

Marine Business Presentation Q&A Minutes

Business Overall

What is the direction for the marine business as one of the core businesses in the new Medium-Term Management Plan? Could you explain in the context of ROS of the 11% that is described in the business portfolio?

Last year was highly profitable for those in the manufacturing industry. As demand grows for large outboard motors and as we develop peripheral equipment businesses through the Marine CASE Strategy, we expect things to improve slightly.

What synergies does the marine business have with the motorcycle business and Yamaha's other new businesses?

The marine business is both a cash cow and a growth business for us. To date, it has worked with our automobile engine departments to develop large engines and has cooperated with the motorcycle business for compliance with emissions regulations. The Marine CASE Strategy will require the development of electric motors, batteries, inverters, and other components, and since such development cannot be handled solely by the marine business, we will continue to collaborate with them in the future.

Regarding the unit prices of outboard motors for this fiscal term and the next term, outside of passing on the rising costs of raw materials and logistics expenses, I think prices may rise as the product mix itself improves. How much do you expect prices to rise?

Depending on the market, we are passing on costs while taking into account our competitors and inflation. For next year, we will examine the situation accounting for the impact of rising raw material prices. The product mix will not change significantly.

Concerning changes in market structure, won't the product mix suffer from expanding the business to reach new customers? Do you mean that the number of new upper-class customers is increasing?

First-time purchases in the U.S. are predominantly a single 150 hp unit, so even with these first-time purchases, customers are buying large outboard models. Besides upper-class customers, many customers in the U.S. finance outboard purchases with loans.

On the technical side, what are Yamaha's competitive advantages? It seems as though competitors are aggressively launching new large outboard motor models and they are being well received by the market as well. Are there any figures that show gains in product reliability?

As a marine product manufacturer, Yamaha prioritizes reliability and our powertrain is where we have advantages. We also develop and manufacture boats, and this gives us further advantages in matching them to our outboards. Differences from competitors in figures for durability and other factors are also still notable.

External Environment

What has the impact been on the business from the situation in Russia and Ukraine? Other regions are also influencing the marine segment a greater deal, but have there been any paradigm shifts?

Because our marine business in the Ukrainian market is so small, the impact has been quite limited. In the Russian market, while there is a certain level of sales volume, most are low-horsepower models mainly used on rivers and lakes, so the impact on our net sales has also been small. The products that can no longer be sold in Ukraine and Russia are being diverted to other regions, so the marine business overall has remained wholly unaffected. In other areas such as China and the Middle East, unit sales are rising, and demand for large outboard motors is growing.

Market Environment

What is your forecast for short-, medium- and long-term outboard motor demand? Please tell us including changes in the business environment with COVID-19 and the expansion of the market in general.

In the short term, sales have been strong due to staycations in developed markets, and family-based recreation is particularly prevalent. Demand is currently well above supply and we expect this to continue. Outboard demand has never reached this level before and dealerships do not even have enough stock for showroom displays. We see demand remaining strong over the medium- to long-term as well. Behind this trend is an increase in not only new customers but also younger customers. Until now, the major driver of the business has been customers in their 50s, but we are seeing more customers in their 40s. We are also seeing the trend toward using larger outboards, and demand is expected to remain firm in general.

How long do you think it will take to optimize inventories?

It will be difficult to recover to previous levels within this year and we are aiming for a recovery from next year onward.

Will trade-in cycles be shorter due to the rise in new customers?

There is no major change in the trade-in cycle. The average duration of outboard motor is about seven years.

Looking at the graph for boat sales ratio trends by propulsion type, it appears that the ratio of outboard motors has leveled off. Do you expect it to grow even higher in the future?

The service life of large boats is about 30 years, so for the next 20 years, trade-ins will continue. While the ratio may have ceased climbing, it won't decrease either.

Please explain the demand situation in markets outside North America, such as Europe.

In Europe, the demand for large outboard motors has accelerated in recent years just like North America. In Southern and Northern Europe in particular, outboard motors are being reevaluated for their design appeal, ease of maintenance, reliability, and wealth of peripheral functions available. This is the case also in Australia and New Zealand. In commercial fishing as well, the shift from inboards to large outboard motors is also proceeding.

