

Kawai Musical Instruments Manufacturing Co., Ltd.

Q&A Summary for the Financial Results Briefing for Second Quarter of FY2025.3 (98th Term)

Date: November 13, 2024 (Wednesday), from 11 a.m. to noon

Answered by: Kentaro Kawai, President and CEO

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. The keyboard musical instrument sales for the second half of the current fiscal year are planned to improve from the first half. Could you explain that background?

A1. In Japan, the period between October and December at the end of the year is the peak sales season. Therefore, sales are expected to grow more than in the first half. Overseas subsidiaries close their books at the end of December, and we have an idea of how their performance will end up in December as the account closing month. In Europe, sales of digital pianos are strong, and cumulative sales of grand pianos for the first half also exceeded the previous year. Facing a considerably tough situation in North America, we have taken one measure after another. Now, we have a sense that the market hit the bottom this past October at last.

Q2. Could you share with us your ideas about the future of the Chinese market, the normalization of inventory and demand for musical instruments?

A2. Our view is that it will take two to three years before inventory levels return to normal since local manufacturers' inventory remains unsold in the market in a considerable number. Moreover, due to the economic conditions and the Double Reduction Policy (reduction in school homework and the burden of studying at tutoring cram schools), this harsh market is projected to persist for another two to three years. Having said that, our presence is high in China. We intend to continue separate efforts to increase sales of grand pianos, which is our strength, to schools and related institutions, and sales of digital pianos to those who play the piano as a hobby.

Q3. Could you inform us of factors behind the sales decrease in the North American market and your upcoming plan?

A3. The market as a whole is cooling down, and U.S. import statistics show that imports of keyboard musical instruments for the first half decreased about 30% year on year. At the early stage of the spread of COVID-19, supplies of keyboard musical instruments became short due in part to disruptions in port-related logistics. After the start of 2021, products gathered in North America, leading to a plethora of inventory in the market. Market players have been behind the curb in dealing with the situation. Down the road, we plan to roll out a brand strategy at the "NAMM Show," America's biggest musical instrument exhibition, scheduled for next January, in an effort to step up

sales promotion in North America. Afterward, we plan to expand the strategy globally, including in Europe and Australia.

Q4. What are the reasons for your strength in Europe?

A4. Partly because three finalists in the previous Chopin Competition chose to play our Shigeru Kawai pianos, the brand recognition of Shigeru Kawai has been boosted, which has helped our digital pianos improve their market share. We hold events such as “Master Class” (lessons given by distinguished musicians), based in a showroom that we have opened in Warsaw, Poland, where the Chopin Piano Competition is held. Such activities are leading to sales growth as well.

Q5. Could you share with us the status of reduced levels of production of musical instruments and the future outlook?

A5. We have been reducing production since this past May, and as a result, the stock of keyboard musical instruments decreased about 10% in quantity as of the end of the second quarter of the current fiscal year from the end of the previous fiscal year. By item, inventory quantities of grand pianos grew about 30% as repercussions from the fact that their sales had remained strong and we had increased production during the previous fiscal year. Upright pianos fell some 3%, and digital pianos declined roughly 15%. We plan to continue reduced levels of production of acoustic pianos until next March. On the other hand, with the inventory of digital pianos already at normal levels, we are ramping up production for the Christmas season.

Q6. You reportedly plan to construct a new production factory for digital pianos in Indonesia. Why did you choose this timing? Also, could you tell us about the upcoming schedule?

A6. The digital piano market is projected to keep growing. Following our next medium-term management plan, which will start next April, we will further expand KAWAI brand recognition and aim at boosting sales quantities in main markets and emerging countries by increasing our market share of digital pianos. To this end, we need to grow production capacity. Accordingly, the new production factory is planned to start operations in the summer of 2026.

Q7. How are you going to differentiate your digital pianos from those of competitors?

A7. Having expanded our product line down to a low-price range that we had not handled until recently, we are rolling out a significantly broad product line from high-end models to hybrid models. However, we bear in mind that even low-end pianos should not lose the touch and feel of what people perceive as a piano. As a manufacturer of acoustic pianos, we place importance on the touch and sound.

Q8. Could you explain the factors behind the strong performance of the precision metal business?

A8. The factor behind the strong performance in the first half is that sales of panels for automotive interiors in the coating business expanded. In the metal business as well, we are receiving more orders for our products, feeling demand pick up, in the wake of a recovery in automotive production.

<Next Medium-Term Management Plan>

Q9. Could you let us know about challenges that you recognize toward implementing the next medium-term management plan?

A9. As a result of a brand awareness survey that we conducted about our company overseas, we found our company's brand recognition was lower than expected in North America and Europe, in particular. With this, we have come to understand our position in the market. We are aware of the need to enhance our brand recognition, thereby improving the market share of digital pianos. For this purpose, together with branding company "Ogilvy," we are working to raise our brand awareness worldwide. Our market share of digital pianos is low, particularly in North America, and we also recognize the need to enhance the market share in Europe. "Enhance the market share of digital pianos" and "Shift grand pianos to higher added-value products." KAWAI needs this inseparable pair of targets. That is why we have decided to construct the new production factory for digital pianos in Indonesia.

<PBR below 1>

Q10. You are a corporation with a PBR consistently below 1. When do you think you can escape this situation?

A10. We recognize that it is necessary for us to achieve this goal as soon as possible. In terms of profit and loss, we plan to complete normalizing inventory during the current fiscal year and achieve an operating profit recovery in the next fiscal year and onwards. Additionally, we also find it our responsibility to have our stock price go up by further stepping up IR activities.

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.