OMRON

Q3 FY2023 Earnings

February 5, 2024

OMRON Corporation

Good afternoon, everyone. I'm Tsujinaga, President of OMRON. Thank you very much for joining us despite your busy schedule for the FY2023 Q3 earnings presentation.

Today, CFO Takeda will explain the Q3 results, and I will discuss the full-year outlook. Then, we will move to the Q&A session. We hope to take as many questions as time allows. Thank you very much.

Now, let's proceed according to the presentation materials. Please turn to the next page.

Summary

Based on Q4 outlook, revise down the full-year forecast

- **Q3 results**
  - Sluggish sales and operating income on weak capital investment demand in IAB and DMB
  - HCB and SSB remained strong on continued firm demand
- **Full-year forecasts**
  - Weak market conditions to persist in Q4. No expectations for a gradual recovery in IAB and DMB during the quarter
  - Projecting significantly lower sales than previous forecast. Simultaneously also expecting a lower GP margin on a decrease in production volume and an increase in inventory provisioning. Operating income projected to be substantially lower than the previous forecast
- **Future management measures**

First, considering the outlook for Q4, we have revised our full-year performance outlook downward.

Today's announcement includes three points.

The first point is about Q3 results. IAB and DMB continued to face a downturn in the market, resulting in low sales and operating income. On the other hand, HCB and SSB saw steady demand and performed well. As a whole, the profit level during Q2 continued as expected.

The second point is about the full-year outlook. Our previous forecast anticipated a gradual recovery in IAB and DMB during Q4. However, since a recovery cannot be expected during Q4 and the sluggish market conditions are likely to continue, we expect sales to fall significantly below our previous forecast. Additionally, due to a decrease in production volume on sales decrease and an increase in allowance for inventories, the gross profit margin is expected to decrease, and operating income is forecasted to fall significantly below our previous projections.

The third point is about future management measures. We will discuss the group's issues and future management measures toward recovering sales and profits.

Now, Takeda will explain the Q3 results.

Contents

1. Q3 FY2023 Results

From here, I, Takeda will take over.
Please turn to the next page.

Q3 (Oct.-Dec.) Results

Significant decrease in sales and profit. GP and OP margin declined significantly

(¥bn)

	FY2022 Q3 Actual	FY2023 Q3 Actual	Y/Y
Net Sales	233.6	**207.3**	-11.2%
Gross Profit (%)	105.3 (45.1%)	**86.1** **(41.5%)**	-18.2% (-3.6%pt)
Operating Income (%)	31.2 (13.4%)	**5.9** **(2.9%)**	-81.0% (-10.5%pt)
Net Income	22.6	**1.8**	-92.2%

1USD (JPY)	144.0	148.7	+4.7
1EUR (JPY)	144.5	159.4	+14.9
1CNY (JPY)	20.1	20.5	+0.4

4

Here are the overall results for Q3. Please look at the shaded area.

Sales were JPY207.3 billion, gross profit was JPY86.1 billion, gross profit margin was 41.5%, operating income was JPY5.9 billion, and net income was JPY1.8 billion. Although sales and profits decreased, the results were as expected internally.

Sales were JPY207.3 billion, an 11.2% decrease YoY, mainly due to the sluggish market conditions in IAB. The decrease in sales and gross profit margin led to a significant decrease in operating income, down 81% YoY to JPY5.9 billion.

Next, the results by business segment for Q3.

Q3 (Oct.-Dec.) Segment Results

Sales and profit decreased in IAB and DMB, increased in HCB and SSB

(¥bn)

	Sales			OP		
	FY2022 Q3 Actual	FY2023 Q3 Actual	Y/Y	FY2022 Q3 Actual	FY2023 Q3 Actual	Y/Y
IAB Industrial Automation	128.9	**91.5**	-29.0%	25.3 (19.6%)*1	**0.9 (1.0%)**	-96.5% (-18.7%pt)
HCB Healthcare	38.6	**42.7**	+10.5%	4.8 (12.4%)	**6.8 (15.9%)**	+42.0% (+3.5%pt)
SSB Social Systems, Solutions and Service	27.3	**37.2**	+36.2%	1.2 (4.4%)	**4.2 (11.3%)**	+254.3% (+7.0%pt)
DMB Device & Module Solutions	36.4	**27.4**	-24.8%	5.4 (14.8%)	**0.5 (1.7%)**	-91.3% (-13.1%pt)
DSB *2 Data Solutions	–	**7.4**	–	– –	**0.6 (8.1%)**	– –
Eliminations & Corporate	2.3	**1.3**	-45.9%	- 5.5	**-7.0**	–
Total	233.6	**207.3**	-11.2%	31.2 (13.4%)	**5.9 (2.9%)**	-81.0% (-10.5%pt)

*1. Figures shown in brackets under OP are segment OPMs
*2. Data Solutions Business (DSB) is newly established from Q3 consolidated accounting period. Includes JMDC results and related expenses (amortization of intangible assets and acquisition-related expenses) associated with the consolidation

First, in IAB, sales were JPY91.5 billion, a 29% decrease YoY, due to sluggish capital investment in the digital and environmental mobility industries. Operating income decreased due to decrease in gross profit margin by lower sales, reduced production volume, and increased allowance for inventories, resulting in a 96.5% decrease to JPY0.9 billion.

Next, in HCB, sales were JPY42.7 billion, up 10.5% YoY, driven by strong demand for blood pressure monitors in Europe and increased demand for nebulizers in China. Operating income increased by 42% to JPY6.8 billion due to higher sales, improved product mix, and reduced variable costs.

Next, in SSB, during Q3, the energy solutions and railway businesses continued to perform well, with sales up 36.2% to JPY37.2 billion and operating income up 254.3% to JPY4.2 billion, achieving significant increases in both sales and profits.

In DMB, demand stagnation in the consumer and FA sectors led to decreased sales and profits during Q3.

Finally, in DSB, from Q3, the performance of JMDC Inc. has been recorded in DSB, which has been performing well in both sales and profits. Note that operating income includes related costs due to consolidation.

