

# **FY2019 Q1 Earnings**

## **Financial Results for the First Quarter Ended June 30, 2019**



**July 25, 2019  
OMRON Corporation**

# Summary

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## **AEC Business Transfer: Adjusted Disclosures for Continuing Operations**

- In compliance with US GAAP, AEC has been reclassified as a discontinued operation
- Presentation refers to Q1 earnings and full-year guidance for continuing operations.  
See Reference section for earnings of discontinued operations

### **■ Q1 Results: Continuing Operations**

- Revenue and earnings down Y/Y
- Decreased visibility, particularly for IAB and EMC.  
Revenues fell short of assumptions
- OP in line with assumptions as a result of disciplined control of fixed costs

### **■ Full-year Forecasts: Continuing Operations**

- Possibility of a prolonged period of uncertainty for IAB and EMC.  
Expect SSB, HCB and Environmental Solutions businesses to remain firm
- Aim to build framework for profitability by executing on short- and medium-term profit structure reforms
- Full-year forecasts left unchanged

### **■ Spotlight on SSB**

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# **AEC Business Transfer: Adjusted Disclosures for Continuing Operations**

## Adjusted Disclosures

**AEC reclassified as discontinued operation. Full-year plan split into continuing and discontinued operations but plan unchanged**

Previous		Adjusted		
	FY2019 Forecast		FY2019 Fcst: Continuing Ops	FY2019 Fcst: Discontinued Ops
Net Sales	* 830.0	Net Sales	* 709.0	121.0
Gross Profit (%)	349.0 (42.0%)	Gross Profit (%)	322.5 (45.5%)	26.5 (21.9%)
Operating Income (%)	* 65.0 (7.8%)	Operating Income (%)	* 57.5 (8.1%)	7.5 (6.2%)
Net Income Attributable to OMRON Shareholders	42.5	-NP: Continuing Ops.	37.5	-
		-NP: Discontinued Ops.	5.5	5.5
		Net Income Attributable to OMRON Shareholders	** 42.5	-

\* Includes impact of Earnings Fluctuation Risk of ¥10bn to Sales and ¥5bn to Operating Income

\*\* Forecast for Net Income Attributable to OMRON Shareholders from Continuing Operations includes -¥0.5bn from Non-controlling Interests

## Adjusted Disclosures (by Segment)

**Some segment adjustments resulting from reclassification  
but no change to overall plan**

## Sales

## Operating Income

(¥bn)

	FY2019	FY2019	Chg.	FY2019	FY2019	Chg.
	Initial (Cont. Ops.)	Fcst. (Cont. Ops.)		Initial (Cont. Ops.)	Fcst. (Cont. Ops.)	
<b>IAB</b> Industrial Automation	378.0	378.0	-	63.0	63.0	-
<b>EMC</b> Electronic & Mechanical Components	98.0	101.0	+3.0	8.5	8.5	-
<b>SSB</b> Social Systems, Solutions and Service	83.0	83.0	-	6.5	6.5	-
<b>HCB</b> Healthcare	123.0	123.0	-	14.0	14.0	-
<b>Other</b> Businesses under the Direct Control of HQ	32.0	32.0	-	-1.0	-1.0	-
Eliminations & Corporate	2.0	2.0	-	-25.0	-28.5	-3.5

## Consolidated Balance Sheet

## New line items for discontinued operations' assets and liabilities held for sale

(¥bn)

	End-March 2019	End-June 2019	Chg.
Current assets	460.0	443.6	-16.3
(Assets held for sale)	73.3	73.3	-0.0
Property, plant and equipment	115.1	112.4	-2.7
Investments and other assets	174.8	196.4	+21.6
<b>Total assets</b>	<b>749.9</b>	<b>752.4</b>	<b>+2.5</b>
Current liabilities	175.6	164.9	-10.7
(Liabilities held for sale)	27.7	25.4	-2.3
Long-term liabilities	68.0	64.3	-3.7
<b>Total liabilities</b>	<b>243.6</b>	<b>229.2</b>	<b>-14.3</b>
Shareholders' equity	504.2	521.2	+17.0
Noncontrolling interests	2.1	2.0	-0.1
<b>Total net assets</b>	<b>506.3</b>	<b>523.2</b>	<b>+16.8</b>
<b>Total liabilities and shareholders' equity</b>	<b>749.9</b>	<b>752.4</b>	<b>+2.5</b>



# **Q1 Results: Continuing Operations**



## Q1 Results: Continuing Operations

**Sales and profits down Y/Y. Sales fell short of assumptions but operating income in line on disciplined fixed cost control**

(¥bn)

	Q1 FY2018 Act. (Cont. Ops.)	Q1 FY2019 Act. (Cont. Ops.)	Y/Y
Net Sales	177.6	160.0	-9.9%
Gross Profit (%)	80.0 (45.1%)	71.5 (44.7%)	-10.6% (-0.4%pt)
Operating Income (%)	17.1 (9.6%)	10.0 (6.3%)	-41.2% (-3.3%pt)
Net income Attributable to OMRON Shareholders	14.7	8.5	-41.8%
1USD (JPY)	108.1	110.7	+2.6
1EUR (JPY)	129.9	123.6	-6.3
1RMB (JPY)	17.1	16.3	-0.8

## Sales by Business Segment: Continuing Operations

## Substantial Y/Y sales declines at IAB, EMC

(¥bn)

	Q1 FY2018 Act. (Cont. Ops.)	Q1 FY2019 Act. (Cont. Ops.)	Y/Y
<b>IAB</b> Industrial Automation	102.8	89.1	-13.3%
<b>EMC</b> Electronic & Mechanical Components	27.0	23.0	-14.8%
<b>SSB</b> Social Systems, Solutions & Service	9.6	10.4	+8.1%
<b>HCB</b> Healthcare	27.9	27.7	-0.7%
<b>Other</b> Businesses under the Direct Control of HQ	9.2	9.2	+0.2%
Eliminations & Corporate	1.1	0.7	-41.4%
<b>Total</b>	<b>177.6</b>	<b>160.0</b>	<b>-9.9%</b>

