



2015

**NOMURA Investment Forum**

**Toward Sustainable  
Corporate Value Creation**

**December 1, 2015  
OMRON Corporation**



**EARTH-1 STAGE**

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# Introduction

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INTRODUCTION



## Grand-Prix Winner of TSE Hosted 2014 Value Improvement Award



The image shows a Tokyo Stock Exchange (TSE) advertisement. At the top left is the JPX logo. At the top right is the text 'Tokyo Stock Exchange, Inc.'. The main text reads: 'This year, it is Omron. Next year, your company can win it, too.' Below this is a paragraph in English: 'Effective allocation of equity capital to broaden profit margins— Today's companies are expected, more than ever, to improve corporate value. The vision of the Abe administration for the recovery and the reconstruction of the Japanese economy must be realized with Japanese companies effectively applying their abundant cash reserves to capital expenditure and other investments to sow the seeds of corporate growth. Tokyo Stock Exchange will continue to support companies that pursue initiatives toward improving corporate value.' At the bottom, a curved digital display shows Japanese text: '2014年度企業価値向上表彰 大賞はオムロンに決定'.

JPX  
JAPAN EXCHANGE GROUP

Tokyo Stock Exchange, Inc.

This year, it is Omron.  
Next year,  
your company can win it, too.

Effective allocation of equity capital to broaden profit margins—  
Today's companies are expected, more than ever, to improve corporate value.  
The vision of the Abe administration for the recovery and the reconstruction of the Japanese economy  
must be realized with Japanese companies effectively applying their abundant cash  
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Tokyo Stock Exchange will continue to support companies that pursue initiatives toward improving corporate value.

2014年度企業価値向上表彰 大賞はオムロンに決定

Translation of an excerpt from a Tokyo Stock Exchange advertisement in the March 16, 2015 morning edition of the *Nihon Keizai Shimbun*. For more about the Corporate Value Improvement Award, see: <http://www.jpx.co.jp/english/equities/listed-co/award/03.html>

# Businesses

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Businesses



# Introduction of OMRON (Movie)



## Businesses

**With JPY847.3bn sales in FY2014, OMRON operates 6 main businesses in over 110 countries around the world.**

### ■ Industrial Automation Business



### ■ Electronic and Mechanical Components Business



### ■ Automotive Electronic Components Business



## Sensing & Control

### ■ Social Systems, Solutions and Service Business



### ■ Healthcare Business



### ■ Businesses under Direct Control of HQ (PV Inverter, backlight)



## Businesses (Share)

**No. 1 market share products at each main business.**

■ Industrial Automation Business

Control-related Equipment (Japan)\*

**40%**

■ Electronic and Mechanical Components Business

Relay (Global)

**20%**

■ Automotive Electronic Components Business

Body Control Unit for light vehicles (Japan)

**50%**

## Sensing & Control

■ Social Systems, Solutions and Service Business

Station Equipment (Japan)

**45%**

■ Healthcare Business

Home-Use Blood Pressure Monitors (Global)

**50%**

■ Businesses under Direct Control of HQ (PV Inverter, backlight)

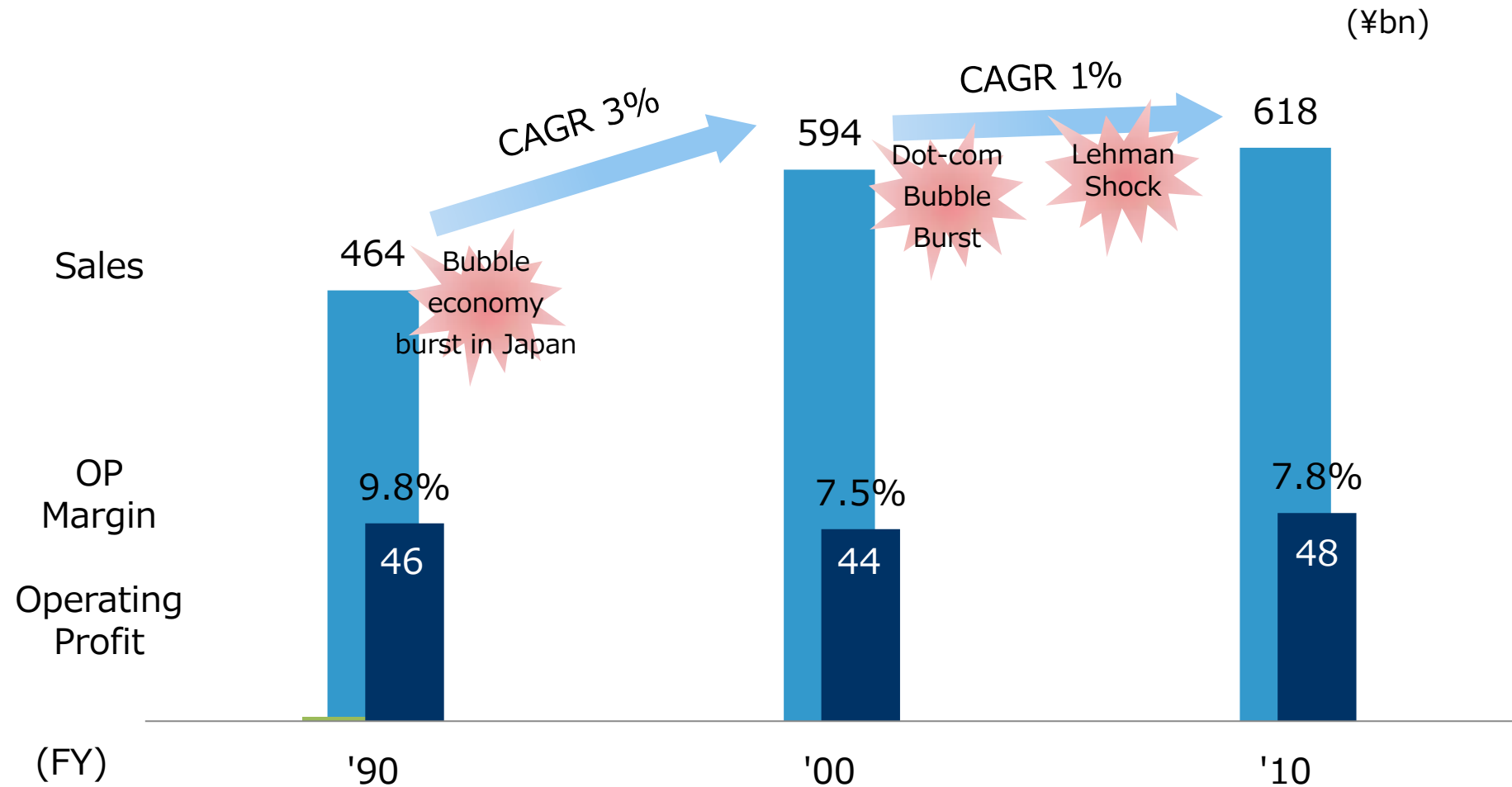
Residential-Use PV Inverters (Japan)