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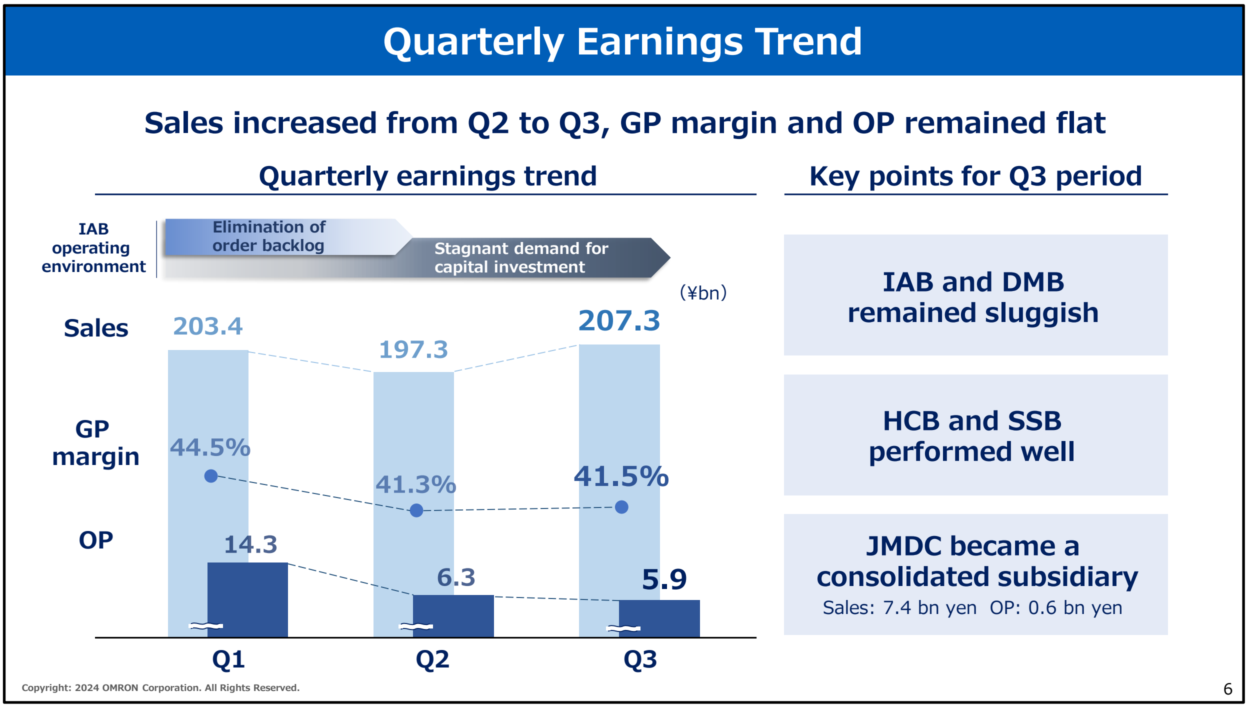


Let's add some details about the Q3 results. This slide shows the quarterly performance trends for the entire company.

As you can see, sales increased from the previous quarter during Q3, while gross profit margin and operating income remained almost flat.

Although IAB and DMB were sluggish, HCB and SSB covered for them, resulting in performance largely as expected for Q3 sales.

Next, we will report on the cumulative results, including Q3.

Q1-Q3 (Apr.-Dec.) Results

(¥bn)

	FY2022 Q1-Q3 Act.	FY2023 Q1-Q3 Act.	Y/Y
Net Sales	638.0	**608.0**	-4.7%
Gross Profit (%)	286.8 (45.0%)	**258.2 (42.5%)**	-10.0% (-2.5%pt)
Operating Income (%)	72.9 (11.4%)	**26.6 (4.4%)**	-63.5% (-7.0%pt)
Net Income	50.5	**7.8** *	-84.5%

1USD (JPY)	135.7	142.9	+7.2
1EUR (JPY)	140.3	155.0	+14.7
1CNY (JPY)	19.8	20.0	+0.1

*Net income includes loss on revaluation of JMDC shares (¥12.0 billion)

7

Please look at the shaded area.

Cumulative Q3 results were JPY608 billion in sales, JPY258.2 billion in gross profit, a gross profit margin of 42.5%, JPY26.6 billion in operating income, and JPY7.8 billion in net income.

That concludes the report on the results.

2. FY2023 Full-year Forecasts

Next, I, Tsujinaga will explain the full-year outlook.
Please turn to the next page.

FY2023 Full-year Forecasts

Downward revision of full-year forecast

(¥bn)

	FY2023 Previous Forecast	FY2023 *1 Forecast	Vs. Prev. Forecast	FY2022 Actual	Y/Y
Net Sales	850.0	**810.0**	-4.7%	876.1	-7.5%
Gross Profit	366.0	**339.0**	-7.4%	393.9	-13.9%
(%)	(43.1%)	**(41.9%)**	(-1.2%pt)	(45.0%)	(-3.1%pt)
Operating Income	45.0	**24.0**	-46.7%	100.7	-76.2%
(%)	(5.3%)	**(3.0%)**	(-2.3%pt)	(11.5%)	(-8.5%pt)
Net Income	18.0 *2	**1.5** *2	-91.7%	73.9	-98.0%
ROE	Approx.2%	**Approx.1%**	-	10.6%	-
ROIC	Approx.2%	**Approx.1%**	-	10.4%	-
EPS (JPY)	91	**8**	-91.7%	372	-98.0%
1USD (JPY)	140.0	143.4	+3.4	135.2	+8.2
1EUR (JPY)	153.9	155.0	+1.1	140.9	+14.0
1CNY (JPY)	19.6	20.0	+0.4	19.7	+0.3

*1. Q4 forex assumptions for revised full-year FY2023 forecasts are: USD ¥145.0, EUR ¥155.0, CNY ¥20.5
Revised FY2023 forecast incorporates the second half portion that JMDC will reflect in its earnings forecast

*2. Net income includes loss on revaluation of JMDC shares associated with its additional acquisition (¥12.0 billion)

9

We are revising our full-year outlook downward. Please look at the shaded area in the middle.