## Operating Income by Segment : Continuing Operations

### Sharp Y/Y profit decline at IAB, EMC

(¥bn, %: OP Margin)

	Q1 FY2018	Q1 FY2019	Y/Y
	Act. (Cont. Ops.)	Act. (Cont. Ops.)	
<b>IAB</b> Industrial Automation	17.0 (16.6%)	13.3 (14.9%)	-3.8 (-1.7%pt)
<b>EMC</b> Electronic & Mechanical Components	2.9 (10.8%)	0.0 (0.0%)	-2.9 (-10.8%pt)
<b>SSB</b> Social Systems, Solutions & Service	-2.1 (-)	-1.8 (-)	+0.3 (-)
<b>HCB</b> Healthcare	3.9 (14.1%)	3.4 (12.3%)	-0.5 (-1.8%pt)
<b>Other</b> Businesses under the Direct Control of HQ	-0.3 (-)	0.4 (-)	+0.7 (-)
Eliminations & Corporate	-4.4	-5.2	-0.8
<b>Total</b>	17.1 (9.6%)	10.0 (6.3%)	-7.0 (-3.3%pt)

## IAB Products Capable of Self-sustaining Growth

Strong products that embody the **innovative-Automation** concept delivering solid growth

**AXI**  
(X-ray substrate inspection)



**Mobile & Collaborative Robots**





# **Full-year Forecasts: Continuing Operations**

## Macro Operating Environment

**Significant change in operating environment.  
Factoring in the possibility of a prolonged period of uncertainty**

- ✓ **US-China trade friction**
- ✓ **Expansion of protectionist trade policies**
- ✓ **Weak capex appetite to persist**

## Operating Environment by Segment: Outlook for Q2 Onward

### IAB, EMC operating environment possibly tougher than initially expected. Domestic-focused SSB, B-to-C HCB to remain solid

<b>IAB</b> Industrial Automation	<p>Auto: Overall capex weak on soft auto sales, despite ongoing ADAS/EV, electrification-related investment</p> <p>Digital: No recovery in semiconductor/smartphone-related investment due to weak demand</p> <p>Food &amp; Beverage: Flat trend continues. Labor-saving, quality control investment still firm</p> <p>Social Infrastructure: China solid on government measures. Modest capex increases in Americas/Asia</p>
<b>EMC</b> Electronic & Mechanical Components	<p>Consumer: Semiconductor capex remains weak, with knock-on effects on other industries. Demand weak</p> <p>Automotive: China demand weak on environmental restrictions and weak consumer appetite</p>
<b>SSB</b> Social Systems, Solutions and Service	<p>Station sys: Solid replacement cycle, expect demand to increase</p> <p>Transport: Expect solid replacement demand</p> <p>Payment sys: Demand for payment system terminals rising on increasing need for cashless pymt. systems</p>
<b>HCB</b> Healthcare	<p>Expect solid demand on increase in hypertension and asthma patients, although there is potential risk that a global slowdown could depress consumption</p>
<b>Other</b> Businesses under Direct Control of HQ	<p>Env. Soln: PV inverters weak but continued growth for storage systems</p> <p>Backlight: Smartphone market to remain weak</p>

## IAB Operating Environment: Outlook for Q2 Onward

### Slowdown in China having knock-on effects on other regions

<b>IAB Industrial Automation</b>	<b>Japan</b>	<ul style="list-style-type: none"> <li>• Customers reducing and delaying capex on slowing overseas markets</li> <li>• In auto, ADAS/EV and advanced investments maintained but further cuts to maintenance capex on weak auto sales</li> <li>• Digital remains weak on delayed recovery in semiconductors</li> </ul>
	<b>Americas</b>	<ul style="list-style-type: none"> <li>• Customers remain cautious on capex, primarily auto/digital</li> <li>• Digital slowing on semiconductor capex pushouts</li> <li>• Infrastructure solid on energy-related capex</li> </ul>
	<b>Europe</b>	<ul style="list-style-type: none"> <li>• On top of China slowdown, uncertainty increasing on political instability. Weak machinery exports combined with uncertain outlook leading to gradual slowing in domestic demand</li> </ul>
	<b>Greater China</b>	<ul style="list-style-type: none"> <li>• Economy sluggish on additional tariffs and export restrictions by the US. Auto/digital-related investments being delayed or suspended</li> <li>• Government measures supporting urban development and public infrastructure investments</li> </ul>
	<b>SE Asia, Other</b>	<ul style="list-style-type: none"> <li>• S. Korea: Weak semiconductor/smartphone demand depressing capex</li> <li>• Others: General elections in India/Thailand/Indonesia completed, gradually recovering</li> </ul>



## Full-year Forecasts: Continuing Operations

**No change to plan. Focus on assessing the changing operating environment**

(¥bn)

	FY2018	FY2019	Y/Y
	Act. (Cont. Ops.)	Fcst. (Cont. Ops.)	
Net Sales	732.6	709.0	-3.2%
Gross Profit (%)	325.5 (44.4%)	322.5 (45.5%)	-0.9% (+1.1%pt)
Operating Income (%)	67.3 (9.2%)	57.5 (8.1%)	-14.5% (-1.1%pt)
Net Income Attributable to OMRON Shareholders	54.3	42.5	-21.8%
1USD (JPY)	110.7	108.7	-2.0
1EUR (JPY)	128.8	123.1	-5.7
1RMB (JPY)	16.5	16.2	-0.3

## Sales by Business Segment: Continuing Operations

## EMC adjusted to reflect reclassification of discontinued business

(¥bn)

