

# *Make Waves 1.0*

Yamaha Medium-Term Management Plan

April 2019 – March 2022



## Key strategies progressed largely as planned, and medium-term targets have been achieved.

Note: projected figures are as of date of announcement of new medium-term plan (April 12, 2019)

### Progress on Key Strategies

**Develop products with distinctive individuality**

- Launched many unique products by merging technologies
- Won numerous design awards globally (Good Design Grand Award, etc.)



**Enhance customer interaction**

- Expanded account numbers (as planned) (10% increase in contract dealers, 50% increase in audio contractors)
- Promoted music popularization for learning musical instruments in emerging markets (to 260,000 people in cumulative total, 160% above target)

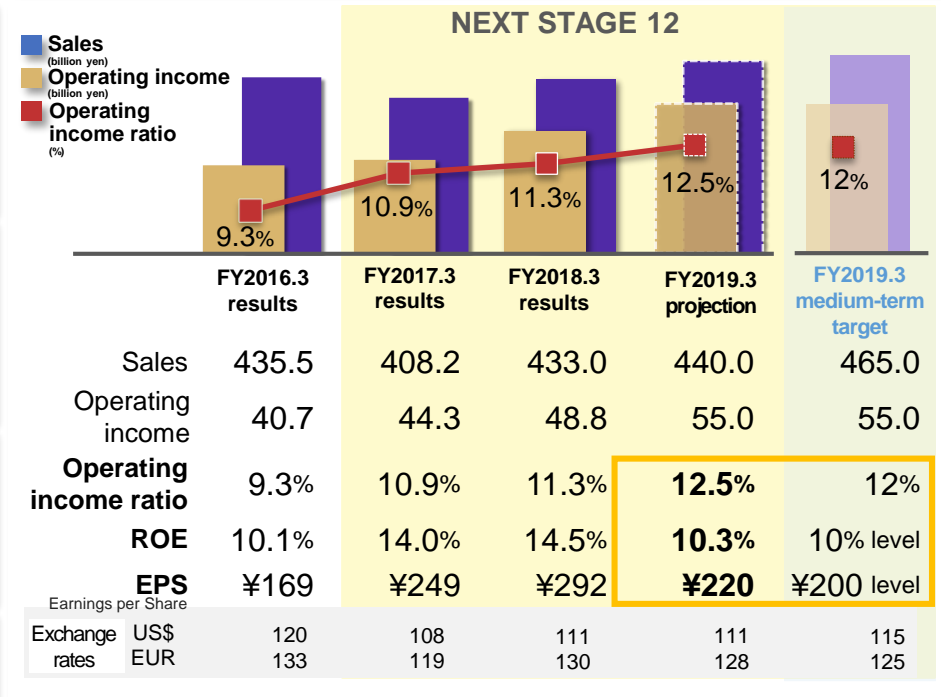
**Continually reduce costs**

- Progress in reducing costs did not fully compensate for rising procurement prices, and net cost savings amounted to ¥5.3 billion (vs. target of ¥8.0 billion)

**Strengthen global business platforms**

- Global human resource management, establishment of three global IT headquarters, and introduction of IFRS (in April 2019)

### Financial Results



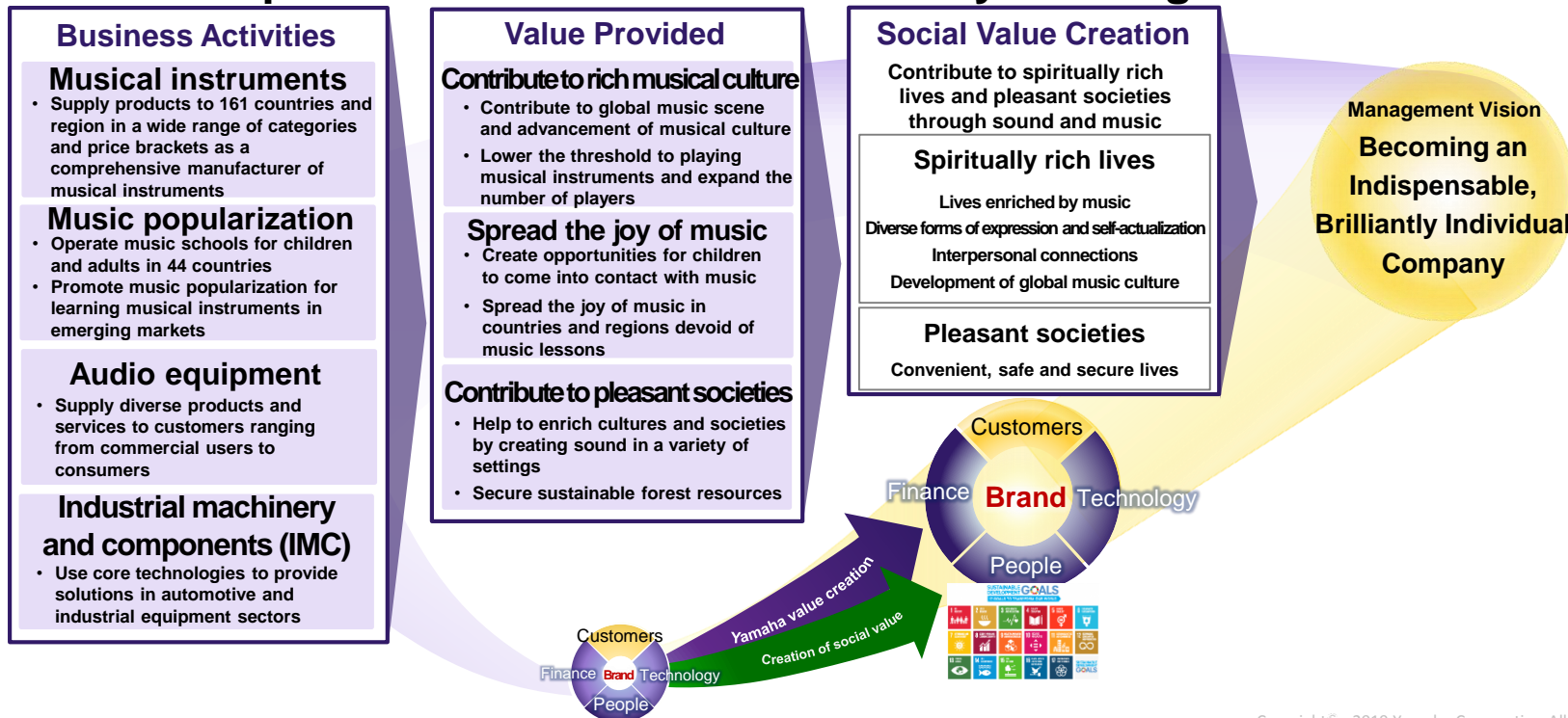
**Total Shareholder Return** **168% over 3 years**