The revised outlook is JPY810 billion in sales, JPY339 billion in gross profit, a gross profit margin of 41.9%, JPY24 billion in operating income, and JPY1.5 billion in net income.

FY2023 Full-year Segment Forecasts

IAB, DMB revised down. SSB revised up

(¥bn)

	Sales				OP			
	FY2023 Prev. Forecast	FY2023 Forecast	Chg. vs. Prev. FCST	Chg. vs. FY2022	FY2023 Prev. Forecast	FY2023 Forecast	Chg. vs. Prev. FCST	Chg. vs. FY2022
IAB Industrial Automation	420.0	**388.5**	-31.5	-97.2	29.5 (7.0%)	**14.0 (3.6%)**	-15.5 (-3.4%pt)	-71.8 (-14.1%pt)
HCB Healthcare	152.0	**150.5**	-1.5	+8.4	17.5 (11.5%)	**17.5 (11.6%)**	- (+0.1%pt)	+1.5 (+0.4%pt)
SSB Social Systems, Solutions and Service	137.0	**141.0**	+4.0	+33.7	13.5 (9.9%)	**14.5 (10.3%)**	+1.0 (+0.4%pt)	+7.0 (+3.3%pt)
DMB Device & Module Solutions	123.0	**113.5**	-9.5	-25.4	5.5 (4.5%)	**1.5 (1.3%)**	-4.0 (-3.1%pt)	-14.0 (-9.8%pt)
DSB * Data Solutions	16.5	**19.0**	+2.5	-	1.8 (10.9%)	**2.5 (13.2%)**	+0.7 (+2.2%pt)	- -
Eliminations & Corporate	1.5	**-2.5**	-4.0	-4.6	-22.8	**-26.0**	-3.2	-1.8
Total	850.0	**810.0**	-40.0	-66.1	45.0 (5.3%)	**24.0 (3.0%)**	-21.0 (-2.3%pt)	-76.7 (-8.5%pt)

*FY2023 forecast for DSB includes the consolidated earnings forecast for JMDC (a rough estimate based on our calculations in anticipation of the its full-year earnings forecast). JMDC's forecast, which was included in Eliminations & Corporate in the previous forecast, has been reclassified to DSB

Next, I will explain the full-year outlook by segment.

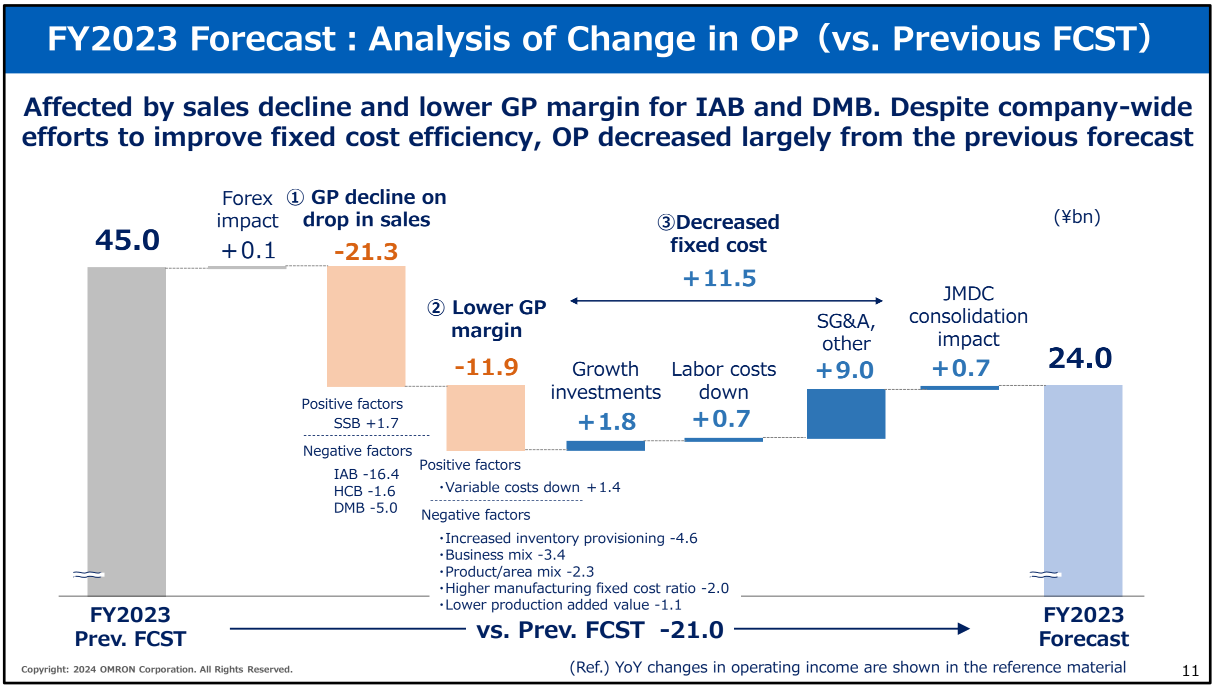
We have revised IAB sales and operating income downward due to the continuation of a challenging business environment, below the assumption at Q2. We will explain this in more detail later.

Next, for HCB, despite a solid business environment continuing, we are revising sales downward due to a decrease in domestic demand for thermometers. However, by continuing to improve fixed cost efficiency, we will maintain our previous forecast for operating income.

For SSB, the business environment for renewable energy and public transport has significantly exceeded our Q2 expectations and is performing well, so we are revising both sales and operating income upward.

Finally, for DMB, due to a continuation of a more challenging business environment than expected in Q2, mainly in general-purpose equipment, we are revising both sales and operating income downward.

Next, I will explain about the overall operating income.



