

Kawai Musical Instruments Mfg. Co., Ltd.

New Medium-term Management Plan Resonate 2018

Consolidated Achievement for FY2017.3 to FY2019.3

October 1st, 2016

KAWAI

Summary of the 4th Medium-term Management Plan

FY2014.3 to FY2016.3

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New Medium-term Management Plan Resonate 2018

FY2017.3 to FY2019.3

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Summary of the 4th Medium-term Management Plan

FY2014.3 to FY2016.3

Basic Principles

- **Steady growth**

By performing a selection and focus of business, attain steady growth and secure profit.

- **Objective values**

Objectives in the 89th fiscal year of the whole corporate
(FY2016.3)

Sales : 60 billion yen and over

Operating income : 3 billion yen and over
(Secured 5% of Sales)

1. Key Strategies : Growth Strategies

Strategy	Main achievement
Branding	<ul style="list-style-type: none"> • Mr. A. Gadjiev won the first place playing a Shigeru Kawai SK-EX full concert grand piano in the 9th Hamamatsu International Piano Competition. • Held various events using "Shigeru Kawai" pianos. • Supported activities of Maestro Mikhail Pletnev and YOSHIKI.
Business in China	<ul style="list-style-type: none"> • Established "Kawai Music Education / China-Japan Friendship Foundation", and expanded Kawai brand recognition. • Made a plan to establish a core company unifying business activities in China.
Musical instruments business in Japanese market	<ul style="list-style-type: none"> • Renewed the stores in core cities such as Sapporo, Omiya, Yokohama, Hiroshima, etc. • Conducted lead generation activities through events in the stores with a music salon facility.
Overseas music school marketing	<ul style="list-style-type: none"> • Opened the music school in Indonesia under the direct management of Kawai. • Implemented a plan to increase the number of franchise music schools in Southeast Asian region such as Thailand, etc.

Strategy	Main achievement
Business development in emerging markets	<ul style="list-style-type: none">• Established Kawai Piano (Russia) LLC for full scale business operation.• Introduced models such as "GL Series" to meet the market needs.
Expanding physical education schools	<ul style="list-style-type: none">• Promoted diversification through contracting with the designated administrator business with local governments.
Expanding precision metals business	<ul style="list-style-type: none">• Increased orders received by enhancing production capacity such as new lines in the Hamamatsu plant.

2. Key Strategies : Structure Innovation

Strategy	Main achievement
Improving efficiency through drastic revision of the sales system for Japanese market	<ul style="list-style-type: none"> • Innovated the sales system for Japanese market and focusing on the sales activities emphasizing regional business through the unit system. • Deployed efficient sales activities with enhanced management power. • Reduced the fixed cost by outsourcing distribution operation.
Manufacturing cost reduction through establishing the global production system	<ul style="list-style-type: none"> • Reduced cost by opening the 4th plant in Indonesia. • Took measures for market changes and foreign exchange fluctuations by utilizing the production system in multiple locations.

3. Key Strategies : Business Continuity

Strategy	Main achievement
Formulation of BCP for the central functions of the Headquarters and plants against earthquake disasters. Transfer of production facilities	<ul style="list-style-type: none"> • Promoted the aseismic performance enhancement, and after evaluating conditions carefully for location transfer, transferred only a significant part of functions. • Transferred the core servers. • Transferred a part of Shigeru Kawai Piano R&D Laboratory facilities and the warehouse of main wood parts to inland area.

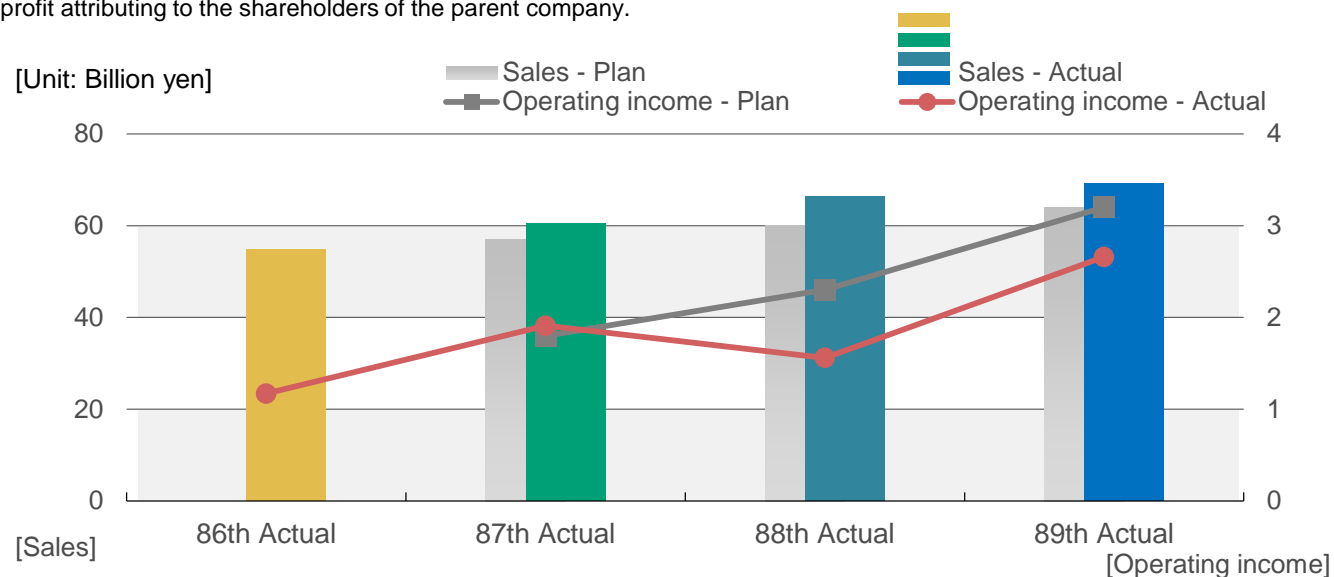
[Unit: Billion yen]

