KAWAI

Kawai Musical Instruments Manufacturing Co., Ltd.

Q&A Summary for the Financial Results Briefing for FY2024.3 (97th Term)

Date: Thursday, May 23, 2024, 11 a.m. to noon
Answered by: Kentaro Kawai, President

Note: This material summarizes the main questions received from the attendants of the financial results briefing and answers thereto, with some additions/revisions to make the intention of the answers clearer.

< Outlook for future performance >

Q1. Following the results of the fiscal year ended March 2024, a difficult situation is continuing in the fiscal year ending March 2025. When do you expect a recovery?

A1. We forecast the current fiscal year ending March 2025 to be very difficult with operating profit of 1 billion yen; however, we aim to bring ROE back to at least 5% for the next fiscal year ending March 2026.

We expect operating profit for the fiscal year ending March 2026 to increase by 1.5 billion yen as the impact of production cuts will be eliminated with inventories brought back to an appropriate level, by 400 million yen through controlling discounts, by 900 million yen due to an increased market share resulting from improved brand recognition in markets other than China which are on a recovery trend, and by 200 to 300 million yen due to an increase in orders as inventory adjustments of customers in the material processing business, particularly in the metal business, has calmed down, for a total of approximately 3 billion yen. Adding the increase of 3 billion yen to the forecast for operating profit of 1 billion yen for the fiscal year ending March 2025 makes for a total of 4 billion yen. Even forecasting conservatively, we believe it is quite possible to get operating profit back to 3 billion yen and achieve an ROE of 5% or more.

So, we expect a recovery in the next fiscal year ending March 2026.

Q2. Regarding sales by region for this fiscal year, you plan to see a decrease in North America, an increase in Europe, and a decrease in China. Are you expecting China to continue to decline further?

A2. With regards to the decline in sales in China, we believe that it is affected more by the Double Reduction Policy than a deterioration in the economic situation, with the former accounting for about half of the decline in sales in China in the previous fiscal year. As long as the Double Reduction Policy remains in place, it will be difficult to recover from the decline caused by this factor. We also believe that it will be difficult to recover from the impact of the deterioration in economic situation in the current and next fiscal years.

(Note: The Double Reduction Policy is a policy aimed at reducing burdens on elementary and junior high school students of off-campus learning such as homework assignments and tutoring schools)

< Next Medium-Term Management Plan >

Q3. Regarding the sales target of 110 billion yen in the next Medium-Term Management Plan, please tell us about products that you expect to grow most.

A3. They are grand pianos and digital pianos. By implementing the measures described in the “Key strategies,” we believe we can achieve our targets by increasing the value added of the “Shigeru Kawai” grand pianos and boosting the market share of grand pianos and digital pianos. In order to sell more digital pianos, we plan to expand our production plant in Indonesia to roughly double our production capacity from the current level.

< Net cash balance >

Q4. You said net cash balance is not at a sufficient level in light of major risks. How much do you need?

A4. We will not disclose a specific amount currently; however we believe that the current balance is not sufficient to continue the production of pianos which have a long lead time, in consideration of risks such as the potential Nankai Trough Earthquake, pandemics such as COVID-19, and potential emergencies in Taiwan.

< Inventories >

Q5. By how much do you plan to reduce inventories through production adjustments?

A5. Inventory balance at the end of the fiscal year ended March 2024 was approximately 19 billion yen, and we plan to cut production of pianos and digital pianos by about 30% and 10%, respectively, from the previous fiscal year, during this fiscal year to bring the balance to about 17 billion yen at the end of the fiscal year ending March 2025, thereby achieving an appropriate level. Inventories for digital pianos are expected to be at roughly an appropriate level by the end of the second quarter.

< New structure and initiatives >

Q6. With the change of the President, what would you like most to focus on? Also, what changes have you seen in the past six months?

A6. I would like to focus on improving quality further, while never changing the philosophy on pianos that we have had since our foundation and the way pianos are produced. In terms of changes, we made major organizational changes effective April 1, 2024. The Domestic Sales Division and Overseas Sales Division, which had previously been separate divisions, were merged to form a single sales organization of the Musical Instrument Education Sales Division. Domestic sales are centered on directly managed stores, while overseas sales revolve around wholesale. However, we intend to do in the future what we have not been able to do in the past due to barriers of divisions, such as transferring human resources skilled in domestic sales to overseas sales.

Q7. With the new structure in place, you said you plan to strengthen brand communication, especially outside Japan. Please explain your specific policies.

A7. First, in major markets, we are strengthening digital promotion along with real-world measures. We are currently working with a global branding company to review measures to raise brand recognition globally, and they will be implemented starting from the second half of the year. It is becoming clear that the name recognition of Kawai is not as high in major markets other than Japan. For digital pianos in particular, there are still many people who are not even aware that Kawai makes digital pianos. We will strengthen our digital promotion to let people know that Kawai makes digital pianos, and have Kawai's digital pianos available to try and play, together with other companies' products, when they are considering purchasing, so they realize that their touch and sound, things we care about most, are more similar to acoustic pianos. First, we would like to dramatically increase the number of cases where Kawai is among the options in the year ahead.

In emerging countries, we are developing music schools, in particular, in Southeast Asia such as in Indonesia, Thailand, and Vietnam. I mentioned earlier that we opened a store in Aeon Mall Deltamas in Indonesia, but there are still not many who play the piano in emerging countries. We will strive to spread the joy of playing the piano by promoting music culture, and hope it will lead to an increase in sales of keyboard musical instruments.

The Company's earnings forecasts and future predictions described in this document are based on information available to the Company at the time of preparation. Actual results and achievements may differ materially from these forecasts due to changes in various external and internal factors, such as economic conditions, the intensification of selling competition and risks associated with intellectual property rights.