

FY2018 Q1 Earnings

Financial Results for the First Quarter Ended June 30, 2018



**July 26, 2018
OMRON Corporation**

Summary

■ Q1 Results

- In line with plan. Achieved record high sales, gross profit and GP margin
- IAB, HCB driving growth
- Solidly executed on investments for future growth

■ Full-year Forecasts

- Full-year forecasts unchanged but rising uncertainty on US-China trade friction
- Committed to fully executing on action plan for future growth
- IAB, HCB expected to continue to drive overall growth
- Maintain management focus on shareholder returns and capital efficiency
Add new share buyback program

■ Sustainable Corporate Value Creation

- Generate cash by further enhancing the growth cycle and restructuring
- Order of priority for cash allocation: growth investments, stable dividend, share buyback

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Q1 Results

Q1 Results

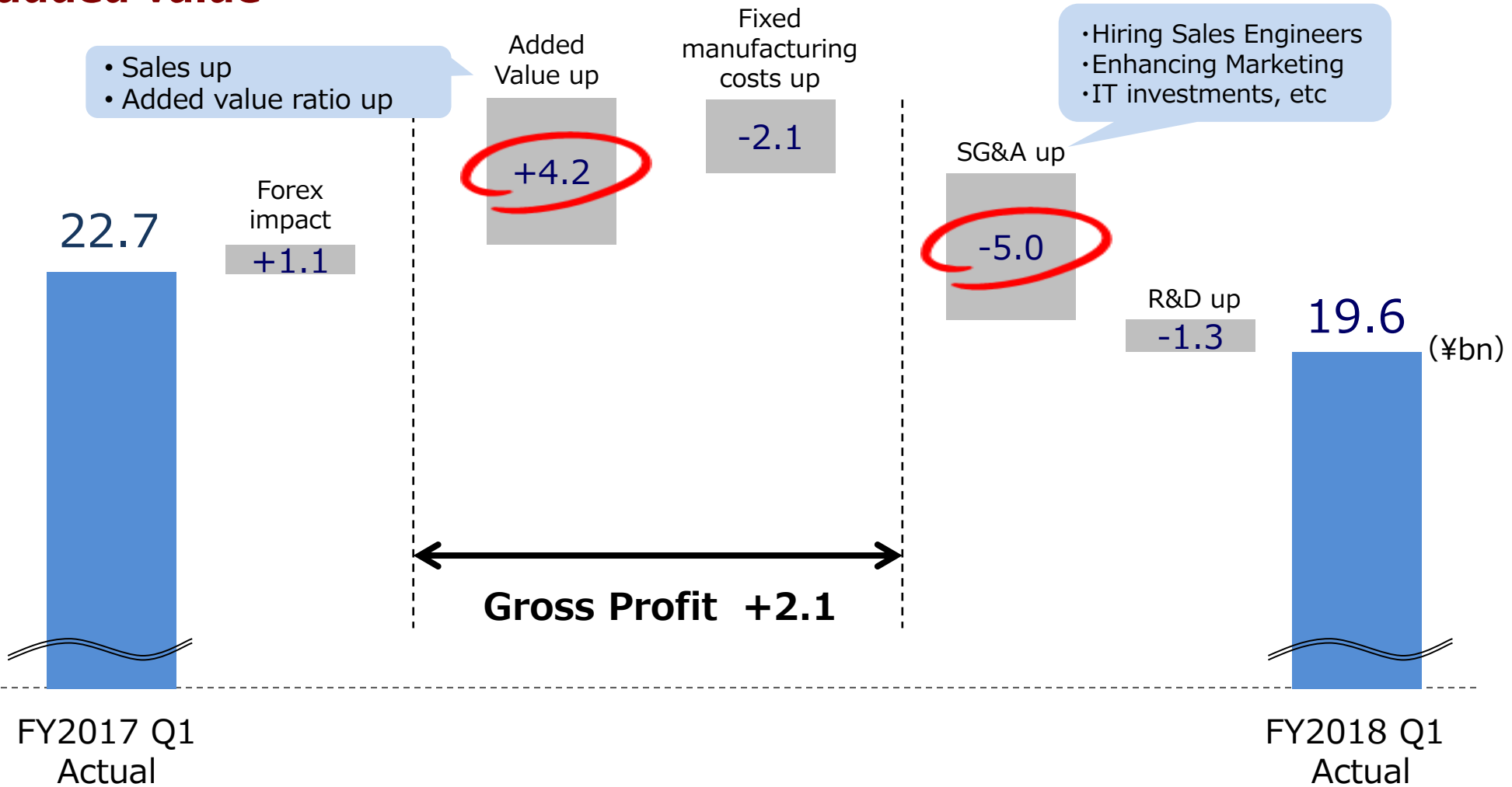
**Solidly in line with plan.
New record highs in sales, gross profit and GP margin (41.8%).
Continued improvement in profit-generating ability**

| | FY2017 Q1 Actual | FY2018 Q1 Actual | Y/Y |
|--|---------------------|---------------------|---------------------|
| | | | (¥bn) |
| Net Sales | 203.4 | 209.8 | +3.1% |
| Gross Profit (%) | 84.1 (41.4%) | 87.7 (41.8%) | +4.3% (+0.5%pt) |
| Operating Income (%) | 22.7 (11.2%) | 19.6 (9.3%) | -13.6% (-1.8%pt) |
| Net Income Attributable to Shareholders | 15.5 | 14.7 | -5.4% |
| 1USD (JPY) | 111.5 | 108.1 | -3.4 |
| 1EUR (JPY) | 121.5 | 129.9 | +8.4 |

* Figures presented reflect the application of FASB Accounting Standards Update 2017-07 'Improving the Presentation of Net Periodic Pension Cost and Net Postretirement Benefit Cost'.