Business Trend

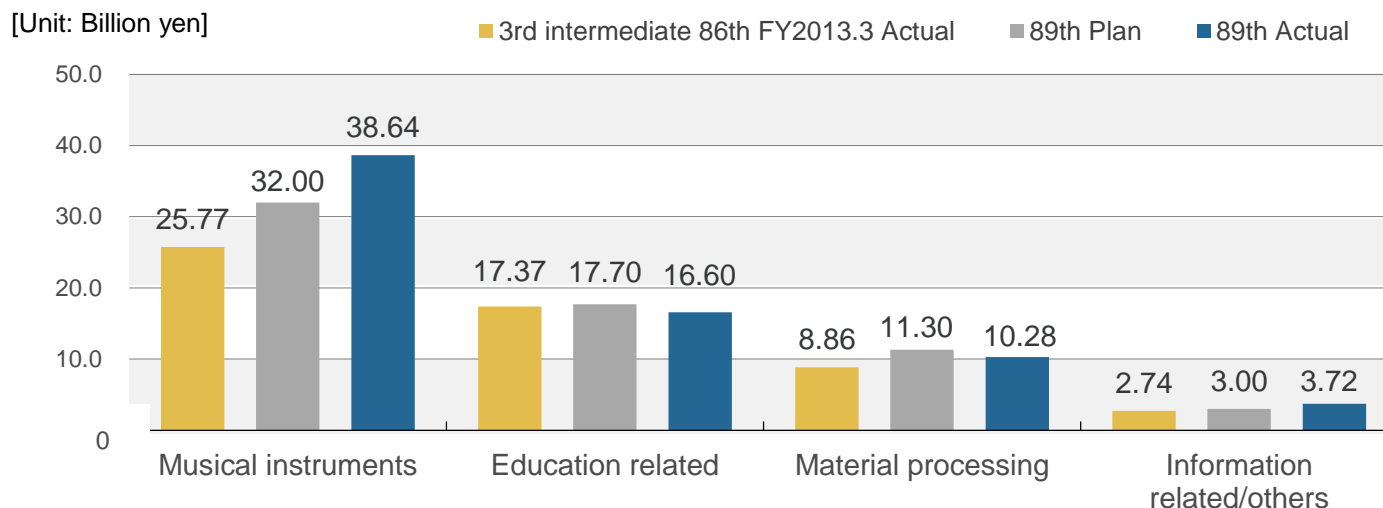
	3rd	4th Medium-term Management Plan					
	86th	87th		88th		89th	
	Actual	Plan	Actual	Plan	Actual	Plan	Actual
Sales	54.74	57.00	60.39	60.00	66.34	64.00	69.25
Operating income	1.17	1.80	1.91	2.30	1.56	3.20	2.66
Ordinary income	1.69	1.60	2.52	2.10	1.94	3.00	2.62
Current net income	0.94	1.10	1.55	1.40	1.05	1.70	1.79

The current net income is this term's net profit attributing to the shareholders of the parent company.

