

Business Results for First Half of Fiscal Year 2019

Minutes for Analyst Briefing and Q&A

Overall

How do you evaluate the first-half final results in comparison to your internal forecast?

Overall, the first-half results went as according to plan. Looking at particular businesses and markets, we did not expect that the Robotics Business and motorcycles in Vietnam would fall as much as they did. By contrast, motorcycles in Indonesia and the Marine Business were on a healthy trend.

What were the reasons behind the revised business results forecast for the major regions in the emerging markets motorcycle business?

The situation continues to be uncertain, but based on total demand in the ASEAN region decreasing by 5% and by 10% in India, we incorporated our ability to compete in this environment into the revised business results forecast.

What segments decreased by how much in the revised operating income forecast? The motorcycle income ratio is on a downward trend; will the emerging markets motorcycle business income ratio increase in the future?

The initial operating income forecast of 133.0 billion yen has been revised downward by 8.0 billion yen. One major cause of the revision is the Robotics Business - the newly-established Yamaha Motor Robotics Holdings contributed -5.3 billion yen, including a consolidated effect of -2.9 billion yen. Our business in Vietnam was also worse than anticipated. On the other hand, Indonesia, the Philippines, and Marine businesses exceeded their targets, but despite this, the net result was a downward revision of 8.0 billion yen. The deteriorating income ratio in the emerging markets motorcycle business was caused by sluggish sales in Vietnam and Taiwan, which have high income ratios. However, there is no evident trend of the profitability of individual products declining, so driving sales recovery in these regions will also lead to overall income ratio improvements. In addition, the success of our platform strategy - particularly in regions such as Indonesia - has meant that we have maintained our gross income ratio and operating income ratio at the product level in those regions.

Half a year has passed since the announcement of your Medium-Term Management Plan. The basis of your thinking has changed in some aspects, such as in the Robotics Business, but has your company-level approach to the Medium-Term Management Plan changed at all?

You are correct that the basis of what we envisaged in the Medium-Term Management Plan has changed with respect to the Robotics Business. However, we are talking about an issue of global capital expenditure timing, and it is difficult to imagine that investment will continue to be restricted throughout the next three years. We are therefore not significantly changing our approach to the Medium-Term Management Plan at this stage.

We would like to ask about your approach to annual profit/loss and growth investment. As you have revised your business results forecast downward, do you have any plans to reduce growth investment? That is, do you intend to prioritize near-term profit to a degree, or carry out future-oriented investment as planned with no reductions?

Delivering near-term income is not our only priority, so we will not ease up on growth investment. One example is the shift toward electric motorization. Motorcycles currently account for one trillion yen of our net sales, and a major source of our income is commuter models, particularly in the ASEAN region. We are also expanding our India commuter model business. These fields are the most oriented toward electric motorization, and when you consider that their respective governments have stated targets of around 2030 for electric transition, growth investment is essential.

In terms of your outlook for next year, please tell us which businesses will improve and which will still take some time to recover.

Our expectations for next year are improvements in the developed markets motorcycle business, counterattack in India through launch of BS6-compliant models, and the trend to larger outboard motors in the Marine Business (with particular growth in Europe). Time is needed for recovery in the Robotics Business. Although demand will recover quickly at some stage, forecasting when that will occur is tricky. We will pay careful attention to the market environment and be ready so that we do not miss the wave of investment.

Land Mobility

In this second half-year, you have forecast the developed markets motorcycle business to provide +13.0 billion yen of the factors impacting operating income through higher factory utilization rates thanks to production of the Tenere700 and models compliant with the Euro 5 emissions standards. Will this pace of income increase be a one-off, or will it continue next year and beyond?

Our current European models will be discontinued by the end of 2020, so we will be turning over our model range from this second half-year into next year. We are gradually reducing our inventory in order to achieve compliance with the Euro 5 emissions standards, and we are on track to clear out our inventory of previous models this first half-year. There was very little production last year, and the difference with increased production from this second half-year will have a significant impact on income improvements. At the very least, we believe that we will be able to maintain competitiveness through product launches by next year. We are also advancing the structural reforms I discussed with regard to the Medium-Term Management Plan, and we anticipate that the benefits from them will be evident year-round in 2021. We plan to further improve profitability through initiatives such as these.

Please tell us your outlook for the emerging markets motorcycle business in the second half-year, including the macro environment.

We have no concerns about total demand in the Philippines and Brazil, but will monitor total demand in Indonesia and Vietnam carefully. Demand in Indonesia has been gradually declining in the first and second quarters. We have heard that total demand has decreased in India due to the tightening of monetary policy and increase in compulsory automobile liability insurance premiums, but the various manufacturers have also been reducing inventory to change over to models compliant with the new emission standards (BS6). We anticipate that the market will liven up after the BS6 changeover, so are not concerned about the situation.

We are aware that your plan in the Indian motorcycle market involves building a new factory in Chennai and focusing on scooters. When will the benefits of these initiatives appear, and can we expect a turnaround in the scooter market?

Unit sales of models such as the *Fascino* and *RAY-ZR* grew for a period, but are currently basically flat. Our competitors are rapidly changing over from 110cc to 125cc models. During the emission standards changeover in Europe etc. there was a grace period for sales of previous models, but in India, sales of non-compliant models will be completely prohibited after the new regulations take effect from April 2020. Our plan is to leverage the changeover timing to launch competitive 125cc products.

Marine

Please tell us the reasons why net sales and operating income were at the same level as the previous fiscal year in the second quarter (April-June).

Demand for small and medium models decreased. Market research in North America showed that the major cause was poor weather in the first half-year - the north was cold, and the south frequently rainy. Our analysis is that potential demand has not decreased that much.

Another factor is the ongoing shift from small and medium to large models. We have increased sales by capturing the demand from this trend to larger outboard motors. In addition, our structure for increased production of large models has been in place since last year, and we will respond to robust demand in North America and Europe and avoid out of stocks.

Regarding your U.S. outboard motor demand forecast, you explained that demand for small and medium models decreased in the first half-year due to inclement weather, but were there any other negative factors which meant that underlying demand did in fact decrease?

As a result of market research, we found that - once the inclement weather was excluded - potential demand for small and medium models had not fallen. In addition, the transition from stern drives to outboard motors as well as the shift from small and medium to large outboards have been gradually advancing over an extended period. We anticipate that these trends will continue.

Robotics

You say that you are planning to improve SHINKAWA LTD.'s technical capabilities with Yamaha Motor's management capabilities, but listening to the recent announcements regarding Yamaha Motor Robotics Holdings Co., Ltd., it sounds like the benefits from unsupported restructuring will not be large, and you are pinning your hopes on sales. How will you rebuild the company now that it is part of the Yamaha Motor group?

We touched on unsupported structural reform in the announcements regarding Yamaha Motor Robotics Holdings, but there is also the benefit of increased sales of products leveraging Shinkawa's technical capabilities, part of which is cross-selling. If we can achieve synergies from cross-selling, we may be able to return the company to profitability without waiting for market conditions to recover. Aided by the benefits from structural reform, we want to move the business onto the right track and achieve a V-shaped recovery.

Please tell us about your demand forecast for surface mounters.

It is tricky to make projections about the entire industry at this point, but there is no question that 5G-oriented communications devices, autonomous driving-oriented GPUs, the memory needed for AI and big data, and the equipment to make them will become even more critical. We are paying very close attention to when that capital expenditure recommences.