

## Q3 2014 Earnings

# Financial Results for the Third Quarter Ended December 31, 2014

January 29, 2015  
OMRON Corporation

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# Summary

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Summary



## Summary

- **Q1-Q3**
  - Large increase in sales and profits following H1.
  - IAB brisk following H1.
  - Consolidated OP up due to (1) the weak yen and (2) expenses carryover.
- **Q4 & Full-Year**
  - No changes to the initial full-year forecast.
  - Expects IAB to stay solid in Q4, while Environmental Solutions and Backlight to see one-time demand drop.
  - Even with highly volatile businesses, negative impacts on OP will be limited thanks to the weak yen.
  - Omron will carry out growth investment as planned.

# Q1-Q3 Results

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Q1-Q3 Results



## Q1-Q3 9-Month Results

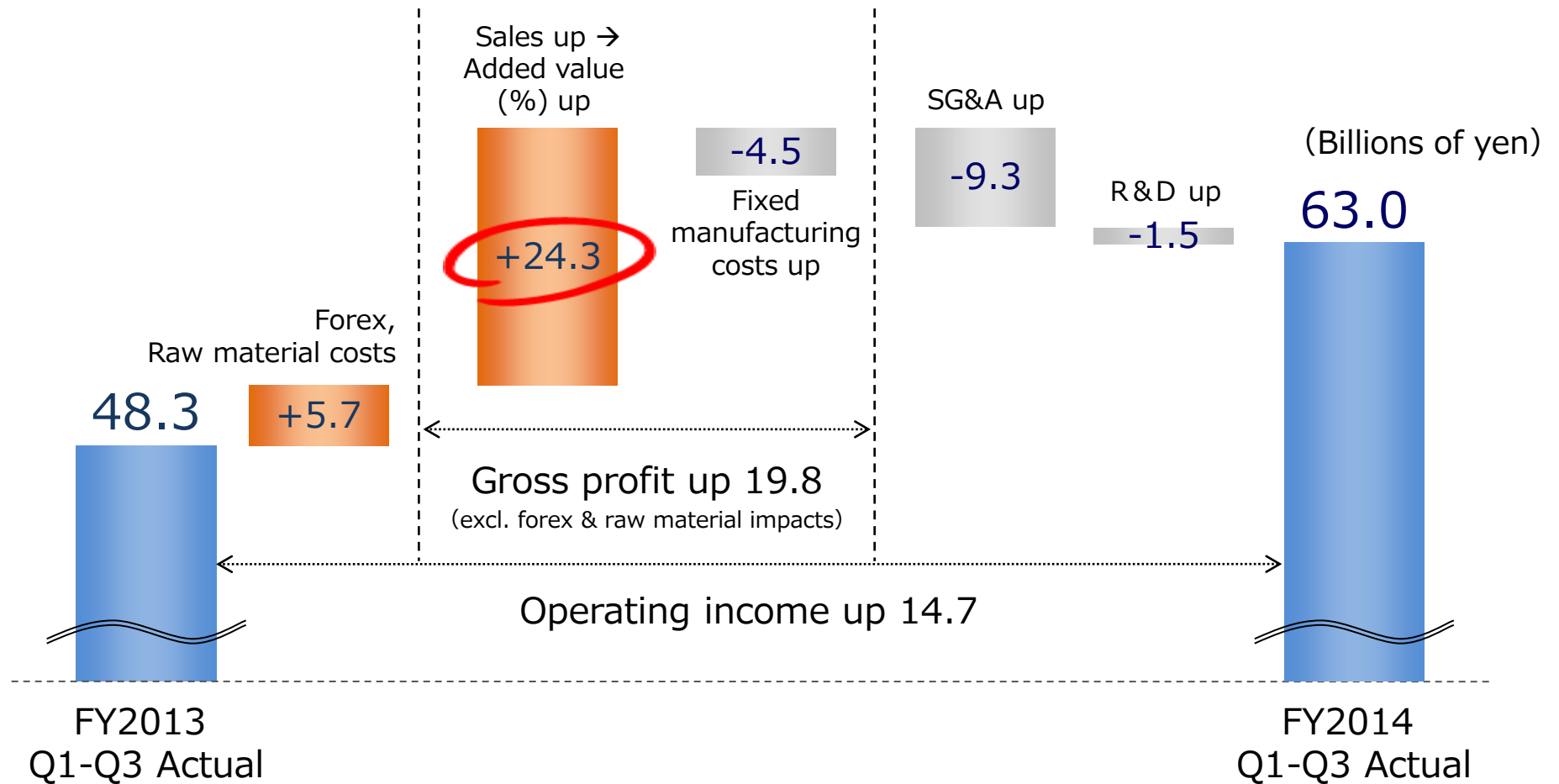
**Large sales & profits increase to post >10% OP.**