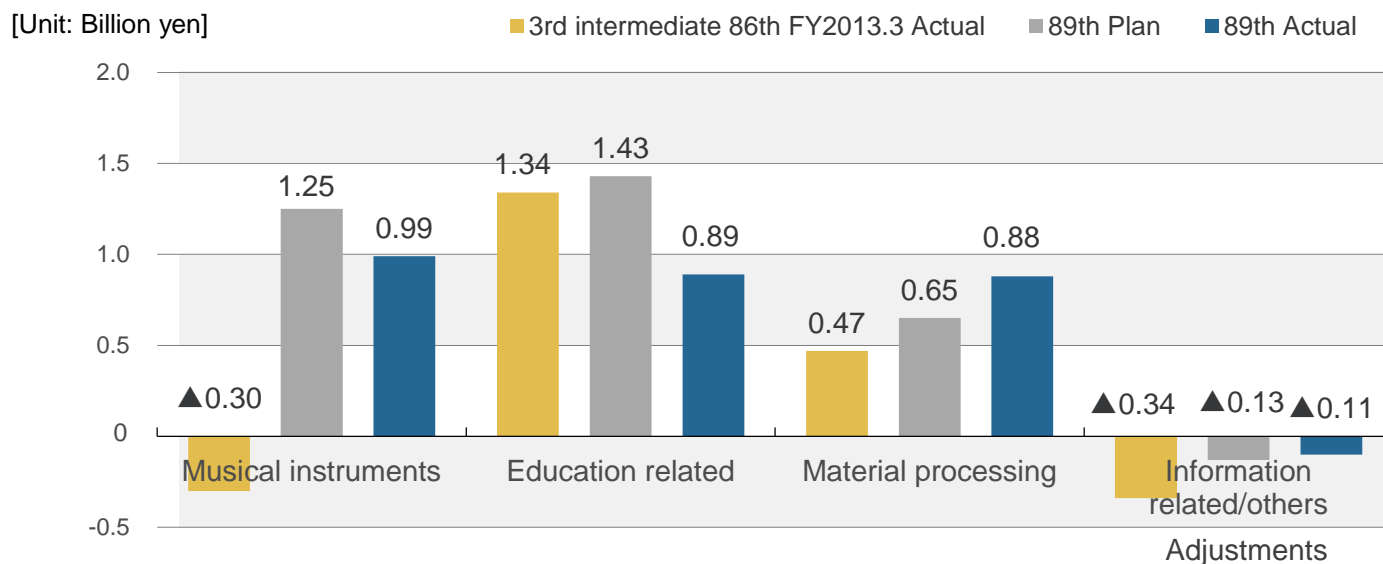
Sales and Operating income trend



Sales



Operating income



New Medium-term Management Plan

FY2017.3 to FY2019.3

Resonate 2018

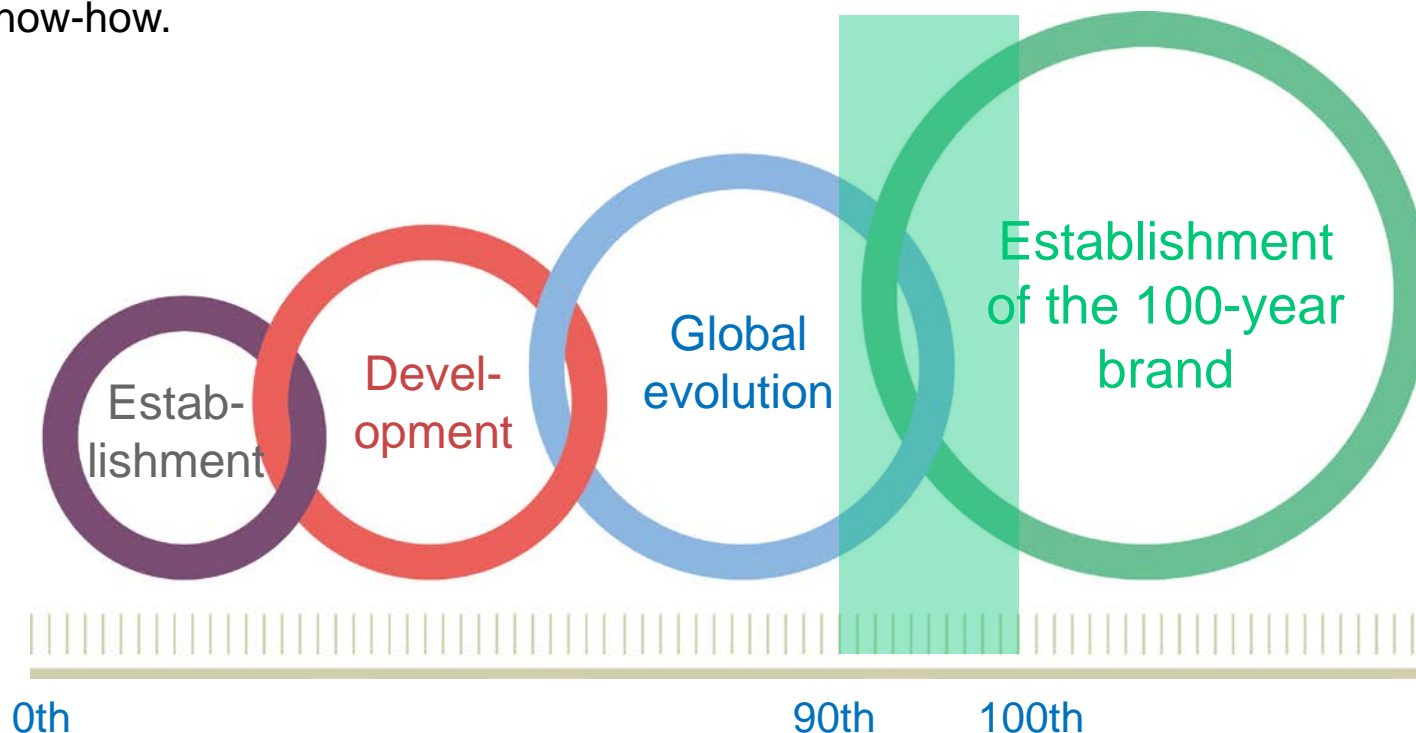
—— Towards the 100th Anniversary ——

To Remain as the Top Brand

Resonate denotes "to expand the KAWAI fans through providing practical user experience in pursuit of reliance and innovation, while aiming to become the top piano brand through continuous promotion of music culture".

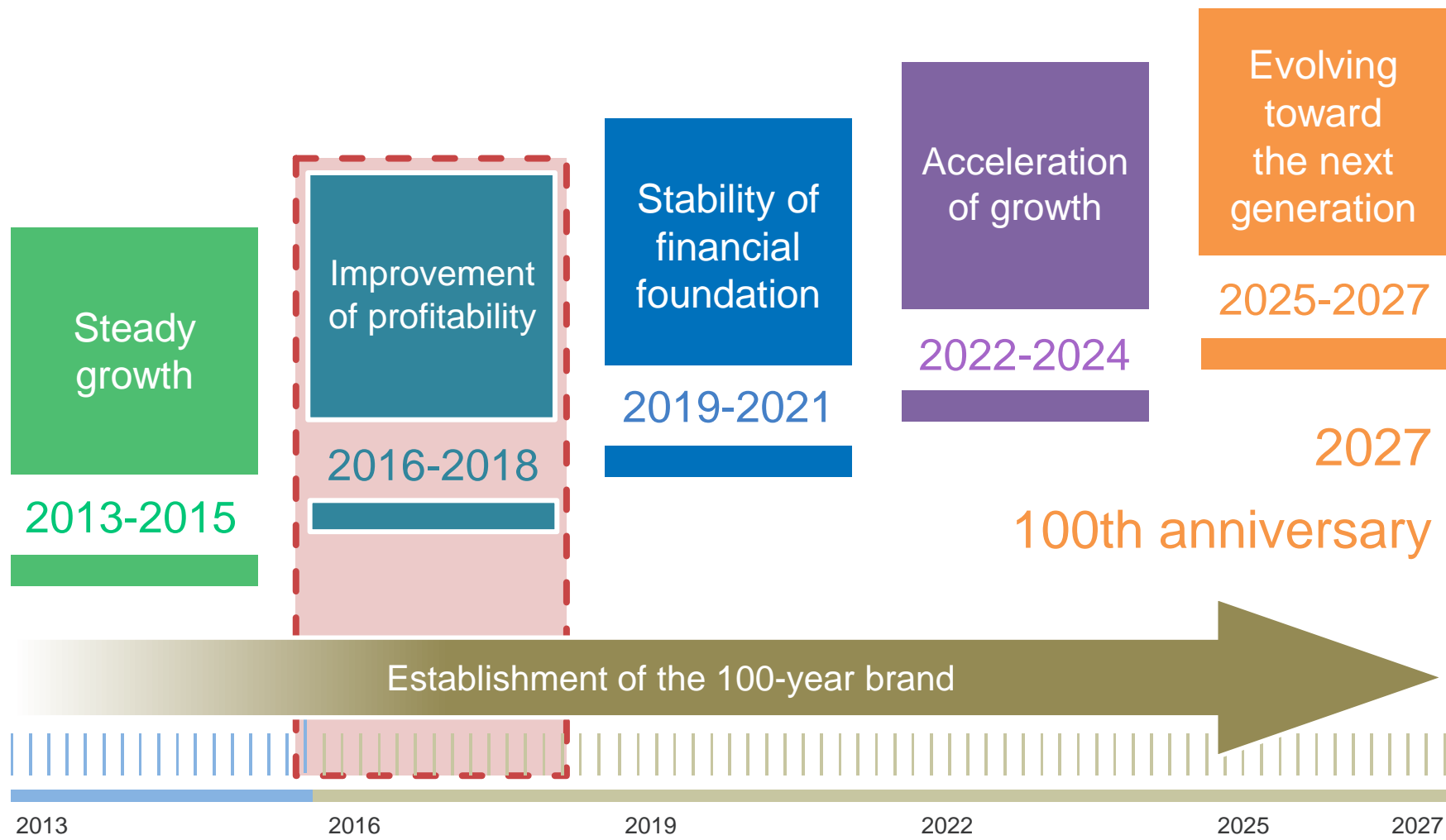
Engendering business foundation toward a 100-year brand

Strive for a 100-year brand establishment through piano manufacturing as the source (center) of Kawai foundation and origin of business focusing to be a member of world eminent brands with accumulating expertise, experience and know-how.



Road Map to the 100-Year Brand

KAWAI



Promote improvement of the corporate value
as the 100-year brand,
and aim to achieve long-term stable growth.

Objectives in the 92nd fiscal year of the whole corporate
(FY2019.3)