	FY2018 Act. (Cont. Ops.)	FY2019 Fcst. (Cont. Ops.)	Y/Y
<b>IAB</b> Industrial Automation	391.8	378.0	-3.5%
<b>EMC</b> Electronic & Mechanical Components	103.1	101.0	-2.1%
<b>SSB</b> Social Systems, Solutions and Service	75.0	83.0	+10.6%
<b>HCB</b> Healthcare	115.5	123.0	+6.5%
<b>Other</b> Businesses under the Direct Control of HQ	41.7	32.0	-23.3%
Eliminations & Corporate	5.4	2.0	-62.8%
Earnings Fluctuation Risk		-10.0	-
<b>Total</b>	<b>732.6</b>	<b>709.0</b>	<b>-3.2%</b>

## Operating Income by Business Segment: Continuing Operations

### Eliminations & Corporate adjusted to reflect reclassification of discontinued business

(¥bn, %: OPM)

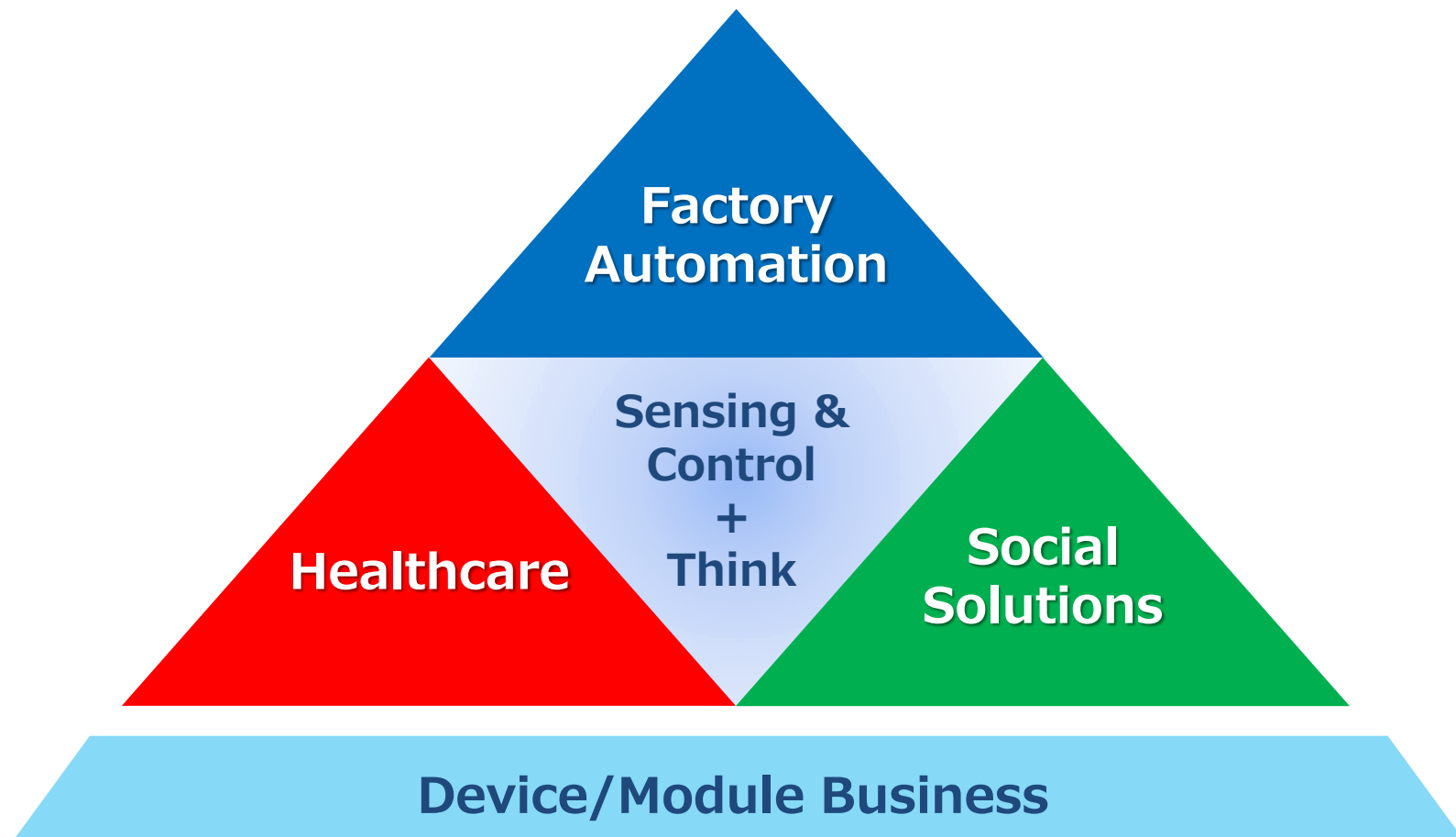
	FY2018	FY2019	Y/Y
	Act. (Cont. Ops.)	Fcst. (Cont. Ops.)	
<b>IAB</b> Industrial Automation	62.9 (16.1%)	63.0 (16.7%)	+0.1 (+0.6%pt)
<b>EMC</b> Electronic & Mechanical Components	8.2 (7.9%)	8.5 (8.5%)	+0.3 (+0.6%pt)
<b>SSB</b> Social Systems, Solutions & Service	5.8 (7.7%)	6.5 (7.8%)	+0.7 (+0.2%pt)
<b>HCB</b> Healthcare	13.0 (11.3%)	14.0 (11.4%)	+1.0 (+0.1%pt)
<b>Other</b> Businesses under Direct Control of HQ	-0.5 (-)	-1.0 (-)	-0.5 (-)
Eliminations & Corporate	-22.1	-28.5	-6.4
<b>Earnings Fluctuation Risk</b>		<b>-5.0</b>	-
<b>Total</b>	67.3 (9.2%)	57.5 (8.1%)	-9.8 (-1.1%pt)