**40%**



## Sales and Operating Profits during FY1990-2010

**Sales growth remained at 3% in '90s and 1% in '00s, partly due to external factors. OP margin gradually declined.**



## Issues When I Assumed CEO in 2011

**Deteriorated growth potential**

**Declined profitability relying on IAB\***

**Weakened corporate culture**

\* IAB: Industrial Automation Business

# OMRON on the Move

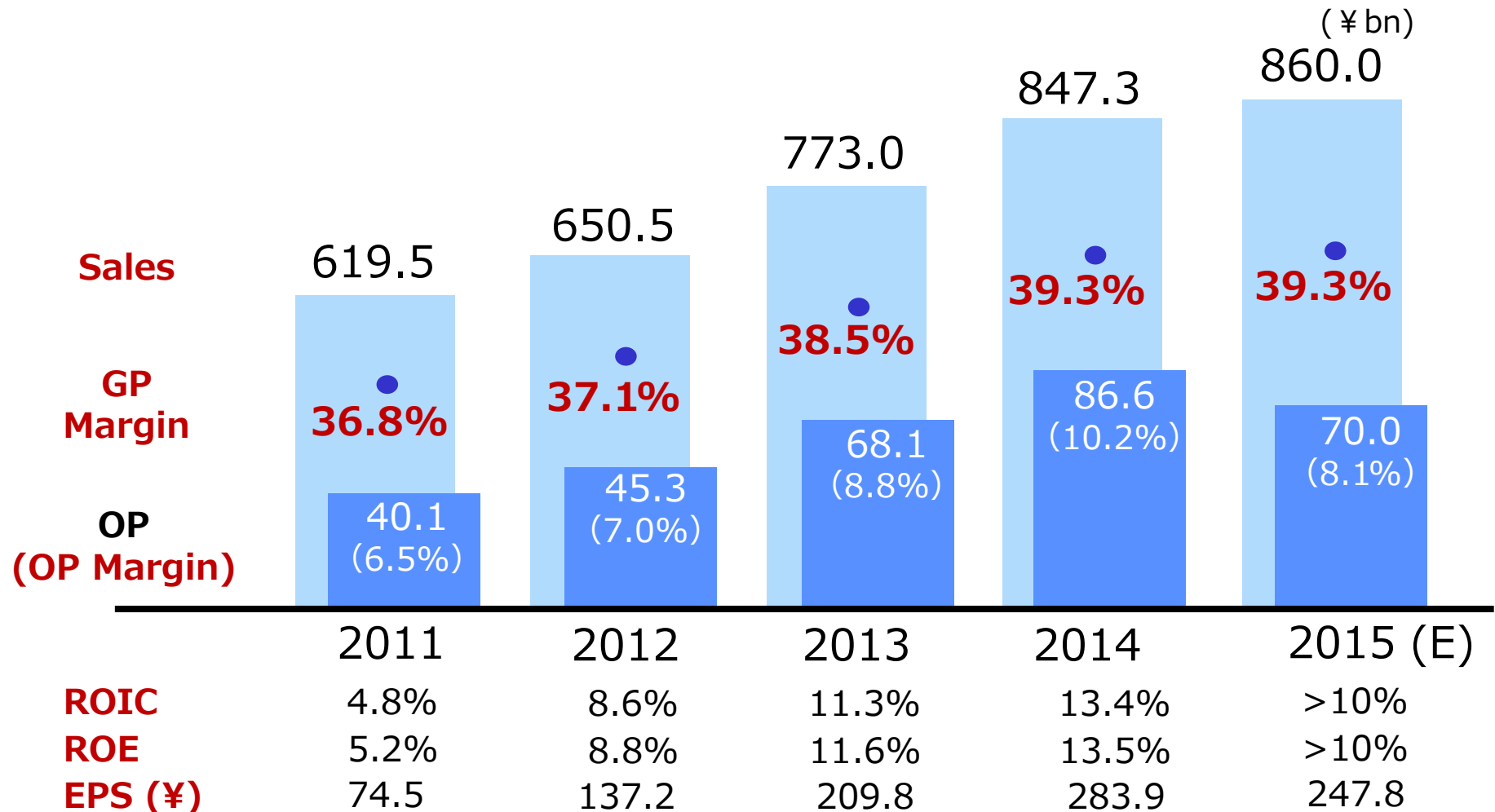
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OMRON ON THE MOVE



## Financial Performance Since FY2011

Improved six management indices significantly.



## Management Innovation

**Transform to address growing field as a total OMRON while making each business profitable. At the same time, strengthen management system so as not to fall into short-termism.**

### Management demonstrating “Earning Power”

### Management with medium and long-term view

### Practice of OMRON Principles

- Matrix management subject to business unit system
- ROIC Management
- Vertical-Horizontal Management
- Disclosure of midterm management target
- Strengthen compensation governance
- Engagement with investors
- Revised OMRON Principles so as for all employees to focus on the same goal
- Establishment of OMRON Corporate Governance Policies