Operating Income Analysis, Y/Y

Proactive investments for future growth funded by increase in added value



Sales by Business Segment

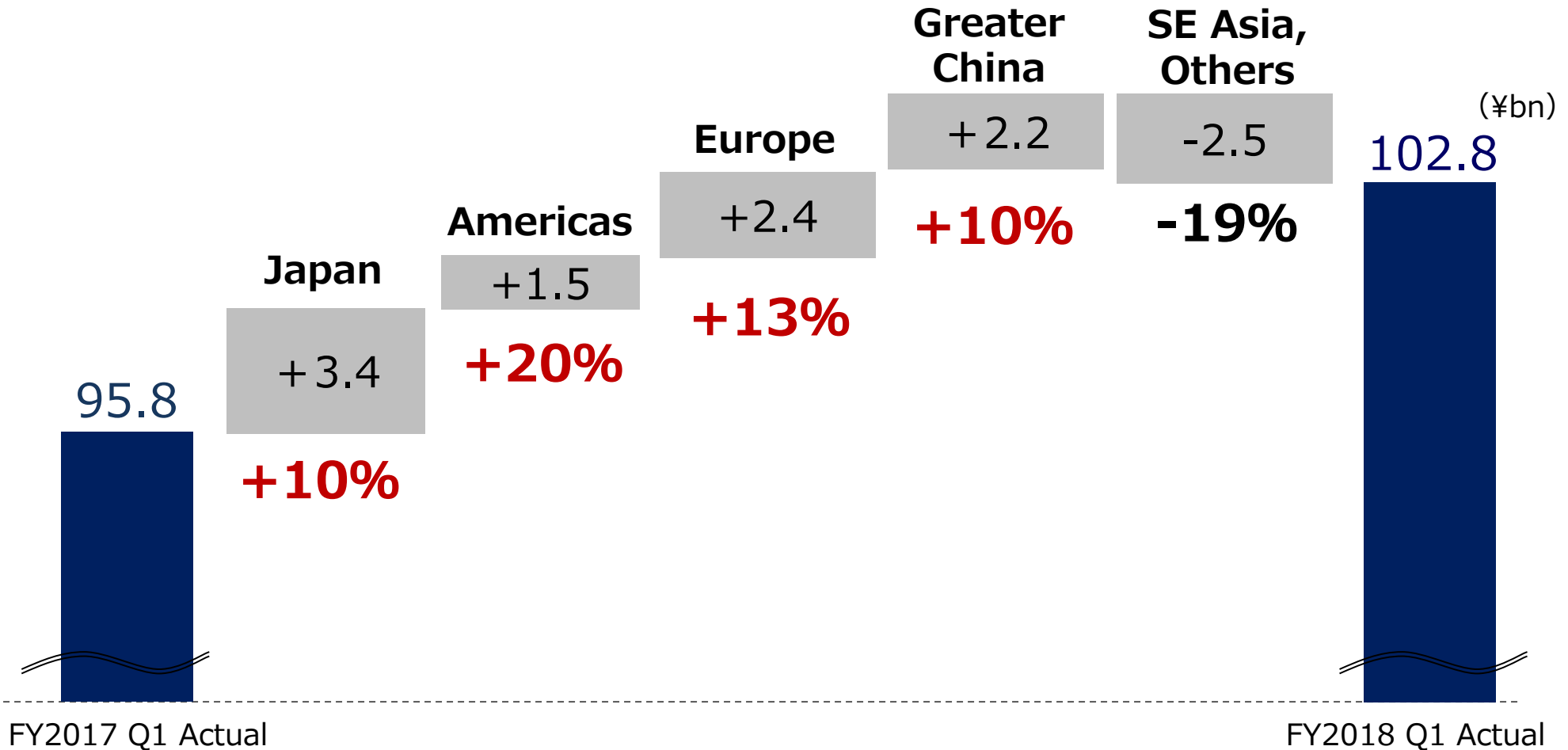
IAB, HCB driving growth

(¥bn)

| | FY2017 Q1 Actual | FY2018 Q1 Actual | Y/Y |
|---|---------------------|---------------------|--------------|
| IAB Industrial Automation | 95.8 | 102.8 | +7.3% |
| EMC Electronic & Mechanical Components | 26.3 | 26.3 | -0.2% |
| AEC Automotive Electronic Components | 32.2 | 32.9 | +2.3% |
| SSB Social Systems, Solutions & Service | 8.3 | 8.3 | +0.3% |
| HCB Healthcare | 25.7 | 27.9 | +8.5% |
| Other Businesses under the Direct Control of HQ | 13.2 | 10.5 | -20.9% |
| Eliminations & Corporate | 1.8 | 1.1 | -39.7% |
| Total | 203.4 | 209.8 | +3.1% |

IAB Sales by Region

IAB showing well-balanced global growth, reflecting the success of a strategy that does not rely on specific geographies



Operating Income by Business Segment

Increased growth investments at IAB

(¥bn, %: OP margin)

| | FY2017 Q1 Actual | FY2018 Q1 Actual | Y/Y |
|---|---------------------|---------------------|-------------------|
| IAB Industrial Automation | 19.2 (20.1%) | 17.0 (16.6%) | -2.2 (-3.5%pt) |
| EMC Electronic & Mechanical Components | 3.7 (14.0%) | 2.9 (11.1%) | -0.8 (-3.0%pt) |
| AEC Automotive Electronic Components | 1.4 (4.3%) | 1.8 (5.3%) | +0.4 (+1.0%pt) |
| SSB Social Systems, Solutions & Service | -2.0 (-) | -2.2 (-) | -0.2 (-) |
| HCB Healthcare | 3.3 (12.9%) | 3.9 (14.1%) | +0.6 (+1.2%pt) |
| Other Businesses under the Direct Control of HQ | 0.3 (2.0%) | -0.3 (-) | -0.5 (-) |
| Eliminations & Corporate | -3.2 | -3.6 | -0.4 |
| Total | 22.7 (11.2%) | 19.6 (9.3%) | -3.1 (-1.8%pt) |

* Figures presented reflect the application of FASB Accounting Standards Update 2017-07 'Improving the Presentation of Net Periodic Pension Cost and Net Postretirement Benefit Cost'.