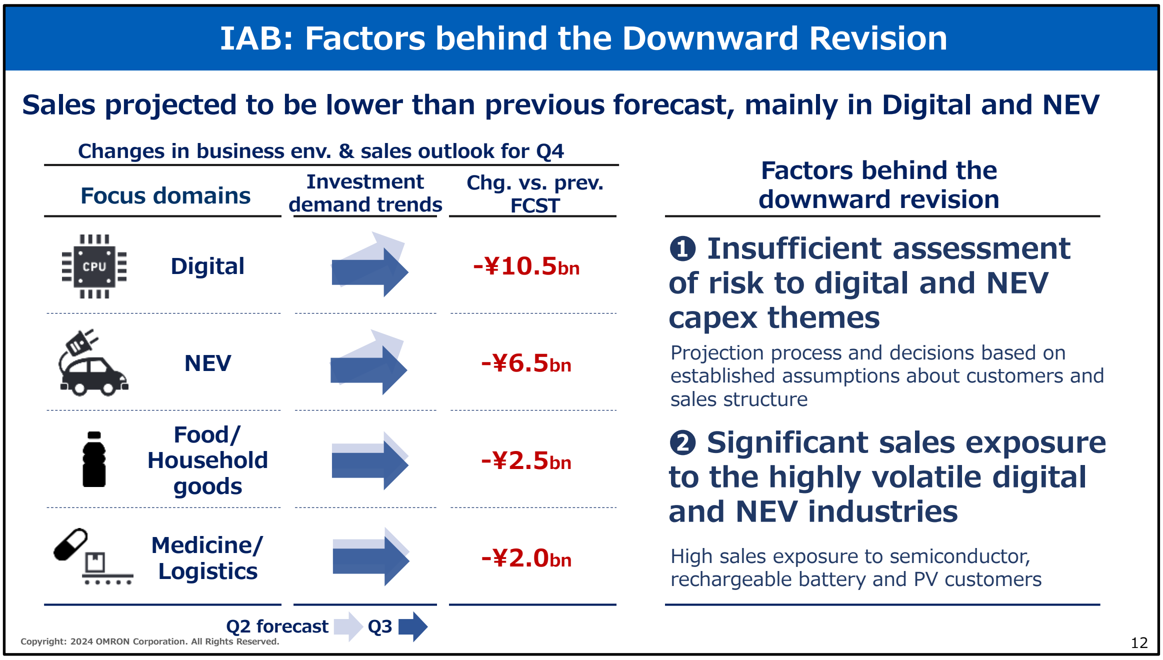
This page explains the factors leading to the downward revision of operating income.

First, a decrease in gross profit due to reduced sales. While we expect an increase in sales in SSB, significant sales decreases in IAB and DMB have impacted us. We anticipate a JPY21.3 billion decrease in operating income across the Company.

Next, a decrease in the gross profit margin. Overall, we expect a JPY11.9 billion decrease in profits. A significant sales decrease in IAB during Q4 will lead to increased allowance for inventories and worsened manufacturing fixed cost ratios, impacting our forecasts.

Last, a reduction in fixed costs. We are pushing for efficiency in fixed cost operations across the Company, particularly in IAB and DMB, incorporating a total reduction of JPY11.5 billion in fixed costs into our forecasts.

Next, we will explain in more detail about IAB.

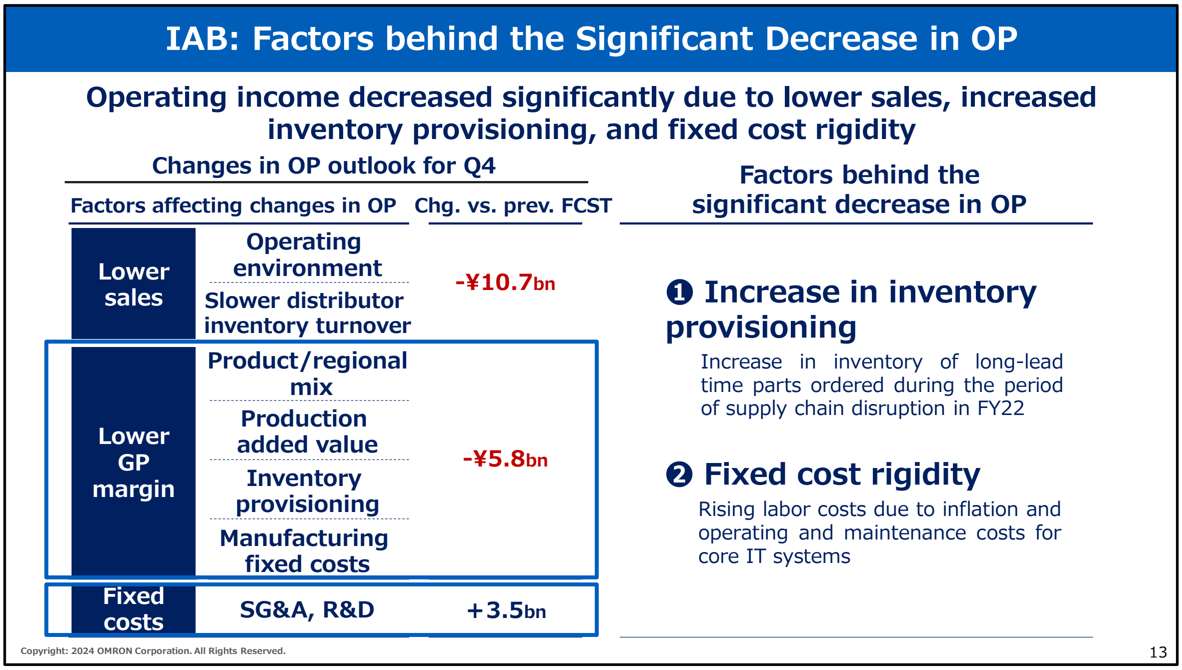


The main reasons for the second downward revision are issues with our ability to forecast demand in IAB and a high-volatility customer portfolio.

At the time of our previous forecast, we expected the base market, centered on component sales, to remain flat, with a plus factor being a gradual recovery in specific investment themes in the digital industry's semiconductors and the environmental mobility industry's secondary batteries starting from Q4. However, due to delays and reductions in capital investment in these industries, we are unable to anticipate Q4 orders, leading us to revise our sales forecast.

