses

The Yamaha Group’s retirement benefit obligations and expenses are calculated based on its retirement benefit system, an estimated discount rate, and an expected rate of return on pension plan assets. In some cases, the retirement benefit system may change and the estimate of said obligations and expenses may differ from the actual results. As a result, retirement benefit obligations and expenses could increase.