(Billions of yen)

	FY2013 Q1-Q3	FY2014 Q1-Q3	Y/Y
Net Sales	552.4	614.3	+11.2%
Gross Profit (%)	213.8 (38.7%)	243.9 (39.7%)	+14.1% (+1.0%pt)
Operating Income (%)	48.3 (8.8%)	63.0 (10.3%)	+30.3% (+1.5%pt)
NIBT	46.4	65.5	+41.2%
Net Income attributable to shareholders	33.9	49.3	+45.2%
1USD (JPY)	99.3	107.2	+7.9
1EUR (JPY)	132.1	140.5	+8.4

# Q1-Q3 9-Month Operating Income Analysis, Y/Y

**Sales up, added value (%) up, to boost operating income.**



## Q1-Q3 9-Month Sales by Segment

**IAB and "Other" were major drivers.**

(Billions of yen)

	FY2013 Q1-Q3	FY2014 Q1-Q3	Y/Y
<b>IAB</b> Industrial Automation	212.2	244.6	+15.3%
<b>EMC</b> Electronic & Mechanical Components	72.9	75.6	+3.7%
<b>AEC</b> Automotive Electronic Components	92.3	100.9	+9.3%
<b>SSB</b> Social Systems, Solutions & Service	45.7	48.0	+5.1%
<b>HCB</b> Healthcare	66.6	73.5	+10.3%
<b>Other</b>	58.1	67.8	+16.8%
Eliminations & Corporate	4.6	3.9	-16.2%
<b>Total</b>	<b>552.4</b>	<b>614.3</b>	<b>+11.2%</b>



## Ref. Q3 3-Month Sales by Segment

(Billions of yen)

	FY2013 Q3	FY2014 Q3	Y/Y
<b>IAB</b> Industrial Automation	74.2	83.4	+12.5%
<b>EMC</b> Electronic & Mechanical Components	24.1	25.5	+5.7%
<b>AEC</b> Automotive Electronic Components	32.9	35.3	+7.5%
<b>SSB</b> Social Systems, Solutions & Service	16.5	17.1	+3.4%
<b>HCB</b> Healthcare	23.8	28.0	+17.8%
<b>Other</b>	19.6	19.2	-2.1%
Eliminations & Corporate	1.6	1.2	-24.4%
<b>Total</b>	<b>192.7</b>	<b>209.8</b>	<b>+8.9%</b>

## Ref. Q1-Q3 9-Month Operating Income by Segment

**IAB contributed to the large OP growth.**

(Billions of yen)

	FY2013 Q1-Q3	FY2014 Q1-Q3	Y/Y
<b>IAB</b> Industrial Automation	28.3 (13.3%)	40.3 (16.5%)	<b>+12.0</b> (+3.1%pt)
<b>EMC</b> Electronic & Mechanical Components	6.8 (9.3%)	7.0 (9.3%)	+0.2 (±0.0%pt)
<b>AEC</b> Automotive Electronic Components	7.0 (7.6%)	7.1 (7.0%)	+0.1 (-0.6%pt)
<b>SSB</b> Social Systems, Solutions & Service	-1.9 (-)	-1.0 (-)	+0.9 (-)
<b>HCB</b> Healthcare	6.4 (9.7%)	5.8 (8.0%)	-0.6 (-1.7%pt)
<b>Other</b>	7.1 (12.2%)	8.4 (12.3%)	+1.3 (+0.1%pt)
Eliminations & Corporate	-5.4	-4.6	+0.8
<b>Total</b>	<b>48.3</b> (8.8%)	<b>63.0</b> (10.3%)	<b>+14.7</b> (+1.5%pt)

## Ref. Q3 3-Month Operating Income by Segment

(Billions of yen)