While investment in semiconductors, secondary batteries, and solar power generation systems represents a significant growth opportunity for us, the timing and scale of these investments change rapidly. On the other hand, our sales forecasting method has been based on experience with our previous customer structure. In this forecast, especially for business themes in the digital and environmental mobility industries, we have evaluated them from multiple perspectives and excluded high-risk sales. Going forward, we will continue to forecast sales, taking industry characteristics into account.

Additionally, the current IAB depends on investment demand in the volatile digital and environmental mobility industries and the Chinese market. We will accelerate actions to build a business structure that does not rely on specific industries or areas to strengthen our system against volatile businesses.



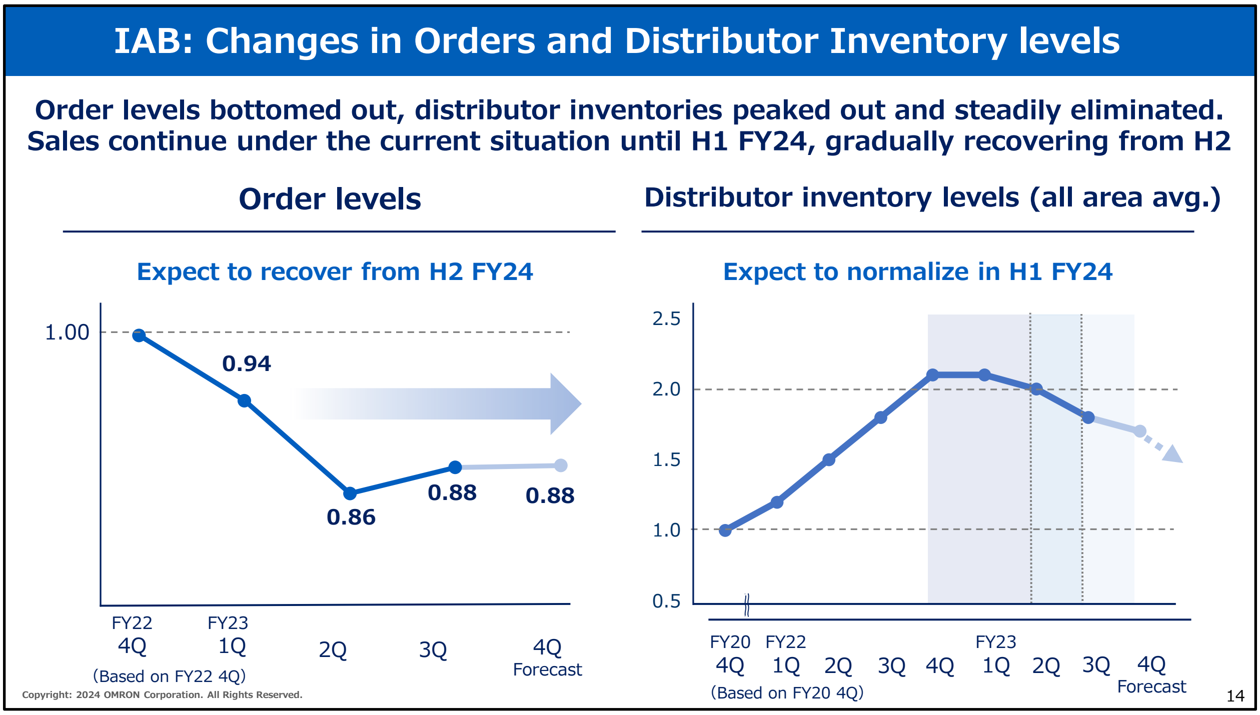
Next, we will explain the factors leading to a significant decrease in operating income.

Besides the decrease in sales, there are two other factors: a decrease in the gross profit margin and rigid fixed costs. The decrease in the gross profit margin is primarily due to an increase in allowance for inventories.

To explain further, the stagnation of the market has led to a temporary accumulation of product inventories, and long lead-time components ordered during last year’s supply chain disruption have begun to be delivered this fiscal year, significantly increasing inventory amounts.

According to our internal rules, we are recording allowances over time for these inventories. Compared to our previous forecast, we have incorporated a JPY3 billion decrease in profits and expect to record approximately JPY20 billion in allowance for inventories by the end of the period. We anticipate that a reduction in allowances will begin in FY2025, increasing the gross profit margin.

Another factor is rigid fixed costs. Global personnel costs have surged due to inflation, and IT system operation and maintenance costs continue to rise annually. Our current fixed cost structure offers little room to absorb these changes. We are already working on solutions, but beyond short-term profit recovery, we see this as an opportunity to strengthen our profit structure and are advancing comprehensive reforms.



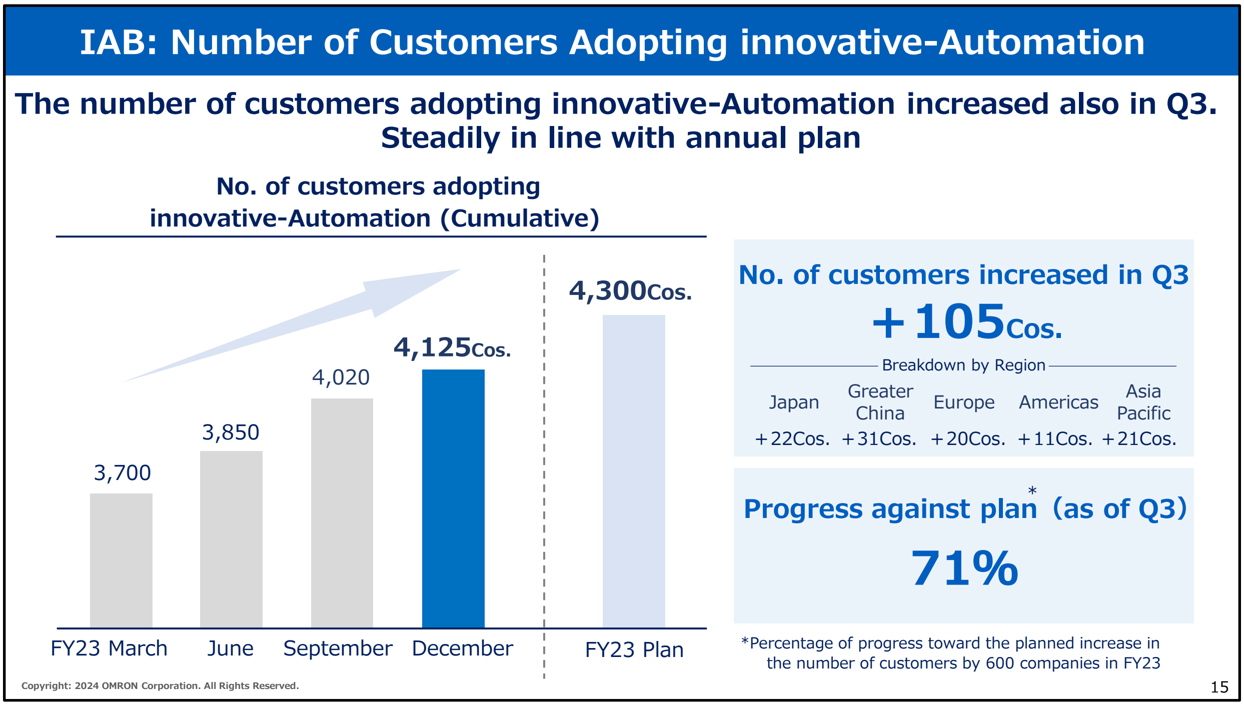
Next, we will explain the trends in orders and distributor inventory levels.