IAB Growth Investments

Executing on growth investments to accelerate innovative-Automation in line with plan

Enhance Collaboration with Partners

Increase Automation Technology Centers to 26 (open 9 new ATCs in April – July 2018)



Enhance R&D

Enhance R&D activities for robotics and other fields



Enhance Production Capability

Expand capacity ahead of Made in China 2025: start operations at Shanghai #2 plant





Full-year Forecasts

Business Environment by Segment: From Q2 Onward

Rising uncertainty from US-China trade friction but underlying secular growth opportunities unchanged

| | |
|---|---|
| IAB Industrial Automation | Auto : Remain firm, on capex for ADAS/EV & electrification Digital : Investments in smartphones still weak but semiconductor firm Food & Beverage : Stable on need for safety & security, automation, quality-related Social Infra : Remain firm on continued smart city investments in EM |
| EMC Electronic & Mechanical Components | Consumer : Markets in Americas/Europe firm. Demand for consumer and commercial products in China to remain solid Automotive : Domestic market expected to be flat Y/Y, global outlook still solid |
| AEC Automotive Electronic Components | Global outlook remains firm. Expect growth rates for China to moderate |
| SSB Social Systems, Solutions and Service | Station sys. : Fallow period for replacement cycle ending; demand expected to pick up Transport : Solid replacement demand expected |
| HCB Healthcare | Online channel firm globally. Strong conditions expected for China and Asia |
| Other Businesses under the Direct Control of HQ | Env. Soln : PV inverters weak but continued growth for storage systems Backlight : Smartphone market to remain weak |

Full-year Forecasts

Full-year consolidated and segment forecasts unchanged

(¥bn)

| | FY2017 Actual | FY2018 Forecast | Y/Y |
|--|------------------|--------------------------------|--------------------|
| Net Sales | 860.0 | 900.0 | +4.7% |
| Gross Profit (%) | 357.8 (41.6%) | 382.5 (42.5%) | +6.9% (+0.9%pt) |
| Operating Income (%) | 86.3 (10.0%) | 93.0 (10.3%) | +7.8% (+0.3%pt) |
| Net Income Attributable to Shareholders | 63.2 | 64.5 | +2.1% |
| 1USD (JPY) | 111.2 | 107.3 | -3.9 |
| 1EUR (JPY) | 129.4 | 130.7 | +1.3 |

* Figures presented reflect the application of FASB Accounting Standards Update 2017-07 'Improving the Presentation of Net Periodic Pension Cost and Net Postretirement Benefit Cost'.

Sales by Business Segment

IAB, HCB strong drivers of overall growth

(¥bn)

| | FY2017 Actual | FY2018 Forecast | Y/Y |
|---|------------------|--------------------|--------------|
| IAB Industrial Automation | 396.1 | 428.0 | +8.0% |
| EMC Electronic & Mechanical Components | 104.4 | 102.0 | -2.3% |
| AEC Automotive Electronic Components | 131.2 | 128.0 | -2.4% |
| SSB Social Systems, Solutions & Service | 63.7 | 67.0 | +5.2% |
| HCB Healthcare | 108.5 | 119.0 | +9.7% |
| Other Businesses under the Direct Control of HQ | 51.0 | 50.5 | -0.9% |
| Eliminations & Corporate | 5.2 | 5.5 | +6.3% |
| Total | 860.0 | 900.0 | +4.7% |