	FY2013 Q3	FY2014 Q3	Y/Y
<b>IAB</b> Industrial Automation	10.4 (14.1%)	13.6 (16.3%)	+3.1 (+2.2%pt)
<b>EMC</b> Electronic & Mechanical Components	2.9 (11.8%)	3.0 (11.9%)	+0.2 (+0.1%pt)
<b>AEC</b> Automotive Electronic Components	2.7 (8.1%)	2.9 (8.3%)	+0.3 (+0.2%pt)
<b>SSB</b> Social Systems, Solutions & Service	-0.1 (-)	0.0 (-)	+0.2 (-)
<b>HCB</b> Healthcare	2.1 (8.6%)	1.9 (6.8%)	-0.2 (-1.9%pt)
<b>Other</b>	1.3 (6.7%)	0.5 (2.5%)	-0.8 (-4.2%pt)
Eliminations & Corporate	-1.7	-2.0	-0.3
<b>Total</b>	17.6 (9.1%)	20.0 (9.5%)	+2.4 (+0.4%pt)

## Consolidated B/S

(Billions of yen)

	(1) Mar. 31, 2014	(2) Dec. 31, 2014	(2) - (1)
Current assets	396.5	428.1	+31.6
Property, plant & equipment	135.6	149.8	+14.3
Investments and other assets	122.6	125.9	+3.3
<b>Total Assets</b>	<b>654.7</b>	<b>703.8</b>	<b>+49.1</b>
Current liabilities	162.7	165.8	+3.1
Long-term liabilities	59.2	46.3	-13.0
<b>Total Liabilities</b>	<b>221.9</b>	<b>212.1</b>	<b>-9.8</b>
Shareholders' equity	430.5	489.2	+58.7
Noncontrolling interests	2.3	2.5	+0.2
<b>Total Net Assets</b>	<b>432.8</b>	<b>491.7</b>	<b>+58.9</b>
<b>Total Liabilities and Shareholders' Equity</b>	<b>654.7</b>	<b>703.8</b>	<b>+49.1</b>
Shareholders' equity to total assets	65.8%	69.5%	+3.8%pt

## Consolidated Cash Flows

**FCF down due to (1) pension fund contribution and (2) NS acquisition. Financing activities include share buyback.**

(Billions of yen)

	FY2013 Q1-Q3	FY2014 Q1-Q3	Y/Y
Operating activities	48.6	42.6	-5.9
Investing activities	-21.4	-27.9	-6.5
Free cash flow (FCF)	27.2	14.8	-12.5
Financing activities	-7.4	-28.9	-21.5
Cash and cash equivalents at end of the period	80.0	83.1	+3.2
Capital expenditures	22.6	25.6	+3.0
Depreciation and amortization	18.3	20.5	+2.2

# Full-Year Forecast

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Full-Year Forecast



## Q4 Business Environment by Area (vs. Oct. 28 Forecast)

**Unchanged overall, with some industries and areas slowing down.**

**Japan** Capital investment solid especially among large businesses.  
PV will temporarily go stagnant due to market changes.

### **Overseas**

- Americas: US solid overall thanks to increasing consumer spending and capital investment. Brazil slow amid the looming economy.
- Europe: Flat overall. Russia weak due to the economy.
- China: Slowdown signs in some industries/areas with property-related investment cooling down.
- Asia: Thailand and Indonesia unchanged. Business sentiment better in India. Slowdown in South Korea.

## Q4 Business Environment by Segment (vs. Oct. 28 Forecast)

<p><b>IAB</b> Industrial Automation</p>	<p>Japan: Modest upturn overall, with automotive remaining solid and semiconductors back on a recovery track.</p> <p>Overseas: Slowdown signs in China. Americas favorable especially N. America. Europe flat. In Asia, S. Korea will trend down with the other areas flat.</p>
<p><b>EMC</b> Electronic &amp; Mechanical Components</p>	<p>Home electronics: In Japan, consumer spending will remain low after the consumption tax hike. Europe and China will remain solid.</p> <p>Automotive components: No major changes overall.</p>
<p><b>AEC</b> Automotive Electronic Components</p>	<p>Japan: Mini-vehicles will remain healthy. 'Ordinary' cars will keep going down Y/Y.</p> <p>Overseas: N. America will be solid. Asia and China will trend down. No major changes in the other areas.</p>
<p><b>SSB</b> Social Systems, Solutions &amp; Service</p>	<p>Demand for train system will go solid overall.</p> <p>Environmental Solutions will temporarily go sluggish due to changes in the PV market.</p>
<p><b>HCB</b> Healthcare</p>	<p>Japan: Home-use solid. Professional-use will go stagnant due to medical institutions' revenue drop and cost reduction efforts.</p> <p>Overseas: Russia will be weak hit by the ruble crash. The other areas will remain the same.</p>
<p><b>Other</b></p>	<p>Environmental Solutions will temporarily go sluggish due to changes in the PV market. Backlight will see one-time demand drop due to some customers' model changes.</p>