(Target indicator)
5% or higher operating income margin

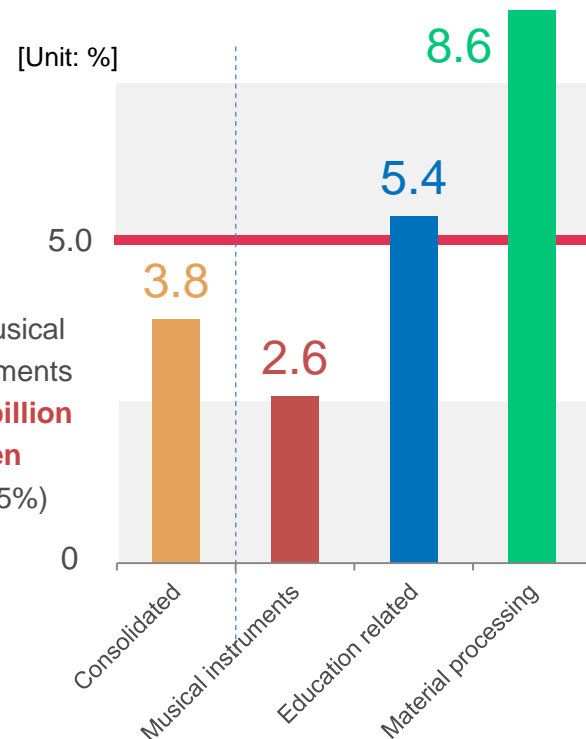
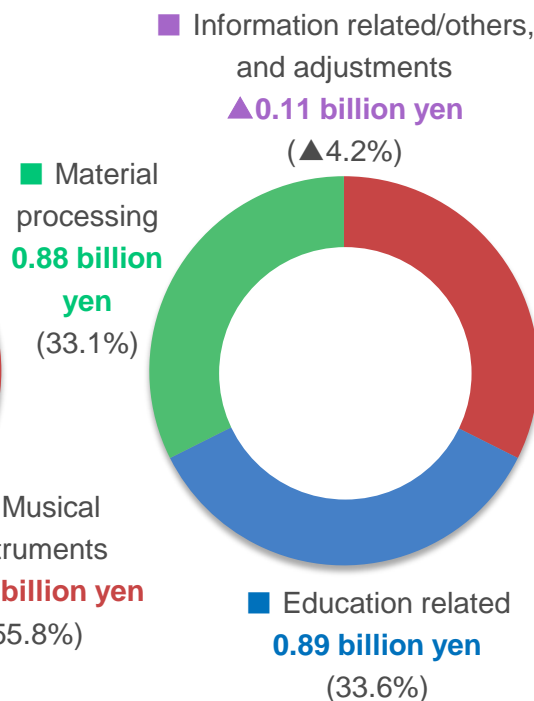
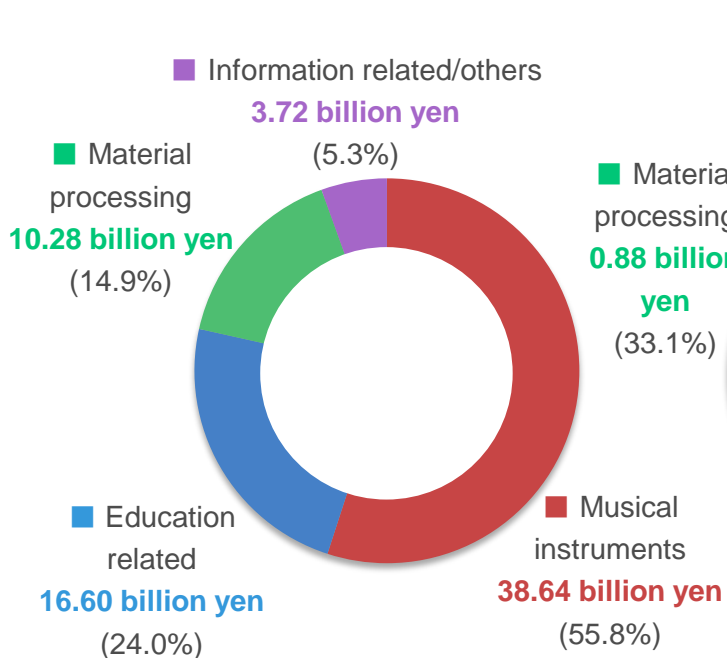
89th Actual

An issue is the operating income margin of core business
(musical instruments and music education business)

■ Sales:
69.25 billion yen

■ Operating income:
2.66 billion yen

■ Operating income margin:
3.8%



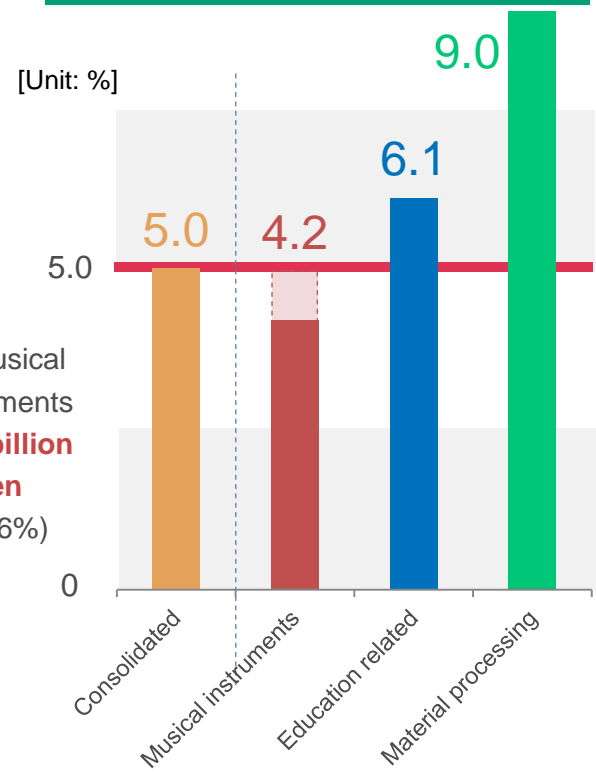
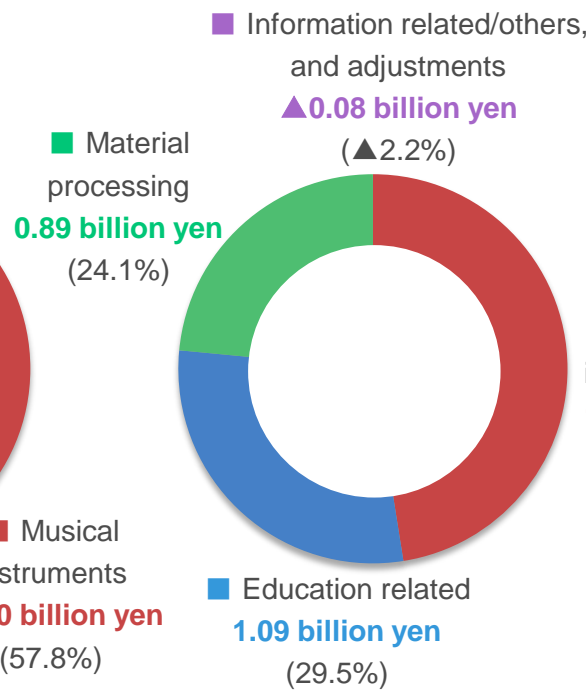
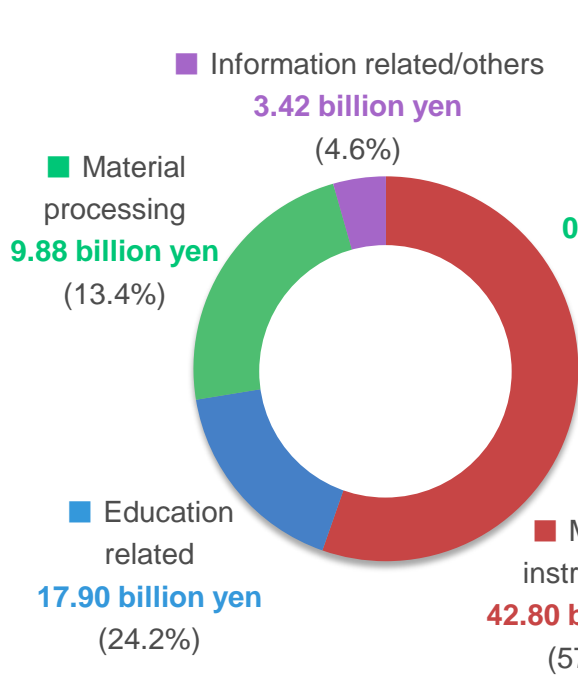
92nd Plan

Aim for improvement of the operating income margin on musical instruments business and music education business.