Operating Income by Business Segment

Aiming for strong profit growth in IAB, HCB

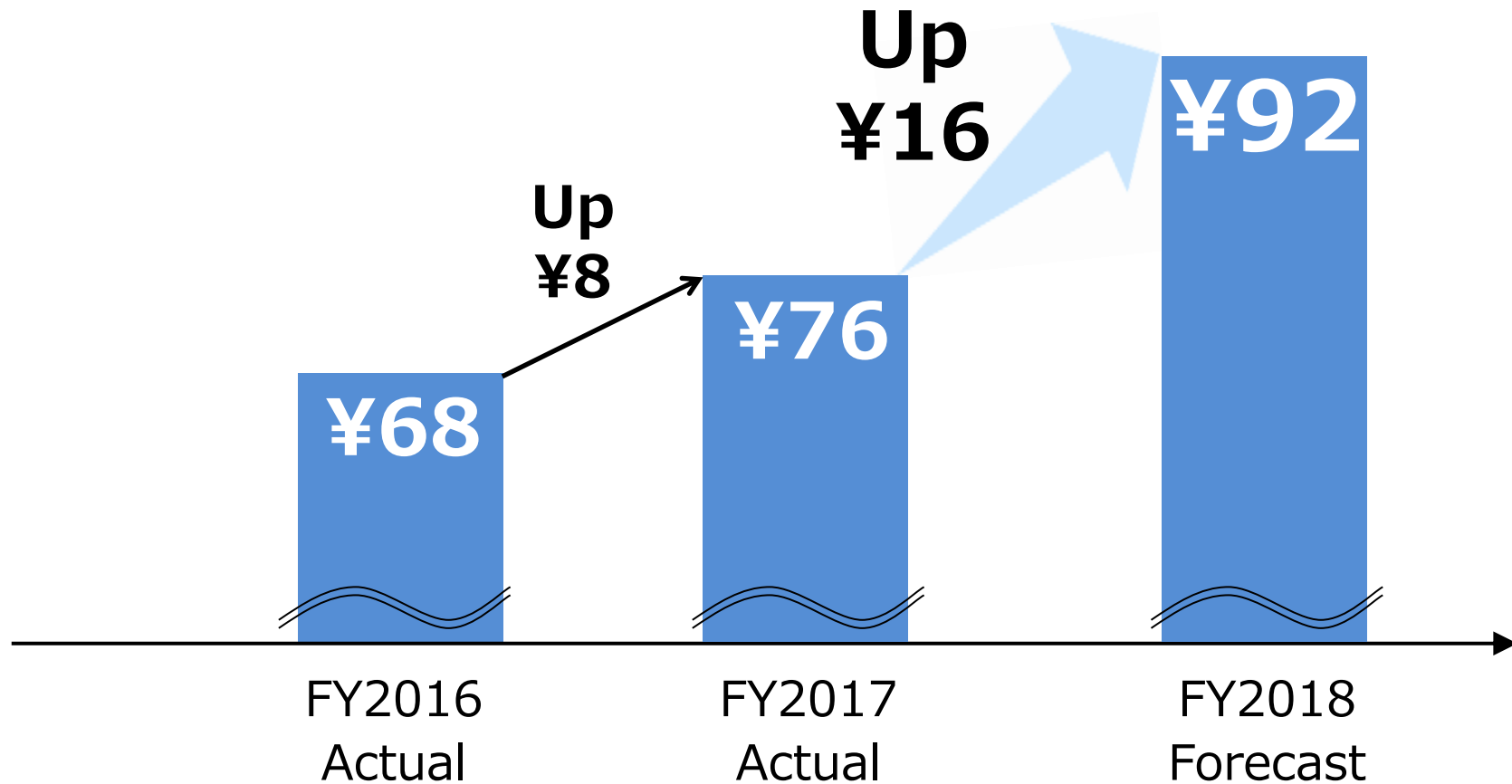
(¥bn, % : OP margin)

| | FY2017 Actual | FY2018 Forecast | Y/Y |
|---|------------------|--------------------|-------------------|
| IAB Industrial Automation | 74.0 (18.7%) | 82.0 (19.2%) | +8.0 (+0.5%pt) |
| EMC Electronic & Mechanical Components | 12.5 (11.9%) | 12.5 (12.3%) | +0.0 (+0.3%pt) |
| AEC Automotive Electronic Components | 5.8 (4.4%) | 6.0 (4.7%) | +0.2 (+0.3%pt) |
| SSB Social Systems, Solutions & Service | 4.1 (6.5%) | 4.5 (6.7%) | +0.4 (+0.3%pt) |
| HCB Healthcare | 11.2 (10.3%) | 12.5 (10.5%) | +1.3 (+0.2%pt) |
| Other Businesses under the Direct Control of HQ | -0.5 (-) | 0 (-) | +0.5 (-) |
| Eliminations & Corporate | -20.8 | -24.5 | -3.7 |
| Total | 86.3 (10.0%) | 93.0 (10.3%) | +6.7 (+0.3%pt) |

* Figures presented reflect the application of FASB Accounting Standards Update 2017-07 'Improving the Presentation of Net Periodic Pension Cost and Net Postretirement Benefit Cost'.

Full-year Dividend

Guiding for ¥92 dividend in FY2018 (up ¥16)



N.B. FY2018 interim and year-end dividend TBD.

Aim for dividend payout ratio of approximately 30% and DOE of approximately 3%.

Share Repurchase Program

Maintain management focus on shareholder returns and capital efficiency.