## Full-Year Forecast

### No changes to FY14 full-year forecast.

(Billions of yen)

	FY2013 Actual	FY2014 Forecast	Y/Y
Net Sales	773.0	835.0	+8.0%
Gross Profit (%)	297.2 (38.5%)	331.0 (39.6%)	+11.4% (+1.2%pt)
Operating Income (%)	68.1 (8.8%)	84.0 (10.1%)	+23.4% (+1.3%pt)
NIBT	62.0	84.5	+36.3%
Net Income attributable to shareholders	46.2	62.5	+35.3%
1USD (JPY)	100.1	105.5	+5.4
1EUR (JPY)	134.0	139.2	+5.2

## Ref. Full-Year Sales Forecast by Segment

(Billions of yen)

	FY2013 Actual	FY2014 Forecast	Y/Y
<b>IAB</b> Industrial Automation	291.7	321.0	+10.0%
<b>EMC</b> Electronic & Mechanical Components	97.7	101.5	+3.9%
<b>AEC</b> Automotive Electronic Components	126.6	131.5	+3.9%
<b>SSB</b> Social Systems, Solutions & Service	82.7	84.5	+2.2%
<b>HCB</b> Healthcare	89.3	100.0	+12.0%
<b>Other</b>	78.9	91.5	+15.9%
Eliminations & Corporate	6.1	5.0	-16.5%
<b>Total</b>	<b>773.0</b>	<b>835.0</b>	<b>+8.0%</b>

## Ref. Full-Year Operating Income Forecast by Segment

(Billions of yen)

	FY2013 Actual	FY2014 Forecast	Y/Y
<b>IAB</b> Industrial Automation	38.8 (13.3%)	50.0 (15.6%)	+11.2 (+2.3%pt)
<b>EMC</b> Electronic & Mechanical Components	8.7 (8.9%)	9.2 (9.1%)	+0.5 (+0.2%pt)
<b>AEC</b> Automotive Electronic Components	9.1 (7.2%)	8.9 (6.8%)	-0.2 (-0.4%pt)
<b>SSB</b> Social Systems, Solutions & Service	5.6 (6.7%)	6.2 (7.3%)	+0.6 (+0.6%pt)
<b>HCB</b> Healthcare	7.5 (8.5%)	7.2 (7.2%)	-0.3 (-1.3%pt)
<b>Other</b>	8.7 (11.0%)	10.5 (11.5%)	+1.8 (+0.5%pt)
Eliminations & Corporate	-10.3	-8.0	+2.3
<b>Total</b>	68.1 (8.8%)	84.0 (10.1%)	+15.9 (+1.3%pt)

## Ref. Management Targets

	FY2013 Actual	FY2014 Forecast	Y/Y
GP Margin	38.5%	39.6%	+1.2%pt
OP Margin	8.8%	10.1%	+1.3%pt
ROIC	11.3%	>13%	-
ROE	11.6%	>13%	-
EPS	¥209.8	¥285.4	up ¥75.6

# Corporate Value Improvement Award

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Corporate Value Improvement Award



## Corporate Value Improvement Award

Omron won the "TSE 2014 Corporate Value Improvement Award" Grand Prix.



# 上場会社表彰

企業価値向上表彰 大賞



# オムロン株式会社

## Grand Prix - Why Omron?

### TSE highly evaluated Omron's ROIC management.

#### <Reason for Selection\*>

TSE recognized the outstanding level of management initiatives implemented to improve corporate value at Omron in its efforts to position **ROIC as an important management benchmark** for capital efficiency and other initiatives to enhance ROIC throughout the organization.

#### <Outstanding Points\*\*>

1. Investor-oriented management goals for better engagement with investors
2. In-depth management of business portfolio of 100+ business units to achieve management goals
3. Management system for corporate value improvement (down-top ROIC tree) shared all through the organization
4. ROIC management efforts practically showing numerical results

#### Reference

\*TSE press release: <http://www.tse.or.jp/english/news/07/b7gje60000029vv5-att/b7gje60000029w4m.pdf>

\*\*Translation of TSE press release: <http://www.tse.or.jp/rules/award/b7gje6000002dpto-att/b7gje6000004x6xu.pdf>

**OMRON**

*Sensing tomorrow™*



# References

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K6L6L6UCE2



## Conditions: Exchange Rates & Raw Material Costs

**No changes to the initially set conditions.**

### Q4 Conditions

#### Exchange rates

- 1 USD = ¥100
- 1 EUR = ¥135

¥1 fluctuation impact (full-year, approx.)