# Corporate Governance

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corporate governance

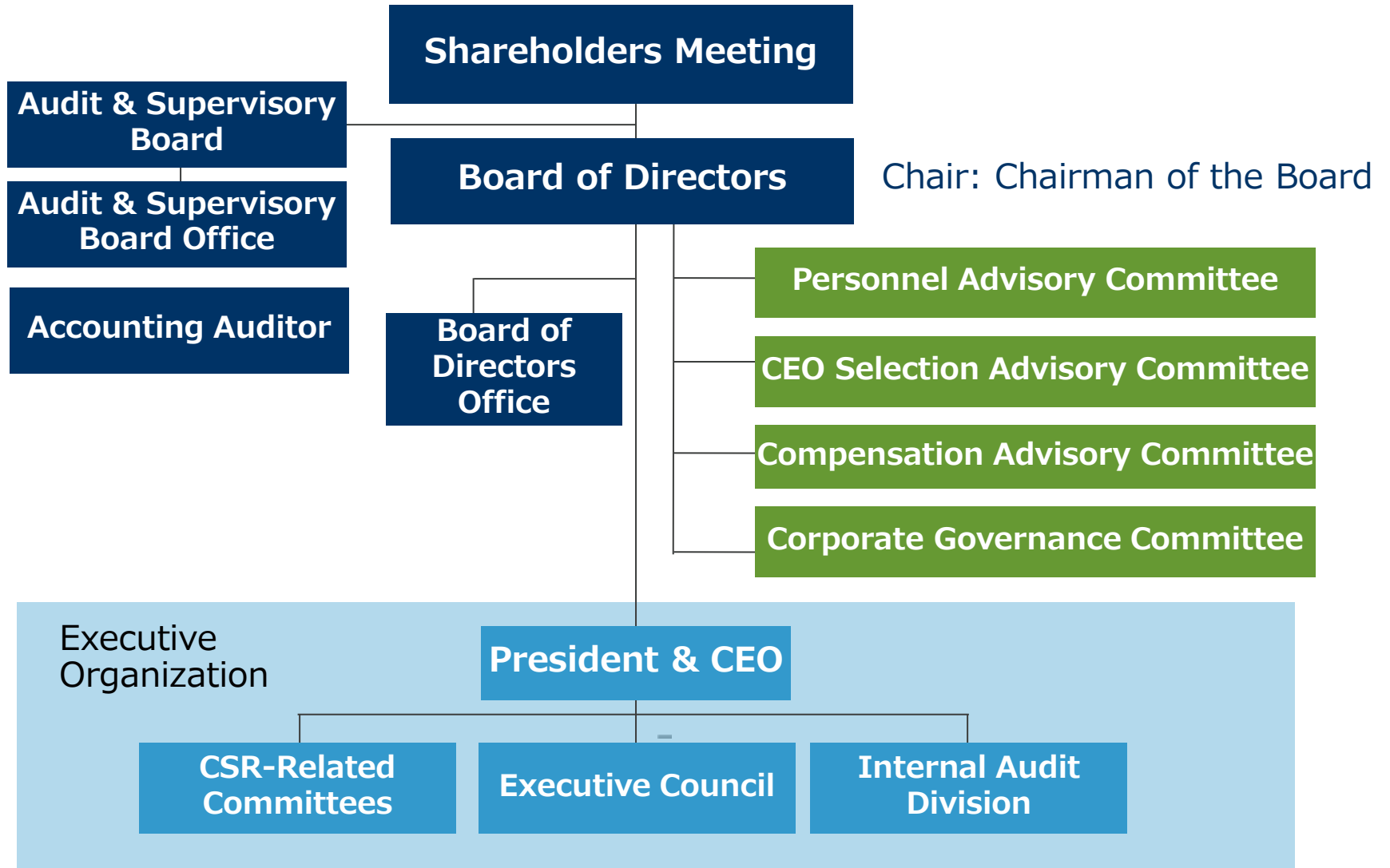


## History of Our Corporate Governance

**We have been working on developing our Corporate Governance structure since 1990s.**

		1999	2003	2011
President	1987: Yoshio Tateishi		2003: Hisao Sakuta	2011: Yoshihito Yamada
Chair of the Board of Directors / CEO	President served as both		Chairman Serves as chair of the Board of Directors; President serves as CEO	
Separation of management oversight and business execution	30 Directors	1999: Revised articles of incorporation, setting number of board members to 10 or fewer		
		1999: Adopted executive officer system		
Advisory Board		1999: Advisory Board		
Outside Directors		2001: One outside director	2003: Two outside directors (seven directors)	2015: Three outside directors (eight directors)
Audit & Supervisory Board (Outside members)	1998: One Member	1999: Two members	2003: Three members (four auditors)	2011: Two members (four auditors)
	1996: Management Personnel Advisory Committee	2000: Personnel Advisory Committee		
Advisory and Other Committees			2003: Compensation Advisory Committee	
			2006: CEO selection Advisory Committee	
			2008: Corporate Governance Committee	
Corporate Philosophy (1959: Coporate Motto)	1990: Omron Principles	1998: Revised	2006: Revised	2015: Revised
Corporate Governance Policy				2015: Established

# Corporate Governance Structure





## Enhanced Compensation Scheme

**Motivation towards medium and long-term value creation  
= directors' interests aligned with shareholders'**

### Compensation for Directors up until FY2013

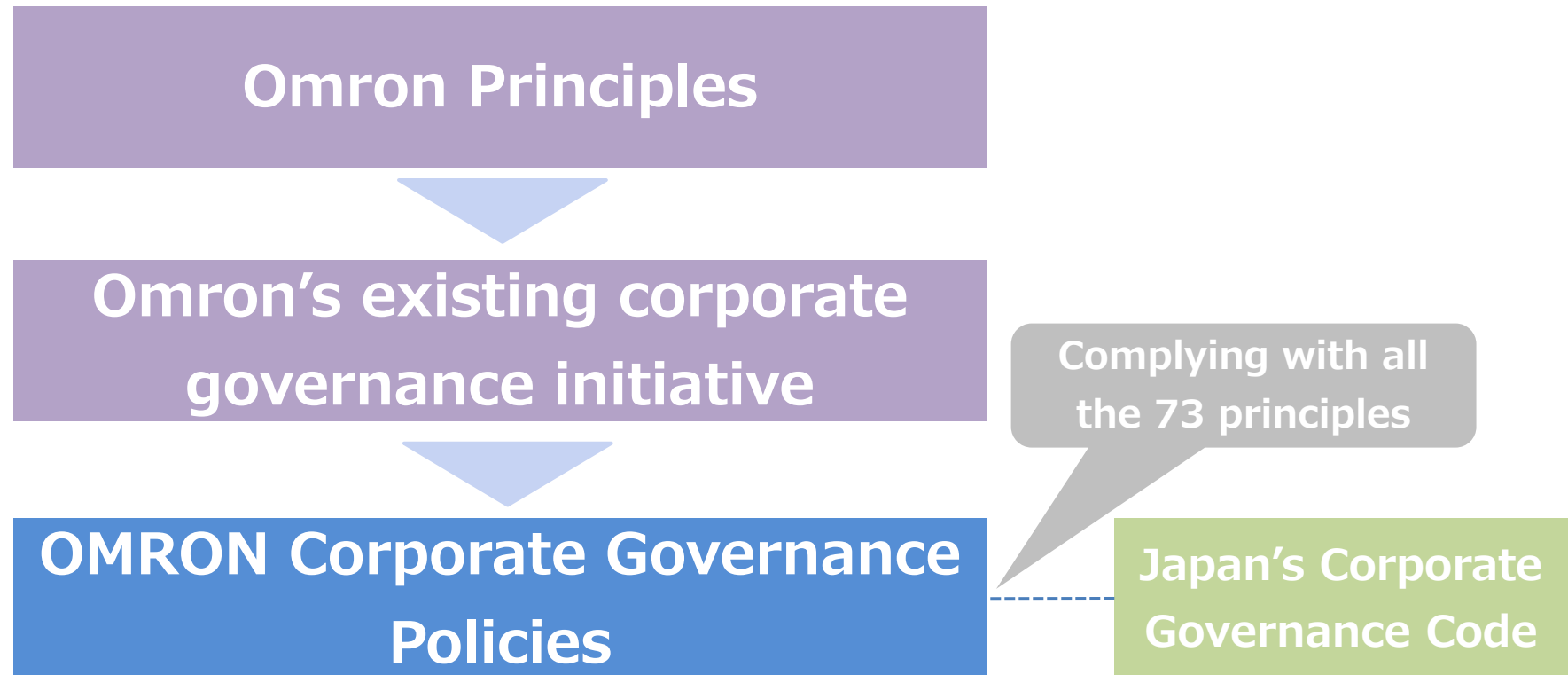
- Base (fixed) compensation + bonuses based on past one year performance
- Stock compensation