Following on from previous year, add share buyback program

**Total
amount**

Up to ¥20 billion

**Number of
shares**

Up to 5 million

**Period of
acquisition**

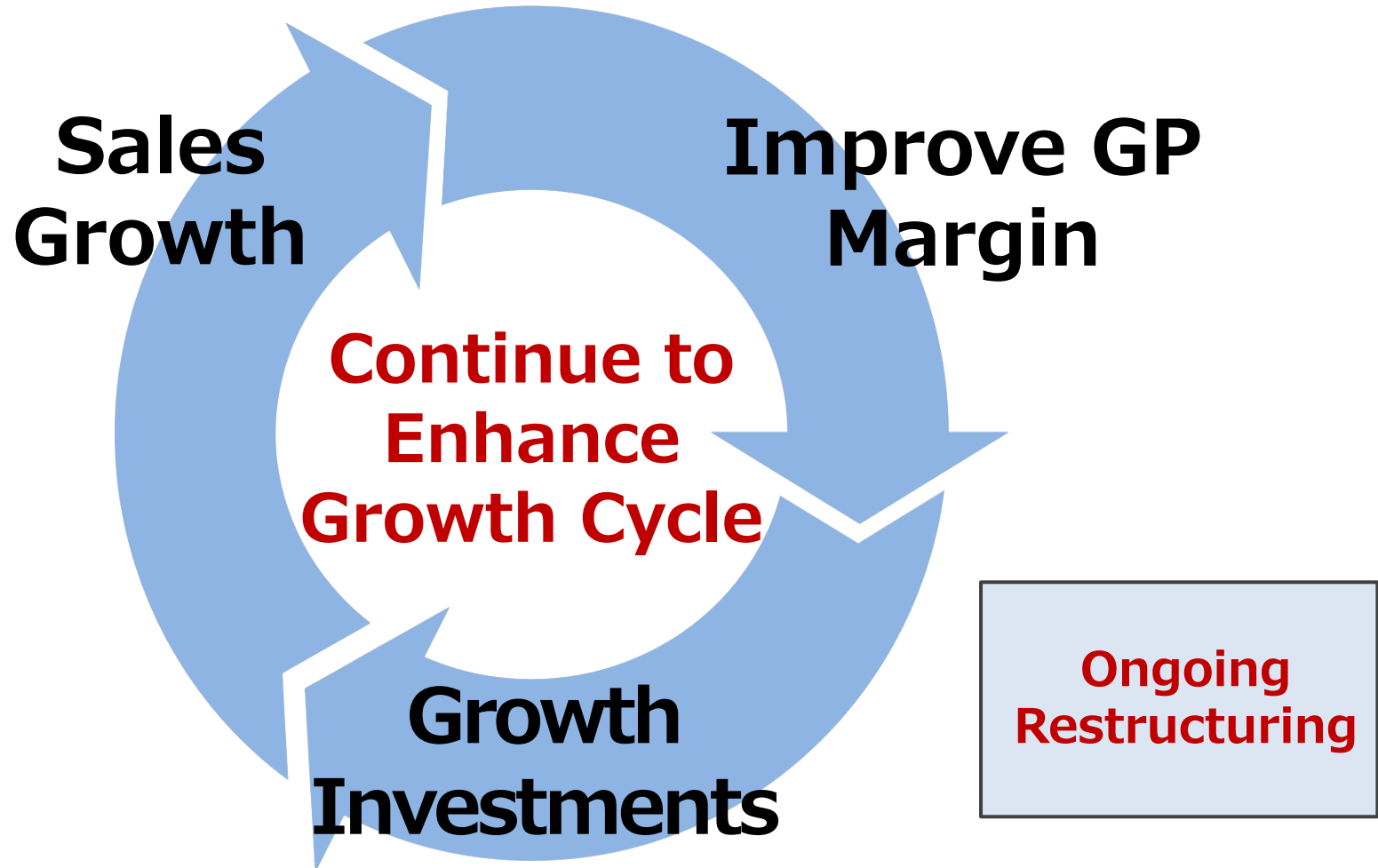
**From July 27, 2018 to
July 26, 2019**



Sustainable Corporate Value Creation

Cash-generating Growth Cycle and Restructuring

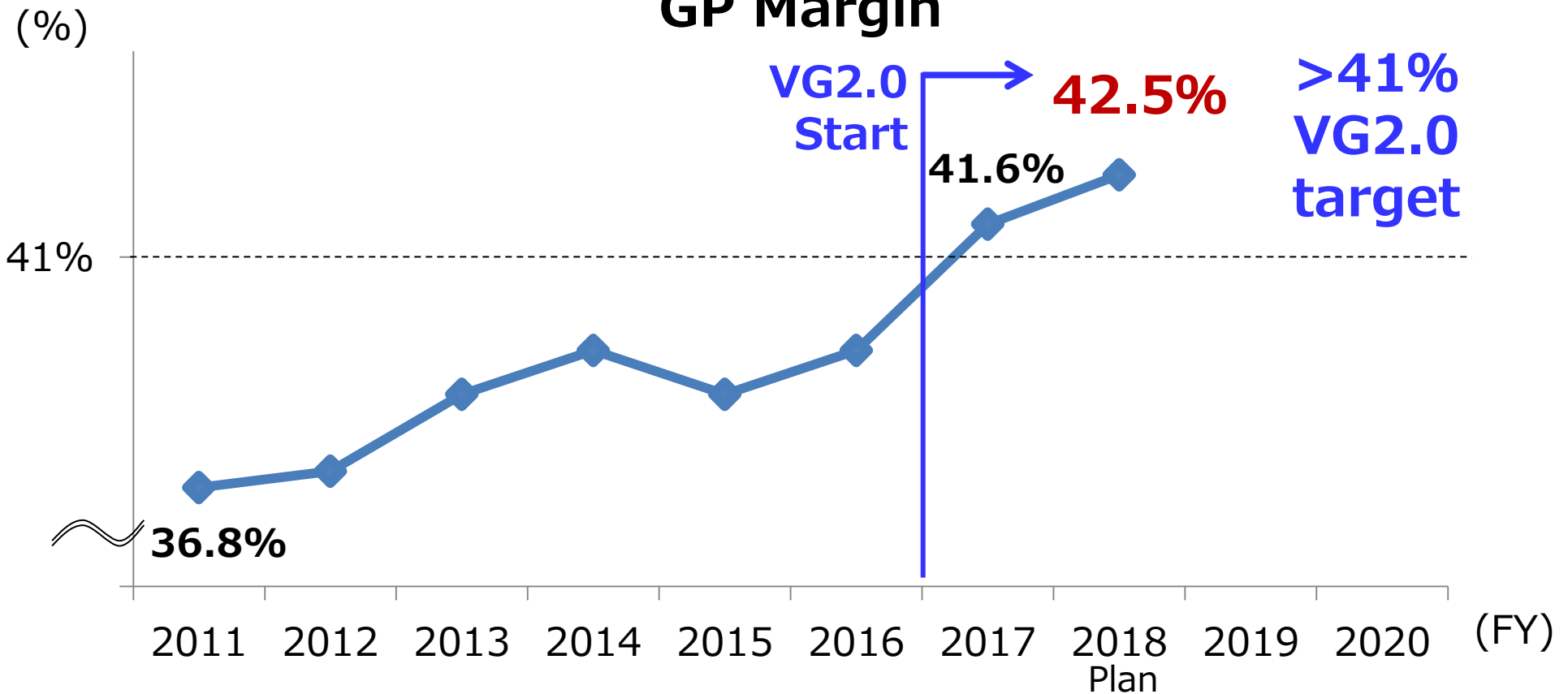
Generate cash by enhancing growth cycle and restructuring