**Management Vision**  
(Our future image  
in the medium-to-long term)

## Becoming an Indispensable, Brilliantly Individual Company

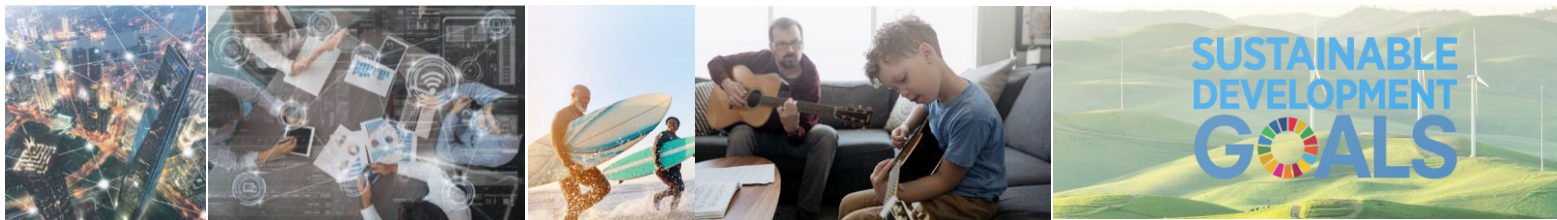
Boost brand power to become a highly profitable enterprise [Core operating income ratio of 20%]

### Enhance corporate value and realize vision by creating social value



The world is undergoing major changes at a rapid pace due to accelerated digitization and diversification of values

→ Combining **technology and sensibility** presents opportunities for Yamaha



### Transformations caused by accelerated digital technologies

- The industrial structure and the world in general are undergoing major change due to advances in digital technologies
- Closer, more direct customer interaction

### Greater diversity in lifestyles and sense of value

- AI and IoT technologies are taking automation and convenience to new levels
- As well as material wealth, people are seeking greater spiritual satisfaction and authenticity

### Rising awareness of sustainability

- Greater requirements for corporate social responsibility
- Broad awareness that social contribution links to corporate value creation in the medium to long term



### Regional macro-economic environment

- Although mature economies remain steady, uncertainties are increasing
- The pace of growth is slowing in China
- The general trend in emerging markets is expansion, but there are disparities among countries and regions

### Market outlook

Musical instruments: gradual expansion driven by growing middle class in emerging markets (+6%)

Audio equipment: expansion driven by technological innovation and commercial equipment demand (+8%)

Note: figures in parentheses indicate market growth over 3 years



Management Vision

**Become an Indispensable, Brilliantly Individual Company**

Boost brand power to become a highly profitable enterprise

(Core operating income ratio: 20%)

## New Medium-Term Management Plan

# *Make Waves 1.0*

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

Core operating income ratio\*: **13.8%**

Based on IFRS standards

2019 - 2022

2016-2019

**NEXT STAGE 12**

**Increase brand power**

Operating income ratio **12.5%**

Japanese A/C standards

Core operating income ratio\* **11.9%**

IFRS standards

2013-2016

**YMP2016**

**Increase profitability**

Operating income ratio **9.3%**

2010-2013

**YMP125**

**Rebuild business platform** Operating income ratio **2.5%**

\*Core operating income is equivalent to operating income under the Japanese accounting standards used prior to adoption of IFRS. However, sales discounts (amounting to ¥3 billion) are deducted from net sales (under Japanese accounting standards, they are classified as non-operating expenses).

# Basic Strategy and Management Objective

## Basic strategy

In a world undergoing major changes at a rapid pace,  
**Develop closer ties with customers and society,  
and boost value creation capabilities**

## Financial targets

(IFRS standards)

Boost profitability while also building stronger business platform for growth

**Core operating  
income ratio: 13.8%**

ROE: **11.5%**

EPS: **¥270**

## Non-financial targets

Corporate brand value\*: **+30%**

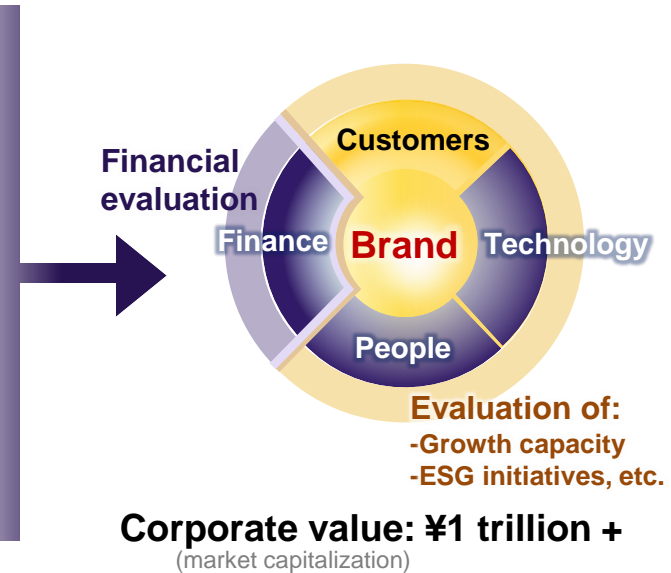
Music popularization for learning musical  
instruments in emerging markets:  
**1 million people**  
(in cumulative total)