### Compensation for Directors since FY2014

- Base (fixed) compensation + bonuses based on past one year performance
- + Medium-term performance-linked bonuses**
- Stock compensation
- + Issuance of paid stock acquisition rights**

## Establishment of OMRON Corporate Governance Policies

**OMRON Corporate Governance Policies established in June 2015, through restructuring our existing corporate governance initiatives.**



URL of OMRON Corporate Governance Policies:

[http://www.omron.com/ir/management/pdfs/20150623\\_governance\\_policies\\_e.pdf](http://www.omron.com/ir/management/pdfs/20150623_governance_policies_e.pdf)

## Main Features of OMRON Corporate Governance Policies

1. Specific schedule about AGM :
  - AGM: at least three days prior to the so-called "date of highest concentration of AGM"
  - Convocation notices: sent to shareholders at least three weeks before the date of AGM
  - Electronic version of convocation notices: posted in Japanese and English on the website about a month before the date of AGM
2. Secure the rights of shareholders: disclose the level of opposing votes casted against company proposal (30%) when we shall take necessary measures such as engagement with shareholders proactively
3. Specific indices (ROIC, ROE, EPS) to be considered at capital policies
4. Declare not to introduce takeover defense measures
5. Describe relationship with employees, customers, business partners and suppliers, and communities based on the spirit of OMRON Principles
6. A hybrid-type governance structure with advisory committees, which complement the organizational structure of Company with an Audit & Supervisory Board
7. Composition of board of directors
  - Majority shall not be involved with business execution; at least 1/3 shall consist of independent outside directors ("IOD")
  - All advisory committees chaired by IOD; the majority should be composed of IODs
  - All members of corporate governance committees should be IODs
  - Chairperson shall not have authority to represent the company, and should not be involved with business execution
8. Internal control rule: matters related to risk management and compliance are quarterly reported to the BoD
9. Compensation and incentives for directors shall consist of a base salary, yearly performance-linked bonuses, midterm performance-linked bonuses, stock compensations, and paid stock options
10. Define policy for constructive dialogue with shareholders