Improving Ability to Generate Profits (GP Margin)

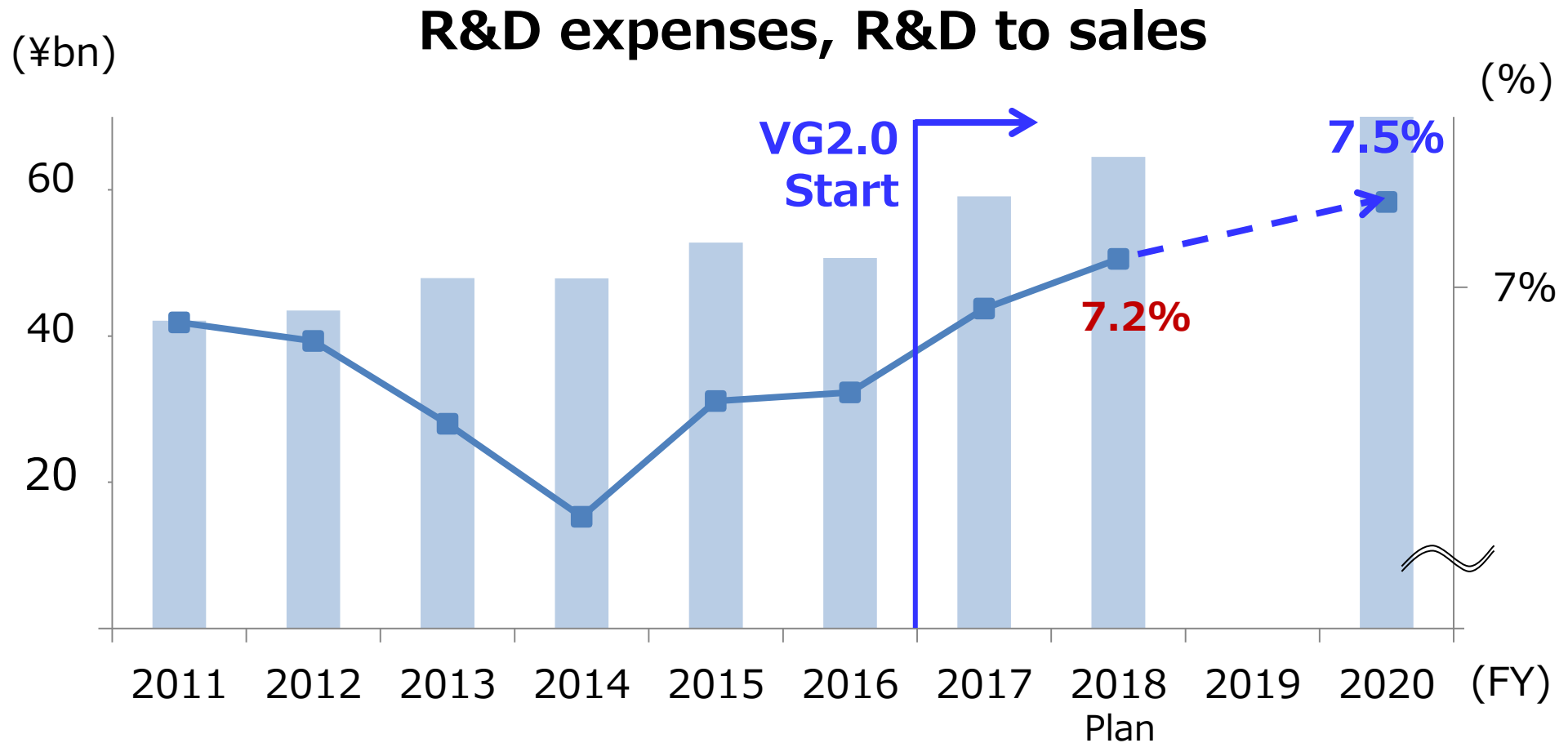
**Consistently enhanced profit-generating ability (GP margin).
Already achieved FY2020 target of >41%, now aiming higher**

GP Margin



Investments for Future Growth (R&D)

