

Business Results for the First Nine Months of Fiscal Year 2020

Analyst Briefing and Q&A Minutes

Business Overall

I believe that the third quarter ended in quite a good way for Yamaha, but how much higher were the figures than what the company forecasted? Were there any transient factors and were there any expenses that were lower than expected?

Our results for the third quarter were significantly higher than we expected. In particular, the marine products business and motorcycle business in emerging markets went well beyond expectations. In the marine products business, demand returned for outdoor and family recreation, so this was a welcome departure from our forecast. Recovery in emerging markets is slow but still faster than expected. Even in the three months of the third quarter, profits were quite strong and our other businesses also exceeded expectations. Regarding transient factors, first, there was the return of unrealized gains in the marine products business, and second, there was the reversal in the allowance for doubtful accounts in the financial services business. Besides transient factors, the effect of cost reductions was significant and we pushed for cutting expenses at both the headquarters and at our overseas bases. This led to a cumulative decrease of some 40 billion yen over these nine months when compared to the previous year. We also learned that we can handle the cuts to travel expenses and advertising and promotion expenses through digital means. We will move forward with making these cost reduction effects a permanent fixture, including the implementation of our digital transformation.

The unit net sales forecast for the fourth quarter is higher than last year, but why is operating income forecast as being lower than the previous year?

We are boosting our inventory of outboard motors in North America to address the supply shortages within the year. Because not all of it goes toward wholesales, it becomes a factor behind increased unrealized gains for the fourth quarter. Additionally, the continuing lack of recovery in the Indonesian market is also a major factor in our forecast of a year-on-year decline.

Based on the results of 2019 and the expected demand for 2021, please tell us which businesses you think will be positively and negatively affected due to the COVID-19 pandemic.

There are uncertainties such as the third wave of lockdowns, but we think recreational products for developed markets will be sufficient by the first half of 2021. On the other hand, the motorcycle business in emerging markets is recovering slowly and will likely not return to 2019 levels in 2021. The robotics business has largely recovered in China due to the government's economic revival policies, and we expect investments for electrification and hybrid vehicles in the automotive sector to finally return from next year onwards. We are also seeing considerable recovery with our electrically power-assisted bicycle business in Europe, and expect the smart power vehicle business to post results at or higher than 2019's.

Regarding how you view retail sales with the revenue spending seen in developed markets, there are local reports of marine product retailers running out of stock. Are there any movements in the market that differ from Yamaha's immediate view?

Retail sales are strong at the moment. However, we are concerned about how we can maintain things should lockdowns become as strict as they are in Europe. But based on reports from the ground, there does not seem to be anything particularly worrying.

Land Mobility Business

The other day, the transfer of shares from Italian engine manufacturer Motori Minarelli S.P.A. as part of structural reforms in the motorcycle business in developed markets was announced. It was also mentioned that the completion of this series of structural reforms was now in view. The topic itself included the sale of new products and reassignment of personnel to growth fields, so I'd like to hear how President Hidaka defines or positions these structural reforms.

The themes of these structural reforms are (1) finding ways to further improve operations and (2) better balancing supply capacity with demand. New product sales and the like are not included in either of these. For the second theme in particular, we do not see this as an issue only for developed markets but also as a necessity for India, Taiwan and other ASEAN markets, and we will continue with these reforms in a coordinated manner. And in developed markets, there is still work to be done to guard against oversupply. The sudden changes in the market environment with the COVID-19 pandemic has sharply driven up demand for motorcycles, recreational vehicles and other products in developed markets, and product inventory in the market remains at a low level even with production running at full speed. We expect this situation to continue into the first half of the next fiscal year and it is unusual factors like these that are delaying the progress of our original plans.

If looking at just the last three months, the motorcycle business in emerging markets has performed roughly on par with the previous year. I believe Yamaha has been able to reduce its expenses in fields beyond just sales, so what are the factors leading to this?

Yes, things are better than expected, but net sales are worse than last year. However, there are two factors positively affecting our ROS. The first is the extensive effort we are making to reduce costs and the second is the improvement of the model mix. The premium segment that we specialize in is almost back to the same level as the previous year.

Marine Products Business

Regarding the status of outboard motor production, you mentioned that it will take time to normalize inventories by the first half of the next fiscal year. Should this be considered a lost opportunity?

In September, we returned to 80% of the factory operating rate we had the previous year, and over 100% in October in our all-out effort to supply outboards. Many of our outboard models are jointly developed with boatbuilders, including transom-mounting mechanisms, so if they were to suddenly switch outboard brands, there is the possibility of their products no longer being compatible with these brands or additional development costs becoming necessary. However, we are currently keeping boatbuilders waiting, so we are supplying them as best we can to not lose opportunities. We are about to enter the off-season for outboards and retail sales always see a slowdown. During this period, we will try to produce as much product as possible and get them to our boatbuilders and dealers.