

Dialogue with an Outside Director (Oct. 10, 2023) Q&A Minutes

Portfolio Management

It looks like the transfer and/or withdrawal of businesses in your portfolio review is making progress. I would like to hear how you conduct your own evaluations and the kind of opinions you provide. Also, please share the challenges and improvements underway with regards to striking the right balance for resource allocation.

I assumed this position in March 2020 and took part in formulating our current Medium-Term Management Plan that began in fiscal 2022. Yamaha Motor has a wide range of businesses and we felt that there was a need to clarify the company's business portfolio, so we organized everything based on that. As we're in the middle of massive changes to bring electrification and carbon neutrality to our core businesses, we discussed how to move forward and how to further strengthen our footing. The Robotics business is positioned as a growth business for us, and while it's struggling now, we expect it to grow in the future. The Board is discussing how to go on the offensive in fields that see high production volumes. For our new businesses, the focus is on sowing seeds for future growth. At the very least, we need to have the technology in our possession, but what's key is thinking about *why* Yamaha Motor is doing this and the kind of value we can offer. This is also a topic of our discussions. More than profitability, sales scale is what's important here. Even if profitability is low for a time, I believe we should continue making upfront investments while constantly reconfirming that the value we offer is unique to Yamaha Motor. As long as we are certain of the objectives and the technologies needed, there is no need to abandon making investments into new businesses, but discussions regarding the right timing for making large-scale investments are absolutely necessary. We have been discussing and implementing structural reforms even before the current Medium-Term Management Plan, and the issue at hand is examining whether or not to continue with businesses we've targeted for structural reforms. We plan to redirect the extra faculties and resources we get from business transfers toward carbon neutrality initiatives and other pursuits.

Many of Yamaha Motor's businesses are susceptible to fluctuations in the economy, but if the company can expand on its recurring-revenue businesses like parts and services, it can lower the degree of volatility linked to the economy. I think raising the sales ratio of parts will lead to more stable stock prices and profits, but what are your thoughts regarding the potential for improving stability with your earnings?

Our Marine Products business is a highly profitable one and I believe that its business model, which sets itself apart from boatbuilders, is a contributing factor to its high profit margin. We do want to grow even more, but as we work toward achieving carbon neutrality, our strategy discussions include to what degree we will keep internal combustion engines in play, how far we can go with electrification when use in the water is involved, how we will approach our recurring-revenue businesses, and our partnerships with boatbuilders. If we can cover all the bases for CASE-related products and services, we can secure business in a different manner than boatbuilders.

With the Land Mobility business, the situation is challenging in developed markets, but quite profitable in emerging markets. With the competition ramping up their efforts in emerging markets, updating our models and nailing the timing for new product launches is key. On the other hand, we are seeing profitability beginning to improve in developed markets thanks to our structural reforms. For our recurring-revenue businesses, we are sowing seeds in Africa and India and will look to secure stable profits through those initiatives.

Why do you think portfolio management has been slow to catch on not only at Yamaha Motor but also at Japanese companies in general?

I get the impression that Japanese companies tend to follow in the footsteps of other companies. Companies based overseas will not hesitate to abandon businesses with low profit margins, while many Japanese companies will keep such businesses afloat, even with slow growth and little profit. I feel that there's not that much weight given to profit margin benchmarks or examining businesses from the standpoint of capital spent. While we officially put portfolio management into action in 2022 with our current Medium-Term Management Plan, the company was already discussing it when I accepted this position back in 2020.

Board of Director Meetings

Please share what led to your appointment as an outside director and what your criteria was for deciding to accept the offer.

Komatsu is a global company actively promoting digital transformation, and that was what led to me being approached. Once I decided to accept the offer, we first made sure that there were no conflicts of interest. I also felt that I could offer helpful advice to Yamaha Motor, which has many B2C businesses, from the perspective of a mostly B2B company, but I also thought that there was also much I could learn in return. As an outside director, it's important to be direct with questions and I'm careful not to take on the standpoint of an insider.

What is it that causes an outside member to take on an insider's perspective?

The more detailed or particular the topic is, the more in-house knowledge you need in order to express an opinion. Once you accumulate that knowledge, you're no longer able to really put forward basic questions about the company's direction in the first place. No matter how much you strive to remain impartial, if you stay at a company long enough, there is always the chance that you eventually become more of an insider. This is exactly why outside directors are replaced after a certain period of time.

Please explain the viewpoints and metrics used to evaluate the effectiveness of the Board of Directors.

There is a seven-point questionnaire that we answer concerning the Board's composition and its discussions. Additionally, to delve deeper into the responses of that questionnaire, an interview is conducted once every three years by a third-party institution. When looking at a company from a medium- to long-term perspective, one that selects priority topics and works to make improvements will be better off in the end than one that takes a perfect score from the start. I think it's crucial that organizations steadily work on improvements to solve their problems.