First, please look at the order situation on the left. Order levels have stabilized during Q2 and remained almost flat during Q3. Based on these movements, we believe that order levels have bottomed out.

Next, please look at the distributor inventory levels on the right. Although there was an increase during Q1 of FY2023, we have already peaked out from Q2 by advancing normalization efforts such as inventory visibility and shipping control. We expect steady progress toward Q4.

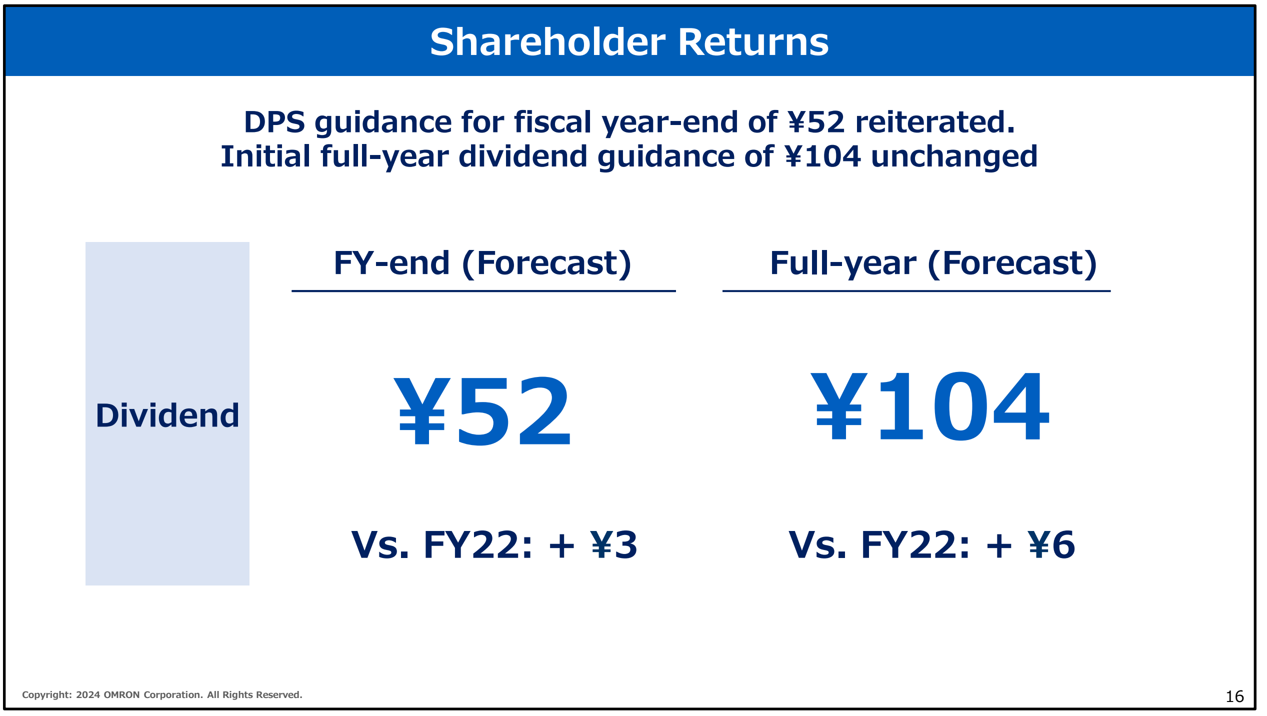
Considering these factors, we expect this situation to continue until H1 of FY2024, but as the market picks up, we anticipate sales will recover in the H2.

Finally, we will report on the adoption status of innovative-Automation customers. Please turn to the next page.



Innovative-Automation has continued to steadily increase the number of adopting customers, even in a challenging business environment. As of December in FY2023, the number of adopting companies reached 4,125, with an increase of 105 companies during Q3. Despite slowing investment demand in key industries, we have been able to increase adoption across all areas.

As explained during the H2 earnings announcement, innovative-Automation is a business model that gradually expands value after adoption. While the impact on this fiscal year’s performance is limited, we are steadily progressing in building a growth foundation for the medium to long term.



Last, I will explain about the shareholder returns for FY2023. The year-end dividend for FY2023 is planned to be JPY52 per share, as previously forecasted. The annual dividend forecast remains unchanged from the initial plan, with an increase of JPY6 from the previous fiscal year to JPY104.

Although we are forecasting difficult performance this fiscal year, there is no change to our shareholder return policy. We will continue to strive for stable and continuous shareholder returns.

This concludes the explanation regarding the full-year outlook for FY2023.

Finally, I will talk about future management measures.

Facing this downward revision and the current situation, I feel a strong sense of crisis. At the same time, I believe that the essential problems of OMRON have become evident.