# Spotlight: SSB

## VG2.0 Direction of Focus Domains

**Focus on 3 domains where OMRON is competitive and has high market share. SSB is core of Social Solutions**



# SSB Vision



**Creating a society that allows people to enjoy safe, secure and comfortable lives**

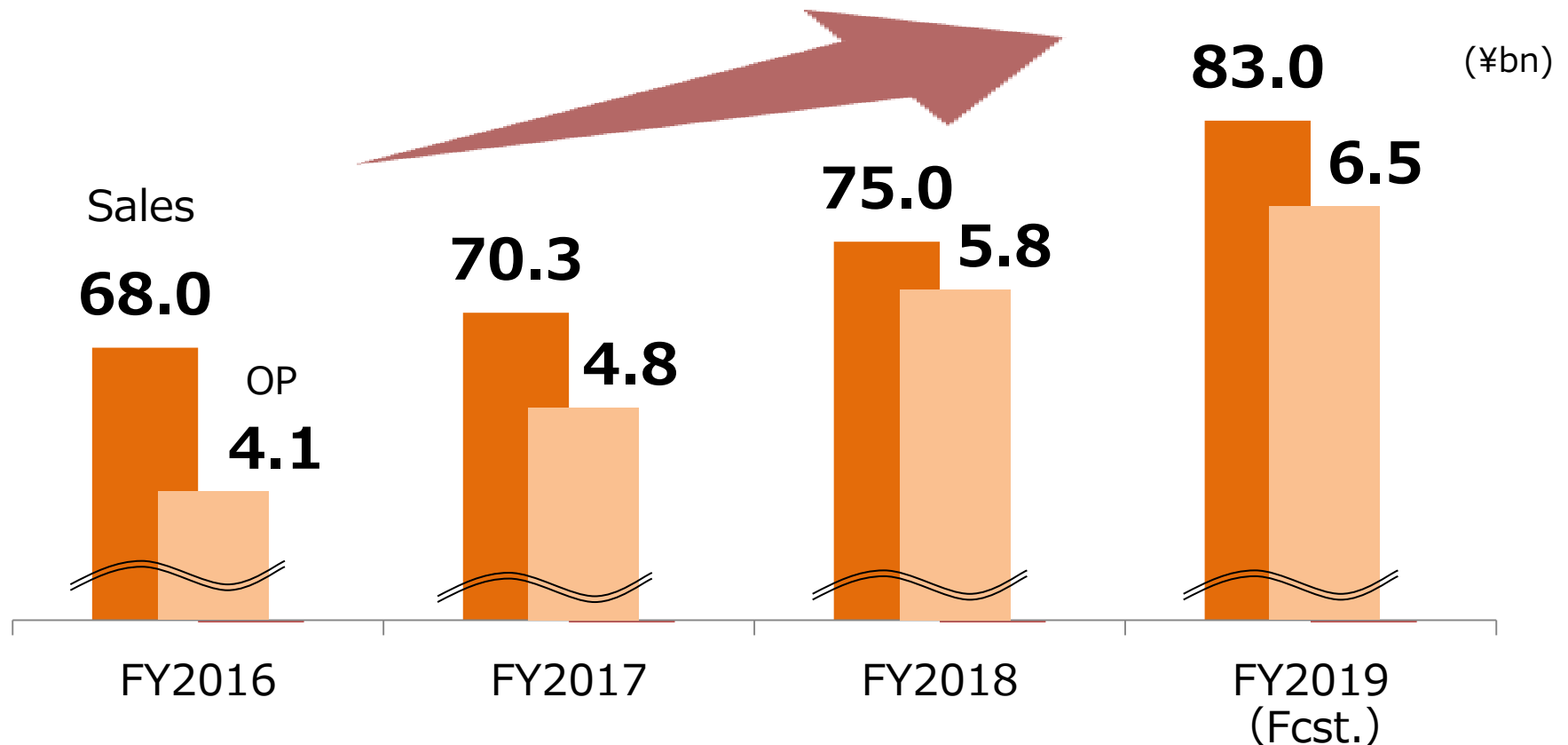
***Achieving Smart Society***



## SSB Sales and Operating Income Trends

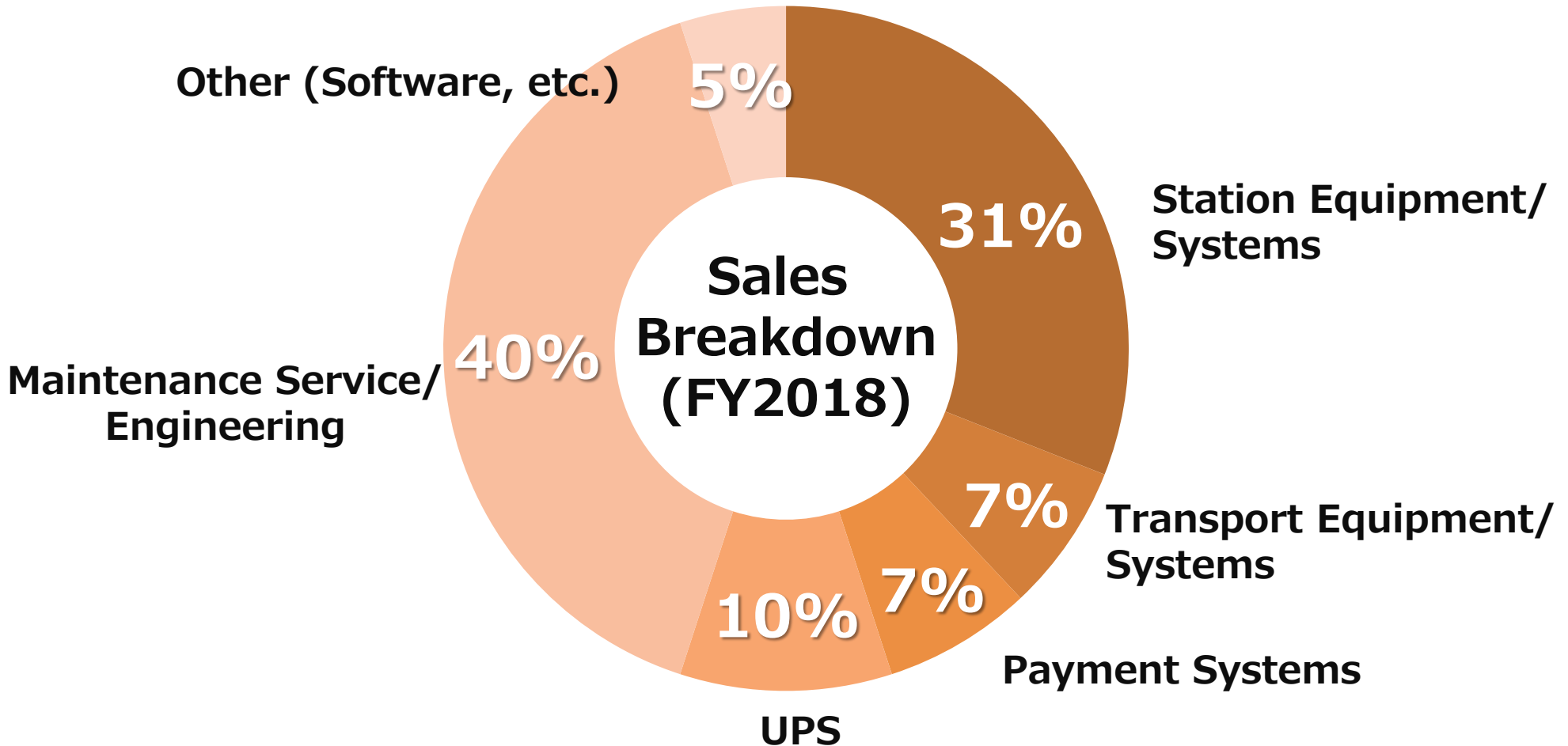