# Toward Future Growth

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## VG2020 Strategies

**IA Business Reinforcement**

**Super-Global Growth Strategy**

**New Business Strategy for the  
Optimization Society**

## Toward Medium and Long-Term Growth

**Reinforce IA business by creation of new business opportunities and value.**

### IA Business Reinforcement

**Create new business opportunities through M&A and integration of FA and ICT**

**Create new value through reinforcing core technologies**

## M&A to Speed-Up Growth

**M&A as a part of Omron's 10-year vision VG2020 key strategies.**

IA Business  
Reinforcement

Delta Tau  
IAB, Sept. 2015



Adept  
IAB, Oct. 2015



Super-Global Growth  
Strategy

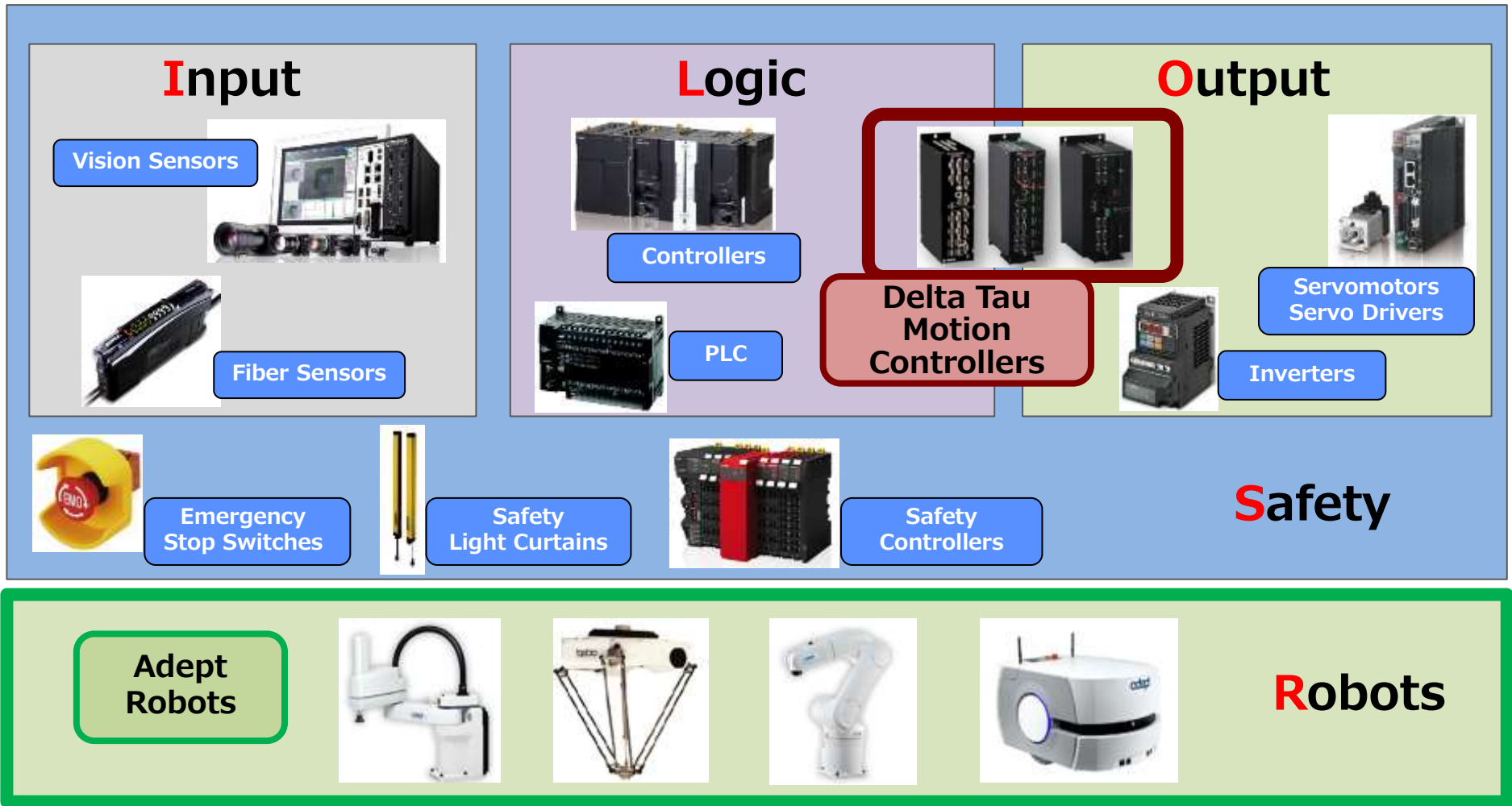
NS  
HCB, Oct. 2014



New Business  
Strategy for the  
Optimization Society

# M&A : Why Delta Tau and Adept

## To offer a wider range of products.





## Product Line-Ups (Comparison with Competitors)

**Omron has broader product lines over competitors.**

		I		L				O		S		R				
		Sensor	Vision	PLC	CNC	IPC	HMI	INV	Servo	Linier	Sensor	Compo	1 axis	Scalar	Parallel	6 axis
Components	OMRON	○	○	○	○	○	○	○	○	○	○	○	○	○	○	○
	A Corp.	-	-	○	○	○	○	○	○	○	-	○	-	-	-	-
	B Corp.	-	-	○	○	○	○	○	○	○	-	○	-	-	-	-
	C Corp.	-	○	○	○	-	○	○	○	○	-	○	-	○	-	○
	D Corp.	-	-	○	○	○	○	-	○	○	-	○	-	-	-	-
	E Corp.	○	○	○	-	-	○	-	○	-	○	-	-	-	-	-
Robot	F Corp.	-	○	-	○	-	-	-	○	○	-	-	-	-	○	○
	G Corp.	-	○	○	-	○	-	○	○	○	-	-	-	○	○	○
	H Corp.	-	○	○	-	○	○	○	○	-	-	○	-	-	○	○
	I Corp.	-	○	○	-	○	-	-	-	○	-	○	-	○	-	○
	J Corp.	-	○	-	-	-	-	-	-	-	-	-	-	○	-	○

○ : Have / Alliance      - : Do not have / Under Development

## Integration of FA and ICT

**Integrate FA and ICT by increasing IoT models.**



## Creation of New Business Opportunities

- **Processing line: realizing higher-speed/accuracy production equipment.**
- **Assembly & inspection lines: creating a new style of automation - human-machine harmony.**

Information Technology (IoT of diverse control equipment)

Higher Precision

Processing Line



Injection Molding  
Machines

Machine  
Tools

Human-Machine Harmony

Conveyor  
Line



Assembly  
Line



Inspection  
Line



Robotics Tech. (+R)

Omron's Control Technology (ILO+S)

## Toward Medium and Long-Term Growth

**Reinforce IA business by creation of new business opportunities and value.**

### IA Business Reinforcement

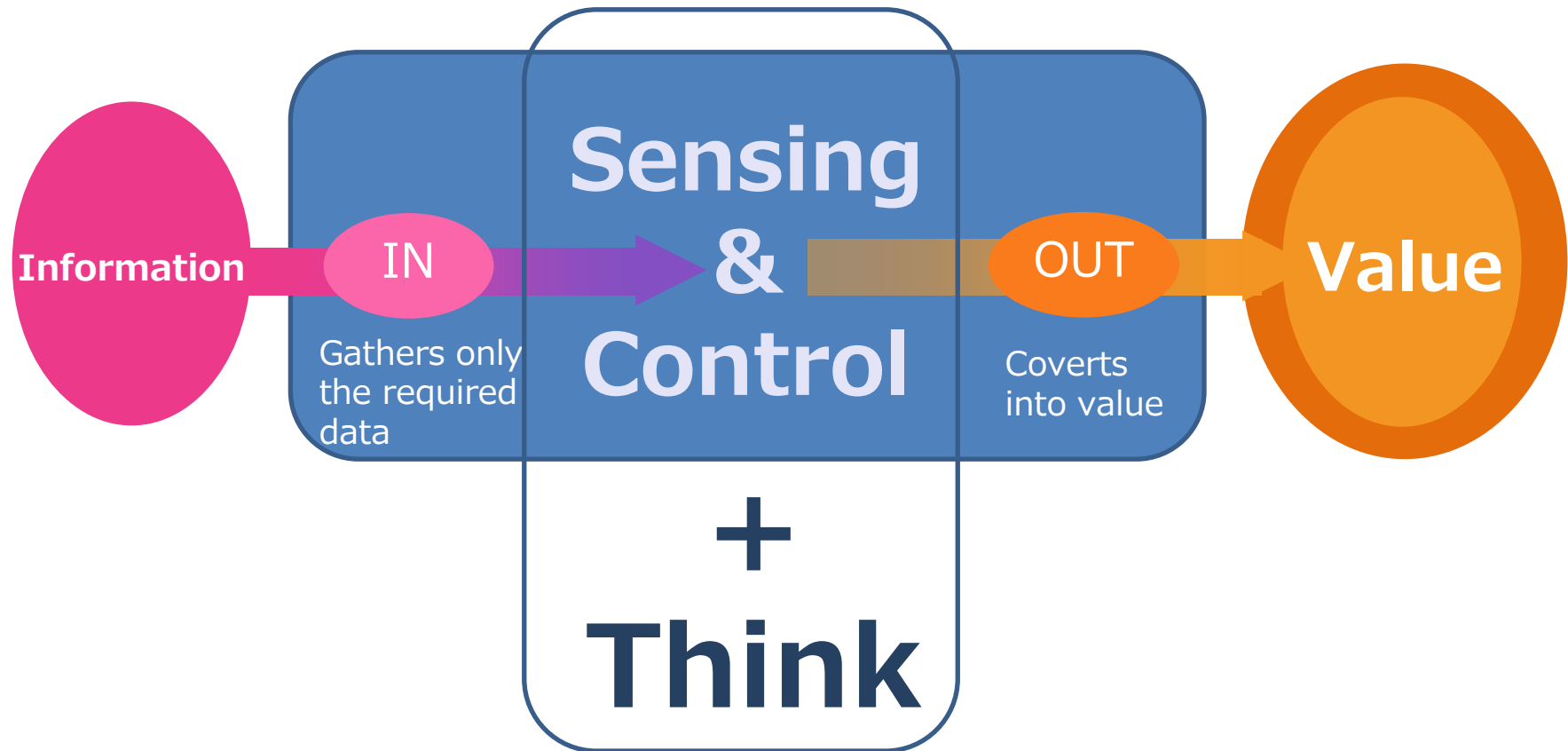
Create new business opportunities through M&A and integration of FA and ICT