The fundamental issue is that our basic actions, such as management and actions from a customer standpoint, have become diluted. This is something I have felt during my nine months as president, through dialogues with employees at the workplace and visits to customers.

In each organization, there is a lack of focus on work and actions that lead to the creation and expansion of customer value. Resources such as people, investment, and time are not concentrated on these areas, leading to a decrease in profit margin and ROIC.

Basic Policy for Structural Reform

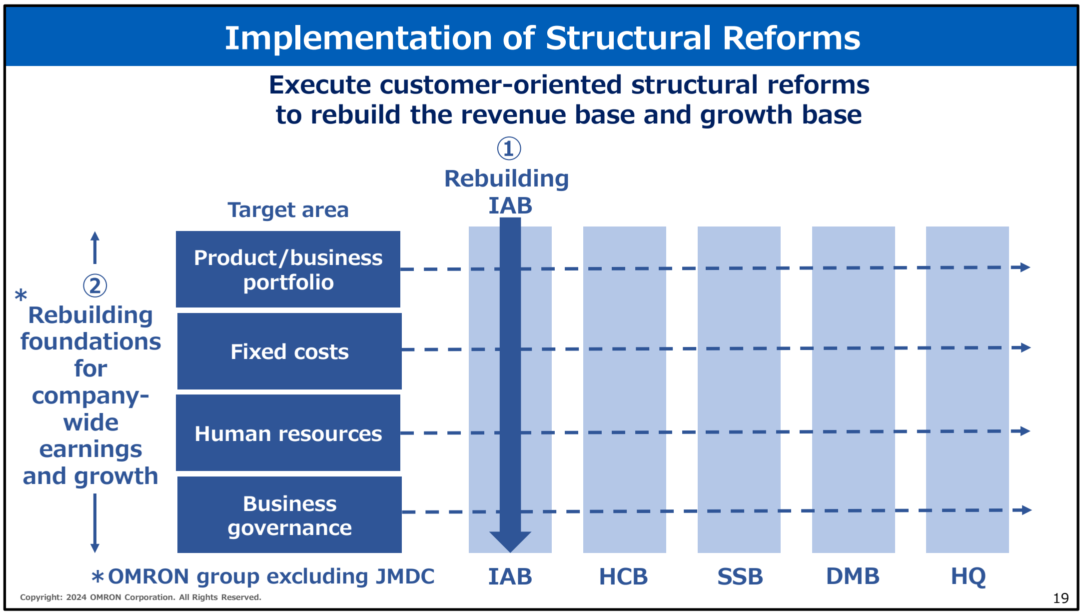
Management issues:

Complete structural reform from the customer's perspective

Structural reform period:
From Oct. FY23 to H1 FY25
(24 months)

With this understanding of the problem, we have defined the completion of structural reforms from a customer standpoint as a management issue and have decided to implement structural reforms aimed at rebuilding the profit base and growth base.

Although we have already started working on fixed cost efficiency from Q3 this fiscal year, we will position the period up to H1 of FY2025 as the structural reform period.



The first step in the structural reform is rebuilding IAB. This measure is positioned as a company-wide project, and we will implement it with the necessary resources from across the Company. From a customer standpoint, we will review customers, areas, and product portfolios, and based on those portfolios, we will execute product planning, development, sales enhancement, and supply chain reconstruction.

The second step is the reconstruction of the company-wide profit and growth base. Particularly in IAB, there has been a significant decrease in operating income and ROIC this fiscal year. However, the business environment and problems faced, such as rigid fixed costs, are the same in other businesses.

To enable sustainable growth, we will implement structural reforms in four areas: product and business portfolio, fixed costs, and human resources. Additionally, we will transition to business operations from a customer standpoint and thoroughly maximize sales and profits by implementing and operating business governance mechanisms within the Company.

These measures are already being concretized, and we plan to report the outline to you by March.

20

Last, I am determined to confront OMRON's challenges head-on and devote myself to structural reforms to build a stronger profit base and growth base.

Now is the time to move forward with an unwavering determination to lead structural reforms. I believe that adversity is an opportunity for growth and a time to expand the possibilities for the future. With a clear vision for the future of OMRON, I am prepared to boldly challenge and overcome with an indomitable will. I kindly ask for your continued support and cooperation.

Thank you for your attention.

Reference

Operating Environment in Q4 (IAB)

**Overall market investment demand to remain low.
Expect to fall short of Q2 forecast due to lack of recovery in some areas, particularly in digital and NEV**

Focus domains	Operating environment
Digital	• In semiconductors, major players continue to postpone investments. Projected partial Q2 recovery did not materialize. Expect to remain sluggish • PV investment to continue to shrink more than expected in Q2
NEV	• Investment in EVs/components fail to recover despite Q2 expectations, projected to remain sluggish • Continued delays and reductions to investments in batteries, lower than forecast in Q2
Food / Household goods	• Cautious investment stance in Europe; weak performance below Q2 estimates • Investments in emerging countries strong as expected in Q2
Medicine / Logistics	• Pharmaceutical investment did not recover as expected in Q2, demand remains weak • Prolonged pull-back from pandemic-driven boost to logistics demand. Remain at a low level as expected