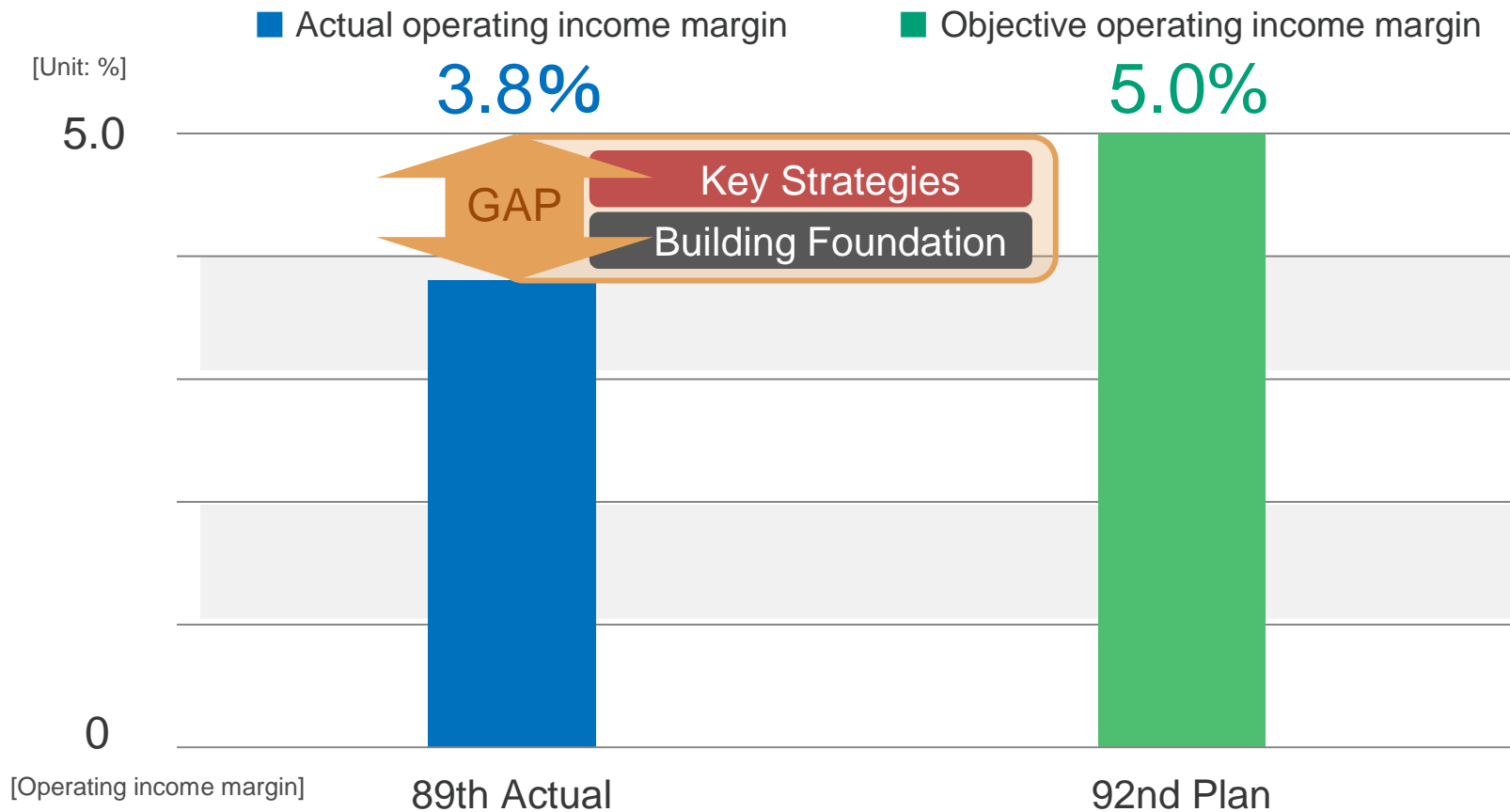
■ Sales:
74.0 billion yen

■ Operating income:
3.7 billion yen

■ Operating income margin:
5.0%



Close a gap between the objective and actual result



Key Strategies

- 1 Challenge for further growth of core business
- 2 Manufacturing innovation
- 3 Expansion of material processing business
- 4 Investment and capitalization policy

Building Foundation

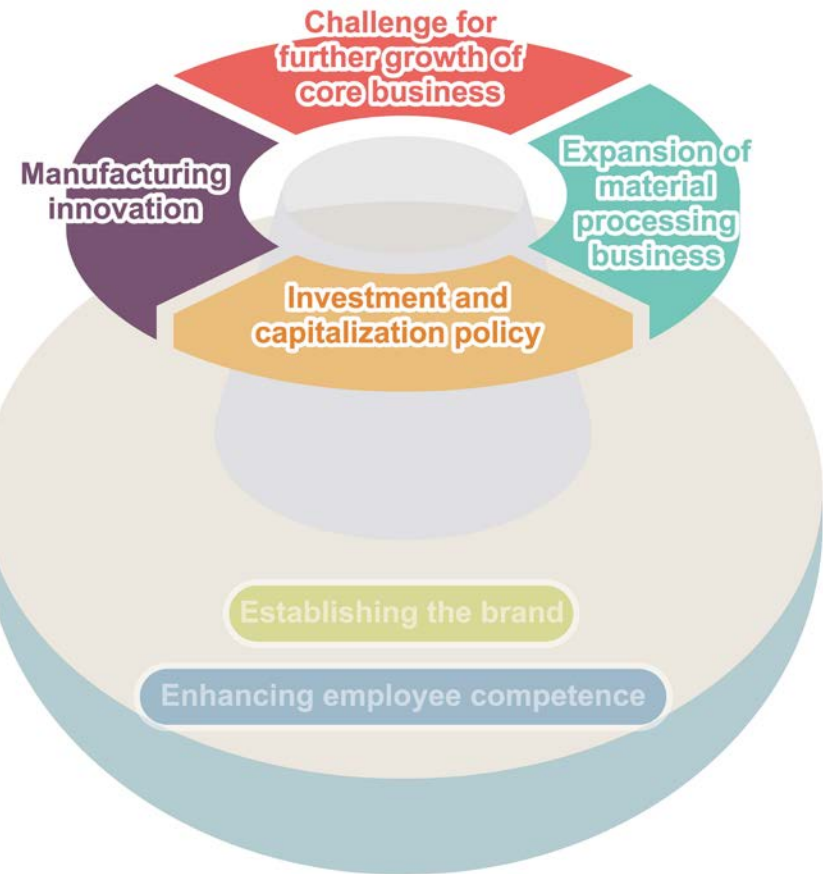
- 5 Establishing the brand
- 6 Enhancing employee competence



Key strategies to promote improvement of the corporate value, and aim to achieve long-term stable growth.