**Solid growth supported by domestic social infrastructure investments**

### SSB Sales and Operating Income



## SSB Sales Breakdown

**Well-balanced between equipment/system sales and maintenance service (including engineering)**





## SSB Strengths: Robust Customer Bases

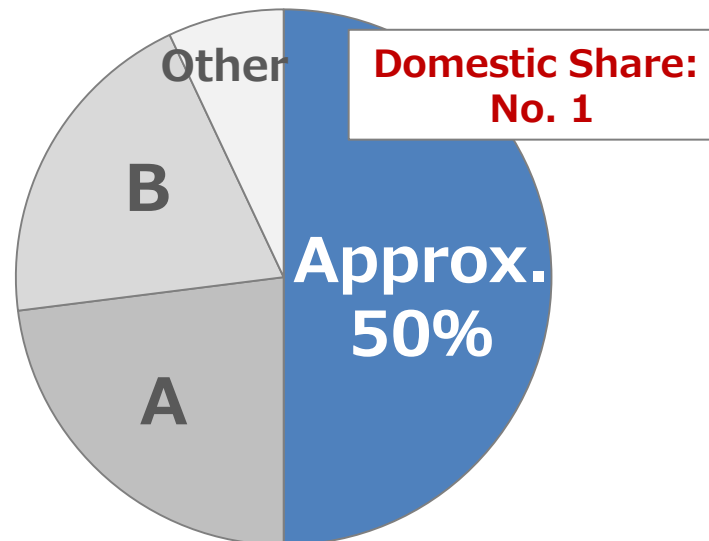
**Market shares for station and traffic systems rising on robust customer bases**