	Sales	OP
USD	¥3.1bn	¥0.4bn
EUR	¥0.8bn	¥0.4bn

#### Raw material costs

- Silver = ¥72,000/kg
- Copper = ¥760/kg

Price change impact (full-year, approx.)

	Price change	OP
Silver	¥1,000/kg	¥0.1bn
Copper	¥10/kg	¥0.1bn

# ROIC Definition

<Consol. B/S>

LIABILITIES	
Current liabilities:	
Short-term debt	
Notes and accounts payable — trade	
Accrued expenses	
Income taxes payable	
Other current liabilities	
Deferred income taxes	
Termination and retirement benefits	
Other long-term liabilities	
Total liabilities	
NET ASSETS	
Shareholders' equity	
Common stock	
Capital surplus	
Legal reserve	
Retained earnings	
Accumulated other comprehensive income (loss)	
Foreign currency translation adjustments	
Minimum pension liability adjustments	
Net unrealized gains on available-for-sale securities	
Net losses on derivative instruments	
Treasury stock	
Noncontrolling interests	
Total net assets	
Total liabilities and net assets	

$$\text{ROIC} = \frac{\text{Net income attributable to shareholders}}{\text{Invested capital}}$$

**Invested capital\***

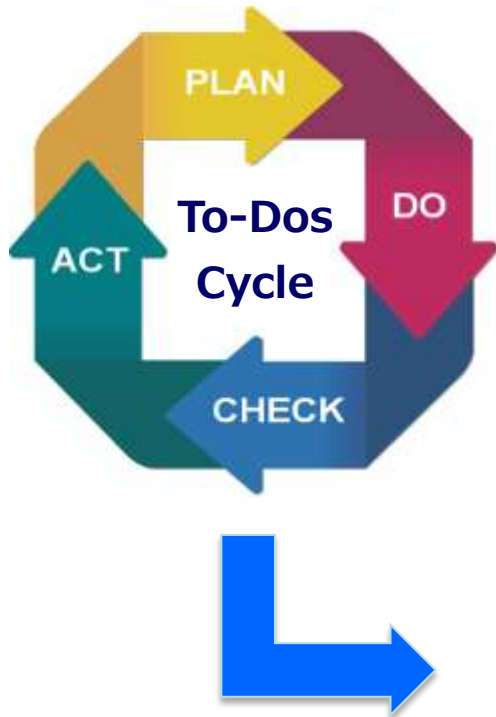
= Net assets + Interest-bearing debt

\*FY13 year-end & FY14 Q1-Q4 (quarterly results & forecast) average.

Capital cost forecast at 6%  
for EARTH-1 STAGE (FY14-16)

# ROIC Management: Down-Top ROIC Tree

## On-site



## KPI

- Sales in focus industries/areas
- Sales of new/focus products
- Selling price control
- Variable costs reduction, value/%
- Defect costs %
- Per-head production #
- Automation % (headcount reduction)
- Labor costs-sales %
- Inventory turnover months
- Slow-moving inv. months
- Credits & debts months
- Facilities turnover (1/N automation ratio)

## Drivers

- GP Margin
- Added-value %
- Fixed manuf. costs %
- SG&A %
- R&D %
- Working capital turnover
- Fixed assets turnover

ROS

Invested Capital Turnover

ROIC

## **Notes**

1. The consolidated statements of Omron Corporation (the Company) are prepared in accordance with U.S. GAAP.
2. Projected results and future developments are based on information available to the Company at the current time, as well as certain assumptions judged by the Company to be reasonable. Various factors could cause actual results to differ materially from these projections. Major factors influencing Omron's actual results include, but are not limited to,
  - (i) economic conditions affecting the Company's businesses in Japan and overseas
  - (ii) demand trends for the Company's products and services
  - (iii) the ability of the Company to develop new technologies and products
  - (iv) major changes in the fundraising environment
  - (v) tie-ups or cooperative relationships with other companies
  - (vi) movements in currency exchange rates and stock markets, and
  - (vii) accidents and natural disasters.
3. The presentation slides are based on "Summary of Consolidated Financial Results for the Third Quarter of the Fiscal Year Ending March 31, 2015". Figures rounded to the nearest JPY million and percentage to one decimal place.

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