Certified timber use: **50% of total use**

## Investment and shareholder return

**Well-balanced allocation to investment in growth and returns to shareholders**

Total return ratio: **50%**

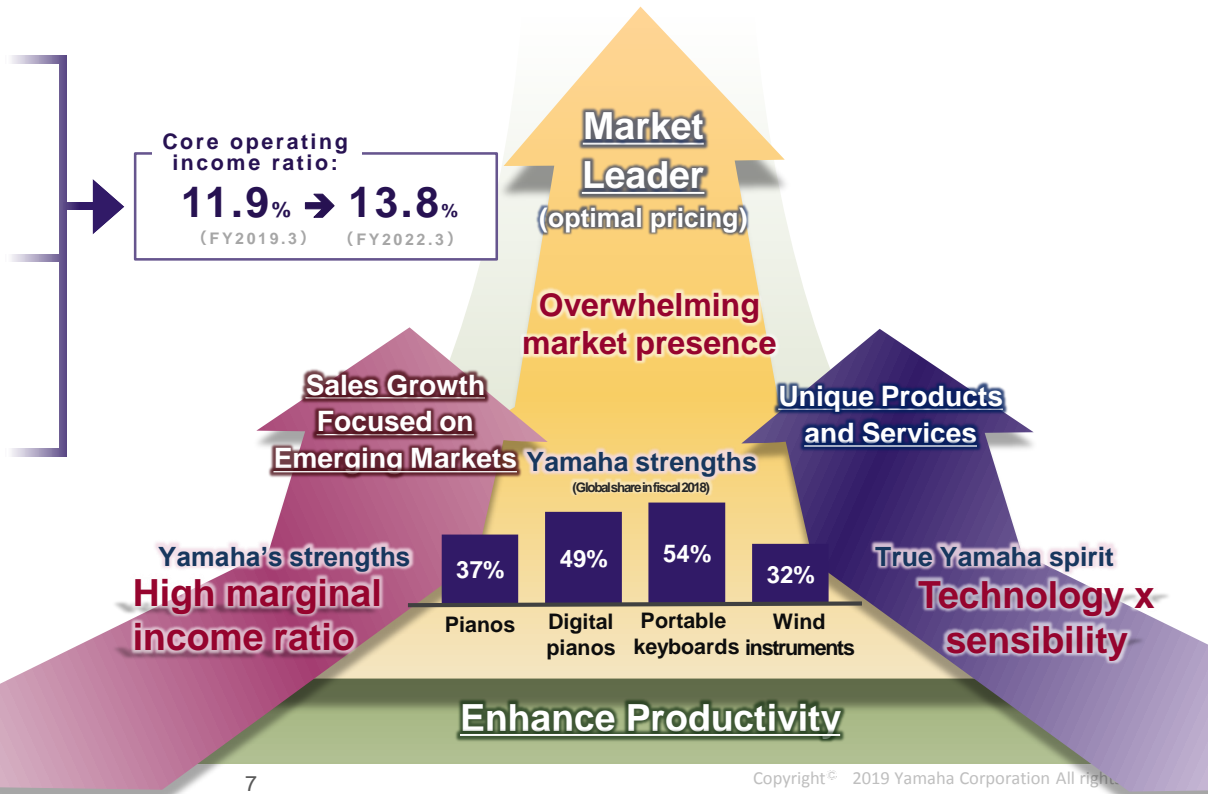


\*Brand value added with Yamaha and Yamaha Motor Company: \$1.2 billion  
(Best Japan Brands 2019 issued by Interbrand)

## Raise core operating income ratio to 14% level and aim for further increase

### Goals for each business

- Musical instruments: continue to improve profitability**  
 Core operating income ratio: **14.1% → 16.5%**  
(FY2019.3) (FY2022.3)
- Audio equipment: drive growth in business scale**  
 Core operating income ratio: **8.2% → 9.6%**  
(FY2019.3) (FY2022.3)
- Industrial machinery and components (IMC): strengthen base with a view to leaping ahead**  
 Core operating income ratio: **7.4% → 7.9%**  
(FY2019.3) (FY2022.3)

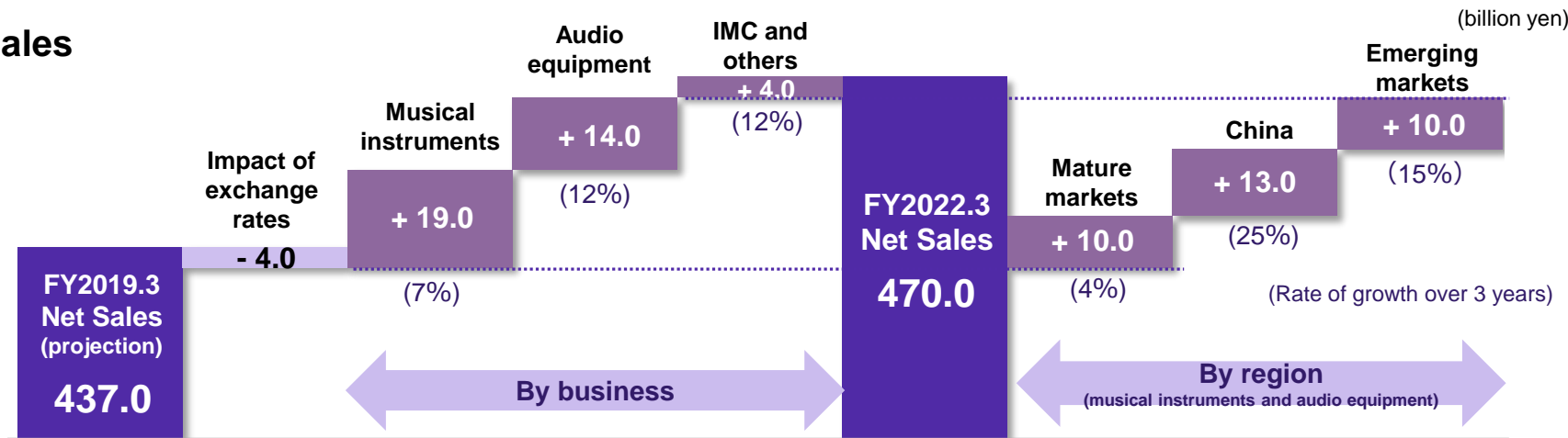


# Projected Growth Analysis (by business and by region)

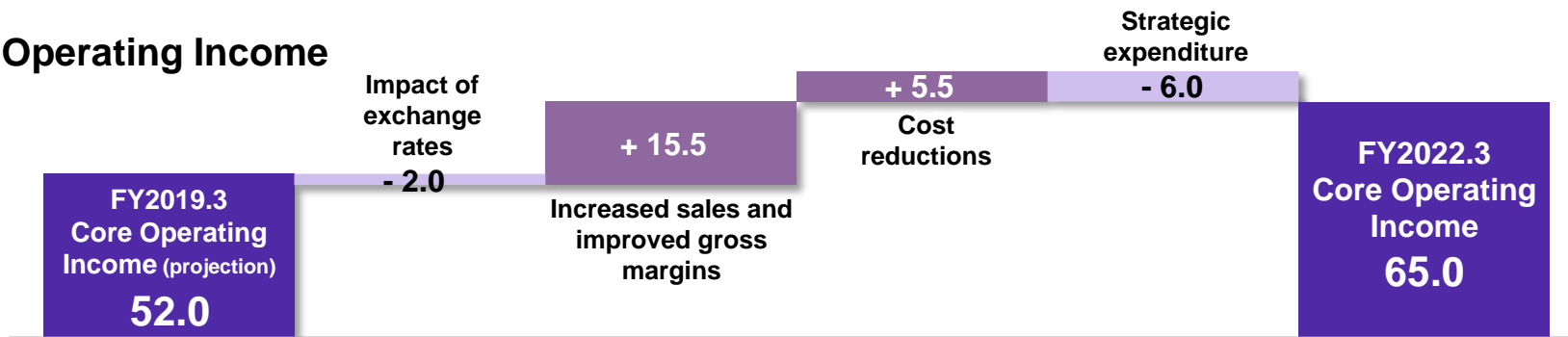
IFRS standards



## Net Sales



## Core Operating Income



Medium-term exchange rate assumptions:  
 US\$1 = ¥110 EUR1 = ¥125



# Key Strategies

*Make Waves 1.0*

Yamaha Medium-Term Management Plan

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 business



**Profitability = customer value x productivity**

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

## Develop broader, deeper, longer ties with customers

### (1) Reinforce customer interface

Broader, **Deeper**, **Longer**

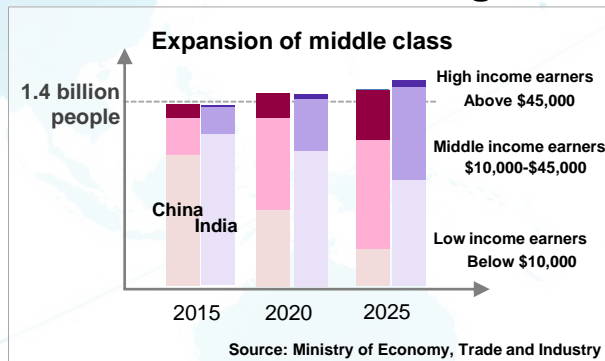
- Communicate brand appeal through brand promise
- Develop customer interface with focus on digital marketing