### Station Systems



Automated ticket gates,  
ticket machines

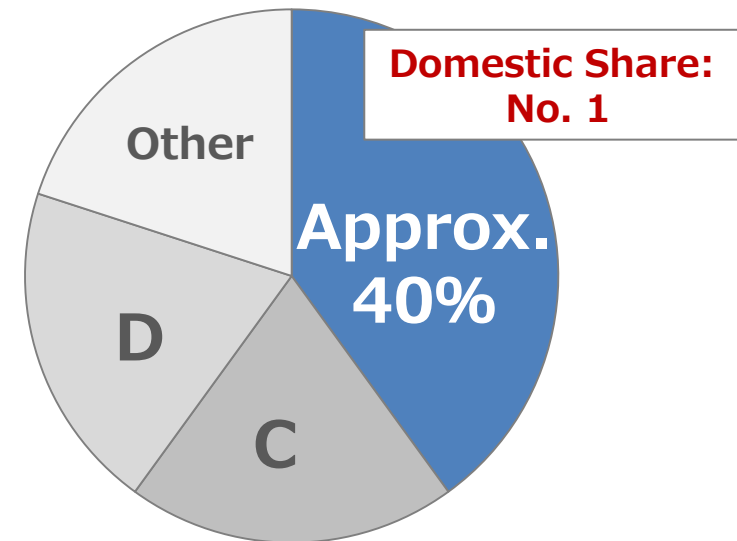
**FY2018  
Actual**



### Traffic Systems



Road traffic  
management systems

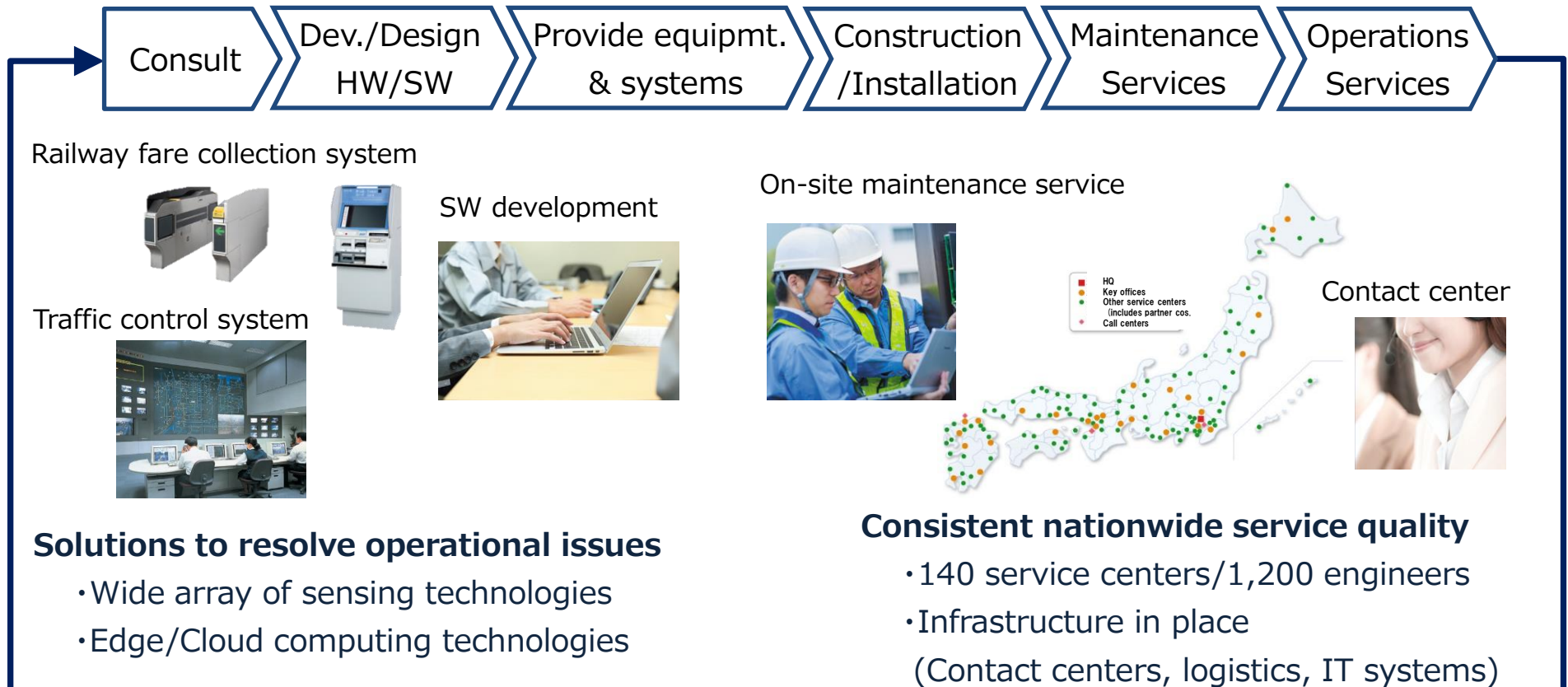


Source: OMRON

## SSB Strengths: Ability to Create Solutions

**Trusted partner to customers for one-stop solutions. Leverage expertise in consulting, manufacturing and maintenance services**

### Value Chain



## SSB Growth Outlook

**Aim for growth by addressing social issues which will lead to the realization of Smart Society**

### Smart Mobility

- Evolution of traffic infrastructure
- New traffic systems  
(Maas, Autonomous driving)

### Smart Life

- Safer, more comfortable and secure lifestyles
- Embracing diversity

### Smart Energy

- Reduction of greenhouse gases
- Natural disaster-resistant, resilient energy systems

### Smart Community

- Maintaining, enhancing urban functions
- Revitalizing town functions

**OMRON**



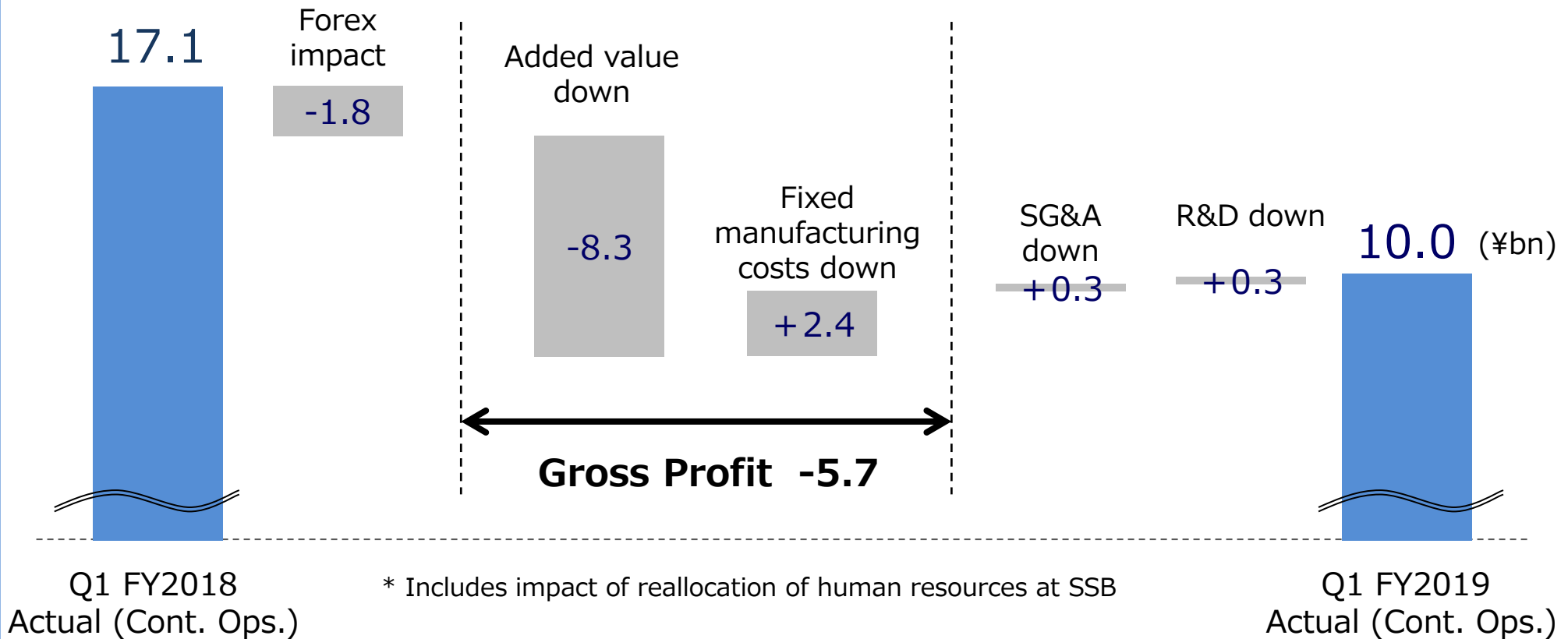
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# Reference