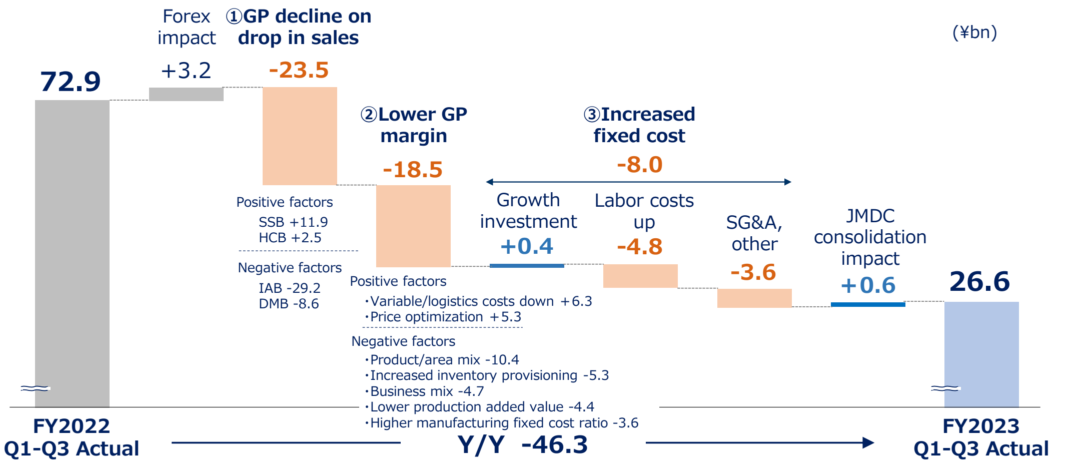
22

Operating Environment in Q4（HCB･SSB･DMB）

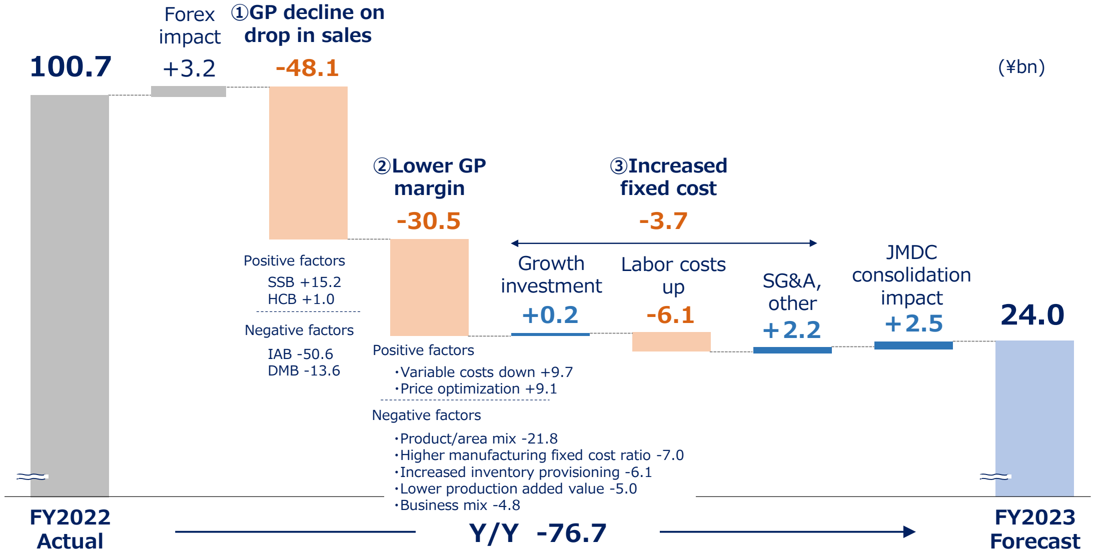
HCB generally firm. SSB demand continues to grow.
DMB business environment continues to be weak, below the previous forecast

HCB Healthcare	**As expected in Q2, business environment remains generally firm** Cardiovascular : BPM market to grow moderately as expected in Q2, although demand mixed by region Respiratory : Demand for nebulizers expected to level off despite higher demand in China in Q3 Thermometers : Demand lower than expected in Q2 due to prolonged rebound from pandemic boost in Japan
SSB Social Systems, Solutions and Service	**As expected in Q2, favorable business environment to continue** Energy : Renewables-related residential investment to exceed Q2 forecast on surging electricity costs Railway : Railroad companies' capex increased more than expected in Q2 due to recovery in passenger numbers and fare revisions
DMB Device & Module Solutions	**Below Q2 expectations, weak business environment to continue** DC (direct current) Equipment/Microwave Devices : Factories' capex and infrastructure investment to remain weak on slowdown in Chinese economy Commodity Devices : Demand weak for home appliances & OA on economic stagnation in China and Europe

Q1-Q3 (Apr.-Dec.) : Analysis of Change in OP（Y/Y）



FY2023 Forecast : Analysis of Change in OP（Y/Y）



Consolidated Balance Sheet

(¥bn)

	End-Mar. 2023	End-Dec. 2023	Chg. vs. End-FY2022
Current assets	486.9	523.7	+36.8
(Cash and cash equivalents)	(105.3)	(129.3)	(+24.0)
(Inventory)	(173.9)	(188.0)	(+14.0)
Property, plant and equipment	129.6	134.2	+4.6
Investments and other assets	381.7	626.6	+244.9
Total assets	998.2	1,284.4	+286.3
Current liabilities	210.0	278.4	+68.4
Long-term liabilities	56.9	89.6	+32.7
Total Liabilities	266.9	368.0	+101.1
Shareholders' equity	728.5	753.1	+24.6
Noncontrolling interests	2.8	163.3	+160.6
Total net assets	731.2	916.4	+185.2
Total liabilities and net assets	998.2	1,284.4	+286.3
Equity ratio	73.0%	58.6%	- 14.4%pt

Consolidated Cash Flow Statement

(¥bn)

	FY2022 Q1-Q3 Act.	FY2023 Q1-Q3 Act.	Y/Y
Operating cash flow	20.2	31.9	+11.6
Investment cash flow	-38.6	-79.1	-40.5
Free cash flow（FCF）	-18.4	-47.2	-28.9
Financing cash flow	-56.8	66.8	+123.6
Cash and cash equivalents at end of the period	87.6	129.3	+41.7
Capital expenditure	28.4	29.0	+0.6
Depreciation	19.8	22.3	+2.5

FY2023 Forex Sensitivities and Assumptions

Impact of 1 yen move (full year)
CNY impact of 0.1 yen move

	Sensitivities		Assumptions
	Sales	OP	Q4 FY2023 Assumptions
USD	¥1.7 bn	¥0.1 bn	¥145.0
EUR	¥1.0 bn	¥0.4 bn	¥155.0
CNY	¥0.9 bn	¥0.2 bn	¥20.0

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

ROIC Definition

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

*Invested capital = Borrowings + Shareholders' equity

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

Capital cost forecast at 5.5%* for FY2021 - 2024

*Assumptions at the time of formulating medium-term management plan

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.

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