Create new value through reinforcing core technologies

## Core Technologies : Sensing & Control + Think

**“Sensing & Control”, which converts information into value, is the Omron’s core technology.**

**New value is created by adding “think” (knowledge of people).**

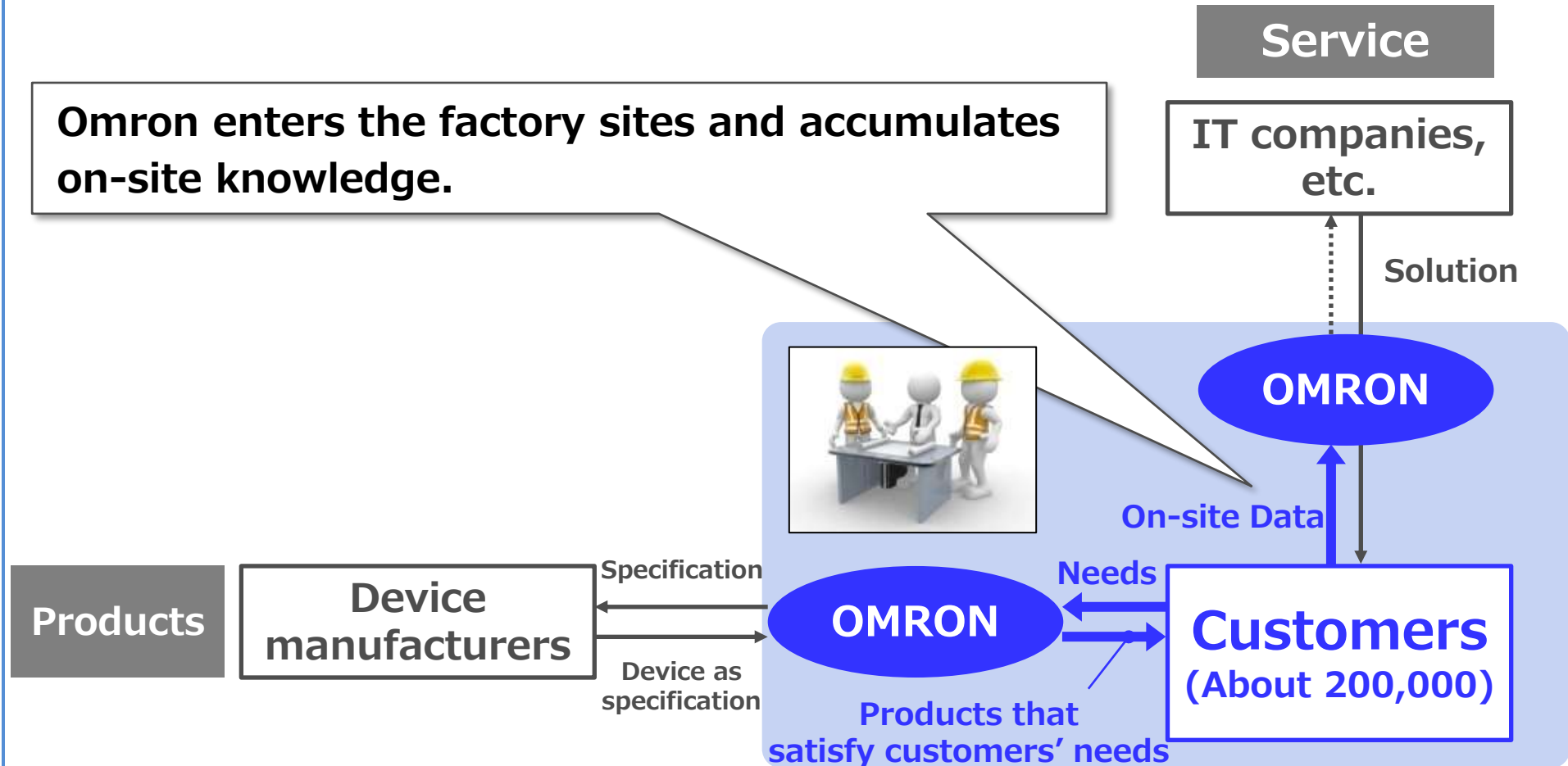


## Omron's Strengths to Support the Core Technologies

**IAB has about 200,000 customers globally.**

**Omron's strength is our extensive knowledge at factory sites.**

Omron enters the factory sites and accumulates on-site knowledge.