Contribute to lifetime value enhancement (communicate value proposition suited to customer life stages)

### (2) Achieve growth in emerging markets

**Broader**, Deeper, Longer

- Engage with middle income earners and accelerate growth



### (3) Expand business domains

**Broader**, Deeper, Longer

- Expand audio equipment business domain
- Shift IMC business domain into in-vehicle solutions

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

# Communicate brand appeal through brand promise



Establish emotionally appealing brand promise and roll out globally

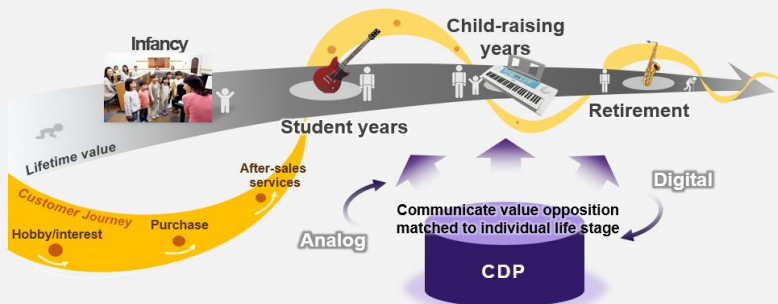
*Concept encapsulated in brand promise*

*To be a company that inspires its customers' passion and helps them make a step forward to express their individuality, emotion and creativity*

Develop customer interface with focus on digital marketing and build direct ties with customers

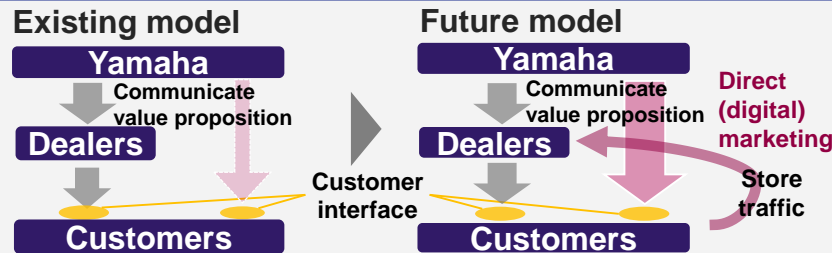
Contribute to enhanced lifetime value

- Build customer data platform (CDP) and maintain constant ties with customers by communicating value proposition matched to their life stages



Direct marketing and stores emphasizing hands-on experiences

- Use CDP to drive store traffic
- Shift directly-operated stores to stores offering hands-on experiences



Make use of e-commerce (especially for digital keyboard instruments, guitars, and AV products)

# Achieve 25% sales growth (over 3 years) by expanding sales networks and communicating brand appeal

## Achieve market growth/expand share

### ■ Pianos (share 36% → 40%)

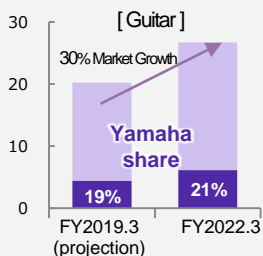
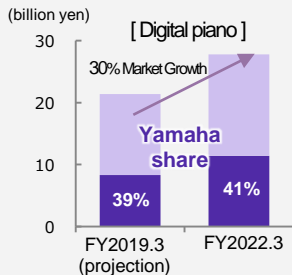
- Leverage technological capabilities and brand power to expand share even as pace of market growth slows

### ■ Digital pianos (40% growth in sales)

- Expand demand in educational market as well as hobby market
- Make efforts to attract new demand of purchases from local manufacturers

### ■ Guitars (35% growth in sales)

- Maximize use of brand, local production, and sales networks



## Reinforce customer interface

### ■ Accelerate sales network expansion

- Expand into tier-4 and tier-5 cities
- Expand number of outlets nationwide
- Double the number of Yamaha exclusive stores offering hands-on experiences



Stores widely distributed throughout China



Piano salons in Yamaha exclusive stores

### ■ Strengthen brand appeal

- Utilize brand ambassadors

### ■ Utilize digital tools to achieve nationwide coverage

- Promote e-commerce to expand customer coverage
- Accelerate digital marketing efforts

## Boost product power

### ■ Diverse product lineup

- China-specific models based on local needs
- Aggressive sales of high-added value products made in Japan
- Supply pianos made in Indonesia

## Efforts to increase educational demand

### ■ Expand music school business and promotional music lessons

- Increase student numbers by 50%

### ■ Efforts to increase demand among senior citizens

- Roll out music lessons for the 60+ senior age group (240 million people)



# Engage with middle income earners to grow by expanding sales networks and introducing local models

## Achieve 50% sales growth (over 3 years) in Indian market

### Expand sales networks, launch e-commerce

- Expand sales networks focusing on cities with populations of 1 million +
- Achieve nationwide coverage with e-commerce and individual delivery



Store coverage

### Unified manufacturing sales and marketing systems, products suited to local music culture

- Chennai plant starts shipping products in April 2019
- Local production of India exclusive models



Chennai plant



Local models for Indian market

### Develop demand from schools by promoting musical instrument education

- Target private schools to spread western music education and develop school sales channel

\* Latin America, Middle East/Africa, and Russia/CIS

## ASEAN/Other Markets\*

### Engage with middle income earners through store-based measures and use of e-commerce

- Transform stores to emphasize hands-on experiences and expand number of directly operated stores
- Utilize e-commerce to establish omni-channel sales



Flagship store in Singapore

### Develop local models suited to indigenous music cultures



### Promote musical instrument education and develop new markets

- Promote music popularization for learning musical instruments in school music lessons

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

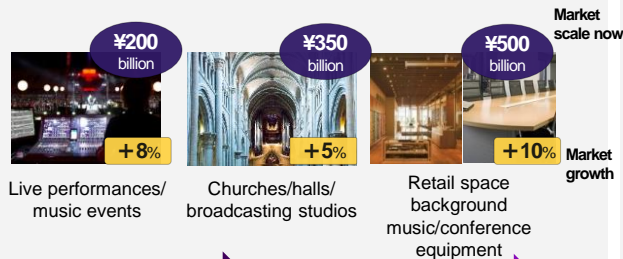
- Develop markets in Africa and Asian countries such as Bangladesh and Myanmar

# Expand business domains into growth markets and accelerate growth

## Commercial audio equipment: 30% growth (over 3 years)

### Accelerate growth in engineering and installation domain

- Full-scale expansion into installation and engineering domain for churches, halls, retail spaces, conference rooms, etc.