# Operating Income Analysis (Y/Y): Continuing Operations

**Added value declined, primarily on falling sales**



# Transfer Shares in AEC Business (As announced April 2019)

## Completed agreement to transfer shares in AEC business to Nidec Corporation

### AEC Overview

**OMRON Automotive Electronics, other related companies**  
**FY2018 Sales: ¥130.5bn\* / OP: ¥6.3bn**  
**Purchase Amount: Approx. ¥100bn** \*Excludes internal sales

### Schedule

**Contract Date: April 16, 2019**  
**Completion: TBD (around end-October 2019)**

(Completion date TBD as the transaction is subject to securing the approval of anti-trust regulators in relevant jurisdictions)

### Objective

- **Further development of automotive business**  
**'Control technology x actuator' to create new value**
- **Stronger, more resilient business portfolio for OMRON**
- **Execute on long-term growth strategy**

## Q1 results: Discontinued Operations

	Q1 FY2018	Q1 FY2019	(¥bn)
	Act. (Discont. Ops)	Act. (Discont. Ops)	Y/Y
Net Sales	32.6	28.2	-13.5%
Gross Profit (%)	7.7 (23.7%)	6.0 (21.4%)	-21.7% (-2.2%pt)
Operating Income (%)	2.5 (7.8%)	1.0 (3.5%)	-61.0% (-4.3%pt)
NP for Discontinued Ops.	1.9	0.8	-58.0%
1USD (JPY)	108.1	110.7	+2.6
1EUR (JPY)	129.9	123.6	-6.3
1RMB (JPY)	17.1	16.3	-0.8



## FY2019 Forex Assumptions: Continuing Operations

	FY2019 Assumption	Impact of ¥1 move (full-year, approx.) * RMB impact of ¥0.1 move	
		Sales	OP
USD	<b>¥108</b>	¥1.7bn	¥0.3bn
EUR	<b>¥123</b>	¥1.0bn	¥0.5bn
RMB	<b>¥16.2</b>	¥0.7bn	¥0.05bn

- If emerging-market currency trends diverge from trends in major currencies contrary to our expectations, it will impact sensitivities

# VG2.0 and Sustainability Policy are Linked

## OMRON Principles

### VG2.0

Business Strategies

Sustainability Issues

A value-generator for people and the Earth that is qualitatively and quantitatively superior

1. Reinforce businesses by designating focus domains
2. Business model evolution
3. Enhance core technologies

×

Collaboration with partners

+

Human capital management, manufacturing, risk management...

FA



Healthcare



Mobility



Energy Mgmt.



×

Collaboration with partners



+

Human Capital Mgmt.



Manufacturing



Risk Management



# OMRON Included in Major ESG Indices (As of July, 2019)

## ESG Indices which include OMRON

- ✓ DJSI – World
- ✓ FTSE4Good Index Series
- ✓ MSCI ESG Leaders Indexes
- ✓ MSCI SRI Indexes
- ✓ STOXX Global ESG Leaders indices
- ✓ MS-SRI
- ✓ FTSE Blossom Japan Index
- ✓ MSCI Japan ESG Select Leaders Index
- ✓ MSCI Japan Empowering Women Index
- ✓ S&P/JPX Carbon Efficient Index
- ✓ Euronext Vigeo Eiris World Index 120 **2019, 1<sup>st</sup> time**

\* OMRON discloses information and contributes to numerous external surveys for ESG assessment organizations, including the CDP Climate Change & Water Security questionnaires



## External Recognition (As of July, 2019)

### Domestic ESG awards, selection for inclusion

#### Japan Association of Corporate Directors

- ✓ Corporate Governance of the Year 2018  
METI Minister's Award for Corporate Governance of the Year

**FY2018**



#### Selected by METI, TSE

- ✓ Nadeshiko Brand
- ✓ 2019 Health & Productivity Stock
- ✓ 2019 Health & Productivity:White 500

**2<sup>nd</sup> consecutive year from FY2017**

**From FY2018, 1<sup>st</sup> time**

**3<sup>rd</sup> consecutive year from FY2016**



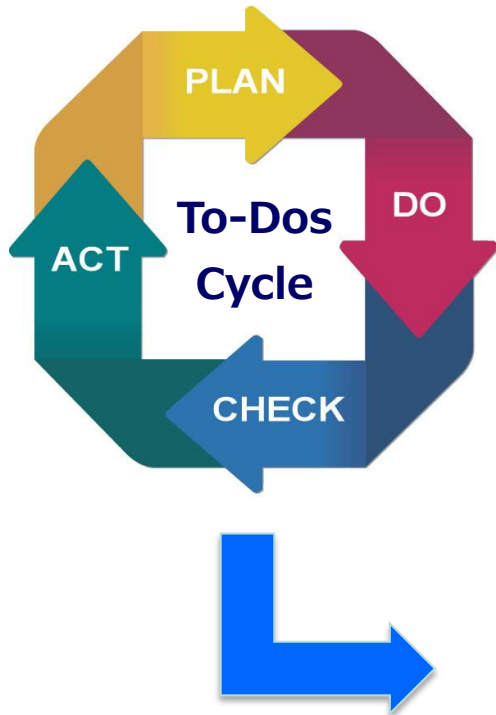
#### Selected by Nikkei Inc.