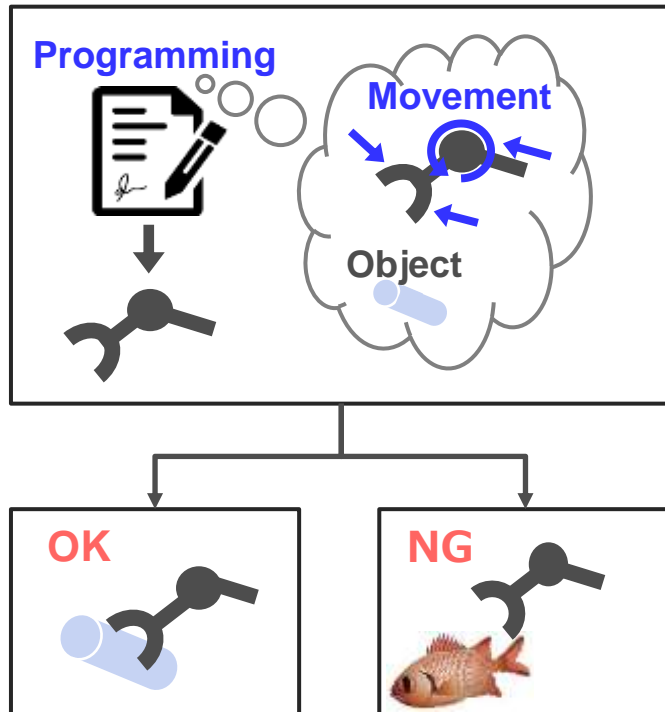


## Evolution by Sensing & Control + Think (1)

**Robot will perform work more flexibly by sensing objects' information.**

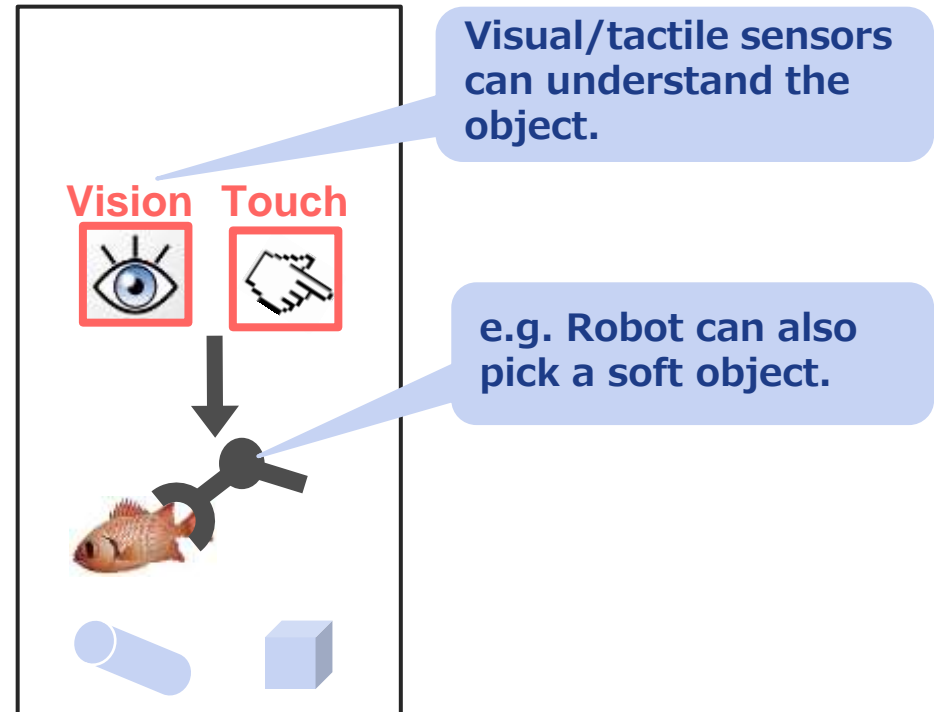
### From: Programming base

- Robot only performed the work that was programmed.



### To: Sensing base

- By sensing objects' information, robot performs work flexibly.

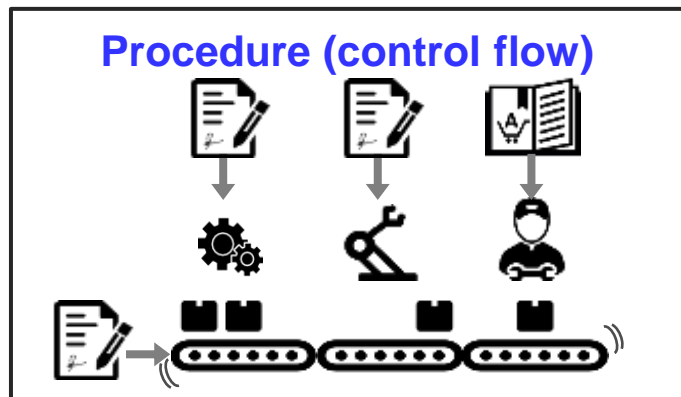
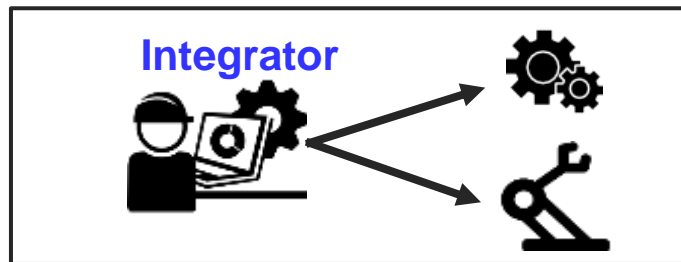


## Evolution by Sensing & Control + Think (2)

**By leveraging Artificial Intelligence (AI), time required to launch production line will be greatly shortened.**

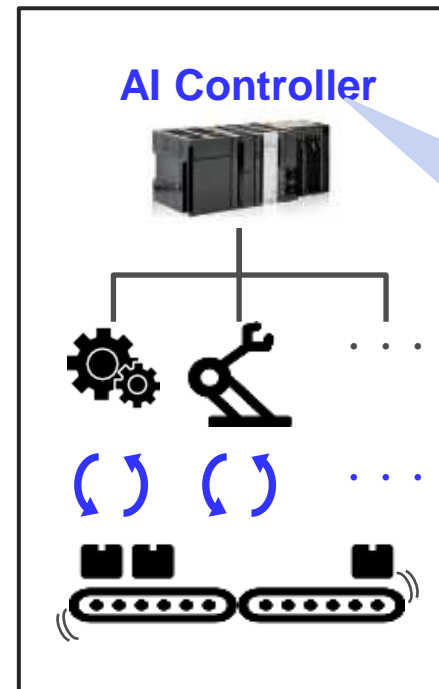
### From: Rule base

- Complex and massive procedures were needed to launch production line.



### To: Learning base

- By AI controllers' self-learning on the operation of various equipment, production line can be optimally operated in a short time.