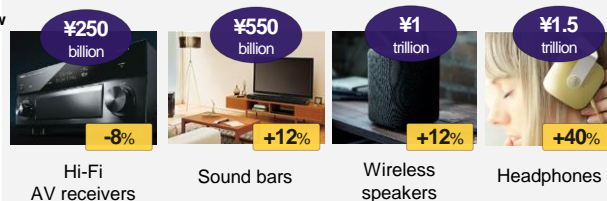
Yamaha's existing strengths

Further expand domain

## Transform AV product business portfolio

### Achieve growth in personal audio domain

- Shift product lineup towards wireless speakers, etc. in line with changing lifestyles



Yamaha's existing strengths

Further expand domain

## In-vehicle components: 30% growth (over 3 years)

### Shift into total in-vehicle solution domain

- Integrated control of passenger compartment audio, voice, and noise

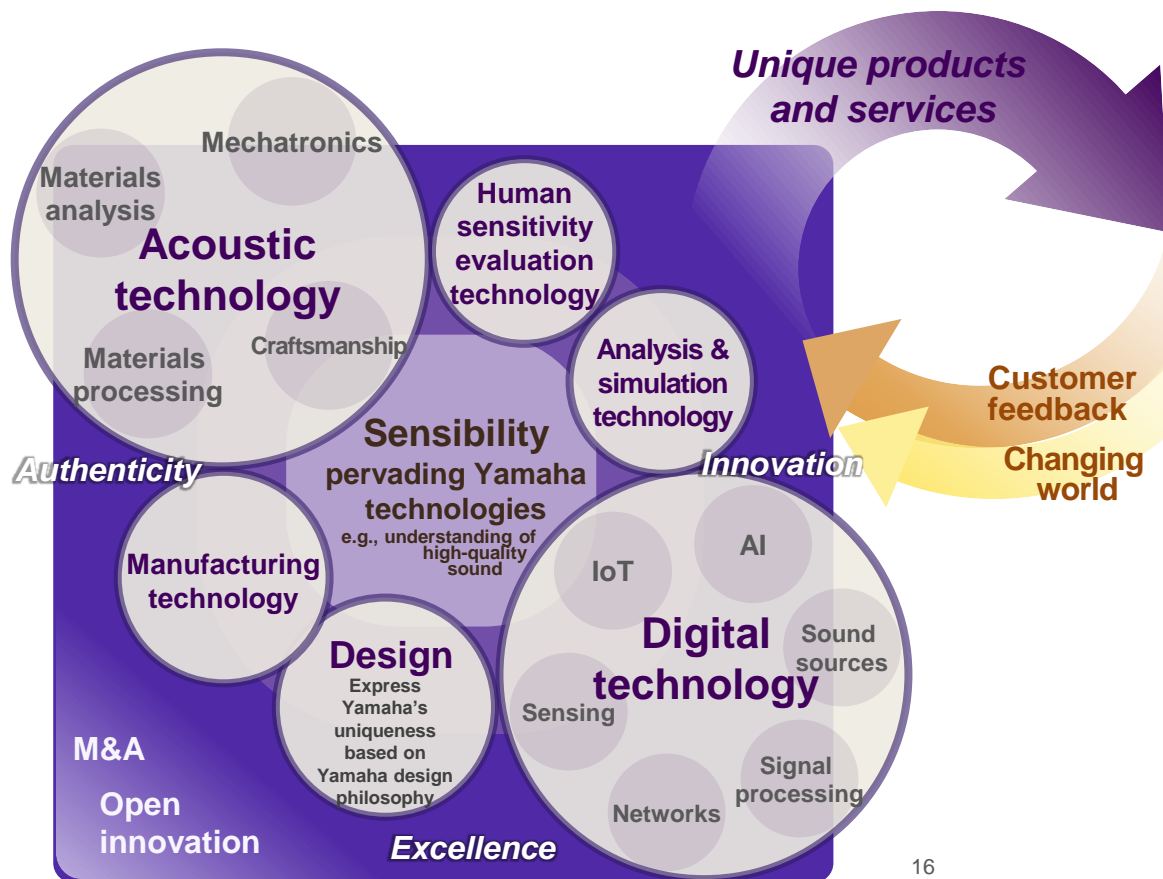


Yamaha's existing strengths

Further expand domain

# Create new value by combining **technology** and **sensibility**

True Yamaha spirit



### High-quality customer experience



### Innovation Center started operation in June 2018



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

# Enhance added value by pursuing combination of authenticity and innovation

## Authenticity

Soul-stirring musical expression

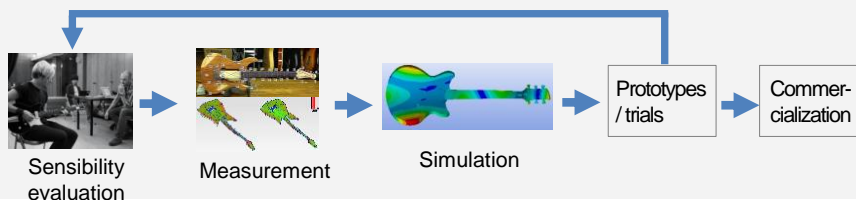
### ■ Tireless enhancement of expressive power

- Pursue highest levels of expression capable of meeting the expectations of top artists (No.1 product selection for major piano competitions and leading orchestra wind instruments)
- Use scientific approach to develop premium models that outshine rivals
- Pursue sound characteristics stemming from materials

Develop exquisite instruments for a new era

### ■ Scientific study of human sensibility

- Study human sensibility and tacit knowledge of accomplished players, and forge ahead with development processes that pursue the essence of high-quality sound



## Innovation

Wow everybody!

### ■ Innovate

- Merge various technologies and create new value
- Use IoT to gather big data on performances, and accelerate customer-driven development



Cutting-edge facilities in Innovation Center

Make music simpler and more enjoyable

### ■ Harness AI for technology innovation

- Use deep learning to create new technology development methods
- Personalize accompaniment and lessons
- Automate/assist professional audio operations



YOO, AI ensemble engine, analyzes the performance of players, and predicts the players' timing and tempo to control a piano to play in synchrony

# Establish business platform to drive “profitability = customer value x productivity”

## Digital Transformation (DX)

### Customer data platform

- Build CRM platform to develop closer customer ties

Start operating customer data platform (CDP)