- ✓ Nikkei 225

**March 2019, 1<sup>st</sup> time**

# Down-Top ROIC Tree

## On-site



## KPI

- Sales in focus industries/areas
- Sales of new/focus products
- Selling price control
- Variable cost reduction, value/%
- Defect cost %
- Per-head production # unit
- 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

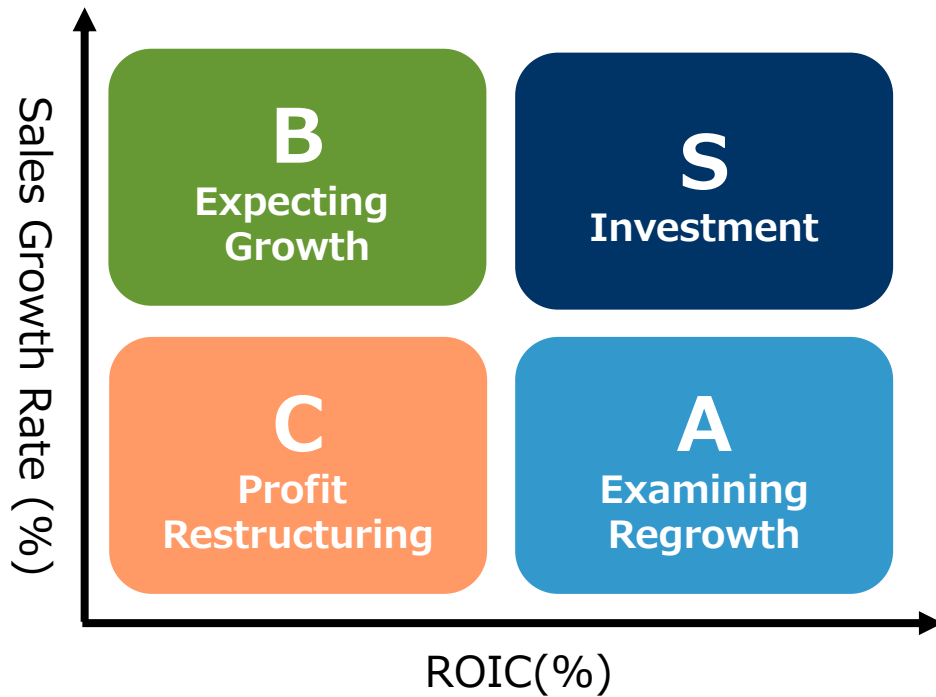
ROS

Invested Capital Turnover

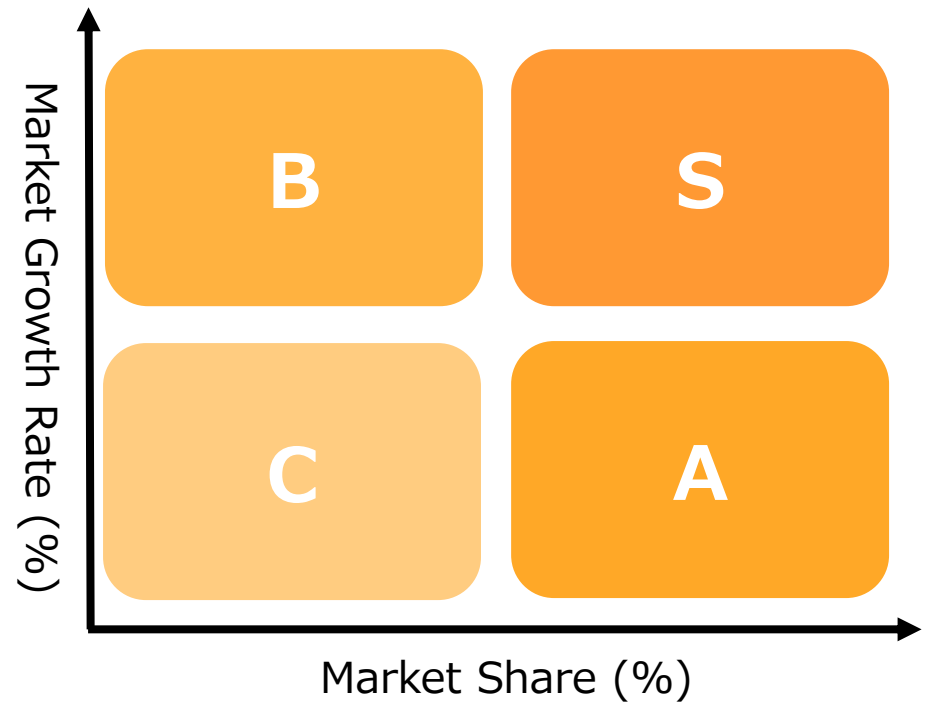
ROIC

# Portfolio Management

## Assessing Economic Value



## Assessing Competitiveness



# 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

\*The average of previous fiscal year-end result and quarterly results (or forecasts) of current fiscal year.

**Capital cost forecast at 6%  
for FY2017 - 2020**

## Notes

1. The consolidated statements of OMRON Corporation (the Company) are prepared in accordance with U.S. GAAP.
2. Projected results are based on information available to the Company at the time of writing, as well as certain assumptions judged by the Company to be reasonable. Various risks and uncertain factors could cause actual results to differ materially from these projections.
3. The presentation slides are based on "Summary of Consolidated Financial Results for the First Quarter of the Fiscal Year Ending March 31, 2020 (U.S. GAAP)."  
Figures rounded to the nearest million JPY and percentage to one decimal place.

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