OMRON

# References

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K6L6L6UCE2



## Corporate Information

Established	May 10 <sup>th</sup> , 1933
Head Office	Shiokoji Horikawa, Shimogyo-ku, Kyoto
Sales	¥847.3bn for FYE March 2015 (overseas sales: 60.1%)
# of employees	37,572*
Listed at	Tokyo Stock Exchange 1 <sup>st</sup> section (ticker 6645)
# of Shares out.	217,397,872 shares*
Market cap.	JPY983.7bn (based on closing price on Nov. 30 <sup>th</sup> 2015: ¥4,525)
Trading unit	100 shares

\* As of March 31<sup>st</sup>, 2015

# Sales Breakdown by Segment

## IAB



## EMC



## AEC

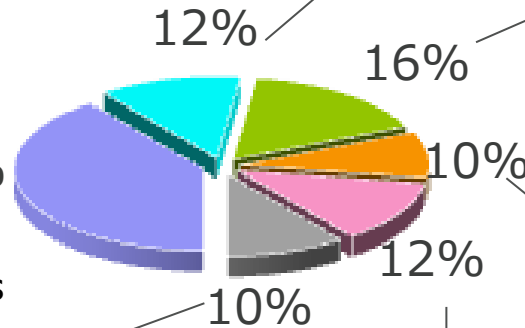


847.3 billion yen

(FY14)

※In addition to the figures above, net sales include Eliminations & Corporate 1%.

39%



## Other



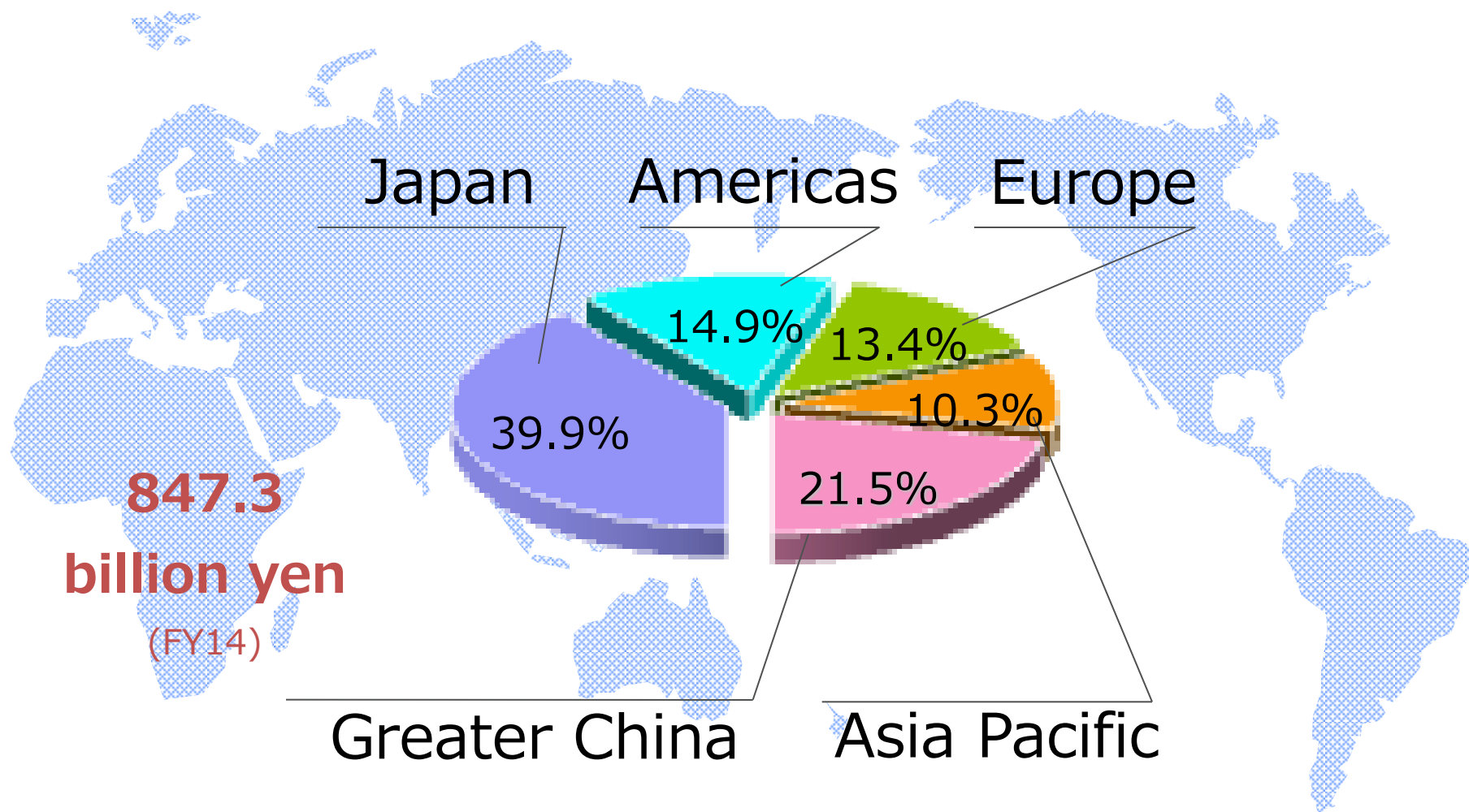
## HCB



## SSB

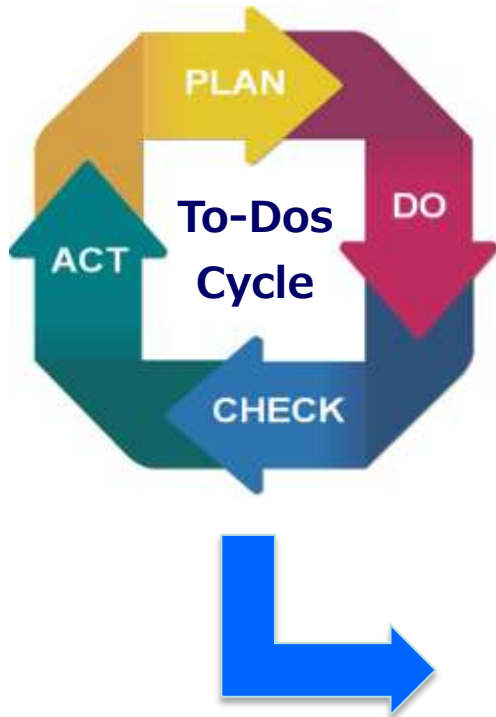


## Net Sales by Area



# 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

# 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 FY14 year-end result, FY15 quarterly results and forecasts.

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

## **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 Second Quarter of the Fiscal Year Ending March 31, 2016". Figures rounded to the nearest JPY million and percentage to one decimal place.

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