### Next-generation SCM

- Innovate SCM system to optimize efficient operation with customer information

Start operation of new SCM systems

### Process reforms

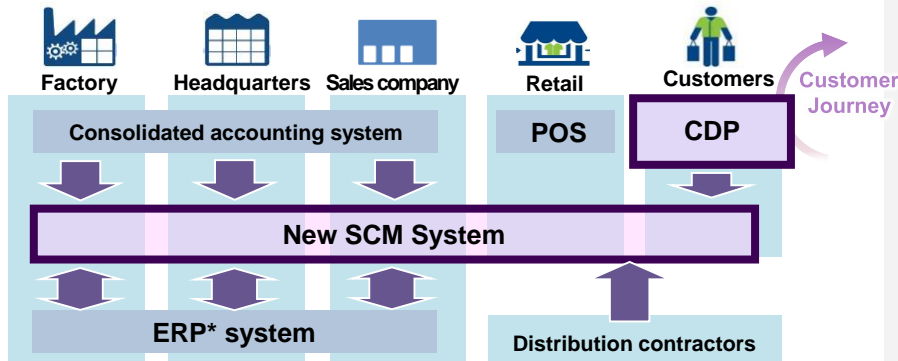
- Reform all work processes through DX
- Expand introduction of agile methods to development process
- Seamlessly connect accounting systems to business
- Utilize robotic process automation to automate routine work

### Global HR Management

- Promote cross-border assignment of personnel through improved visualization of core positions and HR skills

Start operation of talent management system

- Enhance diversity and human rights initiatives



\* Enterprise resource planning



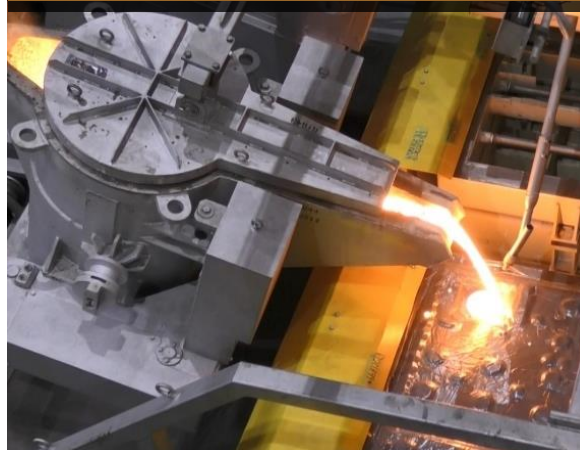
# Boost profitability by improving productivity

### Optimize pricing



- Enhance added value
- Strengthen efforts to showcase product value

### Reduce production costs



- Reallocate production processes
- Reduce procurement costs
- Automate manufacturing processes

### Use expenditure strategically



- Shift to strategic expenditure plan to enhancement of customer value

## Further optimize pricing

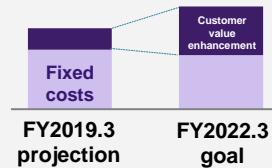
- Optimize pricing by enhancing added value and appropriately communicating product value

## Perform zero-based analysis on expenditure and expand strategic spending

- Shift expenditure to enhancement of customer value**

Conduct sweeping review of operating costs, rebates, etc. and shift spending to enhancement of customer value

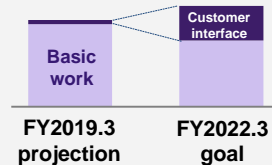
Image of expenditure shift



- Review IT related expenditure**

Shift IT investment to building platforms for enhancing customer value, such as CRM, SCM, e-commerce, etc.

Image of IT costs



- Reform work processes**

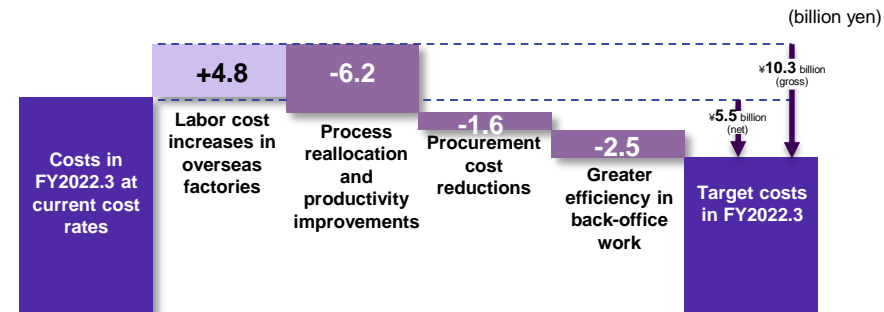
Reduce personnel expenditure in back-office divisions by ¥2.5 billion over 3 years

## Sustainably reduce production costs

- Reallocate production processes**  
Global process optimization, including transfer of structural component production processes to overseas factories
- Reduce procurement costs through global bulk purchasing and promote value analysis/value engineering**
- Automate production processes in overseas factories**

Reduce factory personnel by introducing automated production lines used in Japan to overseas factories, utilizing IT (introducing automated guided vehicles, harnessing production big data), etc.

## Cost Reduction Analysis



## Contribute to sustainable development of music culture and society



**Culture**  
Contribute to sustainability of music culture

SDG icons: 4 Quality Education, 8 Decent Work and Economic Growth, 11 Sustainable Cities and Communities, 12 Responsible Consumption and Production, 16 Peace, Justice and Strong Institutions, 17 Partnerships for the Goals.



**Society**  
Resolve social issues through products and services, enhance diversity and fulfilment of the people we work with

SDG icons: 3 Good Health and Well-being, 4 Quality Education, 5 Gender Equality, 8 Decent Work and Economic Growth, 9 Industry, Innovation and Infrastructure, 10 Reduced Inequalities, 11 Sustainable Cities and Communities, 13 Climate Action, 16 Peace, Justice and Strong Institutions, 17 Partnerships for the Goals.



**Environment**  
Co-exist with the natural environment

SDG icons: 7 Affordable and Clean Energy, 12 Responsible Consumption and Production, 13 Climate Action, 15 Life on Land, 17 Partnerships for the Goals.



## Culture

## Contribute to sustainability of music culture

- 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 widely 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

\*Collaborate with local education ministries to provide packages of instructors, programs and musical instruments and spread musical instrument education

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

Support 18 schools (over 3 years)



Spreading musical instrument education in emerging markets\*



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



## Society

## Resolve social issues through products and services

- Support healthy development of youth through music popularization activities (Latin America)
- Continue community development through the Oto-Machi Project for creating community filled with music (Japan)

Support 10 new projects (over 3 years)



I'm a HERO Program in Colombia



Shibuya Zunchaka! Oto-Machi Project



## Society

## Enhance diversity and fulfilment of the people we work with

- Create environment where diverse personnel can give full play to their individuality and creativity

Cross-border assignment of 30 employees over 3 years, 17% of management positions occupied by women

- Promote human rights due diligence throughout the value chain
- Promote work-life balance for employees through telecommuting, in-house childcare facilities, etc. (Japan)



## Environment

## Co-existence with the Natural Environment

### ■ Sustainable use of timber

- **Aim for 50%** of wood used to be certified timber, continue due diligence to avoid purchase of timber from illegal sources
- Undertake activities to sustainably conserve scarce timber resources in collaboration with local communities
- Enhance forest resource education and usage efficiency through cooperation with academic research (Kyoto University and other educational institutions)



Activities to conserve scarce timber resources in Tanzania

### ■ Development of environmentally-friendly products

- Create environmentally-friendly products through the Yamaha Eco-Products\* program

Deployment of 120 models over 3 years

\*Environmentally-friendly products certified as meeting standards established by Yamaha

- Develop sustainable materials as substitutes for scarce timber resources



Eco-products  
(environmentally-friendly material)

### ■ Reduction of greenhouse gas (GHG) emissions

- Strive to meet Science-Based Target\*\* by installing highly energy-efficient equipment and shifting to renewable energy sources.