Marine CASE Strategy

How will the Marine CASE Strategy work to increase net sales and operating income?

The new Marine CASE Strategy is positioned as an extension of the system supplier strategy we have pursued until now. We have achieved introducing cutting-edge technologies, such as releasing the outboard motor industry's first-ever joystick-based boat control system. Pursuing customers' peace of mind and comfort through these convenient functions will make Yamaha outboards an even easier propulsion choice for watercraft. Traditionally, outboard parts and accessories are highly profitable, but since products of our CASE strategy will be highly profitable themselves, everything will contribute toward net sales and operating income.

I believe that in the process of implementing the Marine CASE Strategy, profitability will rise not only from hardware sales but also from aftersales services. But I'd like to know what the ratio is between the two currently. Are there any ratios you are aiming for with new businesses, such as recurring revenue?

Parts sales have been highly profitable for us and sales of propellers and oil have been quite strong. Our personal watercraft have a large catalog of accessories and we have successfully sold a variety of parts. We will be strengthening and expanding the range of peripheral equipment offered in our Marine CASE Strategy, so we are hoping to see sales of parts, accessories, and other post-purchase options come to outboard motors as well. In addition, Siren Marine's products and services are subscription-based, so this will become another new avenue for earnings. Regarding ratios, these will gradually rise as the company introduces new products over the next three years of the new Medium-Term Management Plan. However, the main pillar for profits will be strengthening sales of outboard motors themselves in the Marine CASE Strategy.

Please tell us the scale of the business for Helm Master. Is it also the top player in the industry alongside Yamaha's outboard motors?

It has been seven or eight years since we introduced the first Helm Master system, and the second-generation Helm Master EX is enjoying rising unit sales thanks to several features great for fishing and other functions we built into it, and the greater usability it brings to boating has been highly rated. It's mainly used for boats with multiple outboards, so while a single outboard sale doesn't necessarily equate to a single Helm Master sale, the number of units sold is still at a scale of several thousand units per year. Since Helm Master EX now enables use even with a single outboard, the everyday owner of a medium-sized boat is now also able to enjoy the easier boat control yielded by the system. We were the first in the outboard industry to introduce lateral maneuver capability, and since then, we have remained proud of the value provided by our products and confident in our position as a pioneer in the industry.

To drive the Marine CASE Strategy, in which areas will M&As be conducted and in which areas will Yamaha develop things independently?

We are strengthening our R&D operations in the U.S. M&As of companies specializing in marine control systems, propellers, and sensors relevant to our Marine CASE Strategy form the basis of our considerations. This will not require significant funding because we will mainly acquire peripheral equipment companies like we did with Siren Marine last year.

Water Vehicles Business

With personal watercraft, supply last year was again unable to keep up with demand and about 40,000 units were sold. As you raise production capacity, by how much do you believe you can raise unit sales? I would also like to ask about the competitive environment. Is there a customer base for people shifting from PWCs to outboard-powered boats?

The segment for new customers rose by double-digit percentages thanks to the staycation demand increase. While PWCs were originally intended for personal single-rider use, things have been trending toward family fun because of the shift in preferences for large boats. We will continue considering boosts to production capacity. Our main competitors are BRP and Kawasaki. We also produce and sell 21–28-foot jet-powered sport boats and some customers do step up from PWCs to these boats.

Supply Chain Management

Raw material and logistics costs continue to soar. Is it safe to assume Yamaha will be able to absorb the effects to some extent by passing on costs?

Logistics and raw materials costs have continued to be high since last year and we have passed on these costs with our product prices in response. Boatbuilders are our key clients and partners, and they too are facing the effects of these rising raw material and logistics costs, so we have their understanding in that regard as we prioritize delivering products to our customers as soon as possible.

How will the company increase outboard motor production?

Our current capabilities for outboard motor assembly are sufficient for meeting demand. However, there are bottlenecks in the machining and production operations for crankshafts and other parts, and we intend to make investments to address them during the new Medium-Term Management Plan.

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