Key Strategies

- 1 Challenge for further growth of core business
- 2 Manufacturing innovation
- 3 Expansion of material processing business
- 4 Investment and capitalization policy



Building Foundation

- 5 Establishing the brand
- 6 Enhancing employee competence

1 Challenge for further growth of core business

Enhancing the profit structure in musical instruments business and education business.

Adding high additional value in Japanese market

Musical instruments business

- Expanding grand piano shares through Shigeru Kawai sales promotion.
- Engendering high profit structure by concentration and specialization on sales resources.
- Improving stores under direct management and structuring a new sales system with the area marketing.
- Fulfilling after-sales service system enhancing the tuning experts "MPA" *.

*MPA: Master Piano Artisan = In-house license that is given only to highly skilled tuning experts.

Education related business

- Increasing the number of students in Kawai music schools with productive curriculum and excellent teachers.
- Creating a new education value based on Gakken classrooms, and Kawai music schools and physical education schools.
- Developing the franchise chain of "Kawai Music Education System".



1 Challenge for further growth of core business

Enhancing the profit structure in musical instruments business and education business.

Area strategies in overseas market

Musical instruments business

- Expanding shares in North America and Western Europe through direct management development, and improving brand strength.
- Expanding further production and sales of pianos and digital pianos in China.
- Expanding and pioneering enhanced sales forces in the market of emerging countries such as Southeast Asia, Central and South America, etc.
- Enhancing the after-sales service by establishing training institutions of tuning experts.

Education related business

- Training leaders for spreading music education in China and emerging countries.
- Increasing the number of students based on franchising in emerging countries such as Indonesia.
- Expanding music schools and overseas development of physical education classes through cooperative partnership with Gakken Group.



2 Manufacturing innovation

Manufacturing through focusing on quality improvement and future of piano as a musical instrument

Further deepening on "EVOLVING THE PIANO"

- Challenging for innovation such as pursuing sound quality, searching for new materials, etc.
- Passing expertise of piano engineers to the next generation, and cultivation of human resources.
- Optimizing global logistics and production, and reducing cost by improving production efficiency.

New challenge of digital pianos

- Pursuing genuine sound quality and touch feel for the keyboard using the know-how acquired up to now.
- Developing new models with additional values through joint development with Onkyo Corp. and supporting IoT.
- Challenging for share expansion especially in China and emerging countries.

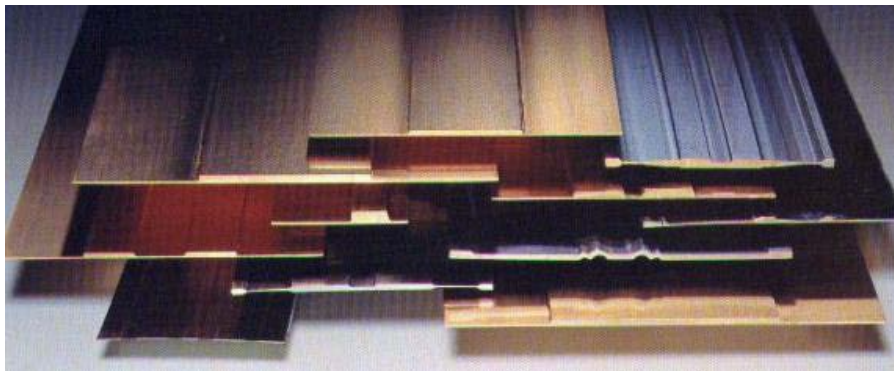


3 Expansion of material processing business

Expanding order received and new business development

Deploying material processing business further

- Metal business:
Expanding "Kawai rolled step-sectioned-strips" utilizing enhanced production capability in addition to the challenge for expansion of orders and new business field.
- Finishing business:
Acquiring new customers through establishing new technology to meet various needs with applied finishing technology gained in piano manufacturing.



4 Investment and capitalization policy

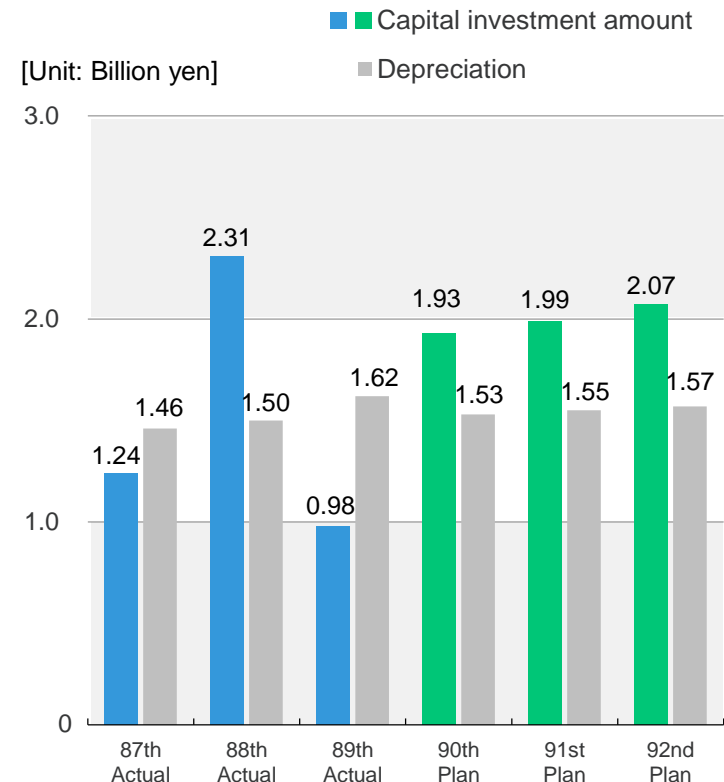
Growing capital efficiency furthermore

Capital investment

- Focusing investment on the growing and core businesses.

Business		89th Actual	90th Plan	91st Plan	92nd Plan	3 years total
Musical instruments business	Production facilities, store remodeling, and others	0.59	1.20	1.10	0.85	3.15
Education related business	Establishing new music schools, etc.	0.28	0.17	0.15	0.15	0.47
Material processing business	Metal business production facilities, etc.	0.15	0.44	0.70	0.96	2.10
Others	Information technology investment, etc.	0.01	0.12	0.04	0.11	0.27
Total		0.98	1.93	1.99	2.07	5.99

[Unit: Billion yen]