\*\* A Science-Based Target to achieve the 2 degrees C GHG emission reduction goal set in the Paris Agreement (32% reduction by 2030).

- Reduce emissions throughout the value chain by efforts including development of energy-saving products and streamlining of distribution.



Eco-products  
(power-saving products)



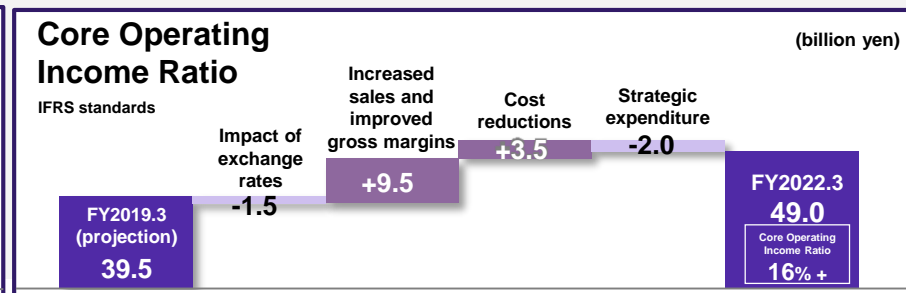
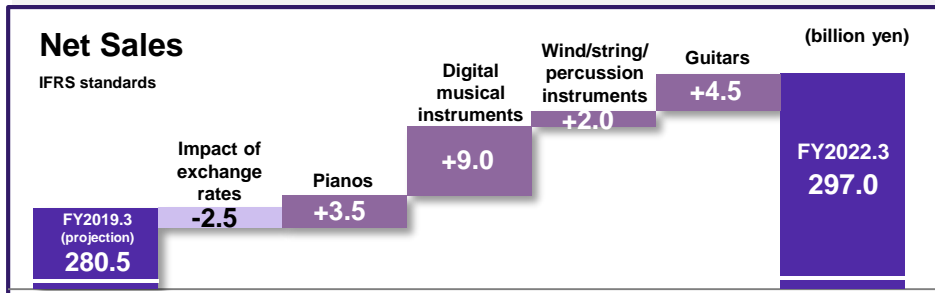


# Business Strategies

*Make Waves 1.0*

Yamaha Medium-Term Management Plan

## Raise profitability by expanding sales and enhancing added value



### Pianos

- **Expand premium offering with top-end strategy**
  - Achieve 25% growth in premium piano sales over 3 years
  - Enhance presence in music colleges and concert halls (double number of installed flagship concert pianos)
- **Expand sales of high-added-value models**
  - Expand percentage of hybrid (integration of acoustic and digital technologies) pianos
- **Meet growing demand in China with global production**

### Digital Musical Instruments

- **Develop digital pianos leveraging Yamaha's strengths in acoustic products**
- **Create new value through technological innovation**
  - Bring superior expressive power to Yamaha products
- **Expand range of keyboards equipped with specialized sound sources suited to local musical styles**
- **Expand customer base by developing new products targeting young people who want to express themselves through music**

## Guitars

### ■ Reinforce marketing function from U.S. base

- Expand use of local employees' skills and idea to strengthen ability to showcase product value
- Make effective use of influencers including professional players and social media users
- Reinforce artist relations and shorten the product development (prototype/trial) cycle



### ■ Expand sales of mid-range and high-end products

- Use scientific approach to aggressively expand mid-range and high-end products
- Reinforce artist relations and set up custom stores in four key global cities
- Communicate appeal of true Yamaha spirit through exciting experiences and value creation

## Wind/String/Percussion Instruments

### ■ Collaborate with top artists

- Enhance joint development through atelier function

### ■ Expand sales of mid-range and high-end products

- Increase share of market for mid-range and high-end wind instruments (to 30%\*) by launching top-end models and enhancing brand appeal

\*Trumpet, saxophone, clarinet

### ■ Expand market by promoting brass and wind music

- Promote brass and wind music and create demand in China and emerging markets

### ■ Develop musical instruments offering new value to broaden player horizons

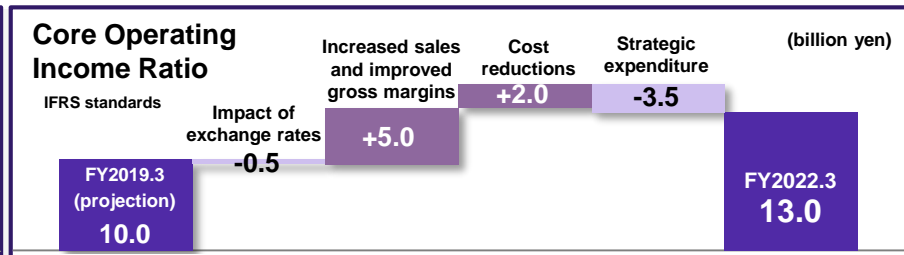
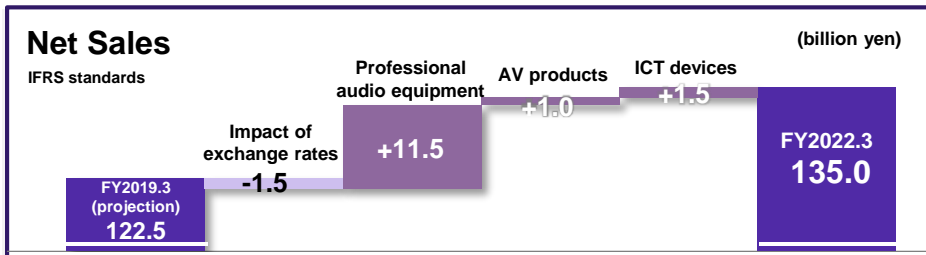
### ■ Enhance product life cycle with low maintenance musical instruments

## Enhance Lifetime Value (LTV) (All Product Categories)

### ■ Contribute to enhancement of LTV and create demand

- Build mechanisms to prevent customer dormancy

## Grow sales through technical innovation and enhanced support



## Professional Audio Equipment

### ■ Enhance ability to offer total solutions

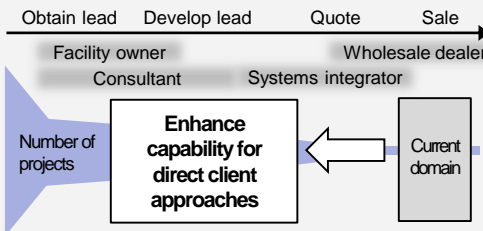
From audio input (microphones) to output (speakers)



