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Outline of Yamaha's Medium-Term Management Plan "NEXT STAGE 12"

Following the completion of its "Yamaha Management Plan 2016 (YMP2016)" on March 31, 2016, Yamaha Corporation has prepared and begun to implement its new medium-term management plan "NEXT STAGE 12," which will cover the three-year period that began in April 2016.

Yamaha's management vision, which describes the desired future image of the Company, is "Becoming an Indispensable, Brilliantly Individual Company" in the medium-to-long term. Yamaha has positioned the coming three years under the new medium-term plan as a time for "Increase Brand Power and Show Stronger Profitability as a Result." Principal initiatives under the medium-term plan will be (1) Further raise profitability of the musical instruments business, (2) Expand the audio equipment business, and (3) Establish a platform for the industrial machinery and components business as the third key domain. Even in the current business environment, where the trend toward yen appreciation is creating uncertainties in the economy, Yamaha will aim for steady increases in profitability and set an operating income ratio target of 12% in the final year of the plan as a management objective.

1. Review of the Previous Medium-Term Management Plan "YMP2016"

Under "YMP2016," Yamaha worked to attain consolidated annual net sales of ¥430 billion, consolidated operating income of ¥30 billion (representing an operating income ratio of 7%), and a return on equity (ROE) of 10%. Of these goals, Yamaha reached its targets for net sales and operating income one year ahead of schedule during the fiscal year ended March 31, 2015. As previously announced on February 4, 2016, during the final year of YMP2016, the outlook is for operating income to rise substantially to ¥41 billion (representing an operating income ratio of 9.4%) and an ROE of 10%.

In the electronics business domain, Yamaha attained growth in net sales well above the planned level. In addition to showing results from its business structural reforms (in sales and production in Japan and semiconductors), Yamaha has successfully pursued further cost reductions, improved gross margins in its mainstay musical instruments business, and other results that indicated progress toward building a strong management base.

2. Management Vision

"Becoming an Indispensable, Brilliantly Individual Company—Boosting Brand Power to Become a Highly Profitable Enterprise"

The outlook is for Yamaha to successfully complete YMP2016 showing performance that would exceed the numerical targets set under that medium-term plan. For this reason, Yamaha prepared its NEXT STAGE 12 medium-term management plan to position the desired future image of the Company as the management vision in the medium-to-long term and made clear what challenges the Yamaha Group as a whole, working together, must address to attain the next high goals.

3. Outline of NEXT STAGE 12 Medium-Term Management Plan

(1) Positioning

Yamaha aims to attain an operating income ratio of 20% in the long term, as a company with a strong brand value. To move up to the next step and work toward "Becoming an Indispensable, Brilliantly Individual Company," Yamaha positions the coming three years as a time to "Increase Brand Power and Show Stronger Profitability as a Result."

(2) Basic Strategy and Management Objective

Under the plan, Yamaha's basic strategy will be to "Consolidate Competitive Superiority through Adding New Value and Differentiation." To accomplish this, Yamaha will further deepen its connections with customers, raise attractive quality, and always offer solutions with new value added.

Management Objective (Over 3 Years):
Operating Income Ratio 12% (FY2019.3)

- Further raise profitability of the musical instruments business (aim for operating income ratio at the 15% level)
- Expand the audio equipment business to rival musical instruments business in the future (actual sales growth of 20%)
- Establish a platform for industrial machinery and components business as the third key domain following musical instruments and audio equipment

(3) Four Key Strategies

① Develop products with distinctive individuality

Through fusing Yamaha's technologies, which range widely from materials and analytical technologies to sound source, signal processing and network technologies, as well as scientific evaluation of assessing human sensitivities, Yamaha is positioned to deliver original value that is added to excellent basic functions and develop products that others cannot imitate.

Yamaha will construct the Yamaha Innovation Center Research and Development Building, and accelerate synergies by bringing together about 2,500 Yamaha technical personnel in one location at its Headquarters.

② Enhance customer interaction

By offering customers optimal services and solutions, Yamaha is forging even stronger and broader ties with its customers. To realize this, Yamaha will expand its sales network for consumer products and work to speed up the promotion of music popularization activity suited to local needs, while enhancing corporate and business-to-business (B2B) service systems and locations.