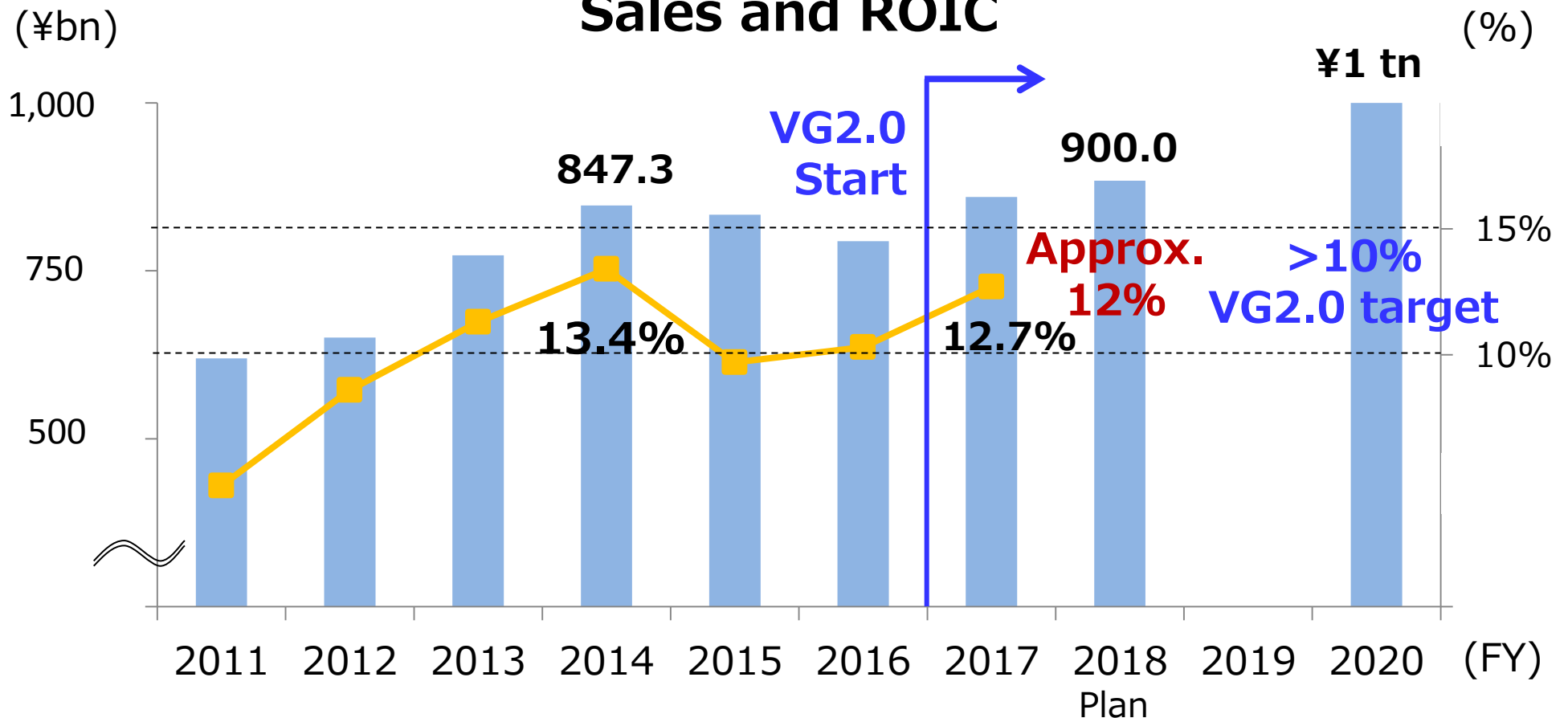
**Focus on increasing R&D expenses as a percentage of sales.
Raising R&D spend to 7.5% by FY2020**



Growth Investments and ROIC

Committed to continuing to invest while maintaining ROIC above 10%

Sales and ROIC



Investments for Future Growth (M&A&A)

Proactively engaged in M&A&A in FA and Healthcare

IAB

Jul. 2017

Acquired Sentech
Industrial Cameras

**IAB**

Oct. 2017

Acquired Microscan
Industrial Coding & Scanning

**IAB****May 2018**

**Strategic Alliance: Techman
Arm-type Co-bots**

**HCB****Jul. 2018**

**Acquired 3A Healthcare
Nebulizers**



Restructuring

Applying disciplined business portfolio management to restructuring

IAB

May 2016

Sold Oil & Gas business to Schlumberger

HCB

Dec. 2016

Sold Professional Medical Device business to Fukuda Denshi

IAB**Aug. 2018
(Plan)****Sale of laser processing
equipment business to TOWA****Other****Optimizing Backlight business
Terminating external sales of smartphone mics
in Micro Device business**

Cash Allocation Policy

Top priority: Investing for future growth

**Stable, sustainable shareholder returns policy,
based on dividend payout ratio and DOE targets**

**Strategic approach to return
long-term retained cash through share buybacks**

VG2.0: 6 Management Metrics

| | FY2018 Forecast | FY2020 Targets |
|-------------------------|--------------------|--------------------|
| Net Sales | ¥900.0bn | ¥1 Trillion |
| GP Margin | 42.5% | > 41% |
| Operating Income | ¥93.0bn | ¥100.0bn |
| ROIC | Approx. 12% | > 10% |
| ROE | Approx. 12% | > 10% |
| EPS | ¥306 | > ¥300 |

USD / EUR

107 / 131

110 / 118

OMRON



Reference

FY2018 Assumptions: Exchange Rates

| | FY2018 | Impact of ¥1 fluctuation (full-year, approx.) | |
|-----|-------------|--|--------|
| | | Sales | OP |
| USD | ¥107 | ¥3.9bn | ¥0.6bn |
| EUR | ¥131 | ¥1.0bn | ¥0.5bn |

*If emerging-market currency trends diverge from USD and/or EUR contrary to our expectations, sensitivities will be impacted.

VG2.0 and Sustainability Strategies

OMRON Principles

Management Philosophy & Sustainability Policy

VG2.0

Business Strategies

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

×

Collaboration with partners

+

Operational & Functional Strategies

Human capital management, manufacturing, risk management...

Sustainability Issues

Solving social issues through our businesses:
Responding to social needs

FA



Health-care



Mobility



Energy Mgmt.



×

Collaboration with Partners



+

Responding to stakeholder expectations

Human Capital Mgmt.