- Expand lineup of output products featuring next-generation speakers that offer a sense of total immersion
- Offer all-new levels of convenience with AI-driven automation and assistance functions for mixers

### ■ Become supplier of choice for more upper stream clients such as facility owners

- Enhance capability to directly approach facility owners, consultants, and systems integrators
- Expand system orders by enhancing capability to propose solutions for upper stream processes in facilities projects



### ■ Create new business from customer support

- Introduce remote monitoring and control tools for audio systems and launch remote support services

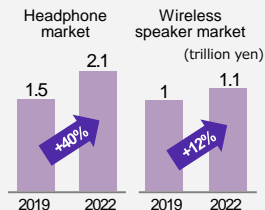


Reproduce on-site settings via networks and offer remote support via video communication

## AV Products

### ■ Transform business portfolio

- Reinforce product lineup launches in the personal audio market targeting millennials



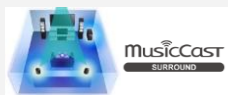
### ■ Develop customer interface and strengthen brand appeal

- Communicate the appeal of the Yamaha brand outlook to millennials
- Expand direct marketing and exclusive display in stores



### ■ Enhance product competitiveness with new value propositions

- Launch audio virtual reality headphones offering totally immersive surround sound experience
- Offer wireless sound systems via MusicCast\*

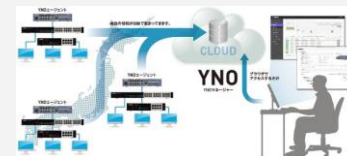
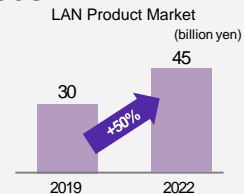


\*Yamaha's own wireless network system

## ICT Devices

### ■ Expand product categories and services

- Leverage strength in routers to expand LAN product range (switches, hubs)
- Provide labor-saving solutions for network management such as network monitoring and the Yamaha Network Organizer (YNO) automated management tool.



### ■ Differentiate products through technology integration (conference systems)

- Enhance efficiency of installation and operation for customers through real-time audio optimization, simple system installation, etc.
- Harness audio technology to achieve communication that conveys feelings





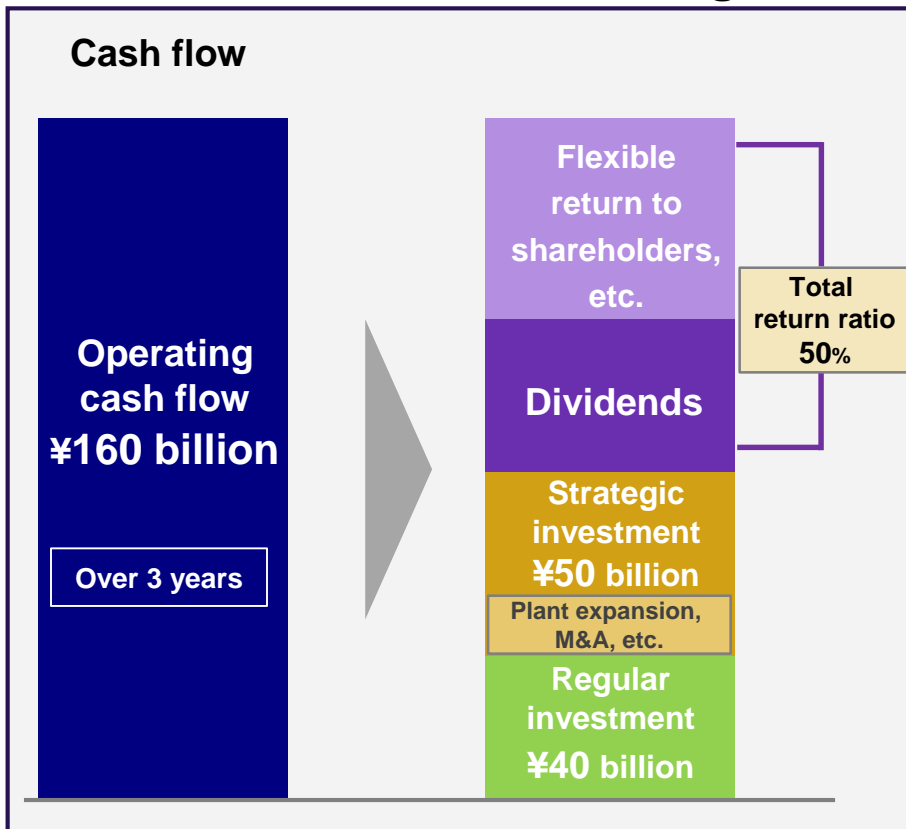


# Investment, Return to Shareholders, and Governance

*Make Waves 1.0*

Yamaha Medium-Term Management Plan

## Maintain well-balanced allocation of cash generated to investment in growth and returns to shareholders



### Investment

- Regular investment: ¥40 billion  
Basic investment in existing business (same level as depreciation expenses)
- Strategic investment: ¥50 billion
  - Additional investment in new manufacturing facilities
  - Investment in process automation at overseas factories
  - Additional R&D facilities, enhancement of artist relations, etc.
  - M&A
- Strategic marketing, strategic R&D investment (expenses)  
branding, reinforcement of customer interface, technological innovation

### Return to Shareholders

- Continual stable dividends will remain the basis of shareholder return policy, but the policy will be implemented flexibly to enhance capital efficiency while considering a proper balance with retained earnings needed for investment in future growth
- Total return ratio of 50% over 3 years

## Enhance the diversity and effectiveness of the board of directors, and promote sound offensive and defensive governance

### Offensive Governance

- Strive for a more diverse board of directors bearing in mind skillset, nationality, and gender
- Further accelerate implementation of decisions underpinned by strong supervisory functions

### Defensive Governance

- Move to a board two-thirds comprised of independent outside directors
- Build effective audit systems by forging close ties with the Audit Committee, the Internal Auditing Division, and external financial auditors
- Reinforce risk response capabilities through the Risk Management Committee

### Composition of Yamaha Board of Directors

- Company with Three Committees (transition made in June 2017)
- Of nine directors, six are independent outside directors (as of April 1, 2019)

### 2018 Grand Prize Winner, Corporate Governance of the Year Awards\*

Highly evaluated as a company that has simultaneously reformed both the form and substance of its corporate governance

\*These awards recognize companies using corporate governance to achieve healthy medium- to long-term growth

(Organized by the Japan Association of Corporate Directors. Prize winners are selected from approximately 2,000 companies listed on the first section of the Tokyo Stock Exchange)



Corporate Governance  
of The Year



**In this report, the figures forecast for the Company's future performance have been calculated on the basis of information currently available to the Yamaha Group. Forecasts are, therefore, subject to risks and uncertainties.**

**Accordingly, actual performance may differ greatly from our predictions depending on changes in the economic conditions surrounding our business, demand trends, and the value of key currencies, such as the US dollar and the euro.**