③ Continually reduce costs

Under the new medium-term plan, Yamaha continues to reduce manufacturing costs (through reorganizing production processes, reducing purchasing costs, introducing new production methods, and other means) and to increase the productivity of administrative functions to realize about ¥8.0 billion (net over a three-year period) in cost reductions.

④ Strengthen global business platforms

Yamaha endeavors to facilitate international careers by assigning personnel to positions that are the most suited to them and to further their career development. In addition, Yamaha is working to globally optimize its IT, logistics, finance, and administrative functions to strengthen its global business platforms and to further promote operational efficiency.

4. Major Business Strategies

(1) Musical Instruments

Yamaha will aim to increase profitability through technology development capabilities and marketing that takes advantage of Yamaha’s business scale. To improve profitability, Yamaha will expand sales of high-margin digital musical instruments and improve gross margins by reviewing the product mix and selling prices. In addition, Yamaha will accelerate its activities to enhance product competitiveness through pursuing the essence of musical instruments using its original evaluation technology of assessing human sensitivities and offering new value in digital musical instruments, hybrid pianos, and other products. Moreover, Yamaha will optimize its marketing and points of contact with customers by region to increase its brand power and enhance its costomer interaction.

(2) Audio Equipment

Yamaha will work to accelerate growth by promoting technological innovation based on its signal processing and network technologies and enhancing customer support.

In the professional audio equipment domain, Yamaha will provide audio systems that increase value added of audio contractors who partner with Yamaha. It will also expand its systems engineering and marketing staff worldwide and, in addition to providing services for concert halls and other venues, will work to broaden its customer base in other markets, including background music (BGM) for retail stores and corporate conferencing markets.

In the consumer audio products domain, Yamaha will aim to strengthen its brand power by moving forward with its initiatives to propose freer music listening styles to meet customer needs, focusing on its strategic product MusicCast.

(3) Industrial Machinery and Components

Yamaha will establish a base that will enable it to make its industrial machinery and components business the third platform of Yamaha business activities.

In this business, Yamaha will transform its focus from a semiconductor manufacturer to become a solutions vendor. Yamaha will endeavor to expand sales by offering solutions that are comfortable, secure, and safe, focusing especially on sound technology in the domains of onboard devices, home healthcare, and industrial machinery.

In the onboard device domain, in addition to providing comprehensive sound systems, Yamaha will proceed with the development of thermoelectric solutions that contribute to the realization of eco-friendly motorized societies. In addition, in the home healthcare domain, Yamaha will move forward with applying its sound and sensor technologies to propose new solutions.

5. ESG

With the aim of creating a sustainable society, Yamaha will continue to implement various activities from the perspective of "E" (Environment), "S" (Society), and "G" (Governance). Yamaha will work toward the solution of social issues through business activities that are based on business strategies, give due regard to the natural environment and society in its business processes and continue to implement various activities, and aim to conduct transparent, high-quality management by strengthening its corporate governance and internal control systems.

6. Investment and Return to Shareholders

After the allocation of cash generated to strategic investments, Yamaha proactively provides returns to shareholders.

Capital expenditure: ¥40 billion
Strategic investments: ¥50 billion (including M&A)
Strategic marketing and R&D investments: ¥10 billion

Yamaha's basic policy is to pay continuing and stable dividends to shareholders, and give consideration to the balance between the appropriate level of retained earnings for investments for future growth, while flexibly providing appropriate returns to shareholders to increase capital efficiency.

Note that, regarding dividends, Yamaha's target ratio for its consolidated dividend payout is 30% or higher.

7. Quantitative Business Targets

For the last year of "NEXT STAGE 12" (FY2019.3), Yamaha has set an operating income ratio target of 12% as a management objective.

Note that the financial numerical targets (Currency exchange rates assumed: Yen per U.S. dollar: ¥115, Yen per euro: ¥125) are as follows.

Net sales: ¥465 billion
Operating income: ¥55 billion
ROE: 10% level
Earnings per share (EPS): ¥200 level

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