Manufacturing



Risk Management



OMRON Included in Major ESG Indices (As of July, 2018)

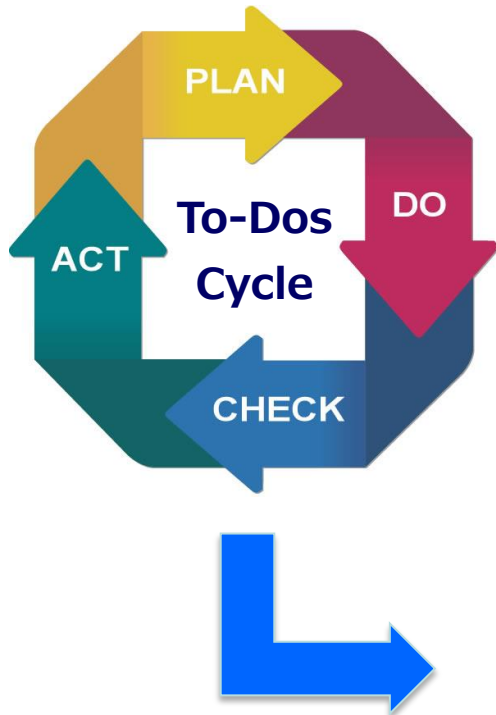
ESG Indices which include OMRON

- ✓ DJSI – World
- ✓ FTSE4Good Index Series
- ✓ MSCI ESG Leaders Indexes
- ✓ MSCI SRI Indexes
- ✓ STOXX Global ESG Leaders indices
- ✓ CDP
- ✓ MS-SRI
- ✓ FTSE Blossom Japan Index
- ✓ MSCI Japan ESG Select Leaders Index
- ✓ MSCI Japan Empowering Women Index



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

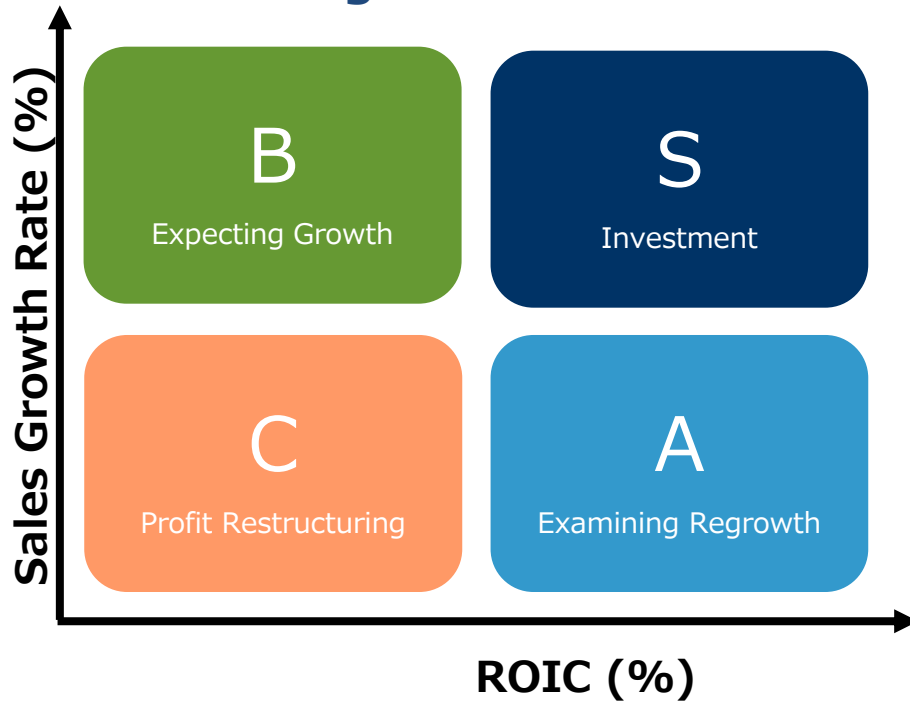
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Invested Capital Turnover

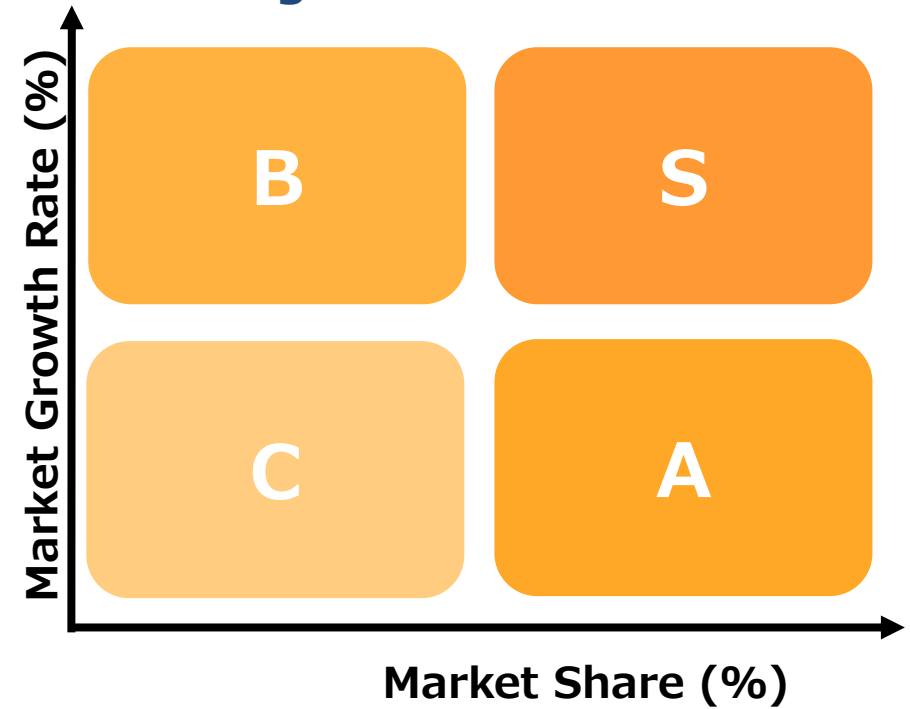
ROIC

Business Portfolio Management

■ Assessing Economic Value



■ Assessing Market Value



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 Ended June 30, 2018 (U.S. GAAP)."
Figures rounded to the nearest million JPY and percentage to one decimal place.

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