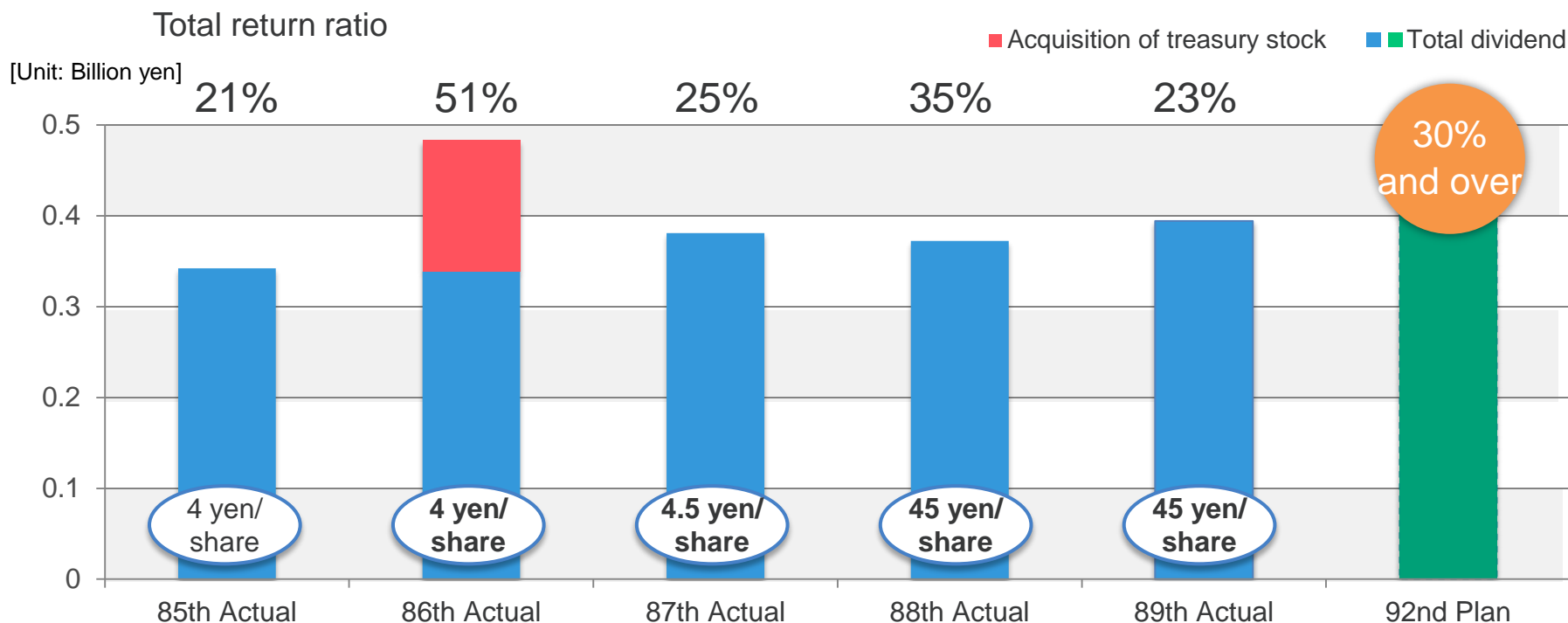


4 Investment and capitalization policy

Growing capital efficiency furthermore

Return to shareholders

- Target the total return ratio 30% and over including treasury stock, etc. based on the continuous stable dividend policy.



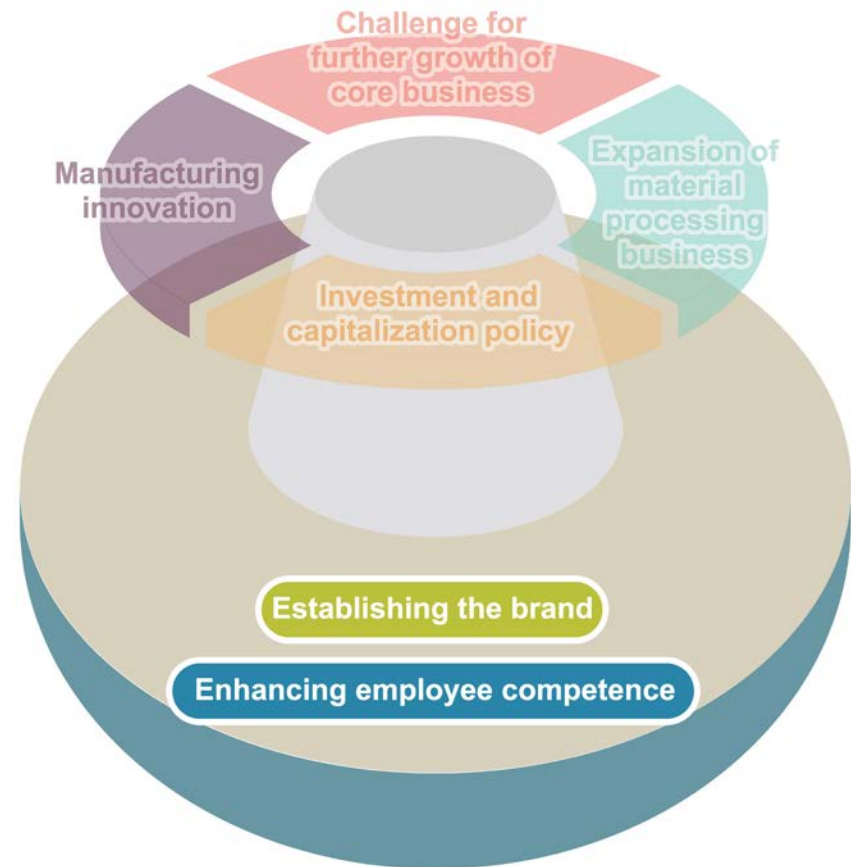
Building the foundation to support, and promote the key strategies.

Key Strategies

- 1 Challenge for further growth of core business
- 2 Manufacturing innovation
- 3 Expansion of material processing business
- 4 Investment and capitalization policy

Building Foundation

- 5 Establishing the brand
- 6 Enhancing employee competence



5 Establishing the brand

Inspiring feelings together with our customers

The brand of choice for the next hundred years

- Challenging for producing attractive pianos chosen by pianists in international competitions.
- Internationalizing the Kawai Music Competition that many pianists gather from all corners of the world.
- Setting up showrooms and schools to provide an opportunity to experience Kawai piano domestically and internationally.



Contributing to popularization of music culture

- Supporting activities for music educators and pianists.
- Contributing to the society through music promotion activities (Continue holding the series of Kawai Concerts and China-Japan Friendship Concert).



6 Enhancing employee competence

Enhancement of employee competence

Enhancement of expertise and diversity of employees to attain their goals and adjust to changes

- Growing professional employees for building the trusted and reliable brand.
- Starting programs to provide training for the employees who can engage in global business.
- Training employees to gain diversified skills to adapt to environmental changes.

Mindset enlightenment to remain as the top brand

- Creating corporate culture to value "reliability", "challenge", "pride" and "roots".
- Gaining corporate characteristics to foster each employee to think and act independently.
- Fostering employees who can constantly provide ideas and actions to construct Kawai top brand.