With the balance of skills and experience on the Board of Directors, do you think there are any points or areas that need improving or greater emphasis?

At the moment, I don't feel that we need to improve or strengthen anything in that regard. I think the Board has diversity in both the gender and nationality of its members and a good balance of business experience as well. Jin-san took her position after I did and the breadth of discussion topics and questions has grown. Kawai-san and Ujihara-san joining the Board as outside auditors has brought much more energy to discussions too. I think it's excellent that outside auditors can freely express their opinions.

You must sometimes have differences of opinion with Yamaha Motor's own executives. Could you share an example where being an outside director contributed?

Yamaha Motor executives and employees have a natural emotional attachment to their businesses and sometimes do not agree with how things are prioritized, but I think it's stimulating for people outside the company to voice their honest opinions. Some will state the company's Spirit of Challenge, track record of developing new products, and wanting to post some successful experiences as reasons for selecting a business to focus on, but there are many companies with similarly impressive technologies. When you question where the value is in Yamaha Motor putting forth an effort, discussions begin. I think I sometimes ask questions that can be seen as rude.

How far can you be involved in execution duties? Where is the borderline?

I can't be very involved on the execution of side of things. Because the company is big, has many of its operations and sales overseas, and because we cannot stay up to date with all the latest information, things are predicated on us trusting the reports we get. At a stage before everything gets boiled down, I think it's important we hold discussions, listen to everyone's opinions, and then a final executive decision be made.

Yamaha Motor already has a good and open atmosphere, but that's also why I would like to see it improve further. When I first took on this outside director position, I suggested to President Hidaka that he tell us what happened over the last month with the bad news coming first, no matter how trivial. As a result, an atmosphere in which even small matters get reported has taken root and is spreading. Also, items for board resolutions are now shared in advance. It's often the case that outside directors receive less information, but since we can hear the president's thoughts and his ethical perspective ahead of time, it's easier for us to express opinions and it helps prevent us from leaving anything out.

What is your opinion on President Nakata from Yamaha Corporation also being an outside director?

Yamaha Motor's history began when the motorcycle business was still part of Yamaha Corporation, but today, the company that was spun off has grown to become bigger than where it came from. The number of shares Yamaha Corporation has in the company has decreased and I don't think it holds any real influence. More than that, I think the fact that we share the same Yamaha brand is more pertinent.

Environmental, Social, and Governance (ESG) Matters

Are the company's medium- to long-term strategies discussed at length while keeping ESG matters in mind?

The number of ESG-related topics and discussions we have is rising every year. Running a business not packaged with ESG has become unthinkable now and we have incredibly wide-ranging discussions. CO₂ emission volumes have been quantified for Scope 1–3 targets and implementation periods set, so we are moving things forward without much fanfare.

With ESG matters, it's impossible to sever the connection between powertrains and carbon neutrality, but if you invest too much in development, it's sure to impact profits. To what extent can the Board of Directors discuss how to allocate investments for development?

Internal combustion engines can use decarbonized fuels and fuel cells, while EVs, hydrogen power, and the like stand as other options. Yamaha Motor is developing the right powertrains for the right applications by matching each of these technologies with products aimed at uses and forms of mobility that fit them. I think we are on the cusp of needing to begin narrowing down our focus with the resources we have.

As technological trends linked to achieving carbon neutrality become more visible, there is the possibility that the positioning of core businesses in Yamaha Motor's portfolio may change in the future. Is that understanding correct?

We are at the stage where we are examining technologies from a competitiveness standpoint, which includes costs and compactness. It's my understanding that this is a stage where we are studying possible applications and commercialization. Even when we have established technologies that reduce costs and size, I don't think that will cause major changes to our portfolio. There are customer segments that will continue to choose motorcycles and recreational vehicles not just based on if they make economic sense but also if they are exciting and emotionally stirring products. There is a market need for internal combustion engines that don't emit CO₂ and we are working on our carbon neutral initiatives while looking at which areas to keep engines around from the standpoint of bringing *Kando* to customers.

What is the situation with human capital investment at the company?

Discussions on this have increased since Jin-san began attending Board meetings, and talks on human capital investment as well as training have grown more active. With R&D, discussions are about what we can do to attract more talented engineers. I recently visited one of the company's major subsidiaries in Europe that hires a significant number of its employees from local schools, and I think it's good to increase recruitment in Europe where Yamaha's brand recognition is high. Indonesia is home to the company's biggest manufacturing base and it has a talented Indonesian heading its operations. We have more and more skilled executive officer level employees coming up in each region, and having such role models will help draw in similarly talented human resources. Japan is facing recruitment challenges with its declining population, so I think it's a good idea to begin looking for talent from overseas.

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