92nd

(FY2019.3)

• Operating income margin 5.0%

Sales 74.0 billion yen

Operating income 3.7 billion yen

• Improvement of capital efficiency

ROE 8% and over

Total return ratio 30% and over

*Exchange rate: 1US\$ = 115 yen, 1EURO = 125 yen

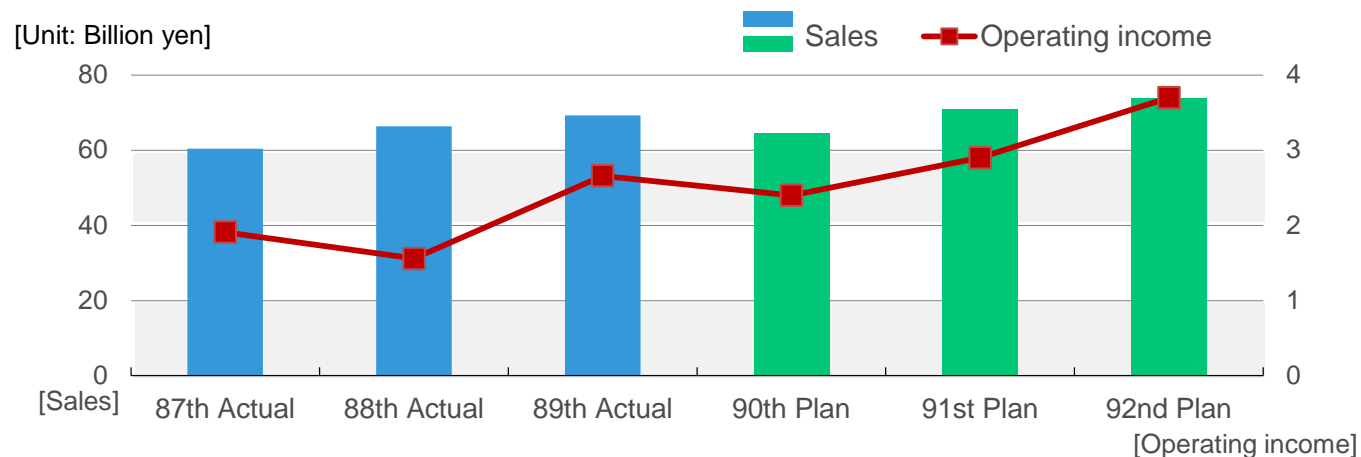
Business plan

[Unit: Billion yen]

	89th Actual	90th Plan	91st Plan	92nd Plan	
	FY2016.3	FY2017.3	FY2018.3	FY2019.3	(Compared to 89th)
Sales	69.25	64.50	71.00	74.00	+6.9%
Operating income (Operating income margin)	2.66 (3.8%)	2.40 (3.7%)	2.90 (4.1%)	3.70 (5.0%)	+39.1%
Ordinary income	2.62	2.15	2.70	3.50	+33.6%
Current net income	1.79	1.40	2.05	2.10	+17.3%
ROE (%)	9.3	6.8	9.1	8.6	—
Exchange rate	US\$ 121.1 yen EURO 134.3 yen	108.0 yen 120.0 yen	115.0 yen 125.0 yen	115.0 yen 125.0 yen	

The current net income is this term's net profit attributing to the shareholders of the parent company.

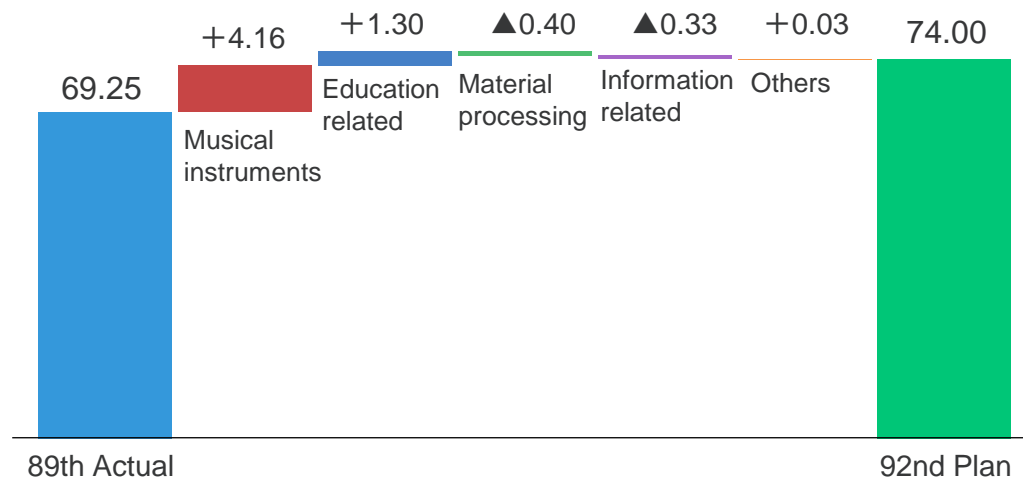
Sales and Operating income trend



Sales

[Unit: Billion yen]

	89th Actual	92nd Plan	Sales growth rate
■ Musical instruments	38.64	42.80	+10.8%
■ Education related business	16.60	17.90	+7.8%
■ Material processing business	10.28	9.88	▲3.9%
■ Information related	3.53	3.20	▲9.3%
■ Others	0.19	0.22	+15.8%
Total	69.25	74.00	+6.9%

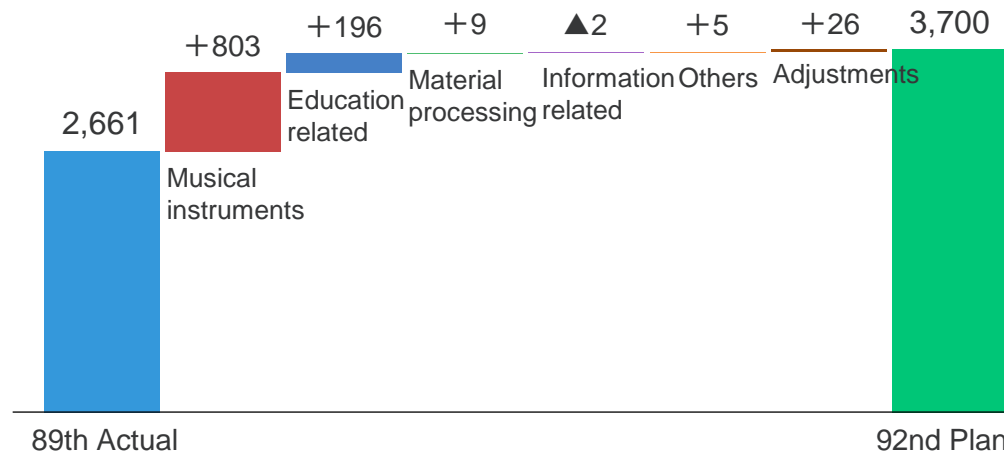


Operating income

[Unit: Million yen]

	89th Actual	92nd Plan	Sales growth rate
■ Musical instruments	997	1,800	+80.5%
■ Education related	894	1,090	+21.9%
■ Material processing	881	890	+1.0%
■ Information related	▲18	▲20	—
■ Others	▲15	▲10	—
■ Adjustments*	▲76	▲50	—
Total	2,661	3,700	+39.0%

* "Adjustments" are elimination of inter-segment transactions, and whole company expense not distributed to each segment.



In this document, the current plans and business prospects of KAWAI are included.

These future plans and estimated values are planned and predicted by KAWAI based on the information that can be obtained at the present time.

Actual business results may differ from these plans due to unforeseen various conditions and factors, and therefore, this document does not promise and guarantee the actualization.

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KAWAI

THE FUTURE OF THE PIANO